

Electra Kingsway VCT 3 Plc

Interim Report & Accounts

31 March 2006

2006



Objective

The Company's 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 investments and in funds managed by Electra Partners.

Investment Strategy

The Company will seek to invest in a diversified portfolio of unquoted and AIM listed companies. Unquoted investments will typically be in companies that intend to float on a market within a two year period or those that have a well developed growth and cash generation strategy. Investments in start-up companies where levels of risk are unacceptably high, in particular the technology sector, will generally be avoided.



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References to 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.

The financial information in this publication is unaudited and does not comprise Statutory Accounts.

Interim Report Financial Highlights

(unaudited)

| | |
|---|---------------|
| Period ended 31 March | 2006 |
| Net assets | £23.3m |
| <hr/> | |
| Net asset value per ordinary share | 94.19p |
| <hr/> | |

Interim Report Chairman's Statement

Results

I would like to take this opportunity to welcome Shareholders and to thank them for supporting the launch of the Company. In a very busy year for VCT fundraising, we are particularly pleased to have raised £35 million which provides an excellent platform from which to invest in smaller companies. As is fairly typical for VCT fundraising, the majority of the subscription funds were received in the last few weeks of March and the first week of April. As a consequence, the Balance Sheet at 31 March 2006 reflected a net asset value of £23.3 million and does not take into account shares allotted after the period end.

Portfolio Activity

At 31 March 2006, the Fund was invested in two liquidity funds which will be drawn down as and when the Investment Manager identifies suitable qualifying investments. In addition, and as set out in the Prospectus, the Fund has invested in Electra Private Equity and will invest in Electra Active Management, which are both managed by Electra Partners. These Funds will provide a good exposure to both the UK private equity and smaller company markets. Your Fund will usually co-invest alongside Electra Kingsway VCT and Electra Kingsway VCT 2. I am pleased to be able to report that one qualifying investment has been made in Jelf Group, details of which are set out in the Investment Manager's Report.

March 2006 Budget

In March 2006, the Chancellor announced a number of changes to VCT legislation, the majority of which affect new VCTs raised in the 2006/7 tax year and thereafter. The majority of changes will have no implications for the Fund.

Investor Helpline

Shareholders having questions concerning the Fund should call 020 7411 4700, the shareholder helpline, which is maintained by Downing Corporate Finance. In addition, information in relation to the Fund, which will include annual reports and newsletters can be found on the Investment Manager's website, www.electraquoted.com.

Outlook

I look forward to being able to report to you on the progress of the Fund and believe that, given a favourable economic backdrop, good returns can be made for investors through investing in a portfolio of smaller companies.

Stuart Stradling, Chairman
22 June 2006

Interim Report Investment Manager's Review

One qualifying investment was made in the period, Jelf Group, which is an AIM listed financial consultancy that specialises in providing insurance, healthcare and financial services to corporate clients. The Fund helped finance a "bolt-on" acquisition and the Fund invested £250,160 alongside Electra Kingsway VCT 2 for a combined equity stake of 3.8%. The current pipeline for potential investments remains good as the Fund will usually be co-investing alongside the two other Electra Kingsway VCT Funds that are managed by Electra Partners.

It is worth reiterating that the investment strategy is to focus on profitable unquoted companies where the Investment Manager can add value by acquiring them at a discount to the quoted market, introducing a leveraged financing structure, increasing scale through bolt-on acquisitions and strengthening the relevant management team. Companies listed on AIM are also considered as potential investments. However, as a general rule, new issues tend to be overvalued and we prefer companies that have a good track record and are raising money for acquisitions. Although it is difficult to anticipate the eventual split between unquoted and AIM companies, we would expect the majority to be unquoted. With regard to sector orientation, the Investment Manager will concentrate on establishing a broad portfolio of investments diversified by industry sub-sectors. Certain sectors, such as early stage technology, bioscience and mineral exploration will tend to be avoided as they are characterised by unprofitable companies.

Current economic conditions remain favourable for investing in smaller companies. There are a few hot spots that we will seek to avoid, such as commodity and mineral companies and in general we think that the average PE multiple on new AIM flotations tends to be too high. Additionally, the corporate Mergers and Acquisitions market remains and should provide good exit opportunities for our unquoted investments. Shareholders should also be aware that the Fund's investment strategy is long-term and, given the three year period that it takes to invest the Fund, and the ensuing time that it takes for investee companies to mature, the uplift in asset value is expected to start accelerating after year four.

Co-investment Arrangements with other Electra Kingsway VCTs

The Directors welcome the fact that the Investment Manager has three VCT funds (“Electra Kingsway VCTs”) it can use for co-investment. This allows the Company 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 either or both of the other two funds, the Company will invest in an agreed and consistent proportion on the same terms and in the same securities as the Electra Kingsway VCTs 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 Company’s 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 on a pro-rata basis by reference to each fund’s available cash resources.
- Where an opportunity arises for a second or subsequent round of investment in a company in which the Company or 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 Electra Kingsway VCTs maintain their status as an 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.

Interim Report Portfolio Summary

(unaudited)

| | Cost at 31 March 2006 £ | Valuation at 31 March 2006 £ | % of Portfolio by Value % |
|-----------------------------------|-------------------------------|------------------------------------|---------------------------------|
| Qualifying Investments | | | |
| Jelf Group | 250,160 | 379,960 | 6.93 |
| | 250,160 | 379,960 | 6.93 |
| Non Qualifying Investments | | | |
| Electra Private Equity | 5,150,708 | 5,103,400 | 93.07 |
| | 5,150,708 | 5,103,400 | 93.07 |
| Cash | 5,400,868 | 5,483,360 | 100.00 |
| | | 23,727,670 | |
| Total | | 29,211,030 | |

Interim Accounts Income Statement

(unaudited)

| | Notes | For the period 23 August 2005 to 31 March 2006 | | |
|--|-------|---|--------------|-----------------|
| | | Revenue £ | Capital £ | Total £ |
| Unrealised gains on investment | | – | 82,492 | 82,492 |
| Income | 1 | 94,269 | – | 94,269 |
| | | 94,269 | 82,492 | 176,761 |
| Investment management fees | | (27,132) | (81,396) | (108,528) |
| Other expenses | | (144,422) | – | (144,422) |
| Return on Ordinary Activities before Taxation | | (77,285) | 1,096 | (76,189) |
| Tax on ordinary activities | | – | – | – |
| Return on Ordinary Activities after Taxation | | (77,285) | 1,096 | (76,189) |
| Return to Shareholders per Ordinary Share | 2 | (2.12)p | 0.03p | (2.09)p |

The amounts dealt with in the Income Statement are all derived from continuing activities.

No operations were acquired or discontinued in the period.

The notes on page 11 form part of these financial statements.

Reconciliation of Total Shareholders' Funds

| | For the period 23 August 2005 to 31 March 2006 £ |
|---|--|
| Total Return | (76,189) |
| Share issue expenses charged to Share Premium account | (1,362,239) |
| Ordinary shares issued | 24,768,196 |
| Movements in Total Shareholders' Funds | 23,329,768 |
| Total Shareholders' Funds at start of period | – |
| Total Shareholders' Funds | 23,329,768 |

Interim Accounts Balance Sheet

(unaudited) As at 31 March 2006

| | Notes | As at 31 March 2006 | |
|---|-------|---------------------|------------|
| | | £ | £ |
| Fixed Assets | | | |
| Investments | 3 | | 5,483,360 |
| Current Assets | | | |
| Debtors and prepayments | | 111,574 | |
| Cash at bank | | 23,727,670 | |
| | | | 23,839,244 |
| Current Liabilities | | | |
| Creditors: amounts falling due within one year | | | |
| Other creditors | | 5,867,836 | |
| | | | 5,867,836 |
| Net Current Assets | | | |
| Total assets less current liabilities | | | 17,971,408 |
| Creditors: amounts falling due after more than one year | | | 125,000 |
| Net Assets | | | |
| | | | 23,329,768 |
| Capital and Reserves | | | |
| Called-up share capital | | | 247,682 |
| Share premium | | | 23,158,275 |
| Realised capital reserve | | | (81,396) |
| Unrealised capital reserve | | | 82,492 |
| Revenue reserve | | | (77,285) |
| Total Equity Shareholders' Funds | | | |
| | | | 23,329,768 |
| Net Asset Value per Ordinary Share | | | |
| | | | 94.19p |

As at 31 March 2006

Number of Ordinary Shares in issue at end of period 24,768,196

Interim Accounts Cash Flow Statement

(unaudited)

| | For the period 23 August 2005 to 31 March 2006 | |
|---|---|--------------------|
| | £ | £ |
| Operating Activities | | |
| Investment income received | 15,277 | |
| Bank deposit interest received | 51,683 | |
| Investment management fees paid | (5,397) | |
| Other cash payments | (77,816) | |
| Net Cash Outflow from Operating Activities | | (16,253) |
| Investing Activities | | |
| Acquisition of investments | (4,151,203) | |
| Net Cash Outflow from Investing Activities | | (4,151,203) |
| Cash Outflow before Financing and Management of Liquid Resources | | (4,167,456) |
| Financing | | |
| Issue of ordinary shares | 24,767,996 | |
| Expenses of the issue of ordinary shares | (1,362,239) | |
| Issue of loan notes | 25,575 | |
| Cash held pending issue of ordinary shares | 4,463,794 | |
| Net Cash Inflow from Financing | | 27,895,126 |
| Increase in Cash for the Period | | 23,727,670 |

Interim Accounts Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current period, is set out below:

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice (2005), 'Financial Statements of Investment Trust Companies'.

b) Valuation of investments

Listed investments and investments traded on AIM are stated at closing bid prices. Unquoted investments and investments traded on OFEX are stated at Directors' valuation.

In valuing unlisted investments, the Directors follow a number of general principles in accordance with the latest International Private Equity and Venture Capital ("IPEVC") valuation guidelines.

Realised gains or losses on the disposal of investments are taken to the realised capital reserve. Unrealised gains or losses on the revaluation of investments are taken to the unrealised capital reserve.

c) Income

Dividends receivable from equity investments are brought into account on the ex-dividend date.

Fixed returns on non-equity investments and on debt securities are recognised on a time apportionment basis, which reflects the effective yield.

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

d) Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue account, except as follows:

- expenses which are incidental to the acquisition of an investment are included in the cost of investment;
- expenses incurred as a result of an issue of shares are allocated against the share premium account; and
- expenses relating to investment management and incentive fees, which are dealt with below.

e) 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. This is in line with the Board's long-term projections of returns from the investment portfolio of the Company. The incentive fee on realisations in 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.

f) Capital reserves

Gains and losses on the realisation of investments are accounted for in 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.

g) Taxation

The charge for taxation is based on the net revenue for the period. 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 recoverable.

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.

Interim Accounts Notes to the Accounts

1. Income

For the period 23 August 2005
to 31 March 2006
(unaudited)
£

| | |
|-----------------------------|---------------|
| Franked investment income | 42,586 |
| Interest from bank deposits | 51,683 |
| | 94,269 |

2. Return to Shareholders per Ordinary Share

The revenue return per ordinary share is based on the net loss from ordinary activities after taxation of £77,285 and on 3,650,827 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The capital return per ordinary share is based on net capital gains of £1,096 and on 3,650,827 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

3. Investments

| | Qualifying Investments | Non-qualifying Investments | Total £ |
|--|------------------------|--|------------|
| | Traded on AIM £ | Closed-ended Investment Company £ | |
| Purchases at cost | 250,160 | 5,150,708 | 5,400,868 |
| Unrealised gains/(losses) in period | 129,800 | (47,308) | 82,492 |
| Valuation at 31 March 2006 | 379,960 | 5,103,400 | 5,483,360 |
| Cost at 31 March 2006 | 250,160 | 5,150,708 | 5,400,868 |
| Unrealised gains/(losses) at 31 March 2006 | 129,800 | (47,308) | 82,492 |
| Valuation at 31 March 2006 | 379,960 | 5,103,400 | 5,483,360 |

Additional 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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Company Number

5544383

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



