

Electra Kingsway VCT 3 Plc

Report & Accounts

30 September 2007

2007





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References in this Report to Electra Kingsway VCT 3 Plc have been abbreviated to "the Company" or "the Fund". References to Electra Partners Group Limited and its subsidiaries, including the Investment Manager, Electra Quoted Management Limited, have been abbreviated to "Electra Partners Group". References to Electra Quoted Management Limited have been abbreviated to "Electra Quoted Management".

Investment Objective

The Company's objective is to achieve long term capital gains and tax free dividends to its shareholders. This will be achieved by investing the majority of the Company's funds in a portfolio of qualifying investments. Venture Capital Trusts allow investors significant tax benefits provided that the Fund complies with the VCT investment rules. These rules are designed to encourage venture capital investment in smaller companies.

Investment Strategy

The strategy is to invest in a portfolio of qualifying unquoted and AIM listed companies which are well diversified by sector focus. As these investments mature, the Investment Manager will seek to sell them at a capital profit and distribute the uplift as a dividend. The original capital will be reinvested into new qualifying companies. This strategy should ensure long term capital growth and a regular flow of dividends to shareholders.

The Fund will co-invest alongside the other Electra Kingsway VCTs, which will enable shareholders to participate in larger unquoted transactions, which tend to have a lower risk profile than smaller venture capital investments. The majority of unquoted investments are structured in such a way as to give the Fund downside protection with significant voting rights.

The Fund will also invest approximately 30% of its assets in a combination of two managed funds: Electra Private Equity and Electra Active Management. These funds enable further portfolio diversification.

Qualifying Investments

Qualifying companies tend to be small companies that have higher risk profiles than larger well established companies. The Investment Manager seeks to reduce the risk of investing in these by selecting companies that are well managed and have a proven and sustainable business plan. Investments are also selected on the basis of their potential to deliver long term capital growth. This often entails building companies through organic growth and bolt on acquisitions. The holding period for investment is typically five years after which time it would be hoped to achieve a profitable exit.

Annual Review Financial Highlights

Year ended 30 September	2007	2006
Net assets	£35.4m	£34.8m
Net asset value per ordinary share	101.0p	99.2p
Dividend paid per ordinary share	1.5p	-
Cumulative return to shareholders since launch		
Dividends paid per ordinary share	1.5p	-
Net asset value plus dividends paid per ordinary share	102.5p	99.2p

Annual Review Chairman's Statement

Overview

I am pleased to present the second annual report on your Company and confirm continued good progress in both the growth of net assets and the investment in qualifying companies. As at 30 September 2007 the net asset value per ordinary share was 101.0p, which when combined with cumulative dividends paid, represented a total return per ordinary share of 102.5p. This is an uplift of 8.5 % over the starting net asset value of the Fund and an increase of 1.7% in the year. An interim dividend of 1.5p per ordinary share was paid to shareholders on 7 August 2007.

The level of investment activity remains encouraging and the Board is confident that the Fund is well positioned to meet the 70% investment test by 30 September 2008. The investment portfolio currently comprises investments in 18 qualifying investments with an additional unquoted investment made after the year end. The qualifying portfolio remains heavily weighted towards unquoted investments as indicated in the Prospectus. The Fund benefits from co-investing alongside the other two VCTs managed by Electra Quoted Management. In particular, by co-investing, your Fund is able to invest in larger more profitable unquoted companies where the risk profile is more attractive.

Dividend

The Board has declared an interim dividend of 1.0p per ordinary share, in respect of the year to 30 September 2008, that will be paid on 14 March 2008 to ordinary shareholders on the Register of Members at the close of business on 1 February 2008.

Portfolio Activity

In the period under review a further £8.7m was invested in qualifying companies with additional commitments made to certain investments which are following a buy and build strategy in consolidating sectors. More details of these are provided in the Investment Manager's report. The portfolio is starting to become well diversified by sector and business activity. A number of portfolio companies have reported good initial trading results which is an encouraging indication of further progress to come. In addition to the qualifying investments the portfolio comprises investments in two funds, Electra Private Equity and Electra Active Management. Electra Private Equity reported impressive results with a net asset increase of 29.5% at its year end. The Company's cash balance which is placed in sterling liquidity funds and bank accounts stands at £15.6m.

Share Buybacks

During the period the Company acquired 19,187 shares for cancellation. This was in line with the Company's stated buyback policy of buying back at a 10% discount to the last published net asset value subject to a limit approved by shareholders. Should any shareholder wish to sell their shares they should contact the Investment Manager.

The Investment Manager

In 2007, the investment management team established a limited liability partnership ("LLP") called Acuity Capital LLP, which is owned by members of the management team. The team is in negotiations to acquire, from Electra Partners Group, a majority interest in Electra Quoted Management, the Investment Manager of the Company. The Board believes that this will be beneficial to shareholders as it will enable the Investment Manager to incentivise existing employees and recruit high calibre individuals to the team. Acuity Capital will maintain close ties with the Electra Partners Group.

In order to reflect the formation of Acuity Capital LLP, the Board recommends to shareholders that the name of your Fund be changed to Acuity VCT 3 Plc. A resolution will be put to shareholders at the next AGM.

Shareholder Communication

Should shareholders have any general queries, they should contact the Investment Manager by telephone or by email. In addition the Investment Manager's website provides information on the Investment Manager and the Fund, together with historical information on strategy and investments as well as the Company's accounts.

Outlook

Shareholders will, I am sure, be aware of the current uncertainty in financial markets which is expected to lead to some weakness in equity markets and therefore AIM investments. However, the Fund has made a good early start with the Investment Manager investing in a diversified range of companies with strong growth potential. The Investment Manager reports a healthy deal flow and the Board is therefore confident of meeting the required VCT qualification tests by 30 September 2008.

Stuart Stradling, Chairman
23 January 2008

Annual Review Investment Manager's Review

The investment objective is to invest 80% of the Company's assets in qualifying investments. The majority of these will be in unquoted companies with a specific focus on profitable established companies with good growth opportunities. In particular the Investment Manager seeks to enhance the value of some of its investments through a buy and build strategy. Investments will typically be characterised as Management Buy Outs (MBOs), Buy-in Management Buy-outs (BIMBOs) and expansion capital. In addition the Investment Manager continues to look for interesting opportunities in the AIM market looking for a combination of under priced companies with good growth prospects.

During the year the main portfolio uplifts were in two unquoted companies that were increased in value in line with improving fundamentals; these were Gyro and Munro Global. The only material valuation decreases were Worthington Nicholls, which floated on AIM, and Defaqto. Despite having performed strongly post flotation, Worthington Nicholls became a casualty of poor internal controls and overtrading. We took some profits, however the shares have since fallen sharply as confidence evaporated. Management changes have been implemented which should enable confidence to be restored. A decrease in Defaqto's valuation was made to reflect a change in its strategy which we have fully supported, as we believe it will result in a better positioned and ultimately more valuable company.

During the year the Fund invested in the following qualifying companies:

Gyro International is a specialist brand and marketing agency with a strong business-to-business focus. It has a blue chip client list with customers such as Oracle, Sun Microsystems and Sony. The company originally raised £2.5m to fund the buy-out of one of the two founder partners. More recently the company raised additional funds to finance three significant acquisitions and the company is now rated as the leading B to B agency in the UK.

Factory Media specialises in action sports magazines in areas that include surfing, snowboarding and BMX biking. The strategy is to build up a portfolio of action sports titles and enhance the company's digital platform.

Zamano is a leading provider of mobile services in the UK, Australia and Ireland. It enables business partners to deliver mobile content and interactivity via 3G, SMS, MMS, WAP and IVR. It provides a highly scalable and robust messaging platform, connecting into all UK, Irish and Australian operators, a range of highly interactive mobile applications and powerful reporting tools. We had followed the company as a potential unquoted investment however the board eventually opted to float on AIM.

Emote Games is a specialist cross platform publisher of interactive gaming content. Founder & CEO Morgan O'Rahilly is one of the gaming industry's most respected executives, having previously been the CEO of Ifone, the UK's most successful mobile games publisher. The video games industry is entering another cycle of growth driven by new games hardware releases from Microsoft, Nintendo and Sony. Within the industry, one of the fastest growing segments is networked gaming, where players have the ability to play against each other remotely using the internet and mobile networks.

Target is one of the UK's leading television distributors with an established international infrastructure. The UK independent TV production sector has become more attractive as recent legislative changes have increased the IP rights available to independent producers. These changes have acted as a catalyst for consolidation within the sector as companies have developed more diversified rights portfolios and sought increased economies of scale.

Mount Engineering floated on AIM in 2007. It specialises in the manufacture and supply of thread converting adaptors and reducers that are "Ex Certified", which means that they have been certified for use in potentially explosive or hazardous areas. The products provide a method of insulating and protecting electrical wiring and installations in hazardous areas such as oil refineries where a stray spark from an electrical installation could have dramatic consequences.

Sport Media Group sells digital media content through mobile telephones via the internet to mobile customers of major UK network operators and users of leading UK internet key search engines. In 2007 the company acquired Sport Newspapers which made strong commercial logic as it merged a content provider with a strong digital distribution platform.

Acrobat Group is an established vehicle set up to acquire and exploit music master rights. Master rights are created when a composition is recorded and are usually assigned to the financier for the life of copyright (typically 95 years). Owners of master rights, most often record companies, are entitled to royalties from the sale of their recordings (via CD or digital download) as well as clearance fees for the use of recordings in audio-visual productions. They also derive revenues from licensing recordings for exploitation by third parties.

The Fin Machine Company was a transaction completed after the year end through Kingsway Generalist Limited. The company is a market leading manufacturer and supplier of capital equipment used to manufacture heat exchangers in the automotive industry. The company has shown good historic growth rates and has a significant further opportunity in the air conditioning market. The transaction was structured as a Buy-in Management Buy-out with the management team having a significant equity holding.

Annual Review Portfolio Summary

	Cost at 30 September 2007 £'000	Valuation at 30 September 2007 £'000	Valuation Movement in year ended 30 September 2007 £'000	% of Portfolio by Value
Ten Largest Qualifying Investments				
Munro Global Limited	1,615	2,083	468	10.06
Gyro International Limited	1,000	2,080	1,080	10.05
Factory Media Limited	1,925	1,925	-	9.30
Defaqto Group Limited	1,150	1,525	(667)	7.37
Target Entertainment Group Limited	1,000	1,000	-	4.83
Acrobat Group Limited	1,000	1,000	-	4.83
Zamano Plc	750	789	39	3.81
Mount Engineering Plc	759	716	(43)	3.46
Jelf Group Plc	250	562	137	2.71
Sport Media Group Plc	500	473	(27)	2.28
Other qualifying investments	1,945	1,474	(817)	7.12
	11,894	13,627	170	65.82
Non-Qualifying Investments				
Electra Private Equity Plc	5,151	6,636	1,304	32.05
Electra Active Management Plc	500	442	(27)	2.13
	5,651	7,078	1,277	34.18
	17,545	20,705	1,447	100.00
Other Assets				
Liquidity Funds		14,075		
Cash		1,550		
Total		36,330		

Annual Review Investment Manager

The Fund's investments are managed by Electra Quoted Management, which is a subsidiary of Electra Partners Group. Electra Quoted Management was established in 1981 and is authorised and regulated by the Financial Services Authority.

Electra Quoted Management has considerable expertise in quoted and unquoted investments and has a well developed deal flow, including unquoted company proposals that originate from its own contacts and network, pre-float finance opportunities and broker led AIM flotations.

Electra Quoted Management is also the Investment Manager of Electra Kingsway VCT Plc, Electra Kingsway VCT 2 Plc and Electra Active Management Plc.

The Investment Manager has an established Investment Committee comprising four executives, which is chaired by Hugh Mumford, a senior executive of Electra Partners Group. The Investment Committee meets as required to consider and review investment proposals.

Annual Review Co-investment Arrangements

Co-investment Arrangements with other Electra Kingsway VCTs

The Directors welcome the fact that the Investment Manager has four VCT fund pools, Electra Kingsway VCT Plc Ordinary Share pool, Electra Kingsway VCT Plc C Share pool, Electra Kingsway VCT 2 Plc and Electra Kingsway VCT 3 Plc Ordinary Share Pools ("the Electra Kingsway VCTs") it can use for co-investment. This allows each fund to spread its investment risk and gain access to larger investments than it could do on its own. Where a co-investment opportunity arises between the Company and one or more of the other funds, the Company will invest in an agreed and consistent proportion, on the same terms and in the same securities as the funds with which it co-invests. Costs associated with any such investment will be borne by each fund pro-rata to its investment.

In more detail, the Board has adopted a set of guidelines on its co-investment arrangements with the Electra Kingsway VCTs and the Investment Manager as follows:-

- Other than as set out below, investments will be allocated between the Company and the Electra Kingsway VCTs by reference to the size of each fund and to each fund's available cash resources.
- Where an opportunity arises for a second or subsequent round of investment in a company in which one of the Electra Kingsway VCTs has invested at an earlier stage, the fund holding the existing investment will have a preferential right to take up any pro-rata entitlement it may have in the new financing round. The amount it invests on this basis will not be taken into account in determining its co-investment share thereafter.
- The Company will make an investment in which one or more of the Electra Kingsway VCTs have existing investments only when the Board considers that to be in the best interests of the Company.
- Any potential conflict of interest in a proposed investment by one or more of the Electra Kingsway VCTs will be referred by the Investment Manager to the Board of the Company and the other relevant Boards.
- In the event of a possible conflict of interest between the Investment Manager and the Company, the matter will be decided by those Directors who are independent of the Investment Manager.

The Board of the Company acknowledges that the Investment Manager may occasionally recommend an allocation of investments on a different basis from the one described above. For example, an exception may be made to ensure that one or more of the Company, Electra

Kingsway VCT Plc or Electra Kingsway VCT 2 Plc maintain their status as a HMRC approved VCT, or in the interests of balancing their portfolios. A different basis may also be necessary to meet the requirements of potential investee companies. In these cases the Directors use their judgement.

Annual Review Ten Largest Qualifying Investments

Munro Global Limited		Period from 11 August 2005 to 28 February 2006	
Cost	£1,615,000		£'m
Valuation	£2,083,000	Sales	0.0
Basis of Valuation	Earnings multiple	Profit before tax	0.0
Equity held	24.79%	Retained profit	0.0
Business	Market Research Company	Net assets	0.0

The company has changed its accounting reference date and the most recent set of accounts are not yet available.

Gyro International Limited		Year ended October 2006	
Cost	£1,000,000		£'m
Valuation	£2,080,000	Sales	24.8
Basis of Valuation	Earnings multiple	Profit before tax	1.5
Equity held	4.18%	Retained profit	1.0
Business	Business to Business Creative Agency	Net assets	5.8

Factory Media Limited		Period from 15 June to 31 December 2006	
Cost	£1,925,000		£'m
Valuation	£1,925,000	Sales	0.6
Basis of Valuation	Recent purchase price	Loss before tax	(0.1)
Equity held	24.99%	Retained loss	(0.1)
Business	Sports Publishing Company	Net assets	0.5

Defaqto Group Limited		Year ended March 2007	
Cost	£1,150,000		£'m
Valuation	£1,525,000	Sales	4.7
Basis of Valuation	Earnings multiple	Loss before tax	(6.2)
Equity held	8.54%	Retained loss	(6.2)
Business	Financial product data provider	Net liabilities	(6.2)

Annual Review Ten Largest Qualifying Investments

Target Entertainment Limited		Year ended December	2006
Cost	£1,000,000		£'m
Valuation	£1,000,000	Sales	10.3
Basis of Valuation	Recent purchase price	Loss before tax	(0.3)
Equity held	13.33%	Retained loss	(0.4)
Business	Television Distribution Company	Net liabilities	(1.8)

Target Entertainment Group Limited is the parent company of Target Entertainment Limited and has not yet produced any annual accounts.

Acrobat Group Limited		Year ended December	2006
Cost	£1,000,000		£'m
Valuation	£1,000,000	Sales	0.0
Basis of Valuation	Recent purchase price	Profit before tax	0.0
Equity held	21.20%	Retained profit	0.0
Business	Games, production, finance, trying to buy master rights	Net assets	0.0

The company was dormant during the period to 31 December 2006 and its most recent set of accounts have yet to be published.

Zamano Plc		Year ended December	2006
Cost	£750,000		£'m
Valuation	£789,000	Sales	9.3
Basis of Valuation	Bid price	Profit before tax	1.6
Equity held	2.72%	Retained profit	1.4
Business	Premium SMS mobile products and services	Net assets	6.0

Mount Engineering Plc		Year ended December	2006
Cost	£759,000		No audited accounts yet produced
Valuation	£716,000		
Basis of Valuation	Bid price		
Equity held	4.44%		
Business	Specialist engineering manufacturer and distributor		

Annual Review Ten Largest Qualifying Investments

Jelf Group Plc		Year ended September	2006
Cost	£250,000		£'m
Valuation	£562,000	Sales	25.1
Basis of Valuation	Bid price	Profit before tax	2.1
Equity held	0.92%	Retained profit	1.2
Business	Full service financial consultancy	Net assets	16.3

Sport Media Group Plc		Year ended July	2007
Cost	£500,000		£'m
Valuation	£473,000	Sales	11.4
Basis of Valuation	Bid price	Profit before tax	5.3
Equity held	0.69%	Retained profit	0.9
Business	Distributor of adult content via mobile phone and internet	Net assets	4.8

Note:-

In many cases, a qualifying investment is made substantially in the form of loan notes which both carry a high interest rate and are treated as debt for statutory audit purposes. Shareholders should therefore be advised that often the investee companies report both retained losses and net liabilities as a result of the structure of the investment.

Equity held percentages are calculated on an undiluted basis.

Year ended financial figures of investee companies are derived from the latest available financial statements of each investee company audited by respective company auditors except Acrobat Group Ltd. The financial figures for these companies which are exempt for filing audited accounts are derived from unaudited accounts filed with Companies House.

Company Information Contact Details

Electra Kingsway VCT 3 Plc

Board of Directors

Stuart Stradling (Chairman)
Kevin D'Silva
David Hurst-Brown
Nicholas Ross

Investment Manager and Administrator

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www.electraquoted.com
Enquiries – info@electraquoted.com

Secretary and Registered Office

Philip Dyke
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London EC4M 8AB
Telephone +44 (0)20 7214 4200

Company Number

5544383

Registered Independent Auditors

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Chartered Accountants
1 Hay's Lane
Hay's Galleria
London, SE1 2RD

Registrar and Transfer Office

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Telephone (UK): 0871 664 0300 (calls cost 10p per minute plus network extras)
Telephone (Overseas): +44 208 639 3399
Email: ssd.capitaregistrars.com
Web: www.capitaregistrars.com

Any change of address of a shareholder or other relevant amendment to shareholder details should be communicated to the Company's Registrar, Capita Registrars.

Company Information Board of Directors

Stuart Stradling, Chairman

Appointed a Director on 14 September 2005.

He is a chartered accountant with 36 years experience in the City of London and until his retirement in April 2002 he was a Managing Director of investment banking and Chairman of corporate banking at Dresdner Kleinwort. He previously held a similar position at SG Warburg and was partner in charge of corporate broking at Rowe and Pitman for 10 years prior to the firm's sale to SG Warburg in 1986. In addition, he holds a number of non-executive positions in small companies in several fields, including media and technology. He is Chairman of the Nomination Committee.

Kevin D'Silva*

Appointed a Director on 14 September 2005.

He is a chemical engineer who has specialised in the medical devices industry. He was formerly Group Managing Director of Ferraris Group and he has managed the growth of a number of publicly quoted and unquoted companies. He is Chairman of Prosurgics, a surgical robots company, Chairman of Hallmarq Veterinary Systems, a MRI scanning products business, Chairman of Ai2, an antimicrobial coating business and Chairman of Surface Transforms, a publicly listed company specialising in carbon ceramic brakes. He is also Managing Partner of KDS Associates, a business consultancy group involved in providing strategic business advice for medical device companies. He is Chairman of the Remuneration Committee.

David Hurst-Brown*

Appointed a Director on 14 September 2005.

He worked for over 25 years in the investment banking industry, starting as an investment analyst with Rowe and Pitman and becoming a partner of the firm in 1985. He was formerly an executive director in the corporate finance division of UBS Warburg. In this capacity, amongst his various duties, he was responsible for establishing a smaller companies' business unit. He was a consultant to UBS from 1999 to 2002 and at the same time was an adviser to techMark, the London Stock Exchange's market for technology companies. Since then he has held a number of directorships of public and private companies, including Keydata AIM VCT and Keydata Income VCT. He is Chairman of the Audit Committee and has been nominated the Senior Independent Director under the Combined Code on Corporate Governance.

Nicholas Ross

Appointed a Director on 14 September 2005.

He joined Electra Quoted Management in 1993 after several years in investment analysis and fund management. He has been responsible for the launch of Electra Active Management and the three Electra Kingsway VCT funds. He is a Director of Electra Quoted Management, Electra Active Management and all three Electra Kingsway VCT funds. He also sits on a number of investee company boards.

* Member of the Audit, Remuneration and Nomination Committees

Accounts Report of the Directors

To the Members of Electra Kingsway VCT 3 Plc

The Directors present the audited Accounts of the Company for the year ended 30 September 2007 and their Report on its affairs.

Investment Company Status

Throughout the year under review the Company was an investment company as defined under Section 266 of the Companies Act 1985.

VCT Status

HM Revenue and Customs has granted the Company approval under Section 842AA Income and Corporation Taxes Act 1985 as a VCT, the approval being effective from the first day on which the Company's ordinary shares were listed on the London Stock Exchange (being 1 December 2005). The Board continues to direct the affairs of the Company to enable it to maintain approval as a VCT.

Business Review

Objective and investment strategy

The Company has specialised in investing in unquoted companies and AIM quoted companies since 2005. The Company's principal objective is to maximise tax free income to shareholders from dividends and capital distributions. This will be achieved by investing in a portfolio of qualifying and non qualifying investments.

In addition, the investment strategy sets out that the Company will seek to invest in a diversified portfolio of unquoted and AIM quoted companies. Unquoted investments will typically be in companies that intend to float on a market within a two year period or that have a well developed growth and cash generation strategy.

Current and future development

A review of the main features of the period under review is contained in the Chairman's Statement and the Investment Manager's Review on pages 4 and 5 respectively.

The Board regularly reviews the development and strategic direction of the Company. The Board's main focus continues to be on the Company's long-term investment return. Attention is paid to the integrity and success of the investment process and on factors which may have an impact on this approach. Due regard is given to the marketing and promotion of the Company, including effective communication with shareholders and other external parties.

Performance

A detailed review of performance during the year under review is contained in the Investment Manager's Review on page 5.

A number of performance measures are considered by the Board and the Investment Manager in assessing the Company's success in achieving its objectives.

The key performance indicators ('KPIs') used to measure the progress and performance of the Company are established industry measures and are as follows:

- The movement in net asset value per ordinary share
- The movement in share price
- The movement of net asset value and share price performance compared to the FTSE All-Share index

Details of the KPIs are shown in a graph comparing the Company's total return on a share price and net asset value basis over the period since shares were first issued with the FTSE All-Share Index total return over the same period as set out in the Directors' Remuneration Report on page 23.

The Board recognises that it is in the long term interests of shareholders to reduce discount volatility and believes that the prime driver of discounts over the longer term is performance. As outlined in the Report of the Directors on page 17, the Board intends to seek renewal of its annual share buy-back authority.

Risk Management

As the Company's investments are focused on unquoted companies and AIM quoted companies, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The Investment Manager aims to limit the risk attaching to the portfolio as a whole by careful selection and redistribution of investments in accordance with the Company's investment policy, and by monitoring the spread of holdings in terms of financing stage and industry sector. The Board reviews the investment portfolio with the Investment Manager on a regular basis. The Portfolio Summary on page 6 demonstrates the application of the Company's investment policy.

The key risks facing the Company include Credit Risk, Market Price Risk, Interest Rate Risk and Currency Rate Risk as further detailed in Note 19 of the Notes to the Accounts.

Share Capital

The current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each. The rights and obligations attaching to the ordinary shares are set out in the Company's Articles of Association.

Accounts Report of the Directors

Authority to make Market Purchases of Shares

At the Annual General Meeting of the Company held on 14 February 2007 authority was given to make market purchases of up to 3,508,883 of the Company's issued ordinary share capital. During the period to 30 September 2007, a total of 19,187 ordinary shares were purchased under this authority and accordingly at 30 September 2007 authority remained to purchase a further 3,489,696 ordinary shares.

During the year under review, the Company made the following purchases of its own ordinary shares in the market under the authority granted by shareholders at the Annual General Meeting held in February 2007:

Ordinary Shares Purchased for Cancellation	Date of Purchase	Percentage of issued Capital at Time of Purchase	Buyback Price per Ordinary Share
5,137	30 March 2007	0.01%	89.5p
14,050	28 September 2007	0.04%	100.0p

The Company does not hold any shares in treasury.

At 30 September 2007, a total of 35,069,648 ordinary shares of 1p each of the Company were in issue.

Renewal of Authority to Allot Shares and Disapply Pre-emption Rights

At the Annual General Meeting to be held in 2008 an Ordinary Resolution will be proposed seeking to renew the authority granted at the Annual General Meeting held on 14 February 2007 to allot additional shares, up to an aggregate nominal amount of £116,898, representing one third of the current issued share capital. It is standard practice for most public companies to renew this authority to allot shares annually. The Directors are seeking to renew this authority to provide them with the ability to make further small share issues if considered suitable. Otherwise, the Directors have no present intention of exercising this authority. The authority conferred on the Directors will expire at the conclusion of the Company's Annual General Meeting in 2009.

A Special Resolution will be proposed at the Annual General Meeting in 2008 seeking to renew the authority granted at the Annual General Meeting held on 14 February 2007 to issue equity securities of the Company for cash without the application of the pre-emption rights provided by the Companies Act 1985. The authority contained in this Resolution is sought in connection with a rights issue or similar issue, or otherwise in connection with an allotment of up to 5% of the Company's current issued share capital. The Directors' authority will expire at the conclusion of the Company's Annual General Meeting in 2009.

Results and Dividend

Revenue returns attributable to shareholders amounted to £798,000 (2006: £246,000). The Directors have declared an interim dividend of 1.0p per ordinary share, in respect of the year to 30 September 2008, which will be paid on 14 March 2008 to shareholders on the Register of Members at the close of business on 1 February 2008.

Post Balance Sheet Events

The Fund has made the following investment since the year end:

31 October 2007	The Fin Machine Company	£2,150,000
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Directors

The current Directors of the Company are listed on page 13. Mr SR Stradling, Mr D Hurst-Brown, Mr KA D'Silva and Mr NRW Ross all served as Directors throughout the financial year ended 30 September 2007. No other person was a Director of the Company during any part of the year under review. Mr KA D'Silva and Mr NRW Ross will retire at the Annual General Meeting in 2008 and, being eligible, offer themselves for re-election. Short biographical details of all the Directors are provided on page 13. Following performance appraisals of all of the Directors, details of which are to be found in the Corporate Governance Statement on page 19, the Board considers that the performance of each Director retiring at the Annual General Meeting and offering himself for re-election continues to be effective and that each Director continues to show commitment to his role. Accordingly, the Board recommends that those Directors retiring at the Annual General Meeting in 2008 and offering themselves for re-election be re-elected.

Directors' Interests

The beneficial interests of the Directors in the ordinary shares of the Company are shown below. Save as disclosed, no Director had any notifiable interest in the securities of the Company.

No Director bought or sold any ordinary shares of the Company during the year under review. There have been no changes in the interests of any of the Directors in the ordinary shares of the Company between 1 October 2007 and 23 January 2008. No options over ordinary shares in the capital of the Company have been granted to the Directors.

Accounts Report of the Directors

Name of Director	30 September 2007	1 October 2006
	Ordinary Shares of 1p each	Ordinary Shares of 1p each
SR Stradling	51,500	51,500
KA D'Silva	10,300	10,300
D Hurst-Brown	25,750	25,750
NRW Ross**	51,600	51,600

** NRW Ross also has an interest in £25,575 (2006: £25,575) of the 3.75% Loan Notes issued by the Company.

Directors' Remuneration Report

An Ordinary Resolution to approve the Directors' Remuneration Report will be put to the Annual General Meeting in 2008.

Contracts with Directors

No Director has a service contract with the Company. As a result of his employment with Electra Partners Group, Mr NRW Ross is deemed to have an interest in the Management Contract between the Company and Electra Quoted Management.

Substantial Shareholders

At 23 January 2008 the Directors had not been notified of any interests in 3% or more of the Company's issued share capital.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the Annual General Meeting in 2008. A separate resolution will be proposed at the Annual General Meeting in 2008 authorising the Directors to fix the remuneration of the Auditors.

The Directors confirm that so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and that each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Creditor Payment Policy

The Company agrees the terms of payment with its suppliers when agreeing the terms of each agreement. Suppliers are aware of the terms of payment and the Company abides by the terms of payment. The Company's average creditor payment period at 30 September 2007 was one day.

Investment Manager

Electra Quoted Management was the Investment Manager of the Company during the year under review. The Board regularly reviews the performance of the Investment Manager and as a result believes the continuing

appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 14 October 2005. The agreement is for an initial period of five years and thereafter until terminated by not less than one year's notice. Fees are paid quarterly in arrears, as a percentage of net assets (less a rebate of fees suffered in investments in funds managed by Electra Quoted Management), at the following annual rates:

Period ended 30 June 2006	1.5%
Year ended 30 June 2007	2.0%
Year ended 30 June 2008 and thereafter	2.5%

Running expenses of the Fund are capped at 3.6% of the net asset value of 30 September. Any excess will be reduced against the management fee payable to the Investment Manager.

Incentive Schemes

Certain employees of, and persons engaged in, the business of the Investment Manager, will be entitled to receive a performance fee based upon returns to shareholders. The incentives are designed to encourage significant dividend payments to shareholders and a Net Asset Value performance that would equate to a historic top decile industry ranking, before any performance fee payment is made. Therefore, if, by the end of a financial year, distributions of 30p per share have been declared and if the Performance Value, which is equal to the Net Asset Value plus distributions, at that date exceeds 130p per share, then the beneficiaries will be entitled to an incentive equal to 20% of the excess of such Performance Value over 100p per share. If, on a subsequent financial year end, the performance of the Company falls short of the performance of the Company on the previous financial year end, the beneficiaries will not be entitled to any incentive. If, on a subsequent financial year end, the performance of the Company exceeds the previous financial year end performance of the Company, the beneficiaries will be entitled to 20% of such excess. To give effect to this performance fee, Loan Notes have been issued by the Company to certain employees of, and persons engaged in, the business of the Investment Manager. No Loan Notes have been issued directly to the Investment Manager. Further details of the terms of the Loan Notes are set out in Note 12 of the accounts. At 30 September 2007 there was no amount due under the Incentive Schemes.

Accounts Report of the Directors

Going Concern

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

Annual General Meeting

The Annual General Meeting of the Company will be held on 5 March 2008. In addition to the ordinary business, the following special business will be considered:

Authority to Allot Shares: Resolution 7

At the Annual General Meeting an Ordinary Resolution will be proposed seeking to renew the authority conferred upon the Directors at the Annual General Meeting held on 14 February 2007 to allot additional shares, up to an aggregate nominal amount of £116,898, representing one third of the current issued capital. It is standard practice for most public companies to renew this authority to allot shares annually. The Directors are seeking to renew this authority to provide them with the ability to make further small share issues if considered suitable. Otherwise, the Directors have no present intention of exercising this authority. The authority conferred on the Directors will expire at the conclusion of the Company's Annual General Meeting in 2009.

Authority to Disapply Pre-emption Rights: Resolution 8

A Special Resolution will be proposed at the Annual General Meeting seeking to renew the authority conferred upon the Directors at the Annual General Meeting held on 14 February 2007 to issue equity securities of the Company for cash without the application of the pre-emption rights provided by the Companies Act 1985. The authority contained in this Resolution is sought in connection with a rights issue or similar issue, or otherwise in connection with an allotment of up to 5% of the Company's current issued share capital. The Directors' authority will expire at the conclusion of the Company's Annual General Meeting in 2009.

Authority to Make Market Purchases of Shares: Resolution 9

A Special Resolution will be proposed to renew, for one year, the Board's authority to buy up to 3,506,964 of the Company's ordinary shares, or such lesser number of shares as is equal to 10% of the total number of ordinary shares in issue as at the date of the passing of the resolution, subject to the constraints set out in the Special Resolution. Should any shares be purchased under this authority, it is the intention of the Board that such shares be cancelled and not held as treasury shares.

The Directors do not intend to use this authority to purchase shares unless this would result in an increase in the net

asset value per share and would be in the best interests of shareholders generally. The Directors recommend shareholders to vote in favour of this Special Resolution.

Articles of Association: Resolution 10

A Special Resolution will be proposed to adopt new Articles of Association of the Company (the "Articles").

The current Articles of Association of the Company allow the Company to take advantage of the Electronic Communications Act 2000 which permits companies to communicate with its shareholders using electronic means, provided that individual shareholders have given their specific consent. The regime introduced by the Electronic Communications Act has been revised and enhanced by the Companies Act 2006, parts of which came into force earlier this year. Under the new Act, companies may make communications with shareholders available to view on a website rather than send them to shareholders in hard copy form.

The regime introduced by the Companies Act 2006 allows the Company to use electronic communications as the default method of communicating with shareholders unless shareholders notify the Company that they wish to receive hard copies of communications from the Company. Notwithstanding any prior request or deemed consent to receive communications electronically, a shareholder may at any time tell the Company that he or she wishes to receive all or specific information in hard copy form.

To enable the Company to benefit from the enhanced regime, it is necessary to amend the Company's Articles of Association to update references to relevant legislation, introduce provisions permitting the Company to communicate with shareholders via a website and make other consequential changes.

If shareholders approve the Resolution to adopt new Articles, the Directors will review the procedures relating to electronic communications and, if they consider it to be in the best interests of shareholders, will contact shareholders to ask them to specify whether they wish to receive communications from the Company electronically or in hard copy form.

Change of Name: Resolution 11

With the proposed buyout of the Investment Manager by its management team, the name of the Investment Manager will change to Acuity Capital Management Limited. As a consequence, it is proposed that a corresponding change is made to the name of the Company. A Special Resolution will be proposed at the AGM to change the name of the Company from Electra Kingsway VCT 3 Plc to Acuity VCT 3 Plc. Subject to the passing of the resolution, the change of name will be effective on the issue of a certificate on incorporation on change of name by the Registrar of Companies.

Accounts Report of the Directors

The change of the Company's name will not in any way affect the rights attaching to the shares in the capital of the Company, nor affect the rights or obligations of the Company in relation to third parties.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB
23 January 2008

Corporate Governance

The Directors confirm that during the year under review the Company has complied with Section 1 of the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in July 2003.

Directors' Attendance at Scheduled Meetings of the Board and Committees of the Board

Name of Directors	Scheduled Board	Audit Committee
Stuart Stradling	3	n/a
Kevin D'Silva	3	2
Nicholas Ross	3	n/a
David Hurst-Brown	3	2

In addition, a number of Directors attended further Board meetings at short notice to address specific issues.

The Board of Directors

The Board, which meets regularly, comprised four Directors at 30 September 2007 all of whom were non-executive. All of the Directors who held office at 30 September 2007, apart from Mr NRW Ross, have been considered by the Board to be independent from the Investment Manager. The Board has nominated Mr David Hurst-Brown as the Senior Independent Director.

Both Mr KA D'Silva and Mr NRW Ross are Directors of Hallmarq Veterinary Imaging Limited, a company in which Electra Kingsway VCT Plc holds an investment. Electra Kingsway VCT Plc is also managed by Electra Quoted Management and Mr NRW Ross is one of its Directors. The Board has particularly considered the question of each Director in light of the Code's provisions on that subject.

The Board believes that each of the Company's Directors, apart from Mr NRW Ross, continues to be wholly independent under the Code notwithstanding the cross-directorship detailed above. Independence is a state of mind and the character and judgement which accompany this are distinct from and, in the Board's opinion, are not compromised by having cross directorships with other Directors.

The Board has agreed a schedule of matters reserved for its specific approval, which includes a regular review of the Company's Management Agreement with Electra Quoted Management, together with the monitoring of the performance thereunder. The Management Agreement sets out the matters over which Electra Quoted Management has authority in accordance with the policies and directions of the Board. The Board Meetings consider as appropriate

such matters as overall strategy, investment performance, share price performance, share price discount and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The number of scheduled meetings of the Board and the Audit Committee are shown in the table above.

The Board receives information that it considers to be sufficient and appropriate to enable it to discharge its duties. Each Director receives board papers several days in advance of each scheduled Board meeting and is able to consider in detail the Company's performance and any issues to be discussed at the relevant meeting.

The Directors believe that the Board has the balance, skills and experience which enable it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience can be found on page 13.

Performance Appraisal

The Board carried out a formal appraisal process of its own and of its Committees' operation and performance during the year under review. This was implemented by means of questionnaires circulated to the Directors, the results of which were then reviewed by the Board. Issues covered included board composition, meeting arrangements and communication. The process was considered by the Board to be constructive in identifying areas for improving the functioning and performance of the Board and of its Committees. The Board concluded that its performance and that of its Committees was satisfactory.

The Chairman carried out a formal appraisal of each of the Directors during the year under review and the Board, under the leadership of the Senior Independent Director, similarly appraised the Chairman. Relevant matters considered included the attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution made by the relevant Director. As a result of this process the Chairman has confirmed that the performance of each of the Directors being proposed for re-election continues to be effective and that each of them continues to show commitment to his role. The Senior Independent Director has also confirmed the continuing effectiveness and commitment of the Chairman.

Re-election of Directors

In accordance with either the Code's provisions or the Company's Articles, Mr KA D'Silva and Mr NRW Ross will retire at the Annual General Meeting to be held in 2008 and offer themselves for re-election.

Independent Professional Advice

Individual Directors may seek independent professional advice in furtherance of their duties at the Company's expense within certain parameters. All Directors have access to the advice and services of the Company Secretary. Any appointment or removal of the Company Secretary would be a matter for consideration by the entire Board.

The Audit Committee

The Board has an Audit Committee established in compliance with the Code. It comprises all the Directors other than the Chairman of the Board and Mr NRW Ross, with Mr David Hurst-Brown as Chairman of the Committee. The Board has taken note of the suggestion that at least one member of the Committee should have recent and relevant experience and is satisfied that the Committee is properly constituted in this respect. Its authority and duties are clearly defined in its written terms of reference which are available on Electra Quoted Management's website.

The Committee's Responsibilities include:

- monitoring and reviewing the integrity of the accounts the internal financial controls and the independence, objectivity and effectiveness of the external auditors;
- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing the Company's policy on the provision of non-audit services by the external auditors;
- reviewing the arrangements in place within Electra Quoted Management whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- considering annually whether there is a need for the Company to have its own internal audit function.

The Committee has reviewed the provision of non-audit services provided by the external auditors and believes them to be cost effective and not an impediment to the external auditors' objectivity and independence. The non-audit services include the provision of a monitoring service to ensure the Company complies with VCT legislation. It has been agreed that all non-audit work to be carried out by the external auditors, must be approved by the Audit Committee and that any special projects must be approved in advance.

Internal Audit

Following the review carried out by the Audit Committee as to whether there is a need for the Company to have its own internal audit function, the Board has considered and continues to believe that the internal control systems in place within Electra Quoted Management provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Remuneration Committee

During the year under review the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross, with Mr KA D'Silva as Chairman of the Committee. It was not deemed necessary to hold any meeting of the Committee during the year. The Committee has written details of reference which are available on Electra Quoted Management's website. Full details of its role are set out in the Directors' Remuneration Report.

The Nomination Committee

The Nomination Committee meets on an ad hoc basis to consider suitable candidates for appointment as Director. It comprises all the Directors apart from Mr NRW Ross, with Mr Stuart Stradling as Chairman of the Committee. It was not necessary to hold any meeting of the Committee during the course of this year. The Committee has written terms of reference which are available on Electra Quoted Management's website. The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill board vacancies to maintain a balanced Board.

Letters of appointment, which specify the terms of appointment are issued to new Directors.

The current Directors of the Company were appointed with regard to their independence, suitability for the position and their experience in related business areas.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee and which includes being briefed fully about the Company by the Chairman and senior executives of Electra Quoted Management. Following appointment, Directors continue to receive other relevant training and advice as necessary to enable them to discharge their duties.

The Company's Relationship with its Shareholders

The Company places great importance on communication with the Company's shareholders.

At the Annual General Meeting all shareholders are welcome to attend and have the opportunity to put questions to the Board.

The notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. A separate resolution is proposed on each substantially separate issue including the annual report and accounts. All proxy votes are counted and except where a poll is called, the Chairman indicates the level of proxies lodged for each resolution and the balance for and against the resolution after it has been dealt with on a show of hands.

The Chairman and the Senior Independent Director can always be contacted either through the Company Secretary or care of the Company's registered office at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB.

Internal Control

The Code requires the Directors to review the effectiveness of the Company's system of internal control and report to shareholders that they have done so. The Code extended the earlier reporting requirements and now includes financial, operational and compliance controls and risk management.

The Board confirms that it has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and has continued since the year end and up to the date of this report. It is reviewed at regular intervals by the Board and accords with the Financial Reporting Council's 'Internal Control : Revised Guidance for Directors on the Combined Code' issued in October 2005.

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2007. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided or arranged for the Company by Electra Quoted Management, the Company's system of internal control mainly comprises the monitoring of services provided by Electra Quoted Management, including the operating controls established by them, to ensure they meet the Company's business objectives. The key elements designed to provide effective internal control for the Company are as follows:

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data including management accounts, revenue projections, analyses of transactions and performance comparisons.

Investment Strategy – Agreement by the Board of the Company's investment strategy and authorisation and monitoring of all large investments.

Management Agreements – The Board regularly monitors the performance of Electra Quoted Management to ensure that the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.

Investment Performance – The investment transactions and performance of the Company's assets and affairs are managed in accordance with the guidelines determined by the Board.

Management Systems – Electra Quoted Management's system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Quoted Management's compliance department monitors compliance with the Financial Services Authority rules.

The Board keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of key controls of Electra Quoted Management as follows:

- The Board reviews the terms of the Management Agreement and receives regular reports from Electra Quoted Management executives.
- The Board reviews the certificates provided by Electra Quoted Management on a six monthly basis, verifying compliance with documented controls.

Voting Policy

The Company's investee companies are principally a mixture of quoted and unquoted companies in which the Company is a significant shareholder and the Company is usually a party to all issues requiring shareholder approval. The Company has given discretionary voting power to Electra Quoted Management to vote on its behalf.

Electra Quoted Management's voting policy as agent for the Company has adopted and applies the Statement of Principles drawn up by the Institutional Shareholders Committee when it considers these in its reasonable judgement to best serve the financial interests of the Company's shareholders. Electra Quoted Management's voting policy has been reviewed and endorsed by the Board.

Accounts Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the Accounts

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have prepared the Company accounts and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounts are required by law to 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 accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Company's accounts comply with the applicable UK Accounting Standards, subject to any material departures disclosed and explained in the accounts;
- prepare the Company's accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the accounts.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Company's accounts comply with the Companies Act 1985 and the Directors' Remuneration Report complies 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.

The accounts of the Company are published on www.electraquoted.com which is a website maintained by the Company's Investment Manager, Electra Quoted Management. Legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in other jurisdictions.

Accounts Directors' Remuneration Report

The Directors submit this report in accordance with the requirements of Schedule 7A of the Companies Act 1985. An Ordinary Resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such.

Remuneration Committee

During the year under review the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross. Mr KA D'Silva was Chairman of the Remuneration Committee throughout the year. It was not deemed necessary to hold any meetings of the Committee during the year. There was no change to the remuneration of the Directors during the year. The current annual fee rates are £20,000 for the Chairman and £15,000 for each of the other Directors apart from Mr NRW Ross, who receives no remuneration from the Company. The Company has not been provided with advice or services by any person in respect of Directors' remuneration during the year.

Policy on Directors' Remuneration

In accordance with the Articles of Association of the Company, the aggregate remuneration of the Directors may not exceed £100,000 per annum or such higher amount as may from time to time be determined by an Ordinary Resolution of the Company. Subject to this overall limit, the Remuneration Committee's policy is that remuneration of non-executive Directors should be sufficient to attract and retain the Directors needed to oversee the Company and reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2008 and subsequent years. Non-executive Directors are not eligible to receive bonuses, pension benefits, share options and other benefits.

Directors' Service Contracts

None of the Directors has a service contract with the Company. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors for compensation for loss of office.

Performance Graph

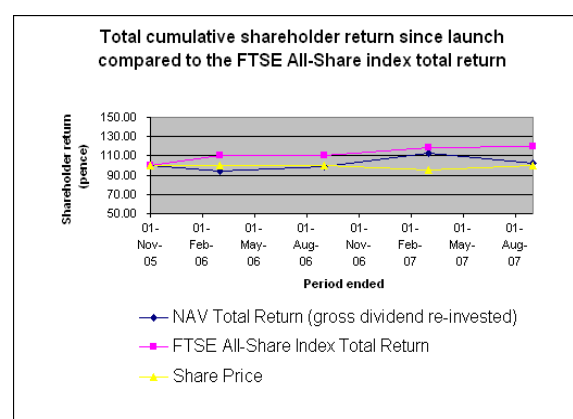
The graph below shows the Company's performance being measured in terms of its Total Shareholder Return and its Net Asset Value per share since the date on which the shares were first issued, being 1 December 2005, against the Total Shareholder Return of the FTSE All-Share Index.

The graph has incorporated the change in net asset value per share because changes in net asset value per share

relative to the FTSE All-Share Index are an important indicator of the performance of the Company's assets.

The Directors consider that since the Company invests in a broad range of commercial sectors, the FTSE All-Share Index is the most appropriate index against which to compare the Company's performance.

Electra Kingsway VCT 3 Share Price Total Return v Electra Kingsway VCT 3 Net Asset Value v FTSE All Share Index (Total Return)



Directors' Remuneration for the Period (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	For the year ended 30 September 2007	For the period ended 30 September 2006
	£'000	£'000
SR Stradling (Chairman & highest paid Director)	20	20
D Hurst-Brown	15	15
KA D'Silva	15	15
NRW Ross	-	-
Total	50	50

As an executive of Electra Partners Group, NRW Ross has an interest in the Management Contract between the Company and Electra Quoted Management. £30,000 (2006: £30,000) of his remuneration is estimated to be in respect of the duties he undertakes for the Company. The Directors fees include £15,000 (2006: £15,000) paid to KDS Associates for making available the services of one of the Directors.

By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House
65 St Paul's Churchyard. London EC4M 8AB
23 January 2008

Accounts Independent Auditors' Report

To the Members of Electra Kingsway VCT 3 Plc

We have audited the accounts of Electra Kingsway VCT 3 Plc for the year ended 30 September 2007 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors responsibilities for preparing the Annual Report, the Directors Remuneration Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors Responsibilities.

Our responsibility is to audit the accounts and the part of the Directors Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the accounts. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and Investment Manager's Review that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, 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 regarding Directors remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Investment Strategy, Financial Highlights, Chairman's Statement, the Investment Manager's Review, Portfolio Summary, Ten Largest Qualifying Investments, Co-investment arrangements, the Report of the Directors, the unaudited part of the Directors Remuneration Report, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, 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 accounts and the part of the Directors Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of its net return and cash flows for the year then ended;
- the accounts and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the accounts.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

23 January 2008

Accounts Income Statement

	Notes	For the year ended 30 September 2007			For the period ended 30 September 2006		
		Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Realised gains on investments		-	196	196	-	-	-
Unrealised gains on investments		-	1,447	1,447	-	1,757	1,757
Income	1	1,440	-	1,440	668	-	668
		1,440	1,643	3,083	668	1,757	2,425
Investment management fees	2	(234)	(701)	(935)	(115)	(343)	(458)
Other expenses	3	(238)	-	(238)	(307)	-	(307)
		(472)	(701)	(1,173)	(422)	(343)	(765)
Return on Ordinary Activities before Taxation		968	942	1,910	246	1,414	1,660
Tax on ordinary activities	5	(170)	136	(34)	-	-	-
Return on Ordinary Activities after Taxation		798	1,078	1,876	246	1,414	1,660
Basic and Diluted Return per Ordinary Share	6	2.3p	3.1p	5.4p	1.4p	7.9p	9.3p

The total column of this statement represents the Company's Income Statement, prepared in accordance with UK GAAP. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The notes on pages 32 to 42 form part of these financial statements.

Accounts Reconciliation of Movements in Shareholders' Funds

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
Total Return on Ordinary Activities after Taxation	1,876	1,660
Ordinary shares issued	-	35,089
Repurchase of ordinary shares	(19)	-
Preference shares issued	-	50
Repurchase of preference shares	-	(50)
Dividend payment on ordinary shares	(526)	-
Share issue expenses charged to share premium account	(714)	(1,930)
Movements in Shareholders' Funds	617	34,819
Shareholders' Funds at start of year	34,819	-
Shareholders' Funds at the end of the Year	35,436	34,819

Accounts Balance Sheet

	Notes	As at 30 September 2007		As at 30 September 2006	
		£'000	£'000	£'000	£'000
Fixed Assets					
Investments held at fair value	8		20,705		10,683
Current Assets					
Debtors	9	258		102	
Other investments	10	14,075		24,275	
Cash at bank	18	1,557		144	
			15,890		24,521
Current Liabilities					
Creditors: amounts falling due within one year	11	458		329	
			458		329
Net Current Assets					
			15,432		24,192
Total assets less current liabilities					
			36,137		34,875
Creditors: amounts falling due after more than one year	12		701		56
Net Assets					
			35,436		34,819
Capital and Reserves					
Called-up share capital	14		351		351
Share premium	15		32,007		32,808
Realised capital reserve	15		(668)		(343)
Unrealised capital reserve	15		3,160		1,757
Revenue reserve	15		586		246
Total Shareholders' Funds					
			35,436		34,819
Net Asset Value per Ordinary Share					
			101.0p		99.2p
		As at 30 September 2007		As at 30 September 2006	
Number of Shares in issue at end of year			35,069,648		35,088,835

The information on pages 32 to 42 forms part of these accounts.

The accounts on pages 25 to 42 were approved and authorised for issue by the Board of Directors on 23 January 2008 and were signed on their behalf by:

Stuart Stradling, Chairman
23 January 2008

Accounts Cash Flow Statement

	Notes	For the year ended 30 September 2007		For the period ended 30 September 2006	
		£'000	£'000	£'000	£'000
Operating Activities					
Investment income received		1,274		512	
Bank deposit interest received		41		54	
Investment management fees paid		(871)		(254)	
Other cash payments		(233)		(182)	
Net Cash Inflow from Operating Activities	17		211		130
Capital Expenditure and Financial Investment					
Purchase of investments		(8,731)		(8,926)	
Sale of investments		352		-	
Net Cash Outflow from Capital Expenditure and Financial Investment			(8,379)		(8,926)
Equity Dividends Paid			(526)		-
Cash Outflow before Financing and Management of Liquid Resources			(8,694)		(8,796)
Management of Liquid Resources					
Sales/(Purchases) of current asset investments			10,200		(24,275)
Net Cash Inflow/(Outflow) from Management of Liquid Resources			10,200		(24,275)
Financing					
Issue of shares			-		35,089
Expenses of the issue of shares			(88)		(1,930)
Repurchase of shares			(5)		-
Issue of loan notes			-		56
Net Cash (Outflow)/Inflow from Financing			(93)		33,215
Increase in Cash for the Period	18		1,413		144

Accounts Statement of Accounting Policies

Basis of Accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with the United Kingdom law, United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the revised Statement of Recommended Practice – ‘Financial Statements of Investment Trust Companies’ (SORP) issued in December 2005 by the Association of Investment Companies (formerly the Association of Investment Trust Companies).

In order to reflect the activities of an investment company, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In analysing total income between capital and revenue returns, the Directors have followed the guidance contained in the Statement of Recommended Practice for investment trusts issued by the Association of Investment Companies in December 2005 (the “SORP”).

The recommendations of the SORP which have been followed include:

- Realised and unrealised profits or losses arising on the revaluation or disposal of investments classified as held at fair value through profit and loss should be shown in the capital column of the Income Statement. Realised gains are taken to the realised capital reserves and unrealised gains are transferred to the unrealised capital reserves.
- Returns on any share or debt security for a fixed amount (whether in respect of dividends, interest or otherwise) should be shown in the revenue column of the Income Statement. The net return in the revenue column of the income statement is taken to the revenue reserve.
- The Board should determine whether the indirect costs of generating capital gains should also be shown in the capital column of the income statement.

If the Board decides that this should be so, the management fee should be allocated between revenue (25%) and capital (75%) in accordance with the Board’s expected long term split of returns, and other expenses should be charged to capital only to the extent that a clear connection with the maintenance or enhancement of the value of investments can be demonstrated.

In accordance with the Company’s status as a UK investment company under Section 266 of the Companies Act 1985, the Company’s Articles prohibit the distribution of net capital return by way of dividend.

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year, follows:

Investments

Purchases and sales of quoted investments are recognised on the trade date where a contract exists whose terms require delivery within a timeframe determined by the relevant market. Purchases and sales of unquoted investments are recognised when the contract for acquisition or sale becomes unconditional. Investments are designated at fair value through profit and loss (described in the accounts as investments held at fair value) and are subsequently measured at reporting dates at fair value. The fair value of direct unquoted investments is calculated in accordance with the Principles of Valuation of Investments below. Changes in the fair value of investments are recognised in the Income Statement through the capital column.

Quoted Investments

Quoted investments are stated at the bid market prices on the balance sheet date.

Unquoted Investments

Unquoted investments are held at fair value as fixed asset investments. The fair value is calculated in accordance with Principles and Methodologies recommended in the International Private Equity and Venture Capital Valuation Guidelines issued in March 2005 as stated below.

Principles of Valuation of Investments

General

Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. In estimating fair value, the Directors use a methodology which is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio. Methodologies are applied consistently from one period to another except where a change results in a better estimate of fair value. Because of the inherent uncertainties in estimating the fair value of private equity investments, the Directors exercise due caution in applying the various methodologies.

Unquoted Investments

The principal methodologies applied in valuing unquoted investments, include the following:

Accounts Statement of Accounting Policies

- Earnings multiple
- Price of recent investment
- Net assets

In applying the Earnings Multiple methodology, the Directors apply a market based multiple that is appropriate and reasonable to the maintainable earnings of the company. In the majority of cases the Enterprise Value of the underlying business is derived by the use of Earnings Before Interest and Tax multiple applied to current year's earnings where these can be estimated with a reasonable degree of certainty and are deemed to represent the best estimate of maintainable earnings. Where this is not the case, historic earnings will generally be used in their place.

Where a recent investment has been made, either by the Company or by a third party in one of Company's investments, this price will be used as the estimate of fair value for a period of up to one year from the date on which the investment was made. One of the principal methodologies, as above, may be used at any time if this is deemed to provide a better assessment of the fair value of the investment.

The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy and information about the Company is provided internally on this basis to the entity's key management personnel.

The valuation policies are set out below:

- Primary valuation methods, namely, earnings multiples, price of a recent investment or net asset basis, are normally used in determining fair value; and
- Fair values determined by earnings multiples are calculated using the following approach:
 - apply a multiple that is appropriate and reasonable to maintainable earnings of the Company to derive the Enterprise Value;
 - adjust the Enterprise Value derived above for surplus assets or excess liabilities and other relevant factors to derive a revised Enterprise Value;
 - deduct from the Enterprise Value all amounts relating to financial instruments ranking ahead of the highest ranking instrument of the Company in a liquidation in order to derive the Gross Attributable Enterprise Value;
 - apply an appropriate Marketability Discount to the Gross Attributable Enterprise Value derived above in order to derive the Net Attributable Enterprise Value; and

- apportion the Net Attributable Enterprise Value appropriately between the relevant financial instruments.

Earnings multiples that are used include price earnings ("P/E"), earnings before interest and tax ("EBIT") and earnings before interest, tax, depreciation and amortisation ("EBITDA").

The Marketability Discount relates to the investment rather than to the underlying business. It is therefore applied at the level at which the Company begins to participate in the Enterprise Value of the investee company. In determining the Marketability Discount, all relevant factors will be considered, including proximity to exit or influence of the Company over the timing of a realisation, and a discount in the range of 10% to 30% will be applied.

Maintainable earnings are defined as earnings figures that can be relied upon. This can mean the use of historical figures, but, where reliable, forecast earnings figures can be used.

- In circumstances where the valuation of an investment by earnings is deemed inappropriate, the use of a net asset basis may be considered. Under this method, the net asset value will be computed and will be taken as the Enterprise Value.
- Where a recent investment or transaction has been made in an investee company by an independent third party, then the cost of this transaction may be used as an indication of value, although only for a limited period following the date of the transaction.
- Where the realisation of an investment is imminent and the price of the transaction has been substantially agreed, the most likely valuation will involve the use of a simple discount to the expected realisation proceeds.
- In the case of valuing loan notes primary valuation techniques which are used to value equity instruments as described above have been adopted with priority of allocation of net enterprise value.

Although the Company holds more than 20% of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio. Accordingly, and as permitted by FRS 9 'Associates and joint ventures', their value to the Company is based on fair value.

Under FRS 2 'Accounting for subsidiary undertakings' control is presumed to exist when the parent owns, directly or indirectly more than half of the voting power by a number of means. The Company does not hold more than 50% of the voting rights of any company within the portfolio. In addition, it does not control any of the companies held as part of the investment portfolio. It is not considered that any

Accounts Statement of Accounting Policies

of the holdings represent investments in subsidiary undertakings.

Income

Dividends receivable from equity investments are accounted for on the ex-dividend date or, where no ex-dividend date is quoted, are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis, which reflects the effective yield. Where there is reasonable doubt that a return, which falls within the accounting period, will actually be received by the Company, the recognition of the return is deferred until the reasonable doubt has been removed.

Interest receivable on cash deposits is accounted for on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except for expenses in connection with the disposal of fixed asset investments, which are deducted from the disposal proceeds of the investment and investment management and incentive fees which are dealt with below.

A commission is payable at the rate of 0.25% of the net assets over a period of 10 years, from the inception of the fund, to the underwriter for the issue of shares. These are discounted to the present value and charged against share premium account as share issue expenses. The discounted amount is split between creditors amount falling due within one year and amount falling due after one year. Any difference between the actual payment and discounted value is taken to the income statement.

Investment Management and Incentive Fees

The investment management fees for the Investment Manager's services are charged 25% to the revenue account and 75% to the capital account and are capped at 3.6% of the net asset value. This is in line with the Board's long-term expected split of returns from the investment portfolio of the Company. Incentive fees are fully charged to the capital account. The incentive fee on realisations during the period is charged to the realised capital reserve and the incentive fee provision in respect of unrealised value growth in the portfolio is charged to the unrealised capital reserve.

Revenue and Capital Reserves

The net revenue return on ordinary activities after taxation in the Income Statement is taken to the revenue reserve.

Gains and losses on the realisation of investments are taken to the realised capital reserve.

Increases and decreases in the valuation of investments held at the period end are accounted for in the unrealised capital reserve.

Taxation

The tax effects of different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate using the Company's effective rate of tax for the accounting period.

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 842AA of the Income and Corporation Taxes Act 1988, no provision for taxation is required in respect of any realised or unrealised appreciation on the Company's investments.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are deemed more likely than not to be recoverable.

Dividends Payable

Dividend distributions to shareholders are recognised as a liability in the period in which they are paid in respect of interim dividends or when approved by members in respect of final dividends.

Foreign Currency

The Company does not hold any assets or liabilities denominated in foreign currencies at the year end. The functional currency used on the preparation of these accounts is pounds sterling which is also the presentation currency. The functional currency is the currency in which the company operates and it reflects the economic substance of the underlying events and circumstances of the Company.

Accounts Notes to the Accounts

1. Income

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
Franked investment income	79	-
Income from liquidity funds	1,032	594
Unfranked investment income	288	20
Interest from bank deposits	41	54
	1,440	668

2. Investment Manager's Fees

	For the year ended 30 September 2007			For the period ended 30 September 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management Fees to:						
Electra Quoted Management	234	701	935	115	343	458

The Management Fee includes irrecoverable VAT of £139,000 (2006: £68,000).

Electra Quoted Management also received an administration fee of £62,000 (2006: £51,000), net of VAT, which increases each year in line with the Retail Price Index. The administration fee is included in the other expenses of £238,000 (2006: £307,000) in Note 3.

Management Fees and Arrangements

Electra Quoted Management was appointed as Investment Manager under an agreement dated 14 October 2005. The agreement is for an initial period of five years and thereafter until terminated by not less than one year's notice to expire at any time after the initial period. Fees are paid quarterly in arrears, as a percentage of net assets (less a rebate of fees suffered in the investment in Electra Active Management which is managed by Electra Quoted Management) at the following annual rates:

Period ended 30 June 2006	1.5%
Year ended 30 June 2007	2.0%
Year ended 30 June 2008 and thereafter	2.5%

Running expenses of the Fund are capped at 3.6% of the net asset value of 30 September. Any excess will be reduced against the management fee payable to the Investment Manager.

Accounts Notes to the Accounts

Incentive Schemes

Certain employees of, and persons engaged in, the business of the Investment Manager, will be entitled to receive a performance fee based upon returns to shareholders. The incentives are designed to encourage significant dividend payments to shareholders and a NAV performance that would equate to a historic top decile industry ranking, before any performance fee payment is made. Therefore, if by the end of a financial year, distributions of 30p per share have been declared and if the Performance Value, which is equal to the Net Asset Value plus distributions, at that date exceeds 130p per share, then the beneficiaries will be entitled to an incentive equal to 20% of the excess of such Performance Value over 100p per share. If, on a subsequent financial year end, the performance of the Company falls short of the performance of the Company on the previous financial year end, the beneficiaries will not be entitled to any incentive. If, on a subsequent financial year end, the performance of the Company exceeds the previous performance of the Company, the beneficiaries will be entitled to 20% of such excess. To give effect to this performance fee, Loan Notes have been issued by the Company to certain employees of, and persons engaged in, the business of the Investment Manager. No Loan Notes have been issued directly to the Investment Manager. Further details of the terms of the Loan Notes are set out in Note 12 of the Financial Statements. At 30 September 2007 there was no amount due under the Incentive Schemes.

3. Other Expenses

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
Directors' remuneration	50	50
Employer's NIC	4	4
IFA trail commission (at rate of 0.25% per annum of net assets)	-	87
Auditors' fees		
- audit	27	21
- non audit*	6	5
Legal fees	31	0
Administration expenses	120	140
	238	307

* Non audit fees related to tax services provided by PwC

4. Directors' Remuneration

Details of Directors' remuneration are shown in the table in the "Directors' Remuneration for the Period" section of the Directors' Remuneration Report on page 23.

The Company had no employees or employee costs in 2007 (2006: £nil).

Accounts Notes to the Accounts

5. Taxation of Ordinary Activities

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
Analysis of charge in the period		
Current tax:		
UK Corporation tax at 19.5% (2006: 19%)	34	-
Total Current Tax (Net of tax on revenue return £169,000 and tax saving on capital return £136,000)	34	-
Factors affecting tax charge for the period		
Revenue return on ordinary activities before tax	968	246
Revenue return multiplied by corporate tax rate	189	47
Effects of:		
Dividend income not subject to tax	(17)	-
Expenses not deductible for tax purposes	-	16
Tax relief on fees charged to Capital account	(136)	(65)
Unutilised tax losses arising in year	-	2
Use of tax losses brought forward	(2)	-
Total Current Tax	34	-

In light of the Company's status as a venture capital trust and the Directors' intention to continue to meet the conditions necessary to obtain such approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments. There is no unprovided deferred tax liability at 30 September 2007.

6. Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £798,000 (2006: £246,000) and on 35,086,245 (2006: 17,822,209) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital return per ordinary share is based on net capital gains of £1,078,000 (2006: £1,414,000) and on 35,086,245 (2006: 17,822,209) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total return per ordinary share is based on total net revenue from ordinary activities after taxation of £1,876,000 (2006: £1,660,000) and on 35,086,245 (2006: 17,822,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

There is no difference between the basic and diluted return per ordinary share because the Company has no potentially dilutive shares in issue.

Accounts Notes to the Accounts

7. Dividend

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
Interim dividend paid of 1.5p (2006: nil) per ordinary share	526	-

8. Investments

As at 30 September 2007	Qualifying Investments		Non-qualifying Investments		Total £'000
	Traded on AIM £'000	Unlisted £'000	Open-ended Investment Company £'000	Closed-ended Investment Company £'000	
Costs at 1 October 2006	1,250	2,025	500	5,151	8,926
Unrealised gains/(losses) at 1 October 2006	564	1,042	(31)	182	1,757
Valuation at 1 October 2006	1,814	3,067	469	5,333	10,683
Purchases at cost	2,009	6,722	-	-	8,731
Sales at 1 October 2006 valuation	(156)	-	-	-	(156)
Unrealised gains/(losses) in year	(711)	881	(27)	1,304	1,447
Valuation at 30 September 2007	2,956	10,670	442	6,637	20,705
Cost at 30 September 2007	3,147	8,747	500	5,151	17,545
Unrealised gains/(losses) at 30 September 2007	(191)	1,923	(58)	1,486	3,160
Valuation at 30 September 2007	2,956	10,670	442	6,637	20,705

Accounts Notes to the Accounts

As at 30 September 2006	Qualifying Investments		Non-qualifying Investments		Total £'000
	Traded on AIM £'000	Unlisted £'000	Open-ended Investment Company	Closed-ended Investment Company	
			£'000	£'000	
Purchases at cost	1,250	2,025	500	5,151	8,926
Unrealised gains/(losses) in period	564	1,042	(31)	182	1,757
Valuation at 30 September 2006	1,814	3,067	469	5,333	10,683
Cost at 30 September 2006	1,250	2,025	500	5,151	8,926
Unrealised gains/(losses) at 30 September 2006	564	1,042	(31)	182	1,757
Valuation at 30 September 2006	1,814	3,067	469	5,333	10,683

9. Debtors

	2007 £'000	2006 £'000
Amounts due within one year:		
Accrued interest	226	90
Receivable on loan stock issued	32	12
	258	102

10. Other Investments

	2007 £'000	2006 £'000
Liquidity Funds:		
JP Morgan Sterling Liquidity Fund	7,000	11,900
Scottish Widows Investment Partnership Limited Global Liquidity Fund	7,075	12,375
	14,075	24,275

The market value of the Liquidity Funds is £14,075,000 (2006: £24,275,000). The funds earn a floating rate of interest and are immediately accessible.

Accounts Notes to the Accounts

11. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Electra Quoted Management	266	204
Deferred share issue expense	89	87
Other creditors	55	38
UK corporation tax	34	-
Outstanding settlements on share repurchases	14	-
	458	329

12. Creditors: amounts falling due after one year

	2007 £'000	2006 £'000
Deferred share issue expense	625	-
Unsecured 3.75% Loan Notes (76,000 Loan Notes £1 each) Issued and fully paid up as at 30 September 2007	76	56
	701	56

The Loan Notes are redeemable in certain circumstances at par including the termination of the Investment Management Agreement with the Investment Manager. They carry a 3.75% interest coupon paid on 30 September each year and also the right to additional interest payments under the terms of the incentive schemes set out in Note 2 to the accounts.

Deferred share issue expense relates to the discounted value of commission payable over a period of ten years from the start of the Fund at a rate of 0.25% of the net assets.

13. Significant Interests

At 30 September 2007 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:-

	Equity Investment (Ordinary Shares) £'000	Investments Loan Stock and Preference Shares £'000	Total Investments £'000	Percentage of Investee Company's Total Equity %
Emote Games Limited	229	229	458	27.4
Factory Media Limited	193	1,733	1,926	25.0
Munro Global Limited	162	1,454	1,616	24.8
Acrobat Group Limited	382	618	1,000	21.2
Defaqto Group Limited	115	1,035	1,150	13.3
Target Entertainment Group Limited	533	467	1,000	8.5
Mount Engineering Plc	759	-	759	4.4
Gyro International Limited	300	700	1,000	4.2

Accounts Notes to the Accounts

It is considered that, as permitted by FRS 9 "Associates and Joint Ventures", the above investments are held as part of an investment portfolio and that, accordingly, their value to the Company lies in their fair value as part of its investment portfolio.

In view of this, it is not considered that the above represent investments in associated undertakings. All of the above companies are incorporated in the United Kingdom.

14. Called Up Share Capital

	Number	2007 £'000	Number	2006 £'000
Authorised				
Ordinary Shares of 1p each	60,000,000	600	60,000,000	600
Issued:				
At 1 October 2006	35,088,835	351	-	-
Ordinary Shares of 1p each issued during the year	-	-	35,088,835	351
Ordinary Shares of 1p each repurchased during the year	(19,187)	-	-	-
At 30 September 2007	35,069,648	351	35,088,835	351

The current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each. During the year under review, the Company made the following purchases of its own ordinary shares in the market under the authority granted by shareholders at the Annual General Meeting held in February 2007:

Ordinary Shares Purchased for Cancellation	Date of Purchase	Percentage of Issued Capital at Time of Purchase	Buyback Price per Ordinary Share
5,137	30 March 2007	0.01%	89.5p
14,050	28 September 2007	0.04%	100.0p

The Company does not hold any shares in treasury. At 30 September 2007, a total of 35,069,648 (2006: 35,088,835) ordinary shares of 1p each of the Company were in issue.

Accounts Notes to the Accounts

15. Reserves

As at 30 September 2007	Share Premium Account (Non Distributable) £'000	Capital Redemption Reserve (Non distributable) £'000	Realised Capital Reserve (Non distributable) £'000	Unrealised Capital Reserve (Non distributable) £'000	Revenue Reserve (Distributable) £'000
Costs at 1 October 2006	32,808	-	(343)	1,757	246
Increase in unrealised appreciation	-	-	-	1,447	-
Gain on disposal of investments	-	-	196	-	-
Unrealised net appreciation at 1 October 2006 on investments realised in the year	-	-	44	(44)	-
Investment management fees charged to capital account (net of taxation)	-	-	(565)	-	-
Shares repurchased in year	-	-	-	-	(19)
Deferred share issue expense	(801)	-	-	-	87
Net revenue return for the financial year	-	-	-	-	798
Dividend distribution	-	-	-	-	(526)
At 30 September 2007	32,007	-	(668)	3,160	586

Capital redemption reserve is nil due to rounding to thousands.

As at 30 September 2006	Share Premium Account (Non Distributable) £'000	Capital Redemption Reserve (Non distributable) £'000	Realised Capital Reserve (Non distributable) £'000	Unrealised Capital Reserve (Non distributable) £'000	Revenue Reserve (Distributable) £'000
Premium on issues of shares during the period	34,738	-	-	-	-
Expenses of share issues	(1,930)	-	-	-	-
Increase in unrealised appreciation	-	-	-	1,757	-
Investment management fees charged to capital account	-	-	(343)	-	-
Retained net revenue for the period	-	-	-	-	246
At 30 September 2006	32,808	-	(343)	1,757	246

Accounts Notes to the Accounts

16. Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets of £35,436,000 at 30 September 2007 (2006: £34,819,000), and on 35,069,648 (2006: 35,088,835) ordinary shares, being the number of ordinary shares in issue on that date.

There is no difference between the basic and diluted net asset value per ordinary share because the Company has no potentially dilutive shares in issue.

17. Reconciliation of Net Revenue Before Taxation to Net Cash Inflow from Operating Activities

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
Net revenue before taxation	968	246
Investment management fees charged to capital	(701)	(343)
(Increase) in debtors	(136)	(102)
(Increase)/Decrease in creditors and accruals	80	329
Net cash inflow from operating activities	211	130

18. Analysis of Changes in Cash

	For the year ended 30 September 2007 £'000	For the period ended 30 September 2006 £'000
At beginning of the period	144	-
Net cash inflow	1,413	144
At 30 September	1,557	144

Included within the cash balance there is a committed cash amount of £1,400,000, split between fixed deposit investments in Target (£1,000,000) and Acrobat (£400,000). This cash is held at Barclays bank and is accessible immediately.

19. Financial Instruments

The Company's financial instruments comprise:

- Equity and non-equity shares, units in an open-ended investment company and shares in a closed-ended investment company that are held in accordance with the Company's investment objective.
- Cash, liquid resources and debtors and creditors that arise directly from the Company's operations.

It is not the Company's policy to trade in financial instruments or derivatives. The Company has undertaken no hedging transactions in the period. The main risks arising from the Company's financial instruments are due to fluctuations in market prices and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below:

Key Risks

Credit Risk: Failure by counter-parties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered.

Market Price Risk: Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments in equity and fixed interest stocks of unquoted and AIM quoted companies the Company holds are thinly traded and as such the prices are more volatile than those of more widely traded securities. In addition, the ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

Interest Rate Risk: The Company's equity and non-equity investments and net revenue may be affected by interest rate movements.

Currency Risk: All assets and liabilities are denominated in sterling and therefore there is no currency risk.

Management of Risks

Credit Risk: All transactions are settled on the basis of delivery against payment.

Market Price Risk: The Board manages the market price risk inherent in the Company's portfolio by maintaining an appropriate spread of market risk, and by ensuring full and timely access to relevant information from the Investment Manager. The Investment Committee reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Board seeks to ensure that an appropriate proportion of the Company's portfolio is invested in cash and readily realisable securities, which are sufficient to meet any funding commitments that may arise. The Company does not use derivative instruments to hedge against market risk.

Interest Rate Risk: The Company's assets include liquidity funds, the values of which are regularly reviewed by the Board, as referred to above. The Company does not use derivative instruments to hedge against interest rate risk.

Accounts Notes to the Accounts

The interest rate risk profile of the Company's financial assets at 30 September 2007 was:

	Financial Assets on which no Interest Received £'000	Fixed Rate Financial Assets £'000	Floating Rate Financial Assets £'000	Total £'000	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	14,471	-	-	14,471	-	-
Non equity shares	-	229	-	229	-	-
Loan stock	-	6,005	-	6,005	8.0	4.3
Liquidity Funds	-	-	14,075	14,075	5.9	-
Cash	-	-	1,557	1,557	-	-
Debtors	258	-	-	258	-	-
Total	14,729	6,234	15,632	36,595		

The only financial liabilities are the unsecured Loan Notes of £76,000 which carry a 3.75% coupon and deferred share issue expense payable of £625,000.

The interest rate risk profile of the Company's financial assets at 30 September 2006 was:

	Financial Assets on which no Interest Received £'000	Fixed Rate Financial Assets £'000	Floating Rate Financial Assets £'000	Total £'000	Weighted Average Interest Rates %	Average Period to Maturity Years
Equity shares	8,861	-	-	8,861	-	-
Loan stock	-	1,822	-	1,822	8.0	4.9
Liquidity Funds	-	-	24,275	24,275	4.7	-
Cash	-	-	144	144	-	-
Debtors	102	-	-	102	-	-
Total	8,963	1,822	24,419	35,204		

The only financial liabilities are the unsecured Loan Notes of £113,000 which carry a 3.75% coupon.

20. Post Balance Sheet Events

The Fund has made the following investment since the year end:

31 October 2007	The Fin Machine Company	£2,150,000	(Equity £569,000) (Loan stock £431,000) (Fixed Deposit £1,150,000) (To be invested in 2008)
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21. Geographical Analysis

The operations of the Company are wholly in the United Kingdom.

22. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at 30 September 2007.

23. Transactions with the Investment Manager

During the year ended 30 September 2007 the Company paid £922,000 (2006: £314,000) to Electra Quoted Management, the Investment Manager. At 30 September 2007, the Company owed £266,000 (2006: £203,000) to the Investment Manager. Details of the Investment Manager's fee arrangements are included in Note 2.

Annual General Meeting Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of Electra Kingsway VCT 3 Plc will be held on 5 March 2008 at 1.00pm at Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB for the purpose of considering and, if thought fit, passing the following Resolutions (of which, Resolutions 1 to 7 will be proposed as Ordinary Resolutions and Resolutions 8, 9, 10 and 11 will be proposed as Special Resolutions):

Ordinary Resolutions

- 1 To receive, consider and adopt the Reports of the Directors and Auditors and the Company's Accounts for the year ended 30 September 2007.
- 2 To approve the Directors' Remuneration Report for the year ended 30 September 2007.
- 3 To re-elect Mr KA D'Silva as a Director of the Company.
- 4 To re-elect Mr NRW Ross as a Director of the Company.
- 5 To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
- 6 To authorise the Directors to fix the remuneration of the Auditors.
- 7 THAT for the purposes of section 80 of the Companies Act 1985 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 80):
 - (a) the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum nominal amount of £116,898 to such persons and at such times and on such terms as they think proper during the period expiring at the conclusion of the Company's Annual General Meeting in 2009; and
 - (b) the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution, so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked.

Special Resolutions

- 8 THAT, subject to the passing of Resolution 7, the Directors be and are empowered in accordance

with section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash, pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, as if section 89(1) of the Act did not apply to the allotment, provided that the power conferred by this resolution shall be limited to:

- (a) the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in connection with the laws of, or requirements of any recognised regulatory body or stock exchange in, any territory; and
 - (b) the allotment (otherwise than pursuant to subparagraph (a) above) of equity securities up to an aggregate nominal value not exceeding £17,534 and this power, unless renewed, shall expire at the conclusion of the Company's Annual General Meeting in 2009 but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
- 9 THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Act (as amended and in force from time to time) to make market purchases (within the meaning of Section 163 (3) of the Act) of ordinary shares of 1 penny each, provided that:
 - i) the maximum number of ordinary shares of 1 penny each hereby authorised to be purchased is 3,506,964 or such lesser number of shares as is equal to 10% of the total number of ordinary shares in issue as at the date of the passing of this resolution;
 - ii) the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be 1 penny;

Annual General Meeting Notice of Annual General Meeting

- iii) the maximum price (excluding expenses) which the Company may pay for each ordinary share cannot be more than the higher of:
- 105% of the average market value of an ordinary share for the five business days prior to the day the purchase is made;
 - the value of an ordinary share calculated on the basis of the higher of the price quoted for: (a) the last independent trade of; or (b) the highest current independent bid for, any number of the ordinary shares on the trading venue where the purchase is carried out;
- iv) unless renewed, the authority hereby conferred shall expire on the earlier of 5 June 2009 or the conclusion of the Company's Annual General Meeting in 2009 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.
- 10 THAT the Articles of Association in the form produced to the Meeting and, for the purposes of identification, signed by the Chairman, be approved and adopted as the Articles of Association of the Company with effect from the end of this Meeting, in substitution for the existing Articles of the Company.
- 11 THAT the name of the Company be changed to Acuity VCT 3 Plc.
- By order of the Board of Directors
PJ Dyke, Secretary, Paternoster House,
65 St Paul's Churchyard, London EC4M 8AB
23 January 2008
- Notes
- A A member entitled to attend and vote at the meeting convened by the above Notice is entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend and speak and vote in their place. A proxy need not be a member of the Company.
- B A Form of Proxy is provided. To be effective, the Form of Proxy and any power of attorney under which it is executed (or a duly certified copy of such power) must reach the Company's Registrars, Capita Registrars, P.O Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR, not less than 48 hours before the time of the Meeting or adjourned Meeting or (in the case of a poll taken otherwise than at or on the same day as the Meeting or adjourned Meeting) for the taking of the poll at which it is to be used. Completion and return of the Form of Proxy will not prevent a member from attending and voting at the Meeting.
- C In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those holders of ordinary shares entered on the register of members of the Company as at 6.00pm on 3 March 2008 (the "Specified Time") shall be entitled to attend and vote at the Meeting in respect of the number of ordinary shares registered in their name at that time. Changes to entries on the register of members after the Specified Time shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
- D If the Meeting is adjourned to a time not more than 48 hours after the Specified Time applicable to the original Meeting, that time will also apply for the purposes of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned Meeting. If, however, the Meeting is adjourned for a longer period, then to be so entitled, members must be entered on the Company's register of members at a time which is not more than 48 hours before the time fixed for the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
- E The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the close of the Annual General Meeting, and will be available at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting:
- the existing Articles of Association of the Company.
 - the proposed new Articles of Association of the Company.
- F Short biographical details of all of the Directors are contained in the Report & Accounts for the year ended 30 September 2007 on page 13.
- G If you are a person nominated to enjoy information rights in respect of the Company pursuant to section 146 of the Companies Act 2006, you should be aware that you may have a right under an agreement between yourself and the member who nominated you to be appointed, or to have someone else appointed, as a

Annual General Meeting Notice of Annual General Meeting

proxy entitled to attend and speak and vote at the Meeting. You are advised to contact the member who nominated you for further information on this and the procedure for appointing any such proxy. If you have no right to be appointed, or to have someone else appointed, as a proxy for the Meeting, or you do not wish to exercise such right, you may still have the right under an agreement between yourself and the member who nominated you to give instructions to the member as to the exercise of voting rights at the Meeting. You are advised to contact the member who nominated you for further information on this.

- H The total number of issued Ordinary Shares in the Company on 23 January 2008, which is the latest practicable date before the publication of this document, is 35,069,648.

If you have sold or otherwise transferred all your Shares in Electra Kingsway VCT 3 Plc, you should pass this document and other relevant accompanying documents, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was made, for transmission to the purchaser or transferee.



