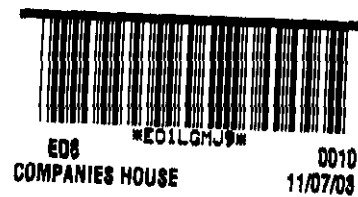




Murray
VCT 3 PLC

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



Annual Report and Financial Statements
28 February 2003

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Financial Calendar

Annual General Meeting

10 July 2003

Dividend Schedule

	Rate	xd date	Record date	Payment date
J & S Marine	0.87p	7 August 2002	9 August 2002	30 August 2002
Interim dividend	0.5p	13 November 2002	15 November 2002	10 December 2002
Proposed final dividend	1.1p	18 June 2003	20 June 2003	18 July 2003
Proposed Palgrave Brown dividend	4.26p	To be announced	To be announced	To be announced
Total	6.73p			



Murray *VCT 3 PLC*

Corporate Summary

Investment Objective

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

Life of the Company

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

Capital Structure

The Company's share capital consists of 40,642,460 Ordinary shares of 10p each at 31 May 2003.

Summary Management Agreement

The Manager has agreed to provide Investment Management Services for a fee calculated on the gross assets value, together with a Secretarial Fee, as detailed in Note 3 on page 29. The Management Agreement is terminable on twelve months notice.

Dividend History

Year ended		Interim/final/ capital gain	Rate p	Gross equivalent p
February	Payment Date			
1999	14 December 1998	Interim	1.00	1.25
	03 April 1999	2nd Interim	2.25	2.8125
2000	10 December 1999	Interim	1.00	1.00
	31 January 2000	Europress	1.064	1.064
	14 July 2000	Final	2.10	2.10
2001	08 December 2000	Interim	1.00	1.00
	13 July 2001	Final	2.00	2.00
2002	28 December 2001	Interim	0.50	0.50
	21 January 2002	CAC Tooling	1.30	1.30
	28 February 2002	Benlowe	1.18	1.18
	22 July 2002	Final	2.00	2.00
2003	30 August 2002	J&S Marine	0.87	0.87
	10 December 2002	Interim	0.50	0.50
				17.5765

Corporate Information

Directors

P K Timms CBE, *Chairman*

J Cooper

A Cubie CBE

A S F Mair MBE DL

M J Walker

Manager & Secretary

Murray Johnstone Limited

123 St Vincent Street

Glasgow G2 5EA

Customer Services Department: 0500 00 00 40

Registered Office

One Bow Churchyard

Cheapside

London EC4M 9HH

Company Registration Number: 3495287

Registrars

Capita

The Registry

34 Beckenham Road

Beckenham

BR3 4TU

Shareholder helpline: 0870 162 3100

Stockbrokers

UBS Warburg

Custodian Bankers

JP Morgan Chase Bank

Solicitors

S J Berwin

Auditors

Ernst & Young LLP

Board Members

Chairman

P K Timms CBE (59) was appointed a Director and Chairman in January 1998. He is the founder and managing director of Flexible Technology Limited, and is chairman of J&S Marine Limited, Scottish Electronic Technology Group Limited, Smartpower Limited, HIE Ventures Limited and LeggMason Investors Enterprise plc. He is also a non-executive director of Argyll and The Islands Enterprise Company Limited and The Business Forum Scotland Limited. He is a visiting professor and chairman of the advisory board of the University of Glasgow Business School.

Directors

J Cooper (59) was appointed a Director in January 1998. He has been actively involved in a number of management buy-ins having been managing director of Clairmont plc from 1987 to 1991 and chief executive of Calder Group Limited from 1994 to 1995. Prior to becoming involved with the venture capital industry in 1987, he was a director of several GEC companies and James Howden Ltd. Currently, he is non-executive chairman of Encon Limited, Yaba Limited and ScotNursing Limited. He is also a non-executive director of Murray VCT 2 PLC and of Magnet Applications Limited.

A Cubie CBE (56) was appointed a Director in January 1998. He is a consultant to Fyfe Ireland, Solicitors, having been the senior partner until April 2003, and he has extensive experience of corporate law and investment, particularly in the private company sector. He is a non-executive director of Norfrost Holdings Limited and Kinloch Anderson Limited. He was chairman of CBI Scotland from 1995 to 1997. He is chairman of Quality Scotland Foundation, and Scotland's Health of Work. He is vice-chairman of the Court of Napier University and the author of the Cubie Report in respect of student funding in Scotland.

A S F Mair MBE DL (67) was appointed a Director in January 1998. He is a former chairman and managing director of Caithness Glass Limited. He has considerable knowledge and experience of public and private companies and has led two management buy-outs. He is chairman of Crieff Hydro Limited and a non-executive director of Grampian Television Limited. He was chairman of CBI Scotland from 1989 to 1991. He is Chancellor's Assessor and vice-chairman of the Court of the University of Aberdeen.

M J Walker (50) was appointed a Director in January 1998 and is the executive chairman of Maclay Murray & Spens, solicitors, having been managing partner of the firm from 1994 until December 2002. From his appointment as a partner in 1981 he has specialised in the corporate sector having wide experience of all forms of corporate activity including venture capital investments, acting on behalf of investors, investees and supporting financial institutions. He is a non-executive director of John Menzies plc, Securities Trust of Scotland plc and Murray VCT 2 PLC.

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

Manager

Murray Johnstone Limited is the Manager of the Company. It is a subsidiary of Aberdeen Asset Management PLC whose group companies, as at 30 April 2003, managed approximately £20 billion. The Manager's private equity division, Aberdeen Murray Johnstone Private Equity, operates through a network of seven regional offices and as at 30 April 2003 had approximately £470 million under management.

Analysis of Portfolio of Unlisted Investments

As at 28 February 2003

FTSE Actuaries Industry Sector

	£'000	%
Support Services	3,339	17.6
Transport	2,803	14.7
Engineering & Machinery	2,048	10.8
Construction & Building Materials	1,913	10.1
Health	1,785	9.4
Food & Drug Retailers	1,674	8.8
Distributors	1,662	8.7
Leisure, Entertainment & Hotels	1,071	5.6
Media & Photography	878	4.6
Oil & Gas	850	4.5
Food Producers & Processors	537	2.8
Aerospace & Defence	325	1.7
Telecommunication Services	140	0.7
	19,025	100.0

Deal Type

	No. of deals	£'000	%
Management Buy-outs	12	8,288	43.5
Development Capital	18	6,464	34.0
Management Buy-ins	7	2,585	13.6
Early Stage	2	1,059	5.6
Acquisition Finance	2	629	3.3
	41	19,025	100.0

Aberdeen Murray Johnstone Regional Office

	No. of deals	£'000	%
Birmingham	13	8,929	46.9
Manchester	11	5,671	29.8
Leeds	7	2,086	11.0
Aberdeen	1	850	4.5
Glasgow	4	814	4.3
London	5	675	3.5
	41	19,025	100.0

Note: The total portfolio of investments, including both listed and unlisted stocks, is valued at £25,795,000.

Chairman's Statement

Performance

Market conditions continue to be difficult and this is evident in reduced investor confidence in the stock market and increasing reports of weakening profits.

These conditions continue to have an adverse impact on corporate performance and therefore on the valuations of the Company's investment portfolio. Realisations are difficult to achieve in these depressed markets although the disposal of Palgrave Brown in the period was a significant and very positive result for the Company.

The Net Asset Value (NAV) at 28 February 2003, before payment of all dividends in respect of the year then ended, was 68.9 pence per share (pps) compared with 84.7pps at 28 February 2002. This decrease in NAV of 18.6% compares with the significant reduction in stock market indices generally and, in particular, the FTSE Small Cap Index which fell by 28.6% over the period and the FTSE AIM Index which fell by 31.9%.

Dividends and returns to date

A dividend of 0.87pps was paid to Shareholders on 30 August 2002 reflecting the capital gain on the sale of part of the investment to J & S Marine.

An interim dividend of 0.5pps for the year ended 28 February 2003 was paid to Shareholders on 10 December 2002. The Board is proposing a final dividend of 1.1pps to be paid on 18 July 2003 to Shareholders on the register on 20 June 2003. The dividend of 4.26pps arising from the sale of Palgrave Brown will be paid when approval has been obtained from the Inland Revenue. The total dividend for the year ended 28 February 2003 will therefore amount to 5.86pps.

Since the Company's launch, and including the dividend due on the realisation of Palgrave Brown, most shareholders will have received 22.9p in tax free dividends, comprising 14.3pps in income dividends and 8.6pps in distributions of capital gains. To an investor who took advantage of the initial income tax relief, this represents a return of over 28% of the effective initial investment cost of 80p per share. This is equivalent to an annual dividend yield of 8.1% from a conventional listed equity for a higher rate taxpayer. This yield ignores the benefit of capital gains tax deferrals which some Shareholders may have received. This compares with the FTSE SmallCap yield of 2.9% and the FTSE All-Share yield of 2.7%. The total return since launch is 85.1p, being the sum of dividends paid and declared plus NAV per share.

Investment Strategy

The Company is almost fully invested. The Manager is concentrating on intense portfolio management to help the investee companies manage through current market conditions, the aim being to restore value and ultimately achieve successful disposals from a position of strength when market conditions recover. In these circumstances it is not only capital valuations which are under pressure but also the ability of the investee companies to pay dividends and interest to investors. The Manager is working to assist certain companies to enable them to resume payments to the Company.

At the moment, the Company has approximately 27% of its assets in cash and gilts. The Manager is retaining this in order to be able to support with new investment, where required, those investee companies which are believed to have potential. In the longer term, surplus funds from realisations will be invested where possible in larger companies through co-investment with the other Murray VCTs.

Chairman's Statement

Valuation process

Murray VCT 3's investments in unlisted companies are valued in accordance with the British Venture Capital Association guidelines. Investments are normally valued at cost, or cost less a provision, until they have been held for at least one year. As a result, should performance be ahead of plan, which may imply an increase in the value of the investment, this would not be reflected for at least 12 months; on the other hand, material underperformance will be reflected immediately in a reduced valuation. Listed equities AIM stocks are valued at their mid-market price, discounted where necessary to reflect any trading restrictions.

In the short-term, the NAV is a less important measure of performance as the underlying investments are long-term in nature and not readily realisable. The most important measures for a VCT are the long term record of dividend payments and the timing of those payments over the life of the Company.

Outlook

The results reported here reflect continuing poor market conditions and the prospects for the current year remain uncertain. The Board and the Manager expect that the coming year will be every bit as testing as the last. Existing portfolio investments will be the subject of careful attention to help them develop further.

The portfolio includes a core of investments with good prospects but it could be some time before those prospects can be demonstrated in further profitable realisations. The Manager is continuing to work with the portfolio companies to improve performance with a view to maximising the proceeds from eventual exits.

The falls in stock market indices over the last three years have led to more realistic pricing expectations in the private equity market. This, together with the continuing strong deal flow being generated by the Aberdeen Murray Johnstone Private Equity regional network of offices, should lead to greater investment activity and ensure that there will be adequate opportunity to reinvest proceeds from future realisations as they are achieved.

31 May 2003

P K Timms CBE
Chairman

Investment Manager's Review

Investment activity

Further investment during the year ended 28 February 2003 totalled £6.5 million. At 28 February 2003 the portfolio stood at 41 investments having a total cost of £31.2 million and representing a qualifying investment level of 79%.

Three new investments have been made since the publication of the interim report:-

Palgrave Brown (Holdings) Limited (October 2002) – £250,000: Based in Chorley, Palgrave Brown manufactures specialist timber products, roof trusses and wooden windows, servicing the major house builders and builders' merchants. In October 2002, the Company participated in the secondary buy out of Palgrave Brown (UK) to retain an interest in the future developments of this investee company. See Portfolio Developments below.

PLM Dollar Group Limited (November 2002) – £198,538: Based in Inverness, PLM which trades as PDG Helicopters, is an operator of a fleet of commercial helicopters.

PSCA International Limited (December 2002) – £627,600: Based in Newcastle Upon Tyne, PSCA produces high quality publications aimed at public sector officials in central and local government.

Portfolio developments

Palgrave Brown (UK) was sold in a secondary buy out transaction which was funded by clients of Aberdeen Murray Johnstone Private Equity, including a small new investment by the selling VCTs, although this will be non-qualifying. Murray VCT 3 realised a gain of £1,745,559, equivalent to 4.26pps, over the cost of the investment and this gain will be distributed after Inland Revenue approval has been obtained.

Outlook

The portfolio includes a core of sound investments whose prospects should respond to an improvement in the economic environment but it is likely to be some time before those prospects can be demonstrated in further profitable realisations. The Manager is continuing to work with the portfolio companies to improve performance with a view to maximising the proceeds from eventual exits. The results reported here are against a backdrop of continuing poor economic and market conditions and the prospects for the current year remain uncertain.

31 May 2003

John Simpson
Investment Manager

Summary of Investment Changes

For the year ended 28 February 2003

	Valuation as at 28 February 2002		Net investment (disinvestment)	Appreciation (depreciation)	Valuation as at 28 February 2003	
	£'000	%	£'000	£'000	£'000	%
Unlisted investments						
Equities	9,021	26.0	(1,952)	(2,480)	4,589	18.0
Preference shares	1,094	3.2	474	(610)	958	3.7
Loan stock	13,524	38.9	3,877	(3,923)	13,478	52.9
	23,639	68.1	2,399	(7,013)	19,025	74.6
Listed investments						
Equities	19	0.1	(23)	4	—	—
Fixed income	10,190	29.4	(3,532)	112	6,770	26.6
Total investments	33,848	97.6	(1,156)	(6,897)	25,795	101.2
Other net assets/(liabilities)	839	2.4	(1,138)	—	(299)	(1.2)
Total Assets	34,687	100.0	(2,294)	(6,897)	25,496	100.0

*Total assets represents equity shareholders' funds

Investment Portfolio Summary

As at 28 February 2003

	Nature of business	Valuation £'000	% of total assets
Unlisted investments			
Conveco	Convenience store operator	1,674	6.6
CCM Motorcycles	Motorcycle manufacturer	1,579	6.2
TLC (Tender Loving Childcare)	Operator of day care nurseries	1,188	4.7
Businesshealth	Provider of health management services	1,059	4.2
Intron	Manufacturer and distributor of entrance doors	1,000	3.9
Tuscan Energy Group	Oil production	850	3.3
Poulter	Independent communications agency	770	3.0
Booth Dispensers	Manufacturers of coolers and carbonators	753	3.0
ELE Advanced Technologies	Manufacturer of precision components for jet engines and gas turbines	750	2.9
FirstLine	Supplier of automotive parts to the after-market	750	2.9
Sequoia	Distributor of electronic components and equipment	750	2.9
Clamonta Engineering	Precision engineering	735	2.9
Other Investments valued individually at less than £735,000		7,167	28.1
		19,025	74.6
Listed fixed income investments			
Treasury 8.5% Stock 2005		2,240	8.8
Treasury 6.75% Stock 2004		2,116	8.3
Treasury 5% Stock 2004		2,044	8.0
Treasury 8% Stock 2003		370	1.5
		6,770	26.6
Total investments		25,795	101.2

Twelve Largest Unlisted Investments

CONVECO LIMITED

Operator of convenience stores

Incorporated in England and Wales

	2003	2002
Holding details as at 28 February	£'000	£'000
Cost of investment	1,674	1,000
Directors' valuation	1,674	1,000
Effective equity interest	7.1%	7.3%
Gross income received in the year	169	—
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

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

Murray VCT 3 participated in the management buy-out in May 2001. The transaction was led, structured and arranged by Aberdeen Murray Johnstone Private Equity.

CCM MOTORCYCLES LIMITED

Manufacturer of motorcycles

Incorporated in England and Wales

	2003	2002
Holding details as at 28 February	£'000	£'000
Cost of investment	2,105	1,430
Directors' valuation	1,579	1,430
Effective equity interest	20.4%	29.8%
Gross income received in the year	—	—
Basis of valuation	25% Provision	Cost
Cumulative realisation proceeds	—	—

Following the completion of the investment in November 2000, the business and assets were "hived-up" on 31 March 2001. The company manufactures both on and off-road motorcycles at its premises in Blackburn, Lancashire.

The development capital investment in November 2000 was led, structured and arranged by Murray Johnstone. A further investment of £1.5 million by Aberdeen Murray Johnstone Private Equity clients was made in tranches between October 2001 and February 2002. A further investment of £1.6 million was made by Aberdeen Murray Johnstone Clients as part of an external refinancing process which was completed in January 2003. As part of this process Merseyside Special Investment Fund made an investment of £1.25million in ordinary shares, loan stock and mezzanine finance.

	2001
9 months ended 28 October	£'000
Turnover	22,242
Profit before interest and tax	1,189
Profit before tax	242
Profit after tax	776
Ordinary share dividend	—
Preference share dividend	—
Net assets attributable to ordinary and preference shareholders	6,484
Earnings per ordinary share	123.2p
Dividend per preference share	—
Preference dividend cover	—
Dividend per ordinary share	—
Ordinary dividend cover	—

	2002	2001
Period ended 30 September	£'000	£'000
Turnover	3,937	1,706
Loss before interest and tax	(1,770)	(1,052)
Loss before tax	(1,911)	(1,146)
Loss after tax	(1,911)	(1,146)
Preference share dividend	—	—
Ordinary share dividend	—	—
Net assets attributable to ordinary and preference shareholders	173	1,868
Earnings per ordinary share	(2167p)	(1300p)
Dividend per preference share	—	—
Preference dividend cover	—	—
Dividend per ordinary share	—	—
Ordinary dividend cover	—	—

Twelve Largest Unlisted Investments

TLC (TENDER LOVING CHILDCARE) LIMITED

Operator of day care nurseries

Incorporated in England and Wales

	2003 £'000	2002 £'000
Holding details as at 28 February		
Cost of investment	1,188	868
Directors' valuation	1,188	868
Effective equity interest	25.3%	25.3%
Gross income received in the year	22	59
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

TLC specialises in the provision of full day nursery care and out of school care for children 0–11 years. The company bases operations primarily in NHS related nurseries. The business is based in Rugby.

Murray VCT 3 participated in the development capital funding in November 2000. The transaction was led, structured and arranged by Aberdeen Murray Johnstone Private Equity.

BUSINESSHEALTH GROUP PLC

Provider of health management services

Incorporated in England and Wales

	2003 £'000	2002 £'000
Holding details as at 28 February		
Cost of investment	1,059	1,013
Directors' valuation	1,059	1,911
Effective equity interest	8.4%	8.5%
Gross income received in the year	6	43
Basis of valuation	Cost	Third party transaction
Cumulative realisation proceeds	—	—

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

Start up and acquisition funding for Businesshealth Limited was provided by Aberdeen Murray Johnstone Private Equity clients in September 1999 with further investments being made in 2001 and 2002. A new holding company was created in 2001 and Murray VCT 3's entire holding in Businesshealth Limited was converted into a holding in Businesshealth Group Plc.

Year ended 31 December	2001 £'000
Turnover	581
Loss before interest and tax	(504)
Loss before tax	(670)
Loss after tax	(670)
Preference share dividend	—
Ordinary share dividend	—
Net assets attributable to ordinary and preference shareholders	1,434
Earnings per ordinary share	(348.9p)
Dividend per preference share	—
Preference dividend cover	—
Dividend per ordinary share	—
Ordinary dividend cover	—

Year ended 31 December	2001 £'000	2000 £'000
Turnover	880	700
Loss before interest and tax	(2,836)	(3,548)
Loss before tax	(3,088)	(3,672)
Loss after tax	(3,088)	(3,672)
Net (liabilities) attributable to Ordinary shareholders	(3,631)	(2,179)
Earnings per ordinary share	(24.7p)	(692.2p)
Dividend per ordinary share	—	—
Ordinary dividend cover	—	—

Twelve Largest Unlisted Investments

INTRON LIMITED

Manufacturer and distributor of entrance doors

Incorporated in England and Wales

	2003	2002
Holding details as at 28 February	£'000	£'000
Cost of investment	1,000	1,000
Directors' valuation	1,000	1,000
Effective equity interest	16.7%	16.7%
Gross income received in the year	93	90
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

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

The management buy-in in July 1998 transaction was led, structured and arranged by Murray Johnstone.

	2002	2001
Year ended 30 June	£'000	£'000
Turnover	6,763	5,440
Profit before interest and tax	871	380
Profit before tax	540	27
Profit/(loss) after tax	323	(39)
Ordinary share dividend	70	—
Net assets attributable to ordinary shareholders	1,353	1,100
Earnings per ordinary share	107.6p	(13.0p)
Dividend per ordinary share	23.4p	—
Ordinary dividend cover	4.6	—

TUSCAN ENERGY GROUP LIMITED

Oil production

Incorporated in Scotland

	2003	2002
Holding details as at 28 February	£'000	£'000
Cost of investment	850	255
Directors' valuation	850	255
Effective equity interest	1.5%	1.5%
Gross income received in the year	—	—
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

The company is located in Aberdeen and was awarded the licence to re-develop the Ardmore Field, formerly known as the Argyll Field, in the North Sea in association with another party on a shared risks/rewards basis. The investment was drawn down in stages as key milestones were achieved the final being DTI approval to operate and develop the field.

Murray VCT 3 first invested in January 2002 and subsequently in February and October 2002 in a fund raising which totalled £10.0m. The fund raising was led, structured and arranged by Aberdeen Murray Johnstone Private Equity.

	2002	*2001
Year ended 30 June	£'000	£'000
Turnover	Nil	Nil
Loss before interest and tax	(317)	(62)
Loss before tax	(410)	(54)
Loss after tax	(410)	(54)
Ordinary share dividend	—	—
Net assets attributable to ordinary shareholders	836	133
Earnings per ordinary share	(6.8p)	(28.8p)
Dividends per ordinary share	—	—
Ordinary dividend cover	—	—

*for the period from date of incorporation 11 August 2000

These accounts reflect the costs incurred in preparing for the application to the DTI for licence interests and operatorship of the Argyll Field. Revenues are not expected to be generated for some time.

Twelve Largest Unlisted Investments

POULTER LIMITED

Independent communications agency

Incorporated in England and Wales

	2003 £'000	2002 £'000
Holding details as at 28 February		
Cost of investment	353	543
Directors' valuation	770	856
Effective equity interest	17.5%	17.5%
Gross income received in the year	45	53
Basis of valuation	PE 8.75	PE 8.3
Cumulative realisation proceeds	228	—

Poulter is an independent communications agency, providing a range of advertising, design, sales promotion, direct marketing and media buying services. It operates from offices in Leeds.

Murray VCT 3 participated in the management buy-out in July 1998. This was led, structured and arranged by Murray Johnstone.

BOOTH DISPENSERS LIMITED

Manufacturer of coolers and carbonators

Incorporated in England and Wales

	2003 £'000	2002 £'000
Holding details as at 28 February		
Cost of investment	753	753
Directors' valuation	753	753
Effective equity interest	19.6%	19.6%
Gross income received in the year	32	64
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

The company was formed in February 2000 to effect the management buy out of Booth Dispensers Limited whose head office is in St Annes, Lancashire. The company manufactures and assembles coolers and carbonators for the drinks vending sector and also assembles vending machines on a sub contract basis.

	2002 £'000	2001 £'000
Year ended 31 July		
Turnover	13,600	10,320
Profit before interest and tax	536	241
Profit before tax	355	97
Profit after tax	222	80
Ordinary share dividend	—	—
Net assets attributable to ordinary shareholders	976	754
Earnings per ordinary share	43.4p	15.7p
Dividend per ordinary share	—	—
Ordinary dividend cover	—	—

	2001 £'000	2000 £'000
Year ended 31 December		
Turnover	7,088	6,211
Profit before interest and tax	381	559
Profit before tax	179	368
Profit after tax	142	281
Preference share dividend	—	—
Ordinary share dividend	—	—
Net assets attributable to ordinary and preference shareholders	778	637
Earnings per ordinary share	142.0p	281.0p
Dividend per preference share	—	—
Preference dividend cover	—	—
Dividend per ordinary share	—	—
Ordinary dividend cover	—	—

Twelve Largest Unlisted Investments

ELE ADVANCED TECHNOLOGIES LIMITED

Manufacturer of precision components for jet engines and gas turbines

Incorporated in England and Wales

	2003	2002
Holding details as at 28 February	£'000	£'000
Cost of investment	750	750
Directors' valuation	750	750
Effective equity interest	19.5%	19.5%
Gross income received in the year	188	-
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	-	-

ELE Advanced Technologies Limited manufactures precision engineered components for customers in the aerospace, power generation and automotive markets at its two sites in Lancashire.

The management buyout in May 2000 was led, structured and arranged by Murray Johnstone Limited.

SEQUOIA TECHNOLOGY LIMITED

Distributor of electronic components and equipment

Incorporated in England and Wales

	2003	2002
Holding details as at 28 February	£'000	£'000
Cost of investment	750	750
Directors' valuation	750	975
Effective equity interest	32.6%	30.0%
Gross income received in the year	38	76
Basis of valuation	Cost	PE 6.0
Cumulative realisation proceeds	-	-

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

The MBO in November 2000 was led, structured and arranged by Murray Johnstone.

Year ended 3 May	2002	2001*
	£'000	£'000
Turnover	9,516	11,021
Profit before interest and tax	323	657
Profit/(loss) before tax	(123)	129
Loss after tax	(33)	(12)
Preference share dividend	-	-
Ordinary share dividend	-	-
Net assets attributable to ordinary and preference shareholders	680	713
Earnings per ordinary share	(33.0p)	(12.0p)
Dividend per preference share	-	-
Preference dividend cover	-	-
Dividend per ordinary share	-	-
Ordinary dividend cover	-	-

*14 month period

Year ended 31 December	2001	2000
	£'000	£'000
Turnover	12,426	2,944
Profit before interest and tax	767	221
Profit before tax	482	164
Profit after tax	332	111
Ordinary share dividend	-	-
Net assets attributable to ordinary shareholders	828	482
Earnings per ordinary share	122.3p	43.2p
Dividend per ordinary share	-	-
Ordinary dividend cover	-	-

Twelve Largest Unlisted Investments

FIRST LINE LIMITED

Supplier of automotive parts to the after-market

Incorporated in England and Wales

	2003 £'000	2002 £'000
Holding details as at 28 February		
Cost of investment	750	750
Directors' valuation	750	750
Effective equity interest	14.7%	14.7%
Gross income received in the year	76	59
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

First Line is a supplier of automotive parts to the after-market. Its prime focus is in the distribution of engine, chassis and braking products which are typically replaced during routine servicing and MOT testing. The business is based in Bicester, Oxfordshire.

Murray VCT 3 participated in the management buy-out in December 2000. The transaction was led, structured and arranged by Aberdeen Murray Johnstone Private Equity.

CLAMONTA ENGINEERING LIMITED

Precision engineering

Incorporated in England and Wales

	2003 £'000	2002 £'000
Holding details as at 28 February		
Cost of investment	735	735
Directors' valuation	735	735
Effective equity interest	21.5%	21.5%
Gross income received in the year	86	75
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	—	—

Clamonta is manufacturer of aerospace engine components. The business is based in Nuneaton.

Murray VCT 3 participated in the management buy-in in October 1999. The transaction was led, structured and arranged by Murray Johnstone.

Year ended 31 December	2001 £'000	Year ended 31 October	2002 £'000	2001 £'000
Turnover	8,769	Turnover	2,703	3,144
Profit before interest and tax	449	Profit before interest and tax	425	681
Profit before tax	66	Profit before tax	59	265
Profit after tax	49	Profit/(loss) after tax	(26)	151
Preference share dividend	1	Preference share dividend	—	—
Ordinary share dividend	—	Ordinary share dividend	40	61
Net assets attributable to ordinary and preference shareholders	1,088	Net assets attributable to ordinary and preference shareholders	822	888
Earnings per ordinary share	7.5p	Earnings per ordinary share	(10.1p)	586
Dividend per preference share	11.3p	Dividend per preference share	—	—
Preference dividend cover	43.4	Preference dividend cover	—	—
Dividend per ordinary share	—	Dividend per ordinary share	15.5p	23.7p
Ordinary dividend cover	—	Ordinary dividend cover	(0.6)	2.48

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An Ordinary Resolution No. 2 for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on page 24.

Remuneration Committee

The Company has five non-executive Directors. The whole Board fulfils the function of a Remuneration Committee. The names of the Directors are shown on page 16 together with the fees payable during the year. The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors expect, from time to time, to review the fees paid to the boards of directors of other venture capital trust companies).

Policy on Directors' Remuneration

The Board's policy is that the remuneration of the Directors, all of whom are non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other venture capital trusts with similar investment objectives. It is intended that this policy will continue for the year ended 29 February 2004 and subsequent years.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by him. The fees for the Directors, all of whom are non-executives, are determined within the limits set out in the Company's Articles of Association, which limits the aggregate of the fees payable to the Directors to £100,000 per annum. The Company's policy is that fees payable to the Directors should reflect the time spent by them on the Company's affairs and should be sufficient to enable candidates of a high quality to be recruited. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The Nominations Committee carried out a review of the level of Directors' fees and concluded that the amounts payable per annum should remain as £12,000 for the Chairman and £9,000 for each Director. The policy is to continue to review these rates from time to time.

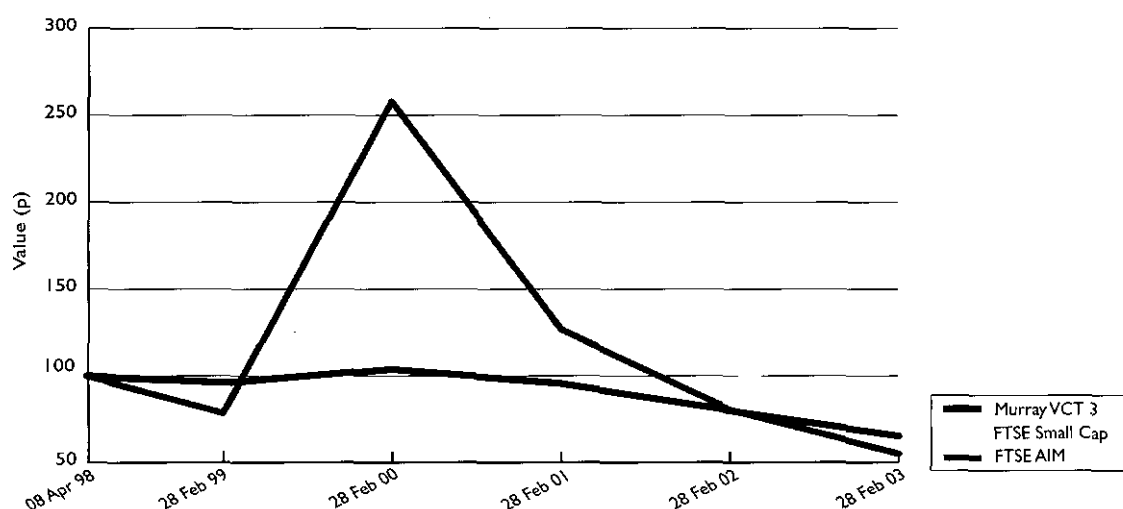
Directors' service contracts

None of the Directors has a contract of service or services and a Director may resign by notice in writing to the Board at any time; there are no set notice periods. All Directors are appointed for an initial period of three years; this period may be varied by mutual consent. Dates of appointment are shown on page 3. The Articles of Association provide that, at the Annual General Meeting each year, one third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to one third) shall be subject to retirement by rotation. Directors, therefore, shall retire and be subject to re-election at the first Annual General Meeting following their appointment and thereafter shall be obliged to retire by rotation and offer themselves for re-election at least every three years. Any Director who attains the age of 70 is subject to annual re-election. No compensation is payable for loss of office, save any arrears of fees which may be due.

Directors' Remuneration Report (continued)

Company performance

The graph below shows the percentage change in the total return, compared with the percentage change in the total shareholder return on a notional investment made up of the kinds of shares and numbers of shares as those used in calculating the FTSE AIM and FTSE SmallCap indices. Figures are shown for the period from inception to financial years ending 28 February. It is assumed that all dividends are reinvested. The indices chosen are the most relevant to the Company's investment portfolio.



Directors' emoluments for the year (audited)

The following emoluments were payable to the Directors who served during the year:

	For the year ended 28 February 2003 £'000	For the year ended 28 February 2002 £'000
P K Timms (Chairman of the Board)	12	12
J Cooper	9	9
A Cubie CBE	9	9
A S F Mair	9	9
M J Walker	9	9

Fees for J Cooper, A Cubie and M J Walker were paid to Cooper Associates, Fyfe Ireland and Maclay, Murray Spens respectively.

Fees for approval

The Directors' Remuneration Report on pages 15 and 16 was approved by the Board of Directors on 15 April and signed on its behalf by:

11 June 2003

P K Timms
Director

Directors' Report

The Directors submit their annual report together with the financial statements of the Company for the year ended 28 February 2003.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £1,470,000. An interim dividend of 0.5p per share was paid on 10 December 2002 to Shareholders on the register at close of business on 15 November 2002. The Directors now recommend a final dividend for the year of 1.1p per Ordinary share payable on 18 July 2003 to Ordinary Shareholders on the register at close of business on 20 June 2003 and a resolution to this effect will be proposed at the Annual General Meeting. The sum of £1,283,000 has been transferred from the Company's reserves.

The Net Asset Value per Ordinary share at 28 February 2003 was 62.2p. The Net Asset Value per Ordinary share has been calculated using the number of shares in issue at 28 February 2003 of 40,978,009.

Review of the business

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

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

New investment during the year totalled £6.5m, taking the unlisted portfolio to 41 qualifying investments at a cost of £31.2m. This represented a qualifying investment level of 79%.

Purchase of ordinary shares

During the year ended 28 February 2003, 311,370 Ordinary shares of 10p (representing 0.76 per cent of the issued ordinary share capital at 28 February 2002) each were purchased at an aggregate cost of £201,197, representing a weighted average price of 63.9p per share. Since the year end 335,549 Ordinary shares have been repurchased at a weighted average price of 45p per share.

A special resolution, numbered 8 in the notice of Annual General Meeting, will ask Shareholders for their approval to renew the authority to purchase in the market an aggregate of 14.99% of Ordinary shares in issue (6,092,304 Ordinary shares) at 31 May 2003. Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is the earlier. This means in effect that the authority will have to be renewed at the next Annual General Meeting of the Company.

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

The purchase of Ordinary shares by the Company is intended to reduce the discount at which Ordinary shares trade in the market because the Company will be a new source of demand for Ordinary shares. Since it is anticipated that any purchases will be made at a discount to Net Asset Value at the time of purchase, the Net Asset Value of the remaining Ordinary shares in issue should increase.

Directors' Report

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

Issue of new Ordinary shares

During the year 346,660 Ordinary shares of 10p each were issued, at an average price of 82.1p, under the dividend reinvestment scheme for a total consideration of £284,602.

Resolution numbered 9 in the notice of meeting will be put to shareholders at the Annual General Meeting for their approval to issue up to an aggregate nominal amount of £406,424 (equivalent to 4,064,246 Ordinary shares or 10% of the total issued share capital at 31 May 2003). If further issues of new Ordinary shares are made they will be made only at a premium to Net Asset Value per share, thus ensuring existing investors will not be disadvantaged by such issues. The proceeds of any issue may be used to purchase the Company's Ordinary shares in the market. This authority shall expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first one to occur.

When shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 provides that existing Shareholders have pre-emption rights and that the new shares are offered first to such Shareholders in proportion to their existing shareholdings. However Shareholders can, by special resolution, authorise the Directors to allot shares otherwise than by a pro rata issue to existing Shareholders. Resolution 10 will, if passed, also give the Directors power to allot for cash, Ordinary shares up to an aggregate nominal amount of £406,424 (equivalent to 4,064,246 Ordinary shares or 10 per cent of the total issued share capital at 31 May 2003) as if Section 89(1) does not apply. This is the same amount of share capital that the Directors are seeking the authority to allot pursuant to resolution 9. The authority will also expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first one to occur. The Company will not use this authority in connection with a rights issue.

Share capital

Following the issue of Ordinary shares by means of the dividend reinvestment scheme and the purchase of Ordinary shares for cancellation during the year, the issued ordinary share capital at 28 February 2003 amounted to 40,978,009 Ordinary shares of 10p each. Following a further buyback of 335,549 Ordinary shares by the Company, since the year end, the issued Ordinary share capital as at 31 May 2003 amounted to 40,763,328 Ordinary shares of 10p each.

Directors

The Directors who held office during the year under review and their interests in shares of the Company are shown in note 19 on page 39.

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

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

Manager and Company Secretary

Murray Johnstone Limited, a wholly owned subsidiary of Aberdeen Asset Management PLC provides accounting, secretarial, investment management and administrative services to the Company. The details of the management and secretarial fees are shown in note 3 on page 29.

Directors' Report

Corporate governance

The Statement of Corporate Governance is shown on pages 20 to 22.

Principal activity and status

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

Going concern

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

Creditor payment policy

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

Annual general meeting

The notice of Annual General Meeting, which will be held on 10 July 2003, is contained on pages 44 and 45.

Auditors

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

123 St Vincent Street
Glasgow G2 5EA

31 May 2003

By order of the Board

Murray Johnstone Limited

Secretary

PM Barnes

Statement of Corporate Governance

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

The Board is accountable to the Company's Shareholders for good governance and this Statement describes how the principles identified in the Combined Code have been applied by the Company throughout the year to 28 February 2003 except where disclosed below.

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the forty-five Combined Code provisions throughout the year. Save the limited exceptions outlined below, the Company has complied throughout the year ended 28 February 2003 with the provisions set out in Section 1 of the Combined Code.

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

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

The Board

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

- Mr P K Timms is a director of LeggMason Investors Enterprise plc, which was managed by Murray Johnstone until 8 December 2000. He is also chairman of J & S Marine, in which the Company holds shares as shown on page 35.
- Mr J Cooper and Mr M J Walker are directors of Murray VCT 2 PLC, another venture capital trust managed by Murray Johnstone Limited.

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

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

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

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

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

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

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

Statement of Corporate Governance

External Agencies

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

Committees

Nomination Committee

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

Audit Committee

An Audit Committee has been established with written terms of reference and comprising the full Board. The terms of reference of the Audit Committee are received and re-assessed for their adequacy on an annual basis. This committee reviews the effectiveness of the internal control environment of the Company and receives reports from the internal and external auditors on a regular basis.

The committee is responsible for review of the annual financial statements and interim reports and financial statements, the terms of appointment reviewing the scope and the results of the audit and the objectivity of the Auditors together with their remuneration as well as the non-audit services provided by the Auditors, reviewing the scope and the results of the audit and the objectivity of the Auditors, it also meets with representatives of the Manager. The Auditors, Ernst & Young LLP, rotate the partner responsible for the audit every five years.

Management Engagement Committee

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

Directors' Terms of Appointment

All non-executive Directors are appointed for an initial term of three years, subject to re-election and Companies Act provisions and, in accordance with the Articles of Association, stand for election at the first Annual General Meeting following their appointment. The Articles of Association state any Director who attains the age of 70 is subject to re-election and that Directors must offer themselves for re-election at least once every three years.

Directors' Remuneration

Under the UK Listing Authority Listing Rule 26.9 (d) where a venture capital trust has only non-executive Directors the code principles relating to Directors' remuneration do not apply. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The remuneration of each Director is detailed in the Directors' Remuneration Report on page 16.

Communication with Shareholders

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

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

Statement of Corporate Governance

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

The notice of Annual General Meeting sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 17 to 19. Separate resolutions are proposed for each substantive issue.

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

Accountability and Audit

The Directors' statement of responsibilities in relation to the financial statements is on page 23 and a statement of going concern on page 19.

The Independent Auditors' Report is on page 24.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The internal control systems are designed to manage rather than eliminate the particular risks to which the Company is exposed, and can provide only reasonable but not absolute assurance against material misstatement or loss.

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

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

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

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

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

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

Exercise of Voting Powers

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

Statement of Directors' Responsibilities in relation to the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

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

We have audited the Company's Financial Statements for the year ended 28 February 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Note of Historical Cost Profits and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 20. These Financial Statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' are responsible for preparing the Annual Report, including the Financial Statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the Financial Statements.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

We review whether the Statement of Corporate Governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Corporate Summary, Dividend History, Corporate Information, Board Members, Analysis of Portfolio of Unlisted Investments, Chairman's Statement, Investment Manager's Review, Summary of Investment Changes, Investment Portfolio Summary, Twelve Largest Unlisted Investments, the unaudited part of the Directors' Remuneration Report, Directors' Report, Statement of Corporate Governance, Venture Capital Trusts, Tax Position of Individual Investors and Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 28 February 2003 and of its profit for the year then ended, and the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor
Glasgow

11 June 2003

Profit and Loss Account

For the year ended 28 February 2003

	Notes	28 February 2003 £'000	28 February 2002 £'000
Investment income and deposit interest	2	1,495	2,155
Investment management fees	3	(983)	(1,126)
Other expenses		(165)	(221)
Operating profit	4	347	808
Profit/(loss) on realisation of investments	8	1,143	(206)
Profit on ordinary activities before taxation		1,490	602
Tax on ordinary activities	5	(20)	(282)
Profit on ordinary activities after taxation		1,470	320
Dividends	6	(2,753)	(2,036)
Balance transferred from reserves		(1,283)	(1,716)
Earnings per share (pence)	7	3.6	0.8

Statement of Total Recognised Gains and Losses

For the year ended 28 February 2003

	Notes	28 February 2003 £'000	28 February 2002 £'000
Profit on ordinary activities after taxation		1,470	320
Unrealised loss on revaluation of investments	8	(8,040)	(2,615)
Current tax attributable to unrealised losses on loan relationships	5	48	272
Total recognised losses relating to the year	15	(6,522)	(2,023)

Note of Historical Cost Profits and Losses

For the year ended 28 February 2003

	Notes	28 February 2003 £'000	28 February 2002 £'000
Profit on ordinary activities before taxation		1,490	602
Realisation of revaluation gains of previous years	8	604	809
Historical cost profit on ordinary activities before taxation		2,094	1,411
Historical cost loss for the year retained after taxation and dividends		(671)	(916)

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

Balance Sheet

As at 28 February 2003

	Notes	28 February 2003		28 February 2002	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	8		25,795		33,848
Current assets					
Debtors	10	2,110		1,791	
Cash and overnight deposits		107		233	
		2,217		2,024	
Creditors					
Amounts falling due within one year	11	2,516		1,185	
Net current (liabilities)/assets			(299)		839
		25,496		34,687	
Capital and reserves					
Called up share capital	12		4,098		4,094
Share premium account	13		20,395		20,145
Revaluation reserve	13		(11,536)		(2,932)
Capital redemption reserve	13		72		41
Profit and loss account	13		12,467		13,339
Equity shareholders' funds			25,496		34,687
Net asset value per Ordinary share	14		62.2p		84.7p

The financial statements were approved by the Board of Directors on 15 April 2003 and were signed on its behalf by:

11 June 2003



P K Timms CBE, Director

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

Cash Flow Statement

For the year ended 28 February 2003

		28 February 2003		28 February 2002	
	Notes	£'000	£'000	£'000	£'000
Operating activities					
Investment income received		1,682		1,632	
Deposit interest received		16		17	
Investment management fees paid		(1,019)		(1,144)	
Secretarial fees paid		(54)		(54)	
Cash paid to and on behalf of Directors		(29)		(50)	
Other cash payments		(90)		(103)	
Net cash inflow from operating activities	16		506		298
Taxation					
Corporation tax			–		(509)
Financial investment					
Purchase of investments		(13,187)		(7,991)	
Sale of investments		13,785		3,474	
Net cash inflow/(outflow) from financial investment			598		(4,517)
Equity dividends paid			(1,375)		(2,029)
Net cash outflow before financing			(271)		(6,757)
Financing					
Issue of Ordinary shares		346		337	
Repurchase of Ordinary shares		(201)		(108)	
Net cash inflow from financing			145		229
Decrease in cash	17		(126)		(6,528)

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

Notes to the Financial Statements

I. Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of fixed asset investments.

(b) Income

Dividends receivable on equity shares are treated as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received.

The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares. Provision is made for any fixed income not expected to be received.

Interest receivable from cash and overnight deposits and interest payable are accrued to the end of the year.

(c) Expenses

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

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

(d) Taxation

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

(e) Investments

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

Notes to the Financial Statements

	Year ended 28 February 2003 £'000	Year ended 28 February 2002 £'000
2. Investment income and deposit interest		
Income from investments:		
UK unfranked investment income	525	917
UK franked investment income	28	–
Income from participating interests	321	210
Income from significant interests	607	1,011
	1,481	2,138
Interest receivable and similar income:		
Deposit interest	14	17
Total income	1,495	2,155

	Year ended 28 February 2003 £'000	Year ended 28 February 2002 £'000
3. Investment management fees		
Investment management fees	837	958
Irrecoverable VAT	146	168
	983	1,126

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

- (a) an investment management fee of 2.5% (2002 – 2.5%) per annum of the gross assets of the Company.
- (b) a secretarial fee of £54,210 (2002 – £54,000) per annum which is subject to an annual adjustment to reflect movement in the retail prices index.

Under the terms of the Investment Management Agreement, the Investment Manager and certain of its executives are entitled to receive a profit-related incentive in respect of the period to 6 April 2003 and for each subsequent year. No profit-related fee is payable in relation to the years ended 28 February 2003 or 28 February 2002.

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

	Year ended 28 February 2003 £'000	Year ended 28 February 2002 £'000
4. Operating profit is stated after charging:		
Directors' remuneration	48	48
Fees to Auditors:		
– audit fees	14	13
– other services	–	2

Notes to the Financial Statements

5 Tax on ordinary activities

The tax charge in the financial statements for the year is reduced by the tax consequences of unrealised losses on loan relationships reflected in the Statement of Total Recognised Gains and Losses:

	Profit and loss account	Statement of total recognised gains and losses	Total
	£'000	£'000	£'000
2003			
Corporation tax	48	(48)	–
Adjustment in respect of prior periods	(28)	–	(28)
	20	(48)	(28)
2002			
Corporation tax	272	(272)	–
Adjustment in respect of prior periods	10	–	10
	282	(272)	10

The tax charge for the year shown in the Profit and Loss Account is lower than the standard rate of corporation tax in the UK of 30%. (2002 – 30%). The differences are explained below:

	28 February 2003	28 February 2002
	£'000	£'000
Profit on ordinary activities before tax	1,490	602
Profit on ordinary activities multiplied by standard rate of corporation tax	447	181
Effect of (profit)/loss on sale of assets not subject to taxation	(369)	103
Effect of income not subject to taxation	(28)	(12)
Effect of disallowed expenditure	(2)	–
Prior year adjustment	(28)	10
	20	282

No provision for deferred tax has been made in the current or prior accounting period.

The Company has not recognised a deferred tax asset of £1,432,000 (2002 – £366,000) arising as a result of having unutilised management expenses and deficits arising from non-trading relationships. These losses will only be utilised if the tax treatment of capital gains made by approved venture capital trusts, or the Company's investment profile, changes.

Notes to the Financial Statements

	28 February 2003	28 February 2002
	£'000	£'000
6. Dividends		
Interim dividend of 0.5p (2002 – 0.5p)	205	204
Proposed final dividend of 1.1p (2001 – 2.0p)	451	819
Proposed capital dividend of 4.26p (2002 – nil)	1,746	–
Capital dividends	355	1,013
Over-accrual in previous year	(4)	–
	2,753	2,036

	Year ended 28 February 2003	Year ended 28 February 2002
7. Earnings per share		
The returns per share have been based on the following figures:		
Average number of Ordinary shares	40,920,990	40,696,046
Earnings on ordinary activities after taxation	£1,470,000	£320,000

	Year ended 28 February 2003		
	Listed £'000	Unlisted £'000	Total £'000
8. Investments			
Valuation at 1 March 2002	10,209	23,639	33,848
Purchases	6,683	6,504	13,187
Sales	(10,110)	(2,976)	(13,086)
Amortisation of book cost	(114)	–	(114)
Net increase/(decrease) in value of investments	102	(8,142)	(8,040)
Valuation at 28 February 2003	6,770	19,025	25,795

	Shares in participating interests £'000	Loans to participating interests £'000	Other investments £'000
Constituted:			
Listed investments	–	–	6,770
Unlisted investments			
Valuation at 1 March 2002	2,547	2,201	18,891
Purchases	1	1,917	4,586
Sales	(777)	–	(2,199)
Transfers between categories	(728)	(350)	378
Net decrease in value of investments	(557)	(1,004)	(6,581)
	486	3,464	15,075
Valuation at 28 February 2003	486	3,464	21,845

Notes to the Financial Statements

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

	Year ended 28 February 2003 £'000	Year ended 28 February 2002 £'000
Cost at beginning of year	37,090	31,042
Purchases	13,187	8,991
Sales proceeds	(14,229)	(3,474)
Transfer of unrealised gains realised during the year	604	809
Realised gains/(losses)	1,143	(206)
	705	6,120
Amortisation of book cost	(114)	(72)
Cost at end of year	37,681	37,090
Unrealised loss	(11,886)	(3,242)
Valuation at 28 February	25,795	33,848

The cost of unlisted investments at 28 February 2003 was £31,173,000 (2002 – £26,861,716)

The net unrealised loss on the unlisted investments at 28 February 2003 was £12,147,771 (2002 – £3,222,713 loss), comprising £670,591 unrealised gains (2002 – £2,985,872) and provisions of £12,818,362 (2002 – £6,208,585). During the year unlisted investments in Palgrave Brown and J & S Marine were sold and Hart Group, Poulter, Palgrave Brown, Stratumsoft and CAC Tooling loan stocks were repaid for a total of £1,409,000 against a cost of £1,616,000.

9. Participating interests

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

Notes to the Financial Statements

At 28 February 2003 the Company held shares amounting to 20% or more of the nominal value of the equity capital of the following unquoted undertakings:

Investment	28 February 2003					Aggregate	Profit (loss)
	% of class held	% of equity held	Total cost £'000	Carrying value £'000	Latest accounts period end	capital and reserves £'000	after tax for period £'000
Agriframes Limited*							
22,364 A ordinary shares	54.5	24.6	900	-	31/12/00	296	(260)
55 preference shares	55.0						
627,218 deferred shares	54.5						
Carmichael International Limited*							
75,000 B ordinary shares	50.0	23.8	750	562	31/01/02	1,393	91
500 Preference shares	50.0						
£350,000 loan stock 2005	50.0						
£249,500 fixed loan stock 2007	50.0						
CCM Motorcycles Limited							
12,610 A ordinary shares	40.9	20.4	2,105	1,579	30/9/02	2005	(1,911)
572,158 preference shares	40.9						
£1,185,153 loan stock 2006	40.9						
£102,167 mezzanine instrument	40.9						
Charmwood Furniture Group Limited*							
195,000 B ordinary shares	46.4	20.9	650	162	31/03/01	295	(1,413)
£455,000 loan stock 2006	46.4						
Sequoia Technology Limited							
85,714 A ordinary shares	100.0	32.6	750	750	31/12/01	828	482
£525,000 loan stock 2007	100.0						
TLC (Tender Loving Childcare) Limited *							
48,531 B ordinary shares	51.0	25.3	1,188	1,188	31/12/01	(487)	(670)
£607,918 secured loan notes 2005	51.0						
£318,786 loan stock 2007	51.0						
511 preference shares	51.0						
Wisdom IT Holdings Limited							
114,520 A ordinary shares	43.0	43.0	650	-	31/10/01	184	(335)
350,000 preference shares	100.0						

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

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

Notes to the Financial Statements

Significant interests

At 28 February 2003 the Company held shares amounting to 20% or more of the nominal value of any class of share of the following unquoted undertakings

		28 February 2003	
Investment	% of class held	Total cost £'000	Carrying Value £'000
Astreus Limited			
60,867 C ordinary shares	50.0	550	550
1,528 preference shares	15.3		
£487,605 B loan stock 2005	50.0		
BA Shelfco Limited			
70,000 B ordinary shares	31.1	700	—
419,000 preference shares	31.1		
Booth Dispensers Limited			
19,578 A ordinary shares	50.2	753	753
502 preference shares	50.2		
£526,498 loan stock 2007	50.2		
Bronte Foods Limited			
27,129 B ordinary shares	33.3	750	188
14,305 X ordinary shares	33.3		
510,521 B preference shares	33.3		
Clamonta Engineering Limited			
38,652 B ordinary shares	35.9	735	735
359 preference shares	35.9		
£514,491 loan stock 2006	35.9		
ELE Advanced Technologies Limited			
14,250 B ordinary shares	30.0	750	750
300 preference shares	30.0		
£524,693 loan note 2007	30.0		
First Line Limited			
87,941 B ordinary shares	30.0	750	750
3,000 preference shares	30.0		
£522,000 loan stock 2008	30.0		
Heathcotes Restaurants Limited			
305,188 B ordinary shares	40.7	855	427
407 preference shares	40.7		
£549,273 loan stock 2006	40.7		
House of Dorchester Limited			
665 ordinary shares	33.3	350	350
350 preference shares	35.0		
£244,650 loan stock 2009	35.0		

Notes to the Financial Statements

	28 February 2003		
Investment	% of class held	Total cost £'000	Carrying Value £'000
Interak Limited			
33,395 A ordinary shares	40.8	1,000	—
£700,000 loan stock 2008	40.8		
Intron Limited			
50,000 B ordinary shares	33.3	1,000	1,000
£700,000 loan stock 2010	33.3		
J & S Marine Limited			
18,383 B ordinary shares	52.8	325	325
£263,890 loan stock 2007	52.8		
Link Up Mitaka Limited			
1,357,000 B ordinary shares	27.7	629	629
139 preference shares	27.7		
£138,500 loan stock 2007	27.7		
£74,652 loan stock 2008	27.7		
Mercury Inns Group Limited			
35,640 ordinary shares	21.4	643	643
2,145 preference shares	21.4		
£448,305 loan stock	21.4		
Moves Group Limited			
10,162 B ordinary shares	42.1	818	—
£572,500 loan stock 2004	42.1		
Poulter Limited			
89,525 A ordinary shares	35.2	353	770
£190,032 loan stock 2004	35.2		
PSCA International Limited			
6,360 ordinary shares	21.6	628	628
2,156 preference shares	21.6		
£437,888 loan stock	21.6		
Stratumsoft Limited			
43,387 A ordinary shares	22.7	839	—
£589,844 loan stock 2007	22.7		
Synexus Limited			
1,207,814 B ordinary shares	24.2	968	726
242 preference shares	24.2		
£677,490 loan stock 2008	24.2		
The Hart Group Limited			
£66,887 loan stock	31.1	67	—

Notes to the Financial Statements

	28 February 2003		
Investment	% of class held	Total cost £'000	Carrying Value £'000
Tuscan Energy Group Limited			
89,250 C ordinary shares	42.5	850	850
£760,750 loan stock 2006	8.5		
Unique Communications Group Limited			
5,000 B ordinary shares	25.0	1,000	—
25,000 preference shares	25.0		
£697,500 loan stock 2008	25.0		
Visual Gold Limited			
538 B ordinary shares	37.0	1,144	—
3,704 preference shares	37.0		
£696,296 loan stock 2008	37.0		
£76,222 loan stock 2003	37.0		
£67,978 loan stock 2008	37.0		
Voxsurf Limited			
58,997 A ordinary shares	50.5	450	—
530,977 C preference shares	50.5		
Webfell Group Limited			
51,318 A ordinary shares	29.7	1,000	500
£699,790 loan stock 2004	29.7		

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

10. Debtors	28 February 2003	28 February 2002
	£'000	£'000
Current taxation	696	504
Prepayments and accrued income	928	1,184
Called up share capital not paid	42	103
Other debtors	444	—
	2,110	1,791

Notes to the Financial Statements

	28 February 2003	28 February 2002
	£'000	£'000
11. Creditors		
Amounts falling due within one year:		
Proposed capital dividend	1,746	—
Proposed final dividend	451	819
Management and secretarial fees due to Manager	255	289
Accruals	64	77
	2,516	1,185

	28 February 2003		28 February 2002	
	Number	£'000	Number	£'000
12. Share capital				
<i>At 28 February 2003 the authorised share capital comprised:</i>				
<i>allotted, issued and fully paid:</i>				
Ordinary shares of 10p each				
Balance brought forward	40,942,719	4,094	40,602,581	4,060
Issued during year	346,660	35	476,258	48
Repurchased and cancelled in year	(311,370)	(31)	(136,120)	(14)
Balance carried forward	40,978,009	4,098	40,942,719	4,094
Unissued unclassified shares of 10p each	19,021,991	1,902	19,057,281	1,906
	60,000,000	6,000	60,000,000	6,000

During the year, 346,660 Ordinary shares (2002 – 476,258) of 10p each were issued under the dividend re-investment scheme for a total consideration of £284,602 (2002 – £439,581). A total of 311,370 Ordinary shares (2002 – 136,120) of 10p each were repurchased by the Company at a weighted average price of 63.9p per share (2002 – 78.98p), at a total cost of £201,191 (2002 – £108,266), and cancelled.

	Year ended 28 February 2003			
	Share premium account	Revaluation reserve	Capital redemption reserve	Profit and loss account
	£'000	£'000	£'000	£'000
13. Movement in reserves				
At 1 March 2002	20,145	(2,932)	41	13,339
Issue of shares	250	—	—	—
Repurchase and cancellation of shares	—	—	31	(201)
Transfer of realised profits to profit and loss account	—	(604)	—	604
Tax effect of transfer of profits to profit and loss account	—	(8)	—	8
Taxation attributable to unrealised loss on investments	—	48	—	—
Net decrease in value of investments	—	(8,040)	—	—
Retained loss for year	—	—	—	(1,283)
At 28 February 2003	20,395	(11,536)	72	12,467

Notes to the Financial Statements

14. Net asset value per Ordinary share

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

	28 February 2003		28 February 2002	
	Net Asset	Net Asset	Net Asset	Net Asset
	Value per	Value	Value per	Value
	share	attributable	share	attributable
	p	£'000	p	£'000
Ordinary shares	62.2	25,496	84.7	34,687

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

15. Reconciliation of movements in Shareholders' funds

	Year ended 28 February 2003	Year ended 28 February 2002
	£'000	£'000
Opening Shareholders' funds	34,687	38,414
Total recognised losses for year	(6,522)	(2,023)
Net proceeds of issue of shares	285	440
Repurchase and cancellation of shares	(201)	(108)
Dividends appropriated	(2,753)	(2,036)
Closing Shareholders' funds	25,496	34,687

16. Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 28 February 2003	Year ended 28 February 2002
	£'000	£'000
Operating profit	347	808
Decrease/(increase) in debtors	256	(422)
(Decrease)/increase in accruals	(47)	1
Amortisation of fixed income investment book cost	114	72
Tax on unfranked income	(164)	(161)
Net cash inflow from operating activities	506	298

	Year ended 28 February 2003			Year ended 28 February 2002		
	Brought forward	Cash flows	Carried forward	Brought forward	Cash flows	Carried forward
	£'000	£'000	£'000	£'000	£'000	£'000
17 Analysis of changes in net funds	233	(126)	107	6,761	(6,528)	233

Notes to the Financial Statements

	28 February 2003	28 February 2002
	£'000	£'000
18. Capital commitments		
Unlisted investment commitments	144	702

19. Directors' share interests

The interests of the Directors in the shares of the Company under the terms of the Companies Act 1985 are as follows:

	28 February 2003	28 February 2002
	Ordinary shares	Ordinary shares
P K Timms CBE (Chairman)	10,000	10,000
J Cooper	27,768	27,768
A Cubie CBE	10,999	10,999
A S F Mair MBE DL	10,000	10,000
M J Walker	10,425	10,425

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

20. Derivatives and other financial instruments

The Company's financial instruments comprise securities and other investments, cash balances, overnight deposits and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may not enter into derivative transactions in the form of forward foreign currency contracts, futures and options without the written permission of the directors. It is not the Company's policy to enter into derivative transactions. The purpose of these financial instruments is efficient portfolio management.

The main risks the Company faces from its financial instruments are (a) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement, (b) interest rate risk and (c) liquidity risk. In line with the Company's investment objective, the portfolio comprises UK securities and therefore has no exposure to foreign currency risk.

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

a) Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the Manager in pursuance of the investment objective as set out on page 1. Adherence to investment guidelines and to investment and borrowing powers set out in the Management Agreement mitigates the risk of excessive exposure to any particular type of security or issuer. These powers and guidelines include the requirement to invest in a number of companies across a range of industrial and service sectors at varying stages of development but with emphasis on well-established businesses. Further information on the investment portfolio is set out in the Investment Manager's review on page 7.

Notes to the Financial Statements

b) Interest rate risk

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

	28 February 2003			
	Preference		Non-interest	
	Fixed interest	dividend	Floating rate	bearing
	£'000	£'000	£'000	£'000
Sterling				
Listed	6,770	—	—	—
Unlisted	13,478	958	—	4,589
Cash	—	—	107	—

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

The listed fixed interest assets have a weighted average life of 1.9 (2002 – 2.0) years and a weighted average interest rate of 6.87% (2002 – 7.3%) per annum. These assets are held to provide liquidity for unlisted investments. The floating rate assets consist of cash deposits on call. These assets are earning interest at prevailing money market rates. The unlisted assets have a weighted average life of 4.08 (2002 – 4.7) years and a weighted average interest rate of 11.97% (2002 – 12.4%). The non-interest bearing assets represent the equity element of the portfolio. All assets and liabilities of the Company are included in the balance sheet at fair value.

c) Liquidity risk

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

Venture Capital Trusts

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

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

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

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

Qualifying holdings

Qualifying holdings are defined as holdings of shares or securities (including loans of terms of at least five years duration) in unquoted companies (including companies whose shares are traded on the Alternative Investment Market (AIM)) which exist wholly for the purpose of carrying on one or more qualifying trades wholly or mainly in the United Kingdom. The holding must consist of shares or securities which were first issued to and have been ever since continuously held by the VCT.

A qualifying trade is any other than:

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

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

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

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

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

Tax Position of Individual Investors

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

1. Tax reliefs for individual investors resident in the UK

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

Relief from income tax

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

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

Relief from capital gains tax

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

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

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

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

An investor who acquires up to the permitted maximum of ordinary shares in a venture capital trust in any year will be exempt from income tax on dividends from the venture capital trust, which may include realised capital gains from investments made by the venture capital trust and capital gains on disposal of the venture capital trust shares. The permitted maximum of £100,000 is the total of venture capital trust shares subscribed for (new shares) and acquired (existing shares) in the tax year.

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

Tax Position of Individual Investors

2. Obtaining tax reliefs

Claims for income tax relief on amounts subscribed for new ordinary shares

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

Capital gains tax deferral

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

3 Investors who are not resident in the UK

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

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

Risk warnings

Past performance is not necessarily a guide to future performance. You should be aware that share values and income from them may go down as well as up and that you may not get back the amount you originally invested. Existing tax levels and reliefs may change and the value of reliefs depends on personal circumstances; in particular reliefs may be lost on ceasing to be a UK resident. An investment in a VCT carries a higher risk than other forms of investment. A VCT's shares, although listed, are likely to be illiquid. Prospective investors should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objective and policy and the five year period (reduced to three years for share bought since 6 April 2000) for which shareholders must hold their shares in order to retain their income tax reliefs. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise and investments in such companies are substantially riskier than those in larger companies.

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

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

Notice of Meeting

Notice is hereby given that the fifth annual general meeting of Murray VCT 3 PLC will be held on Thursday 10 July 2003 at 10.15 a.m. at 123 St Vincent Street, Glasgow G2 5EA, to transact the following business.

Ordinary Business

1. To receive the Directors' report and audited statement of accounts for the year ended 28 February 2003.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend.
4. To re-elect Mr J Cooper as a Director.
5. To re-elect Mr A Cubie as a Director.
6. To re-appoint Ernst & Young LLP as Auditors.
7. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

8. To consider and if thought fit pass the following resolution as a special resolution:
THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make one or more market purchases (within the meaning of Section 163(3) of the Act) of Ordinary Shares of 10p each in the capital of the Company provided that:
 - (a) the maximum number of Ordinary shares hereby authorised to be purchased is 6,092,304 representing 14.99% of the Company's issued Ordinary share capital as at 31 May 2003;
 - (b) the minimum price which may be paid for an Ordinary share shall be 10p per share;
 - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be not more than the lower of (i) Net Asset Value per share and (ii) 105 per cent of the average of the middle market quotations for an Ordinary Share taken from, and calculated by reference to, the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date on which the Ordinary shares are purchased; and
 - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution, save that the Company may before such expiry enter into a contract to purchase Ordinary shares which will or may be completed wholly or partly after such expiry.
9. To consider and if thought fit pass the following resolution as an ordinary resolution:
THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £406,424 (representing 10% of the total Ordinary share capital in issue on 31 May 2003) during the period expiring on the date of the next Annual General Meeting or on the expiry of 15 months from the passing of this resolution, whichever is the first to occur, save that the Company may make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.
10. To consider and if thought fit pass the following resolution as a special resolution:
THAT, subject to passing of resolution number 9 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985 ("the Act"), to allot equity shares (as defined in Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution number 8 as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

Notice of Meeting

- (a) during the period expiring on the earlier of the date of the Company's next Annual General Meeting or on the expiry of 15 months from the passing of this resolution, whichever is the first to occur, but so that this power shall enable the Company to make offers or agreements which would or might require equity securities to be allotted after the expiry of this power; and
- b) up to an aggregate nominal amount of £406,424 (representing 10% of the total Ordinary share capital in issue on 31 May 2003).

123 St Vincent Street
Glasgow G2 5EA

By order of the Board

Murray Johnstone Limited

Secretary



11 June 2003

No Director has any contract of service with the Company.

The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, has specified that only those Shareholders on the register of members of the Company as at 10.15 a.m. on 8 July 2003 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded when determining the rights of any person to attend or vote at the meeting.

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

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

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

The Directors' Remuneration Report is on pages 15 and 16.

Details of resolutions 3 to 10 are shown in the Directors' Report as follows:

Resolution 3	Page 17	Dividend
Resolutions 4 to 5	Page 18	Directors
Resolutions 6 and 7	Page 19	Auditors
Resolution 8	Page 17 & 18	Purchase of ordinary shares
Resolutions 9 and 10	Page 18	Issue of new ordinary shares

Registered in England and Wales – Company Number 3495287

Proxy

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

Please complete in block capitals

I/we

of

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

.....
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 10 July 2003 and at any adjournment thereof.

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

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

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

Signed this day of 2003

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

Notes

1. To be valid this form of proxy must reach the registrar, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of the meeting.
2. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
3. If any other proxy be desired strike out the words "the Chairman of the meeting" and insert the name or names preferred. Any alteration must be initialled. Appointment of a proxy will not preclude a member from attending the meeting and voting in person. A proxy need not be a member of the Company.
4. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.

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PO Box 125
Beckenham
Kent
BR3 4BR**

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