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Murray VCT 3 PLC

Annual Report and Financial Statements
Year ended 28 February 2005



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Dividend Record

	Rate	xd date	Record date	Payment date
Proposed final capital dividend	1.0p	to be advised	to be advised	to be advised

The dates will be advised with the notice of the Annual General Meeting.

Corporate Summary

Company Profile

Murray VCT 3 PLC is a venture capital trust and a constituent of the FTSE All-Share Index. It has one class of share and was incorporated on 14 January 1998.

Objective

The Company aims to achieve long term capital and income growth principally through investment in smaller unquoted companies in the United Kingdom.

Benchmark

There is no meaningful venture capital trust index against which to compare the performance of the Company, so the Manager uses peer group comparisons for reporting to the Board. The Remuneration Report is required to show the Company's performance in comparison to that of an established index and for that purpose the FTSE All-Share Index is used because it is considered to be the most relevant to shareholders.

Capital structure

The Company's issued share capital as at 28 February 2005 consisted of 39,952,670 ordinary shares of 10p each.

Total Assets and Net Asset Value

The Company had total assets of £16,947,000 and a net asset value of 42.4p per share at 28 February 2005.

Risk

Investments in smaller unquoted companies carry substantially greater risk than investments in larger companies or in companies listed on the Official List. Many of the stocks in which the Company invests are exposed to the risk of political change, exchange controls, tax or other regulations, which may affect their value and marketability.

The levels and bases of tax reliefs for investors in venture capital trusts may change.

As the volume of shares traded on the secondary market is small, the shares are likely to trade at a discount to net asset value.

The risks to which the Company is exposed are discussed in more detail in note 19 to the Financial Statements on page 43.

Management Agreement

The Company has an agreement with Close Venture Management Limited for the provision of management services. Please refer to page 20 for details of the management and secretarial fees payable.

Share Dealing

Shares in Murray VCT 3 PLC can be bought and sold in the open market through a stockbroker.

Your Board

The Board of four Directors, all of whom are non-executive and, in the considered view of the Board, independent of the Manager, supervises the management of Murray VCT 3 PLC and looks after the interests of its Shareholders.

Peter Timms *Independent Non-executive Chairman*

Relevant experience and other directorships: Mr Timms is the founder and managing director of Flexible Technology Limited, and is chairman of J & S Marine Limited, Scottish Electronic Technology Group Limited, HIE Ventures Limited and Schroder Mid and Small Cap Fund plc. He is also a non-executive director of Argyll and The Islands Enterprise Company Limited. He is governor and director of UHI Millennium Institute.

Length of service: He was appointed a Director and Chairman in January 1998.

Age: 61

Committee Member: Audit, Remuneration, Management Engagement, and Nomination Chairman of Committees

Employment by the Manager: None

Other connections with Manager: J & S Marine Limited

Shared directorships with other Directors: None

Shareholding in Company: 10,000 Ordinary shares

Jim Cooper *Independent Non-executive Director*

Relevant experience and other directorships: Mr Cooper has been actively involved in a number of management buy-ins, having been managing director of Clairmont plc from 1987 to 1991 and chief executive of Calder Group Limited from 1994 to 1995. Prior to becoming involved with the venture capital industry in 1987, he was a director of several GEC companies and James Howden Ltd. He is also a non-executive director of Murray VCT 2 PLC and of Magnet Applications Limited, and non-executive chairman of Encon Group Limited and Cascade Technologies Limited.

Length of service: He was appointed a Director in January 1998.

Age: 61

Committee Membership: Audit, Remuneration, Management Engagement and Nomination

Employment by the Manager: None

Other connections with Manager: Director of Murray VCT 2 PLC

Shared directorships with other Directors: None

Shareholding in Company: 27,768 Ordinary shares

Andrew Cubie *Independent Non-executive Director*

Relevant experience and other directorships: Mr Cubie is a consultant to Fyfe Ireland, Solicitors, having been the senior partner until April 2003. 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 at 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.

Length of service: He was appointed a Director in January 1998.

Age: 58

Committee Member: Audit, Remuneration, Management Engagement and Nomination

Employment by the Manager: None

Other connections with the Manager: None

Shared directorships with other Directors: None

Shareholding in Company: 10,999 Ordinary shares

Alistair Mair *Independent Non-executive Director*

Relevant experience and other directorships: Mr Mair has been 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.

Length of service: He was appointed a director in January 1998.

Age: 69

Committee Member: Audit, Remuneration, Management Engagement and Nomination

Employment by the Manager: None

Other connections with Manager: None

Shared directorships with other Directors: None

Shareholding in Company: 10,000 Ordinary shares

Financial History

	28 Feb 2005	29 Feb 2004	28 Feb 2003	28 Feb 2002	28 Feb 2001	29 Feb 2000	28 Feb 1999 ¹
Assets							
Net assets	£16,947,000	£23,140,000	£25,496,000	£34,687,000	£38,414,000	£37,825,000	£38,646,000
Cumulative returns to Shareholders since launch							
Total return ²							
(without tax reliefs)	68.3p	81.0p	85.1p	100.9p	105.8p	101.8p	100.5p
Total return ¹ (with tax reliefs ³)	88.3p	101.0p	105.1p	120.9p	125.8p	121.8p	120.5p
Ordinary shares							
Net Asset Value per							
Ordinary share	42.4p	56.1p	62.2p	84.7p	94.6p	93.6p	96.4p
Share price	40.5p	32p	50p	65p	83.5p	94.5p	92.5p
Discount/(premium) to							
Net Asset Value	4.5%	43.0%	19.6%	23.3%	11.7%	(1.0%)	4.0%
Ordinary shares issued under							
dividend reinvestment during							
the year	—	751,328	346,660	476,258	294,871	486,113	—
Shares bought back during							
the year	1,326,118	450,549	311,370	136,120	126,166	148,500	—
Ordinary shares in issue at							
year end	39,952,670	41,278,788	40,978,009	40,942,719	40,602,581	40,433,876	40,096,263

1 58 week period ended 28 February 1999

2 Sum of current NAV and dividends paid to date

3 Income tax relief at 20%

Dividends

Year ended February	Payment Date	Interim/final/capital gain	Dividend Paid (p)
1999	14 December 1998	Interim	1.25*
	3 April 1999	2nd Interim	2.81*
2000	10 December 1999	Interim	1.00
	31 January 2000	Europress	1.06
	14 July 2000	Final	2.10
2001	8 December 2000	Interim	1.00
	13 July 2001	Final	2.00
2002	28 December 2001	Interim	0.50
	21 January 2002	CAC Tooling	1.30
	28 February 2002	Benlowe	1.18
	22 July 2002	Final	2.00
2003	30 August 2002	J&S Marine	0.87
	10 December 2002	Interim	0.50
	18 July 2003	Palgrave Brown	4.26
	18 July 2003	Final	1.10
2004	16 July 2004	Interim	1.80
	17 September 2004	Intron	0.20
2005	To be confirmed	Final Capital	1.00
			25.93

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

Yield Profile

Year shares issued	Years in issue	Subscription price (p)	Dividends paid(p)	Dividend yield since subscription*	Adjustment for VCT tax reliefs		
					Higher-rate taxpayer**	Effective yield 1 [†]	Effective yield 2 ^{††}
1998	7	100	25.93	3.7%	6.2%	4.6%	9.3%

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

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

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

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

Chairman's Statement

Introduction

This has been a year of major change for the Company. The Board remains committed, after a number of years of disappointing investment performance and, therefore, poor returns for shareholders, to restoring shareholder value. The recent change of investment manager and the prospect of a merger with Murray VCT PLC and Murray VCT 2 PLC, will be two significant steps in that direction. A merger would create a successor company with net assets of circa £38 million (based on the net assets of the companies as at 28 February 2005).

Change of Investment Manager

In late 2004, the Board unanimously agreed that a change of investment manager was required. At the same time, but independently the Boards of Murray VCT PLC & Murray VCT2 PLC unanimously reached the same conclusion, sharing as they do a number of common investments.

The investment performance record over a number of years had been consistently poor in relative and absolute terms. Board initiatives to promote an improvement in investment performance by insisting on new and additional manager resources, reducing investment management fees (from 2.5% to 1.75%) and reducing the notice period of the investment manager (from 12 months to 6 months) had not resulted in any enhancement in net asset value.

After a review of the options available to the Company, including consideration of other possible managers in this specialist sector and their performance records, the Board unanimously agreed to seek a new investment manager, and approached Close Venture Management ("CVM"). In addition, it was agreed that the exploration of a merger, only competent since the autumn of 2004 should be deferred until satisfactory new management arrangements were in place.

Accordingly, the Board announced its intention to terminate the management agreement with Aberdeen Murray Johnstone ("AMJ") on 8 February 2005 and new management arrangements with CVM commenced on 6 April 2005. Under the terms of an agreement reached with AMJ the Company paid an agreed sum of £295,000 plus VAT in respect of management contract termination costs to Aberdeen Murray Johnstone.

The Board is delighted with the appointment of CVM, who have an outstanding track record in the VCT sector over many years, winning the accolade of "Best VCT Provider" at the Professional Adviser Awards in 2005. The Company now participates in all relevant VCT qualifying investments made by CVM across its portfolio of funds. CVM manages aggregate VCT funds of approximately £200 million.

Since the appointment of CVM, an extensive review of the Company's investment portfolio has taken place. They have been actively engaging with investee companies in an effort to restore and develop shareholder value from the current portfolio. The first task in repositioning the Company is to support and encourage those of the Company's investments with growth prospects and, where deemed necessary, to achieve an orderly realisation of those underperforming assets where the Company's resources may be more profitably employed elsewhere.

Performance

The Company's net asset value as at 28 February 2005 declined to 42.4 pence per share, or £16.9 million from 56.1 pence per share or £23.1 million as at 28 February 2004. The reported net asset value per share at 31 August 2004 was 56.4 pence. As announced on 10 December 2004, this valuation was further revised down by 1.9 pence because an anticipated sale of an investee company did not take place.

The disappointing decline in net asset value at the financial year end has been driven by increased provisions against the Company's unquoted portfolio. These provisions reflect the British Venture Capital Association's valuation guidelines, and in particular forward-looking judgements about the portfolio's underlying businesses.

Portfolio

A number of developments took place in the portfolio during the year. Investments in seven new companies were made, including four companies quoted on AIM. Investments in 10 companies were disposed of, realising proceeds of £4,269,000 against costs of £5,151,000. Following the year end, an investment in FirstLine was sold for £665,000, realising a small loss on cost but a gain on the investment's valuation as at 31 August 2004, and £528,000 was received from the

redemption of loan stock in Clamonta. We also sold our investment in Astraeus for £350,000 realising a loss of £200,000 on cost but releasing the fund from further capital commitments in respect of bank guarantees.

Since the year end and following the appointment of ("CVM"), two new investments have been made comprising a follow-on investment in Grosvenor Healthcare, a profitable and successful provider of occupational health services to large corporates; and an investment in the GB Pub Company to enable the Company to acquire its first 2 freehold pubs. CVM is working on a number of other opportunities for the Company.

The Company now has £5.3 million in cash or gilts available for new investment.

Dividends and charging to capital

The Board is proposing to pay a 1p final dividend per share for the year ended 28 February 2005, resulting in total dividends per share for the year of 1p. This final dividend will be paid out of capital and payment has been authorised by the Inland Revenue.

For the current financial year onwards, 75 per cent of management fees will be charged to capital, rather than the former policy of charging 60 per cent of management fees to capital. The new policy is in line with the VCT industry generally and should improve the prospects for the payment of revenue dividends to shareholders in future years.

Share Buy-Backs

It will continue to be the Company's policy to buy in shares from those shareholders who wish to sell, within the overall constraints of ensuring that sufficient resources are maintained for investment in existing and new investee companies.

Proposed merger

It is the view of the Board that a merger of the three VCTs will provide immediate and long term benefits from a significant reduction in running costs; the creation of a broader investment portfolio in the enlarged successor company; and an increase in share liquidity.

With the transfer of management to CVM now completed, work has begun to examine in detail the feasibility and advantages of merging the interests of the Company with Murray VCT PLC and Murray VCT 2 PLC. It is currently envisaged that any merger of the companies will be achieved through a scheme of reconstruction under section 425 of the Companies Act 1985 but the actual process of the merger will be driven by cost and tax considerations. Murray VCT 3 PLC went into an offer period from 23 June 2005.

The Board expects to report its conclusions on the proposed merger to shareholders at the time of the AGM. At the same time, the Board will also set in motion the process for a change of the Company's name.

The actions of Mr Charles Clark ("Mr Clark") and the 2005 AGM

As announced on 23 May 2005, Mr Clark, a shareholder in the Company (and also in Murray VCT PLC and Murray VCT 2 PLC) had been seeking support from shareholders for the removal of the Board and the appointment of new board members proposed by him. Mr Clark has also questioned the Board's decision to terminate the management arrangements with AMJ and the appointment of CVM.

Neither Mr Clark, nor his proposed directors, contacted the Board regarding their proposed action before writing to shareholders, nor have they since, Mr Clark apparently preferring to conduct his campaign through the press and through comments to the markets.

The Board (and the boards of Murray VCT PLC and Murray VCT 2 PLC) have now written, through the Company's solicitors, to Mr Clark and his proposed directors making detailed enquiries of them. The Board is particularly keen to ascertain what Mr Clark and the proposed directors' ambitions are for potential changes to the companies, and what has given rise to such an unusual shareholder action.

The Board is disappointed at this turn of events. Contrary to Mr Clark's assertion in his circular of 18 May 2005, the Board never had sufficient information on the proposed management buyout by the Aberdeen Murray Johnstone management team to be supportive or otherwise of this potential change. In addition, while some personnel changed following the failure of the management buyout, the majority of those involved in the investment process remained.

The Board intends to call the annual general meeting of the Company after responses have been received from Mr Clark and the directors proposed by him. The Board will present any resolutions, then put forward by Mr Clark. The Board should then be in a position to make recommendations to shareholders and to provide them with sufficient information on which they may base their voting decisions.

Prospects

The further decline in the Company's net asset value in the period to 28 February 2005 reinforces the Board's decision to change investment manager. The task of CVM will be to generate value for shareholders through proactive portfolio management and sourcing new investments. This is not, however, a task that can be accomplished quickly; CVM will be measured on its ability to restore the Company's fortunes over the medium term.

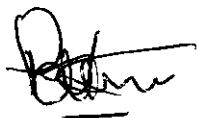
The Board will continue to exercise its responsibilities for all of the Company's shareholders in aiming to provide them with improved investment prospects under CVM and a cost effective merger which will create an improved successor company. Once the proposed merger has taken place a new board of the enlarged entity will be required. The Board is not protective of its position and will stand down when the new board assumes responsibility for the merged entity.

The Board is satisfied that a platform for improvement has been achieved and will report fully to shareholders in advance of the annual general meeting on each of the developments affecting the Company so that shareholders are in the best position to make an informed view when voting on the business put forward at that meeting.

Peter Timms

Chairman

24 June 2005



The Manager

Close Venture Management Limited, which is authorised and regulated by the Financial Services Authority, is the Manager of Murray VCT 3 PLC. It manages a further seven VCTs: Close Brothers Protected VCT PLC, which raised £27.9 million in 1997; Close Brothers Venture Capital Trust PLC which raised £40 Million in 1996 and 1997; Close Brothers Development VCT PLC, which raised £14.6 million in 1999 and a further £11.5 million in 2002/3 and £7.0 million in 2003/4 to provide development capital to unquoted companies; Close Technology & General VCT which has raised £14.3 million to invest in both 'old economy' and 'new economy' businesses; Close Income & Growth VCT which raised £45.3 million in 2005 to invest in higher growth and asset-based businesses in the leisure sector and spin outs from Brunel University. On 6 April 2005 Close Venture Management became manager of Murray VCT PLC and Murray VCT 2 PLC formerly managed by Murray Johnstone Limited.

Close Venture Management also manages Bamboo Investments PLC, which specialises in technology investments, and acts as investment adviser to the Healthcare and Leisure Property Fund PLC, which co-invests in asset-based businesses alongside several of the VCTs listed above. Close Venture Management Limited was voted 'Best VCT Provider of the Year 2005' at the Professional Advisor awards.

The Manager's ultimate parent company is Close Brothers Group plc, a substantial independent merchant banking group incorporated in the United Kingdom and listed on the London Stock Exchange. Close Brothers Group has extensive experience in asset-based finance over a range of specialised lending activities.

The following are specifically responsible for the management and administration of the VCTs managed by Close Venture Management, including Murray VCT 3 PLC:

Patrick Reeve, (45), MA, ACA – Managing Director

He qualified as a chartered accountant with Deloitte Haskins & Sells before joining Cazenove & Co where he spent three years in the corporate finance department. He joined the Close Brothers Group in 1989, initially in the development capital subsidiary, where he was a director specialising in the financing of smaller unquoted companies. He joined the corporate finance division in 1991, where he was also a director. He established Close Venture Management with the launch of Close Brothers Venture Capital Trust PLC in the spring of 1996.

Will Fraser-Allen (34), BA (Hons), ACA – Director

He qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 before specialising in corporate finance and investigation. He joined Close Venture Management in 2001.

Emil Gigov, (35), BA (Hons), ACA – Director

He qualified as a chartered accountant with KPMG in 1997 and subsequently worked in KPMG's corporate finance division focusing on the media, marketing and leisure sectors. He joined Close Venture Management in 2000.

Henry Stanford, (40), MA, ACA – Director

He qualified as a chartered accountant with Arthur Andersen before joining the corporate finance division of the Close Brothers Group in 1992. He became an assistant director in 1996 and transferred to Close Venture Management in 1998 to concentrate on VCT investment.

David Gudgin, (32), BSc (Hons), ACMA

After working for ICL from 1993 to 1999 where he qualified as an accountant, he joined 3i Plc as an investment manager based in London and Amsterdam. In 2002 he joined Foursome Investments, the venture capital arm of the Englehorn family, responsible for investing an evergreen fund of US\$80 million. He joined Close Venture Management Limited in 2005.

Ed Lascelles, (29), BA (Hons)

Ed joined the corporate broking department of Charterhouse Securities in 1998 focusing on primary and secondary equity fundraisings. He then moved to the corporate finance department of ING Barings in 2000, retaining his focus on smaller UK companies. He joined Close Venture Management Limited in 2004.

Mark Toomey, (28), BA (Hons)

After graduating from The London School of Economics with a degree in Geography and Economics, Mark joined Lee & Allen Consulting focusing on forensic accounting. He joined Close Venture Management in 2001.

Robert Whitby-Smith, (30), BA (Hons), MSI, ACA

Robert qualified as a chartered accountant with KPMG in their corporate finance division. From 2000 to early 2005 he worked in the UK corporate finance departments of Credit Suisse First Boston and subsequently ING Barings, where he was a vice president. He joined Close Venture Management Limited in 2005.

Summary of Investment Changes

For the year ended 28 February 2005

	Valuation 29 February 2004		Net investment/ (disinvestment)	Net Appreciation/ (depreciation)	Valuation 28 February 2005	
	£'000	%	£'000	£'000	£'000	%
Unlisted investments						
Equities	4,490	19.4	(327)	(1,315)	2,848	16.8
Preference shares	474	2.0	(6)	(24)	444	2.6
Loan stocks	12,195	52.7	(2,082)	(3,223)	6,890	40.7
	17,159	74.2	(2,415)	(4,562)	10,182	60.1
AIM investments						
Equities	—	—	1,363	(237)	1,126	6.6
Listed investments						
Fixed income	4,428	19.1	699	(32)	5,095	30.1
Total investments	21,587	93.3	(353)	(4,831)	16,403	96.8
Other net assets	1,553	6.7	(1,009)	—	544	3.2
Total assets	23,140	100.0	(1,362)	(4,831)	16,947	100.0

Investment Portfolio Summary

As at 28 February 2005

Investment Name	Nature of business	Invested to date at cost £'000	Valuation as at February 2005 £'000	% of gross assets
Unquoted Investments				
Heathcotes Restaurants	Restaurants operation	1,017	1,017	6.0
Clamonta*	Manufacturer of aircraft engine components	736	835	4.9
ELE Advanced Technologies*	Manufacturer of precision engineering components for the industrial gas turbine, aerospace and automotive markets	750	689	4.1
Transrent Holdings*	Rental of commercial truck trailers	672	672	4.0
First Line*	Investment sold after year end	750	665	3.9
PSCA	Magazine publisher	628	628	3.7
Sanastro*	B2B financial publishing	550	550	3.2
Carmichael*	Valuation represents expected recovery from receivership	631	500	2.9
RMS Europe Limited*	Stevedoring and ships agency services	455	455	2.7
Synexus*	Patient recruitment for clinical trials	968	418	2.5
J&S Marine*	Acoustic, electromechanical and data network systems	61	410	2.4
Mining Communications	Magazine publisher	560	405	2.4
Tender Loving Childcare	Operator of daycare nurseries	1,584	391	2.3
Astraeus	Charter airline operator	550	350	2.1
GW 1016	Hotel Holding company	590	322	1.9
Link Up Mitaka*	Translation services	416	255	1.5
Palgrave Brown*	Manufacturer of specialist timber products including roof trusses, windows and doors	250	250	1.5
Sequoia	Distributor of electronic components and equipment	750	241	1.4
Enterprise Food	Sales, marketing and procurement services to the baking industry	300	233	1.4
Booth Dispensers	Manufacturer of vending machine components	227	227	1.3
Working People*	Supplier of temporary drivers	178	178	1.0
Forward media	Radio broadcast services	500	175	1.0
Voxsurf	Supplier of messaging software to telecom operators	676	113	0.7
Citel*	Telephony Internet Protocol Technology	168	81	0.5
PLM Dollar*	On-shore helicopter services	199	66	0.4
Conveco*	Investment sold. Valuation represents future expected distributions	758	48	0.3
Business Health*	Provision of occupational health services and fitness testing equipment to health clubs	1,198	8	—
			10,182	60.1
AIM Quoted Investments				
Cello Group Plc*	Market research, brand advertising, direct marketing and database management	300	378	2.2
Augean Group Plc*	Waste management	211	299	1.8
Tanfield Group Plc*	Supplier of engineering services and electric vehicles	189	226	1.3
Avanti Screen Media Plc*	Suppliers of retail television services	148	223	1.3
			1,126	6.6

* Other funds managed by Close Venture Management are also invested in these companies.

Valuation

Investment Name	Nature of business	Invested to date at cost £'000	as at February 2005 £'000	% of gross assets
Listed Fixed income investments				
Treasury 9.5% 2005		2,128	2,218	13.1
Treasury 7.5% 2006		2,209	2,197	12.0
Treasury 4.5% 2007		579	577	3.4
Treasury 8.5% 12/2005		103	103	0.6
			5,095	30.1
Total investments			16,403	96.8

Ten Largest Unlisted and AIM Investments

HEATHCOTES RESTAURANTS LIMITED

Restaurant operator and contract catering

Holding	2005
as at end February	£'000
Cost of Investment	1,017
Directors Valuation	1,017
Proportion of share capital voting rights	19.9%
Basis of Valuation	Cost

Restaurant operator and contract catering including Liverpool FC and Chester Racecourse. It has in its stable regional restaurant brands such as the Olive Press.

	2004
Year ended 29 February	£'000
Turnover	979
Loss before Tax	(28)
Accumulated retained Profit for the Year	(27)
Net Assets	640

CLAMONTA LIMITED

Manufacture of aerospace engine components

Holding	2005
as at end February	£'000
Cost of Investment	736
Directors Valuation	835
Proportion of share capital voting rights	15.0%
Basis of Valuation	Earnings

Clamonta Limited principal activity is the manufacture of aerospace engine components one of its largest clients is Rolls Royce.

	2004
Year ended 31 October	£'000
Turnover	3,660
Profit before Tax	201
Accumulated retained Profit for the Year	30
Net Assets	1,943

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management invested £515K and £631K.

ELE ADVANCED TECHNOLOGIES LIMITED**Precision Engineering**

Holding	2005
as at end February	£'000
Cost of Investment	750
Directors Valuation	689
Proportion of share capital voting rights	14.2%
Basis of Valuation	Earnings

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

	2004
Year ended 30 April	£'000
Turnover	8,108
Profit before Tax	(353)
Accumulated retained Profit for the Year	(274)
Net Assets	592

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management invested £514K and £596K.

TRANSRENT HOLDING LIMITED**Rental of commercial truck trailers**

Holding	2005
as at end February	£'000
Cost of Investment	672
Directors Valuation	672
Proportion of share capital voting rights	3.2%
Basis of Valuation	Net Assets

Transrent's principal activity is the rental, leasing and sale of trailers. The company operates through a nationwide network of branches.

	2004
Year ended 31 December	£'000
Turnover	26,475
Profit before Tax	2,609
Accumulated retained Profit for the Year	834
Net Assets	17,426

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management invested £515K and £597K.

FIRST LINE HOLDINGS LIMITED

First Line distributes motor vehicle parts and components

Holding as at end February	2005 £'000
Cost of Investment	750
Directors Valuation	665
Proportion of share capital voting rights	13.8%
Basis of Valuation	Sales Proceeds

First Line distributes motor vehicle parts and components to the independent motor trade in the UK and abroad. This investment was sold following the year end for a total consideration of £0.5m plus additional deferred consideration, subject to certain conditions.

Year ended 31 December	2004 £'000
Turnover	340
Profit before Tax	340
Accumulated retained Profit for the Year	160
Net Assets	104

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management Ltd invested £514K and £596K.

PSCA INTERNATIONAL LIMITED

Government sector publishing

Holding as at end February	2005 £'000
Cost of Investment	628
Directors Valuation	628
Proportion of share capital voting rights	6.4%
Basis of Valuation	Cost

The business is a producer of high quality publications aimed at public sector officials in central and local government.

Year ended 31 December	2003 £'000
Turnover	5,620
Profit before Tax	1,323
Accumulated retained Profit for the Year	743
Net Liabilities	2,736

SANASTRO PLC**B2B financial publishing**

Holding	2005
as at end February	£'000
Cost of Investment	550
Directors Valuation	550
Proportion of share capital voting rights	7.0%
Basis of Valuation	Cost

Sanastro is a specialist publishing house focusing on asset finance, retail finance, cards and payments, accountancy and wealth management publications and events.

	2003
Year ended 31 August	£'000
Turnover	730
Profit before Tax	112
Accumulated retained Profit for the Year	28
Net Assets	300

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management invested £350K and £375K.

CARMICHAEL INTERNATIONAL LIMITED**Manufacturer of specialist fire fighting vehicles**

Holding	2005
as at end February	£'000
Cost of Investment	631
Directors Valuation	500
Proportion of share capital voting rights	23.8%
Basis of Valuation	Expected realisation proceeds

The principal activity of the company is the design and manufacture of low volume specialist fire fighting vehicles. The company was put into administration during the year and the valuation represents the expected proceeds from the sale of the business.

	2003
Year ended 31 January	£'000
Turnover	9,601
Profit before Tax	(1,625)
Accumulated retained Profit for the Year	(1,551)
Net Liabilities	(142)

Murray VCT 2 PLC also managed by Close Venture Management invested £637K.

RMS EUROPE LIMITED

Stevedoring and ships agency services

Holding	2005
as at end February	£'000
Cost of Investment	455
Directors Valuation	455
Proportion of share capital voting rights	5.4%
Basis of Valuation	Cost

RMS Europe operates ports at Goole, on the Humber estuary and at Flixborough and Gunness on the River Trent, providing stevedoring, ship agency, stock control and transport services.

	2003
Year ended 31 December	£'000
Turnover	9,591
Profit before Tax	531
Accumulated retained Profit for the Year	107
Net Assets	3,655

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management invested £450K and £405K.

SYNEXUS LIMITED

Management of Clinical trials

Holding	2005
as at end February	£'000
Cost of Investment	968
Directors Valuation	418
Proportion of share capital voting rights	13.3%
Basis of Valuation	Earnings

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

	2003
Year ended 31 March	£'000
Turnover	6,442
Loss before Tax	(841)
Accumulated retained Profit for the Year	(819)
Net Liabilities	(1,632)

Murray VCT PLC and Murray VCT 2 PLC both managed by Close Venture Management invested £743K and £862K.

Murray VCT 3 PLC

Directors' Report & Financial Statements

Year ended 28 February 2005

Directors' Report

The Directors submit their annual report together with the financial statements of the Company for the year ended 28 February 2005.

Review of the business

A review of the Company's operations is given in the Chairman's Statement on pages 6 to 8.

Results and dividends

The loss for the year on ordinary activities after taxation amounted to £78,000. The Board did not declare an interim dividend. The Board intends to pay a final capital dividend of 1.0pps, this has been approved by the Inland Revenue. The total dividend for the year ended 28 February 2005 will therefore amount to 1.0pps. The sum of (£472,000) has been transferred from the Company's reserves.

The Net Asset Value per Ordinary share at 28 February 2005 was 42.4p. The Net Asset Value per Ordinary share has been calculated using the number of shares in issue at 28 February 2005 of 39,952,670.

Directors

The Directors who held office during the year under review are shown on pages 2 and 3 of the Annual Report. Their interests are shown below, (with exception of Mr M J Walker who resigned on 8 February 2005).

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

The interests of the Directors in the share capital of the Company are as follows:

	28 February 2005 Ordinary shares of 10p	29 February 2004 Ordinary shares of 10p
P K Timms (Chairman)	10,000	10,000
J Cooper	27,768	27,768
A Cubie CBE	10,999	10,999
A S F Mair	10,000	10,000
Total	58,767	58,767

Unless otherwise stated, all holdings are beneficial. As at 24 June 2005, there have been no changes in the share interests shown above.

Manager and Company Secretary

In late 2004, the Boards of the Company, Murray VCT PLC and Murray VCT 2 PLC at separate meetings arrived independently and unanimously at the same conclusion – that change was required. Accordingly the Board announced its intention to terminate the management agreement with Aberdeen Murray Johnstone Limited on 8 February 2005, and new management agreements with Close Venture Management Limited commenced on 6 April 2005. The Company has made a payment of £295,000 plus VAT to Aberdeen Murray Johnstone Limited as referred to in the Chairman's Statement on page 6.

Investment management services are provided to the Company by Close Venture Management Limited. The new manager also organises company secretarial, accounting and administrative services. The Manager is entitled to be paid an annual fee of 1.75 per cent of the Net Asset Value of the Company (plus VAT).

The Management Agreement is terminable by the Manager on 12 months' notice and by the Company on 12 months' notice. If the Management Agreement is terminated, the Company will pay the Manager an amount representing the annual fee calculated by reference to the NAV on the valuation date prior to the date of termination.

In line with industry norms the Manager is also entitled to a performance fee if certain target performance is achieved. If the aggregate of the net asset value and the distributions made to shareholders at the end of any year exceeds the target return. The target return is calculated as the Royal Bank of Scotland base rate +2% as a percentage of the NAV at a date to be determined with reference to the date of the proposed merger, or, in the absence of a merger 31 August 2005, the Manager is entitled to a performance fee of 20% of the excess. If the target is not achieved in a year, the manager will not be entitled to a payment that year. The Manager's entitlement to a performance fee will first be calculated on 28 February 2006. The Manager is also entitled to an administrative and secretarial fee of £50,000 a year. The secretarial fee is subject to an annual adjustment to reflect movement in the UK retail prices index.

Purchase of ordinary shares

During the year ended 28 February 2005, 1,326,118 Ordinary shares of 10p each (representing 3.21% of the issued ordinary share capital at 29 February 2004) were purchased at an aggregate cost of £505,000, representing a weighted average price of 38.1p per share. No shares have been repurchased for cancellation since the year end.

At the last Annual General Meeting, a special resolution was passed by shareholders, giving their authority to purchase an aggregate of 14.99% of Ordinary shares in issue (6,158,459 Ordinary shares) at 31 May 2004. Such authority will expire on the date of the next Annual General Meeting.

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 provide liquidity in the shares and enhance the net asset value for the remaining Shareholders. 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 per share of the remaining Ordinary shares in issue should increase.

Shares will not be purchased by the Company in the period of two months immediately preceding the notification of the Company's interim results and the two 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

No Ordinary shares of 25p each were issued during the year ended 28 February 2005.

Corporate governance

The Statement of Corporate Governance is shown on pages 24 to 26.

Principal activity and status

The Company is not an investment company within the meaning of Section 266 of the Companies Act 1985. 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 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.

Auditors

The Auditors, Ernst & Young LLP, have expressed their willingness to continue in office.


By order of the Board

Cathy Kinnear

Secretary

24 June 2005

Directors' Remuneration Report

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

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 28.

Remuneration Committee

The Company has four independent non-executive Directors whose details are set out on pages 2 and 3 of the Annual Report, and who form the Remuneration Committee. Mr M J Walker resigned on 8 February 2005. The whole Board fulfils the function of a Remuneration Committee. The names of the Directors are shown on page 23 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 28 February 2006 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 are determined within the limits set out in the Company's Articles of Association, which limit the aggregate 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 do not receive bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The present level of fees for the year under review was £15,000 for the Chairman and £12,000 for each Director. The policy is to review these rates from time to time.

Directors' and officers' liability insurance cover is held by the Company in respect of the Directors. This insurance is neither a benefit in kind nor part of the Directors' remuneration.

Directors' service contracts

None of the Directors has a contract of service or a contract for 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. The Articles of Association provide that, at the Annual General Meeting each year, one third of the Directors (or if their number is not a multiple of three, the number nearest to one third) shall retire 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.

Company performance

The graph below compares the total return on an investment of £100 in the Ordinary shares, for each accounting period since inception, assuming all dividends are reinvested, with the total shareholder return over the same period on a notional investment of £100 made up of shares of the kinds and number as those used in calculating the FTSE All-Share Index. Figures are shown for the period from inception to financial year ending 28 February 2005. It is assumed that all dividends are reinvested. The index chosen for comparison purposes is the most relevant to the Company's investment portfolio.

Total Return Performance (share price with dividends reinvested against the FTSE All-Share index with dividends reinvested).

Source: Hindsight

Please note that past performance is not necessarily a guide to future performance.

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 2005 £'000	For the year ended 29 February 2004 £'000
P K Timms (Chairman of the Board)	15	12
J Cooper	12	9
A Cubie CBE	12	9
A S F Mair	12	9
M J Walker	11	9

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

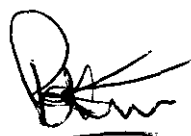
Approval

The Directors' Remuneration Report on pages 22 and 23 was approved by the Board of Directors on 24 June and signed on its behalf by:

P K Timms

Director

24 June 2005



Corporate Governance Statement

Background

The Financial Services Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code issued by the Financial Reporting Council ("FRC") in July 2003 ("the Code").

Application of the principles of the Code

The Board attaches importance to matters set out in the Code and applies its principles. However, as a venture capital trust Company, most of the Company's day-to-day responsibilities are delegated to third parties and the Directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

Board of Directors

The Board consists solely of non-executive Directors, all of whom are independent. Therefore the Board has decided, in the circumstances not to appoint a senior non-executive director. The Directors have a range of business and financial skills which are relevant to the Company. All Directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the Combined Code, the Company has in place Directors & Officers insurance.

In addition to the many informal meetings the Board met formally 6 times during the year: of these Mr Mair was able to attend 4 meetings, and Mr Cooper, Mr Cubie and Mr Walker were all able to attend 3 meetings. The Chairman ensures that all Directors receive in a timely manner all relevant management, regulatory and financial information. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required. The Board has a formal schedule of matters reserved for it and the agreement between the Company and its Manager sets out the matters over which the Manager has authority and limits beyond which Board approval must be sought, these include the following:

The Manager has authority over management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services.

The main issues reserved for the Board include:

- the consideration and approval of future developments or changes to the investment policy including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company including monitoring of the discount of the net asset value and the share price;
- monitoring shareholder profile and considering shareholder communications.

Directors' performance evaluation

The Board takes corporate governance very seriously. Performance of the Board and the Directors is assessed on the following:

- Attendance at Board and Committee meetings;
- The contribution made by individual Directors at Board and Committee meetings.

Performance evaluation is conducted by the Board as a peer group and is monitored on a continuous ongoing basis.

Remuneration Committee

The remuneration committee met once in the year, all directors attended except Mr Walker.

Since the Company has no executive Directors, the detailed Directors' Remuneration disclosure requirements set out in Listing Rules 12.43A(a), 12.43A(b) and 12.43A(c) as they relate to Combined Code Provisions B.1 to B.2, B1.1 to B1.6, and B2.1 to B2.4 are not relevant.

Audit Committee

The Audit Committee consists of all Directors, with Peter Timms as Chairman. In accordance with the Code, the members of the Audit Committee have recent and relevant financial experience. The Committee met twice during 2005; all members attended, except Mr Walker who missed one meeting.

Written terms of reference have been constituted for the Audit Committee, these are:

- providing an overview of the Company's accounting policies and financial reporting;
- considering the effectiveness of the Company's internal controls;
- to monitor the integrity of the Financial statements of the Company;
- meeting the Company's external auditors twice yearly, approving their appointment, reappointment and providing an ongoing review of auditor independence and objectivity;
- meeting with the Head of Internal Audit when appropriate;
- the Audit Committee also undertakes the duties of the Engagement Committee, and therefore also reviews all matters arising under the management agreement.

During the year under review the Committee discharged the responsibilities described above. Its activities included:

- Formally reviewing the draft annual report and interim statement respectively and associated announcements. Focusing on the main areas of judgement and critical accounting policies;
- Reviewing the effectiveness of the internal control systems by examining the Internal Controls Report produced by the Manager;
- Establishing with the Manager that there had been no breaches of FSA rules which affected the Company;
- Reviewing the findings of the External auditors;
- Approving non-audit work performed by the auditors and keeping under review the proportion of fees paid in respect of non-audit work compared to audit work.

Nomination Committee

A nomination committee consists of all Directors, with Peter Timms as Chairman. The terms of reference of the nomination committee are to evaluate the balance of skills, experience and time commitment of the current Board members and make recommendations to the Board as and when a particular appointment arises.

The nomination committee met once during 2005 all directors attended, except Mr Walker. The Committee will meet when it is appropriate for it to do so. It is the policy of the Company that all of the Directors are nominated for re-election every three years; Accordingly Mr P Timms and Mr J Cooper are eligible for re-election at the next AGM. Both of the nominated Directors are considered to be independent by virtue of their robust approach to the business of board meetings. They are both considered to be valuable and committed members of the Board, and as such the Board would consider it appropriate to nominate them for re-election. The terms and conditions of Directors' appointment are available for inspection at AGMs.

During the year the nominations committee has considered the following:

- The planned and progressive refreshing of the Board;
- The annual re-election for longer serving Directors;
- The introduction of an induction programme for Directors;
- The skills and knowledge base of the composition of the Board.

Internal control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull guidance"). The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, assisted by the Manager, undertakes a full review of the Company's business risks. The Board receives each year from the Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers, and to deal with areas of improvement which come to management's and the Board's attention.

The Company does not have an internal audit function but it does have access to the internal audit department of Close Brothers Group which reports on the Manager's activities. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended.

Going concern

After making reasonable enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing these financial statements.

Relations with shareholders

The Company's annual general meeting is used as an opportunity to communicate with private investors. The Chairmen of each of the Board Committees are available to answer questions at the annual general meeting and all Directors are expected to attend. At the annual general meeting, the level of proxies lodged on each resolution and the balance for and against the resolution and the number of votes withheld are announced after the resolution has been voted on by a show of hands.

Statement of compliance

The Directors consider that the Company has complied throughout the year ended 28 February 2005 with all the relevant provisions of the Code, with exception of A.3.3 whereby the Board has not appointed a senior independent Director. The Company continues to comply with the Code as at the date of this report.

Statement of Directors' Responsibilities

United Kingdom 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 at the end of the financial year and of the return of the Company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed;

The Directors are responsible for ensuring that proper accounting records are kept 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, for the systems of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that the financial statements comply with the above requirements.

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 2005 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 19. 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. The Directors are responsible for preparing the Directors' Remuneration report.

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 whether 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. 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 Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or 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, Your Board, Dividends, Financial History, Yield Profile, Chairman's Statement, The Manager, Summary of Investment Changes, Investment Portfolio Summary, Ten Largest Unlisted and AIM Investments, unaudited part of the Directors' Remuneration Report, Directors' Report, Statement of Corporate Governance Statement of Directors' Responsibilities and Corporate information. 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

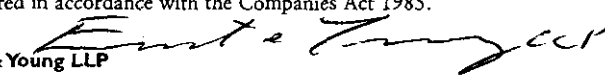
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 2005 and of its loss 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

Registered Auditor

Edinburgh

24 June 2005

Profit and Loss Account

For the year ended 28 February 2005

	Notes	28 February 2005			29 February 2004		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment income and deposit interest	2	985	—	985	1,687	—	1,687
Investment management fees	3	(146)	(439)	(585)	(300)	(450)	(750)
Other expenses		(416)	—	(416)	(208)	—	(208)
Operating (loss)/profit (excluding exceptional items)		423	(439)	(16)	1,179	(450)	729
Exceptional items							
Investment Management termination fees		(86)	(260)	(346)	—	—	—
Other expenses in respect of termination		(101)	—	(101)	—	—	—
		(187)	(260)	(447)	—	—	—
Operating (loss)/profit		236	(699)	(463)	1,179	(450)	729
Profit on realisation of investments	8	—	954	954	—	596	596
Amounts written off fixed asset investments	8	—	(569)	(569)	—	—	—
(Loss)/profit on ordinary activities before taxation		236	(314)	(78)	1,179	146	1,325
Tax on ordinary activities	5	(56)	56	—	(346)	147	(199)
(Loss)/profit on ordinary activities after taxation		180	(258)	(78)	833	293	1,126
Dividends	6	6	(400)	(394)	(724)	(83)	(807)
Balance transferred (from)/to reserves		186	(658)	(472)	109	210	319
Earnings per share (pence)	7	0.4	(0.6)	(0.2)	2.0	0.8	2.8

Statement of Total Recognised Gains and Losses

For the year ended 28 February 2005

	Notes	28 February 2005			29 February 2004		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Loss)/profit on ordinary activities after taxation		180	(258)	(78)	833	293	1,126
Unrealised loss on revaluation of investments	8	—	(5,216)	(5,216)	—	(3,112)	(3,112)
Current tax attributable to unrealised losses on loan relationships	5	—	—	—	346	(147)	199
Total recognised losses relating to the year	15	180	(5,474)	(5,294)	1,179	(2,966)	(1,787)

Note of Historical Cost Profits and Losses

For the year ended 28 February 2005

	Notes	28 February 2005 £'000	29 February 2004 £'000
(Loss)/profit on ordinary activities before taxation		(78)	1,325
Realisation of revaluation losses of previous years	8	(3,393)	(1,533)
Historical cost loss on ordinary activities before taxation		(3,471)	(208)
Historical cost loss for the year retained after taxation and dividends		(3,865)	(1,099)

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.

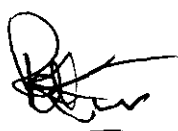
Balance Sheet

As at 28 February 2005

	Notes	28 February 2005		29 February 2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	8		16,403		21,587
Current assets					
Debtors	10	1,638		1,970	
Cash and overnight deposits		214		653	
		1,852		2,623	
Creditors					
Amounts falling due within one year	11	1,308		1,070	
Net current assets			544		1,553
Total net assets less current liabilities			16,947		23,140
Capital and reserves					
Called up share capital	12		3,995		4,128
Revaluation reserve	13		(15,287)		(13,031)
Capital redemption reserve	13		250		117
Profit and loss account	13		27,989		31,926
Equity Shareholders' funds			16,947		23,140
Net Asset Value per Ordinary share (pence)	14		42.4		56.1

The financial statements were approved by the Board of Directors on 24 June 2005 and were signed on its behalf by:

P K Timms CBE
Director
24 June 2005



The accompanying notes are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 28 February 2005

		28 February 2005	29 February 2004
	Notes	£'000	£'000
Operating activities			
Investment income received		1,262	1,574
Deposit interest received		15	7
Other income		21	10
Investment management fees paid		(691)	(809)
Secretarial fees paid		(57)	(55)
Cash paid to and on behalf of directors		(52)	(60)
Other cash payments		(122)	(114)
Net cash inflow from operating activities	16	376	553
Financial investment			
Purchase of investments		(10,830)	(6,625)
Sale of investments		11,201	8,516
Net cash inflow from financial investment		371	1,891
Equity dividends paid		(820)	(2,178)
Net cash (outflow)/inflow before financing		(73)	266
Financing			
Issue of Ordinary shares		—	472
Repurchase of Ordinary shares		(366)	(192)
Net cash (outflow)/inflow from financing		(366)	280
(Decrease)/increase in cash	17	(439)	546

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

I. Accounting policies

Basis of preparation

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

Although the Company is no longer an investment company, as investment company status was revoked in order to permit the distribution of capital profits, the Directors believe that the presentation of the profit and loss account and the statement of total recognised gains and losses is enhanced by showing the returns attributable to revenue and capital. These statements differ from the statement of total return usually presented by investment trust companies in the following respects:

- Gains and losses on disposal of investments and permanent diminution's in value are included in the profit and loss account.
- Unrealised gains and losses on disposal are taken direct to the revaluation reserve and included in the statement of total recognised gains and losses.
- All investment management fees, other expenses and taxation are charged to the profit and loss account.

The profit and loss account and statement of total recognised gains and losses have been prepared in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard No 3 "Reporting Financial Performance". As mentioned above, for illustrative purposes, non-statutory information comprising a revenue and capital column is also presented. The revenue column includes all income and expenses. The capital column includes the realised profit and loss on investments and the proportion of tax and management fee allocated by the Directors to capital. The basis of allocation of investment management fees is 25% to revenue and 75% to capital, and tax has been allocated by the marginal method in the same way as would be the case in an investment trust.

Unrealised gains and losses on investments are reflected in the statement of total recognised gains and losses, as required by Financial Reporting Standard No 3 and, in the presentation of the non-statutory information have been allocated to capital.

Income

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

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

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

Expenses

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

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

Management expenses

For the financial year ended 28 February 2005, the Board of Directors has changed the allocation of management fees to capital from 60 per cent to 75 per cent, representing the proportion of the investment management fee attributable to the enhancement of the value of the investments of the Company. The balance is charged to revenue. This does not represent a change in accounting policy but reflects the Board's expected long-term split of returns, in the form of capital gains and income respectively.

Taxation

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

Investments

In valuing unlisted investments the Directors follow the criteria set out below. These procedures comply with the revised British Venture Capital Association guidelines for the valuation of private equity and venture capital investments. Investments are valued at fair value, which represents the Directors view of the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction. This does not assume that the underlying business is saleable at the reporting date or that its current shareholders have an intention to sell their holding in the near future.

1. Investments completed within the 12 months prior to the reporting date and those at an early stage in their development are normally valued at cost, except that adjustments are made when there has been a material change in the trading circumstances of the company or a substantial movement in the relevant sector of the stock market.
2. Whenever practical, recent investments will be valued by reference to a material arm's length transaction or a quoted price.
3. Mature companies are valued by applying a multiple to their taxed prospective earnings to determine the enterprise value of the company, unless there is a more suitable valuation method, such as turnover or net assets.
 - 3.1 The multiple is derived by taking an average of the prospective multiples of the most comparable listed companies and adjusting for the differences in business mix, size, trading record and prospects. This multiple is discounted to reflect the marketability of the investee company. In the event that there are no comparable listed companies, the prospective multiple of the most relevant sub sector of the FSTE indices is used and an appropriate discount applied.
 - 3.2 To obtain a valuation of the total ordinary share capital held by management and the institutional investors, the value of third party debt, institutional loan stock, debentures and preference share capital is deducted from the enterprise value. The effect of any performance related mechanisms is taken into account when determining the value of the ordinary share capital.
 - 3.3 Preference shares are valued at cost. When a redemption premium has accrued, this will only be valued if there is a reasonable prospect of it being paid. Preference shares which carry a right to convert into ordinary share capital are valued at the higher of the cost basis and the price/earnings basis, both described above.
 - 3.4 Debentures and loan stock are valued on the same basis as preference shares.
4. All unlisted investments are valued individually by Close Venture Managements Team. The resultant valuations are subject to detailed scrutiny and approval by the Directors of Murray VCT 3.

In accordance with normal market practice, investments listed on the Alternative Investment Market or a recognised stock exchange are valued at their mid market price, discounted where necessary to reflect any trading restrictions.

Gains and losses on investments

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve, unless the directors believe that there has been a permanent diminution in value, in which case the write-down is charged directly to the profit and loss account. When an investment is sold, or written-off, any balance held on the revaluation reserve is transferred to the profit and loss account as a movement on reserves.

	Year ended 28 February 2005		Year ended 29 February 2004	
	£'000		£'000	
2. Investment income and deposit interest				
<i>Income from investments:</i>				
UK unfranked investment income	687		390	
UK franked investment income	70		37	
Income from participating interests	191		1,243	
	948		1,670	
<i>Interest receivable and similar income:</i>				
Other Income	21		10	
Deposit interest	16		7	
Total income	985		1,687	

	Year ended 28 February 2005			Year ended 29 February 2004		
	£'000	£'000	£'000	£'000	£'000	£'000
3. Investment management fees	Revenue	Capital	Total	Revenue	Capital	Total
Investment management fees	124	374	498	255	383	638
Irrecoverable VAT	22	65	87	45	67	112
	146	439	585	300	450	750

Details of the fee basis are contained in the Directors' Report on page 20.

The Investment management Termination fees in the financial statements are apportioned between revenue and capital on the same basis as the revised management fee split.

	Year ended 28 February 2005 £'000	Year ended 29 February 2004 £'000
4. Operating profit is stated after charging:		
Directors' remuneration	62	48
Fees to Auditors:		
– audit fees	14	15
– other services	5	–

5. Tax on ordinary activities

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

	Profit and loss account £'000	Statement of total recognised gains and losses £'000	Total £'000
2005			
Corporation tax	–	–	–
	–	–	–
2004			
Corporation tax	199	(199)	–
	199	(199)	–

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% (2004 – 30%). The differences are explained below:

	Year ended 28 February 2005 £'000	Year ended 29 February 2004 £'000
(Loss)/profit on ordinary activities before tax	(78)	1,325
Profit on ordinary activities multiplied by standard rate of corporation tax	(23)	398
Effect of marginal relief	–	(19)
Effect of profit on sale of assets not subject to taxation	(286)	(179)
Effect of write off of investments not subject to taxation	170	–
Effect of income not subject to taxation	(21)	(1)
Effect of disallowed expenditure	6	–
Unrelieved expenses carried forward	154	–
	–	199

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 £1,369,000 (2004 – £1,215,000) 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.

6. Dividends

Proposed revenue dividend of nil (2004 – 1.8p)
Proposed capital dividend of 1.0p (2004 – 0.2p)
Overaccrual in previous year

Year ended 28 February 2005	Year ended 29 February 2004
£'000	£'000
–	743
400	83
(6)	(19)
394	807

7. Earnings per share

The returns per share have been based on the following figures:

Average number of Ordinary shares
(Loss)/profit on ordinary activities after taxation

Year ended 28 February 2005	Year ended 29 February 2004
40,774,635	40,717,317
(£78,000)	£1,126,000

8. Investments

Valuation at 1 March 2004
Purchases
Valuation of investments sold
Amortisation of book cost
Amounts written off fixed asset investments
Net increase/(decrease) in value of investments

Valuation at 28 February 2005

Year ended 28 February 2005		
Listed	Unlisted and AIM	Total
£'000	£'000	£'000
4,428	17,159	21,587
7,900	2,930	10,830
(7,094)	(2,992)	(10,086)
(143)	–	(143)
–	(569)	(569)
4	(5,220)	(5,216)
5,095	11,308	16,403

Constituted

Listed investments

Unlisted investments

Valuation at 1 March 2004
Purchases
Sales
Amounts written off fixed asset investments
Net (decrease)/increase in value of investments

Valuation at 28 February 2005

Shares in participating interests	Loans to participating interests	Other investments
£'000	£'000	£'000
–	–	5,095
3,200	9,686	4,273
–	236	2,694
–	(106)	(2,886)
–	–	(569)
(1,627)	(3,922)	329
1,573	5,894	3,841
1,573	5,894	8,936

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

	Year ended 28 February 2005		Year ended 29 February 2004	
	£'000	£'000	£'000	£'000
Cost at beginning of year		35,052		37,681
Purchases	10,830		6,464	
Sales proceeds	(11,040)		(8,072)	
Transfer of unrealised losses realised during the year	(3,393)		(1,533)	
Realised gains	954		596	
		(2,649)		(2,545)
Amortisation of book cost		(143)		(84)
Cost at end of year		32,260		35,052
Unrealised loss		(15,857)		(13,465)
Valuation at 28 February		16,403		21,587

The cost of unlisted investments at 28 February 2005 was £27,151,000 (2004 – £30,638,000)

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.

At 28 February 2005 the company held shares amounting to 20% or more of the equity capital of the following unquoted undertakings:

Investment	28 February 2005				Latest accounts period end	Aggregate capital and reserves £'000	Profit/ (loss) after tax for period £'000
	% of class held	% of equity held	Total cost £'000	Carrying Value £'000			
Carmichael International Limited*							
75,000 B ordinary shares	50.0	23.8	631	500	31/10/2003	(142)	(1,551)
500 preference stock	50.0						
£231,186 loan stock 2005	50.0						
£249,500 fixed loan stock 2007	50.0						
CCM Motorcycles Limited							
505,525 A ordinary shares	25.0	20.4	2,219	—	30/09/2002	173	(1,911)
426,491 B ordinary shares	40.9						
2,044 B preference shares	20.4						
£455,655 loan stock	26.0						
£102,167 mezzanine instrument	20.4						
£32,155 loan stock	32.2						
Charmwood Furniture Group Limited*							
195,000 B ordinary shares	46.4	20.9	650	—	31/03/2002	85	(205)
£455,000 loan stock	46.4						
GW 665 Limited*							
14,874 B ordinary shares	37.0	37.0	15	—	30/06/2004	154	—
£589,866 secured loan stock	21.4						
Sequoia Technology Limited							
85,714 A ordinary shares	100.0	32.6	750	241	31/12/2003	414	(367)
£524,900 loan stock 2007	100.0						
1,000 cumulative redeemable	100.0						
TLC (Tender Loving Childcare) Limited*							
48,531 B ordinary shares	51.1	25.3	1,584	392	31/12/2003	(2,318)	(926)
£607,918 secured loan notes 2005/07	51.1						
£510,357 loan stock 10%	51.1						
511 preference shares	51.1						
£204,341 loan stock 2009	51.1						
Wisdom IT Holdings Limited*							
114,520 A ordinary shares	100.0	43.0	650	—	31/10/2003	57	(37)
350,000 preference shares	100.0						

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.

* Other funds managed by Close Venture Management Limited are also invested in the above companies.

None of the companies marked N/A has produced audited accounts since the date of the relevant financing.

At 28 February 2005 the company held shares amounting to 20% or more of the nominal value of any class of share of the following unquoted undertakings:

Investment	% of class held	28 February 2005	
		Total cost £'000	Carrying Value £'000
Astraeus Limited			
60,867 C ordinary shares	50.0	550	350
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	227	227
502 preference shares	50.2		
Bronte Foods Limited			
27,129 B ordinary shares	33.3	750	—
14,305 X ordinary shares	33.3		
510,521 B preference shares	33.3		
Clamonta Engineering Limited*			
38,652 B ordinary shares	35.9	736	835
359 preference shares	35.9		
£514,491 loan stock 2006	35.9		
ELE Advanced Technologies Limited			
14,250 B ordinary shares	30.0	750	689
300 preference shares	30.0		
£524,693 loan note 2007	30.0		
First Line Limited			
87,941 B ordinary shares	30.0	750	665
3,000 preference shares	30.0		
£522,000 loan stock 2008	30.0		
GW 1016 Limited			
858 ordinary shares	37.0	590	322
Heathcotes Restaurants Limited			
305,188 B ordinary shares	40.7	1,017	1,017
407 preference shares	40.7		
£712,034 loan stock 2008	40.7		
House of Dorchester Holdings Limited			
665 ordinary shares	33.3	350	—
350 preference shares	35.0		
£244,650 loan stock	35.0		
Inhoco 3016 Limited			
10,590 B ordinary shares	35.2	125	—
£79,180 loan stock	35.2		

* Other funds managed by Close Venture Management Limited are also invested in the above companies.

Investment continued	% of class held	28 February 2005	
		Total cost £'000	Carrying Value £'000
Interak Limited*			
33,395 A ordinary shares	40.8	1,000	–
£700,000 loan stock 2008	40.8		
J & S Marine Limited*			
18,383 B ordinary shares	52.8	6	410
Link Up Mitaka Limited*			
1,357,000 B ordinary shares	27.7	416	255
139 preference shares	27.7		
Mercury Inns Group Limited*			
35,640 ordinary shares	21.4	306	–
2,145 preference shares	21.4		
£111,234 loan stock 14.5%	21.4		
Mining Communications Limited			
34,909 ordinary shares	33.9	560	405
3,394 preference shares	33.9		
£388,606 loan stock 12%	33.9		
Public Service Communications Agency Limited*			
6,360 ordinary shares	21.6	628	628
2,156 preference shares	21.6		
£437,888 loan stock	21.6		
Synexus Limited*			
1,207,814 B ordinary shares	24.2	968	418
242 preference shares	24.2		
£677,490 loan stock 2008	24.2		
Tuscan Energy Group Limited			
89,250 C ordinary shares	42.5	850	–
£595,000 loan stock 2007	8.5		
£165,750 loan stock 2006	8.5		
Unique Communications Group Limited*			
5,000 B ordinary shares	25.0	1,090	–
25,000 preference shares	25.0		
£90,000 secured loan stock	25.0		
£697,500 loan stock 2008	25.0		
Voxsurf Limited			
58,997 A ordinary shares	50.5	676	113
530,977 C preference shares	50.5		
15,773,934 D preference shares	12.5		
£225,184 loan stock 2008	12.5		
Webfell Group Limited*			
£185,427 loan stock 2004	29.7	185	–

* Other funds managed by Close Venture Management Limited are also invested in the above companies.

	28 February 2005	29 February 2004
	£'000	£'000
10. Debtors		
Current taxation – income tax recoverable	499	618
Prepayments and accrued income	1,139	1,191
Other debtors	–	161
	1,638	1,970

	28 February 2005	29 February 2004
	£'000	£'000
11. Creditors		
<i>Amounts falling due within one year:</i>		
Proposed final dividend	–	743
Proposed capital dividend	400	83
Management and secretarial fees due to Aberdeen Murray Johnstone Limited	91	196
Termination fees due to Aberdeen Murray Johnstone Limited	377	–
Loan guarantees	171	–
Other creditors	170	–
Accruals	99	48
	1,308	1,070

	28 February 2005		29 February 2004	
	Number	£'000	Number	£'000
12. Share capital				
<i>At 28 February 2005 the authorised share capital comprised:</i>				
<i>allotted, issued and fully paid:</i>				
Ordinary shares of 10p each				
Balance brought forward	41,278,788	4,128	40,978,009	4,098
Issued during year	–	–	751,328	75
Repurchased and cancelled in year	(1,326,118)	(133)	(450,549)	(45)
Balance carried forward	39,952,670	3,995	41,278,788	4,128
Unissued unclassified shares of 10p each	20,047,330	2,005	18,721,212	1,872
	60,000,000	6,000	60,000,000	6,000

During the year, no ordinary shares (2004 – 751,328) of 10p each were issued under the dividend re-investment scheme for a total consideration of Nil (2004 – £430,286). A total of 1,326,118 ordinary shares (2004 – 450,549) of 10p each were repurchased by the company at a total cost of £504,853 (2004 – £192,297) and cancelled.

	Year ended 28 February 2005		
	Revaluation reserve	Capital redemption reserve	Profit and loss account
	£'000	£'000	£'000
13. Movement in reserves			
At 1 March 2004	(13,031)	117	31,926
Repurchase and cancellation of shares	–	133	(505)
Transfer of realised losses to profit and loss account	3,393	–	(3,393)
Tax effect of transfer of losses to profit and loss account	(433)	–	433
Net decrease in value of investments	(5,216)	–	–
Retained loss for year	–	–	(472)
At 28 February 2005	(15,287)	250	27,989

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 2005		29 February 2004	
	Net Asset Value per share	Net Asset Value attributable £'000	Net Asset Value per share	Net Asset Value attributable £'000
	p		p	
Ordinary shares	42.4	16,947	56.1	23,140

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 2005 £'000	Year ended 29 February 2004 £'000
Opening Shareholders' funds	23,140	25,496
Total recognised losses for year	(5,294)	(1,787)
Net proceeds of issue of shares	–	430
Repurchase and cancellation of shares	(505)	(192)
Dividends appropriated	(394)	(807)
Closing Shareholders' funds	16,947	23,140

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

	Year ended 28 February 2005 £'000	Year ended 29 February 2004 £'000
Operating (loss)/profit	(16)	729
Decrease/(increase) in debtors	52	(263)
Increase/(decrease) in accruals	78	(75)
Amortisation of fixed income investment book cost	143	84
Tax on unfranked income	119	78
Net cash inflow from operating activities	376	553

17. Analysis of changes in net funds

	Year ended 28 February 2005			Year ended 29 February 2004		
	Brought forward £'000	Cash flows £'000	Carried forward £'000	Brought forward £'000	Cash flows £'000	Carried forward £'000
Cash and overnight deposits	653	(439)	214	107	546	653

18. Capital commitments

	28 February 2005 £'000	29 February 2004 £'000
Unlisted investment commitments	842	565

19. 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 . 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 issues and in particular no purchase can be made in any one company, where this would result in a holding that would exceed 15% of the value of the Company's investments. 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. The Company complied with the stated investment guidelines and borrowing powers throughout the year ended 28 February 2005.

b) Interest rate risk

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

28 February 2005				
	Fixed interest	Preference dividend	Floating rate	Non-interest bearing
	£'000	£'000	£'000	£'000
Sterling				
Listed	5,095	—	—	—
Unlisted and AIM	6,890	444	—	3,974
Cash	—	—	214	—
	11,985	444	214	3,974

29 February 2004				
	Fixed interest	Preference dividend	Floating rate	Non-interest bearing
	£'000	£'000	£'000	£'000
Sterling				
Listed	4,428	—	—	—
Unlisted and AIM	12,195	474	—	4,490
Cash	—	—	653	—
	16,623	474	653	4,490

The listed fixed interest assets have a weighted average life of 0.66 (2004 – 0.47) years and a weighted average interest rate of 4.72% (2004 – 3.96%) 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 2.71 (2004 – 3.01) years and a weighted average interest rate of 12.27% (2004 – 11.65%). The non-interest bearing assets represent the equity element of the portfolio. All assets and liabilities of the fund 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.

Corporate Information

Directors

P K Timms CBE (Chairman)
J Cooper
A Cubie CBE
A S F Mair MBE DL

Manager & Secretary

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