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Singer & Friedlander AIM  VCT plc

REPORT AND ACCOUNTS

for the year ended  
31st January 2004



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# Directors, Managers and Advisers

## Directors

Christopher John Leon Moorsom (appointed as chairman 12th June 2003)

Andrew Nicholas Banks

John Michael Edelson\*

Mark Christopher Ellisdon

David Alan Lloyd\*

Richard Bernays (resigned as chairman and director 10th March 2003)

\*These directors are independent non-executive directors.

David Alan Lloyd has served as a director of the Company, throughout the year. Subsequent to the year end, he resigned on 19th March 2004.

All the directors above are of:

21 New Street

Bishopsgate

London EC2M 4HR

## Secretary

Singer & Friedlander Secretaries Limited

21 New Street

Bishopsgate

London EC2M 4HR

## Manager

Singer & Friedlander Investment Management Limited

21 New Street

Bishopsgate

London EC2M 4HR

## Solicitors to the Company

Travers Smith Braithwaite

10 Snow Hill

London EC1A 2AL

## Independent Auditors and VCT Status Adviser

PricewaterhouseCoopers LLP

Southwark Towers

32 London Bridge Street

London SE1 9SY

## Bankers

National Westminster Bank Plc

City of London Office

PO Box 12264

Third Floor

Princes Street

London EC3A 7NN

## Administrator

Sinclair Henderson Limited

23 Cathedral Yard

Exeter EX1 1HB

## Registrar

Capita IRG Plc

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

## Stockbroker

Teather & Greenwood Limited

Beaufort House

15 St Botolph Street

London EC3A 7QR

# Corporate Policy and Financial Highlights

## Objectives

The objective of the Singer & Friedlander AIM 3 VCT is to provide shareholders with an attractive and competitive investment return from a portfolio of companies whose shares are primarily traded on the Alternative Investment Market (AIM). The manager's continuing objective is to manage the current portfolio so as to maximise returns for investors for the qualifying period and beyond.

## VCT Dates

The Company's financial calendar for the year to 31st January 2005 is as follows;

May 2004	Final report for the year ended 31st January 2004 published
June 2004	Annual General Meeting (London)
June 2004	Final dividend paid
October 2004	Interim report for the half year to 31st July 2004 published
November 2004	Interim dividend paid (if applicable)

## Performance Summary

Total net assets of £31,372,256 (2003: £24,775,064)

Net asset value per share 95.38p (2003: 75.21p)

Net dividends of £82,227 for the year (2003: £263,527)

Dividend per ordinary share 0.25 pence (2003: 0.80 pence)

Qualifying investments 77% of the current investment portfolio (2003: 56.49%)

Total dividends to date: 2.75p

# Chairman's Statement

I am delighted to present my first annual report to shareholders as Chairman of your company. At the interim stage we had started to see a recovery in the stock market. I am pleased to report that the recovery has continued and gathered pace, particularly in the smaller companies sector including AIM.

During the second half of the year the AIM Index rose by 31.2%, giving a rise of 53.0% for the year. Over the same periods our qualifying listed investments increased in value by 40.6% and 61.1% respectively. However, as we continue to hold approximately 27% of our portfolio in fixed interest securities, unquoted investments and cash the increase in our net asset value was not as good. The net asset value increased by 21% in the second half and by 26.8 % for the year. It is, however, encouraging to note that since the Trust's launch in February 2001 the AIM index has declined by nearly 35%, whilst the net asset value of the Trust (including dividend payments) has increased by 3%.

It is a requirement of the inland revenue that 70% of our funds are invested in "qualifying investments" by our third anniversary. This requirement was met with 77% invested in "qualifying investments" on the 31st January 2004.

The Board is recommending a dividend of 0.25p per share for the year, this is less than the previous year due to the lower exposure to fixed interest securities. As and when substantial gains are made it is the Board's intention to return these gains to shareholders by recommending enhanced dividend payments. Further information on our progress is contained in the Manager's Report.

The investment environment has improved considerably over the last year and the outlook for the current year appears favourable. Your Board believes that your Company's portfolio is well placed to benefit from further market recovery and an improving economy.

**C J L Moorsom**  
**Chairman**  
**27th April 2004**

# Manager's Report

Our portfolio now comprises holdings in 46 "qualifying" companies engaged in a wide variety of activities, 5 are currently unquoted, 3 are listed on OFEX, and the remaining 38 are quoted on the Alternative Investment Market. There is a brief description of each of our investments later in this report. We have seen an excellent performance from our quoted equity portfolio during the year as investor confidence has returned and markets have rallied. Following the strong performance of several shares including Centurion Electronics (+189%), ID Data (+173%), Knowledge Technology Solutions (+325%) and Ringprop (+142%) we have taken some profits. These totalled some £460,000 for the year. We anticipate taking further profits during the new financial year if share prices continue to rise. Our unquoted portfolio has experienced mixed fortunes, we have benefited from one successful IPO, however, as reported at the interim stage three other holdings have been written down in value.

The market background is more buoyant than we have seen for several years and new issue activity is healthy. We believe valuations remain attractive and we anticipate markets, particularly the AIM, making further progress.

**A N Banks**  
**Singer & Friedlander Investment Management Limited**  
**27th April 2004**

# Investment Portfolio Summary

AIM Quoted Companies	Sector	Nature of business	Cost at acquisition	Valuation at 31st January 2004	Percentage of portfolio	Percentage of company managed by Investment Manager
			£	£	%	%
AERO Inventory	Aerospace & defence	Distribution of aircraft components	481,041	898,361	2.86	8.44
Asfare Group	Engineering & machinery	Manufacturer of ladders for rescue services	321,393	363,174	1.16	15.00
Blooms of Bressingham	General retailers	Garden centres	470,000	304,823	0.97	7.57
Capcon Holdings	Speciality & other finance	Audit, stocktaking and commercial investigation services	700,000	585,813	1.87	12.97
Cardpoint	Speciality & other finance	Independent ATM deployer	475,844	1,546,494	4.93	4.37
Centurion Electronics	Automobiles & parts	Conception, design, marketing & distribution of in-car audio-visual products	271,950	983,553	3.14	3.92
CMS Webview	Media & entertainment	Real-time market data collection, processing and distribution	401,674	532,218	1.70	6.75
Corpora	Software & computer services	Research, development & sale of knowledge discovery technologies	375,000	675,000	2.15	10.72
First Artist Corp	Media & entertainment	Sports management company	400,000	21,000	0.07	3.62
Fulcrum Pharmaceuticals	Pharmaceuticals & biotechnology	Customised global drug development solutions	279,532	227,879	0.73	2.52
Glisten	Food producers & processors	Manufacturer of confectionery products	355,143	941,129	3.00	7.49
Huveaux	Media & entertainment	Aims to build a broadly based media and related services group by means of acquisition	857,739	1,655,399	5.28	7.52
ID Data	Information technology hardware	Provider of corporate smart cards	348,250	525,000	1.67	4.75
Imprint Search & Selection	Support services	Recruitment services	480,000	570,000	1.82	7.82
Intellexis*	Support services	Provider of financial & business skills learning solutions	324,960	324,960	1.03	5.89
Knowledge Technology	Media & entertainment	Live UK financial news and data products	127,362	541,289	1.73	7.63
Kuju	Software & computer services	Developer of interactive games software	399,999	108,333	0.35	4.97
Lloyds British Testing	Support services	Provision of lifting equipment testing services	362,400	212,136	0.68	7.70
Lo-Q	Leisure & hotels	Theme park guest services systems	760,000	50,350	0.16	5.84
Medal Entertainment & Media	Media & entertainment	Creation & exploitation of intellectual property rights through acquisition	417,509	536,034	1.71	9.74
Mediwatch	Health	Design, manufacturing and marketing of medical diagnostic services	696,950	594,494	1.89	11.92
Monstermob Group	Media & entertainment	UK mobile phone entertainment content provider	141,750	189,525	0.60	0.44
NWD Group	Media & entertainment	Marketing services business	466,750	547,534	1.74	13.87
Oasis Healthcare	Health	Dental healthcare provider	631,180	386,598	1.23	7.00
Pixology	Software & computer services	Developer of digital photo printing software solutions	399,000	460,275	1.47	1.43
PM Group	Transport	Design, manufacture & service of on board vehicle weighting systems	679,232	1,406,010	4.48	6.61
Prezzo	Leisure & hotels	Restaurant operator	403,610	723,454	2.31	3.69
Proactive Sports	Media & entertainment	Football management and marketing services	390,000	109,200	0.34	1.36
Quadnetics**	Electronic & electrical equipment	Design, integration & control of advanced CCTV & networked video systems	225,632	225,632	0.72	2.10
Real Good Food Company	Food producers & processors	Prepared foods manufacturer	596,113	804,395	2.56	5.46
Ringprop	Engineering & machinery	Production & marketing of new marine propeller	431,999	1,242,828	3.96	5.66
Symphony Plastic Technology	Chemicals	Manufacturer of fully degradable plastic carrier bags	349,339	460,933	1.47	4.56
Synergy Healthcare	Health	Medical support services	481,280	985,120	3.14	2.67
Tanfield Group	Support services	Graphical imaging onto 3D products	737,403	15,642	0.05	1.10
The Clapham House	Leisure & hotels	Acquiring & developing small restaurants	237,600	288,684	0.92	2.28
Tikit Group	Software & computer services	IT consultancy services and IT solutions	400,000	405,217	1.29	2.89
Tissue Science Laboratories	Health	Medical device company for surgical implants	744,600	510,000	1.63	2.31
UBC Media Group	Media & entertainment	Content supplier to radio, internet & digital tv	409,908	524,095	1.67	1.60
Vianet Group	Information technology hardware	Remote monitoring of vending machines	450,000	604,167	1.93	10.04
Xpertise	Support services	Provision of IT training exercises	485,179	318,482	1.01	19.40
			<b>17,967,321</b>	<b>22,405,230</b>	<b>71.42</b>	

All investments are in ordinary shares unless otherwise stated

OFEX Quoted Companies	Sector	Nature of business	Cost at acquisition	Valuation at 31st January 2004	Percentage of portfolio	Percentage of company managed by Investment Manager
			£	£	%	%
Aquilo	Speciality & other finance	Accident management services	589,375	94,249	0.30	11.34
Flying Scotsman	Leisure & hotels	Owner of a steam locomotive	400,800	15,012	0.05	9.69
Music Copyright Solutions	Media & entertainment	Exploitation of music catalogues and royalty administration	375,000	573,530	1.83	19.62
			<b>1,365,175</b>	<b>682,791</b>	<b>2.18</b>	

All investments are in ordinary shares unless otherwise stated

\*This holding represents placing shares not yet admitted to trading on AIM as at 31st January 2004. Admission of these shares onto AIM occurred on 24th February 2004.

\*\*This holding represents placing shares not yet admitted to trading on AIM as at 31st January 2004. Admission of these shares onto AIM occurred on 19th February 2004.



Private Companies	Sector	Nature of business	Cost at acquisition	Valuation at 31st January 2004	Percentage of portfolio	Percentage of company managed by Investment Manager
			£	£	%	%
Checkout Holdings	Software & computer services	Provider of EPOS systems	408,819	408,819	1.30	2.80
Checkout Holdings (loan stock) 2007	Software & computer services	Provider of EPOS systems	45,000	45,000	0.14	20.00
Flexbenefits	Software & computer services	Employee benefits & financial services	517,500	129,375	0.41	8.27
ITS Ecco	Support services	Electronic trading software	400,000	314,655	1.00	9.39
Lilestone	General retailers	Lingerie design and retail	405,000	405,000	1.29	16.41
U4EA	Information technology hardware	Data transfer management	374,989	36,201	0.12	16.86
U4EA (preference shares)	Information technology hardware	Data transfer management	404,581	407,581	1.30	12.57
			<b>2,555,889</b>	<b>1,746,631</b>	<b>5.56</b>	

All investments are in ordinary shares unless otherwise stated

Other qualifying investments	Sector	Nature of business	Cost at acquisition	Valuation at 31st January 2004	Percentage of portfolio	Percentage of company managed by Investment Manager
			£	£	%	%
ID Data Conv Loan Stock	Information technology hardware	Provider of corporate smart cards	225,000	225,000	0.72	8.99
Tanfield Group 8.5% Loan Stk	Support services	Graphical imaging onto 3D products	250,000	250,000	0.80	16.46
Xpertise Group Loan Stock	Support services	Provision of IT training exercises	200,000	200,000	0.64	100.00
			<b>675,000</b>	<b>675,000</b>	<b>2.16</b>	

All investments are in ordinary shares unless otherwise stated

Fixed interest securities and other non-qualifying investments	Sector	Nature of business	Cost at acquisition	Valuation at 31st January 2004	Percentage of portfolio	Percentage of company managed by Investment Manager
			£	£	%	%
<b>Debentures and loan stocks</b>						
BK NED Gemeenten**** 6.375% MTN 30/3/2005			510,051	510,250	1.63	0.482
Euro Inv Bank**** 6.125% BDS 7/12/2005			1,118,922	1,128,985	3.60	0.058
KFW INTL Finance**** 5.5% GTD MTN 18/6/2004			1,987,805	2,008,900	6.40	0.942
Lloyds TSB Bank 6% NTS 7/6/2004			1,011,722	1,005,625	3.20	1.468
			<b>4,628,500</b>	<b>4,653,760</b>	<b>14.83</b>	
<b>Other non-qualifying investments</b>						
Aquilo Loan Notes 2002	Speciality & other finance	Accident management services	62,500	62,500	0.20	50.00
Aquilo Conv Loan Notes 2003	Speciality & other finance	Accident management services	120,000	120,000	0.38	100.00
Aquilo Loan Notes 2004	Speciality & other finance	Accident management services	225,000	225,000	0.72	50.46
Blooms of Bressingham	General retailers	Garden centres	384,993	249,690	0.80	7.57
Blooms of Bressingham (warrants)	General retailers	Garden centres	20,007	17,010	0.05	23.95
Checkout Holdings (loan stock) 2004	Software & computer services	Provider of EPOS systems	233,333	233,333	0.74	31.11
Medal Entertainment & Media	Media & entertainment	Creation & exploitation of intellectual property rights through acquisition	51,168	87,840	0.28	9.74
			<b>1,097,001</b>	<b>995,373</b>	<b>3.17</b>	
<b>Investments held at nil valuation***</b>						
Coinmaster Gaming	Leisure & hotels	Production of electronic gaming machines	350,000	-	-	-
Exertris	Software & computer services	Developer of exercise bikes	503,445	-	-	-
Exertris Conv Debt	Software & computer services	Developer of exercise bikes	100,000	-	-	-
Firmgrowth	Software & computer services	Student careers directory & internet portal	250,000	-	-	-
Global Money Transfer (loan notes)	Speciality & other finance	Money transfer service	300,000	-	-	-
Monotub Industries	Household goods & textiles	Washing machine manufacturer	260,000	-	-	-
Recycled Waste	Support services	Environmental control	374,994	-	-	-
Stanhope Telecom	Telecommunication services	Telecom products	500,000	-	-	-
			<b>2,638,439</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*\*\*These stocks are in liquidation and, with the exception of Exertris and Global Money Transfer, they are shown within the Investment Portfolio Summary since they count towards the VCT investment test which states that 70% of the Company's assets will be invested in VCT qualifying investments by January 2004.

\*\*\*\*All investments listed on pages 6 to 7 are incorporated and quoted within the UK with the exception of these holdings. BK NED Gemeenten 6.375% MTN 30/3/2005 is incorporated in the Netherlands and quoted in Luxembourg. KFW INTL Finance 5.5% GTD MTN 18/6/2004 is incorporated in the USA and quoted in Luxembourg. Euro Inv Bank 6.125% BDS 7/12/2005 is incorporated in the UK and quoted in Luxembourg.

## Summary

	Cost at acquisition	Valuation at 31st January 2004	Percentage of portfolio
	£	£	%
Total qualifying portfolio	22,563,385	25,509,652	81.32
Fixed interest/non-qualifying portfolio	5,725,501	5,649,133	18.00
Investments held at nil valuation	2,638,439	-	-
Sub total	30,927,325	31,158,785	99.32
Net current assets	-	213,471	0.68
Total	<b>30,927,325</b>	<b>31,372,256</b>	<b>100.00</b>

## Table of largest ten investments by value.

Name of undertaking	Percentage of portfolio	Percentage held by company	Profit/(loss) before tax	Retained profit/(accumulated loss)	Net asset value	Accounting Reference Date
	%	%	£000's	£000's	£000's	£000's
KFW INTL Finance 5.5% GTD MTN 18/6/2004	6.40	-	-	-	-	-
Huveaux	5.28	4.03	1,205	473	21,585	31/12/03
Cardpoint	4.93	3.84	(608)	(2,869)	6,942	30/09/03
PM Group	4.48	5.23	1,178	1,097	5,928	30/06/03
Ringprop	3.96	5.59	(964)	(868)	6,471	30/09/03
Euro Inv Bank 6.125% BDS 7/12/2005	3.60	-	-	-	-	-
Lloyds TSB Bank 6% NTS 7/6/2004	3.21	-	-	-	-	-
Synergy Healthcare	3.14	1.70	2,344	2,264	23,893	31/03/03
Centurion Electronics	3.14	3.92	1,180	620	4,318	30/09/03
Glisten	3.00	4.88	1,055	638	6,030	30/06/03

The aggregate value of these top ten holdings is £12,904,043.

All figures are taken from the most recently available audited accounts of the underlying entity.

\*All the above fixed interest investments are AAA rated except for Lloyds TSB Bank which has a split rating.

## Sector analysis

	Cost at acquisition	Valuation at 31st Jan 2004	Percentage of portfolio
	£	£	%
Aerospace & defence	481,041	898,361	2.86
Automobiles & parts	271,950	983,553	3.14
Chemicals	349,339	460,933	1.47
Electronic & electrical equipment	225,632	225,632	0.72
Engineering & machinery	753,392	1,606,002	5.12
Food producers & processors	951,256	1,745,524	5.56
General retailers	1,280,000	976,523	3.11
Health	2,554,010	2,476,211	7.89
Information technology hardware	1,802,820	1,797,949	5.73
Leisure & hotels	1,802,010	1,077,500	3.44
Media & entertainment	4,038,860	5,317,664	16.95
Pharmaceuticals & biotechnology	279,532	227,879	0.73
Software & computer services	2,778,651	2,465,353	7.86
Speciality & other finance	2,172,719	2,634,055	8.40
Support services	3,239,942	2,205,876	7.03
Transport	679,232	1,406,010	4.48
Fixed interest investments	4,628,500	4,653,760	14.83
Suspended/delisted/liquidated stocks	2,638,439	-	-
Sub total	30,927,325	31,158,785	99.32
Net current assets	-	213,471	0.68
Total	<b>30,927,325</b>	<b>31,372,256</b>	<b>100.00</b>

### **AERO Inventory**

Aero Inventory is primarily engaged in procurement and inventory management for the aerospace industry. The company has consistently won new business since its admission to AIM, and has recently signed a new contract with SR Technic, one of Europe's largest aircraft repair and maintenance organisations. Profits in the year to June 2003 were up 74% and the dividend was increased by 23%.

### **Aquilo (formerly Accidentcare)**

Aquilo has been formed from the merger of Ecom Group and Accidentcare. Accidentcare provides a wide range of motor accident management related services to individuals via brokers, affinity groups and insurers. It also provides outsource claims management services to insurers and corporates. Ecom specialises in providing smart IT solutions to the financial services sector. Its services include academic research and development, consultancy, project management and systems design/build.

### **Asfare Group**

Asfare is the UK's leading manufacturer of ladders for the rescue services. It is also involved in the manufacture of gantries and ancillary equipment to both UK and overseas customers. The company has identified several potential additional products which it could supply to its customers and intends to pursue these opportunities.

### **Blooms of Bressingham**

Following the disposal of its smaller sites Blooms now operates seven retail garden centres. It also has one greenfield site awaiting development. Blooms is active in the development of new plant varieties, having won a total of 24 gold medals at Chelsea. The company received a takeover approach last year although acceptable terms could not be agreed.

### **Capcon Holdings**

Capcon provide audit, stocktaking and investigation services. The company came to AIM two years ago with an experienced management team keen to grow both organically and via acquisition. This is evidenced by the purchases of VSA and Argen so far.

### **Cardpoint**

Cardpoint is an independent owner and operator of over 1700 ATMs in the UK. The company makes a modest charge for cash withdrawals with the customer's permission. The group is a member of LINK and its machines are typically located in areas not served by the banks.

### **Centurion Electronics**

Centurion is a UK market leader in the field of in-car audio-visual entertainment. It focuses on the design, marketing and distribution of DVD, video and the latest LCD monitors. The systems can be fully integrated or may be portable "plug and play" products.

### **Checkout Holdings (unquoted)**

The company offers electronic point of sale terminals primarily for the licensed trade and fast food restaurant operators. The company has a 'blue chip' client base and has recently signed a large contract with Mitchells and Butlers. Currently unlisted, the company intends either coming to the market when conditions allow or seeking a trade buyer. The shares are valued at the price of the last equity issue in December 2002.

### **CMS Webview**

CMS has developed extensive expertise in the area of real-time financial market data collection, processing and distribution. Customers include the London Metal Exchange and the Chicago Board of Trade. CMS also has the European rights to distribute ProphetX, a PC based price reporting service.

### **Corpora**

Corpora's principal activity is the research, development and sale of the document navigation system Jump! The core of Jump! is an in-document navigation tool enabling users to search within and between multiple documents to find information pertinent to them. Particular applications are envisaged in defence and security.

### **Exertris (unquoted)**

The company developed and marketed an exercise bike which incorporates a PC and monitor to allow the user to play computer

games whilst exercising. The amount of effort put in on the machine controls what happens on the computer screen. Due to the harsh industry conditions the company decided to try to sell the business to a larger company, unfortunately these negotiations were unsuccessful and due to lack of funds liquidators have been appointed. We have written off the value of our investment.

#### **First Artist**

First Artist is a leading European management and representation company looking after the commercial interests of footballers and other high profile personalities in the football and television market.

#### **Flexbenefits (formerly Eurobenefits) (unquoted)**

Flexbenefits has developed a system for the management, delivery and communication of employee benefit and financial services information in the UK. These services enable employers to reduce costs and improve employee communication and understanding. Following the sale of the UK rights to the product to Aegon the company has carried out a share buyback, which should enhance shareholder value. The shares are valued on the basis of a discount to guaranteed future revenues.

#### **Flying Scotsman**

The group owns the famous steam locomotive built in 1923 and recently restored it to original condition. The asset is used for rail excursions whilst the brand name is also exploited for merchandise and other licensing opportunities. Following the failure to negotiate a suitable site to exhibit the Scotsman the company has recently announced the sale of the locomotive for a sum in excess of bank debt. We are unsure as to the future of the company and have therefore written down the value of the shares (traded on OFEX) to our estimate of net asset value.

#### **Fulcrum Pharma**

Fulcrum Pharma offers global virtual drug development and strategic outsourcing services to the pharmaceutical and biotechnology industries. The company has offices in the UK,

USA and Japan offering global solutions across the full length of the drug development value chain.

#### **Glisten**

The company was admitted to AIM in June 2002 with the objective of building a food group focusing on niche sectors. The acquisition of Glisten Confectionery based in Blackburn was made at this time. It is a manufacturer of chocolate and sugar based confectionery, edible decorations and ingredients. It serves a wide range of customers including many high street retailers and the foodservice and export sectors. The acquisition in January of Fravigar is highly complimentary in terms of product range and introducing new customers and should enhance earnings.

#### **Huveaux**

Huveaux listed on AIM in December 2001 with the intention of making acquisitions in the media sector. The experienced management team acquired Vacher Dodd, the leading publisher of parliamentary directories in July 2002 and educational publisher Lonsdale last March. In September Huveaux purchased Fenman, a publisher of educational materials. Trading performance has been encouraging.

#### **ID Data**

ID Data is a supplier of secure transaction systems and services to the international telephone, banking and retail industries. Exporting to more than 30 countries, ID Data is a leading UK based manufacturer of smart cards.

#### **Imprint Search & Selection**

Imprint is establishing a business in the high value permanent recruitment market. The founders of the business have impressive track records in this market, having previously built up and sold a similar business. The company is aiming to establish itself in several industries including financial services, marketing and accounting. Maiden profitability was achieved in 2003.

#### **Intellexis**

Intellexis is a financial training company involved in financial awareness training for non-financial managers. The company has a blue chip client

base from the UK, USA and Europe and has an extensive library of e-learning courseware. They have recently acquired Key Skills Ltd which adds vital marketing and distribution capabilities.

#### **ITS Ecco (unquoted)**

The Company is a leading supplier of electronic trading software to electronic exchanges and trading companies in the derivatives market. Eccoware is a flexible set of products designed to fulfil the specific requirements of traders and brokers, connecting transparently via a generic interface to major electronic exchanges. The shares are valued on the basis of a fundraising in July 2003.

#### **Knowledge Technology Solutions**

KTS is a software company using proprietary technology to develop and provide real-time interactive market data in a reliable, cost effective manner primarily over the internet. In contrast to other providers, the system does not require any dedicated hardware, software or infrastructure but will work on a standard PC. The service is aimed mainly at the professional user but is also affordable for private investors wanting a more sophisticated service.

#### **Kuju**

Kuju is a leading interactive entertainment developer, producing games on a range of platforms including PC, console (Playstation2, Xbox and GameCube), mobile 'phones and interactive TV. Current titles include Fireblade and Fire Warrior.

#### **Lilestone (unquoted)**

Lilestone has established the Myla brand of lingerie. The company is designing its own brand products as well as sourcing product from other designers throughout the world. The products are being sold via mail order, the internet, through conventional retail channels such as Selfridges and the company's own stores. Maiden profitability is expected during the current year. The shares are valued on the basis of the last funding round in July 2003.

#### **Lloyds British Testing**

Lloyds British is one of the leading companies within the field of lifting equipment engineering. It is active in inspection and testing,

short-term supply repair and renovation, crane and lift maintenance, and training. It has 19 locations in the UK.

#### **Lo-Q**

Lo-Q has developed a queue management system that places visitors to theme parks in "virtual queues", reducing the time that customers spend physically waiting in line for key rides to a few minutes, enabling them to enjoy, and spend money on the other attractions in the park. A lower cost version of the product has recently been introduced and is expected to increase Lo-Q's available market.

#### **Medal Entertainment & Media**

Medal was established by an experienced management team to build a group actively participating in the creation, exploitation and ownership of audio-visual copyrights. The company currently has two subsidiaries, Leisureview, a specialist video/DVD publisher and Fountain Television, the largest fully-equipped independent TV studio in the UK.

#### **Mediwatch**

Mediwatch is a medical diagnostic equipment company that is developing high speed urological screening equipment. The company's products are designed to enable early detection of prostate and bladder cancers for the fast growing primary care market. The company has chosen Bard as its marketing partner for the Portascan product.

#### **Monsternob**

Monsternob provides mobile phone content such as ringtones, competitions, wallpapers, voicemails, logos, alerts and games. Income is derived from the sale of this content which is ordered by customers sending a text message or ringing a premium rate number. The company has a database of over 3 million customers aged mainly between 14 and 30, further strong growth is expected as mobile 'phones become more sophisticated.

#### **Music Copyright Solutions**

MCS is a music publisher principally focusing on the management of music library assets, music copyright licensing and royalty administration, collection and payment. The company has been

building its portfolio via the acquisition of libraries of rights and sees numerous further opportunities in this area. The shares are currently traded on OFEX but a move to AIM is scheduled for early this year.

#### **NWD Group**

NWD was a shell company established for the purpose of building a marketing services business. The company recently announced the purchase of three companies in this area. These companies are involved in corporate communications, brand consultancy and brand promotion. Further acquisitions are anticipated.

#### **Oasis Healthcare**

Oasis has built up an estate of dental practices in the UK and following the acquisition of Dencare now has 127 sites and 500 clinicians serving over 800,000 patients. The company is now experiencing the benefits of scale and has annualised turnover of over £70m.

#### **Pixology**

Pixology is a provider of innovative imaging software in the rapidly expanding market of digital photography. The company has developed technology to enable consumers to easily print (at home, on-line or in-store), organise and share their digital pictures. The company has also developed a solution to "red-eye" which is being sold to camera manufacturers.

#### **PM Group**

The group is a leader in the design, manufacture and service of onboard weighing systems and associated software for the bulk haulage and waste management industries. The company has a significant market position in the bulk haulage market. However due to the introduction of new legislation in waste management strong growth is being seen in this area.

#### **Prezzo**

Prezzo owns and operates a chain of restaurants based in and around London and trading in two different formats, Jonathans and Prezzo. The food offering consists of pizza and pasta with Prezzo also selling rotisserie chicken. At the end of March the company had 34 restaurants and was profitable for the year to last December.

#### **Proactive Sports**

Proactive is a leading sports management and marketing agency with a particular emphasis on football. The company has an international network of offices and football agents and represents nearly 300 players.

#### **Quadnetics Group**

Quadnetics is a leader in the design, integration and control of advanced CCTV and networked video systems. The company recently raised funds in order to finance acquisitions including that of Look Closed Circuit TV. Look supply systems for bus manufacturers and operators.

#### **Real Good Food Group**

RGF was established to build through acquisition and organic growth, a food business focused on the supply of chilled, frozen and ambient products. It supplies to both retailers and the food services market. The company currently has three subsidiaries producing chilled cakes and desserts, sandwiches and celebration cakes.

#### **Ringprop**

Ringprop owns the rights to a marine propeller technology. As the name suggests the propeller is enclosed by a ring which delivers certain performance and safety advantages over conventional products. The inherent strength of the design enables the propeller to be made of lighter, composite materials giving cost advantages as well as being safer for marine and human life. The company has recently signed a manufacturing agreement with JL French who are one of the world's largest aluminium die-casting manufacturers.

#### **Symphony Plastic Technologies**

Symphony is a specialist technology company concerned with degradable plastic packaging products. Symphony's "d2wTM" technology has been licensed to several overseas partners and production for UK customers is sub-contracted to manufacturing partners.

#### **Synergy Healthcare**

Synergy is a specialist provider of out-sourced medical support services to the NHS. It is the largest private sector provider of sterile instrumentation services and linen products. The company has several long term contracts with NHS Trusts and hospitals around the UK.

### **Tanfield Group (formerly Comeleon)**

Following the merger of Comeleon and Tanfield the company is involved with product personalisation via digital imaging (Comeleon) and specialist manufacturing, providing technical and assembly solutions to a wide range of sectors (Tanfield).

### **The Clapham House**

Clapham House was admitted to AIM to exploit acquisition opportunities within the UK restaurant sector. The experienced management team made its first acquisition in December with the purchase of a profitable Greek restaurant and bar chain which management believes has significant rollout potential. This acquisition was followed recently by the purchase of the Bombay Bicycle Indian restaurant business.

### **Tikit Group**

The company is a provider of consultancy services and software solutions primarily to the legal profession. The company concentrates on the top 200 law firms in the UK and has a very good reputation for quality of service and "best of breed" solutions. Applications cover time recording, document management, customer relationship management and knowledge management.

### **Tissue Science Laboratories**

Tissue Science is a medical devices company specialising in human tissue replacement and repair products derived from porcine dermis. The company has proprietary core technology, which has many applications in a rapidly growing market. It has marketing agreements with C R Bard to sell various products.

### **U4EA (unquoted)**

U4EA is a specialist provider of solutions for data transfer management by large corporates. This has particular implications in improving the performance of transfers of large amounts of data across networks. The shares are currently unquoted and are valued on the basis of a funding round carried out in January 2004.

### **UBC Media**

UBC is a content and programme producer for the radio industry. It is the largest independent supplier of programming to the BBC. In addition,

the company is at the forefront in the development of digital radio with a stake in the "Oneworld Radio" consortium, which has had considerable success bidding for new digital licenses.

### **Vianet**

Vianet is a provider of telemetry-based solutions for maintaining and supplying automatic vending machines. The company offers the machine operators and brand owners a data management service to improve machine usage and profitability. The product has been trialed by several customers and rollouts are ongoing, the company has recently entered an agreement with Alcatel who will market the system.

### **Xpertise Group**

Xpertise is a leader in providing accredited technical IT training to business customers from centres in the North West, the North East, the Midlands and London. The company has suffered along with its competitors from poor market conditions but following last year's acquisition of Power Education further consolidation is likely which should enable a return to profitability.

# Board of Directors

## **Christopher John Leon Moorsom (aged 60)**

Christopher has served as a director and chairman of the Company since his appointment on 12th June 2003.

Christopher has over thirty years experience in the financial services industry. He was a Director of Stock Beech and Managing Director of Stock Beech Securities which were acquired by Albert E Sharp in 1990. He later became Managing Director of Albert E Sharp. Following the acquisition of Albert E Sharp by Old Mutual plc and subsequent mergers with Capel Cure Myers and Greig Middleton, the business was renamed Gerrard. He became Joint Managing Director of Gerrard and Chairman of Gerrard Investment Funds until 2001 when he became Vice Chairman of Gerrard.

Christopher is also a Non-Executive Director of Chepstow Racecourse Ltd, a Non-Executive Director of Bath Racecourse Ltd, a Non-Executive Director of Hereford Racecourse Ltd and a Governor of The Royal Welsh College of Music and Drama.

The Board consider Christopher Moorsom, as Chairman to be independent, although it is noted that this situation will change under the New Combined Code.

## **Andrew Nicholas Banks (aged 39)**

Andrew is a director of Singer & Friedlander Investment Management Limited and has managed dedicated smaller company funds, both quoted and unquoted, on behalf of leading institutions and private clients, for over fifteen years. He has specific responsibility for the Singer & Friedlander AIM VCT's and other smaller company portfolios.

## **John Michael Edelson (aged 59)**

Michael's first venture into public company life was in 1990 when he took a stake in and joined the board of Conrad plc, which subsequently acquired Sheffield United Football Club. He then floated Prestbury Group plc on AIM in 1997, which became the first of a series of companies he floated on AIM, and which ultimately made significant acquisitions. He has been a director of

Manchester United Football Club since 1982 and London City Credit Corporation Ltd. He is currently a non-executive director of Hawthorn Holdings plc, Dunham Group plc and City Invoice Finance Ltd among other private and AIM listed companies.

Michael is considered by the Board to be independent, there being no relationships or circumstances in existence which would affect his judgement as a director of the Company.

## **Mark Christopher Ellisdon (aged 36)**

Mark is the Director of Finance for Singer & Friedlander Investment Management Limited and is an economics and accounting graduate from Loughborough University and qualified as an ACA in 1994. Prior to joining Singer & Friedlander in April 1998 he was UK Finance Officer with Soditic Finance Company Limited and worked in the Financial Markets Division of Arthur Andersen from 1989 to 1996.

Mark's re-election at the 2004 Annual General Meeting is recommended by the Board. Although no formal performance evaluation has been undertaken, the Board is of the opinion that Mark is effective in and committed to his role.

## **David Alan Lloyd (aged 56)**

The name David Lloyd is synonymous with tennis and the commercial leisure industry he pioneered in the early 1980s. Retiring from a distinguished tournament career and after four years of research, he opened his first indoor tennis club in 1982. He then set his sights on a national expansion of the David Lloyd leisure chain. In 1994 he was named Coopers & Lybrand Entrepreneur of the Year. He sold the David Lloyd Leisure chain of clubs to Whitbread plc in 1995. David, together with his son, Scott, now runs Next Generation Clubs, which currently operates 10 state-of-the-art tennis and fitness centres throughout the UK and two in Australia. He also holds numerous directorships in the sports and leisure industry. Subsequent to the year end he resigned from the Company on 19th March 2004.



# Corporate Governance

The Board has put in place a framework for corporate governance which it believes is appropriate for a venture capital trust company and which enables the Company to comply with the Principles of Good Governance and Code of Best Practice (“the Combined Code”).

The Board considers that the Company has complied with the provisions contained within the 1998 Combined Code throughout the year ended 31st January 2004, except for the appointment of a nominations committee and a senior director. This statement describes how the relevant principles of governance are applied to the Company.

The Directors have considered the implications of the New Combined Code which was issued in July 2003 and came into effect for financial years beginning on or after 1st November 2003. The Board considers that the Company has complied with the provisions contained within Section 1 of the New Combined Code throughout the year ended 31st January 2004, except for the following:

- a senior non-executive director has not been appointed;
- as the Chairman is not viewed as being independent the Company does not have a majority of independent directors on the Board, nor two independent non-executive directors on the Audit Committee;
- the Company does not have a Nominations Committee;
- the Company does not have an internal audit function.

The Directors have reported on a number of areas within this Annual Report as required under the New Combined Code as follows:

- the number of Board and Audit Committee meetings held and attendance by the Directors;
- expansion of the Directors’ biographies regarding their independence; and

- a statement in the notes to the accounts concerning the non-audit fees paid to the Company’s auditors.

The Directors will also be conducting a performance evaluation of the Board, the Audit Committee and the individual directors, to be reported on in the next annual report.

The Turnbull Guidance requires the Directors to conduct, at least annually, a review of the effectiveness of the Company’s system of internal controls, including financial operations, compliance controls and risk management. The Company last reviewed the effectiveness of the Company’s system of internal controls for the year ended 31st January 2004 on 19th March 2004.

## The Board

The Board currently consists of four non-executive Directors, two of whom are wholly independent of the Company’s Investment Manager. Their biographical details, set out on page 14, demonstrate a breadth of investment, commercial and professional experience.

Mr R O Bernays served as a director and chairman of the Company until his resignation from the Board on 10th March 2003. Mr C J L Moorsom has served as a director and chairman of the Company since his appointment to the Board on 12th June 2003. Subsequent to the year end Mr D A Lloyd resigned from the Board on 19th March 2004.

The Board meets at least four times a year and between these meetings there is regular contact with the Investment Manager. Matters specifically reserved for decision by the full Board have been defined and are recorded. Procedures have been adopted for individual Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The Directors have access to the advice and services of the Corporate Company Secretary, who is responsible to the Board for ensuring that board procedures are followed.

During the year four meetings have been held. Mr Banks and Mr Edelson attended all meetings during the year. Mr Ellisdon gave his apologies for non attendance at one meeting during the year. Mr Lloyd gave his apologies for his non attendance at two meetings during the year. Mr Moorsom gave his apologies for his non attendance at one meeting since his appointment to the Board. Mr Bernays resigned prior to any meetings being held in the year.

Directors are provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal financial and non-financial controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

In accordance with the existing Articles of Association, Mr M C Ellisdon will stand for re-election at the forthcoming Annual General Meeting of the Company. Mr C J L Moorsom, having been appointed to the Board since the last Annual General will offer himself for election as a Director of the Company at the forthcoming Annual General Meeting. In accordance with the Combined Code, Directors are required to retire by rotation at least once in every three-year period.

### **Senior Director**

As the Board is small and consists entirely of non-executive Directors, it does not consider it necessary to recognise a single senior member other than the Chairman as the person to whom concerns can be conveyed.

### **Nominations and Remuneration Committees**

As the Board is small and consists of non-executive Directors and due to the nature of the venture capital trust company it has been decided that nominations and remuneration committees do not need to be formed.

Appointment of new directors will be decided by the whole Board. The remuneration of the directors is also reviewed by the Board, as a whole.

### **Audit Committee**

The Board has an Audit Committee, consisting of all the Independent Directors, which was chaired

by Mr D A Lloyd (until his resignation from the Board) with defined terms of reference and duties. Mr Edelson now chairs the Audit Committee. This Committee is responsible for reviewing all matters relating to the audit, financial reporting and internal control systems. The Audit Committee meets at least twice a year and the Independent Auditors may be asked to attend those meetings. During the year two meetings have been held. Mr Edelson attended both meetings during the year. Mr Lloyd gave his apologies for his non attendance at one meeting during the year. Mr Moorsom attended all meetings from the date of his appointment. Mr Bernays resigned prior to any meetings being held in the year. The Committee also meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and the management information maintained on behalf of the Company.

### **Relations with Shareholders**

The Annual General Meeting is an event which all shareholders are encouraged to attend and participate in. The Annual General Meeting is chaired by the Chairman of the Board and the Chairman of the Audit Committee will also be present. A summary of the proxy votes received on the resolutions proposed will be displayed at the meeting.

The Notice of Annual General Meeting on pages 39 and 40 sets out the business of the meeting. Separate resolutions are proposed for each substantive issue.

### **Accountability and Audit**

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 19.

The Independent Auditors' Report is set out on page 23.

The Board has delegated contractually to third parties the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial and administration requirements and the registration services. Each of these contracts were entered

into after full and proper consideration by the Board of the quality and cost of the 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 regular reports from the Investment Manager and ad hoc reports and information are supplied to the Board as required. It remains the role of the Board to keep under review the terms of the management agreement with the Investment Manager.

The Directors acknowledge that they are responsible for the internal financial and non-financial control systems ('the controls') of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publications of information, and that the assets of the Company are safeguarded. The controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance. The Board has considered the need for an internal audit function, but currently believes there is no need to have one, in view of the other controls and procedures in place. The need for an internal audit function will be regularly reviewed. As stated above, the Board has delegated contractually the services the Company requires to external agencies. The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls operated on behalf of its clients. The effectiveness of the internal financial controls is assessed by the Investment Manager's compliance and internal audit departments on an ongoing basis. This process has been in place for the year under review and up to the date of approval of the Report and Accounts, it is regularly reviewed by the Board and accords with the Turnbull Guidance.

These systems of internal control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. By the procedures set out above the Directors have kept under review the effectiveness of the internal controls throughout the year.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and up to the date of the approval of the Report and Accounts. It is regularly reviewed by the Board and accords with the Turnbull Guidance.

### Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

# Report of the Directors

The Directors present the Report and audited Accounts of the Company for the year ended 31st January 2004.

## Principal Activity, Business Review and Future Developments

The principal activity of the Company is to provide shareholders with an attractive return from a portfolio of investments in companies whose shares are principally traded on the AIM market. Details of all investments made by the Company are given in the Investment Portfolio Summary on page 6 to 8. A review of the Company's business during the year is contained in the Chairman's Statement.

The Company is an investment company as defined in Section 266 of the Companies Act 1985. The Company has been granted provisional approval by the Inland Revenue under Section 842AA of the Income and Corporation Taxes Act 1988 as a Venture Capital Trust on 16th January 2001. It is the Directors intention to continue to manage the Company's affairs in such a manner as to comply with section 842AA of the Income and Corporation Taxes Act 1988.

## Results and Dividends

Net revenue after taxation for the year amounted to £167,024 (2003: £395,848).

The Directors recommend a final dividend of 0.25 pence (2003: 0.80 pence) per share for the year ended 31st January 2004. The dividend will be paid on 16th June 2004 to shareholders whose names appear on the register of members at the close of business on 21st May 2004.

## Directors

The names of the Directors of the Company appear on page 14 of these accounts. The Directors have served throughout the year, with the exception of Mr R O Bernays who served as a director and chairman of the Company until his resignation from the Board on 10th March 2003. Mr C J L Moorsom has served as a director and chairman of the Company since

his appointment to the Board on 12th June 2003.

Subsequent to the year end, Mr D A Lloyd resigned from the Board on 19th March 2004.

The Directors' interests in the shares of the Company were:

Director	31st January 2004	31st January 2003
C J L Moorsom	Nil	Nil
A N Banks	10,100	10,100
J M Edelson	50,000	50,000
D A Lloyd	50,000	50,000
M C Ellisdon	100	100

No options over the share capital of the Company have been granted to the Directors. There have been no changes in the holdings of the Directors between 31st January 2004 and 27th April 2004.

Mr C J L Moorsom and Mr J M Edelson are members of the Audit Committee.

At the forthcoming Annual General Meeting of the Company Mr M C Ellisdon will retire and, being eligible, offer himself for re-election as a Director of the Company. Mr C J L Moorsom, having been appointed to the Board since the last Annual General Meeting, will offer himself for election as a Director of the Company at the forthcoming Annual General meeting.

## Management Agreements

Singer & Friedlander Investment Management Limited is the Company's Manager, and has entered into a management agreement, the agreement can be terminated by not less than one year's notice in writing. The principal terms of the management agreement are set out in note 3 to the Report and Accounts.

Sinclair Henderson Limited is the Company's Administrator, and has entered into an administration agreement which can be

terminated by not less than one years notice in writing. The principal terms of the administration agreement are set out in note 4 to the Report and Accounts.

Singer & Friedlander Secretaries Limited is the Corporate Secretary of the Company. The principal terms of the agreement are set out in note 4 to the Report and Accounts.

### **VCT Status Monitoring**

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements relating to VCTs. PricewaterhouseCoopers LLP review new investment opportunities for the purpose of assessing VCT status eligibility as appropriate and carry out regular reviews of the Company's investment portfolio.

### **Independent Auditors**

PricewaterhouseCoopers LLP were the independent auditors during the year to the Company. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

### **Issued Share Capital**

During the year the Company purchased 50,000 ordinary shares of 5p each for cancellation at a price of 78.44 pence per share, representing 0.15% of the issued share capital at that time. This repurchase of shares was made in accordance with the Company's share buy back policy and was considered to be in the best interests of shareholders. The authority for the Company to purchase its own shares was given by the shareholders to the Company at the Annual General Meeting held on 12th June 2003. As at 31st January 2004, this authority remained valid over 3,240,000 ordinary shares of 5p each.

The issued share capital of the Company as at 31st January 2004 was 32,890,860 ordinary shares of 5p each. There have been no repurchases of shares made subsequent to the year end.

### **Substantial Interests**

As at 31st January 2004 the Company was not aware of any beneficial interest exceeding 3% of the issued share capital.

### **Suppliers Payment Policy**

The Company's policy is to pay all suppliers invoices within 30 days of the invoice date, unless otherwise agreed. The Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms. There were no trade creditors at the year end (2003: nil).

### **Allocation of Annual Management Fee**

In determining the funds available to pay revenue dividends, 75% of the annual management fee, together with the related tax effect, is transferred to the capital reserves, reflecting the Directors' estimation of the probable split of capital gains and income from the investment portfolio over the life of the Company.

### **Statement of Directors' Responsibilities**

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 year. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to

ensure that the financial statements comply with the Companies Act 1985. They 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.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Report and Accounts are prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Report and Accounts include information required by the Listing Rules of the Financial Services Authority.

### **Annual General Meeting**

The Annual General Meeting will be held at 21 New Street, Bishopsgate, London, EC2M 4HR at 11.30am on 9th June 2004.

The Notice of Annual General Meeting is set out in pages 39 to 40.

Resolutions 1 to 6 set out in the Notice are concerned with the ordinary business customarily transacted at annual general meetings.

Resolution 7 will be proposed as special business at the Annual General Meeting. In certain circumstances it may be advantageous for the Company to purchase its own shares when the shares may be bought for a price which is below the Net Asset Value per share. At an Annual General Meeting held on 12th June 2003, the directors were given the necessary authority. Resolution 7 seeks to renew this authority to purchase up to 9.99% of the ordinary issued share capital of the Company.

This Resolution grants power for the Company to purchase its own shares pursuant to Section 166 of the Companies Act 1985. The authority is limited to an aggregate maximum number of 3,285,000 ordinary shares (representing approximately 9.99% of the issued share capital of the Company) and will expire on the earlier of 9th December 2005 and the conclusion of the Annual General Meeting in 2005. The maximum price which may be paid for an ordinary share will be an amount which is not more than 5% above the average of the mid-market quotations and at not more than current NAV of the ordinary shares as derived from the daily official list of the London Stock Exchange.

The Directors have no current intention of utilising all or any of the powers conferred by this Resolution and will only exercise their authority if in the interests of shareholders generally.

By order of the Board  
Singer & Friedlander Secretaries Limited  
Secretary  
27th April 2004

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting of the Company.

## Policy on Directors' Remuneration

Under the Financial Services Authority Listing Rule 26.9(d), where a Venture Capital Trust Company has no executive directors the Code principles relating to directors' remuneration do not apply and as such there is no Independent Remuneration Committee. The Remuneration of the Directors is reviewed by the whole Board.

As stated in the Articles of Association, the remuneration of the Directors by way of fees is determined by the Board, save that, unless otherwise approved by ordinary resolution of the Company, the aggregate remuneration shall not exceed £75,000 per annum. Directors' fees are presently fixed at £12,500 per annum for the Chairman and £10,000 per annum for each other Director. Mr Banks and Mr Ellisdon are being employed by the Manager and have waived their entitlement to Directors' fees.

The Board's policy is that remuneration of non-executive directors shall reflect the expansion of the Board as a whole, be fair and comparable to that of other similar investment trusts that have a similar capital structure and investment objectives. It is intended that this policy will continue for the year ended 31st January 2005 and subsequent years.

## Directors' Emoluments for the Year (audited)

The Directors who served throughout the year and received emoluments by way of fees are detailed in the table below:

	Year ended 31st January 2004 £	Year ended 31st January 2003 £
C J L Moorsom (includes employers NI)	8,558	–
R O Bernays (includes employers NI)	1,850	13,434
A N Banks	–	–
J M Edelson (includes irrecoverable VAT)	11,750	11,750
D A Lloyd (includes irrecoverable VAT)	11,750	11,750
M C Ellisdon	–	–

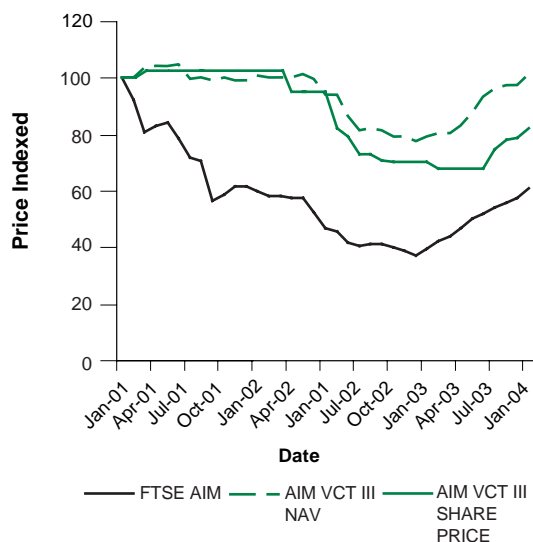
All amounts detailed are paid to the individuals concerned. Details of the amounts paid by the Manager to Messrs Banks and Ellisdon are provided in note 5 of the Report and Accounts.

## Service Contracts

No Director has a service contract with the Company. The Company does not have any employees.

Mr Banks and Mr Ellisdon are employees of Singer & Friedlander Investment Management Limited (the Manager to the Company) and are therefore deemed to have an interest in the management agreement with the Company. There were no other contracts during or at the end of the year in which Directors of the Company had a material interest and which is or was significant in relation to the Company's business.

None of the Directors of the Company are eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.



### Your Company's Performance

The graph above compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as by reference to which the Alternative Investment Market is calculated. This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.

By order of the Board  
Singer & Friedlander Secretaries Limited

**Secretary**  
**27th April 2004**



# Independent Auditors' Report

## Independent auditors' report to the members of Singer & Friedlander AIM 3 VCT plc

We have audited the financial statements which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the manager's report, the unaudited part of the directors' remuneration report, the chairman's

statement, the report of the directors' and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code (issued in June 1998) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report 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 the company's affairs at 31st January 2004 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London, 27th April 2004

# Financial Statements

## Statement of Total Return

(incorporating the revenue account\*) for the year ended 31st January 2004

	Notes	Year ended 31st January 2004			Year ended 31st January 2003		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Gains/(losses) on investments	9	-	6,908,453	6,908,453	-	(6,530,296)	(6,530,296)
Income	2	645,846	-	645,846	999,885	-	999,885
<b>Administrative expenses</b>							
Investment management fees	3	(135,209)	(405,628)	(540,837)	(136,557)	(409,669)	(546,226)
Other expenses	4	(294,584)	-	(294,584)	(257,295)	-	(257,295)
<b>Return on ordinary activities before taxation</b>		216,053	6,502,825	6,718,878	606,033	(6,939,965)	(6,333,932)
Tax on ordinary activities	6	(49,029)	49,029	-	(210,185)	128,731	(81,454)
<b>Return on ordinary activities after taxation for the financial period</b>		167,024	6,551,854	6,718,878	395,848	(6,811,234)	(6,415,386)
Dividends in respect of equity shares	7	(82,227)	-	(82,227)	(263,527)	-	(263,527)
<b>Transfer to/(from) reserves</b>	14	84,797	6,551,854	6,636,651	132,321	(6,811,234)	(6,678,913)
<b>Basic and diluted Return per ordinary share</b>	8	0.51p	19.89p	20.40p	1.20p	(20.66)p	(19.46)p

\* The revenue column of this statement is the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

The notes on pages 27 to 38 form part of these financial statements.

## Balance Sheet

	Notes	As at 31st January 2004 £	As at 31st January 2003 £
<b>Fixed assets</b>			
Investments			
Qualifying investments		25,509,652	12,038,167
Fixed interest securities and other non-qualifying investments		5,649,133	12,519,698
	9	31,158,785	24,557,865
<b>Current assets</b>			
Debtors	10	189,574	295,271
Cash at bank		982,144	765,950
		1,171,718	1,061,221
<b>Creditors: amounts falling due within one year</b>	11	(958,247)	(844,022)
<b>Net current assets</b>		213,471	217,199
<b>Net assets</b>		31,372,256	24,775,064
<b>Capital and reserves</b>			
Called-up share capital	13	1,644,543	1,647,043
Share premium account	14	2,721,969	2,721,969
Special reserve	14	26,896,733	26,936,192
Capital redemption reserve	14	5,000	2,500
Capital reserve - realised	14	(463,440)	(605,604)
Capital reserve - unrealised	14	231,460	(6,178,230)
Revenue reserve	14	335,991	251,194
<b>Equity shareholders' funds</b>	15	31,372,256	24,775,064
<b>Net asset value per ordinary share</b>	16	95.38p	75.21p

The financial statements on pages 24 to 35 were approved by the Board of Directors on 27th April 2004 and signed on their behalf by;

C J L Moorsom  
Chairman

The notes on pages 27 to 38 form part of these financial statements.

## Cash Flow Statement

	Notes	Year ended 31st January 2004 £	Year ended 31st January 2003 £
<b>Operating activities</b>			
Investment income received		730,354	1,102,620
Deposit interest received		22,864	27,732
Underwriting commission received		-	237
Investment management fees paid		(530,361)	(708,323)
Other expenses paid		(283,598)	(280,806)
<b>Net cash (outflow)/inflow from operating activities</b>	17	(60,741)	141,460
<b>Taxation</b>			
Corporation tax paid		(48,204)	(176,501)
<b>Net cash outflow from taxation</b>		(48,204)	(176,501)
<b>Capital expenditure and financial investment</b>			
Purchase of investments		(7,392,552)	(9,127,627)
Disposals of investments		8,020,677	9,959,727
<b>Net cash inflow from capital expenditure and financial investment</b>		628,125	832,100
<b>Equity dividends paid</b>		(263,527)	(560,845)
<b>Net cash inflow before financing</b>		255,653	236,214
<b>Financing</b>			
Cost of ordinary shares purchased for cancellation		(39,459)	(39,042)
<b>Net cash outflow from financing</b>		(39,459)	(39,042)
<b>Increase in cash for the period</b>	18	216,194	197,172

The notes on pages 27 to 38 form part of these financial statements.

# Notes to the Financial Statements

## 1 ACCOUNTING POLICIES

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

### a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The financial statements have been prepared in accordance with applicable accounting standards and are in compliance with the 2003 Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' ("SORP").

### b) Investments

Listed investments and investments traded on AIM and OFEX are stated at mid market prices at the year end. Unquoted investments are stated at the Directors' valuation with reference to the new British Venture Capital Association ("BVCA") guidelines where appropriate. The Directors' policy in valuing unquoted investments is to carry them at cost except in the following circumstances:

- Where a company's under performance against plan indicates a diminution in the value of the investment;
- Where a company is well established and profitable, the shares may be valued by applying a suitable price-earnings ratio to the company's historic post-tax earnings. The ratio used is based on a comparable listed company or sector but discounted to reflect lack of marketability;
- Where a value is indicated by a material arms-length transaction by a third party in the shares of a company.

Unquoted investments will not normally be revalued upwards for a period of at least six months from the date of acquisition. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve.

### c) Income

Dividends receivable on listed and quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. Underwriting commission and interest receivable are included in the accounts on an accruals basis.

### d) Expenses

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

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

- expenses are charged to capital reserve - realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee has been allocated 75% to capital reserve and 25% to revenue account, in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

#### **e) Taxation**

Deferred tax 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 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 reversals of the underlying timing differences can be deducted. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

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

Any tax relief obtained in respect of management fees allocated to capital is reflected in the capital reserve - realised and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

#### **f) Capital Reserve**

##### **Realised**

The following are accounted for as realised returns:

- Gains and losses on realisation of investments;
- Realised exchange differences of a capital nature;
- Expenses and finance costs, together with the related tax effect to this reserve in accordance with the policies; and
- Realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

##### **Unrealised**

The following are accounted for as unrealised returns:

- Increases and decreases in the valuation of investments held at the year end;
- Unrealised exchange differences of a capital nature; and
- Unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

## 2 INCOME

	Year ended 31st January 2004	Year ended 31st January 2003
	£	£
<b>Income from investments</b>		
- from fixed interest securities	546,151	941,085
- from UK equities	75,957	30,857
	<u>622,108</u>	<u>971,942</u>
<b>Other income</b>		
- deposit interest	23,522	27,706
- underwriting commission	-	237
- other income	216	-
	<u>23,738</u>	<u>27,943</u>
<b>Total income</b>	<u>645,846</u>	<u>999,885</u>

	Year ended 31st January 2004	Year ended 31st January 2003
	£	£
<b>Total Income comprises:</b>		
Dividends	75,957	30,857
Interest	569,673	968,791
Other income	216	237
	<u>645,846</u>	<u>999,885</u>

<b>Income from investments comprises:</b>		
Listed UK securities	300,999	614,868
Listed overseas securities	321,109	357,074
	<u>622,108</u>	<u>971,942</u>

## 3 INVESTMENT MANAGEMENT FEES

	Year ended 31st January 2004			Year ended 31st January 2003		
	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Investment management fee	115,071	345,215	460,286	116,218	348,655	464,873
Irrecoverable VAT thereon	20,138	60,413	80,551	20,339	61,014	81,353
	<u>135,209</u>	<u>405,628</u>	<u>540,837</u>	<u>136,557</u>	<u>409,669</u>	<u>546,226</u>

Singer & Friedlander Investment Management Limited advise the Company on investments under an agreement dated 22nd January 2001. The agreement can be terminated by not less than one year's notice in writing as the initial three year period has now expired.

Singer & Friedlander Investment Management Limited receive an annual management fee of 1.65% of the net asset value of the Company. The annual management fee is calculated based on the quarter end net asset value and payable calendar quarterly in arrears together with any applicable VAT. At 31st January 2004 £51,518 (2003: £41,042) including VAT of £7,673 (2003: £6,113) was owed to the Manager.

#### 4 OTHER EXPENSES

	Year ended 31st January 2004	Year ended 31st January 2003
	£	£
Directors' emoluments (note 5)	33,908	36,934
Auditors' fees - provision for annual audit	19,975	19,975
Auditors' fees - under-provision in prior year	-	5,875
Auditors' fees - for VCT status monitoring services	19,771	18,188
Auditors' fees - other services	7,696	8,695
Registrar's fees	6,339	3,304
Secretarial fees	14,687	14,687
Administration fees	40,327	39,173
Printing	9,651	8,230
Trail commission	103,515	83,583
Other	38,715	18,651
	<b>294,584</b>	<b>257,295</b>

Singer & Friedlander Secretaries Limited perform company secretarial duties for an annual fee of £14,687 including irrecoverable VAT of £2,187. At 31st January 2004 £nil (2003: £7,344) including VAT of £nil (2003: £1,094) was owed to Singer & Friedlander Secretaries Limited.

Sinclair Henderson Limited provide book keeping and accounting services for an annual fee of 0.1% of the gross amounts raised under the original Offer for Subscription of the Company's ordinary share capital, subject to annual review in line with the RPI. The agreement can be terminated by not less than one year's notice in writing. At 31st January 2004 £3,364 (2003: £3,261) including VAT of £501 (2003: £486), was owed to Sinclair Henderson Limited.

The composition of the auditors' fees for other services is corporation tax review of £2,996 and interim review of £4,700.

#### 5 DIRECTORS' EMOLUMENTS

	Fees	Irrecoverable VAT	Employers' NI	2004 Total	2003 Total
	£	£	£	£	£
C J L Moorsom	8,037	-	521	8,558	-
R O Bernays	1,321	-	529	1,850	13,434
M Edelson	10,000	1,750	-	11,750	11,750
D A Lloyd	10,000	1,750	-	11,750	11,750
	<b>29,358</b>	<b>3,500</b>	<b>1,050</b>	<b>33,908</b>	<b>36,934</b>

The Company has no employees. Mr A N Banks is a director of Singer & Friedlander Investment Management Limited. Mr A N Banks and Mr M C Ellisdon only received emoluments from their employer, Singer & Friedlander Investment Management Limited. The proportion of emoluments that relate to the affairs of the Company amounted to approximately £32,103 (2003: £42,662) for Mr A N Banks and £10,963 (2003: £8,472) for Mr M C Ellisdon, which included pension contributions made on their behalf of £1,887 (2003: £2,995) and £630 (2003: £1,023) respectively.

No pension scheme contributions or retirement contributions were paid. There are no share option contracts held by the Directors.



## 6 TAX ON ORDINARY ACTIVITIES

	Year ended 31st January 2004			Year ended 31st January 2003		
	Revenue	Capital	Total	Revenue	Capital	Total
	£	£	£	£	£	£
Based on the profits for the period:						
UK corporation tax charge/ (credit) at 19% (2003: 29%)	49,029	(49,029)	-	176,461	(128,731)	47,730
Underprovision of corporation tax in respect of prior period	-	-	-	33,724	-	33,724
	<b>49,029</b>	<b>(49,029)</b>	<b>-</b>	<b>210,185</b>	<b>(128,731)</b>	<b>81,454</b>

As a Venture Capital Trust the Company is not liable to taxation on its realised capital gains.

### Current taxation

The current taxation for the period is lower than the standard rate corporation tax in the UK (30%) (2003: 30%). The differences are explained below.

	Year ended 31st January 2004 £	Year ended 31st January 2003 £
<b>Reconciliation of tax charge</b>		
Revenue on ordinary activities before taxation	216,053	606,033
Theoretical tax at UK CT rate of 30%	64,816	181,810
Effects of:		
- UK dividends which are not taxable	(22,787)	(9,257)
- Expenses which are not allowable for corporation tax purposes	31,054	25,075
- Reduction in rate to actual rate-impact of marginal relief	(24,054)	(21,167)
Actual current tax charge - revenue	49,029	176,461
Underprovision of corporation tax in respect of prior period	-	33,724
Impact of allowable expenditure credited to capital reserve	(49,029)	(128,731)
Actual current tax charge	<b>-</b>	<b>81,454</b>

### Deferred taxation

There is no potential liability to deferred tax (2003: nil). There is an unrecognised deferred tax asset of £30,894 (2003: nil). The deferred tax asset relates to the current year unutilised expenses. It is considered more likely than not that there will be insufficient taxable profits in the future against which the deferred tax assets can be offset and, therefore, in accordance with FRS 19, the asset has not been recognised.

## 7 DIVIDENDS IN RESPECT OF EQUITY SHARES

	Year ended 31st January 2004 £	Year ended 31st January 2003 £
Ordinary final proposed of 0.25p per share (2003: 0.80p)	82,227	263,527
<b>Total</b>	<b>82,227</b>	<b>263,527</b>

## 8 RETURN PER ORDINARY SHARE

Basic and diluted revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £167,024 (2003: £395,848) and on 32,931,545 (2003: 32,967,572) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Basic and diluted capital return per ordinary share is based on net capital gains for the financial year of £6,551,854 (2003: net capital losses: £6,811,234) and on 32,931,545 (2003: 32,967,572) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

## 9 INVESTMENTS

	31st January 2004	31st January 2003
Valuation	£	£
Listed investments	4,653,760	12,174,585
Quoted investments	23,442,560	10,347,894
Unquoted investments	3,062,465	2,035,386
<b>Total</b>	<b>31,158,785</b>	<b>24,557,865</b>

A full list of the investment portfolio holdings by their aggregate market value is shown on pages 6 to 8.

Movements in investments during the year to 31st January 2004 are summarised as follows:

	Unquoted Investments*	Investments in companies Traded on AIM	Investments in companies traded on OFEX	Fixed income Securities	Total
	£	£	£	£	£
Opening book cost	3,556,659	14,109,565	1,190,175	11,879,696	30,736,095
Opening unrealised (depreciation)/ appreciation	(1,521,273)	(4,391,427)	(560,419)	294,889	(6,178,230)
Opening valuation	2,035,386	9,718,138	629,756	12,174,585	24,557,865
Transfer between categories	867,267	(634,994)	(232,273)	-	-
Purchases	1,968,509	5,219,635	525,000	-	7,713,144
Sale proceeds	-	(696,525)	-	(7,324,152)	(8,020,677)
Realised gains on sales	-	425,806	-	72,957	498,763
(Decrease)/increase in unrealised appreciation	(1,808,697)	8,727,709	(239,692)	(269,630)	6,409,690
Closing valuation at 31st January 2004	3,062,465	22,759,769	682,791	4,653,760	31,158,785
Closing book cost at 31st January 2004	6,510,162	18,423,487	1,365,175	4,628,501	30,927,325
Closing unrealised (depreciation)/ appreciation at 31st January 2004	(3,447,697)	4,336,282	(682,384)	25,259	231,460
Closing valuation at 31st January 2004	<b>3,062,465</b>	<b>22,759,769</b>	<b>682,791</b>	<b>4,653,760</b>	<b>31,158,785</b>

\*Included within unquoted investments are eight fixed income securities representing £1,760,833 (2003: £407,500) by book cost and £1,360,833 (2003: £107,500) by market value.

	31st January 2004	31st January 2003
	£	£
Realised gains/(losses) on sales of investments	498,763	(39,676)
Movement in unrealised appreciation /(depreciation)	6,409,690	(6,490,620)
<b>Total gains/(losses) on investments</b>	<b>6,908,453</b>	<b>(6,530,296)</b>

The amounts provided at the end of the year or written off against unquoted investments were as follows:

	31st January 2004	31st January 2003
	£	£
Total provisions	809,258	971,273
Total write offs	2,638,439	550,000
	<b>3,447,697</b>	<b>1,521,273</b>

The following provisions have been made to date for unquoted investments:

	31st January 2004		31st January 2003	
	Book cost £	Carrying value £	Provision £	Provision £
Flexbenefits	517,500	129,375	388,125	388,125
ITS Ecco	400,000	314,655	85,345	-
Stanhope Telecom	-	-	-	247,360
U4EA	779,570	443,782	335,788	335,788
	<b>1,697,070</b>	<b>887,812</b>	<b>809,258</b>	<b>971,273</b>

- ITS Ecco and U4EA were written down to latest issue prices
- Stanhope Telecom was written off following liquidation proceedings
- Flexbenefits has been written down to an estimate of the value of guaranteed future revenues

All qualifying investments within the portfolio are based in the UK. An analysis of the investment portfolio by broad industrial or commercial sector, and a list of investments, are contained within the Investment Portfolio Summary section of the Report and Accounts. The Board is aware that the International Financial Reporting Accounting Standards, which come into effect in January 2005, prescribe the use of bid prices when valuing investments. If a bid valuation was utilised the impact on this year's valuation would have been a 2.5% reduction.

## 10 DEBTORS AND PREPAYMENTS FALLING DUE WITHIN ONE YEAR

	31st January 2004	31st January 2003
	£	£
Prepayments and accrued income	189,574	295,271
Other debtors	-	-
	<b>189,574</b>	<b>295,271</b>

## 11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31st January 2004	31st January 2003
	£	£
UK corporation tax payable	-	47,730
Other tax and social security	115	85
Proposed dividend	82,227	263,527
Purchases awaiting settlement	670,592	350,000
Accrued expenses	205,313	182,680
	<b>958,247</b>	<b>844,022</b>

## 12 SIGNIFICANT INTERESTS

The Company has a holding of 3% or more that is material in the context of the financial statements in the following investments. No consolidation is required because no significant influence is exercised over their operating and financial policies;

Name of undertaking	Percentage of ordinary shares held by Company %
Music Copyright Solutions	18.057
Capcon Holdings	12.319
NWD Group	10.790
Corpora	10.724
Recycled Waste	10.354
Flying Scotsman	9.690
Mediwatch	7.942
Asfare Group	7.652
Medal Entertainment & Media	7.272
Xpertise	6.773
Vianet Group	6.476
Ringprop	5.591
Lloyds British Testing	5.564
Aquilo	5.506
Blooms of Bressingham	5.298
Lo-Q	5.297
PM Group	5.235
CMS Webview	5.021
Kuju	4.969
Coinmaster Gaming	4.916
Glisten	4.884
Real Good Food Company	4.338
Symphony Plastic Technology	4.286
Huveaux	4.028
Centurion Electronics	3.922
Cardpoint	3.843
Knowledge Technology	3.554
Imprint Search & Selection	3.459
ID Data	3.254

### 13 CALLED-UP SHARE CAPITAL

	Authorised £	Number of shares	Issued and fully paid £	Number of shares
As at 31st January 2003	2,000,000	40,000,000	1,647,043	32,940,860
Ordinary shares 5p bought for cancellation	-	-	(2,500)	(50,000)
<b>As at 31st January 2004</b>	<b>2,000,000</b>	<b>40,000,000</b>	<b>1,644,543</b>	<b>32,890,860</b>

Further details of the shares bought for cancellation are given in the Report of the Directors under the heading Issued Share Capital on page 19.

### 14 RESERVES

	Share premium account £	Special reserve £	Capital redemption reserve £	Capital reserve (realised) £	Capital reserve (unrealised) £	Revenue Reserve £
At 31st January 2003	2,721,969	26,936,192	2,500	(605,604)	(6,178,230)	251,194
Net gain on the realisation of investments	-	-	-	205,441	-	-
Increase in unrealised appreciation	-	-	-	-	6,703,012	-
Transfer on disposal of investments	-	-	-	293,322	(293,322)	-
Re-purchase and cancellation of ordinary shares	-	(39,459)	2,500	-	-	-
Costs charged to capital	-	-	-	(405,628)	-	-
Tax effect of capital items	-	-	-	49,029	-	-
Retained net revenue for the year	-	-	-	-	-	84,797
<b>At 31st January 2004</b>	<b>2,721,969</b>	<b>26,896,733</b>	<b>5,000</b>	<b>(463,440)</b>	<b>231,460</b>	<b>335,991</b>

### 15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31st January 2004	Year ended 31st January 2003
Return for the financial year	6,718,878	(6,415,386)
Dividend proposed	(82,227)	(263,527)
	6,636,651	(6,678,913)
Cost of ordinary shares purchased for cancellation	(39,459)	(39,042)
Net movement in shareholders' funds	6,597,192	(6,717,955)
Opening shareholders' funds	24,775,064	31,493,019
Closing shareholders' funds	<b>31,372,256</b>	<b>24,775,064</b>

### 16 NET ASSET VALUE PER SHARE

The net asset value per share at 31st January 2004 has been calculated by reference to net assets of £31,372,256 (2003: £24,775,064) and 32,890,860 (2003: 32,940,860) ordinary shares, being the number of ordinary shares in issue at the year end.

## 17 RECONCILIATION OF NET REVENUE BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31st January 2004	Year ended 31st January 2003
Net revenue before taxation	216,053	606,033
Investment management fees charged to capital	(405,628)	(409,669)
Decrease in debtors	106,171	126,204
Increase/(decrease) in creditors and accruals	22,663	(181,108)
Net cash (outflow)/inflow from operating activities	<b>(60,741)</b>	<b>141,460</b>

## 18 RECONCILIATION OF NET CASH FLOW TO NET FUNDS

	Opening net funds £	Movement in Year £	Closing net funds £
Cash at bank	765,950	216,194	982,144
	<b>765,950</b>	<b>216,194</b>	<b>982,144</b>

## 19 COMMITMENTS AND CONTINGENCIES

At 31st January 2004 (2003: £nil) there were no commitments or contingent liabilities.

## 20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

The Company's financial instruments comprise securities, cash balances and debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The Company has little exposure to credit, income, cash flow risk and no exposure to foreign currency risk.

The principal risks the Company faces in its portfolio management activities are:

- Market risk
- Liquidity risk
- Interest rate risk

The Investment Manager's objectives are consistent with those of the Company described under the corporate policy on page 3 of this report. The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year.

### (i) Market risk

Market risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments the Company holds are primarily in AIM quoted and OFEX quoted securities where the liquidity is generally below that of securities listed/quoted in the main market. The ability of the Company to realise positions may therefore be restricted when there are no willing purchasers.

The Board, through the nominated Director, considers each investment purchase to ensure that any acquisition allows the Company to maintain an appropriate spread of market risk. In addition it considers each investment to ensure that it falls within the VCT qualifying criteria at the time of purchase. In addition it considers the associated business risks of investing in each individual company. These include, but are not restricted to, the industry sector, management expertise and financial stability of each company.

The Company does not use derivative instruments to hedge against market risk.

**(ii) Liquidity risk**

Although the majority of the Company's investments are less liquid than securities listed on the London Stock Exchange the Board seeks to ensure that an appropriate proportion of the Company's investment portfolio is invested in cash and readily realisable securities, which are sufficient to meet any funding commitments that may arise.

**(iii) Bank interest rate risk**

The exposure to interest rate risk arises due to the short time to maturity of the fixed rate financial assets, as it may not be possible to reinvest in assets which provide the same rates of those currently held. Interest is earned on cash balances at banks at variable rates.

As required by Financial Reporting Statement No.13: Derivatives and other financial instruments, an analysis of financial assets and liabilities, which identifies the risk of the Company's of holding such items is provided below.

Financial assets - these are disclosed in the Investment Portfolio Summary on pages 6 to 8.

The interest rate profile of the Company's financial assets at 31st January 2004 was:

	Financial assets on which no interest paid	Fixed rate financial assets	Variable rate financial assets	Total	Weighted average interest rate	Average period to maturity
	£	£	£	£	%	(years)
Equity shares	24,736,611	-	-	24,736,611		
Preference shares	407,581	-	-	407,581		
Bonds	-	6,014,593	-	6,014,593	6.238	1.23
Cash	-	-	982,144	982,144		
Debtors	189,574	-	-	189,574		
<b>Total</b>	<b>25,333,766</b>	<b>6,014,593</b>	<b>982,144</b>	<b>32,330,503</b>		

The interest rate profile of the Company's financial assets at 31st January 2003 was:

	Financial assets on which no interest paid	Fixed rate financial assets	Variable rate financial assets	Total	Weighted average interest rate	Average period to maturity
	£	£	£	£	%	(years)
Equity shares	12,108,374	-	-	12,108,374		
Preference shares	167,406	-	-	167,406		
Bonds	-	12,282,085	-	12,282,085	5.574	1.67
Cash	-	-	765,950	765,950		
Debtors	295,271	-	-	295,271		
<b>Total</b>	<b>12,571,051</b>	<b>12,282,085</b>	<b>765,950</b>	<b>25,619,086</b>		

The variable rate is based on the banks' deposit rate (2003: same).

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

Financial liabilities - The Company finances its operations through its issued share capital and existing reserves. The only financial liabilities of the Company are creditors which are due within one year and which are disclosed in note 11. No interest is paid on these liabilities.

All assets and liabilities are carried at fair value as determined by the Board of Directors in accordance with the methods detailed in the accounting policies note commencing on page 27. There is no material difference between the fair value of financial assets and liabilities and their book value at the balance sheet date.

There are no committed undrawn facilities as at year end.

## **21 RELATED PARTY TRANSACTIONS**

Under the terms of agreements dated 22nd January 2001, the Company has appointed Singer & Friedlander Investment Management Limited to be the Investment Manager and Singer & Friedlander Secretaries Limited as Company Secretary. The fee arrangements for these services and the fees payable are set out in notes 3 and 4. No invoices were outstanding at year end and accrued balances were £51,518 (2003: £41,042) and £nil (2003: £7,344) including VAT respectively. The interests of the Directors are set out on page 18.



# Notice of Annual General Meeting

Notice is hereby given that the Third Annual General Meeting of the Company will be held at 21 New Street, Bishopsgate, London EC2M 4HR on Wednesday 9th June, 2004 at 11.30 a.m. for the following purposes:

## Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31st January 2004.
2. To approve the Directors' Remuneration Report for the year ended 31st January 2004.
3. To declare a final dividend of 0.25 pence per share.
4. To elect Mr C J L Moorsom as a Director.
5. To re-elect Mr M C Ellisdon as a Director.
6. To re-appoint PricewaterhouseCoopers LLP as Auditor and to authorise the Directors to fix their remuneration.

## Special Business

To consider and, if thought fit, to pass the following as a Special Resolution:

7. That the Company be and is hereby authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 5p each in the capital of the Company provided that:
  - (i) The maximum number of ordinary shares hereby authorised to be purchased is 3,285,000; and
  - (ii) The minimum price which may be paid for an ordinary share shall be 5p; and
  - (iii) The maximum price, exclusive of expenses, which may be paid for an ordinary share shall be an amount which is not more than the net asset value per share and not more than 5% above the average of the mid-market quotations of the ordinary shares as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase; and
  - (iv) Unless renewed, the authority hereby conferred shall expire on the date falling 18 months after the date of the passing of this Resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, which will or may be completed or executed wholly or partly after such expiry.

- (v) The Company may make a contract or contracts to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partially after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract or contracts.

By order of the Board  
Singer & Friedlander Secretaries Limited

Secretary

27th April 2004

Notes

- 1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member. Completion and return of the enclosed Form of Proxy will not preclude a member from attending and voting at the meeting in person.*
- 2. A Form of Proxy is enclosed for the use of members who are unable to attend the meeting. To be effective this must be deposited (together, where applicable with any Power of Attorney or other authority under which it is executed) at the office of the Company's Registrar, Capita IRG plc, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by not later than 48 hours before the time fixed for the meeting, or any adjournment thereof.*
- 3. The Company, pursuant to regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 10:30am on 7th June 2004 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at the relevant time. Changes to the entries in the register of members after 10:30am on 7th June 2004 or, in the event that the meeting is adjourned, in the register of members less than 48 hours before the time of any adjourning meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.*
- 4. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by order in which the names stand in the register of members of the Company in respect of the relevant joint holding.*
- 5. In accordance with the requirements of the Act, the register of directors' interests will be available for inspection at the Annual General Meeting.*

# Form of Proxy for Annual General Meeting

I/We \_\_\_\_\_ (BLOCK CAPITALS please)  
being a holder/s of ordinary shares in Singer & Friedlander AIM 3 VCT plc and entitled to attend and vote at the above Annual General Meeting, hereby appoint the Chairman of the Meeting or (see note 1)

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 11:30am on Wednesday 9th June 2004 and at any adjournment thereof in respect of the resolutions set out in the Notice of Meeting.

ORDINARY BUSINESS		FOR	AGAINST
Resolution 1	To receive and adopt the Directors' Report and Accounts for the year ended 31st January 2004	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	To approve the Directors' Remuneration Report for the year ended 31st January 2004	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	To declare a final dividend of 0.25p per ordinary share	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	To elect Mr C J L Moorsom as a Director	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	To re-elect Mr M C Ellisdon as a Director	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	To re-appoint PricewaterhouseCoopers LLP as Auditors	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	To authorise the Directors to make market purchases of ordinary shares under S.166 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>

Dated \_\_\_\_\_ Signed \_\_\_\_\_

## Notes

- 1 If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the Meeting. A proxy need not be a member of the Company.
- 2 In the case of a Corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
- 3 Please insert an 'X' in either the 'For' or 'Against' column. If both spaces are left blank, the proxy will exercise his/her discretion as to whether, and if so, how he/she votes.
- 4 To be valid, this form of proxy must be completed and deposited at the office of the Company's Registrars, Capita IRG plc, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours prior to the time fixed for the holding of the Meeting.
- 5 In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holder. Seniority depends on the order in which the names stand in the register of members.
- 6 The completion and return of this form of proxy will not preclude you from attending and voting at the meeting should you subsequently decide to do so.

FOLD 3

BUSINESS REPLY SERVICE  
Licence No. MB 122



Capita IRG plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

FOLD 1

FOLD 2

FOLD 4



