

04

Murray VCT 3 PLC

Interim Report  
Six months ended 31 August 2004



Aberdeen

## Key Facts

	31 August 2004	29 February 2004	% change
<b>Assets</b>			
Net assets	£23,020,000	£23,140,000	(0.5%)
<b>Cumulative returns to Shareholders since launch</b>			
Net Asset Value total return* (without tax reliefs)	80.9%	80.5%	
Net Asset Value total return* (with tax reliefs***)	109.6%	109.1%	
Total return** (without tax reliefs)	81.3p	81.0p	
Total return** (with tax reliefs***)	101.3p	101.0p	
<b>Ordinary shares</b>			
Net Asset Value	56.4p	56.1p	0.5%
Share price	38.0p	32.0p	18.8%
Discount to Net Asset Value	32.6%	43.0%	
Market capitalisation (£ million)	15.5	13.2	17.4%
Ordinary shares in issue at period end	40,839,670	41,278,788	(1.1%)

\* With dividends re-invested

\*\* Sum of current Net Asset Value and dividends paid to date

\*\*\* Income tax relief at 20%

## Dividends

Year ended February	Payment date	Interim/final/capital	Dividend paid (p)
1999	14 December 1998	Interim	1.25*
	3 April 1999	Second interim	2.81*
2000	10 December 1999	Interim	1.00
	31 January 2000	Europress	1.06
	14 July 2000	Final	2.10
2001	8 December 2000	Interim	1.00
	13 July 2001	Final	2.00
2002	28 December 2001	Interim	0.50
	21 January 2002	CAC Tooling	1.30
	28 January 2002	Benlowe	1.18
	22 July 2002	Final	2.00
2003	30 August 2002	J & S Marine	0.87
	10 December 2002	Interim	0.50
	18 July 2003	Final	1.10
	18 July 2003	Palgrave Brown	4.26
2004	16 July 2004	Final	1.80
	17 September 2004	Intron	0.20
			24.93

\* Prior to 6 April 1999, VCTs were able to add 20% to declared dividends, and figures for that period are shown at the gross equivalent rate actually paid to Shareholders. The net dividend declared in each case is 0.8% of the figure shown.

## Yield Profile

Year shares issued	Years in issue	Subscription price (p)	Dividends paid (p)	Dividend yield since subscription*	Adjustment for VCT tax reliefs		
					Higher-rate taxpayer**	Effective yield 1†	Effective yield 2††
1998	6.5	100	24.9365	3.8%	5.7%	7.1%	14.2%

\* Dividend yield is the dividend paid, divided by the original subscription price divided, by the number of years shares have been held.

\*\* The gross equivalent yield, had the dividends been subject to higher rate tax.

† Effective yield 1 reduces the base cost of the investment by the 20% income tax relief on the original subscription price per share.

†† Effective yield 2 reduces the base cost of the investment by a further 40% of the original subscription price per share to account for capital gains tax deferral.

# Analysis of Unlisted and AIM Portfolio

As at 31 August 2004

FTSE Actuaries Industrial Sector	£'000	%
Support Services	3,226	20.7
Health	2,478	15.9
Engineering & Machinery	2,179	14.0
Transport	1,954	12.5
Media & Entertainment	1,931	12.4
Leisure & Hotels	1,339	8.6
Food Producers & Processors	650	4.2
Electronic & Electrical Equipment	600	3.8
Construction & Building Materials	394	2.5
Aerospace & Defence	322	2.1
Food & Drug Retailers	226	1.4
Software & Computer Services	225	1.4
Telecommunication Services	81	0.5
	<b>15,605</b>	<b>100.0</b>

Deal Type	No. of deals	£'000	%
Management Buy-outs	13	7,170	46.0
Development Capital	17	4,999	32.0
Management Buy-ins	6	1,920	12.3
Acquisition Finance	2	765	4.9
Early Stage	3	751	4.8
	<b>41</b>	<b>15,605</b>	<b>100.0</b>

Aberdeen Murray Johnstone Regional Office	£'000	%
Birmingham	6,339	40.6
Manchester	5,568	35.7
Leeds	1,696	10.9
Glasgow	1,330	8.5
London	672	4.3
	<b>15,605</b>	<b>100.0</b>

*Note: The total portfolio of investments, including both listed and unlisted stocks, is valued at £20,983,000.*

# Investment Review

## Performance

As at 31 August 2004 the NAV was 56.4p, an increase from 56.1p at 29 February 2004. The Board and the Manager have been working to improve the performance of the portfolio, which is explained more fully below, and the small NAV increase is the first sign of progress. The Board believes that there are more favourable prospects for an increasing number of the investee companies, but these will inevitably take some time to come through.

## Dividends

Having obtained Inland Revenue approval for the distribution of the capital gain arising on the sale of Intron, a dividend of 0.20p per share ("pps") was paid on 17 September 2004. As in the previous year, the Board has not declared an interim dividend for the year ending 28 February 2005. The Board has an objective of distributing gains achieved on the sale of investments, while taking into account the need to retain funds for the existing portfolio and new investment opportunities. The decision to distribute in any particular year will normally be taken in the light of the annual results.

## Returns to date

Since the Company's launch most Shareholders will have received 24.9 pps in tax-free dividends, comprising 16.1 pps in income dividends and 8.8 pps in distributions of capital gains. To an investor who took advantage of the initial income tax relief and who therefore has an effective initial investment cost of 80 pps, the tax free dividends represent a return of over 31% of that cost. The total return, being the sum of dividends paid plus NAV, is 81.3 pps representing almost 102% of the initial investment cost. The board is confident that the Manager is taking all necessary actions to increase this figure. In the short-term, the NAV on its own is a less important measure of performance as the underlying investments are long-term in nature and not readily realisable. The most important measures for a VCT are the long term record of dividend payments and the timing of those payments over the life of the Company.

## Investment activity

Further unlisted investment during the six months ended 31 August 2004 totalled £920,000. At 31 August 2004, the portfolio stood at 41 investments with a total cost of £27.4 million.

The following new investment has been made since the publication of the Annual Report:

**RMS Europe Limited (July 2004) -£455,000:** RMS operates ports at Goole, on the Humber Estuary and at Flixborough and Gunness on the River Trent, providing stevedoring and ships agency services together with the storage and onward transport of materials. The total fundraising was £3.6 million and Murray VCT PLC, Murray VCT 2 PLC, Murray VCT 4 PLC, Aberdeen Growth VCT 1 PLC, Aberdeen Growth Opportunities PLC, Aberdeen Development Capital PLC and West Yorkshire Pension Fund were co-investors.

## Portfolio developments

Since the publication of the Annual Report, the holdings in Webfell have been sold realising £396,574 and resulting in a loss of £603,426 against cost but a gain of £63,384 over the February 2004 valuation. J and S Marine has repaid the remaining loan stock of £263,890 at par.

While no further proceeds have been received from Conveco in addition to the £1.9 million referred to in the annual report, the purchaser has confirmed that the major condition for release of the deferred consideration has been satisfied and it is likely that further amounts will be received when the escrow period has expired.

**Investment strategy**

As reported in the Annual Report, the Board has implemented a comprehensive review of the investment strategy with the Manager, following which five primary objectives have been identified:

- intensive portfolio management to help restore profitability to the investee companies;
- concentration of resources on investments that display real exit or recovery potential;
- the resumption of dividend and interest payments to the Company from the portfolio, where these are in arrears;
- disposal of under-performing investments where possible; and
- investment of surplus cash, selectively, in larger companies with strong growth potential.

The aim of these objectives is to restore value and, ultimately, achieve successful disposals from a stronger position in an improved market.

At present, the Company has approximately 26.2% of its assets in cash and gilts, which will enable the necessary support to be given to existing investee companies and also permit investment in new opportunities on the basis indicated.

**Valuation process**

Murray VCT 3's investments in unlisted companies are valued at fair value in accordance with the British Venture Capital Association guidelines. In line with normal market practice for investment companies and investment trusts, investments listed on the Alternative Investment Market (AIM) are valued at their mid-market price, discounted to reflect any trading restrictions.

**Share buy-back policy**

Purchases of shares will be made within guidelines established from time to time by the Board, at prices below the prevailing NAV per Ordinary share and in accordance with the rules of the UK Listing Authority. Share purchases will be funded from distributable reserves and, to the extent that shares are purchased, the NAV of the remaining shares will increase.

**Outlook**

The Company has a broad spread of investments and the Board and the Manager believe that a number of these have positive prospects which should respond to an improvement in the economic environment for smaller companies and to intensive management. The immediate priority of the Manager is to concentrate efforts with a view to improving performance. Market conditions are improving and the Manager expects that a number of exits will be actively pursued in the short to medium term. Deal flow has also increased and, if the pricing of new investments continues to be attractive, the Manager will continue to pursue new investments on a selective basis.

15 October 2004

On behalf of the Board  
**Murray Johnstone Limited**  
Manager and Secretary

## Summary of Investment Changes

For the six months ended 31 August 2004

	Valuation 29 February 2004		Net investment (disinvestment) £'000	Appreciation (depreciation) £'000	Valuation 31 August 2004	
	£'000	%			£'000	%
<b>Unlisted investments</b>						
Equities	4,490	19.4	160	816	5,466	23.7
Preference shares	474	2.0	–	4	478	2.1
Loan stocks	12,195	52.8	(1,740)	(794)	9,661	42.0
	<b>17,159</b>	<b>74.2</b>	<b>(1,580)</b>	<b>26</b>	<b>15,605</b>	<b>67.8</b>
<b>AIM investments</b>						
Equities	–	–	–	–	–	–
<b>Listed investments</b>						
Equities	–	–	–	–	–	–
Fixed income	4,428	19.1	959	(9)	5,378	23.4
<b>Total investments</b>	<b>21,587</b>	<b>93.3</b>	<b>(621)</b>	<b>17</b>	<b>20,983</b>	<b>91.2</b>
Other net assets	1,553	6.7	484	–	2,037	8.8
<b>Total Assets</b>	<b>23,140</b>	<b>100.0</b>	<b>(137)</b>	<b>17</b>	<b>23,020</b>	<b>100.0</b>

# Investment Portfolio Summary

As at 31 August 2004

<b>Unlisted investments</b>	<b>Nature of business</b>	<b>Valuation £'000</b>	<b>% of total assets</b>
Synexus	Management of clinical trials	1,726	7.5
TLC (Tender Loving Childcare)	Operator of daycare nurseries	1,379	6.0
PSCA	Government sector publishing	1,106	4.8
Heathcotes Restaurants	Restuarant chain and provider of outside catering facilities	1,017	4.4
Clamonta	Precision engineering	866	3.7
Businesshealth	Provider of health management services	751	3.3
ELE Advanced Technologies	Precision engineering	750	3.3
Transrent Holdings	Provider of transport and trailer solution services	750	3.3
Link Up Mitaka	Language translation service provider	675	2.9
Sequoia Technology	Distributor of electronic components and equipment	600	2.6
Other investments valued individually at less than £600,000		5,985	26.0
		<b>15,605</b>	<b>67.8</b>
<b>Listed fixed income investments</b>			
Treasury 8.5% 7/12/2005		633	2.7
Treasury 6.75% 7/11/2004		2,222	9.7
Conversion 9.5% 8/04/2005		2,523	11.0
		<b>5,378</b>	<b>23.4</b>
<b>Total investments</b>		<b>20,983</b>	<b>91.2</b>

# Independent Review Report to Murray VCT 3 PLC

## Introduction

We have been instructed by the company to review the financial information for the six months ended 31 August 2004 which comprises the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and the related notes 1 to 3. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

## Directors' Responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review Work Performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review Conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 August 2004.

## Ernst & Young LLP

Edinburgh  
15 October 2004

## Profit and Loss Account

For the six months ended 31 August 2004

	Six months to 31 August 2004		
	Unaudited		
	Revenue £000	Capital £000	Total £000
Investment income and deposit income	473	-	473
Investment management fees	(136)	(206)	(342)
Other expenses	(130)	-	(130)
<b>Operating profit</b>	<b>207</b>	<b>(206)</b>	<b>1</b>
Profit on realisation of investments	-	512	512
Amount written off investments	-	(569)	(569)
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>207</b>	<b>(263)</b>	<b>(56)</b>
Tax on ordinary activities	(61)	61	-
<b>(Loss)/profit on ordinary activities after taxation</b>	<b>146</b>	<b>(202)</b>	<b>(56)</b>
<i>Ordinary dividends on equity shares</i>			
Capital dividends nil (2004 - 0.2p)	-	-	-
Final 2004 - 1.8p	-	-	-
Over accrual in prior years	5	-	5
<b>Balance transferred (from)/to reserves</b>	<b>151</b>	<b>(202)</b>	<b>(51)</b>
<b>Earnings per share (pence) (note 3)</b>	<b>0.4</b>	<b>(0.5)</b>	<b>(0.1)</b>

## Statement of Total Recognised Gains and Losses

For the six months ended 31 August 2004

	Six months to 31 August 2004		
	Revenue £000	Capital £000	Total £000
(Loss)/profit on ordinary activities after taxation	146	(202)	(56)
Unrealised gain/(loss) on revaluation of investments	-	76	76
Current tax attributable to unrealised gains and losses on investments	61	(61)	-
<b>Total recognised gains and losses relating to the period</b>	<b>207</b>	<b>(187)</b>	<b>20</b>

Six months to 31 August 2003 Unaudited			Year ended 29 February 2004 Audited		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
715	–	715	1,687	–	1,687
(157)	(236)	(393)	(300)	(450)	(750)
(109)	–	(109)	(208)	–	(208)
449	(236)	213	1,179	(450)	729
–	–	–	–	–	–
–	68	68	–	596	596
449	(168)	281	1,179	146	1,325
(140)	71	(69)	(346)	147	(199)
309	(97)	212	833	293	1,126
–	–	–	–	(83)	(83)
–	–	–	(743)	–	(743)
–	19	19	19	–	19
309	(78)	231	109	210	319
0.7	(0.2)	0.5	2.0	0.8	2.8

Six months to 31 August 2003			Year ended 29 February 2004		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
309	(97)	212	833	293	1,126
–	(1,870)	(1,870)	–	(3,112)	(3,112)
140	(71)	69	346	(147)	199
449	(2,038)	(1,589)	1,179	(2,966)	(1,787)

# Balance Sheet

As at 31 August 2004

	31 August 2004 Unaudited	31 August 2003 Unaudited	29 February 2004 Audited
	£000	£000	£000
<b>Fixed assets</b>			
Investments	20,983	22,155	21,587
<b>Current assets</b>			
Debtors	1,715	1,695	1,970
Cash and overnight deposits	650	586	653
	2,365	2,281	2,623
<b>Creditors</b>			
Amounts falling due within one year	328	272	1,070
<b>Net current assets</b>	<b>2,037</b>	<b>2,009</b>	<b>1,553</b>
	<b>23,020</b>	<b>24,164</b>	<b>23,140</b>
<b>Capital and reserves</b>			
Called-up share capital	4,084	4,128	4,128
Share premium account	–	20,750	–
Revaluation reserve	(10,815)	(13,461)	(13,031)
Capital redemption reserve	161	117	117
Profit and loss account	29,590	12,630	31,926
<b>Equity shareholders' funds</b>	<b>23,020</b>	<b>24,164</b>	<b>23,140</b>
<b>Net asset value per ordinary share (pence)</b>	<b>56.4</b>	<b>58.5</b>	<b>56.1</b>

15 October 2004

P K Timms CBE  
Director

# Cash Flow Statement

For the six months ended 31 August 2004

	Six months to 31 August 2004 Unaudited	Six months to 31 August 2003 Unaudited	Year ended 29 February 2004 Audited
	£'000	£'000	£'000
<b>Operating activities</b>			
Investment income received	600	685	1,574
Deposit interest received	6	4	7
Other Income	21	6	10
Investment management fees paid	(349)	(457)	(809)
Secretarial fees paid	(34)	(27)	(55)
Cash paid to and on behalf of directors	(31)	(32)	(60)
Other cash payments	(63)	(38)	(114)
<b>Net cash inflow from operating activities</b>	<b>150</b>	<b>141</b>	<b>553</b>
<b>Financial investment</b>			
Purchase of investments	(6,004)	(2,870)	(6,625)
Sale of investments	6,735	5,106	8,516
<b>Net cash inflow from financial investment</b>	<b>731</b>	<b>2,236</b>	<b>1,891</b>
Equity dividends paid	(738)	(2,178)	(2,178)
<b>Net cash inflow before financing</b>	<b>143</b>	<b>199</b>	<b>266</b>
<b>Financing</b>			
Issue of ordinary shares	–	472	472
Repurchase of ordinary shares	(146)	(192)	(192)
<b>Net cash (outflow) / inflow from financing</b>	<b>(146)</b>	<b>280</b>	<b>280</b>
<b>(Decrease)/ increase in cash</b>	<b>(3)</b>	<b>479</b>	<b>546</b>

# Notes to the Financial Statements

## 1. Accounting policies

The financial information for the six months ended 31 August 2004 and the six months ended 31 August 2003 comprises non-statutory accounts within the meaning of the Section 240 of the Companies Act 1985.

The financial information contained in this report has been prepared on the basis of the accounting policies set out in the Annual Report for the year ended 29 February 2004. The results for the year ended 29 February 2004 are abridged from the full accounts for that year, which received an unqualified report from the auditors and have been filed with the Registrar of Companies.

Although the company is no longer an investment company, as investment company status was revoked in order to permit the distribution of capital profits, the directors believe that the presentation of the profit and loss account and the statement of total recognised gains and losses is enhanced by showing the returns attributable to revenue and to capital.

	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000
<b>2. Movement in reserves</b>			
As at 1 March 2004	(13,031)	117	31,926
Repurchase and cancellation of shares	–	44	(145)
Transfer of realised losses to profit and loss account	2,140	–	(2,140)
Net increase in value of investments	76	–	–
Retained loss for the period	–	–	(51)
<b>As at 31 August 2004</b>	<b>(10,815)</b>	<b>161</b>	<b>29,590</b>

## 3. Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the period of 41,094,110. Net asset values per ordinary share have been calculated using the number of shares in issue at 31 August 2004 of 40,839,670.

# Corporate Information

<b>Directors</b>	P K Timms (Chairman) J Cooper A Cubie A S F Mair M J Walker
<b>Manager and Secretary</b>	Murray Johnstone Limited 123 St Vincent Street Glasgow G2 5EA Customer Services Department: freephone 0500 00 00 40 (open Monday to Friday, 9am to 5pm) E-mail: <a href="mailto:invtrusts@aberdeen-asset.com">invtrusts@aberdeen-asset.com</a>  <i>Points of Contact</i> The Chairman and/or the Company Secretary at: 123 St Vincent Street Glasgow G2 5EA E-mail: <a href="mailto:company.secretary@invtrusts.co.uk">company.secretary@invtrusts.co.uk</a>
<b>Website</b>	<a href="http://www.aberdeen-asset.com">www.aberdeen-asset.com</a>
<b>Registered Office</b>	One Bow Churchyard Cheapside London EC4M 9HH Registered in England and Wales Company Registration Number: 3307069
<b>Registrar</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Shareholder Helpline: 0870 162 3100
<b>Auditors</b>	Ernst & Young LLP
<b>Custodian Bankers</b>	J P Morgan Chase Bank
<b>Solicitors</b>	S J Berwin
<b>Stockbroker</b>	Close Brothers Securities