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Murray VCT 4 PLC

INITIAL REPORT

for the 33 week period ended 31 August 2000

MURRAY VCT 4 PLC

Initial Report for the 33 week period ended 31 August 2000

Registered in England and Wales – Company Number 3908220

OBJECTIVE

The objective of the company is to achieve long term capital and income growth principally through investment in smaller unquoted companies in the United Kingdom.

ANALYSIS OF VENTURE CAPITAL PORTFOLIO

as at 31 August 2000

FTSE ACTUARIES INDUSTRY SECTOR

	£'000	%
Engineering & Machinery	**641**	**46.9**
Software & Computer Services	**397**	**29.0**
Media & Photography	**330**	**24.1**
	1,368	**100.0**

DEAL TYPE

	No. of deals	*£'000*	%
Development Capital	2	**727**	**53.1**
Management Buy-out	1	**641**	**46.9**
	3	**1,368**	**100.0**

MURRAY JOHNSTONE REGIONAL OFFICE

	No. of deals	*£'000*	%
Birmingham	1	**641**	**46.9**
Manchester	1	**397**	**29.0**
Sheffield	1	**330**	**24.1**
	3	**1,368**	**100.0**

Note: The total portfolio of investments, including both listed and unlisted investments, is valued at £35,982,000.

INVESTMENT REVIEW

INVESTMENT ACTIVITY

During the initial period to 31 August 2000 three investments were made at a total cost of £1.37 million, representing a qualifying investment level of 4%. The company requires to achieve a 70% qualifying investment level before 28 February 2003 to achieve VCT qualifying status.

The three investments made in the period under review were:

- **ELE Advanced Technologies Limited** (May 2000) – £640,775: Operating from Colne and Kelbrook in Lancashire, ELE is engaged in the precision milling of sophisticated materials and other engineering processes for companies serving the gas turbine industry. The total fundraising was approximately £2.5 million. Murray VCT, Murray VCT 2 and Murray VCT 3 were co-investors.
- **Stratumsoft Limited** (June 2000) – £397,250: Stratumsoft is an established e-business and virtual media software designer whose technology enables operation in digital television, PC and WAP environments. The total fundraising was £1.75 million, with a further £1.75 million committed up to March 2001. Murray VCT, Murray VCT 2, Murray VCT 3 and Ventures North West were co-investors.
- **Cool Beans Productions Limited** (June 2000) – £330,000: Based in Sheffield, Cool Beans is a well-established producer of computer generated animations for computer games and broadcast media. The total fundraising was approximately £1.5 million with a further £1 million to be drawn down over 18 months. Murray VCT, Murray VCT 2, Murray VCT 3 and South Yorkshire Venture Fund were co-investors.

All three fundraisings were led by Murray Johnstone Limited.

CO-INVESTMENT

Murray VCT 4 has co-invested with the other Murray VCTs in all of its investments and will continue to do so. The advantages are that, together, the funds are able to underwrite a wider range and size of transaction than would otherwise be the case.

The presence of parallel funds ensures that when one fund becomes fully invested, adequate deal flow continues to be attracted by the others, thus ensuring availability of opportunities for future investment when holdings are realised.

Murray VCT 3 has a prior right to investment opportunities under £750,000 until that fund first achieves the 70% investment threshold. The priority right will then transfer to Murray VCT 4 until it first achieves the 70% qualifying investment level.

Larger investment opportunities will be apportioned between the venture capital trusts *pro rata* to their respective issued share capital. Participation is also dependent on the availability of funds and other portfolio requirements.

These co-investment arrangements have been approved by the directors whose approval is required to depart from the above arrangements.

NET ASSET PERFORMANCE

The net asset value per share at 31 August 2000, before payment of the interim dividend, was 96.2p compared with 95p immediately after launch.

INVESTMENT REVIEW

Murray VCT 4's investments in unlisted companies are valued in accordance with the British Venture Capital Association guidelines. Investments are normally valued at cost or cost less a provision until they have been held for at least one year. As a result, performance which is ahead of plan and which may imply an increase in the value of the investment will not be reflected for at least twelve months; on the other hand material underperformance will be immediately reflected in the valuation. AIM stocks are valued at a discount to mid-market price.

DIVIDENDS

The board has declared an interim dividend for the period ended 28 February 2001 of 1.0p per share. The dividend will be paid on 8 December 2000 to shareholders on the register at close of business on 10 November 2000.

DIVIDEND REINVESTMENT

Shareholders may opt to reinvest the interim dividend and all future dividends in new Murray VCT 4 shares and enjoy the same tax reliefs as were available on their initial investment. Full details of the terms and conditions applicable to the reinvestment of dividends are available from the manager (Freephone 0800 289 978).

OUTLOOK

The deal flow is strong with a growing number of larger investment opportunities being considered by Murray Johnstone's regional network of six offices.

The economic environment remains challenging. However, with modest economic growth in a low inflation environment, prospects are encouraging for both existing and new investments and conditions will improve if, as is widely believed, UK interest rates are now at or close to their cyclical peak.

The board is confident that Murray VCT 4 will achieve the minimum investment target of 70% to comply with the Venture Capital Trust legislation within the three year qualifying period.

By order of the board
Murray Johnstone Limited
Manager and Secretary
10 October 2000

SUMMARY OF INVESTMENT CHANGES DURING THE PERIOD

	Net proceeds of share issue* *£'000*	*%*	Net investment (disinvestment) *£'000*	Appreciation (depreciation) *£'000*	**Valuation 31 August 2000** ***£'000***	**%**
Venture capital investments						
Equities – unlisted	-	-	541	-	**541**	**1.5**
Loan stocks	-	-	827	-	**827**	**2.3**
	-	-	1,368	-	**1,368**	**3.8**
Listed investments						
Fixed income	-	-	34,532	82	**34,614**	**94.9**
Total investments	-	-	35,900	82	**35,982**	**98.7**
Other net assets	36,383	100.0	(35,924)	-	**459**	**1.3**
Equity shareholders' funds	36,383	100.0	(24)	82	**36,441**	**100.0**

* After issue expenses of £1,914,908, equivalent to 5% of monies raised.

INVESTMENT PORTFOLIO SUMMARY
as at 31 August 2000

		Valuation ***£'000***	**% of fund**
Venture capital investments	**Nature of business**		
ELE Advanced Technologies	Precision engineering	641	1.8
Stratumsoft	E-business & virtual media software designer	397	1.1
Cool Beans Productions	Digital animation & design studio	330	0.9
		1,368	**3.8**
Listed fixed income investments			
Treasury 8% 10/06/2003		6,197	17.0
Treasury 10% 26/02/2001		6,110	16.8
Treasury 5% 07/06/2004		5,830	16.0
Treasury 8.5% 07/12/2005		5,613	15.4
Treasury 9.75% 27/08/2002		5,335	14.6
European Investment Bank 6% 26/11/2004		3,432	9.4
Treasury 6.75% 26/11/2004		2,097	5.7
		34,614	**94.9**
Total investments		**35,982**	**98.7**

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare initial accounts which comply with Section 273 of the Companies Act 1985 in respect of the period from 12 January 2000 to 31 August 2000 to enable the company to make a distribution. In preparing those accounts, 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 accounts; and
- prepare accounts on a going concern basis unless it is inappropriate to presume that the company will continue on this basis.

The directors are responsible for ensuring that adequate accounting records are maintained, which enable them to ensure that the accounts comply with Section 273 of the Companies Act 1985. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the directors of Murray VCT 4 PLC

We have audited the initial accounts on pages 7 to 17, which have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and the accounting policies set out on page 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5 you are responsible for the preparation of the initial accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those initial accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts, 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 accounts 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 accounts.

OPINION

In our opinion the initial accounts for the period from 12 January 2000 to 31 August 2000 have been properly prepared within the meaning of Section 273 of the Companies Act 1985.

Ernst · Young

Ernst & Young
Registered Auditor
Glasgow
10 October 2000

ACCOUNTING POLICIES

BASIS OF PREPARATION

The accounts have been prepared in accordance with Section 273 of the Companies Act, applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. The accounts are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments.

INCOME

Dividends receivable on equity shares are treated as revenue for the period on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the period end are treated as revenue for the period. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Provision is made for any fixed income not expected to be received. Interest receivable from cash and short term deposits and interest payable are accrued to the end of the period.

EXPENSES

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- expenses are charged to realised capital reserves where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 40% to revenue and 60% to realised capital reserves to reflect the company's investment policy and prospective income and capital growth.

TAXATION

Deferred taxation is provided for by the liability method on timing differences, except where there is a reasonable probability that such liability will not arise in the foreseeable future. The provision is calculated at the rate at which it is estimated that the tax will be payable. The tax effect of different items of income/gain and expenditure/loss is allocated between capital reserves and the revenue account on the same basis as the particular item to which it relates using the company's effective rate of tax for the period.

INVESTMENTS

Listed investments are valued in the accounts at middle market prices and unlisted investments, which include shares quoted on the Alternative Investment Market (AIM), at a valuation determined by the directors. In determining the valuation of unlisted investments the directors adopt the middle market price where a dealing facility exists and apply a discount if considered appropriate. Where no dealing facility exists the factors which the directors have regard to include, inter alia, the earnings record and growth prospects of the security, the rating of comparable listed companies, the yield of the security, where appropriate, and any recent transactions.

STATEMENT OF TOTAL RETURN

(INCORPORATING THE REVENUE ACCOUNT*)
for the 33 week period ended 31 August 2000

		33 week period ended 31 August 2000		
	Notes	Revenue £'000	Capital £'000	Total £'000
Gains on investments	8	-	82	82
Income:	1			
income from investments		830	-	830
other income		25	-	25
Investment management fees	2	(106)	(159)	(265)
Other expenses	3	(77)	-	(77)
Net return on ordinary activities before taxation		**672**	**(77)**	**595**
Tax on ordinary activities	5	(202)	48	(154)
Return attributable to equity shareholders		**470**	**(29)**	**441**
Ordinary dividends on equity shares	6	(383)	-	(383)
Transfer to (from) reserves (after aggregate dividends declared of £383,000)		**87**	**(29)**	**58**
Return per ordinary share	7	**1.2p**	**(0.1)p**	**1.1p**

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

The notes on pages 11 to 17 together with the accounting policies on page 7 form part of these accounts.

BALANCE SHEET
as at 31 August 2000

	Notes	31 August 2000 £'000	£'000
Fixed assets			
Investments	8		**35,982**
Current assets			
Debtors	10	**552**	
Cash and overnight deposits		**663**	
		1,215	
Creditors			
Amounts falling due within one year	11	**756**	
Net current assets			**459**
			36,441
Capital and reserves			
Called up share capital	12		**3,830**
Share premium account	13		**32,553**
Realised capital losses	13		**(85)**
Unrealised capital gains	13		**56**
Revenue reserve	13		**87**
Equity shareholders' funds			**36,441**
Net asset value per ordinary share	14		**95.2p**

The accounts on pages 7 to 17 were approved by the board of directors on 9 October 2000 and signed on its behalf by:

Sir Gavin Laird, CBE
Director
10 October 2000

Gavin Laird

The notes on pages 11 to 17 together with the accounting policies on page 7 form part of these accounts.

CASH FLOW STATEMENT

for the 33 week period ended 31 August 2000

	Notes	33 week period ended 31 August 2000 £'000	£'000
Operating activities			
Investment income received		**538**	
Deposit interest received		**24**	
Investment management fees paid		**(100)**	
Secretarial fees paid		**(9)**	
Cash paid to directors		**(7)**	
Other cash payments		**(8)**	
Net cash inflow from operating activities	16		**438**
Financial investment			
Purchase of investments		**(40,371)**	
Sale of investments		**4,252**	
Net cash outflow from financial investment			**(36,119)**
Net cash outflow before financing			**(35,681)**
Financing			
Issue of ordinary shares		**38,298**	
Expenses of share issue		**(1,954)**	
Net cash inflow from financing			**36,344**
Increase in cash	17		**663**

The notes on pages 11 to 17 together with the accounting policies on page 7 form part of these accounts.

NOTES ON ACCOUNTS

Note 1 **Income**	**33 week period ended 31 August 2000** *£'000*
Income from investments:	
UK listed unfranked investment income	**803**
income from unlisted significant interests	**27**
	830
Other income:	
deposit interest	**25**
Total income	**855**
Total income comprises:	
interest	**830**
other income	**25**
	855

Note 2 **Investment management fees**	**Revenue** *£'000*	**33 week period ended 31 August 2000** **Capital** *£'000*	**Total** *£'000*
Investment management fees	**90**	**135**	**225**
Irrecoverable VAT	**16**	**24**	**40**
	106	**159**	**265**

The investment management and secretarial fees payable to Murray Johnstone Limited have been calculated and charged on the following basis:

a) an investment management fee of 1.5% per annum of the gross assets of the company which is chargeable 40% to revenue and 60% against realised capital reserves. The investment management fee rises to 2% per annum for the year ending 28 February 2002 and 2.5% thereafter.

b) a secretarial fee of £60,000 per annum which is chargeable 100% to revenue. The secretarial fee (shown in note 3) is subject to an annual adjustment to reflect movement in the retail prices index.

The management services agreement is for an initial period of 3 years and is terminable on the expiry of one year's notice thereafter.

NOTES ON ACCOUNTS

Note 3 **Other expenses**	**Revenue** *£'000*	**33 week period ended 31 August 2000** **Capital** *£'000*	**Total** *£'000*
Secretarial fees (note 2)	**24**	**-**	**24**
Shareholder services*	**5**	**-**	**5**
Directors' remuneration (note 4)	**21**	**-**	**21**
Audit fees	**4**	**-**	**4**
Irrecoverable VAT	**7**	**-**	**7**
Miscellaneous expenses	**16**	**-**	**16**
	77	**-**	**77**

* registration and promotion expenses.

Note 4 **Directors' remuneration**	**33 week period ended 31 August 2000** *£'000*
Sir Gavin Laird, CBE (chairman)	**5**
S J Dobbie	**4**
A G MacMillan	**4**
C G Stuart-Menteth	**4**
A E Whitworth	**4**
	21

Note 5 **Tax on ordinary activities**	**Revenue** *£'000*	**33 week period ended 31 August 2000** **Capital** *£'000*	**Total** *£'000*
Corporation tax	**202**	**(48)**	**154**

Note 6 **Ordinary dividends on equity shares**	**33 week period ended 31 August 2000** *£'000*
Interim dividend of 1p	**383**

NOTES ON ACCOUNTS

Note 7 **Returns per ordinary share**

	33 week period ended 31 August 2000
The returns per share have been based on the following figures:	
weighted average number of ordinary shares	**38,257,364**
revenue return	**£470,000**
capital return	**(£29,000)**

Note 8 **Investments**

	33 week period ended 31 August 2000 £'000	£'000
Movements during period:		
purchases		**40,371**
sales	**(4,252)**	
realised gains	**26**	
		(4,226)
amortisation of book cost		**(219)**
Cost at end of period		**35,926**
Unrealised gain		**56**
Valuation at end of period		**35,982**
The portfolio valuation		
Listed on stock exchange at market valuation:		
fixed income		**34,614**
Unlisted at directors' valuation:		
equities		**541**
fixed income		**827**
		1,368
Total		**35,982**
Constituted:		
shares in participating interests		**-**
loans to participating interests		**-**
other investments		**35,982**
		35,982
Gains on investments:		
realised gains on sales		**26**
increase in unrealised appreciation		**56**
Gains on investments		**82**

NOTES ON ACCOUNTS

Note 9 **Participating and significant interests**

The principal activity of the company is to select and hold a portfolio of investments in unlisted securities. Although the company will, in some cases, be represented on the board of the investee company, it will not take a controlling interest or become involved in the management. The size and structure of companies with unlisted securities may result in certain holdings in the portfolio representing a participating interest without there being any partnership, joint venture or management consortium agreement.

At 31 August 2000 the company did not hold any investments amounting to 20% or more of any class of capital of any undertaking.

Note 10 **Debtors**	**31 August 2000** ***£'000***
Prepayments and accrued income	**513**
Sundry debtors	**39**
	552

Note 11 **Creditors**	**31 August 2000** ***£'000***
Amounts falling due within one year:	
interim dividend	**383**
current taxation	**154**
accruals	**219**
	756

Note 12 **Share capital**	**31 August 2000** ***Number***	***£'000***
At 31 August 2000 the authorised share capital comprised: *allotted, issued and fully paid:*		
ordinary shares of 10p each	**38,298,158**	**3,830**
unissued unclassified shares of l0p each	**21,701,842**	**2,170**
	60,000,000	**6,000**

On 5 April and 6 April 2000 respectively 32,260,603 and 6,037,555 ordinary shares of 10p each were issued for cash of £1 per share, raising £38,298,158 to finance the commencement of the company's activities.

Note 13 **Reserves**	33 week period ended 31 August **2000** Share premium account *£'000*	Realised capital losses *£'000*	Unrealised capital gains *£'000*	Revenue reserve *£'000*
Issue of shares	**34,468**	**-**	**-**	**-**
Expenses of share issue	**(1,915)**	**-**	**-**	**-**
Gains on sales of investments	**-**	**26**	**-**	**-**
Increase in unrealised appreciation	**-**	**-**	**56**	**-**
Investment management fees	**-**	**(159)**	**-**	**-**
Tax effect of capital items	**-**	**48**	**-**	**-**
Retained net revenue for period	**-**	**-**	**-**	**87**
At 31 August 2000	**32,553**	**(85)**	**56**	**87**

Note 14 **Net asset value per ordinary share**

The net asset value per share and the net asset value attributable to the ordinary shares at the period end calculated in accordance with the articles of association were as follows:

	31 August **2000** Net asset value per share *p*	Net asset value attributable *£'000*
Ordinary shares	**95.2**	**36,441**

The number of shares used in the above calculation is set out in note 12.

The movements during the period of the assets attributable to the ordinary shares are shown in note 15.

Note 15 **Reconciliation of movements in shareholders' funds**	33 week period ended 31 August **2000** *£'000*
Opening shareholders' funds	**-**
Movements during the period: Total recognised gains for period	**441**
Net proceeds of issue of shares	**36,383**
Dividends appropriated	**(383)**
Closing shareholders' funds	**36,441**

NOTES ON ACCOUNTS

Note 16 **Reconciliation of revenue return before taxation to net cash inflow from operating activities**	**33 week period ended 31 August 2000** *£'000*
Revenue return before taxation	**672**
Investment management fees charged to capital	**(159)**
Increase in accrued income	**(512)**
Increase in prepayments	**(1)**
Increase in accruals	**219**
Amortisation of fixed income investment book cost	**219**
Net cash inflow from operating activities	**438**

Note 17 **Analysis of changes in net funds**	**Cash flows** *£'000*	**31 August 2000** *£'000*
Cash and overnight deposits	**663**	**663**

Note 18 **Capital commitments**	**31 August 2000** *£'000*
Conditional capital commitments on unlisted investments	**617**

Note 19 **Directors' share interests**

The interests of the directors in the shares of the company under the terms of the Companies Act 1985 are as follows:

	31 August 2000 Ordinary shares
Sir Gavin Laird, CBE (chairman)	**10,000**
S J Dobbie	**25,000**
A G MacMillan	**9,000**
C G Stuart-Menteth	**100,000**
A E Whitworth	**10,000**

There have been no changes in the above share interests since the end of the financial period. All the above interests are beneficial.

Note 20 **Derivatives and other financial instruments**

The company's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The company may not enter into derivative transactions in the form of forward foreign currency contracts, futures and options without the written permission of the directors. No derivative transactions were entered into during the period.

The purpose of these financial instruments is efficient portfolio management. Due to their nature, unlisted investments may not be readily realisable and so a portfolio of listed assets is held to offset this liquidity risk.

The main risks the company faces from its financial instruments are (a) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement, and (b) interest rate risk.

The manager's policies for managing these risks are summarised below and have been applied throughout the period. The numerical disclosures below exclude short-term debtors and creditors.

a) Market price risk

The company's investment portfolio is exposed to market price fluctuations, which are monitored by the manager in pursuance of the investment objective as set out on page 1. Adherence to investment guidelines and to investment and borrowing powers set out in the management agreement mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the investment review on pages 2 to 3.

b) Interest rate risk

The interest rate risk profile of financial assets at the balance sheet date was as follows:

	31 August 2000		
	Fixed interest £'000	**Floating rate £'000**	**Non interest bearing £'000**
Listed sterling	**34,614**	**-**	**-**
Unlisted sterling	**827**	**-**	**541**
Cash	**-**	**663**	**-**

The listed fixed interest assets have a weighted average life of 3 years and weighted average interest rate of 6.0% per annum. These assets are held to provide liquidity for unlisted investments. The floating rate assets consists of cash deposits on call. The unlisted assets have no average life as the life of those investments is dependent on many factors. The weighted average interest rate of unlisted fixed income assets is 12.5%. The non-interest bearing assets represent the equity element of the portfolio. All assets and liabilities of the company are included in the balance sheet at fair value.

VENTURE CAPITAL TRUSTS

Venture Capital Trusts (VCTs) are companies broadly similar to investment trusts and need to have been approved by the Inland Revenue. The conditions for approval are:

- A VCT's income must be derived wholly or mainly from shares or securities.
- No holding in any company can represent more than 15% by value of a VCT's investments.
- The shares making up a VCT's ordinary share capital must be quoted on the London Stock Exchange.
- A VCT must retain not more than 15% of its income derived from shares or securities.

Within the accounting period beginning not more than three years after application, the following requirements must be met:

- At least 70% by value of a VCT's investments must be in shares, or loans of at least five years, in "qualifying holdings".
- At least 30% by value of a VCT's qualifying holdings must be in ordinary shares.

QUALIFYING HOLDINGS

Qualifying holdings are defined as holdings of shares or securities (including loans of terms of at least five years duration) in unquoted companies (including companies whose shares are traded on the Alternative Investment Market (AIM)) which exist wholly for the purpose of carrying on one or more qualifying trades wholly or mainly in the United Kingdom. The holding must consist of shares or securities which were first issued to and have been ever since continuously held by the VCT. For money raised (e.g. dividend reinvestment) after 2 July 1997, at least 10% by value of each investment made by the VCT must be in ordinary shares.

A qualifying trade is any other than:

- dealing in land, commodities, futures, shares or other financial instruments;
- dealing in goods other than in the course of an ordinary trade of wholesale or retail distribution;
- banking, insurance or other financial activities;
- leasing or receiving royalties or licence fees;
- providing legal or accountancy services; and
- providing ancillary services to any of the above by a related party.

Since 17 March 1998 any new investment in the following activities is also excluded from being a qualifying trade:

- property development;
- farming or market gardening;
- holding, managing or occupying woodlands, any other forestry activities or timber production;
- operating or managing hotels or comparable establishments, or managing property used as an hotel or comparable establishment; and
- operating or managing nursing homes or residential care homes, or managing property used as a nursing home or residential care home.

VCTs may count an investment of up to £1 million in total in a qualifying trading company in any one year towards the 70% qualifying trading company requirement, provided that the gross assets of the company do not exceed £15 million prior to the investment or £16 million following the investment (these qualifying limits were increased from £10 million and £11 million respectively for investments made after 5 April 1998).

Investments in qualifying companies held by VCTs at a time when such companies become quoted on the London Stock Exchange may be treated as investments in qualifying trading companies for up to a further five years.

TAX POSITION OF INDIVIDUAL INVESTORS

This section highlights the tax reliefs available to individual investors and the methods for claiming such tax reliefs.

1) TAX RELIEFS FOR INDIVIDUAL INVESTORS RESIDENT IN THE UK

Investors must be individuals aged 18 or over to qualify for the tax reliefs below. Tax reliefs will only be given to the extent that an individual's total investments in venture capital trusts in any tax year do not exceed £100,000.

Relief from income tax

An investor subscribing for new ordinary shares in a venture capital trust, for any tax year, will be entitled to claim income tax relief on amounts subscribed up to a maximum of £100,000 at the lower rate of income tax, which is currently 20%. For shares purchased on or after 6 April 2000, this relief must be repaid should the shares be sold or otherwise disposed of within three years. For shares purchased on or before 5 April 2000, the retention period is five years. Relief is limited to the amount which reduces the investor's income tax liability to nil.

An investor who subscribes for or acquires up to a maximum of £100,000 of ordinary shares in any given tax year will not be liable to UK income tax on dividends paid by a venture capital trust, which may include realised capital gains by the venture capital trust.

Relief from capital gains tax

An investor who is resident and ordinarily resident in the UK who subscribes for new ordinary shares in a venture capital trust in respect of which he obtains any income tax relief may make a claim so as to postpone any liability to pay capital gains tax on a chargeable gain made within the period beginning 12 months before his subscription and ending 12 months after his subscription. The amount of the chargeable gain which can be deferred is limited to the amount subscribed for ordinary shares up to £100,000 for any tax year. A deferred chargeable gain becomes liable to capital gains tax on the disposal of the ordinary shares. Investors should note that the prior gain is only postponed and a subsequent disposal of the ordinary shares in a venture capital trust at a loss will nevertheless result in the earlier gain being taxed in full. Any loss realised on shares in a venture capital trust, provided such shares were not originally acquired in excess of the £100,000 maximum, will not be allowed against any other chargeable realised gains of the investor.

A disposal by an investor of ordinary shares (whether acquired by subscription for new shares or subsequent acquisition) in a venture capital trust will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is limited to disposals of ordinary shares acquired within the limit of £100,000 for any tax year.

On the death of an investor or a spouse who has acquired venture capital trust shares within marriage, no deferred capital gains tax or income tax will become payable by either the investor, their spouse or anyone inheriting the venture capital trust shares.

Shares acquired other than by subscription (i.e. existing shares)

An investor who acquires up to the permitted maximum of ordinary shares in a venture capital trust in any year will be exempt from income tax on dividends from the venture capital trust, which may include realised capital gains from investments made by the venture capital trust and capital gains on disposal of the venture

TAX POSITION OF INDIVIDUAL INVESTORS

capital trust shares. The permitted maximum of £100,000 is the total of venture capital trust shares subscribed for (new shares) and acquired (existing shares) in the tax year.

A loss on disposal of shares within the permitted maximum is not an allowablé loss.

2) OBTAINING TAX RELIEFS

Claims for income tax relief on amounts subscribed for new ordinary shares
A venture capital trust will give each investor a certificate which the investor uses to claim income tax relief, either immediately by obtaining an adjustment to his tax coding from the Inland Revenue or by waiting until the end of the tax year and using his tax return to claim relief.

Capital gains tax deferral
The investor defers the capital gains tax by notifying a claim to the Inland Revenue, which in most cases should be by his tax return for the tax year of subscription but could be at the same time as he adjusts his tax coding for income tax. In the case of gains which accrue up to 12 months from subscription and in the tax year following the year of subscription, the investor will use that tax year's tax return to notify the Inland Revenue.

3) INVESTORS WHO ARE NOT RESIDENT IN THE UK

Such investors should seek their own professional advice as to the consequences of making an investment in a venture capital trust as they may be subject to tax in other jurisdictions as well as in the UK.

This is a summary only of the law concerning the tax position of individual investors in venture capital trusts. Any potential investor in doubt as to the taxation consequences of investment in a venture capital trust should consult a professional adviser.

RISK WARNINGS

Past performance is not necessarily a guide to future performance. You should be aware that share values and income from them may go down as well as up and that you may not get back the amount you originally invested. Existing tax levels and reliefs may change and the value of reliefs depends on personal circumstances; in particular reliefs may be lost on ceasing to be a UK resident. An investment in a VCT carries a higher risk than other forms of investment. A VCT's shares, although listed, are likely to be illiquid. Prospective investors should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objective and policy and the five year period for which shareholders must hold their shares in order to retain their income tax reliefs. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise and investments in such companies are substantially riskier than those in larger companies.

The tax reliefs are dependent on the VCT obtaining unconditional approval from the Inland Revenue. Reliefs will be given during a period when provisional approval only is in force, but if provisional approval is withdrawn all tax reliefs will be cancelled with retrospective effect. If unconditional approval is withdrawn, any tax reliefs are no longer available and substantial tax liabilities can be expected to be incurred by shareholders and the VCT.

Potential investors are strongly urged to seek independent professional advice when considering investment in a VCT.

EASY WAYS TO INVEST IN THE MURRAY INVESTMENT TRUSTS

MURRAY INVESTMENT TRUSTS

The Murray Investment Trusts provide investors with a range of investment opportunities to obtain capital or income growth or a combination of both.

CAPITAL GROWTH

Murray Emerging Economies Trust PLC
Murray Enterprise PLC
Murray tmt PLC

INCOME AND CAPITAL GROWTH

Murray Global Return Trust PLC
Murray Income Trust PLC
Murray International Trust PLC
Murray Japan Growth & Income Limited*

SPLIT CAPITAL

Murray Extra Return Investment Trust PLC

You can track the Murray Investment Trusts' share prices daily in the *Financial Times, The Daily Telegraph, The Times,* the *London Evening Standard, The Scotsman* and *The Herald.*

THREE WAYS TO INVEST

Murray Johnstone runs a number of investment schemes through which you can invest in the Murray Investment Trusts including:

- **Murray Investment Trust Savings Scheme** which allows you to purchase shares in any of the Murray Investment Trusts. You can invest a lump sum or make regular monthly payments.
- **Murray Investment Trust ISA** combines the full tax benefits of an ISA with your choice of investment from the entire range of Murray Investment Trusts.
- **Murray Monthly 'Income' Selector Plan** which combines investment trusts and OEIC sub-funds managed by Murray Johnstone in a package to produce a high yielding product. You choose the level of annual 'income' you take, from 0% to 9% annually of the original investment, which is paid monthly.

Murray Johnstone also runs the **Murray Share Exchange Scheme** which offers individual investors a simple way to exchange UK listed shares for investment in the Murray Investment Trusts through the above schemes.

New PEPs cannot be opened since 5 April 1999 but existing PEPs will continue to enjoy tax advantages and it is possible to transfer any PEP into a Murray Investment Trust PEP.

It is Murray Johnstone's aim to make it easy for you to invest in the investment trusts and there is a dedicated Client Relations team to answer your enquiries.

Information on investment trusts and other funds managed by Murray Johnstone is available on Murray Johnstone's website at **www.murrayjohnstone.com**

MURRAY JOHNSTONE

Further Information:

If you would like further information about any of the products mentioned above, please contact **Client Relations free on 0800 289 978**

**Murray Japan Growth & Income Limited is an investment company domiciled in Guernsey and listed on the London Stock Exchange*

Annual and interim reports and accounts are available from Murray Johnstone's Client Relations team.

You should remember that the price of shares and income from them may go down as well as up. If the value of shares falls, investors may not get back the amount they originally invested. Past performance is not necessarily a guide to the future. Variations in exchange rates may cause fluctuations in the Sterling value of underlying investments. Murray Johnstone Limited is regulated by IMRO.

MURRAY VCT 4 PLC

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