3495287

# Murray VCT 3 PLC

Long term capital and income growth principally through investment in smaller unquoted companies in the United Kingdom

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COMPANIES HOUSE 19/07/02

Annual Report
**28 February 2002**

# Contents



# Financial Calendar

Annual General Meeting 16 July 2002

**Dividend Schedule**

| | Rate | xd date | Record date | Payment date |
|---|---|---|---|---|
| Interim dividend | 0.5p | 5 December 2001 | 7 December 2001 | 28 December 2001 |
| Proposed final dividend | 2.0p | 26 June 2002 | 28 June 2002 | 22 July 2002 |
| **Total** | **2.5p** | | | |


Registered in England and Wales – Company Number 3495287

*Murray*
*VCT 3 PLC*

# Corporate Summary

**Investment Objective**
Murray VCT 3's objective is to achieve long term capital and income growth principally through invesmtent in smaller unquoted companies in the United Kingdom.

**Life of the Company**
It is not intended that the Company should have a limited life, but it is considered desirable that Shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company, in its then form, to Shareholders at the tenth Annual General Meeting following listing and thereafter at five year intervals.

**Capital Structure**
The Company's share capital consists of 40,742,719 Ordinary shares of 10p each at 31 May 2002.

**Summary Management Agreement**
The Manager has agreed to provide Investment Management Services for a fee calculated on the gross assets value, together with a Secretarial Fee, as detailed in Note 3 on page 26. The Management Agreement is terminable on twelve months notice.

# Corporate Information

**Directors**
P K Timms CBE, Chairman
J Cooper
A Cubie CBE
A S F Mair MBE DL
M J Walker

**Manager & Secretary**
Murray Johnstone Limited
123 St Vincent Street
Glasgow G2 5EA

Tel: 0141 306 7400

**Registered Office**
One Bow Churchyard,
Cheapside,
London EC4M 9HH

Company Registration Number: 3495287

**Registrars**
Capita IRG Plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Shareholder helpline: 020 8639 2000

**Stockbrokers**
UBS Warburg

**Custodian Bankers**
JP Morgan Chase Bank

**Solicitors**
S J Berwin & Co

**Auditors**
Ernst & Young LLP

# Board Members

### Chairman

**P K Timms CBE** (58) was appointed a Director and Chairman in January 1998. He is the founder and managing director of Flexible Technology Limited, and is chairman of J&S Marine Limited, Scottish Electronic Technology Group Limited, Smartpower Limited, HIE Ventures Limited and LeggMason Investors Enterprise plc. He is also a non-executive director of Argyll and The Islands Enterprise Company Limited and The Business Forum Scotland Limited. He is a visiting professor and chairman of the advisory board of the University of Glasgow Business School.

### Directors

**J Cooper** (58) was appointed a Director in January 1998. He has been actively involved in a number of management buy-ins having been managing director of Clairmont plc from 1987 to 1991 and chief executive of Calder Group Limited from 1994 to 1995. Prior to becoming involved with the venture capital industry in 1987, he was a director of several GEC companies and James Howden Ltd. He is chairman of First Engineering Holdings Limited, Encon Limited, Magnet Applications Ltd and Yaba Ltd. He is also a non-executive director of Murray VCT 2 PLC, Semple Cochrane plc and Scottish Enterprise Lanarkshire.

**A Cubie CBE** (55) was appointed a Director in January 1998. He is the senior partner of Fyfe Ireland, solicitors, having extensive experience of corporate law and investment, particularly in the private company sector. He is a non-executive director of Norfrost Holdings Limited and Kinloch Anderson Limited. He was chairman of CBI Scotland from 1995 to 1997. He is chairman of Quality Scotland Foundation, and Scotland's Health of Work. He is vice-chairman of the Court of Napier University and the author of the Cubie Report in respect of student funding in Scotland.

**A S F Mair MBE DL** (66) was appointed a Director in January 1998. He is a former chairman and managing director of Caithness Glass Limited. He has considerable knowledge and experience of public and private companies and has led two management buy-outs. He is chairman of Crieff Hydro Limited and a non-executive director of Grampian Television Limited. He was chairman of CBI Scotland from 1989 to 1991. He is Chancellor's Assessor and vice-chairman of the Court of the University of Aberdeen.

**M J Walker** (49) was appointed a Director in January 1998 and is the managing partner of Maclay Murray & Spens, solicitors, having been appointed a partner in 1981. Since then he has specialised in the corporate sector having wide experience of all forms of corporate activity including venture capital investments, acting on behalf of investors, investees and supporting financial institutions. He is a non-executive director of John Menzies plc and Murray VCT 2 PLC.

*All of the Directors are non-executive and are members of the Management Engagement Committee, the Audit Committee and the Nomination Committee.*

# Manager

Murray Johnstone Limited is the Manager of the Company. It is a subsidiary of Aberdeen Asset Management PLC whose group companies, as at 30 April 2002, managed over £27 billion for institutions, unit trusts, OEICs, investment trusts, venture capital trusts, private equity funds, private clients and offshore funds. The Manager's private equity division, Aberdeen Murray Johnstone Private Equity, operates through a network of seven regional offices and as at 30 April 2002 had approximately £500 million under management.

# Analysis of Portfolio of Unlisted Investments

**FTSE Actuaries Industry Sector**

| | £'000 | % |
|---|---|---|
| Construction & Building Materials | 4,012 | 17.0 |
| Support Services | 3,032 | 12.8 |
| Health | 2,879 | 12.2 |
| Media & Photography | 2,308 | 9.8 |
| Engineering & Machinery | 2,233 | 9.4 |
| Transport | 2,227 | 9.4 |
| Distributors | 2,212 | 9.4 |
| Household Goods & Textiles | 1,000 | 4.2 |
| Food & Drug Retailers | 1,000 | 4.2 |
| Aerospace & Defence | 987 | 4.2 |
| Food Producers & Processors | 805 | 3.4 |
| Leisure, Entertainment & Hotels | 549 | 2.3 |
| Oil & Gas | 255 | 1.1 |
| Telecommunication Services | 140 | 0.6 |
| | **23,639** | **100.0** |

**Deal Type**

| | No. of deals | £'000 | % |
|---|---|---|---|
| Management Buy-out | 12 | 10,594 | 43.8 |
| Development Capital | 14 | 5,799 | 24.5 |
| Management Buy-in | 6 | 4,032 | 17.1 |
| Early Stage | 2 | 1,910 | 8.1 |
| Acquisition Finance | 2 | 1,304 | 6.5 |
| | | **23,639** | **100.0** |

**Aberdeen Murray Johnstone Regional Office**

| | No. of deals | £'000 | % |
|---|---|---|---|
| Birmingham | 12 | 9,122 | 38.5 |
| Manchester | 10 | 8,623 | 36.5 |
| Leeds | 7 | 3,715 | 15.7 |
| London | 4 | 1,784 | 7.6 |
| Aberdeen | 1 | 255 | 1.1 |
| Glasgow | 2 | 140 | 0.6 |
| | | **23,639** | **100.0** |

*Note: The total portfolio of investments, including both listed and unlisted stocks, is valued at £33,848,000.*

# Chairman's Statement

**Realisations**
Since the publication of the Interim report on 26 November 2001, the realisation of Benlowe has been achieved resulting in a gain of 1.18p per share, which has already been distributed to shareholders.

During March 2002, following the earlier repayment of the loan stock, a partial realisation of the remaining holding in J & S Marine was achieved resulting in a gain of approximately 0.8p per share which, subject to obtaining Inland Revenue approval, will be distributed to shareholders.

**Market conditions**
Conditions in the UK economy remain very difficult particularly for manufacturing industry where damaging import substitution from countries with a lower cost base has increased, augmented by the relative exchange rates.Despite earlier interest rate cuts, worries over the potential inflationary effect of the buoyancy of retail sales and in particular the housing market have restricted the Bank of England's Monetary Policy Committee in making further changes since November 2001. The Board has taken a prudent view of valuations in these circumstances. Despite interest rates being at their lowest level for many years and a high level of consumer spending, expectations for economic growth are still low. This is having a particular impact on smaller manufacturing businesses which constitute a significant part of the Company's portfolio. The Board has also taken a prudent view in valuing those investments in the technology sector. Larger portfolio companies particularly those in or related to the construction sector are performing better at present.

**Net asset value**
The net asset value per share at 28 February 2002, before payment of the annual dividends, but after deducting the distributions of special dividends arising from capital gains of 2.48p was 87.2p compared with 94.6p at 28 February 2001. This decrease in net asset value of 7.8% compares with the significant reductions in stock market indices generally and in particular the FTSE SmallCap Index which fell by 20.9% over the period and the FTSE AIM Index and the TechMark Index which fell by 36.9% and 48% respectively over the period.

Murray VCT 3's investments in unquoted 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, should performance be ahead of plan, which may imply an increase in the value of the investment, this would not be reflected for at least 12 months; on the other hand material underperformance will be immediately reflected in a reduced valuation. Listed and AIM stocks are valued at their mid-market prices, discounted where necessary to reflect trading restrictions.

The average price earnings multiple which has been applied to those companies valued by reference to their earnings is 6.8, which is significantly lower than those shown in the FTSE indices.

**Dividends**
An interim dividend of 0.5p for the year ended 28 February 2002 was paid to shareholders on 28 December 2001. A distribution of 1.3p was made to shareholders on 4 January 2002 in respect of the previously reported capital gain from the CAC Tooling realisation and a further dividend of 1.18p was paid on 28 February 2002 in respect of the gain on the sale of Benlowe. The Board is now proposing a final dividend of 2.0p per share to be paid on 22 July 2002 to shareholders on the register on 28 June 2002. The total dividend paid to shareholders in respect of the year ended 28 February 2002 will therefore amount to 4.98p per share.

**Dividend reinvestment**
Shareholders may opt to reinvest their dividends in new Murray VCT 3 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.

# Chairman's Statement

**Distributions to date**

Since the Company's launch, most shareholders will have received 16.2065p in tax free dividends. To an investor who took advantage of all available tax reliefs and deferrals, this represents a return of over 40% of the effective initial investment cost of 40p per share and is equivalent to an annual dividend yield of 14.66% from a conventional listed equity for a higher rate taxpayer. This compares with the FTSE SmallCap yield of 2.39% and FTSE All-Share yield of 2.72% over the same period.

**Outlook**

The results reported here have been achieved during a financial year in which economic conditions have been unfavourable and, while some stability may now be evident, the immediate prospects are still uncertain. The portfolio includes a solid core of investments whose prospects should be good but it may be some time before those prospects can be demonstrated in further profitable realisations. New investments will be added and further support will be given to existing companies which are pursuing acquisition strategies until a fully invested position is achieved.

**P K Timms CBE**
Chairman

31 May 2002

# Investment Manager's Review

### Investment activity

New unlisted investment during the year ended 28 February 2002 totalled £4.4 million taking the unlisted portfolio to 37 qualifying companies at a total cost of £27.1 million. This represented a qualifying investment level of 71%. Since the period end, a further investment has taken the total number of investments to 38 and the amount invested to £27.7 million, the qualifying percentage remains the same as a result of the partial realisation of J & S Marine noted below.

The following investments have been made since the publications of the interim report:

**Tuscan Energy Group Limited (January 2002) - £255,000.** Based in Aberdeen, Tuscan has recently been awarded licenses to redevelop the Ardmore field, which was the first producing oilfield in the UK Continental Shelf (UKCS).

**Mercury Inns Group Limited (March 2002) – £643,500.** Based in Tamworth, Mercury provides consultancy services to the licensed trade and operates freehold managed public houses.

### Portfolio developments

The sale of Benlowe completed during December 2001 resulting in a gain, which has already been distributed to shareholders, of £449,000 (1.18p per share) on the investment cost of £707,000. The compound rate of return (IRR) on the investment was 32.5% and a cash multiple of 1.8 times was achieved.

During March 2002, following the earlier repayment of the loan stock, a partial realisation of the remaining holding in J & S Marine was achieved resulting in a gain of approximately 0.8p per share which will be distributed to shareholders following Inland Revenue approval. The IRR on the investment to date incorporating the valuation of the remaining holding was 35.4% and a cash multiple of 1.5 times has been achieved.

Although there have been successful realisations, as mentioned earlier, further reductions in valuations have been necessary reflecting the difficult economy. Further trade sales will be pursued as and when market conditions improve and where conditions and underlying performance offer attractive exits.

### Outlook

Murray VCT 3 is not yet fully invested and new investments will continue to be made until an investment level of around 85% is attained. Capacity will be retained to assist the existing portfolio with acquisitions or in certain cases to maintain the investee company's cash position where the outlook is good. Despite the challenging economic conditions, the regional network of Aberdeen Murray Johnstone Private Equity offices continues to see a strong flow of investment opportunities. In addition, the Manager believes the recent fall in stock market indices has led to more realistic pricing expectations in the private equity market. The Manager will continue to work with the portfolio of investee companies to improve performance and to maximise proceeds from eventual disposals.

**Murray Johnstone Limited**
Manager

31 May 2002

# Summary of Investment Changes

For the year ended 28 February 2002

| | Valuation as at 28 February 2001 £'000 | % | Net investment (disinvestment) £'000 | Appreciation (depreciation) £'000 | Valuation as at 28 February 2002 £'000 | % |
|---|---|---|---|---|---|---|
| **Unlisted investments** | | | | | | |
| Equities | 7,841 | 20.5 | 1,245 | (65) | 9,021 | 26.0 |
| Preference shares | 1,820 | 4.7 | 4 | (730) | 1,094 | 3.2 |
| Loan stock | 13,293 | 34.6 | 2,186 | (1,955) | 13,524 | 38.9 |
| | 22,954 | 59.8 | 3,435 | (2,750) | 23,639 | 68.1 |
| **Listed investments** | | | | | | |
| Equities | 53 | 0.1 | – | (34) | 19 | 0.1 |
| Fixed income | 8,217 | 21.4 | 2,010 | (37) | 10,190 | 29.4 |
| Total investments | 31,224 | 81.3 | 5,445 | (2,821) | 33,848 | 97.6 |
| Other net assets | 7,190 | 18.7 | (6,351) | – | 839 | 2.4 |
| **Total Assets*** | **38,414** | **100.0** | **(906)** | **(2,821)** | **34,687** | **100.0** |

**Total assets represents equity shareholders' funds*

# Investment Portfolio Summary

As at 28 February 2002

| | Nature of business | Valuation £'000 | % of total assets |
|---|---|---|---|
| **Unlisted Investments** | | | |
| Businesshealth | Provider of health management services to employers | 1,911 | 5.5 |
| Palgrave Brown (UK) | Manufacturer of timber products | 1,762 | 5.1 |
| CCM Motorcycles | Manufacturer of motorcycles | 1,430 | 4.1 |
| Visual Gold | Creative design and animation services | 1,058 | 3.0 |
| Conveco | Operator of convenience stores | 1,000 | 2.9 |
| Interak | Import and distribution of small household items | 1,000 | 2.9 |
| *Intron* | *Manufacturer and distributor of entrance doors* | 1,000 | 2.9 |
| J & S Marine | Defence contractor | 987 | 2.8 |
| Sequoia | Distributor of electronic components and equipment | 975 | 2.8 |
| Synexus | Management of clinical trials | 968 | 2.8 |
| Other Investments valued individually at less than £870,000 | | 11,548 | 33.3 |
| | | **23,639** | **68.1** |
| **Listed equities** | | | |
| Keystone Solutions | Designs and sells practice management software | 19 | 0.1 |
| **Listed fixed income investments** | | | |
| Treasury 8.5% 2005 | | 3,082 | 8.9 |
| International Bank of Reconstruction & Development 7% 2002 | | 2,821 | 8.1 |
| Treasury 8% 2003 | | 1,722 | 5.0 |
| Treasury 5% 2004 | | 1,358 | 3.9 |
| Treasury 6.75% 2004 | | 1,207 | 3.5 |
| | | **10,190** | **29.4** |
| **Total investments** | | **33,848** | **97.6** |

# Ten Largest Unlisted Investments

## BUSINESSHEALTH GROUP PLC

**Provider of health management services to employers**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Cost of investment | 1,013 | 951 |
| Directors' valuation | 1,911 | 1,189 |
| Voting rights | 8.5% | 9.7% |
| Gross income received in the year | 43 | – |
| Basis of valuation | Third party transaction | Third party transaction |
| Cumulative realisation proceeds | – | – |

Businesshealth provides employee health management services to employers in the public and private sectors. It is London based, with national operating capability.

Start up and acquisition funding for Businesshealth Limited was led by Aberdeen Murray Johnstone clients in September 1999 with further investments being made in May 2001 and December 2001. At that time, a new holding company was created and Murray VCT 3's entire holding in Businesshealth Limited was converted into a holding in Businesshealth Group Plc. The financial performance shown below relates to Businesshealth Limited.

| Year ended 31 December | 2000 £'000 | 1999 £'000 |
|---|---|---|
| Turnover | 700 | 316 |
| Loss before interest and tax | (3,548) | (1,069) |
| Loss before tax | (3,672) | (1,082) |
| Loss after tax | (3,672) | (1,082) |
| Ordinary share dividends | – | – |
| Net liabilities attributable to ordinary shareholders | (2,179) | (1,093) |
| Earnings per ordinary share | (692.2p) | (220.6p) |
| Dividend per ordinary share | – | – |
| Ordinary dividend cover | – | – |

## PALGRAVE BROWN (UK) LIMITED

**Manufacturer of timber products**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Cost of investment | 1,175 | 1,175 |
| Directors' valuation | 1,762 | 1,537 |
| Voting rights | 12.5% | 12.5% |
| Gross income received in the year | 103 | 103 |
| Basis of valuation | PE 7 | PE 7 |
| Cumulative realisation proceeds | – | – |

Palgrave Brown manufactures timber products prefabricated roof trusses and wooden windows sold to house builders and builders' merchants. The head office is in Lancashire with depots throughout the country.

The management buy-out in September 1998 was led by Murray Johnstone.

| Year ended 31 March | 2001 £'000 | 2000 £'000 |
|---|---|---|
| Turnover | 47,197 | 32,657 |
| Profit before interest and tax | 3,001 | 2,248 |
| Profit before tax | 1,577 | 1,264 |
| Profit after tax | 933 | 1,053 |
| Preference share dividends | – | – |
| Ordinary share dividends | – | – |
| Net assets attributable to ordinary and preference shareholders | 2,890 | 1,957 |
| Earnings per ordinary share | 317.2p | 352.6p |
| Dividend per preference share | – | – |
| Dividend per ordinary share | – | – |
| Ordinary dividend cover | – | – |
| Preference dividend cover | – | – |

# Ten Largest Unlisted Investments

## CCM MOTORCYCLES LIMITED

**Manufacturer of motorcycles**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Cost of investment | 1,430 | 817 |
| Directors' valuation | 1,430 | 817 |
| Voting rights | 29.8% | 18.4% |
| Gross income received in the year | - | - |
| Basis of valuation | Cost | Cost |
| Cumulative realisation proceeds | - | - |

The company manufactures both on and off-road motorcycles at its premises in Blackburn, Lancashire.

The development capital investment in November 2000 was led, structured and arranged by Murray Johnstone. A further investment of £1.5 million was made in tranches between October 2001 and February 2002.

| Period ended 30 September | 2001 £'000 |
|---|---|
| Turnover | 1,706 |
| Loss before interest and tax | (972) |
| Loss before tax | (1,008) |
| Loss after tax | (1,008) |
| Preference share dividends | – |
| Ordinary share dividends | – |
| Net assets attributable to ordinary and preference shareholders | 2,005 |
| Earnings per ordinary share | – |
| Dividend per preference share | – |
| Preference dividend cover | – |
| Dividend per ordinary share | – |
| Ordinary dividend cover | – |

## VISUAL GOLD LIMITED

**Creative design and animation services**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Cost of investment | 1,058 | 1,000 |
| Directors' valuation | 1,058 | 1,000 |
| Voting rights | 8.3% | 8.3% |
| Gross income received in the year | – | – |
| Basis of valuation | Cost | Cost |
| Cumulative realisation proceeds | – | – |

Visual Gold Limited provides 2D and 3D creative design and animation services to clients in the television and film markets. The business is based in Telford.

The development capital funding in February 2001 was led by Aberdeen Murray Johnstone Private Equity.

| Period ended 30 November | 2000 £'000 |
|---|---|
| Turnover | 158 |
| Loss before interest and tax | (825) |
| Loss before tax | (835) |
| Loss after tax | (835) |
| Preference share dividends | – |
| Ordinary share dividends | – |
| Net liabilities attributable to ordinary and preference shareholders | (1,008) |
| Earnings per ordinary share | (167) |
| Dividend per preference share | – |
| Preference dividend cover | – |
| Dividend per ordinary share | – |
| Ordinary dividend cover | – |

# Ten Largest Unlisted Investments

## CONVECO LIMITED

**Operator of convenience stores**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 |
|---|---|
| Cost of investment | 1,000 |
| Directors' valuation | 1,000 |
| Voting rights | 7.3% |
| Gross income received in the year | – |
| Basis of valuation | Cost |
| Cumulative realisation proceeds | – |

Conveco, trading as Local Plus, operates convenience stores in the South West of England.

The management buy-out in May 2001 was led by Aberdeen Murray Johnstone Private Equity.

As this transaction was completed in May 2001, audited accounts for the first period of trading have not yet been produced.

## INTERAK LIMITED

**Import and distribution of small household items.**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 |
|---|---|
| Cost of investment | 1,000 |
| Directors' valuation | 1,000 |
| Voting rights | 18.4% |
| Gross income received in the year | 51 |
| Basis of valuation | Cost |
| Cumulative realisation proceeds | – |

Interak imports, distributes and merchandises small household items for major UK retail companies The business is based in Scunthorpe.

The management buy-in in March 2001 was led by Aberdeen Murray Johnstone Private Equity.

As this transaction was completed in March 2001, audited accounts for the first period of trading have not yet been produced.

# Ten Largest Unlisted Investments

## INTRON LIMITED

**Manufacturer and distributor of entrance doors**

Incorporated in England and Wales

| **Holding details as at 28 February** | **2002 £'000** | **2001 £'000** |
|---|---|---|
| Cost of investment | 1,000 | 1,000 |
| Directors' valuation | 1,000 | 1,000 |
| Voting rights | 16.7% | 16.7% |
| Gross income received in the year | 90 | 82 |
| Basis of valuation | Cost | Cost |
| Cumulative realisation proceeds | - | – |

Intron is a leading supplier of composite doors and outer frames for the public sector replacement market under the 'Homesafe' brand.

The management buy-in in July 1998 was led by Murray Johnstone.

| **Year ended 30 June** | **2001 £'000** | **2000 £'000** |
|---|---|---|
| Turnover | 5,440 | 5,034 |
| Profit before interest and tax | 380 | 579 |
| Profit before tax | 27 | 227 |
| (Loss)/Profit after tax | (39) | 108 |
| Ordinary share dividends | - | – |
| Net assets attributable to ordinary shareholders | 1,101 | 1,139 |
| Earnings per ordinary share | (13.0p) | 36.0p |
| Dividend per ordinary share | - | – |
| Ordinary dividend cover | - | – |

## J & S MARINE LIMITED

**Defence contractor**

Incorporated in England and Wales

| **Holding details as at 28 February** | **2002 £'000** | **2001 £'000** |
|---|---|---|
| Cost of investment | 285 | 818 |
| Directors valuation | 987 | 818 |
| Voting rights | 23.7% | 23.7% |
| Gross income received in the year | 36 | 70 |
| Basis of valuation | Transaction price | Cost |
| Cumulative realisation proceeds | 665 | 132 |

J & S Marine designs, manufactures and provides in-service support for naval applications, particularly in sonar and weapons firing systems applications. The head office is in Barnstaple, Devon.

The management buy-out in July 1999 was led by Murray Johnstone.

In March 2002, two thirds of the investment was sold for £844,000 resulting in a realised distributable gain over original cost of £356,000.

| **Year ended 30 September** | **2001 £'000** | **2000* £'000** |
|---|---|---|
| Turnover | 9,439 | 11,813 |
| Profit before interest and tax | 861 | 1,430 |
| Profit before tax | 765 | 1,220 |
| Profit after tax | 765 | 1,220 |
| Ordinary share dividends | - | – |
| Net assets attributable to ordinary shareholders | 2,580 | 1,814 |
| Earnings per ordinary share | 210.4p | 335.5p |
| Dividend per ordinary share | – | – |
| Ordinary dividend cover | – | – |

** period from 16 April 1999 to 30 September 2000*

# Ten Largest Unlisted Investments

## SEQUOIA TECHNOLOGY LIMITED

**Distributor of electronic components and equipment**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Cost of investment | 750 | 750 |
| Directors valuation | 975 | 750 |
| Voting rights | 30.0% | 30.0% |
| Gross income received in the year | 76 | 25 |
| Basis of valuation | PE 6 | Cost |
| Cumulative realisation proceeds | – | – |

Sequoia Technology is a distributor of electronic components and equipment. The company is design led and works closely with suppliers to develop products for specific target customers. The company is located in Reading, Berkshire.

The management buy-out in November 2000 was led by Murray Johnstone.

| Period from 31 May 2000 to 31 December 2000 | 2000 £'000 |
|---|---|
| Turnover | 2,945 |
| Profit before interest and tax | 221 |
| Profit before tax | 164 |
| Profit after tax | 111 |
| Ordinary share dividends | – |
| Net assets attributable to ordinary shareholders | 482 |
| Earnings per ordinary share | 43.2p |
| Dividend per ordinary share | – |
| Ordinary dividend cover | – |

## SYNEXUS LIMITED

**Management of clinical trials**

Incorporated in England and Wales

| Holding details as at 28 February | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Cost of investment | 968 | 968 |
| Directors' valuation | 968 | 968 |
| Voting rights | 9.7% | 9.7% |
| Gross income received in the year | – | – |
| Basis of valuation | Cost | Cost |
| Cumulative realisation proceeds | – | – |

Synexus is the UK's leading clinical trials patient recruitment organisation serving the international pharmaceutical industry. It operates from nine clinical research centres throughout the UK, with its head office in Chorley, Lancashire.

The management buy-out in February 2001 was led by Aberdeen Murray Johnstone Private Equity.

As this transaction was completed in February 2001, audited accounts for the first period of trading have not yet been produced.

# Directors' Report

The Directors submit their annual report together with the financial statements of the Company for the year ended 28 February 2002.

**Results and dividends**

The profit for the year on ordinary activities after taxation amounted to £320,000. An interim dividend of 0.5p per share was paid on 28 December 2001 to shareholders on the register at close of business on 7 December 2001. The Directors now recommend a final dividend for the year of 2.0p per Ordinary share payable on 22 July 2002 to Ordinary shareholders on the register at close of business on 28 June 2002 and a resolution to this effect will be proposed at the Annual General Meeting. The sum of £1,716,000 has been transferred from the Company's reserves.

The Net Asset Value per Ordinary share at 28 February 2002 was 84.7p. The Net Asset Value per Ordinary share has been calculated using the number of shares in issue at 28 February 2002 of 40,942,719.

Special dividends of of 1.3p and 1.18p were paid to shareholders on 21 January and 28 February 2002 respectively.

**Review of the business**

The objective of the Company is to achieve growth in capital and income through investment in unlisted smaller and medium sized enterprises focused on the regional business centres in the United Kingdom.

A review of the Company's operations is given in the Chairman's Statement on pages 5 and 6 and in the Investment Manager's Review on page 7.

New investment during the year totalled £4.4m, taking the unlisted protfolio to 37 qualifying investments at a cost of £27.1m. This represented a qualifying investment level of 71%.

**Purchase of ordinary shares**

During the year ended 28 February 2002, 136,120 Ordinary shares of 10p (representing 0.34 per cent of the issued ordinary share capital at 28 February 2001) each were purchased within the established guidelines at an average price of 78.98p per share. Since the year end 200,000 Ordinary shares have been repurchased at an average price of 68p per share.

A special resolution, numbered 7 in the notice of Annual General Meeting, will ask shareholders for their approval to renew the authority to purchase in the market an aggregate of 10% of ordinary shares in issue (4,074,271 Ordinary shares) at 31 May 2002. Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is the earlier. This means in effect that the authority will have to be renewed at the next Annual General Meeting of the Company.

Purchases of Ordinary shares will be made within guidelines established from time to time by the Board, but only if it is considered that such purchases would be to the advantage of the Company and its shareholders taken as a whole. Purchases will be made in the market for cash only at prices below the prevailing Net Asset Value per Ordinary share. Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of this authority must not exceed 105 per cent of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase. The minimum price that may be paid is 10p per share. In making purchases, the Company will only deal with member firms of the London Stock Exchange. Shares which are purchased will be cancelled. Purchases of Ordinary shares by the Company will be made from reserves and the purchase price will normally be paid out of cash balances held by the Company from time to time.

The purchase of Ordinary shares by the Company is intended to reduce any discount at which Ordinary shares trade in the market because the Company will be a new source of demand for Ordinary shares. Since it is

# Directors' Report

anticipated that any purchases will be made at a discount to Net Asset Value at the time of purchase, the Net Asset Value of the remaining Ordinary shares in issue should increase.

Shares will not be purchased by the Company in the period of 2 months immediately preceding the notification of the Company's interim results and the 2 months immediately preceding the preliminary announcement of the annual results or, if shorter, the period from the end of the Company's relevant financial period up to and including the time of the relevant announcement.

**Issue of new ordinary shares**

During the year 476,258 Ordinary shares of 10p each were issued, at an average price of 92.3p, under the dividend reinvestment scheme for a total consideration of £439,581.

Resolution numbered 8 in the notice of meeting will be put to shareholders at the Annual General Meeting for their approval to issue up to an aggregate nominal amount of £407,427 (equivalent to 4,074,271 Ordinary shares or 10% of the total issued share capital at 31 May 2002). If further issues of new Ordinary shares are made they will be made only at a premium to Net Asset Value per share, thus ensuring existing investors will not be disadvantaged by such issues. The proceeds of any issue may be used to purchase the Company's Ordinary shares in the market. This authority shall expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first one to occur.

When shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 provides that existing shareholders have pre-emption rights and that the new shares are offered first to such shareholders in proportion to their existing shareholdings. However shareholders can, by special resolution, authorise the Directors to allot shares otherwise than by a pro rata issue to existing shareholders. Resolution 9 will, if passed, also give the Directors power to allot for cash, Ordinary shares up to an aggregate nominal amount of £407,427 (equivalent to 4,074,271 Ordinary shares or 10 per cent of the total issued share capital at 31 May 2002) as if Section 89(1) does not apply. This is the same amount of share capital that the Directors are seeking the authority to allot pursuant to resolution 8. The authority will also expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first one to occur. The Company will not use this authority in connection with a rights issue.

**Share capital**

Following the issue of Ordinary shares by means of the dividend reinvestment scheme and the purchase of Ordinary shares, the issued ordinary share capital at 28 February 2002 amounted to 40,942,719 Ordinary shares of 10p each. Following a further buyback of 200,000 Ordinary shares by the Company, since the year end, the issued Ordinary share capital as at 31 May 2002 amounted to 40,742,719 Ordinary shares of 10p each.

**Directors**

The Directors who held office during the year under review and their interests in shares of the Company are shown in note 20 on page 35.

Mr Timms and Mr Walker, whose biographies are shown on page 3, retire by rotation at this time and being eligible offer themselves for re-election. Resolutions to this effect will be proposed at the Annual General Meeting.

No contract or arrangement significant to the Company's business and in which any of the Directors is interested has subsisted during the year.

**Directors' and officers' insurance**

The Company purchases and maintains liability insurance covering the Directors and officers of the Company.

# Directors' Report

**Manager and Company Secretary**

Murray Johnstone Limited, a wholly owned subsidiary of Aberdeen Asset Management PLC provides accounting, secretarial, investment management and administrative services to the company. The details of the management and secretarial fees are shown in note 3 on page 26.

**Corporate governance**

The Statement of Corporate Governance is shown on pages 17 to 19.

**Principal activity and status**

The Company is not an investment company within the meaning of Section 266 of the Companies Act 1985. However, its affairs have been conducted in a manner to satisfy the conditions to enable it to continue to obtain approval as a venture capital trust under section 842AA of the Income and Corporation Taxes Act 1988. The Company will liaise with the Inland Revenue to ensure that Secion 842AA of the Income and Corporation Taxes Act 1988 continues to be complied with each year. The Inland Revenue will grant Section 842AA status, if requested, provided that the Company's affairs have been conducted in such a manner as to satisfy the conditions of that section.

**Going concern**

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements, as the Company has adequate financial resources to enable it to continue in operational existence for the foreseeable future.

**Creditor payment policy**

The Company's creditor payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them. The Company did not have any trade creditors at the year end.

**Annual general meeting**

The notice of Annual General Meeting, which will be held on 16 July 2002, is contained on pages 41 and 42.

**Auditors**

The Auditors, Ernst and Young LLP, have expressed their willingness to continue in office. A resolution to re-appoint Ernst & Young LLP as the Company's Auditor will be put to the forthcoming Annual General Meeting, along with a further resolution to authorise the Directors to fix their remuneration.

By order of the Board

**Murray Johnstone Limited**

Secretary

P M Barnes

P M Barnes, Authorised Signatory
123 St Vincent Street
Glasgow G2 5EA

14 June 2002

# Statement of Corporate Governance

The Company is committed to a high standard of corporate governance. The Board has put in place a framework for corporate governance, which it believes is appropriate for a venture capital trust and which enables it to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance and published in June 1998.

The Board is accountable to the Company's shareholders for good governance and this Statement describes how the principles identified in the Combined Code have been applied by the Company throughout the year to 28 February 2002 except where disclosed below.

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the forty-five Combined Code provisions throughout the year. Save the limited exceptions outlined below, the Company has complied throughout the year ended 28 February 2002 with the provisions set out in Section 1 of the Combined Code.

The exceptions to compliance with the Combined Code, which are explained more fully under the headings of 'The Board' and 'Directors' remuneration', were as follows:

- a senior non-executive Director has not been appointed.
- as the Company is a venture capital trust and all Directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive Directors' remuneration.

**The Board**

The Board consists of five Directors, all of who are considered to be independent of the investment manager ("Murray Johnstone Limited" or the "M anager") and free of any relationship which could materially interfere with the exercise of their independent judgement. However the following should be noted:

- Mr P K Timms is a director of LeggMason Investors Enterprise plc, which was managed by Murray Johnstone until 8 December 2000.
- Mr J Cooper and Mr M J Walker are directors of Murray VCT 2 PLC, another venture capital trust managed by Murray Johnstone Limited.

Biographies of the Directors appear on page 3 of this report and indicate their high level and range of investment, industrial, commercial and professional experience.

The Board meets at least four times a year and between these meetings maintains contact with the manager. It has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. These matters include:

- the maintenance of clear investment objectives and risk management policies.
- the monitoring of the business activities of the Company ranging from comparable investment performance through to annual budgeting and quarterly forecasting and variance analysis.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the Corporate Company Secretary through its appointed representatives who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

When a Director is appointed, the manager arranges an induction meeting. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal financial controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

The Chairman of the Company is a non-executive director. A senior non-executive Director has not been appointed as all the Directors are non-executive and the Board considers that each of the Directors has different qualities and areas of expertise on which they may lead.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board Meetings, this consists of a comprehensive set of papers, including the manager's review and discussion documents regarding specific matters.

# Statement of Corporate Governance

**External Agencies**

The Board has contractually delegated to external agencies certain services, including to the manager: the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers reports from the manager on a regular basis. In addition ad hoc reports and information are supplied to the Board as requested.

**Committees**

**Nomination Committee**

The Nomination Committee makes recommendations and considers the appointment of new Directors and comprises the full Board.

**Audit Committee**

An Audit Committee has been established with written terms of reference and comprising the full Board. This committee reviews the effectiveness of the internal control environment of the Company and receives reports from the internal and external auditors on a regular basis.

The committee is responsible for review of the annual financial statements and interim report, terms of appointment reviewing the scope and the results of the audit and the objectivity of the Auditors of the auditors together with their remuneration as well as the non-audit services provided by the Auditors, reviewing the scope and the results of the audit and the objectivity of the Auditors, it also meets with representatives of the Manager.

**Management Engagement Committee**

The full Board comprises the management engagement committee and annually reviews matters concerning the management contract, which exists with Murray Johnstone Limited.

**Directors' Terms of Appointment**

All non-executive Directors are appointed for an initial term of three years, subject to re-election and Companies Act provisions and, in accordance with the existing Articles of Association, stand for election at the first Annual General Meeting following their appointment. The Articles of Association were changed at the Annual General Meeting in 1999 to ensure that Directors offer themselves for re-election at least once every three years.

**Directors' Remuneration**

Under the UK Listing Authority Listing Rule 26.9 (d) where a venture capital trust has only non-executive Directors the code principles relating to Directors' remuneration do not apply. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The remuneration of each Director is detailed in note 5 on page 27.

**Communication with Shareholders**

The Company places a great deal of importance on communication with its shareholders. The Company has adopted a nominee code, which ensures that, where notification has been received in advance, nominee operators will be provided with copies of shareholder communications for distribution to their customers. Nominee investors may attend general meetings and speak at meetings when invited by the Chairman.

The report and accounts are widely distributed to other parties who have an interest in the Company's performance. Shareholders and investors may obtain up to date information on the Company through the manager's freephone information service and the Company responds to letters from shareholders on a wide range of issues.

# Statement of Corporate Governance

The annual report is posted to shareholders at least twenty business days before the Annual General Meeting as required under Code Provision C2.4.

The notice of Annual General Meeting sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 14 to 16. Separate resolutions are proposed for each substantive issue.

All shareholders have the opportunity to put questions at the Company's Annual General Meeting.

### Accountability and Audit

The Directors' statement of responsibilities in respect of the financial statements is on page 20 and a statement of going concern on page 16.

The Independent Auditors' Report is on page 21.

### Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication, in September 1999, of guidance for Directors on internal control "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull guidance") the Directors confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that has been in place for the full year and up to the date of the approval of financial statements, and that this process is regularly reviewed by the Board and accords with the Turnbull guidance.

The Directors have delegated the investment management of the Company to Murray Johnstone Limited, a wholly-owned subsidiary of Aberdeen Asset Management PLC and this embraces implementation of the system of internal control, including financial, operational and compliance controls and risk management. Internal control systems are monitored and supported by an internal audit function, which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented.

Risks are identified through an annual risk assessment model that prioritises activities for review by assessing risk under five separate headings of financial, regulatory, market, operational and reputational risk. An overall risk assessment is attributed to each activity and a systems approach is taken in monitoring activities performed on behalf of the Company, with priority given to higher risk activities. Any errors or weaknesses identified are reported to the Company and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Company.

In addition, the manager ensures that clearly documented contractual arrangements exist in respect of any activities that have been delegated to external professional organisations.

The internal audit function of the manager reports six monthly to the audit committee of the Company and has direct access to the Directors at any time.

The Board has reviewed the effectiveness of the system of internal control, and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the Company and the policies and procedures by which these risks are managed. The Company's audit committee agenda includes an item for the consideration of risk and control and receives reports thereon from the internal audit function of the manager.

### Exercise of Voting Powers

The Company has approved a corporate governance voting policy which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

# Statement of Directors' Responsibilities in respect of the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditors' Report to the Members of Murray VCT 3 PLC

We have audited the Company's financial statements for the year ended 28 February 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Note of Historical Cost Profits and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and statutory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Statement of Corporate Governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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. This other information comprises the Corporate Summary, Corporate Information, Board Members, Analysis of Portfolio of Unlisted Investments, Chairman's Statement, Investment Manager's Review, Summary of Investment Changes, Investment Portfolio Summary, Ten Largest Unlisted Investments, Directors' Report, Statement of Corporate Governance, Statement of Directors' Responsibilities in Respect of the Financial Statements, Venture Capital Trusts, Tax Position of Individual Investors and Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 28 February 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

**Ernst & Young LLP**
Registered Auditor
Glasgow

14 June 2002

# Profit and Loss Account

For the year ended 28 February 2002

| | Notes | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| Investment income and deposit interest | 2 | 2,155 | 2,480 |
| Investment management fees | 3 | (1,126) | (1,144) |
| Other expenses | | (221) | (204) |
| **Operating profit** | 4 | 808 | 1,132 |
| (Loss) profit on realisation of investments | 9 | (206) | 752 |
| **Profit on ordinary activities before taxation** | | 602 | 1,884 |
| Tax on ordinary activities | 6 | (282) | (371) |
| **Profit on ordinary activities after taxation** | | 320 | 1,513 |
| Dividends | 7 | (2,036) | (1,216) |
| **Balance transferred (from) to reserves** | 14 | **(1,716)** | **297** |
| **Earnings per share (pence)** | 8 | **0.8** | **3.7** |

# Statement of Total Recognised Gains and Losses

For the year ended 28 February 2002

| | Notes | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| Profit on ordinary activities after taxation | | 320 | 1,513 |
| Unrealised (loss) gain on revaluation of investments | 9 | (2,615) | 87 |
| Current tax attributable to unrealised losses on loan relationships | | 272 | 29 |
| **Total recognised (losses) and gains relating to the year** | 16 | **(2,023)** | **1,629** |

# Note of Historical Cost Profits and Losses

For the year ended 28 February 2002

| | Notes | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| Profit on ordinary activities before taxation | | 602 | 1,884 |
| Realisation of revaluation gains of previous years | 9 | 809 | 1 |
| **Historical cost profit on ordinary activities before taxation** | | **1,411** | **1,885** |
| **Historical cost (loss) profit for the year retained after taxation and dividends** | | **(916)** | **298** |

** All items in the above statement are derived from continuing operations. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.*
*The accompanying notes are an integral part of the financial statements.*

# Balance Sheet

As at 28 February 2002

| | Notes | 28 February 2002 £'000 | 28 February 2002 £'000 | 28 February 2001 £'000 | 28 February 2001 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | 9 | | 33,848 | | 31,224 |
| **Current assets** | | | | | |
| Debtors | 11 | 1,791 | | 1,762 | |
| Cash and overnight deposits | | 233 | | 6,761 | |
| | | 2,024 | | 8,523 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 12 | 1,185 | | 1,333 | |
| **Net current assets** | | | 839 | | 7,190 |
| | | | **34,687** | | **38,414** |
| **Capital and reserves** | | | | | |
| Called up share capital | 13 | | 4,094 | | 4,060 |
| Share premium account | 14 | | 20,145 | | 19,753 |
| Revaluation reserve | 14 | | (2,932) | | 211 |
| Capital redemption reserve | 14 | | 41 | | 27 |
| Profit and loss account | 14 | | 13,339 | | 14,363 |
| **Equity shareholders' funds** | | | **34,687** | | **38,414** |
| **Net Asset Value per Ordinary share** | 15 | | **84.7p** | | **94.6p** |

The financial statements were approved by the Board of Directors on 22 April 2002 and were signed on its behalf by:

14 June 2002

**P K Timms CBE**, Director

*The accompanying notes are an integral part of the financial statements.*

# Cash Flow Statement

For the year ended 28 February 2002

| | Notes | Year ended 28 February 2002 £'000 | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Investment income received | | 1,632 | | 2,565 | |
| Deposit interest received | | 17 | | 25 | |
| Investment management fees paid | | (1,144) | | (1,079) | |
| Secretarial fees paid | | (54) | | (52) | |
| Cash paid to and on behalf of directors | | (50) | | (48) | |
| Other cash payments | | (103) | | (91) | |
| **Net cash inflow from operating activities** | 17 | | 298 | | 1,320 |
| **Taxation** | | | | | |
| Corporation tax | | | (509) | | 247 |
| **Financial investment** | | | | | |
| Purchase of investments | | (7,991) | | (15,756) | |
| Sale of investments | | 3,474 | | 21,570 | |
| **Net cash (outflow) inflow from financial investment** | | | (4,517) | | 5,814 |
| Equity dividends paid | | | (2,029) | | (1,253) |
| **Net cash (outflow) inflow before financing** | | | (6,757) | | 6,128 |
| **Financing** | | | | | |
| Issue of ordinary shares | | 337 | | 430 | |
| Repurchase of ordinary shares | | (108) | | (105) | |
| **Net cash inflow from financing** | | | 229 | | 325 |
| **(Decrease) increase in cash** | 18 | | **(6,528)** | | **6,453** |

*The accompanying notes are an integral part of the financial statements.*

# Notes to the Financial Statements

**1 Accounting Policies**

**Basis of preparation**

The financial statements have been prepared in accordance with applicable accounting standards and 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 year on an ex-dividend basis. Where no ex-dividend date is available dividends receivable on or before the year end are treated as revenue for the year. 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 year.

**Expenses**

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

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment; and
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

**Taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results, as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Investments**

Listed investments and shares quoted on the Alternative Investment Market (AIM) are valued in the financial statements at middle market prices and unlisted investments at a valuation determined by the Directors. In determining the valuation of unlisted investments the Directors adopt, in accordance with the British Venture Capital Association guidelines, 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 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.

# Notes to the Financial Statements

| 2 | Investment income and deposit interest | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| | Income from investments: | | |
| | UK unfranked investment income | 917 | 1,346 |
| | income from participating interests | 210 | 155 |
| | income from significant interests | 1,011 | 952 |
| | | 2,138 | 2,453 |
| | Interest receivable and similar income: | | |
| | deposit interest | 17 | 25 |
| | other income | – | 2 |
| | **Total income** | **2,155** | **2,480** |

| 3 | Investment management fees | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| | Investment management fees | 958 | 974 |
| | Irrecoverable VAT | 168 | 170 |
| | | **1,126** | **1,144** |

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

(a) an investment management fee of 2.5% (2001 – 2.5%) per annum of the gross assets of the Company.

(b) a secretarial fee of £54,000 (2001 – £52,244) per annum which is subject to an annual adjustment to reflect movement in the retail prices index.

Under the terms of the Investment Management Agreement, the Investment Manager and certain of its executives are entitled to receive a profit-related incentive in respect of the period to 6 April 2003 and for each subsequent year.

The investment management agreement is terminable on the expiry of twelve months notice.

| 4 | Operating profit is stated after charging: | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| | Directors' remuneration (note 5) | 48 | 48 |
| | Fees to Auditors: | | |
| | Audit fee – current year | 13 | 12 |
| | – under accrual in prior year | – | 3 |
| | Other services | 2 | 1 |

# Notes to the Financial Statements

| | | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| 5 | **Directors' remuneration** | | |
| | P K Timms CBE (chairman) | 12 | 12 |
| | J Cooper | 9 | 9 |
| | A Cubie CBE | 9 | 9 |
| | A S F Mair MBE DL | 9 | 9 |
| | M J Walker | 9 | 9 |
| | | **48** | **48** |

**6 Tax on ordinary activities**

The tax charge in the accounts for the period is reduced by the tax consequences of unrealised losses on loan relationships reflected in the Statement of Total Recognised Gains and Losses.

Reflected in:

| | Profit and loss account £'000 | Statement of total recognised gains and losses £'000 | Total £'000 |
|---|---|---|---|
| 2002 | | | |
| Corporation tax | 272 | (272) | – |
| Prior year adjustment | 10 | – | 10 |
| | **282** | **(272)** | **10** |
| 2001 | | | |
| Corporation tax | 396 | (29) | 367 |
| Prior year adjustment | (25) | – | (25) |
| | **371** | **(29)** | **342** |

The tax charge for the year in the profit and loss account is higher (2001 – lower) than the standard rate of corporation tax (30%). The differences are explained below.

| | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | **602** | **1,884** |
| Profit on ordinary activities multiplied by standard rate of corporation tax | 181 | 565 |
| Effect of loss (profit) not subject to taxation | 103 | (128) |
| Effect of income not subject to taxation | (12) | (41) |
| Prior year adjustment | 10 | (25) |
| Current corporation tax | **282** | **371** |

Unutilised losses with a tax value of £366,000 (2001 – nil) are available to carry forward against future trading profits. These have not been recognised as a deferred tax asset as recoverability is not sufficiently certain.

# Notes to the Financial Statements

| | | Year ended 28 February 2002 | Year ended 28 February 2001 |
|---|---|---|---|
| 7 | **Dividends** | **£'000** | **£'000** |
| | Capital dividends | 1,013 | – |
| | Interim dividend of 0.5p (2001 – 1.0p) | 204 | 404 |
| | Proposed final dividend of 2p (2001 – 2.0p) | 819 | 812 |
| | | **2,036** | **1,216** |

| | | Year ended 28 February 2002 | Year ended 28 February 2001 |
|---|---|---|---|
| 8 | **Earnings per share** | | |
| | The returns per share have been based on the following figures: | | |
| | weighted average number of ordinary shares | 40,696,046 | 40,498,022 |
| | profit on ordinary activities after taxation | £320,000 | £1,513,000 |

| | | Year ended 28 February 2002 | | |
|---|---|---|---|---|
| | | **Listed** | **Unlisted** | **Total** |
| 9 | **Investments** | **£'000** | **£'000** | **£'000** |
| | Valuation at 1 March 2001 | 8,270 | 22,954 | 31,224 |
| | Purchases | 3,676 | 5,315 | 8,991 |
| | Sales | (1,605) | (2,075) | (3,680) |
| | Amortisation of book cost | (72) | – | (72) |
| | Net decrease in value of investments | (60) | (2,555) | (2,615) |
| | Valuation at 28 February 2002 | **10,209** | **23,639** | **33,848** |

| | Shares in participating interests £'000 | Loans to participating interests £'000 | Other investments £'000 |
|---|---|---|---|
| Constituted: | | | |
| ***Listed investments*** | – | – | 10,209 |
| ***Unlisted investments*** | | | |
| Valuation at 1 March 2001 | 2,407 | 2,571 | 17,976 |
| Purchases | – | 613 | 4,702 |
| Sales | – | (533) | (1,542) |
| Net increase/(decrease) in value of investments | 140 | (450) | (2,245) |
| | **2,547** | **2,201** | **18,891** |
| Valuation at 28 February 2002 | **2,547** | **2,201** | **29,100** |

# Notes to the Financial Statements

On a historical cost basis the movement in investments is as follows:

| | Year ended 28 February 2002 £'000 | | Year ended 28 February 2001 £'000 | |
|---|---|---|---|---|
| Cost at beginning of year | | 31,042 | | 37,335 |
| Purchases | 8,991 | | 14,756 | |
| Sales | (3,474) | | (21,570) | |
| Transfer of unrealised gains realised during the year | 809 | | 1 | |
| Realised (losses) gains | (206) | | 752 | |
| | | 6,120 | | (6,061) |
| Amortisation of book cost | | (72) | | (232) |
| Cost at end of year | | 37,090 | | 31,042 |
| Unrealised (loss)/gain | | (3,242) | | 182 |
| Valuation at 28 February 2002 | | **33,848** | | **31,224** |

The cost of unlisted investments at 28 February 2002 was £26,861,716 (2001 – £22, 841,057)

The net unrealised loss on the unlisted investments at 28 February 2002 was £3,222,713 (2001 – £114,000 gain), comprising £2,985,872 unrealised gains (2001 – £2,065,000) and provisions of £6,208,585 (2001 – £1,951,000). During the year unlisted investments in Benlowe Group and CAC Tooling were sold and J & S Marine and Benlowe loan stock was repaid for a total of £1,880,000 against a cost of £1,295,000.

# Notes to the Financial Statements

**10 Participating 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 the 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 28 February 2002 the Company held shares amounting to 20% or more of the nominal value of the equity capital of the following unquoted undertakings:

**28 February 2002**

| Investment | % of class held | % of equity held | Total cost £'000 | Carrying Value £'000 | Income from investment £'000 | Latest accounts period end | Aggregate capital & reserves £'000 | Profit (loss) after tax for period £'000 |
|---|---|---|---|---|---|---|---|---|
| **Agriframes Limited** * | | | | | | | | |
| 22,364 A ordinary shares | 54.5 | 24.6 | 273 | – | – | 31/12/00 | 296 | (260) |
| 55 preference shares | 55.0 | | 55 | – | – | | | |
| 627,218 deferred shares | 54.5 | | 627 | – | – | | | |
| **CCM Motorcycles Limited** * | | | | | | | | |
| 12,610 A ordinary shares | 40.9 | 29.8 | 245 | 245 | – | 30/09/01 | 2,005 | (1,008) |
| 572,158 preference shares | 40.9 | | 572 | 572 | – | | | |
| £613,000 loan stock 2006 | 40.9 | | 613 | 613 | – | | | |
| **Charmwood Furniture Group Limited** * | | | | | | | | |
| 195,000 B ordinary shares | 46.4 | 20.9 | 195 | 33 | – | 31/03/00 | 1,688 | 214 |
| £455,000 loan stock | 46.4 | | 455 | 455 | 64 | | | |
| **J & S Marine Limited** * | | | | | | | | |
| 86,364 B ordinary shares | 52.8 | 23.7 | 285 | 987 | – | 30/09/01 | 2,580 | 765 |
| **Sequoia Technology Limited** | | | | | | | | |
| 85,714 A ordinary shares | 100.0 | 30.0 | 225 | 450 | – | 31/12/00 | 482 | 111 |
| £525,000 loan stock 2007 | 100.0 | | 525 | 525 | 76 | | | |
| **TLC (Tender Loving Childcare) Limited** * | | | | | | | | |
| 48,531 B ordinary shares | 51.0 | 25.3 | 260 | 260 | – | 31/12/00 | 182 | (307) |
| £607,918 secured loan notes 2005/07 | 51.0 | | 608 | 608 | 73 | | | |
| **Wisdom IT Holdings Limited** | | | | | | | | |
| 114,520 A ordinary shares | 43.0 | 43.0 | 300 | – | – | 31/10/00 | 419 | (306) |
| 350,000 preference shares | 100.0 | | 350 | – | – | | | |

* Other funds managed by members of the Aberdeen Asset Management group have also invested in these companies.

The results of the above companies have not been incorporated in the profit and loss account except to the extent of any income received and receivable.

# Notes to the Financial Statements

**10 Significant interests**

At 28 February 2002 the Company held shares amounting to 20% or more of the nominal value of any class of share of the following unquoted undertakings

| | | 28 February 2002 | | |
|---|---|---|---|---|
| | | % of class held | Total cost £'000 | Carrying value £'000 |
| **Investment** | | | | |
| **Booth Dispensers Limited** | 19,578 A ordinary shares | 50.2 | 226 | 226 |
| | 502 preference shares | 50.2 | 1 | 1 |
| | £526,498 loan stock 2007 | 50.2 | 526 | 526 |
| **Bronte Foods Limited** | 27,129 B ordinary shares | 33.3 | 225 | 280 |
| | 14,305 X ordinary shares | 33.3 | 14 | 14 |
| | 510,521 B preference shares | 33.3 | 511 | 511 |
| **CAC Tooling Holdings Limited** | £494,900 loan stock 2006 | 35.4 | 495 | 247 |
| **Carmichael International Limited** | 75,000 B ordinary shares | 50.0 | 150 | 150 |
| | £350,000 loan stock 2005 | 50.0 | 350 | 350 |
| **Clamonta Engineering Limited** | 38,652 B ordinary shares | 35.9 | 221 | 66 |
| | £514,850 loan stock 2006 | 35.9 | 515 | 669 |
| **ELE Advanced Technologies Limited** | 14,250 B ordinary shares | 30.0 | 225 | 225 |
| | £524,993 loan note 2007 | 30.0 | 525 | 525 |
| **First Line Limited** | 87,941 B ordinary shares | 30.0 | 225 | 225 |
| | 3,000 preference shares | 30.0 | 3 | 3 |
| | £522,000 loan stock 2008 | 30.0 | 522 | 522 |
| **Heathcotes Restaurants Limited** | 305,188 B ordinary shares | 40.7 | 305 | 305 |
| | 407 preference shares | 40.7 | – | – |
| | £244,099 loan stock 2006 | 40.7 | 244 | 244 |
| **Interak Limited** | 33,395 A ordinary shares | 40.8 | 300 | 300 |
| | £700,000 loan stock 2008 | 40.8 | 700 | 700 |
| **Intron Limited** | 50,000 B ordinary shares | 33.3 | 300 | 300 |
| | £700,000 loan stock 2010 | 33.3 | 700 | 700 |
| **Link Up Mitaka Limited** | 1,357,000 B ordinary shares | 27.7 | 415 | 415 |
| | £138,500 loan stock 2007 | 27.7 | 139 | 139 |
| **Moves Group Limited** | 9,240 B ordinary shares | 42.1 | 223 | 275 |
| | £521,126 loan stock 2004 | 42.1 | 521 | 521 |
| **Palgrave Brown (UK) Limited** | 37,376 institutional ordinary shares | 23.5 | 353 | 693 |
| | 256 preference shares | 23.5 | – | – |
| | £822,474 loan stock 2006 | 23.5 | 822 | 1,069 |

# Notes to the Financial Statements

| Investment | | % of class held | Total cost £'000 | Carrying value £'000 |
|---|---|---|---|---|
| | | **28 February 2002** | | |
| **Poulter Limited** | 89,525 A ordinary shares | 35.2 | 163 | 476 |
| | £380,065 loan stock 2004 | 35.2 | 380 | 380 |
| **Stratumsoft Limited** | 43,386 A ordinary shares | 22.7 | 249 | – |
| | £651,888 loan stock 2007 | 22.7 | 652 | – |
| **Synexus Limited** | 1,207,814 B ordinary shares | 24.2 | 290 | 290 |
| | 242 preference shares | 24.2 | – | – |
| | £677,490 loan stock 2008 | 24.2 | 678 | 678 |
| **The Hart Group Limited** | 15,555 A ordinary shares | 31.1 | 210 | – |
| | £490,000 loan stock 2005 | 31.1 | 490 | – |
| | £66,887 loan stock 2030 | 31.1 | 67 | – |
| **Tuscan Energy Group** | 89,250 C ordinary shares | 42.5 | 89 | 89 |
| | £165,750 loan stock 2006 | 8.5 | 166 | 166 |
| **Unique Communications Limited** | 5,000 B ordinary shares | 25.0 | 300 | 50 |
| | 25,000 preference shares | 25.0 | 2 | 2 |
| | £697,500 loan stock 2008 | 25.0 | 698 | 698 |
| **Visual Gold Limited** | 538 B ordinary shares | 37.0 | 300 | 300 |
| | 3,704 preference shares | 37.0 | 4 | 4 |
| | £696,296 loan stock 2008 | 37.0 | 696 | 696 |
| | £58,330 loan stock 2003 | 10.3 | 58 | 58 |
| **Voxsurf Limited** | 58,997 A ordinary shares | 50.5 | 45 | – |
| | 530,977 C preference shares | 50.5 | 405 | – |
| **Webfell Group Limited** | 51,318 A ordinary shares | 29.7 | 300 | – |
| | £699,790 loan stock 2004 | 29.7 | 700 | 500 |

Other funds managed by members of the Aberdeen Asset Management group have also invested in these companies.

| 11 **Debtors** | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|
| Current taxation | 161 | – |
| Corporation tax refundable | 343 | – |
| Prepayments and accrued income | 1,184 | 762 |
| Called up share captal not paid | 103 | – |
| Other debtors | – | 1,000 |
| | **1,791** | **1,762** |

# Notes to the Financial Statements

| | | Year ended 28 February 2002 | Year ended 28 February 2001 |
|---|---|---|---|
| **12** | **Creditors** | **£'000** | **£'000** |
| | Amounts falling due within one year: | | |
| | Corporation tax | – | 155 |
| | Proposed final dividend | 819 | 812 |
| | Management and secretarial fees due to the Manager | 289 | 262 |
| | Accruals | 77 | 104 |
| | | **1,185** | **1,333** |

| | | 28 February 2002 | | 28 February 2001 | |
|---|---|---|---|---|---|
| **13** | **Share capital** | **Number** | **£'000** | **Number** | **£'000** |
| | *At 28 February 2002 the authorised share capital comprised:* | | | | |
| | *allotted, issued and fully paid:* | | | | |
| | Ordinary shares of 10p each | | | | |
| | Balance brought forward | 40,602,581 | 4,060 | 40,433,876 | 4,043 |
| | Issued during year | 476,258 | 48 | 294,871 | 29 |
| | Repurchased and cancelled in year | (136,120) | (14) | (126,166) | (12) |
| | Balance carried forward | 40,942,719 | 4,094 | 40,602,581 | 4,060 |
| | Unissued unclassified shares of 10p each | 19,057,281 | 1,906 | 19,397,419 | 1,940 |
| | | **60,000,000** | **6,000** | **60,000,000** | **6,000** |

During the year, 476,258 Ordinary shares (2001 – 294,871) of 10p each were issued under the dividend re-investment scheme for a total consideration of £439,581 (2001 – £281,315). A total of 136,120 Ordinary shares (2001 – 126,166) of 10p each were repurchased by the Company at a weighted average price of 78.98p per share (2001 – 83.3p), at a total cost of £108,266 (2001 – £105,330), and cancelled.

| | | Year ended 28 February 2002 | | | |
|---|---|---|---|---|---|
| | | Share premium account | Revaluation reserve | Capital redemption reserve | Profit and loss account |
| **14** | **Movement in reserves** | **£'000** | **£'000** | **£'000** | **£'000** |
| | At 1 March 2001 | 19,753 | 211 | 27 | 14,363 |
| | Issue of shares | 392 | – | – | – |
| | Repurchase and cancellation of shares | – | – | 14 | (108) |
| | Transfer of realised profits to profit and loss account | – | (809) | – | 809 |
| | *Tax effect of transfer of profits to profit and loss account* | – | 9 | – | (9) |
| | Taxation attributable to unrealised loss on investments | – | 272 | – | – |
| | Net decrease in value of investments | – | (2,615) | – | – |
| | Retained loss for year | – | – | – | (1,716) |
| | At 28 February 2002 | **20,145** | **(2,932)** | **41** | **13,339** |

| | Year ended 28 February 2001 | | | |
|---|---|---|---|---|
| | Share premium account £'000 | Revaluation reserve £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 |
| At 1 March 2000 | 19,501 | 96 | 15 | 14,170 |
| Issue of shares | 252 | – | – | – |
| Repurchase and cancellation of shares | – | – | 12 | (105) |
| Transfer of realised profits to profit and loss account | – | (1) | – | 1 |
| Taxation attributable to unrealised loss on investments | – | 29 | – | – |
| Net increase in value of investments | – | 87 | – | – |
| Retained profit for year | – | – | – | 297 |
| At 28 February 2001 | **19,753** | **211** | **27** | **14,363** |

**15 Net Asset Value per Ordinary share**

The Net Asset Value per share and the Net Asset Value attributable to the Ordinary shares at the year end calculated in accordance with the articles of association were as follows:

| | 28 February 2002 | | 28 February 2001 | |
|---|---|---|---|---|
| | Net Asset Value per share p | Net Asset Value attributable £'000 | Net Asset Value per share p | Net Asset Value attributable £'000 |
| Ordinary shares | **84.7** | **34,687** | **94.6** | **38,414** |

The number of shares used in this calculation is set out in note 13.

| **16 Reconciliation of movements in shareholders' funds** | *Year ended* 28 February 2002 £'000 | *Year ended* 28 February 2001 £'000 |
|---|---|---|
| Opening shareholders' funds | 38,414 | 37,825 |
| Total recognised (losses) gains for year | (2,023) | 1,629 |
| Net proceeds of issue of shares | 440 | 281 |
| Repurchase and cancellation of shares | (108) | (105) |
| Dividends appropriated | (2,036) | (1,216) |
| Closing shareholders' funds | **34,687** | **38,414** |

# Notes to the Financial Statements

| | | Year ended 28 February 2002 £'000 | Year ended 28 February 2001 £'000 |
|---|---|---|---|
| **17** | **Reconciliation of operating profit to net cash inflow from operating activites** | | |
| | Operating profit | 808 | 1,132 |
| | (Increase) decrease in debtors | (422) | 72 |
| | Increase in accruals | 1 | 75 |
| | Amortisation of fixed income investment book cost | 72 | 232 |
| | Tax on unfranked income | (161) | (191) |
| | Net cash inflow from operating activities | **298** | **1,320** |

| | | Year ended 28 February 2002 | | | Year ended 28 February 2001 | | |
|---|---|---|---|---|---|---|---|
| | | Brought forward £'000 | Cash flows £'000 | Carried forward £'000 | Brought forward £'000 | Cash flows £'000 | Carried forward £'000 |
| **18** | **Analysis of changes in net funds** | | | | | | |
| | Cash and overnight deposits | **6,761** | **(6,528)** | **233** | **308** | **6,453** | **6,761** |

| | | 28 February 2002 £'000 | 28 February 2001 £'000 |
|---|---|---|---|
| **19** | **Capital commitments** | | |
| | Unlisted investment commitments | **702** | **229** |

**20 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:

| | 28 February 2002 Ordinary shares | 28 February 2001 Ordinary shares |
|---|---|---|
| P K Timms CBE (Chairman) | 10,000 | 10,000 |
| J Cooper | 27,768 | 27,497 |
| A Cubie | 10,999 | 10,999 |
| A S F Mair MBE DL | 10,000 | 10,000 |
| M J Walker | 10,425 | 10,425 |

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

# Notes to the Financial Statements

**21 Derivatives and other financial instruments**

The Company's financial instruments comprise securities and other investments, cash balances, overnight deposits 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 year. The purpose of these financial instruments is efficient portfolio management.

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, (b) interest rate risk. In line with the Company's investment objective, the portfolio comprises UK securities and therefore has no exposure to foreign currency risk, and (c) liquidity risk.

The manager's policies for managing these risks are summarised below and have been applied throughout the year. 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. These powers and guidelines include the requirement to invest in a number of companies across a range of industrial and service sectors at varying stages of development but with emphasis on well-established businesses. Further information on the investment portfolio is set out in the investment manager's review on page 7.

**b) Interest rate risk**

The interest rate risk profile of financial assets are as follows:

| | **28 February 2002** | | | |
|---|---|---|---|---|
| | | **Preference** | | **Non-interest** |
| | **Fixed interest** | **dividend** | **Floating rate** | **bearing** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| *Sterling* | | | | |
| Listed | 10,190 | – | – | 19 |
| Unlisted and AIM | 13,524 | 1,094 | – | 9,021 |
| Cash | – | – | 233 | – |

| | **28 February 2001** | | | |
|---|---|---|---|---|
| | | **Preference** | | **Non-interest** |
| | **Fixed interest** | **dividend** | **Floating rate** | **bearing** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| *Sterling* | | | | |
| Listed | 8,217 | – | – | 53 |
| Unlisted and AIM | 13,293 | 1,820 | – | 7,841 |
| Cash | – | – | 365 | 6,396 |

# Notes to the Financial Statements

The listed fixed interest assets have a weighted average life of 2.0 (2001 – 3.4) years and a weighted average interest rate of 7.3% (2001 – 7.4%) per annum. These assets are held to provide liquidity for unlisted investments. The floating rate assets consist of cash deposits on call. These assets are earning interest at prevailing money market rates. The unlisted assets have a weighted average life of 4.7 (2001 – 4.3) years and a weighted average interest rate of 12.4% (2001 – 12.4%). 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.

**c) Liquidity risk**

Due to their nature, unlisted investments may not be readily realiseable and therefore a portfolio of listed assets is held to offset this liquidity risk.

# 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.

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 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 allowable loss.

# Tax Position of Individual Investors

**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 (reduced to three years for share bought since 6 April 2000) 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.**

# Notice of Meeting

Notice is hereby given that the fourth annual general meeting of Murray VCT 3 PLC will be held on Tuesday 16 July 2002 at 10.15 a.m. at 123 St Vincent Street, Glasgow G2 5EA, to transact the following business.

**Ordinary Business**

1. To receive the Directors' report and audited statement of accounts for the year ended 28 February 2002.
2. To declare a final dividend.
3. To re-elect Mr Timms as a Director.
4. To re-elect Mr Walker as a Director.
5. To re-appoint Ernst & Young LLP as Auditors.
6. To authorise the directors to fix the remuneration of the Auditors.

**Special Business**

7. To consider and if thought fit pass the following resolution as a special resolution:

   THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make one or more market purchases (within the meaning of Section 163(3) of the Act) of Ordinary Shares of 10p each in the capital of the Company provided that:

   (a) the maximum number of Ordinary shares hereby authorised to be purchased is 4,074,271 representing 10% of the Company's issued Ordinary share capital as at 31 May 2002;

   (b) the minimum price which may be paid for an ordinary share shall be 10p per share;

   (c) the maximum price(exclusive of expenses) which may be paid for an Ordinary Share shall be not more than the lower of (i) Net Asset Value per share and (ii) 105 per cent of the average of the middle market quotations for an Ordinary Share taken from, and calculated by reference to, the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date on which the Ordinary shares are purchased; and

   (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution, save that the Company may before such expiry enter into a contract to purchase Ordinary shares which will or may be completed wholly or partly after such expiry.

8. To consider and if thought fit pass the following resolution as an ordinary resolution:

   THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £407,427 (representing 10% of the total Ordinary share capital in issue on 31 May 2002) during the period expiring on the date of the next Annual General Meeting or on the expiry of 15 months from the passing of this resolution, whichever is the first to occur, save that the Company may make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.

9. To consider and if thought fit pass the following resolution as a special resolution:

   THAT, subject to passing of resolution number 8 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985 ("the Act"), to allot equity shares (as defined in Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution number 8 as if Section 89(1) of the Act did not apply to such allotment, provided

# Notice of Meeting

that this power shall be limited to the allotment of equity securities:

(a) during the period expiring on the earlier of the date of the Company's next Annual General Meeting or on the expiry of 15 months from the passing of this resolution, whichever is the first to occur, but so that this power shall enable the Company to make offers or agreements which would or might require equity securities to be allotted after the expiry of this power; and

b) up to an aggregate nominal amount of £407,427 (representing 10% of the total ordinary share capital in issue on 31 May 2002).

By order of the Board

**Murray Johnstone Limited**

Secretary

P M Barnes

Authorised Signatory

123 St Vincent Street

Glasgow G2 5EA

14 June 2002

No Director has any contract of service with the Company.

The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, has specified that only those shareholders on the register of members of the Company as at 10.15 a.m. on 14 July 2002 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded when determining the rights of any person to attend or vote at the meeting.

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of him/her.

A proxy need not be a member. Appointment of a proxy need not preclude a member from attending and voting at the meeting should he/she subsequently decide to do so.

**A reply-paid form of proxy for your use is enclosed.**

Details of resolutions 2 to 9 are shown in the Directors' Report as follows:

| | | |
|---|---|---|
| Resolution 2 | Page 14 | Dividend |
| Resolutions 3 to 4 | Page 15 | Directors |
| Resolutions 5 and 6 | Page 16 | Auditors |
| Resolution 7 | Page 14 | Purchase of ordinary shares |
| Resolutions 8 and 9 | Page 15 | Issue of new ordinary shares |

*Registered in England and Wales – Company Number 3495287*

# Proxy

(For the use of shareholders holding shares in their own name)

Please complete in block capitals

I/we.......................................................................................................................................................

of..........................................................................................................................................................

being (a) member(s) of Murray VCT 3 PLC hereby appoint the Chairman of the meeting/(Note 3)

.............................................................................................................................................................

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16 July 2002 and at any adjournment thereof.

I/we direct my/our proxy to vote on the resolutions as set out in the notice convening the Annual General Meeting as follows:

| Resolution | For | Against |
|---|---|---|
| 1. To receive the Directors' report and accounts | | |
| 2. To declare a final dividend | | |
| 3. To re-elect Mr Timms* as a Director. | | |
| 4. To re-elect Mr Walker* as a Director. | | |
| 5. To re-appoint Ernst & Young LLP as Auditors | | |
| 6. To authorise the Directors to fix the Auditors' remuneration | | |
| 7. To renew the Company's authority to purchase its own shares | | |
| 8. To renew the Company's authority to allot shares | | |
| 9. To authorise the Directors to disapply pre-emption rights | | |

Please indicate how you wish your proxy to vote by placing a tick in the appropriate space. Unless otherwise indicated the proxy will vote, or abstain from voting, as thought fit.

Signed ........................................................... this ................................ day of ............................................ 2002

* The biographies of the Directors are detailed on page 3 of the annual report.

**Notes**

1. To be valid this form of proxy must reach the registrar, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ, not later than 48 hours before the time of the meeting.
2. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
3. If any other proxy be desired strike out the words "the Chairman of the meeting" and insert the name or names preferred. Any alteration must be initialled. Appointment of a proxy will not preclude a member from attending the meeting and voting in person. A proxy need not be a member of the Company.
4. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.