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Murray
VCT 3 PLC

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



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Annual Report
28 February 2002

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Financial Calendar

Annual General Meeting

16 July 2002

Dividend Schedule

	Rate	xd date	Record date	Payment date
Interim dividend	0.5p	5 December 2001	7 December 2001	28 December 2001
Proposed final dividend	2.0p	26 June 2002	28 June 2002	22 July 2002
Total	2.5p			

Registered in England and Wales - Company Number 3495287



Murray
VCT 3 PLC

Corporate Summary

Investment Objective

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

Life of the Company

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

Capital Structure

The Company's share capital consists of 40,742,719 Ordinary shares of 10p each at 31 May 2002.

Summary Management Agreement

The Manager has agreed to provide Investment Management Services for a fee calculated on the gross assets value, together with a Secretarial Fee, as detailed in Note 3 on page 26. The Management Agreement is terminable on twelve months notice.

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

Tel: 0141 306 7400

Registered Office

One Bow Churchyard,

Cheapside,

London EC4M 9HH

Company Registration Number: 3495287

Registrars

Capita IRC Plc

Balfour House

390/398 High Road

Ilford

Essex IG1 1NQ

Shareholder helpline: 020 8639 2000

Stockbrokers

UBS Warburg

Custodian Bankers

JP Morgan Chase Bank

Solicitors

S J Berwin & Co

Auditors

Ernst & Young LLP

Board Members

Chairman

P K Timms CBE (58) was appointed a Director and Chairman in January 1998. He is the founder and managing director of Flexible Technology Limited, and is chairman of J&S Marine Limited, Scottish Electronic Technology Group Limited, Smartpower Limited, HIE Ventures Limited and LeggMason Investors Enterprise plc. He is also a non-executive director of Argyll and The Islands Enterprise Company Limited and The Business Forum Scotland Limited. He is a visiting professor and chairman of the advisory board of the University of Glasgow Business School.

Directors

J Cooper (58) was appointed a Director in January 1998. He has been actively involved in a number of management buy-ins having been managing director of Clairmont plc from 1987 to 1991 and chief executive of Calder Group Limited from 1994 to 1995. Prior to becoming involved with the venture capital industry in 1987, he was a director of several GEC companies and James Howden Ltd. He is chairman of First Engineering Holdings Limited, Encon Limited, Magnet Applications Ltd and Yaba Ltd. He is also a non-executive director of Murray VCT 2 PLC, Semple Cochrane plc and Scottish Enterprise Lanarkshire.

A Cubie CBE (55) was appointed a Director in January 1998. He is the senior partner of Fyfe Ireland, solicitors, having extensive experience of corporate law and investment, particularly in the private company sector. He is a non-executive director of Norfrost Holdings Limited and Kinloch Anderson Limited. He was chairman of CBI Scotland from 1995 to 1997. He is chairman of Quality Scotland Foundation, and Scotland's Health of Work. He is vice-chairman of the Court of Napier University and the author of the Cubie Report in respect of student funding in Scotland.

A S F Mair MBE DL (66) was appointed a Director in January 1998. He is a former chairman and managing director of Caithness Glass Limited. He has considerable knowledge and experience of public and private companies and has led two management buy-outs. He is chairman of Crieff Hydro Limited and a non-executive director of Grampian Television Limited. He was chairman of CBI Scotland from 1989 to 1991. He is Chancellor's Assessor and vice-chairman of the Court of the University of Aberdeen.

M J Walker (49) was appointed a Director in January 1998 and is the managing partner of Maclay Murray & Spens, solicitors, having been appointed a partner in 1981. Since then he has specialised in the corporate sector having wide experience of all forms of corporate activity including venture capital investments, acting on behalf of investors, investees and supporting financial institutions. He is a non-executive director of John Menzies plc and Murray VCT 2 PLC.

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

Manager

Murray Johnstone Limited is the Manager of the Company. It is a subsidiary of Aberdeen Asset Management PLC whose group companies, as at 30 April 2002, managed over £27 billion for institutions, unit trusts, OEICs, investment trusts, venture capital trusts, private equity funds, private clients and offshore funds. The Manager's private equity division, Aberdeen Murray Johnstone Private Equity, operates through a network of seven regional offices and as at 30 April 2002 had approximately £500 million under management.

Analysis of Portfolio of Unlisted Investments

FTSE Actuaries Industry Sector

	£'000	%
Construction & Building Materials	4,012	17.0
Support Services	3,032	12.8
Health	2,879	12.2
Media & Photography	2,308	9.8
Engineering & Machinery	2,233	9.4
Transport	2,227	9.4
Distributors	2,212	9.4
Household Goods & Textiles	1,000	4.2
Food & Drug Retailers	1,000	4.2
Aerospace & Defence	987	4.2
Food Producers & Processors	805	3.4
Leisure, Entertainment & Hotels	549	2.3
Oil & Gas	255	1.1
Telecommunication Services	140	0.6
	23,639	100.0

Deal Type

	No. of deals	£'000	%
Management Buy-out	12	10,594	43.8
Development Capital	14	5,799	24.5
Management Buy-in	6	4,032	17.1
Early Stage	2	1,910	8.1
Acquisition Finance	2	1,304	6.5
		23,639	100.0

Aberdeen Murray Johnstone Regional Office

	No. of deals	£'000	%
Birmingham	12	9,122	38.5
Manchester	10	8,623	36.5
Leeds	7	3,715	15.7
London	4	1,784	7.6
Aberdeen	1	255	1.1
Glasgow	2	140	0.6
		23,639	100.0

Note: The total portfolio of investments, including both listed and unlisted stocks, is valued at £33,848,000.

Chairman's Statement

Realisations

Since the publication of the Interim report on 26 November 2001, the realisation of Benlowe has been achieved resulting in a gain of 1.18p per share, which has already been distributed to shareholders.

During March 2002, following the earlier repayment of the loan stock, a partial realisation of the remaining holding in J & S Marine was achieved resulting in a gain of approximately 0.8p per share which, subject to obtaining Inland Revenue approval, will be distributed to shareholders.

Market conditions

Conditions in the UK economy remain very difficult particularly for manufacturing industry where damaging import substitution from countries with a lower cost base has increased, augmented by the relative exchange rates. Despite earlier interest rate cuts, worries over the potential inflationary effect of the buoyancy of retail sales and in particular the housing market have restricted the Bank of England's Monetary Policy Committee in making further changes since November 2001. The Board has taken a prudent view of valuations in these circumstances. Despite interest rates being at their lowest level for many years and a high level of consumer spending, expectations for economic growth are still low. This is having a particular impact on smaller manufacturing businesses which constitute a significant part of the Company's portfolio. The Board has also taken a prudent view in valuing those investments in the technology sector. Larger portfolio companies particularly those in or related to the construction sector are performing better at present.

Net asset value

The net asset value per share at 28 February 2002, before payment of the annual dividends, but after deducting the distributions of special dividends arising from capital gains of 2.48p was 87.2p compared with 94.6p at 28 February 2001. This decrease in net asset value of 7.8% compares with the significant reductions in stock market indices generally and in particular the FTSE SmallCap Index which fell by 20.9% over the period and the FTSE AIM Index and the TechMark Index which fell by 36.9% and 48% respectively over the period.

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

The average price earnings multiple which has been applied to those companies valued by reference to their earnings is 6.8, which is significantly lower than those shown in the FTSE indices.

Dividends

An interim dividend of 0.5p for the year ended 28 February 2002 was paid to shareholders on 28 December 2001. A distribution of 1.3p was made to shareholders on 4 January 2002 in respect of the previously reported capital gain from the CAC Tooling realisation and a further dividend of 1.18p was paid on 28 February 2002 in respect of the gain on the sale of Benlowe. The Board is now proposing a final dividend of 2.0p per share to be paid on 22 July 2002 to shareholders on the register on 28 June 2002. The total dividend paid to shareholders in respect of the year ended 28 February 2002 will therefore amount to 4.98p per share.

Dividend reinvestment

Shareholders may opt to reinvest their dividends in new Murray VCT 3 shares and enjoy the same tax reliefs as were available on their initial investment. Full details of the terms and conditions applicable to the reinvestment of dividends are available from the Manager.

Chairman's Statement

Distributions to date

Since the Company's launch, most shareholders will have received 16.2065p in tax free dividends. To an investor who took advantage of all available tax reliefs and deferrals, this represents a return of over 40% of the effective initial investment cost of 40p per share and is equivalent to an annual dividend yield of 14.66% from a conventional listed equity for a higher rate taxpayer. This compares with the FTSE SmallCap yield of 2.39% and FTSE All-Share yield of 2.72% over the same period.

Outlook

The results reported here have been achieved during a financial year in which economic conditions have been unfavourable and, while some stability may now be evident, the immediate prospects are still uncertain. The portfolio includes a solid core of investments whose prospects should be good but it may be some time before those prospects can be demonstrated in further profitable realisations. New investments will be added and further support will be given to existing companies which are pursuing acquisition strategies until a fully invested position is achieved.

31 May 2002

P K Timms CBE
Chairman

Investment Manager's Review

Investment activity

New unlisted investment during the year ended 28 February 2002 totalled £4.4 million taking the unlisted portfolio to 37 qualifying companies at a total cost of £27.1 million. This represented a qualifying investment level of 71%. Since the period end, a further investment has taken the total number of investments to 38 and the amount invested to £27.7 million, the qualifying percentage remains the same as a result of the partial realisation of J & S Marine noted below.

The following investments have been made since the publications of the interim report:

Tuscan Energy Group Limited (January 2002) – £255,000. Based in Aberdeen, Tuscan has recently been awarded licenses to redevelop the Ardmore field, which was the first producing oilfield in the UK Continental Shelf (UKCS).

Mercury Inns Group Limited (March 2002) – £643,500. Based in Tamworth, Mercury provides consultancy services to the licensed trade and operates freehold managed public houses.

Portfolio developments

The sale of Benlowe completed during December 2001 resulting in a gain, which has already been distributed to shareholders, of £449,000 (1.18p per share) on the investment cost of £707,000. The compound rate of return (IRR) on the investment was 32.5% and a cash multiple of 1.8 times was achieved.

During March 2002, following the earlier repayment of the loan stock, a partial realisation of the remaining holding in J & S Marine was achieved resulting in a gain of approximately 0.8p per share which will be distributed to shareholders following Inland Revenue approval. The IRR on the investment to date incorporating the valuation of the remaining holding was 35.4% and a cash multiple of 1.5 times has been achieved.

Although there have been successful realisations, as mentioned earlier, further reductions in valuations have been necessary reflecting the difficult economy. Further trade sales will be pursued as and when market conditions improve and where conditions and underlying performance offer attractive exits.

Outlook

Murray VCT 3 is not yet fully invested and new investments will continue to be made until an investment level of around 85% is attained. Capacity will be retained to assist the existing portfolio with acquisitions or in certain cases to maintain the investee company's cash position where the outlook is good. Despite the challenging economic conditions, the regional network of Aberdeen Murray Johnstone Private Equity offices continues to see a strong flow of investment opportunities. In addition, the Manager believes the recent fall in stock market indices has led to more realistic pricing expectations in the private equity market. The Manager will continue to work with the portfolio of investee companies to improve performance and to maximise proceeds from eventual disposals.

31 May 2002

Murray Johnstone Limited
Manager

Summary of Investment Changes

For the year ended 28 February 2002

	Valuation as at 28 February 2001		Net investment (disinvestment)	Appreciation (depreciation)	Valuation as at 28 February 2002	
	£'000	%			£'000	£'000
Unlisted investments						
Equities	7,841	20.5	1,245	(65)	9,021	26.0
Preference shares	1,820	4.7	4	(730)	1,094	3.2
Loan stock	13,293	34.6	2,186	(1,955)	13,524	38.9
	22,954	59.8	3,435	(2,750)	23,639	68.1
Listed investments						
Equities	53	0.1	-	(34)	19	0.1
Fixed income	8,217	21.4	2,010	(37)	10,190	29.4
Total investments	31,224	81.3	5,445	(2,821)	33,848	97.6
Other net assets	7,190	18.7	(6,351)	-	839	2.4
Total Assets*	38,414	100.0	(906)	(2,821)	34,687	100.0

*Total assets represents equity shareholders' funds

Investment Portfolio Summary

As at 28 February 2002

Nature of business		Valuation £'000	% of total assets
Unlisted Investments			
Businesshealth	Provider of health management services to employers	1,911	5.5
Palgrave Brown (UK)	Manufacturer of timber products	1,762	5.1
CCM Motorcycles	Manufacturer of motorcycles	1,430	4.1
Visual Gold	Creative design and animation services	1,058	3.0
Conveco	Operator of convenience stores	1,000	2.9
Interak	Import and distribution of small household items	1,000	2.9
Intron	Manufacturer and distributor of entrance doors	1,000	2.9
J & S Marine	Defence contractor	987	2.8
Sequoia	Distributor of electronic components and equipment	975	2.8
Synexus	Management of clinical trials	968	2.8
Other Investments valued individually at less than £870,000		11,548	33.3
		23,639	68.1
Listed equities			
Keystone Solutions	Designs and sells practice management software	19	0.1
Listed fixed income investments			
Treasury 8.5% 2005		3,082	8.9
International Bank of Reconstruction & Development 7% 2002		2,821	8.1
Treasury 8% 2003		1,722	5.0
Treasury 5% 2004		1,358	3.9
Treasury 6.75% 2004		1,207	3.5
		10,190	29.4
Total investments		33,848	97.6

Ten Largest Unlisted Investments

BUSINESSHEALTH GROUP PLC

PALGRAVE BROWN (UK) LIMITED

Provider of health management services to employers

Incorporated in England and Wales

	2002	2001
Holding details as at 28 February	£'000	£'000
Cost of investment	1,013	951
Directors' valuation	1,911	1,189
Voting rights	8.5%	9.7%
Gross income received in the year	43	-
Basis of valuation	Third party transaction	Third party transaction
Cumulative realisation proceeds	-	-

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

Start up and acquisition funding for Businesshealth Limited was led by Aberdeen Murray Johnstone clients in September 1999 with further investments being made in May 2001 and December 2001. At that time, a new holding company was created and Murray VCT 3's entire holding in Businesshealth Limited was converted into a holding in Businesshealth Group Plc. The financial performance shown below relates to Businesshealth Limited.

	2000	1999
Year ended 31 December	£'000	£'000
Turnover	700	316
Loss before interest and tax	(3,548)	(1,069)
Loss before tax	(3,672)	(1,082)
Loss after tax	(3,672)	(1,082)
Ordinary share dividends	-	-
Net liabilities attributable to ordinary shareholders	(2,179)	(1,093)
Earnings per ordinary share	(692.2p)	(220.6p)
Dividend per ordinary share	-	-
Ordinary dividend cover	-	-

Manufacturer of timber products

Incorporated in England and Wales

	2002	2001
Holding details as at 28 February	£'000	£'000
Cost of investment	1,175	1,175
Directors' valuation	1,762	1,537
Voting rights	12.5%	12.5%
Gross income received in the year	103	103
Basis of valuation	PE 7	PE 7
Cumulative realisation proceeds	-	-

Palgrave Brown manufactures timber products prefabricated roof trusses and wooden windows sold to house builders and builders' merchants. The head office is in Lancashire with depots throughout the country.

The management buy-out in September 1998 was led by Murray Johnstone.

	2001	2000
Year ended 31 March	£'000	£'000
Turnover	47,197	32,657
Profit before interest and tax	3,001	2,248
Profit before tax	1,577	1,264
Profit after tax	933	1,053
Preference share dividends	-	-
Ordinary share dividends	-	-
Net assets attributable to ordinary and preference shareholders	2,890	1,957
Earnings per ordinary share	317.2p	352.6p
Dividend per preference share	-	-
Dividend per ordinary share	-	-
Ordinary dividend cover	-	-
Preference dividend cover	-	-

Ten Largest Unlisted Investments

CCM MOTORCYCLES LIMITED

Manufacturer of motorcycles

Incorporated in England and Wales

	2002 £'000	2001 £'000
Holding details as at 28 February		
Cost of investment	1,430	817
Directors' valuation	1,430	817
Voting rights	29.8%	18.4%
Gross income received in the year	-	-
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	-	-

The company manufactures both on and off-road motorcycles at its premises in Blackburn, Lancashire.

The development capital investment in November 2000 was led, structured and arranged by Murray Johnstone. A further investment of £1.5 million was made in tranches between October 2001 and February 2002.

VISUAL GOLD LIMITED

Creative design and animation services

Incorporated in England and Wales

	2002 £'000	2001 £'000
Holding details as at 28 February		
Cost of investment	1,058	1,000
Directors' valuation	1,058	1,000
Voting rights	8.3%	8.3%
Gross income received in the year	-	-
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	-	-

Visual Gold Limited provides 2D and 3D creative design and animation services to clients in the television and film markets. The business is based in Telford.

The development capital funding in February 2001 was led by Aberdeen Murray Johnstone Private Equity.

	2001 £'000		2000 £'000
Period ended 30 September		Period ended 30 November	
Turnover	1,706	Turnover	158
Loss before interest and tax	(972)	Loss before interest and tax	(825)
Loss before tax	(1,008)	Loss before tax	(835)
Loss after tax	(1,008)	Loss after tax	(835)
Preference share dividends	-	Preference share dividends	-
Ordinary share dividends	-	Ordinary share dividends	-
Net assets attributable to ordinary and preference shareholders	2,005	Net liabilities attributable to ordinary and preference shareholders	(1,008)
Earnings per ordinary share	-	Earnings per ordinary share	(167)
Dividend per preference share	-	Dividend per preference share	-
Preference dividend cover	-	Preference dividend cover	-
Dividend per ordinary share	-	Dividend per ordinary share	-
Ordinary dividend cover	-	Ordinary dividend cover	-

Ten Largest Unlisted Investments

CONVECO LIMITED

Operator of convenience stores

Incorporated in England and Wales

Holding details as at 28 February	2002 £'000
Cost of investment	1,000
Directors' valuation	1,000
Voting rights	7.3%
Gross income received in the year	-
Basis of valuation	Cost
Cumulative realisation proceeds	-

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

The management buy-out in May 2001 was led by Aberdeen Murray Johnstone Private Equity.

As this transaction was completed in May 2001, audited accounts for the first period of trading have not yet been produced.

INTERAK LIMITED

Import and distribution of small household items.

Incorporated in England and Wales

Holding details as at 28 February	2002 £'000
Cost of investment	1,000
Directors' valuation	1,000
Voting rights	18.4%
Gross income received in the year	51
Basis of valuation	Cost
Cumulative realisation proceeds	-

Interak imports, distributes and merchandises small household items for major UK retail companies. The business is based in Scunthorpe.

The management buy-in in March 2001 was led by Aberdeen Murray Johnstone Private Equity.

As this transaction was completed in March 2001, audited accounts for the first period of trading have not yet been produced.

Ten Largest Unlisted Investments

INTRON LIMITED

J & S MARINE LIMITED

Manufacturer and distributor of entrance doors

Incorporated in England and Wales

	2002	2001
Holding details as at 28 February	£'000	£'000
Cost of investment	1,000	1,000
Directors' valuation	1,000	1,000
Voting rights	16.7%	16.7%
Gross income received in the year	90	82
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	-	-

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

The management buy-in in July 1998 was led by Murray Johnstone.

	2001	2000
Year ended 30 June	£'000	£'000
Turnover	5,440	5,034
Profit before interest and tax	380	579
Profit before tax	27	227
(Loss)/Profit after tax	(39)	108
Ordinary share dividends	-	-
Net assets attributable to ordinary shareholders	1,101	1,139
Earnings per ordinary share	(13.0p)	36.0p
Dividend per ordinary share	-	-
Ordinary dividend cover	-	-

Defence contractor

Incorporated in England and Wales

	2002	2001
Holding details as at 28 February	£'000	£'000
Cost of investment	285	818
Directors valuation	987	818
Voting rights	23.7%	23.7%
Gross income received in the year	36	70
Basis of valuation	Transaction price	Cost
Cumulative realisation proceeds	665	132

J & S Marine designs, manufactures and provides in-service support for naval applications, particularly in sonar and weapons firing systems applications. The head office is in Barnstaple, Devon.

The management buy-out in July 1999 was led by Murray Johnstone.

In March 2002, two thirds of the investment was sold for £844,000 resulting in a realised distributable gain over original cost of £356,000.

	2001	2000*
Year ended 30 September	£'000	£'000
Turnover	9,439	11,813
Profit before interest and tax	861	1,430
Profit before tax	765	1,220
Profit after tax	765	1,220
Ordinary share dividends	-	-
Net assets attributable to ordinary shareholders	2,580	1,814
Earnings per ordinary share	210.4p	335.5p
Dividend per ordinary share	-	-
Ordinary dividend cover	-	-

* period from 16 April 1999 to 30 September 2000

Ten Largest Unlisted Investments

SEQUOIA TECHNOLOGY LIMITED

Distributor of electronic components and equipment

Incorporated in England and Wales

	2002	2001
Holding details as at 28 February	£'000	£'000
Cost of investment	750	750
Directors' valuation	975	750
Voting rights	30.0%	30.0%
Gross income received in the year	76	25
Basis of valuation	PE 6	Cost
Cumulative realisation proceeds	–	–

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

The management buy-out in November 2000 was led by Murray Johnstone.

Period from 31 May 2000 to 31 December 2000	2000
	£'000
Turnover	2,945
Profit before interest and tax	221
Profit before tax	164
Profit after tax	111
Ordinary share dividends	–
Net assets attributable to ordinary shareholders	482
Earnings per ordinary share	43.2p
Dividend per ordinary share	–
Ordinary dividend cover	–

SYNEXUS LIMITED

Management of clinical trials

Incorporated in England and Wales

	2002	2001
Holding details as at 28 February	£'000	£'000
Cost of investment	968	968
Directors' valuation	968	968
Voting rights	9.7%	9.7%
Gross income received in the year	–	–
Basis of valuation	Cost	Cost
Cumulative realisation proceeds	–	–

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

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

As this transaction was completed in February 2001, audited accounts for the first period of trading have not yet been produced.

Directors' Report

The Directors submit their annual report together with the financial statements of the Company for the year ended 28 February 2002.

Results and dividends

The profit for the year on ordinary activities after taxation amounted to £320,000. An interim dividend of 0.5p per share was paid on 28 December 2001 to shareholders on the register at close of business on 7 December 2001. The Directors now recommend a final dividend for the year of 2.0p per Ordinary share payable on 22 July 2002 to Ordinary shareholders on the register at close of business on 28 June 2002 and a resolution to this effect will be proposed at the Annual General Meeting. The sum of £1,716,000 has been transferred from the Company's reserves.

The Net Asset Value per Ordinary share at 28 February 2002 was 84.7p. The Net Asset Value per Ordinary share has been calculated using the number of shares in issue at 28 February 2002 of 40,942,719.

Special dividends of 1.3p and 1.18p were paid to shareholders on 21 January and 28 February 2002 respectively.

Review of the business

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

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

New investment during the year totalled £4.4m, taking the unlisted portfolio to 37 qualifying investments at a cost of £27.1m. This represented a qualifying investment level of 71%.

Purchase of ordinary shares

During the year ended 28 February 2002, 136,120 Ordinary shares of 10p (representing 0.34 per cent of the issued ordinary share capital at 28 February 2001) each were purchased within the established guidelines at an average price of 78.98p per share. Since the year end 200,000 Ordinary shares have been repurchased at an average price of 68p per share.

A special resolution, numbered 7 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 10% of ordinary shares in issue (4,074,271 Ordinary shares) at 31 May 2002. Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is the earlier. This means in effect that the authority will have to be renewed at the next Annual General Meeting of the Company.

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

The purchase of Ordinary shares by the Company is intended to reduce any discount at which Ordinary shares trade in the market because the Company will be a new source of demand for Ordinary shares. Since it is

Directors' Report

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 2 months immediately preceding the notification of the Company's interim results and the 2 months immediately preceding the preliminary announcement of the annual results or, if shorter, the period from the end of the Company's relevant financial period up to and including the time of the relevant announcement.

Issue of new ordinary shares

During the year 476,258 Ordinary shares of 10p each were issued, at an average price of 92.3p, under the dividend reinvestment scheme for a total consideration of £439,581.

Resolution numbered 8 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 £407,427 (equivalent to 4,074,271 Ordinary shares or 10% of the total issued share capital at 31 May 2002). 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 9 will, if passed, also give the Directors power to allot for cash, Ordinary shares up to an aggregate nominal amount of £407,427 (equivalent to 4,074,271 Ordinary shares or 10 per cent of the total issued share capital at 31 May 2002) 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 8. 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, the issued ordinary share capital at 28 February 2002 amounted to 40,942,719 Ordinary shares of 10p each. Following a further buyback of 200,000 Ordinary shares by the Company, since the year end, the issued Ordinary share capital as at 31 May 2002 amounted to 40,742,719 Ordinary shares of 10p each.

Directors

The Directors who held office during the year under review and their interests in shares of the Company are shown in note 20 on page 35.

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

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

Directors' and officers' insurance

The Company purchases and maintains liability insurance covering the Directors and officers of the Company.

Directors' Report

Manager and Company Secretary

Murray Johnstone Limited, a wholly owned subsidiary of Aberdeen Asset Management PLC provides accounting, secretarial, investment management and administrative services to the company. The details of the management and secretarial fees are shown in note 3 on page 26.

Corporate governance

The Statement of Corporate Governance is shown on pages 17 to 19.

Principal activity and status

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

Going concern

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

Creditor payment policy

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

Annual general meeting

The notice of Annual General Meeting, which will be held on 16 July 2002, is contained on pages 41 and 42.

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.

By order of the Board

Murray Johnstone Limited

Secretary



P M Barnes, Authorised Signatory

123 St Vincent Street

Glasgow G2 5EA

14 June 2002

Statement of Corporate Governance

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

The Board is accountable to the Company's shareholders for good governance and this Statement describes how the principles identified in the Combined Code have been applied by the Company throughout the year to 28 February 2002 except where disclosed below.

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the forty-five Combined Code provisions throughout the year. Save the limited exceptions outlined below, the Company has complied throughout the year ended 28 February 2002 with the provisions set out in Section 1 of the Combined Code.

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

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

The Board

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

- Mr P K Timms is a director of LeggMason Investors Enterprise plc, which was managed by Murray Johnstone until 8 December 2000.
- Mr J Cooper and Mr M J Walker are directors of Murray VCT 2 PLC, another venture capital trust managed by Murray Johnstone Limited.

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

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

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

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

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

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

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

Statement of Corporate Governance

External Agencies

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

Committees

Nomination Committee

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

Audit Committee

An Audit Committee has been established with written terms of reference and comprising the full Board. This committee reviews the effectiveness of the internal control environment of the Company and receives reports from the internal and external auditors on a regular basis.

The committee is responsible for review of the annual financial statements and interim report, terms of appointment reviewing the scope and the results of the audit and the objectivity of the Auditors of the auditors together with their remuneration as well as the non-audit services provided by the Auditors, reviewing the scope and the results of the audit and the objectivity of the Auditors, it also meets with representatives of the Manager.

Management Engagement Committee

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

Directors' Terms of Appointment

All non-executive Directors are appointed for an initial term of three years, subject to re-election and Companies Act provisions and, in accordance with the existing Articles of Association, stand for election at the first Annual General Meeting following their appointment. The Articles of Association were changed at the Annual General Meeting in 1999 to ensure that Directors offer themselves for re-election at least once every three years.

Directors' Remuneration

Under the UK Listing Authority Listing Rule 26.9 (d) where a venture capital trust has only non-executive Directors the code principles relating to Directors' remuneration do not apply. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The remuneration of each Director is detailed in note 5 on page 27.

Communication with Shareholders

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

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

Statement of Corporate Governance

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

The notice of Annual General Meeting sets out the business of the meeting and the resolutions are explained more fully in the Directors' Report on pages 14 to 16. Separate resolutions are proposed for each substantive issue.

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

Accountability and Audit

The Directors' statement of responsibilities in respect of the financial statements is on page 20 and a statement of going concern on page 16.

The Independent Auditors' Report is on page 21.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

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

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

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

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

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

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

Exercise of Voting Powers

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

Statement of Directors' Responsibilities in respect of the Financial Statements

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

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

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

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

We have audited the Company's financial statements for the year ended 28 February 2002 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 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and statutory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

We review whether the Statement of Corporate Governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider 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, Corporate Information, Board Members, Analysis of Portfolio of Unlisted Investments, Chairman's Statement, Investment Manager's Review, Summary of Investment Changes, Investment Portfolio Summary, Ten Largest Unlisted Investments, Directors' Report, Statement of Corporate Governance, Statement of Directors' Responsibilities in Respect of the Financial Statements, Venture Capital Trusts, Tax Position of Individual Investors and Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 28 February 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Glasgow

14 June 2002

Profit and Loss Account

For the year ended 28 February 2002

	Notes	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
Investment income and deposit interest	2	2,155	2,480
Investment management fees	3	(1,126)	(1,144)
Other expenses		(221)	(204)
Operating profit	4	808	1,132
(Loss) profit on realisation of investments	9	(206)	752
Profit on ordinary activities before taxation		602	1,884
Tax on ordinary activities	6	(282)	(371)
Profit on ordinary activities after taxation		320	1,513
Dividends	7	(2,036)	(1,216)
Balance transferred (from) to reserves	14	(1,716)	297
Earnings per share (pence)	8	0.8	3.7

Statement of Total Recognised Gains and Losses

For the year ended 28 February 2002

	Notes	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
Profit on ordinary activities after taxation		320	1,513
Unrealised (loss) gain on revaluation of investments	9	(2,615)	87
Current tax attributable to unrealised losses on loan relationships		272	29
Total recognised (losses) and gains relating to the year	16	(2,023)	1,629

Note of Historical Cost Profits and Losses

For the year ended 28 February 2002

	Notes	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
Profit on ordinary activities before taxation		602	1,884
Realisation of revaluation gains of previous years	9	809	1
Historical cost profit on ordinary activities before taxation		1,411	1,885
Historical cost (loss) profit for the year retained after taxation and dividends		(916)	298

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

Balance Sheet

As at 28 February 2002

	Notes	28 February 2002		28 February 2001	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	9		33,848		31,224
Current assets					
Debtors	11	1,791		1,762	
Cash and overnight deposits		233		6,761	
		2,024		8,523	
Creditors					
Amounts falling due within one year	12	1,185		1,333	
Net current assets			839		7,190
			34,687		38,414
Capital and reserves					
Called up share capital	13		4,094		4,060
Share premium account	14		20,145		19,753
Revaluation reserve	14		(2,932)		211
Capital redemption reserve	14		41		27
Profit and loss account	14		13,339		14,363
Equity shareholders' funds			34,687		38,414
Net Asset Value per Ordinary share	15		84.7p		94.6p

The financial statements were approved by the Board of Directors on 22 April 2002 and were signed on its behalf by:

14 June 2002

P K Timms CBE, Director



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

Cash Flow Statement

For the year ended 28 February 2002

	Notes	Year ended 28 February 2002		Year ended 28 February 2001	
		£'000	£'000	£'000	£'000
Operating activities					
Investment income received		1,632		2,565	
Deposit interest received		17		25	
Investment management fees paid		(1,144)		(1,079)	
Secretarial fees paid		(54)		(52)	
Cash paid to and on behalf of directors		(50)		(48)	
Other cash payments		(103)		(91)	
Net cash inflow from operating activities	17		298		1,320
Taxation					
Corporation tax			(509)		247
Financial investment					
Purchase of investments		(7,991)		(15,756)	
Sale of investments		3,474		21,570	
Net cash (outflow) inflow from financial investment			(4,517)		5,814
Equity dividends paid			(2,029)		(1,253)
Net cash (outflow) inflow before financing			(6,757)		6,128
Financing					
Issue of ordinary shares		337		430	
Repurchase of ordinary shares		(108)		(105)	
Net cash inflow from financing			229		325
(Decrease) increase in cash	18		(6,528)		6,453

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.

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; and
- 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

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

Notes to the Financial Statements

	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
2 Investment income and deposit interest		
Income from investments:		
UK unfranked investment income	917	1,346
income from participating interests	210	155
income from significant interests	1,011	952
	2,138	2,453
Interest receivable and similar income:		
deposit interest	17	25
other income	-	2
Total income	2,155	2,480

	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
3 Investment management fees		
Investment management fees	958	974
Irrecoverable VAT	168	170
	1,126	1,144

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

- (a) an investment management fee of 2.5% (2001 – 2.5%) per annum of the gross assets of the Company.
- (b) a secretarial fee of £54,000 (2001 – £52,244) per annum which is subject to an annual adjustment to reflect movement in the retail prices index.

Under the terms of the Investment Management Agreement, the Investment Manager and certain of its executives are entitled to receive a profit-related incentive in respect of the period to 6 April 2003 and for each subsequent year.

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

	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
4 Operating profit is stated after charging:		
Directors' remuneration (note 5)	48	48
Fees to Auditors:		
Audit fee – current year	13	12
– under accrual in prior year	-	3
Other services	2	1

Notes to the Financial Statements

	Year ended 28 February 2002	Year ended 28 February 2001
	£'000	£'000
5 Directors' remuneration		
P K Timms CBE (chairman)	12	12
J Cooper	9	9
A Cubie CBE	9	9
A S F Mair MBE DL	9	9
M J Walker	9	9
	48	48

6 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.

Reflected in:

	Profit and loss account £'000	Statement of total recognised gains and losses £'000	Total £'000
2002			
Corporation tax	272	(272)	–
Prior year adjustment	10	–	10
	282	(272)	10
2001			
Corporation tax	396	(29)	367
Prior year adjustment	(25)	–	(25)
	371	(29)	342

The tax charge for the year in the profit and loss account is higher (2001 – lower) than the standard rate of corporation tax (30%). The differences are explained below.

	Year ended 28 February 2002	Year ended 28 February 2001
	£'000	£'000
Profit on ordinary activities before tax	602	1,884
Profit on ordinary activities multiplied by standard rate of corporation tax	181	565
Effect of loss (profit) not subject to taxation	103	(128)
Effect of income not subject to taxation	(12)	(41)
Prior year adjustment	10	(25)
Current corporation tax	282	371

Unutilised losses with a tax value of £366,000 (2001 – nil) are available to carry forward against future trading profits. These have not been recognised as a deferred tax asset as recoverability is not sufficiently certain.

Notes to the Financial Statements

7	Dividends	Year ended	Year ended
		28 February 2002	28 February 2001
		£'000	£'000
	Capital dividends	1,013	–
	Interim dividend of 0.5p (2001 – 1.0p)	204	404
	Proposed final dividend of 2p (2001 – 2.0p)	819	812
		2,036	1,216

8	Earnings per share	Year ended	Year ended
		28 February 2002	28 February 2001
The returns per share have been based on the following figures:			
	weighted average number of ordinary shares	40,696,046	40,498,022
	profit on ordinary activities after taxation	£320,000	£1,513,000

9	Investments	Year ended 28 February 2002		
		Listed	Unlisted	Total
		£'000	£'000	£'000
	Valuation at 1 March 2001	8,270	22,954	31,224
	Purchases	3,676	5,315	8,991
	Sales	(1,605)	(2,075)	(3,680)
	Amortisation of book cost	(72)	–	(72)
	Net decrease in value of investments	(60)	(2,555)	(2,615)
	Valuation at 28 February 2002	10,209	23,639	33,848

	Shares in	Loans to	Other
	participating	participating	investments
	interests	interests	
	£'000	£'000	£'000
Constituted:			
	Listed investments	–	10,209
	Unlisted investments		
	Valuation at 1 March 2001	2,407	17,976
	Purchases	–	4,702
	Sales	–	(1,542)
	Net increase/(decrease) in value of investments	140	(2,245)
		2,547	18,891
	Valuation at 28 February 2002	2,547	29,100

Notes to the Financial Statements

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

	Year ended 28 February 2002 £'000	Year ended 28 February 2001 £'000
Cost at beginning of year	31,042	37,335
Purchases	8,991	14,756
Sales	(3,474)	(21,570)
Transfer of unrealised gains realised during the year	809	1
Realised (losses) gains	(206)	752
	6,120	(6,061)
Amortisation of book cost	(72)	(232)
Cost at end of year	37,090	31,042
Unrealised (loss)/gain	(3,242)	182
Valuation at 28 February 2002	33,848	31,224

The cost of unlisted investments at 28 February 2002 was £26,861,716 (2001 – £22,841,057)

The net unrealised loss on the unlisted investments at 28 February 2002 was £3,222,713 (2001 – £114,000 gain), comprising £2,985,872 unrealised gains (2001 – £2,065,000) and provisions of £6,208,585 (2001 – £1,951,000). During the year unlisted investments in Benlowe Group and CAC Tooling were sold and J & S Marine and Benlowe loan stock was repaid for a total of £1,880,000 against a cost of £1,295,000.

Notes to the Financial Statements

10 Participating interests

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

At 28 February 2002 the Company held shares amounting to 20% or more of the nominal value of the equity capital of the following unquoted undertakings:

Investment	28 February 2002				Carrying Value £'000	Income from investment £'000	Latest accounts period end	Aggregate capital & reserves £'000	Profit (loss) after tax for period £'000
	% of class held	% of equity held	Total cost £'000						
Agriframes Limited *									
22,364 A ordinary shares	54.5	24.6	273	–	–	31/12/00	296	(260)	
55 preference shares	55.0		55	–	–				
627,218 deferred shares	54.5		627	–	–				
CCM Motorcycles Limited *									
12,610 A ordinary shares	40.9	29.8	245	245	–	30/09/01	2,005	(1,008)	
572,158 preference shares	40.9		572	572	–				
£613,000 loan stock 2006	40.9		613	613	–				
Charmwood Furniture Group Limited *									
195,000 B ordinary shares	46.4	20.9	195	33	–	31/03/00	1,688	214	
£455,000 loan stock	46.4		455	455	64				
J & S Marine Limited *									
86,364 B ordinary shares	52.8	23.7	285	987	–	30/09/01	2,580	765	
Sequoia Technology Limited									
85,714 A ordinary shares	100.0	30.0	225	450	–	31/12/00	482	111	
£525,000 loan stock 2007	100.0		525	525	76				
TLC (Tender Loving Childcare) Limited *									
48,531 B ordinary shares	51.0	25.3	260	260	–	31/12/00	182	(307)	
£607,918 secured loan notes 2005/07	51.0		608	608	73				
Wisdom IT Holdings Limited									
114,520 A ordinary shares	43.0	43.0	300	–	–	31/10/00	419	(306)	
350,000 preference shares	100.0		350	–	–				

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

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

Notes to the Financial Statements

10 Significant interests

At 28 February 2002 the Company held shares amounting to 20% or more of the nominal value of any class of share of the following unquoted undertakings

		28 February 2002		
		% of class held	Total cost £'000	Carrying value £'000
Investment				
Booth Dispensers Limited	19,578 A ordinary shares	50.2	226	226
	502 preference shares	50.2	1	1
	£526,498 loan stock 2007	50.2	526	526
Bronte Foods Limited	27,129 B ordinary shares	33.3	225	280
	14,305 X ordinary shares	33.3	14	14
	510,521 B preference shares	33.3	511	511
CAC Tooling Holdings Limited	£494,900 loan stock 2006	35.4	495	247
Carmichael International Limited	75,000 B ordinary shares	50.0	150	150
	£350,000 loan stock 2005	50.0	350	350
Clamonta Engineering Limited	38,652 B ordinary shares	35.9	221	66
	£514,850 loan stock 2006	35.9	515	669
ELE Advanced Technologies Limited	14,250 B ordinary shares	30.0	225	225
	£524,993 loan note 2007	30.0	525	525
First Line Limited	87,941 B ordinary shares	30.0	225	225
	3,000 preference shares	30.0	3	3
	£522,000 loan stock 2008	30.0	522	522
Heathcotes Restaurants Limited	305,188 B ordinary shares	40.7	305	305
	407 preference shares	40.7	-	-
	£244,099 loan stock 2006	40.7	244	244
Interak Limited	33,395 A ordinary shares	40.8	300	300
	£700,000 loan stock 2008	40.8	700	700
Intron Limited	50,000 B ordinary shares	33.3	300	300
	£700,000 loan stock 2010	33.3	700	700
Link Up Mitaka Limited	1,357,000 B ordinary shares	27.7	415	415
	£138,500 loan stock 2007	27.7	139	139
Moves Group Limited	9,240 B ordinary shares	42.1	223	275
	£521,126 loan stock 2004	42.1	521	521
Palgrave Brown (UK) Limited	37,376 institutional ordinary shares	23.5	353	693
	256 preference shares	23.5	-	-
	£822,474 loan stock 2006	23.5	822	1,069

Notes to the Financial Statements

		28 February 2002		
		%	Total	Carrying
		of class	cost	value
		held	£'000	£'000
Investment				
Poulter Limited	89,525 A ordinary shares	35.2	163	476
	£380,065 loan stock 2004	35.2	380	380
Stratumsoft Limited	43,386 A ordinary shares	22.7	249	–
	£651,888 loan stock 2007	22.7	652	–
Synexus Limited	1,207,814 B ordinary shares	24.2	290	290
	242 preference shares	24.2	–	–
	£677,490 loan stock 2008	24.2	678	678
The Hart Group Limited	15,555 A ordinary shares	31.1	210	–
	£490,000 loan stock 2005	31.1	490	–
	£66,887 loan stock 2030	31.1	67	–
Tuscan Energy Group	89,250 C ordinary shares	42.5	89	89
	£165,750 loan stock 2006	8.5	166	166
Unique Communications Limited	5,000 B ordinary shares	25.0	300	50
	25,000 preference shares	25.0	2	2
	£697,500 loan stock 2008	25.0	698	698
Visual Gold Limited	538 B ordinary shares	37.0	300	300
	3,704 preference shares	37.0	4	4
	£696,296 loan stock 2008	37.0	696	696
	£58,330 loan stock 2003	10.3	58	58
Voxsurf Limited	58,997 A ordinary shares	50.5	45	–
	530,977 C preference shares	50.5	405	–
Webfell Group Limited	51,318 A ordinary shares	29.7	300	–
	£699,790 loan stock 2004	29.7	700	500

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

11 Debtors	Year ended	Year ended
	28 February 2002	28 February 2001
	£'000	£'000
Current taxation	161	–
Corporation tax refundable	343	–
Prepayments and accrued income	1,184	762
Called up share capital not paid	103	–
Other debtors	–	1,000
	1,791	1,762

Notes to the Financial Statements

12	Creditors	Year ended	
		28 February 2002	28 February 2001
		£'000	£'000
Amounts falling due within one year:			
	Corporation tax	-	155
	Proposed final dividend	819	812
	Management and secretarial fees due to the Manager	289	262
	Accruals	77	104
		1,185	1,333

13	Share capital	28 February 2002		28 February 2001	
		Number	£'000	Number	£'000
<i>At 28 February 2002 the authorised share capital comprised:</i>					
<i>allotted, issued and fully paid:</i>					
Ordinary shares of 10p each					
	Balance brought forward	40,602,581	4,060	40,433,876	4,043
	Issued during year	476,258	48	294,871	29
	Repurchased and cancelled in year	(136,120)	(14)	(126,166)	(12)
	Balance carried forward	40,942,719	4,094	40,602,581	4,060
	Unissued unclassified shares of 10p each	19,057,281	1,906	19,397,419	1,940
		60,000,000	6,000	60,000,000	6,000

During the year, 476,258 Ordinary shares (2001 – 294,871) of 10p each were issued under the dividend re-investment scheme for a total consideration of £439,581 (2001 – £281,315). A total of 136,120 Ordinary shares (2001 – 126,166) of 10p each were repurchased by the Company at a weighted average price of 78.98p per share (2001 – 83.3p), at a total cost of £108,266 (2001 – £105,330), and cancelled.

14	Movement in reserves	Year ended 28 February 2002			
		Share premium account	Revaluation reserve	Capital redemption reserve	Profit and loss account
		£'000	£'000	£'000	£'000
	At 1 March 2001	19,753	211	27	14,363
	Issue of shares	392	-	-	-
	Repurchase and cancellation of shares	-	-	14	(108)
	Transfer of realised profits to profit and loss account	-	(809)	-	809
	Tax effect of transfer of profits to profit and loss account	-	9	-	(9)
	Taxation attributable to unrealised loss on investments	-	272	-	-
	Net decrease in value of investments	-	(2,615)	-	-
	Retained loss for year	-	-	-	(1,716)
	At 28 February 2002	20,145	(2,932)	41	13,339

Notes to the Financial Statements

	Year ended 28 February 2001			
	Share		Capital	Profit
	premium	Revaluation	redemption	and loss
	account	reserve	reserve	account
	£'000	£'000	£'000	£'000
At 1 March 2000	19,501	96	15	14,170
Issue of shares	252	-	-	-
Repurchase and cancellation of shares	-	-	12	(105)
Transfer of realised profits to profit and loss account	-	(1)	-	1
Taxation attributable to unrealised loss on investments	-	29	-	-
Net increase in value of investments	-	87	-	-
Retained profit for year	-	-	-	297
At 28 February 2001	19,753	211	27	14,363

15 Net Asset Value per Ordinary share

The Net Asset Value per share and the Net Asset Value attributable to the Ordinary shares at the year end calculated in accordance with the articles of association were as follows:

	28 February 2002		28 February 2001	
	Net Asset	Net Asset	Net Asset	Net Asset
	Value per	Value	Value per	Value
	share	attributable	share	attributable
	p	£'000	p	£'000
Ordinary shares	84.7	34,687	94.6	38,414

The number of shares used in this calculation is set out in note 13.

16 Reconciliation of movements in shareholders' funds	Year ended	Year ended
	28 February 2002	28 February 2001
	£'000	£'000
Opening shareholders' funds	38,414	37,825
Total recognised (losses) gains for year	(2,023)	1,629
Net proceeds of issue of shares	440	281
Repurchase and cancellation of shares	(108)	(105)
Dividends appropriated	(2,036)	(1,216)
Closing shareholders' funds	34,687	38,414

Notes to the Financial Statements

17	Reconciliation of operating profit to net cash inflow from operating activities	Year ended	Year ended
		28 February 2002	28 February 2001
		£'000	£'000
	Operating profit	808	1,132
	(Increase) decrease in debtors	(422)	72
	Increase in accruals	1	75
	Amortisation of fixed income investment book cost	72	232
	Tax on unfranked income	(161)	(191)
	Net cash inflow from operating activities	298	1,320

18	Analysis of changes in net funds	Year ended			Year ended		
		28 February 2002			28 February 2001		
		Brought forward	Cash flows	Carried forward	Brought forward	Cash flows	Carried forward
		£'000	£'000	£'000	£'000	£'000	£'000
	Cash and overnight deposits	6,761	(6,528)	233	308	6,453	6,761

19	Capital commitments	28 February 2002	28 February 2001
		£'000	£'000
	Unlisted investment commitments	702	229

20 Directors' share interests

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

	28 February 2002	28 February 2001
	Ordinary shares	Ordinary shares
P K Timms CBE (Chairman)	10,000	10,000
J Cooper	27,768	27,497
A Cubie	10,999	10,999
A S F Mair MBE DL	10,000	10,000
M J Walker	10,425	10,425

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

Notes to the Financial Statements

21 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. No derivative transactions were entered into during the year. 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. In line with the Company's investment objective, the portfolio comprises UK securities and therefore has no exposure to foreign currency risk, and (c) liquidity risk.

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

a) Market price risk

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

b) Interest rate risk

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

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

	28 February 2001			
	Preference		Non-interest	
	Fixed interest	dividend	Floating rate	bearing
	£'000	£'000	£'000	£'000
<i>Sterling</i>				
Listed	8,217	-	-	53
Unlisted and AIM	13,293	1,820	-	7,841
Cash	-	-	365	6,396

Notes to the Financial Statements

The listed fixed interest assets have a weighted average life of 2.0 (2001 – 3.4) years and a weighted average interest rate of 7.3% (2001 – 7.4%) per annum. These assets are held to provide liquidity for unlisted investments. The floating rate assets consist of cash deposits on call. These assets are earning interest at prevailing money market rates. The unlisted assets have a weighted average life of 4.7 (2001 – 4.3) years and a weighted average interest rate of 12.4% (2001 – 12.4%). The non-interest bearing assets represent the equity element of the portfolio. All assets and liabilities of the Company are included in the balance sheet at fair value.

c) Liquidity risk

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

Venture Capital Trusts

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

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

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

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

Qualifying holdings

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

A qualifying trade is any other than:

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

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

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

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

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

Tax Position of Individual Investors

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

1. Tax reliefs for individual investors resident in the UK

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

Relief from income tax

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

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

Relief from capital gains tax

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

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

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

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

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

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

Tax Position of Individual Investors

2. Obtaining tax reliefs

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

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

Capital gains tax deferral

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

3 Investors who are not resident in the UK

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

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

Risk warnings

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

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

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

Notice of Meeting

Notice is hereby given that the fourth annual general meeting of Murray VCT 3 PLC will be held on Tuesday 16 July 2002 at 10.15 a.m. at 123 St Vincent Street, Glasgow G2 5EA, to transact the following business.

Ordinary Business

1. To receive the Directors' report and audited statement of accounts for the year ended 28 February 2002.
2. To declare a final dividend.
3. To re-elect Mr Timms as a Director.
4. To re-elect Mr Walker as a Director.
5. To re-appoint Ernst & Young LLP as Auditors.
6. To authorise the directors to fix the remuneration of the Auditors.

Special Business

7. 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 4,074,271 representing 10% of the Company's issued Ordinary share capital as at 31 May 2002;
 - (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.
8. 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 £407,427 (representing 10% of the total Ordinary share capital in issue on 31 May 2002) 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.
9. To consider and if thought fit pass the following resolution as a special resolution:
THAT, subject to passing of resolution number 8 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

Notice of Meeting

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 £407,427 (representing 10% of the total ordinary share capital in issue on 31 May 2002).

By order of the Board

Murray Johnstone Limited

Secretary



P M Barnes

Authorised Signatory

123 St Vincent Street

Glasgow G2 5EA

14 June 2002

No Director has any contract of service with the Company.

The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, has specified that only those shareholders on the register of members of the Company as at 10.15 a.m. on 14 July 2002 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded when determining the rights of any person to attend or vote at the meeting.

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

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

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

Details of resolutions 2 to 9 are shown in the Directors' Report as follows:

Resolution 2	Page 14	Dividend
Resolutions 3 to 4	Page 15	Directors
Resolutions 5 and 6	Page 16	Auditors
Resolution 7	Page 14	Purchase of ordinary shares
Resolutions 8 and 9	Page 15	Issue of new ordinary shares

Registered in England and Wales - Company Number 3495287

Proxy

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

Please complete in block capitals

I/we

of

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

.....
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16 July 2002 and at any adjournment thereof.

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

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

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

Signed this day of 2002

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

Notes

- To be valid this form of proxy must reach the registrar, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ, not later than 48 hours before the time of the meeting.
- Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
- If any other proxy be desired strike out the words "the Chairman of the meeting" and insert the name or names preferred. Any alteration must be initialled. Appointment of a proxy will not preclude a member from attending the meeting and voting in person. A proxy need not be a member of the Company.
- In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.