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Murray VCT 3 PLC

Annual Report and Financial Statements
Year ended 29 February 2004



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Financial Calendar

8 July 2004

Annual General Meeting

Dividend Record

	Rate	xd date	Record date	Payment date
Proposed final dividend	1.8p	10 June 2004	18 June 2004	16 July 2004
Intron/Connaught	0.2p	To be announced	To be announced	To be announced
Total	2.0p			

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 AIM Index and the FTSE Small Cap Index are used because they are considered to be the most relevant to shareholders.

Capital structure

The Company's issued share capital as at 29 February 2004 consisted of 41,278,788 ordinary shares of 10p each.

Total Assets and Net Asset Value

The Company had total assets of £23,140,000 and a net asset value of 56.1p per share at 29 February 2004.

Continuation Date

The Articles of Association require the Directors to put a proposal for the continuation of the Company, in its then form, to Shareholders at the Company's tenth Annual General Meeting, and thereafter at five yearly intervals.

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 significant 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 pages 41 and 42, and in Tax Position of Individuals on pages 44 and 45.

Management Agreement

The Company has an agreement with Murray Johnstone Limited for the provision of management services. Please refer to page 18 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 five 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, Smartpower 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 visiting professor and chairman of the advisory board of the University of Glasgow Business School.

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

Age: 60

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

Employment by the Manager: None

Other connections with Manager: Schroder Mid and Small Cap Investment Trust was formerly managed by Murray Johnstone 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 ScotNursing Limited, in which several clients of Aberdeen Asset Management are invested.

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

Age: 60

Committee Membership: Audit, Remuneration, Management Engagement and Nomination.

Employment by the Manager: None

Other connections with Manager: Director of Murray VCT 2 PLC, which is also managed by Murray Johnstone Limited, and chairman of ScotNursing Limited.

Shared directorships with other Directors: Mr M J Walker is also a director of Murray VCT 2 PLC.

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: 57

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 is a former chairman and managing director of Caithness Glass Limited. He has considerable knowledge and experience of public and private companies and has led two management buy-outs. He is chairman of Crieff Hydro Limited and a non-executive director of Grampian Television Limited. He was chairman of CBI Scotland from 1989 to 1991. He is Chancellor's Assessor and vice-chairman of the Court of the University of Aberdeen.

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

Age: 68

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.

Michael Walker *Independent Non-executive Director*

Relevant experience and other directorships: Mr Walker is executive chairman of Maclay Murray & Spens, solicitors, having been managing partner of the firm from 1994 until December 2002. He is a non-executive director of John Menzies plc, Securities Trust of Scotland plc and Murray VCT 3 PLC.

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

Age: 51

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: Mr Cooper is also a director of Murray VCT 2 PLC.

Shareholding in Company: 10,425 Ordinary shares.

Financial History

	29 February 2004	28 February 2003	28 February 2002	28 February 2001	29 February 2000	28 February 1999 ¹
Assets						
Net assets	£23,140,000	£25,496,000	£34,687,000	£38,414,000	£37,825,000	£38,646,000
Cumulative returns to Shareholders since launch						
Net Asset Value total return ² (without tax reliefs)	80.5%	86.1%	106.1%	111.9%	107.3%	105.8%
Net Asset Value total return ² (with tax reliefs ⁴)	109.1%	113.8%	131.2%	135.6%	130.2%	127.8%
Total return ³ (without tax reliefs)	81.0p	85.1p	100.9p	105.8p	101.8p	100.5p
Total return ³ (with tax reliefs ⁴)	101.0p	105.1p	120.9p	125.8p	121.8p	120.5p
Ordinary shares						
Net Asset Value per Ordinary share	56.1p	62.2p	84.7p	94.6p	93.6p	96.4p
Share price	32p	50p	65p	83.5p	94.5p	92.5p
Discount/(premium) to Net Asset Value	43.0%	19.6%	23.3%	11.7%	(1.0%)	4.0%
Market capitalisation (£ million)	13.2	20.5	26.6	33.9	38.2	37.1
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	450,549	311,370	136,120	126,166	148,500	–
Ordinary shares in issue at year end	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 With dividends reinvested

3 Sum of current NAV and dividends paid to date

4 Income tax relief at 20%

Source: Aberdeen Asset Managers Limited, except share price by Datastream.

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
	To be announced	Intron	0.20
			24.93

* 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	6	100	24.9365	4.2%	6.2%	7.7%	15.4%

* 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.

Analysis of Unlisted Investment

As at 29 February 2004

FTSE Actuaries Industry Sector	Valuation	
	£'000	%
Support Services	3,129	17.9
Engineering & Machinery	2,179	12.5
Food & Drug Retailers	2,054	11.1
Transport	1,903	10.6
Media & Entertainment	1,766	10.2
Health	1,302	9.9
Leisure & Hotels	1,233	7.1
Oil & Gas	850	4.9
Electronic & Electrical Equipment	750	4.3
Construction & Building Materials	691	4.0
Food Producers & Processors	650	3.7
Aerospace & Defence	392	2.3
Software & Computer Services	225	1.3
Telecommunication Services	35	0.2
	17,159	100.0

Deal Type	No. of deals	Valuation	
		£'000	%
Management Buy-outs	13	7,973	44.1
Development Capital	18	5,606	35.4
Management Buy-ins	6	2,110	12.1
Early Stage	3	751	4.3
Acquisition Finance	2	719	4.1
	42	17,159	100.0

Aberdeen Murray Johnstone regional office	No. of deals	Valuation	
		£'000	%
Birmingham	15	8,330	48.0
Manchester	10	4,766	28.6
Leeds	7	1,384	8.0
Glasgow	5	1,087	6.2
Aberdeen	1	850	4.9
London	4	742	4.3
	42	17,159	100.0

Note: The total portfolio of investments, including both listed and unlisted stocks, is valued at £21,587,000.

Chairman's Statement

Performance

Realisations are not easy to achieve in the current market conditions; although, the disposal of Intron during the year was a significant and positive result for the Company. The Net Asset Value (NAV) at 29 February 2004, before payment of all dividends in respect of the year then ended, was 58.1p per share ("pps") compared with 62.2pps at 28 February 2003. This 6.6% decrease in NAV over the year is disappointing; however, the Board is encouraged that in the period since the interim announcement there have been signs that the portfolio is responding to the close attention of the Manager.

Investment strategy

The Board, which regularly reviews portfolio performance and the Company's investment strategy with the Manager, has agreed two prime objectives with the Manager: intense portfolio management to help restore profitability to the investee companies in the current market conditions, and the resumption of yield payments to the Company from the portfolio. The aim of these objectives is to restore value and, ultimately, achieve successful disposals from a stronger position when market conditions recover. Where it is believed that future potential from an investment justifies it, further financial support will be given. It will also be the aim to sell under-performing investments and to recycle the proceeds into opportunities which show greater growth potential. At present, the Company has approximately 22% of its assets in cash and gilts which will enable the necessary support to be given to existing investee companies and also permit investment in new opportunities on the basis indicated. Where possible, new investment activity will be targeted on larger companies through co-investment with the other private equity funds managed by members of the Aberdeen Asset Management Group.

Valuation process

Murray VCT 3's investments in unquoted companies are valued at fair value in accordance with the British Venture Capital Association guidelines.

Dividends and returns to date

A dividend of 4.26pps representing the gain arising from the sale of Palgrave Brown was paid on 18 July

2003; however the Company did not declare an interim dividend. The Board is recommending a final dividend of 1.8pps, to be paid on 16 July 2004 to Shareholders on the register at the close of business on 18 June 2004. The Board also intends to distribute a dividend of 0.2p representing part of the gain arising on the disposal of the holding in Intron. Subject to obtaining approval from the Inland Revenue for this distribution, the dividend will be paid at the same time as the final dividend. The total dividend for the year ended 29 February 2004 will therefore amount to 2.0pps.

The Board has an objective of distributing gains achieved on the sale of investments, while taking into account the need to retain funds for the existing portfolio and new investment opportunities. The decision to distribute in any particular year will normally be taken in the light of the annual results.

Since the Company's launch most Shareholders will have received 24.94pps in tax free dividends, comprising 16.07pps in income dividends and 8.87pps in distributions of capital gains. To an investor who took advantage of the initial income tax relief, this represents a return of over 31% of the effective initial investment cost of 80pps. The total return is 81.04pps, being the sum of dividends paid plus NAV, for a Shareholder who subscribed at launch. In the short-term, the NAV is a less important measure of performance as the underlying investments are long-term in nature and not readily realisable. The most important measures for a VCT are the long term record of dividend payments and the timing of those payments over the life of the Company.

Dividend re-investment

The Board decided to terminate the dividend re-investment scheme and this was announced with the interim results. The rules of the scheme required the issue of new shares at the prevailing NAV per share on the date of re-investment; however, as the price of the Company's shares stand at a discount to the NAV, the Board concluded that it was not in Shareholders' interests for their dividends to continue to be re-invested. Therefore, Shareholders who had previously elected to re-invest their dividends will receive any future distributions by cheque or bank transfer.

Share buy-back policy

Purchases of shares will be made within guidelines established from time to time by the Board at prices below the prevailing net asset value per ordinary share. Under the rules of the UK Listing Authority, the maximum price at which the Company can acquire shares is 5% above the average market value of the shares over the five business days immediately preceding the purchase. Shares purchased in this way will be cancelled and the Company will only deal with member firms of the London Stock Exchange. Share purchases will be funded from distributable reserves and to the extent that shares are purchased at a discount to net asset value, the net asset value of the remaining shares will increase.

Cancellation of share premium account

At the Company's Extraordinary General Meeting on 2 December 2003, Shareholders approved the cancellation of the share premium account to enable the Company to continue to make distributions and purchase its own shares. This has been approved by the Court and the transaction has been reflected in these Financial Statements.

Outlook

The Company now has a broad spread of investments and the Board believes that a number of these have very positive prospects which should respond to an improvement in the economic environment for smaller companies and intensive management.

Peter Timms

Chairman

7 June 2004

Investment Manager's Report

Investment activity

Further unlisted investment during the year ended 29 February 2004 totalled £2.9 million. At 29 February 2004, the portfolio stood at 42 investments with a total cost of £30.64 million and representing a qualifying investment level of 76%.

The following new investment has been made since the publication of the Interim Report:

Enterprise Food Group Limited (October 2003) – £300,000: Based in East Kilbride, Enterprise is a provider of supply chain and management services to the bakery sector. The total fundraising was £2.0 million and Murray VCT 4 PLC, Aberdeen Growth VCT I PLC, Aberdeen Growth Opportunities PLC, Aberdeen Development Capital PLC and Aberdeen City Council were co-investors.

Portfolio developments

Since the publication of the Interim Report the remaining the holding in Intron was sold. Proceeds of £673,231 were received, representing a gain over cost of £544,657 and a gain over the August 2003 valuation of £311,545. In total the sale of the investment in Intron has generated proceeds of £1,638,161 and a gain of £638,161 over cost.

Since the period end, Conveco has been sold to the Co-operative Group. Cash proceeds attributable to the Company of £1.9 million were received on completion and are reflected in the valuation at 29 February 2004. There are provisions for further receipts by way of deferred consideration within the next twelve months which, if received, would represent an aggregate return of the original cost of the investment.

Outlook

The immediate priority of the Manager is to improve the performance of the portfolio companies. Market conditions are improving and the Manager expects that a number of exits will be actively pursued in the short to medium term. Deal flow has also increased and if the pricing of new investments continues to be attractive, the Manager will continue to pursue new investments on a selective basis.

On behalf of the Board
Murray Johnstone Limited
Manager and Secretary
7 June 2004

Summary of Investment Changes

For the year ended 29 February 2004

	Valuation 28 February 2003		Transfers £'000	Net investment/ (disinvestment) £'000	Appreciation/ (depreciation) £'000	Valuation 29 February 2004	
	£'000	%				£'000	%
Unlisted investments							
Equities	4,589	18.0	1,102	(440)	(761)	4,490	19.4
Preference shares	958	3.7	(290)	1	(195)	474	2.0
Loan stock	13,478	52.9	(812)	994	(1,465)	12,195	52.8
	19,025	74.6	-	555	(2,421)	17,159	74.2
Listed investments							
Fixed income	6,770	26.6	-	(2,247)	(95)	4,428	19.1
Total investments	25,795	101.2	-	(1,692)	(2,516)	21,587	93.3
Other (liabilities)/net assets	(299)	(1.2)	-	1,852	-	1,553	6.7
Total assets*	25,496	100.0	-	160	(2,516)	23,140	100.0

* Total assets represents equity shareholders' funds

Investment Portfolio Summary

As at 29 February 2004

Unlisted investments	Nature of business	Valuation £'000	% of total assets
Conveco	Convenience store operator	1,903	8.2
TLC (Tender Loving Childcare)	Operator of day care nurseries	1,379	6.0
Synexus	Management of clinical trials	1,303	5.6
PSCA International	Government sector publishing	941	4.1
Clamonta	Precision engineering	866	3.8
Tuscan Energy Group	Oil production	850	3.7
Heathcotes Restaurants	Restaurant chain and providers of outside catering services	804	3.5
Businesshealth	Provider of health management services	751	3.2
ELE Advanced Technologies	Manufacturer of precision components for jet engines and gas turbines	750	3.2
Sequoia Technology	Distributor of electronic components & equipment	750	3.2
Other investments valued individually at less than £750,000		6,862	29.7
		17,159	74.2
Listed fixed income investments			
Treasury 5% Stock 7/6/2004		2,573	11.1
Treasury 6.75% Stock 26/11/2004		1,855	8.0
		4,428	19.1
Total investments		21,587	93.3

Ten Largest Unlisted Investments

CONVECO LIMITED

Operator of convenience stores
Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	2,386	1,674
Directors' valuation	1,903	1,674
Effective equity interest	7.4%	7.4%
Gross income received in the year	–	169
Basis of valuation	Discount to sale proceeds*	Cost
Cumulative realisation proceeds	–	–

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

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

* Since 29 February 2004, Conveco has been sold to the Co-operative Group

Period ended	27 Oct 2002 £'000	28 Oct 2001 £'000
Turnover	48,717	22,242
Profit before interest and tax	2,634	1,189
Profit before tax	640	242
Profit after tax	285	776
Preference share dividends	1	–
Ordinary share dividends	–	–
Net assets attributable to ordinary and preference shareholders	6,769	6,484
Earnings per ordinary share	410.3p	123.2p
Dividend per preference share	96.9p	–
Preference dividend cover	294	–
Dividend per ordinary share	–	–
Ordinary dividend cover	–	–

2001 – covers a five month trading period from date of buyout to 28 October 2001.

TLC (TENDER LOVING CHILDCARE) LIMITED

Operator of day care nurseries
Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	1,379	1,188
Directors' valuation	1,379	1,188
Effective equity interest	25.3%	25.3%
Gross income received in the year	–	22
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	–	–

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

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

Year ended 31 December	2002 £'000	2001 £'000
Turnover	1,208	581
Loss before interest and tax	(577)	(503)
Loss before tax	(909)	(670)
Loss after tax	(909)	(670)
Preference share dividend	–	–
Ordinary share dividend	–	–
Net assets attributable to ordinary and preference shareholders	1,358	1,434
Earnings per ordinary share	(473.2p)	(334.9p)
Dividend per preference share	–	–
Preference dividend cover	–	–
Dividend per ordinary share	–	–
Ordinary dividend cover	–	–

SYNEXUS LIMITED

Management of clinical trials

Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	968	968
Directors' valuation	1,303	726
Effective equity interest	13.3%	13.3%
Gross income received in the year	–	–
Basis of valuation	Cost	25% provision
Cumulative realisation proceeds	–	–

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.

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

Year ended 31 March	2003 £'000	2002 £'000
Turnover	6,183	5,037
Loss before interest and tax	(312)	(912)
Loss before tax	(843)	(1,407)
Loss after tax	(823)	(1,389)
Preference share dividend	–	–
Ordinary share dividend	–	–
Net assets/(liabilities) attributable to ordinary and preference shareholders	(813)	9
Earnings per ordinary share	(8.3p)	(15.2p)
Dividend per preference share	–	–
Preference dividend cover	–	–
Dividend per ordinary share	–	–
Ordinary dividend cover	–	–

PSCA INTERNATIONAL LIMITED

Government sector publishing

Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	628	628
Directors' valuation	941	628
Effective equity interest	6.4%	6.4%
Gross income received in the year	41	–
Basis of valuation	Earnings	Cost
Cumulative realisation proceeds	–	–

The business is a producer of high quality publications that are aimed at public sector officials in central and local government. The company is based in Newcastle under Lyme, Staffordshire and employs 60 people.

The management buy-out of Public Sector Communications Agency Limited was completed in December 2002 and was led, structured and arranged by Aberdeen Murray Johnstone Private Equity.

As the company was formed only in December 2002, audited accounts have not yet been prepared.

CLAMONTA LIMITED**Precision Engineering**

Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	735	735
Directors' valuation	866	735
Effective equity interest	21.5%	21.5%
Gross income received in the year	75	75
Basis of valuation	Earnings	Cost
Cumulative realisation proceeds	–	–

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

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

Year ended 31 October	2003 £'000	2002 £'000
Turnover	3,325	2,703
Profit before interest and tax	514	425
Profit before tax	164	59
Profit/(loss) after tax	10	(26)
Preference share dividends	–	–
Ordinary share dividends	53	40
Net assets attributable to ordinary and preference shareholders	780	822
Earnings per ordinary share	3.7p	(10.1p)
Dividend per preference share	14.5p	–
Preference dividend cover	65.9	–
Dividend per ordinary share	20.6p	15.5p
Ordinary dividend cover	0.18	(0.65)

TUSCAN ENERGY GROUP LIMITED**Oil production in the North Sea**

Incorporated in Scotland

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	850	850
Directors' valuation	850	850
Effective equity interest	1.5%	1.5%
Gross income received in the year	–	–
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	–	–

The company is located in Aberdeen and was awarded the licence to re-develop the Ardmore Field, formerly known as the Argyll Field, in the North Sea in association with third party service providers on a shared risks/rewards basis. The investment was drawn down in stages as key milestones were achieved, the final being DTI approval to operate and develop the field. Tuscan has also acquired 55% and the operatorship of the previously producing Crawford field from BP. This field has been renamed Cragganmore.

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

Year ended 30 June	2003 £'000	2002 £'000
Turnover	424	Nil
Loss before interest and tax	(313)	(317)
Loss before tax	(312)	(410)
Loss after tax	(312)	(410)
Net assets attributable to ordinary shareholders	524	836
Earnings per ordinary share	(5.2p)	(6.8p)
Dividends per ordinary share	–	–
Ordinary dividend cover	–	–

HEATHCOTES RESTAURANTS LIMITED**BUSINESSHEALTH GROUP LIMITED****Operator of restaurants and outside catering services****Provider of health management services**

Incorporated in England and Wales

Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	1,017	854
Directors' valuation	804	427
Effective equity interest	19.9%	19.9%
Gross income received in the year	–	16
Basis of valuation	Earnings	50% provision
Cumulative realisation proceeds	–	–

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	1,198	1,058
Directors' valuation	751	1,313
Effective equity interest	11.6%	8.4%
Gross income received in the year	–	6
Basis of valuation	37% provision	Cost
Cumulative realisation proceeds	–	–

Heathcotes Restaurants Limited is a restaurant chain which operates eight restaurants in the North of England and an outside catering division predominantly providing corporate hospitality services.

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

The initial investment was completed by Aberdeen Murray Johnstone Private Equity in April 2001. A total investment of £2.5 million has been undertaken on a tranching basis to fund the roll out of the restaurant chain.

Start-up and acquisition funding for Businesshealth Limited was provided by Murray Johnstone Private Equity clients in September 1999 with further investments being made in 2001-2003.

Year ended 28 February	2003 £'000	2002 £'000
Turnover	1,249	1,021
Profit before interest and tax	189	103
Profit before tax	6	7
(Loss)/profit after tax	(2)	7
Preference share dividend	–	–
Ordinary share dividend	–	–
Net assets attributable to ordinary and preference shareholders	668	670
Earnings per ordinary share	0.1p	0.1p
Dividend per preference share	–	–
Preference dividend cover	–	–
Dividend per ordinary share	–	–
Ordinary dividend cover	–	–

Year ended 31 December	2002 £'000	2001 £'000
Turnover	1,617	880
Loss before interest and tax	(1,715)	(2,836)
Loss before tax	(2,124)	(3,088)
Loss after tax	(2,124)	(3,088)
Ordinary share dividends	–	–
Net liabilities attributable to ordinary shareholders	(5,756)	(3,631)
Earnings per ordinary share	(17.0p)	(24.7p)
Dividend per ordinary share	–	–
Ordinary dividend cover	–	–

* Restated to reflect the allotment in May 2001 of 20 additional shares for each ordinary share then in issue.

Heathcotes Restaurants Limited does not produce consolidated accounts as it takes advantage of the small companies exemption. The figures above represent the trading results for Heathcotes Restaurants Limited which incorporates the trading results of the Group's Manchester and Longridge restaurants on an unaudited basis. In the year to 28 February 2003 the group's consolidated operating loss was £135,000 on sales of £5.7 million.

ELE ADVANCED TECHNOLOGIES LIMITED

Precision Engineering

Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	750	750
Directors' valuation	750	750
Effective equity interest	19.5%	19.5%
Gross income received in the year	76	188
Basis of valuation	Earnings	Cost
Cumulative realisation proceeds	–	–

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

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

Year ended 30 April	2003 £'000	2002 £'000
Turnover	9,538	9,516
Profit before interest and tax	708	323
Profit/(loss) before tax	259	(123)
Profit/(loss) after tax	220	(33)
Preference share dividend	–	–
Ordinary share dividend	34	–
Net assets attributable to ordinary and preference shareholders	887	680
Earnings per ordinary share	219.7p	(33.0p)
Dividend per preference share	10.1p	–
Preference dividend cover	2.181	–
Dividend per ordinary share	34.3p	–
Ordinary dividend cover	6.41	–

SEQUOIA TECHNOLOGY LIMITED

Distributor of electronic components and equipment

Incorporated in England and Wales

Holding details as at end February	2004 £'000	2003 £'000
Cost of investment	750	750
Directors valuation	750	750
Effective equity interest	32.6%	31.0%
Gross income received in the year	76	38
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	–	–

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

The management buy-out in November 2000 was led, structured and arranged by Murray Johnstone Private Equity.

Year ended 31 December	2002 £'000	2001 £'000
Turnover	8,530	12,426
Profit before interest and tax	122	767
(Loss)/profit before tax	(103)	482
(Loss)/profit after tax	(52)	332
Ordinary share dividend	–	–
Net assets attributable to ordinary shareholders	781	828
(Loss)/Earnings per ordinary share	(17.4)p	122.3p
Dividend per ordinary share	–	–
Ordinary dividend cover	–	–

Murray VCT 3 PLC

Directors' Report & Financial Statements

Year ended 29 February 2004

Directors' Report

The Directors submit their annual report together with the financial statements of the Company for the year ended 29 February 2004.

Review of the business

A review of the Company's operations is given in the Chairman's Statement on pages 7 and 8 and in the Investment Manager's Report on page 9.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £1,126,000. The board did not declare an interim dividend. The Directors now recommend a final dividend for the year of 1.8p per Ordinary share payable on 16 July 2004 to Ordinary Shareholders on the register at close of business on 18 June 2004 and a resolution to this effect will be proposed at the Annual General Meeting. The Board also intends to distribute a dividend of 0.2pps, representing part of the gain arising on the disposal of the holding in Intron. Subject to obtaining approval from the Inland Revenue for this distribution, the dividend will be paid at the same time as the final dividend. The total dividend for the year ended 29 February 2004 will therefore amount to 2.00pps. The sum of £319,000 has been transferred to the Company's reserves.

The Net Asset Value per Ordinary share at 29 February 2004 was 56.1p. The Net Asset Value per Ordinary share has been calculated using the number of shares in issue at 29 February 2004 of 41,278,788.

Directors

The Directors who held office during the year under review are shown on pages 2 and 3 of the Annual Report and their interests are shown below.

In accordance with the Articles of Association, Directors must offer themselves for re-election at least once every three years, and accordingly, Mr A S F Mair and Mr M J Walker, whose biographies appear on page 3, retire by rotation at this time and, being eligible, offer themselves for re-election. Resolutions 4 and 5 to that effect will be proposed at the Annual General Meeting.

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

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

	29 February 2004 Ordinary shares of 10p	28 February 2003 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
M J Walker	10,425	10,425
Total	69,192	69,192

Unless otherwise stated, all holdings are beneficial. As at 31 May 2004, there have been no changes in the share interests shown above.

Manager and Company Secretary

Investment management services are provided to the Company by Murray Johnstone Limited, a wholly-owned subsidiary of Aberdeen Asset Management PLC. The manager also provides company secretarial, accounting and administrative services.

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

- An investment management fee of 2.5% (2003 – 2.5%) per annum of the gross assets of the Company.
- A secretarial fee of £65,714 (2003 – 63,697) per annum which is subject to an annual adjustment to reflect movement in the retail prices index.

The Manager is also entitled to a performance fee in certain circumstances relating to the performance of the Company's share price and market capitalisation. These circumstances have not been met and no fee was payable in respect of the year ended 29 February 2004.

The effects of these arrangements for the year ended 29 February 2004 are detailed on page 33.

The Board considers that the continued appointment of the Manager on the agreed terms is in the interests of the Shareholders, and that the terms of the management agreement properly incentivise the Manager to deliver optimal performance.

Purchase of ordinary shares

During the year ended 29 February 2004, 450,549 Ordinary shares of 10p each (representing 1.10% of the issued ordinary share capital at 28 February 2003) were purchased at an aggregate cost of £192,297, representing a weighted average price of 42.7p per share. Since the year end 195,000 shares have been repurchased at an average price of 31.5p per share.

A special resolution, numbered 8 in the notice of Annual General Meeting, will ask Shareholders for their approval to renew the authority to purchase in the market an aggregate of 14.99% of Ordinary shares in issue (6,158,459 Ordinary shares) at 31 May 2004. Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is the earlier. This means in effect that the authority will have to be renewed at the next Annual General Meeting of the Company.

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

The purchase of Ordinary shares by the Company is intended to 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 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

During the year ended 29 February 2004, 751,328 Ordinary shares of 10p each were issued, at a price of 57.27p, under the dividend reinvestment scheme for a total consideration of £430,286.

Resolution numbered 9 in the notice of meeting will be put to shareholders at the Annual General Meeting for their approval to issue up to an aggregate nominal amount of £410,837 (equivalent to 4,108,378 Ordinary shares or 10% of the total issued share capital at 31 May 2004). If further issues of new Ordinary shares are made they will be made only at a premium to Net Asset Value per share, thus ensuring existing investors will not be disadvantaged by such issues. The proceeds of any issue may be used to purchase the Company's Ordinary shares in the market. This authority shall expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first one to occur.

When shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 provides that existing Shareholders have pre-emption rights and that the new shares are offered first to such Shareholders in proportion to their existing shareholdings. However Shareholders can, by special resolution, authorise the Directors to allot shares otherwise than by a pro rata issue to existing Shareholders. Resolution 10 will, if passed, also give the Directors power to allot for cash, Ordinary shares up to an aggregate nominal amount of £410,837 (equivalent to 4,108,378 Ordinary shares or 10 per cent of the total issued share capital at 31 May 2004) as if Section 89(1) does not apply. This is the same amount of share capital that the Directors are

seeking the authority to allot pursuant to resolution 9. The authority will also expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first one to occur. The Company will not use this authority in connection with a rights issue.

Share capital

Following the issue of Ordinary shares by means of the dividend reinvestment scheme and the purchase of Ordinary shares for cancellation during the year, the issued ordinary share capital at 29 February 2004 amounted to 41,278,788 Ordinary shares of 10p each.

Corporate governance

The Statement of Corporate Governance is shown on pages 23 to 25.

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.


Annual general meeting

The notice of Annual General Meeting, which will be held on 8 July 2004, is contained on pages 46 and 47.

Auditors

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

123 St Vincent Street
Glasgow G2 5EA
7 June 2004



By order of the Board
Murray Johnstone Limited
Secretary

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 27.

Remuneration Committee

The Company has five independent non-executive Directors whose details are set out on pages 2 and 3 of the Annual Report, and who form the Remuneration Committee. The whole Board fulfils the function of a Remuneration Committee. The names of the Directors are shown on page 22 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 2005 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 level of fees for the year under review was £12,000 for the Chairman and £9,000 for each Director. The current level of fees is £15,000 for the Chairman and £12,000 for each Director. The policy is to review these rates from time to time.

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 Small Cap and AIM indices. Figures are shown for the period from inception to financial years ending 28 February. It is assumed that all dividends are reinvested. The indices chosen are the most relevant to the Company's investment portfolio.

Total Return Performance (rebased to 100 at February 1999)

Source: Aberdeen Asset Management PLC/Datastream.
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 29 February 2004 £'000	For the year ended 28 February 2003 £'000
P K Timms (Chairman of the Board)	12	12
J Cooper	9	9
A Cubie CBE	9	9
A S F Mair	9	9
M J Walker	9	9

Fees for J Cooper, A Cubie and M J Walker were paid to Cooper Associates, Fyfe Ireland (for part of the year) and Maclay, Murray & Spens respectively.

Approval

The Directors' Remuneration Report on pages 21 and 22 was approved by the Board of Directors on 15 April and signed on its behalf by:

7 June 2004



P K Timms
Director

Statement of Corporate Governance

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

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the forty-five Combined Code provisions throughout the year. Save the limited exceptions outlined below, the Company has complied throughout the year ended 29 February 2004 with the provisions set out in Section 1 of the Combined Code.

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

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

The Board

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

- Mr P K Timms is a director of Schroder Mid and Small Cap Fund plc, which was managed by Murray Johnstone Limited until 8 December 2000. He is also chairman of J & S Marine, in which the Company holds shares as shown on page 38.
- Mr J Cooper and Mr M J Walker are directors of Murray VCT 2 PLC, another venture capital trust managed by Murray Johnstone Limited.

Biographies of the Directors appear on pages 2 and 3 of this report and indicate their high level and range of investment, industrial, commercial and professional experience.

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

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

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

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

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

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

External Agencies

The Board has contractually delegated to external agencies certain services, including to the Manager: the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper

consideration by the Board of the quality and cost of services offered including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers reports from the Manager on a regular basis. In addition ad hoc reports and information are supplied to the Board as requested.

Committees

Nomination Committee

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

Audit Committee

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

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

Management Engagement Committee

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

All of the committees are chaired by Mr P K Timms.

Directors' Terms of Appointment

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

Directors' Remuneration

Under the UK Listing Authority Listing Rule 26.9 (d), where a venture capital trust has only non-executive Directors the code principles relating to Directors' remuneration do not apply. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The remuneration of each Director is detailed in the Directors' Remuneration Report on page 22.

Communication with Shareholders

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

The annual and interim report and accounts are distributed to other parties who have an interest in the Company's performance. Up to date information on the Company may be obtained through the Manager and the Company responds to letters from Shareholders on a wide range of issues. All shareholders have direct access to the Company via the shareholder information service run by Aberdeen Asset Management PLC.

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

The notice of Annual General Meeting sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 18 to 20. Separate resolutions are proposed for each substantive issue.

All Shareholders have the opportunity to put questions at the Company's Annual General Meeting. The results of proxy voting are provided to shareholders at Annual General Meetings, after each resolution has been dealt with on a show of hands.

Accountability and Audit

The Directors' statement of responsibilities in relation to the financial statements is on page 26 and a Statement of Going Concern on page 20.

The Independent Auditors' Report is on page 27.

Internal Control

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

The Directors confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place for the full year and up to the date of the approval of Financial Statements. This process is regularly reviewed by the Board and accords with the Turnbull guidance.

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

Risks are identified through a risk management framework by each function within the Manager's activities. Risk is considered in the context of the Turnbull Guidance and includes financial, regulatory, market, operational and reputational risk. Any weaknesses identified are reported to the Company and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Company. In addition, the Manager ensures that clearly documented contractual arrangements exist in respect of any activities that have been delegated to external professional organisations.

The Manager's internal audit function reports six monthly to the Audit Committee and has direct access to the Directors at any time.

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

Exercise of Voting Powers

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

The Company has given discretionary voting powers to the Manager, in respect of its investments. The Manager notes against resolutions that it considers might damage shareholders' rights or economic interests. The Manager also gives due weight to what it considers to be socially responsible investment, but the overriding objective is to produce good investment returns for shareholders.

Statement of Directors' Responsibilities in relation to the Financial Statements

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

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

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

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

We have audited the Company's Financial Statements for the year ended 29 February 2004 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.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises the Corporate Summary, Your Board, Financial History, Dividends, Yield Profile, Analysis of Unlisted Investments, Chairman's Statement, Investment Manager's Report, Summary of Investment Changes, Investment Portfolio Summary, Ten Largest Unlisted Investments, Directors' Report, unaudited part of the Directors' Remuneration Report, Statement of Corporate Governance, Venture Capital Trusts, Tax Position of Individual Investors, Notice of Meeting 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 29 February 2004 and of its profit for the year then ended; and
- The Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor
Edinburgh

7 June 2004

Profit and Loss Account

For the year ended 29 February 2004

	Notes	29 February 2004			28 February 2003		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment income and deposit interest	2	1,687	–	1,687	1,495	–	1,495
Investment management fees	3	(300)	(450)	(750)	(393)	(590)	(983)
Other expenses		(208)	–	(208)	(165)	–	(165)
Operating profit/(loss)		1,179	(450)	729	937	(590)	347
Profit on realisation of investments	8	–	596	596	–	1,143	1,143
Profit on ordinary activities before taxation		1,179	146	1,325	937	553	1,490
Tax on ordinary activities	5	(346)	147	(199)	(197)	177	(20)
Profit on ordinary activities after taxation		833	293	1,126	740	730	1,470
Dividends	6	(724)	(83)	(807)	(652)	(2,101)	(2,753)
Balance transferred to/(from) reserves		109	210	319	88	(1,371)	(1,283)
Earnings per share (pence)	7	2.0	0.8	2.8	1.8	1.8	3.6

Statement of Total Recognised Gains and Losses

For the year ended 29 February 2004

	Notes	29 February 2004			28 February 2003		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit on ordinary activities after taxation		833	293	1,126	740	730	1,470
Unrealised loss on revaluation of investments	8	–	(3,112)	(3,112)	–	(8,040)	(8,040)
Current tax attributable to unrealised gains/(losses) on loan relationships	5	346	(147)	199	48	–	48
Total recognised gains/(losses) relating to the year	15	1,179	(2,966)	(1,787)	788	(7,310)	(6,522)

Note of Historical Cost Profits and Losses

For the year ended 29 February 2004

		29 February 2004	28 February 2003
	Notes	£'000	£'000
Profit on ordinary activities before taxation		1,325	1,490
Realisation of revaluation (losses)/gains of previous years	8	(1,533)	604
Historical cost (loss)/profit on ordinary activities before taxation		(208)	2,094
Historical cost loss for the year retained after taxation and dividends		(1,099)	(671)

All items in the above statements 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 29 February 2004

	Notes	29 February 2004		28 February 2003	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	8		21,587		25,795
Current assets					
Debtors	10	1,970		2,110	
Cash and overnight deposits		653		107	
		2,623		2,217	
Creditors					
Amounts falling due within one year	11	1,070		2,516	
Net current assets/(liabilities)			1,553		(299)
Net assets			23,140		25,496
Capital and reserves					
Called up share capital	12		4,128		4,098
Share premium account	13		–		20,395
Revaluation reserve	13		(13,031)		(11,536)
Capital redemption reserve	13		117		72
Profit and loss account	13		31,926		12,467
Equity Shareholders' funds			23,140		25,496
Net Asset Value per Ordinary share (pence)	14		56.1		62.2

The Financial Statements were approved by the board of directors on 19 May 2004 and were signed on its behalf by:

7 June 2004



P K Timms CBE
Director

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

Cash Flow Statement

For the year ended 29 February 2004

	Notes	29 February 2004		28 February 2003	
		£'000	£'000	£'000	£'000
Operating activities					
Investment income received		1,574		1,682	
Deposit interest received		7		16	
Other income		10		–	
Investment management fees paid		(809)		(1,019)	
Secretarial fees paid		(55)		(54)	
Cash paid to and on behalf of Directors		(60)		(29)	
Other cash payments		(114)		(90)	
Net cash inflow from operating activities	16		553		506
Financial investment					
Purchase of investments		(6,625)		(13,187)	
Sale of investments		8,516		13,785	
Net cash inflow from financial investment			1,891		598
Equity dividends paid			(2,178)		(1,375)
Net cash inflow/(outflow) before financing			266		(271)
Financing					
Issue of Ordinary shares		472		346	
Repurchase of Ordinary shares		(192)		(201)	
Net cash inflow from financing			280		145
Increase/(decrease) in cash	17		546		(126)

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

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

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

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 additional non-statutory information on 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 diminutions 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; and
- 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 40% to revenue and 60% to capital, and tax has been allocated on 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 presenting 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.

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 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.
- 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 Aberdeen Murray Johnston Private Equity's Portfolio Management Team. The resultant valuations are subject to detailed scrutiny and approval by the Directors of Murray VCT 3.

In line 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.

	Year ended 29 February 2004 £'000	Year ended 28 February 2003 £'000
2. Investment income and deposit interest		
<i>Income from investments:</i>		
UK unfranked investment income	390	525
UK franked investment income	37	28
Income from participating interests	1,243	928
	1,670	1,481
<i>Interest receivable and similar income:</i>		
Other Income	10	–
Deposit interest	7	14
Total income	1,687	1,495

	Year ended 29 February 2004			Year ended 28 February 2003		
	£'000	£'000	£'000	£'000	£'000	£'000
3. Investment management fees	Revenue	Capital	Total	Revenue	Capital	Total
Investment management fees	255	383	638	335	502	837
Irrecoverable VAT	45	67	112	58	88	146
	300	450	750	393	590	983

Details of the fee basis are contained in the Directors' Report on pages 18 and 19.

	Year ended 29 February 2004 £'000	Year ended 28 February 2003 £'000
4. Operating profit is stated after charging:		
Directors' remuneration	48	48
Fees to Auditors:		
– audit fees	15	16

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
2004			
Corporation tax	199	(199)	-
	199	(199)	-
2003			
Corporation tax	48	(48)	-
Adjustment in respect of prior periods	(28)	-	(28)
	20	(48)	(28)

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% (2003 - 30%). The differences are explained below:

	29 February 2004 £'000	28 February 2003 £'000
Profit on ordinary activities before tax	1,325	1,490
Profit on ordinary activities multiplied by standard rate of corporation tax	398	447
Effect of marginal relief	(19)	-
Effect of profit on sale of assets not subject to taxation	(179)	(369)
Effect of income not subject to taxation	(1)	(28)
Effect of disallowed expenditure	-	(2)
Prior year adjustment	-	(28)
	199	20

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 £1,215,000 (2003 - £1,432,000) 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.

	29 February 2004 £'000	28 February 2003 £'000
6. Dividends		
Interim dividend of nil (2003 - 0.5p)	-	205
Proposed final dividend of 1.8p (2003 - 1.1p)	743	451
Proposed capital dividend of 0.2p (2003 - 4.26p)	83	1,746
Capital dividends (2003 - 0.87p)	-	355
Overaccrual in previous year	(19)	(4)
	807	2,753

7. Earnings per share

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

	Year ended 29 February 2004	Year ended 28 February 2003
Average number of Ordinary shares	40,717,317	40,920,990
Profit on ordinary activities after taxation	£1,126,000	£1,470,000

8. Investments

	Year ended 29 February 2004		
	Listed £'000	Unlisted £'000	Total £'000
Valuation at 1 March 2003	6,770	19,025	25,795
Purchases	3,397	3,067	6,464
Sales	(5,612)	(1,864)	(7,476)
Amortisation of book cost	(84)	-	(84)
Net decrease in value of investments	(43)	(3,069)	(3,112)
Valuation at 29 February 2004	4,428	17,159	21,587

	Shares in participating interests £'000	Loans to participating interests £'000	Other investments £'000
Constituted:			
<i>Listed investments</i>	-	-	4,428
<i>Unlisted investments</i>			
Valuation at 1 March 2003	4,014	10,801	4,210
Purchases	186	1,730	1,151
Sales	(300)	(1,564)	-
Transfer between categories	648	(648)	-
Net decrease in value of investments	(1,348)	(633)	(1,088)
Valuation at 29 February 2004	3,200	9,686	8,701

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

	Year ended 29 February 2004		Year ended 28 February 2003	
	£'000	£'000	£'000	£'000
Cost at beginning of year		37,681		37,090
Purchases	6,464		13,187	
Sales	(8,072)		(14,229)	
Transfer of unrealised (losses)/gains realised during the year	(1,533)		604	
Realised gains	596		1,143	
		(2,545)		705
Amortisation of book cost		(84)		(114)
Cost at end of year		35,052		37,681
Unrealised loss		(13,465)		(11,886)
Valuation at end of year		21,587		25,795

The cost of unlisted investments at 29 February 2004 was £30,638,370 (2003 – £31,173,000). The net unrealised loss on the unlisted investments at 29 February 2004 was £13,479,338 (2003 – £12,147,771 loss), comprising £993,518 unrealised gains (2003 – £670,591) and provisions of £14,472,856 (2003 – £12,818,362). During the year unlisted investments in Agrifames, Intron and Stratumsoft were sold and Booth Dispensers, Businesshealth, Intron, Mercury Inns, and Stratumsoft loan stock was repaid for a total of £3,281,000 against a cost of £2,529,000.

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 29 February 2004 the company held shares amounting to 20% or more of the equity capital of the following unquoted undertakings:

Investment	29 February 2004				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	750	562	31/01/02	1,393	31
500 Preference stock	50.0						
£350,000 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	2,187	–	30/09/02	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						
Charmwood Furniture Group Limited*							
195,000 B ordinary shares	46.4	20.9	650	–	31/03/02	85	(205)
£455,000 loan stock	46.4						
GW 665 Limited*							
14,874 B ordinary shares	37.0	37.0	15	–	N/A	N/A	N/A
£589,866 secured loan stock	21.4						
GW 1016 Limited*							
858 ordinary shares	21.4	21.5	590	429	N/A	N/A	N/A
£589,866 secured loan stock	21.4						
Sequoia Technology Limited							
85,714 A ordinary shares	100.0	32.6	750	750	31/12/02	781	(52)
£525,000 loan stock 2007	100.0						
TLC (Tender Loving Childcare) Limited*							
48,531 B ordinary shares	51.1	25.3	1,379	1,379	31/12/02	1,358	(909)
£607,918 secured loan notes 2005/07	51.1						
£510,357 Loan stock 10%	51.1						
2,043 Preference Stock	51.1						
Wisdom IT Holdings Limited							
114,520 A ordinary shares	43.0	43.0	650	–	31/10/02	94	8
350,000 preference shares	100.0						

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

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

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

At 29 February 2004 the company held shares amounting to 20% or more of the nominal value of any class of share of the following unquoted undertakings

Investment	29 February 2004		
	% of class held	Total cost £'000	Carrying Value £'000
Astraeus Limited*			
60,867 C ordinary shares	50.0	550	550
1,528 Preference Shares	15.3		
£487,605 B Loan Stock 2005	50.0		
BA Shelfco Limited*			
70,000 B ordinary shares	31.1	210	–
419,000 Preference Shares	31.1	490	
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 Limited*			
38,652 B ordinary shares	35.9	735	866
359 preference shares	35.9		
£514,491 loan stock 2006	35.9		
ELE Advanced Technologies Limited*			
14,250 B ordinary shares	30.0	750	750
300 preference shares	30.0		
£524,693 loan note 2007	30.0		
First Line Limited*			
87,941 B ordinary shares	30.0	750	472
3,000 preference shares	30.0		
£522,000 loan stock 2008	30.0		
Heathcotes Restaurants Limited*			
305,188 B ordinary shares	40.7	1,017	804
407 preference shares	40.7		
£712,034 loan stock 2008	40.7		
House of Dorchester Holdings Limited*			
665 ordinary shares	33.3	350	350
350 preference shares	35.0		
£244,650 Loan Stock	35.0		
Interak Limited*			
33,395 A ordinary shares	40.8	1,000	–
£700,000 loan stock 2008	40.8		

Investment	% of class held	29 February 2004	
		Total cost £'000	Carrying Value £'000
J & S Marine Limited*			
18,383 B ordinary shares	52.8	325	393
£263,890 8% loan stock 2007	52.8		
Link Up Mitaka Limited*			
1,357,000 B ordinary shares	27.7	629	629
139 preference shares	27.7		
£138,500 loan stock 2007	27.7		
£74,652 loan stock 2008	27.7		
Mercury Inns Group Limited*			
35,640 ordinary shares	21.4	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	560
3,394 preference shares	33.9		
£388,606 Loan Stock 12%	33.9		
Moves Group Limited*			
10,162 B ordinary shares	42.1	818	—
£572,500 loan stock 2004	37.4		
Poulter Limited*			
89,525 A ordinary shares	35.2	353	422
£190,032.50 loan stock 2004	35.2		
PSCA International*			
6,360 ordinary shares	21.6	628	941
2,156 preference shares	21.6		
£437,888 loan stock	21.6		
Synexus Limited*			
1,207,814 B ordinary shares	24.2	968	1,303
242 preference shares	24.2		
£677,490 loan stock 2008	24.2		
The Hart Group Limited*			
£66,887 loan stock	31.1	67	—
Tuscan Energy Group Limited*			
89,250 C ordinary shares	42.5	850	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	90
25,000 preference shares	25.0		
£90,000 secured loan stock	25.0		
£697,500 loan stock 2008	25.0		

Investment	% of class held	29 February 2004	
		Total cost £'000	Carrying Value £'000
Visual Gold Limited*			
538 B ordinary shares	37.0	1,144	-
3,704 preference shares	37.0		
£696,296 loan stock 2008	37.0		
£76,222 loan stock 2003	37.0		
£67,978 loan stock 2008	37.0		
Voxsurf Limited *			
58,997 A ordinary shares	50.5	676	225
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 *			
51,318 A ordinary shares	29.7	1,000	333
£699,790 loan stock 2004	29.7		

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

	29 February 2004	28 February 2003
	£'000	£'000
10. Debtors		
Current taxation – income tax recoverable	618	696
Prepayments and accrued income	1,191	928
Called up share capital not paid	-	42
Other debtors	161	444
	1,970	2,110

	29 February 2004	28 February 2003
	£'000	£'000
11. Creditors		
<i>Amounts falling due within one year:</i>		
Proposed final dividend	743	451
Proposed capital dividend	83	1,746
Management and secretarial fees due to Manager	196	255
Accruals	48	64
	1,070	2,516

12. Share capital	29 February 2004		28 February 2003	
	Number	£'000	Number	£'000
<i>At 29 February 2004 the authorised share capital comprised:</i>				
<i>allotted, issued and fully paid:</i>				
Ordinary shares of 10p each				
Balance brought forward	40,978,009	4,098	40,942,719	4,094
Issued during year	751,328	75	346,660	35
Repurchased and cancelled in year	(450,549)	(45)	(311,370)	(31)
Balance carried forward	41,278,788	4,128	40,978,009	4,098
Unissued unclassified shares of 10p each	18,721,212	1,872	19,021,991	1,902
	60,000,000	6,000	60,000,000	6,000

During the year, 751,328 Ordinary shares (2003 – 346,660) of 10p each were issued under the dividend re-investment scheme for a total consideration of £430,286 (2003 – £284,602). A total of 450,549 Ordinary shares (2003 – 311,370) of 10p each were repurchased by the Company at a weighted average price of 42.7p per share (2003 – 63.9p), at a total cost of £192,297 (2003 – £201,191), and cancelled.

13. Movement in reserves	Year ended 29 February 2004			
	Share premium account	Revaluation reserve	Capital redemption reserve	Profit and loss account
	£'000	£'000	£'000	£'000
At 1 March 2003	20,395	(11,536)	72	12,467
Issue of shares	355	–	–	–
Repurchase and cancellation of shares	–	–	45	(192)
Transfer of realised losses to profit and loss account	–	1,533	–	(1,533)
Tax effect of transfer of losses to profit and loss account	–	(115)	–	115
Taxation attributable to unrealised loss on investments	–	199	–	–
Net decrease in value of investments	–	(3,112)	–	–
Transfer to distributable reserve *	(20,750)	–	–	20,750
Profit for year	–	–	–	319
At 29 February 2004	–	(13,031)	117	31,926

* The transfer of distributable reserve arose as a result of the cancellation of the share premium account.

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:

	29 February 2004		28 February 2003	
	Net Asset Value per share	Net Asset Value attributable	Net Asset Value per share	Net Asset Value attributable
	p	£'000	p	£'000
Ordinary shares	56.1	23,140	62.2	25,496

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

15. Reconciliation of movements in Shareholders' funds	Year ended	Year ended
	29 February 2004	28 February 2003
	£'000	£'000
Opening Shareholders' funds	25,496	34,687
Total recognised losses for year	(1,787)	(6,522)
Net proceeds of issue of shares	430	285
Repurchase and cancellation of shares	(192)	(201)
Dividends appropriated	(807)	(2,753)
Closing Shareholders' funds	23,140	25,496

16. Reconciliation of operating profit to net cash inflow from operating activities	Year ended	Year ended
	29 February 2004	28 February 2003
	£'000	£'000
Operating profit	729	347
(Increase)/decrease in debtors	(263)	256
Decrease in accruals	(75)	(47)
Amortisation of fixed income investment book cost	84	114
Tax on unfranked income	78	(164)
Net cash inflow from operating activities	553	506

17. Analysis of changes in net funds	Year ended			Year ended		
	29 February 2004			28 February 2003		
	Brought forward	Cash flows	Carried forward	Brought forward	Cash flows	Carried forward
Cash and overnight deposits	£'000	£'000	£'000	£'000	£'000	£'000
	107	546	653	233	(126)	107

18. Capital commitments	29 February 2004	28 February 2003
	£'000	£'000
Unlisted investment commitments	565	144

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 issuer. These powers and guidelines include the requirement to invest in a number of companies across a range of industrial and service sectors at varying stages of development but with emphasis on well-established businesses. Further information on the investment portfolio is set out in the investment manager's report on page 9 .

b) Interest rate risk

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

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

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

The listed fixed interest assets have a weighted average life of 0.47 (2003 – 1.9) years and a weighted average interest rate of 3.96% (2003 – 6.87%) per annum. These assets are held to provide liquidity for unlisted investment. 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 3.01 (2003 – 4.08) years and a weighted average interest rate of 11.65% (2003 – 11.97%). 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 provide a greater degree of liquidity.

Venture Capital Trusts

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

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

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

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

Qualifying holdings

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

A qualifying trade is any other than:

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

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

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

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

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

Tax Position of Individual Investors

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

1. Tax reliefs for individual investors resident in the UK

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

Relief from income tax

An investor subscribing for new ordinary shares in a venture capital trust, for the tax years 2004/5 and 2005/6, will be entitled to claim income tax relief on amounts subscribed at up to 40%. The increase in the rate of income tax relief from 20% to 40% is for two years only and may not be continued after 5 April 2006. With effect from 6 April 2004, the maximum subscription in new Ordinary shares of a venture capital trust is increased from £100,000 to £200,000 in each tax year. For shares purchased on or after 6 April 2000, the income tax relief must be repaid should the shares be sold or otherwise disposed of within three years. For shares purchased on or before 5 April 2000, the retention period is five years. Relief is limited to the amount which reduces the investor's income tax liability to nil.

An investor who subscribes for or acquires up to a maximum of £200,000 of ordinary shares in any given tax year will not be liable to UK income tax on dividends paid by a venture capital trust, which may include realised capital gains by the venture capital trust.

Relief from capital gains tax

The capital gains tax deferral will no longer be available for subscriptions for new shares of a VCT from 6 April 2004.

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

A disposal by an investor of ordinary shares (whether acquired by subscription for new shares or subsequent acquisition) in a venture capital trust will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is limited to disposals of ordinary shares acquired within the limit of £100,000 for any tax year. On the death of an investor or a spouse who has acquired venture capital trust shares within marriage, no deferred capital gains tax or income tax will become payable by either the investor, their spouse or anyone inheriting the venture capital trust shares.

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

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

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

2. Obtaining tax reliefs

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

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

Capital gains tax deferral

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

3. Investors who are not resident in the UK

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

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

Risk warnings

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

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

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

Notice of Meeting

Notice is hereby given that the sixth annual general meeting of Murray VCT 3 PLC will be held on Thursday 8 July 2004 at 10.15 a.m. at 123 St Vincent Street, Glasgow G2 5EA, to transact the following business.

Ordinary Business

1. To receive the Directors' report and audited statement of accounts for the year ended 29 February 2004.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend.
4. To re-elect Mr A S F Mair as a Director.
5. To re-elect Mr M J Walker as a Director.
6. To re-appoint Ernst & Young LLP as Auditors.
7. To authorise the Directors to fix the remuneration of the Auditors.

Special Business

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

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

- (a) the maximum number of Ordinary shares hereby authorised to be purchased is 6,158,459 representing 14.99% of the Company's issued Ordinary share capital as at 31 May 2004;
- (b) the minimum price which may be paid for an Ordinary share shall be 10p per share;
- (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be not more than the lower of (i) Net Asset Value per share and (ii) 105 per cent of the average of the middle market quotations for an Ordinary Share taken from, and calculated by reference to, the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date on which the Ordinary shares are purchased; and
- (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution, save that the Company may before such expiry enter into a contract to purchase Ordinary shares which will or may be completed wholly or partly after such expiry.

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

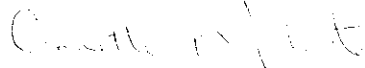
THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £410,837 (representing 10% of the total Ordinary share capital in issue on 31 May 2004) during the period expiring on the date of the next Annual General Meeting or on the expiry of 15 months from the passing of this resolution, whichever is the first to occur, save that the Company may make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.

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

THAT, subject to passing of resolution number 9 set out above, the Directors be and are hereby empowered, pursuant to Section 95 of the Companies Act 1985 ("the Act"), to allot equity shares (as defined in Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution number 8 as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) during the period expiring on the earlier of the date of the Company's next Annual General Meeting or on the expiry of 15 months from the passing of this resolution, whichever is the first to occur, but so that this power shall enable the Company to make offers or agreements which would or might require equity securities to be allotted after the expiry of this power; and
- (b) up to an aggregate nominal amount of £410,837 (representing 10% of the total Ordinary share capital in issue on 31 May 2004).

123 St Vincent Street
Glasgow G2 5EA
7 June 2004


By order of the Board
Murray Johnstone Limited
Secretary

Notes:

1. No Director has any contract of service with the Company.
2. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, has specified that only those shareholders on the register of members of the Company as at 10.15pm on 6 July 2004 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after 2.15pm on 6 July 2004 shall be disregarded when determining the rights of any person to attend or vote at the meeting.
3. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of him/her.
4. A proxy need not be a member. Appointment of a proxy need not preclude a member from attending and voting at the meeting should he/she subsequently decide to do so.

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

The Directors' Remuneration Report, referred to in resolution 2, is on pages 21 and 22.

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

Resolution 3	Page 18	Dividends
Resolutions 4 and 5	Page 18	Directors
Resolutions 6 and 7	Page 20	Auditors
Resolution 8	Page 19	Purchase of ordinary shares
Resolutions 9 and 10	Page 19	Issue of new ordinary shares

5. Proxy forms and powers of attorney or other authority should be sent to the Company's registrar, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to arrive not less than 48 hours before the time fixed for the meeting.
6. The Register of Directors' Interests is kept by the Company in accordance with section 325 of the Companies Act 1985 and will be open for inspection at the meeting.

Registered in England and Wales - Company Number 3495287

Corporate Information

Directors

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

Manager & Secretary

Murray Johnstone Limited
123 St Vincent Street
Glasgow G2 5EA

Customer Services Department: 0500 00 00 40
(open Monday to Friday 9am-5pm)
email: invtrusts@aberdeen-asset.com

Points of Contact

The Chairman and/or the Company Secretary at
123 St Vincent Street
Glasgow G2 5EA

email: company.secretary@invtrusts.co.uk

Website

www.aberdeen-asset.com

Registered Office

One Bow Churchyard
Cheapside
London EC4M 9HH

Company Registration Number: 3495287

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Shareholder Helpline: 0870 162 3100

Stockbrokers

Close Brothers Securities

Solicitors

S J Berwin

Auditors

Ernst & Young LLP

Custodian Bankers

JP Morgan Chase Bank

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Authorised and regulated by The Financial Services Authority
Member of the Aberdeen Asset Management Group of Companies