

Singer & Friedlander AIM 3 VCT plc
Interim Report

AIM 3 VCT
3

for the 6 months to 31st July 2005



SINGER & FRIEDLANDER

Singer & Friedlander AIM 3 VCT plc

Interim Report for the six month period ended 31st July 2005

Board Review

Performance

During the period under review AIM was heavily influenced by a strong resource sector, which accounts for more than a third of the market. This was propelled by rising commodity prices, particularly oil. Notwithstanding the rise in the commodity sector, in which VCT's are not permitted to invest, the AIM Index fell by 2%. In addition, your Net Asset Value (NAV) has been adversely affected by new accounting rules. These are explained in detail in notes 1 & 2 to the accounts. Against this background the net asset value of the Trust declined by 7.2%. Under the old basis of accounting, and allowing for the 0.5p final dividend, the NAV fell by 6.1%.

Since the Trust launch in early 2001 the AIM Index has declined by 23% and the FTSE ALL Share Index by 8%, whilst the Trust's asset value, allowing for dividend payments, has increased by 5%. Whilst the decline in the asset value over the period is disappointing, your Directors believe that the performance in a difficult market and compared to our peers is reasonable.

Dividends and returns to date

As in previous years, the Directors are not declaring the payment of an interim dividend.

Merger Proposals

Your Board has announced that it is discussing the possibility of merging your Trust with Singer & Friedlander AIM VCT and Singer & Friedlander AIM 2 VCT. It is expected that shareholders in a larger Trust would benefit from reduced costs, a more diverse portfolio and the narrowing of the difference between the share price and the asset value.

Further announcements will be made in due course.

Portfolio Commentary developments

The portfolio continues to comply with Inland Revenue criteria for VCT qualification and now consists of 70 separate investments. The majority of these investments are listed on AIM although three are currently private. We have continued to take profits on the listed portfolio during the period with disposal proceeds of nearly £2 million yielding profits of some £1.3 million. The Board anticipates that, should the merger proposals proceed and be approved by shareholders, there should be a more even flow of dividends from the combined portfolio. As mentioned in previous reports these will be made from capital as well as revenue sources.

'C' Share Issue

We have commenced the investment programme for the 'C' Share class and to date have made three portfolio acquisitions. The NAV of the 'C' Shares at the 31st July was 97.99p, compared to the launch NAV of 95 pence. We plan to fully invest these

funds before merging this class of shares with our ordinary shares. Details of the investments made to date appear later in this report.

Investment Strategy

The objective of the Company is to provide investors with an attractive return from a portfolio of investments primarily in companies whose shares are traded on AIM. Returns will be enhanced as a consequence of dividends and capital gains being free of tax in the hands of private investors.

Share Repurchases

During the period we repurchased 860,000 ordinary shares for cancellation at an average price of 80 pence, a discount of approximately 16% to NAV. It remains our intention to continue to buy back shares within the powers granted at the AGM

each year, in order to aid liquidity for shareholders who wish to sell and at a level that enhances the NAV for remaining shareholders.

Outlook

In general, newsflow from the portfolio constituents is good and our Investment Managers believe valuation levels are still attractive. Your Board believe the long term prospects for a well managed AIM portfolio remain excellent.

Christopher Moorsom (Chairman)
Andrew Banks
Michael Edelson
David Page
Dominic Wheatley

Singer & Friedlander AIM 3 VCT plc

27th September 2005

'C' SHARE PORTFOLIO INVESTMENTS MADE IN THE 6 MONTHS TO 31ST JULY 2005

Chromogenex

Design, manufacture and distribution of aesthetic and therapeutic laser and aesthetic light based technology devices

Fishworks

Operates a growing chain of seafood outlets, each of which provides a distinctive combination of restaurant, fishmonger and cookery school.

Tristel

A healthcare business specialising in infection control in hospitals. The company's chemistry is effective in destroying all types of bacteria (including MRSA), fungi and viruses.

Summary Financial Information

Unaudited Statement of Total Return (incorporating the revenue account*)

	6 months ended			Period ended			Period ended		
	31st July 2005			31st July 2005			31st July 2005		
	Ordinary Shares			C Class Shares			Total		
Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total	
£	£	£	£	£	£	£	£	£	
(Losses)/gains on investments	-	(1,970,089)	(1,970,089)	-	11,539	11,539	-	(1,958,550)	(1,958,550)
Income	159,328	-	159,328	4,233	-	4,233	163,561	-	163,561
Investment management fees	(71,718)	(215,156)	(286,874)	(163)	(489)	(652)	(71,881)	(215,645)	(287,526)
Other expenses	(154,441)	-	(154,441)	(3,294)	-	(3,294)	(157,735)	-	(157,735)
Return on ordinary activities before taxation	(66,831)	(2,185,245)	(2,252,076)	776	11,050	11,826	(66,055)	(2,174,195)	(2,240,250)
Taxation on ordinary activities	54	-	54	(147)	93	(54)	(93)	93	-
Return attributable to equity shareholders	(66,777)	(2,185,245)	(2,252,022)	629	11,143	11,772	(66,148)	(2,174,102)	(2,240,250)
Dividends in respect of equity shareholders (note 3)	(155,304)	-	(155,304)	-	-	-	(155,304)	-	(155,304)
Transfer (from)/to reserves	(222,081)	(2,185,245)	(2,407,326)	629	11,143	11,772	(221,452)	(2,174,102)	(2,395,554)
Return per ordinary share	(0.21)p	(6.99)p	(7.20)p	0.16p	2.91p	3.07p	-	-	-

The accounts have been prepared using accounting standards and policies adopted at the previous year end, with the exception of the changes stated in note 1. All revenue and capital items in the above statement derive from continuing operations. No operations were discontinued during the period.

These accounts are unaudited and are not the Company's statutory accounts.

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

Summary Financial Information (continued)
Unaudited Statement of Total Return (incorporating the revenue account*)

	Period ended			6 months ended			Year ended		
	31st July 2005			31st July 2004			31st January 2005		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
	£	£	£	£	£	£	£	£	£
(Losses)/gains on investments	-	(1,958,550)	(1,958,550)	-	(1,027,863)	(1,027,863)	-	3,043,761	3,043,761
Income	163,561	-	163,561	211,587	-	211,587	344,617	-	344,617
Investment management fees	(71,881)	(215,645)	(287,526)	(76,115)	(228,347)	(304,462)	(150,834)	(452,503)	(603,337)
Other expenses	(157,735)	-	(157,735)	(153,789)	-	(153,789)	(309,220)	-	(309,220)
Return on ordinary activities before taxation	(66,055)	(2,174,195)	(2,240,250)	(18,317)	(1,256,210)	(1,274,527)	(115,437)	2,591,258	2,475,821
Taxation on ordinary activities	(93)	93	-	-	-	-	-	-	-
Return attributable to equity shareholders	(66,148)	(2,174,102)	(2,240,250)	(18,317)	(1,256,210)	(1,274,527)	(115,437)	2,591,258	2,475,821
Dividends in respect of equity shareholders (note 3)	(155,304)	-	(155,304)	(81,777)	-	(81,777)	(81,777)	-	(81,777)
Transfer (from)/to reserves	(221,452)	(2,174,102)	(2,395,554)	(100,094)	(1,256,210)	(1,356,304)	(197,214)	2,591,258	2,394,044
Return per ordinary share				(0.05)p	(3.84)p	(3.89)p	(0.36)p	8.00p	7.64p

The accounts have been prepared using accounting standards and policies adopted at the previous year end, with the exception of the changes stated in note 1. All revenue and capital items in the above statement derive from continuing operations. No operations were discontinued during the period.

These accounts are unaudited and are not the Company's statutory accounts.

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

**For details of the restatement of the Company's comparative figures please refer to note 1.

Unaudited Balance Sheet

	31st July 2005 Ordinary £	31st July 2005 "C" Class £	31st July 2005 Total £	31st July 2004 (restated*) £	31st January 2005 (restated*) £
Fixed assets					
Investments	28,606,678	132,289	28,738,967	28,746,881	31,918,550
Current assets					
Debtors	400,499	1,268	401,767	71,477	62,149
Accrued interest on fixed interest securities	77,359	–	77,359	65,840	56,191
Cash at bank	130,798	278,660	409,458	338,883	428,217
	<u>608,656</u>	<u>279,928</u>	<u>888,584</u>	<u>476,200</u>	<u>546,557</u>
Creditors: amounts falling due within one year					
Corporation tax	–	–	–	–	–
Other creditors and accruals	448,484	18,272	466,756	420,301	599,158
	<u>448,484</u>	<u>18,272</u>	<u>466,756</u>	<u>420,301</u>	<u>599,158</u>
Net current assets/(liabilities)	160,172	261,656	421,828	55,899	(52,601)
Total net assets	<u>28,766,850</u>	<u>393,945</u>	<u>29,160,795</u>	<u>28,802,780</u>	<u>31,865,949</u>
Capital & reserves					
Called-up share capital	1,533,043	20,101	1,553,144	1,618,043	1,576,043
Share premium account	2,721,969	362,072	3,084,041	2,721,969	2,721,969
Special reserve	25,082,853	–	25,082,853	26,461,805	25,774,626
Capital redemption reserve	116,500	–	116,500	31,500	73,500
Capital reserve – realised	1,511,277	(396)	1,510,881	270,878	425,432
Capital reserve – unrealised	(2,197,715)	11,539	(2,186,176)	(2,619,539)	1,073,375
Revenue reserve	(1,077)	629	(448)	318,124	221,004
Equity shareholders' funds	<u>28,766,850</u>	<u>393,945</u>	<u>29,160,795</u>	<u>28,802,780</u>	<u>31,865,949</u>
Net asset value per share (note 2) (including current period revenue)	93.82p	97.99p		89.00p	101.09p

Since the period end the Company has not purchased any ordinary shares for cancellation.

These accounts are unaudited and are not the Company's statutory accounts.

*For details of the restatement of the Company's comparative figures please refer to note 1.

Unaudited Summarised Cash Flow Statement

	6 months ended 31st July 2005 Ordinary £	Period ended 31st July 2005 "C" Class £	Period ended 31st July 2005 Total £	6 months ended 31st July 2004 £	Year ended 31st January 2005 £
Net cash (outflow)/inflow from operating activities	(538,513)	3,167	(535,346)	(62,088)	(279,969)
Corporation tax paid	–	–	–	–	–
Net cash inflow/(outflow) from capital expenditure and financial investment	1,088,171	(120,750)	967,421	(64,468)	707,345
Equity dividends paid (note 3)	(155,304)	–	(155,304)	(81,777)	(81,777)
Net cash inflow/(outflow) before financing	394,354	(117,583)	276,771	(208,333)	345,599
Net cash (outflow)/inflow from financing	(691,773)	396,243	(295,530)	(434,928)	(899,526)
Net funds at the beginning of the period	428,217	–	428,217	982,144	982,144
Net funds at end of the period	130,798	278,660	409,458	338,883	428,217

These accounts are unaudited and are not the Company's statutory accounts.

NOTES

The unaudited interim financial information does not constitute statutory accounts. This information has been prepared on the basis of the accounting policies used in the statutory accounts of the Company for the year ended 31st January 2005 with the exception of the changes stated below. The statutory accounts for the year ended 31st January 2005 received an unqualified audit opinion and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

1. Changes in accounting policies

This Interim Report has been prepared using new accounting standards which have been issued to begin the process of converging UK standards with International Financial Reporting Standards ('IFRS'). The effect on the Net Asset Value of these changes is laid out in the table in note 2. The first change, Financial Reporting Standard ('FRS ') 21, is to recognise any dividend payable as a liability only after it has been declared. The second, FRS 26, is to value the portfolio at bid prices rather than at mid market prices.

With effect from 1 January 2005, the Company has adopted the following Financial Reporting Standards :

FRS 21 Events after the balance sheet date

Dividends paid by the Company are accounted for in the period in which the dividend has been declared. Previously, the Company recognised dividends in the period in which net revenue, to which those dividends related, was accounted for.

FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial instruments: Measurement

All investments held by the Company are classified as 'fair value through profit and loss'. For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Previously all listed investments were valued using closing mid market prices at the balance sheet date.

2. Net asset value per share

The net asset value per Ordinary share is based on total net assets at 31 July 2005 of £28,766,850 (31 July 2004 £28,802,780, 31 January 2005 £31,865,949) and on 30,660,860 Ordinary shares (31 July 2004 32,360,860, 31 January 2005 31,520,860) being the issued share capital at that date.

Reconciliation of changes to net asset values resulting from accounting policy changes:

	31st July 2005		31st July 2004		31st January 2005	
	£'000	pence	£'000	pence	£'000	pence
Published net asset value	29,689,696	96.83	29,745,691	91.92	32,869,795	104.28
Current period revenue*	(64,477)	(0.21)	(17,867)	(0.06)	(272,591)	(0.87)
Net asset value (including current period revenue)	29,625,219	96.62	29,727,824	91.86	32,597,204	103.41
Increase due to dividend accounting change (note 3)	–	–	–	–	157,604	0.50
Reduction due to using bid prices (note 1)	(858,369)	(2.80)	(925,044)	(2.86)	(888,859)	(2.82)
Net assets per revised UK GAAP	28,766,850	93.82	28,802,780	89.00	31,865,949	101.09

*Based upon the Company's previous accounting policies.

C share net asset value

The net asset value per C share is based on total net assets at 31 July 2005 of £393,945 and on 402,023 C shares, being the issued C shares at that date.

The initial allotment of 336,686 C shares took place on 31 March 2005. On 4 April 2005 8,000 C shares were allotted and on 10 May 2005 a further 57,337 shares were allotted.

These net asset values have been calculated in accordance with the revised accounting policies set out in note 1.

3. Dividends paid

The Company bought back 140,000 Ordinary shares on 28 April 2004 and a further 40,000 on 29 April 2004. These buy backs were made prior to the record date for the final dividend of the year ended 31 January 2004 and therefore these shares were not eligible for that dividend. The total amount paid by the Company was £81,777, £450 lower than the original accrual at 31 January 2004.

The Company bought back 360,000 Ordinary shares on 16 May 2005 and a further 100,000 on 25 May 2005. These buy backs were prior to the record date for the final dividend of the year ended 31 January 2005 and therefore these shares were not eligible for that dividend. The total amount paid by the Company was £155,304, £2,300 lower than the original accrual at 31 January 2005.

See note 1 for details of the Company's revised policy relating to dividends payable to shareholders.

4. Fixed Asset Investments

Ordinary Shares

Summary of Investments at 31st July 2005

	Sector Analysis	Purchase cost £	Current valuation £	% of portfolio by value
AIM Quoted Companies				
1st Dental Laboratories	Health	450,000	641,333	2.23
Aero Inventory	Aerospace & defence	481,041	742,252	2.58
Aquilo	Speciality & other finance	589,375	233,964	0.81
Asfare Group	Engineering & machinery	321,393	282,826	0.98
Award International Holdings	Media	209,990	26,249	0.09
BBI Holdings	Pharmaceuticals & biotechnology	239,708	484,516	1.68
Blooms of Bressingham Holdings	General retailers	470,000	434,528	1.51
Bright Things	Household goods & textiles	352,500	560,084	1.95
Camaxys Group	Software & computer services	254,825	111,486	0.39
Capcon Holdings	Speciality & other finance	700,000	216,125	0.75
Cardpoint	Speciality & other finance	333,177	1,006,522	3.50
Centurion Electronics	Automobiles & parts	187,950	112,770	0.39
CMS Webview	Media & entertainment	401,674	50,209	0.17
Corpora	Software & computer services	602,206	199,855	0.69
First Artist Corp	Media & entertainment	400,000	42,000	0.15
First Artist Corp Placing	Media & entertainment	100,000	100,000	0.35
Fulcrum Pharma	Pharmaceuticals & biotechnology	329,532	85,075	0.30
Glisten	Food producers & processors	267,143	878,233	3.05
Huveaux	Media & entertainment	664,081	980,740	3.41
ID Data	Information technology hardware	348,250	56,000	0.19
ID Data Placing	Information technology hardware	100,000	100,000	0.35
ILX Group	Support Services	324,960	552,432	1.92
Imprint Search & Selection	Support services	360,000	1,323,000	4.60
Knowledge Technology Solutions	Media & entertainment	127,362	148,589	0.52
Kuju	Software & computer services	549,999	284,848	0.99
Lloyds British Testing	Support services	362,400	132,585	0.46
Lo-Q	Leisure & hotels	760,000	41,800	0.15
Matrix Communications Group	Software & computer services	310,000	568,333	1.98
Medal Entertainment & Media	Media & entertainment	602,509	640,351	2.23
Mediwatch	Health	693,515	831,149	2.89
Monsternob Group	Media & entertainment	141,750	358,050	1.25
Music Copyright Solutions	Media & entertainment	375,000	330,883	1.15
NWD Group	Media & entertainment	466,750	96,940	0.34
Oasis Healthcare	Health	631,180	126,236	0.44
Pixology	Software & computer services	399,000	265,050	0.92
PM Group	Transport	604,232	1,148,041	3.99
Prezzo	Leisure & hotels	290,795	1,450,400	5.04
Quadnetics Group	Electronic & electrical equipment	225,632	248,621	0.86
Real Good Food Company	Food producers & processors	596,113	647,909	2.25
Ringprop	Engineering & machinery	366,999	352,884	1.23
Symphony Plastic Technologies	Chemicals	460,339	453,721	1.58
Synergy Healthcare	Health	481,280	1,443,841	5.02
Tanfield Group	Support services	987,403	600,305	2.09
The Clapham House Group	Leisure & hotels	453,872	490,100	1.70
Tikit Group	Software & computer services	400,000	640,000	2.23
Tissue Science Laboratories	Health	656,267	703,800	2.45

Summary of Investments at 31st July 2005 (continued)

	Sector Analysis	Purchase cost £	Current valuation £	% of portfolio by value
UBC Media Group	Media & entertainment	409,908	351,840	1.22
Vianet Group	Information technology hardware	577,778	490,000	1.70
XN Checkout Holdings	Software & computer services	234,321	970,416	3.37
Xpertise Group	Support services	485,179	283,095	0.98
		21,087,388	23,319,986	81.07
Private Companies				
Flexbenefits	Software & computer services	517,500	172,845	0.60
Lilestone	General retailers	405,000	405,000	1.41
U4EA	Information technology hardware	374,989	36,201	0.13
U4EA (preference shares)	Information technology hardware	622,889	625,889	2.17
		1,920,378	1,239,935	4.31
Other qualifying investments				
Xpertise Group Loan Stock	Support services	200,000	200,000	0.69
		200,000	200,000	0.69
Total Qualifying Companies		23,207,766	24,759,921	86.07
Fixed income investments				
Debentures and loan stocks				
Euro Inv Bank 6.125% BDS		1,118,922	1,105,500	3.84
		1,118,922	1,105,500	3.84
UK Government loans				
Treasury 4.5% STK 2007		989,396	1,005,390	3.50
		989,396	1,005,390	3.50
Other non-qualifying investments				
Aquilo	Speciality & other finance	487,500	193,524	0.67
Blooms of Bressingham Holdings	General retailers	534,993	494,616	1.72
Blooms of Bressingham Holdings (warrants)	General retailers	20,007	16,200	0.06
Cardpoint	Speciality & other finance	156,597	473,077	1.64
Formation Group	Media & entertainment	519,750	266,907	0.93
ID Data Conv Loan Stock	Information technology hardware	225,000	225,000	0.78
Medal Entertainment & Media	Media & entertainment	51,170	54,384	0.19
Synergy Healthcare	Health	4,053	12,159	0.04
		1,999,070	1,735,867	6.03
Total Fixed Income and other non-qualifying investments		4,107,388	3,846,757	13.37

Summary of Investments at 31st July 2005 (continued)

	Purchase cost £	Current valuation £	% of portfolio by value
Companies in liquidation*			–
Coinmaster Gaming	350,000	–	–
Exertris	503,445	–	–
Exertris Conv Debt	100,000	–	–
Firmgrowth	250,000	–	–
Flying Scotsman	400,800	–	–
Global Money Transfer (loan notes)	300,000	–	–
Laminate Flooring	450,000	–	–
Monotub Industries	260,000	–	–
Recycled Waste	374,994	–	–
Stanhope Telecom	500,000	–	–
	3,489,239	–	–
Summary			
Total qualifying portfolio	23,207,766	24,759,921	86.07
Fixed interest/non qualifying portfolio	4,107,388	3,846,757	13.37
Investments held at nil valuation	3,489,239	–	–
Sub total	30,804,393	28,606,678	99.44
Net current assets	–	160,172	0.56
Total	30,804,393	28,766,850	100.00

*These companies are in liquidation and the Directors consider it appropriate to value them at zero. With the exception of Exertris Conv Debt and Global Money Transfer, 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.

C Class Portfolio

Summary of Investments at 31st July 2005

	Sector Analysis	Purchase cost £	Current valuation £	% of portfolio by value
AIM Quoted Companies				
Chromogenex	Health	50,000	45,455	11.54
Fishworks	Leisure & hotels	49,500	63,000	15.99
Tristel	Health	21,250	23,834	6.05
Total qualifying portfolio		120,750	132,289	33.58
Net current assets		–	261,656	66.42
Total		120,750	393,945	100.00

5. Dividends

The Directors are not declaring the payment of an interim dividend in respect of the period ended 31st July 2005.

Directors

C J L Moorsom

A N Banks

J M Edelson

M C Ellisdon (resigned as director 27th June 2005)

D Page

D Wheatley

Secretary and Registered Office

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SINGER & FRIEDLANDER