AcuityCapital

Acuity VCT 3 Plc

Half Yearly Report

For the six months ended 31 March 2008

Contents

References in this Report to Acuity VCT 3 Plc (formerly Electra Kingsway VCT 3 Plc) have been abbreviated to 'the Company' or 'the Fund'. References to Acuity Capital Management Limited (formerly Electra Quoted Management Limited) have been abbreviated to Acuity Capital Management.

The unaudited half yearly financial statements for the six months ended 31 March 2008 do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The figures for the year ended 30 September 2007 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditors' report on those financial statements under Section 235 of the Companies Act 1985 was unqualified.

Half Yearly Report **Investment Strategy**

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 Acuity 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.

Half Yearly Report **Financial Highlights**

(unaudited)

Six months ended 31 March	**2008**	2007
Net Assets	**£34.4m**	£39.7m
Net Asset value per ordinary share	**98.2p**	113.0p
Dividend paid per ordinary share	**1.0p**	_
Cumulative Value of Ordinary Shares since Launch		
Dividends paid per ordinary share	**2.5p**	_
Net Asset Value plus dividends paid per ordinary share	**100.7p**	113.0p

Half Yearly Report Chairman's Statement

Results

As at 31 March 2008 the Net Asset Value was 98.2p per ordinary share. Including dividends paid to date this represents an adjusted Net Asset Value per ordinary share of 100.7p which is an uplift of 6.6% since your Fund began in 2005. In the six month period under review, the Net Asset Value per ordinary share, adjusted for dividends paid to date, declined by 1.8%, which, given the downturn in global stock markets is a satisfactory outcome. In particular, the FTSE AIM and FTSE Fledgling Indices declined by 12% and 18% respectively. The FTSE Fledgling Index is more representative of the UK micro cap market than the FTSE AIM index which has a large component of international companies.

In the period under review a total of £3.1 million was invested in qualifying companies. These included unquoted investments in the Fin Machine Company, a specialist engineering company, Brand Acquisitions, a wholesaler of men's fashion clothes and Red Reef Media, a specialist publishing company.

During the period we completed the disposal of Gyro, a B2B digital advertising agency, at an internal rate of return of 43% per annum and a gain of twice our original investment. The company was sold to a US venture capital fund which is seeking to use the company as a platform for a transatlantic consolidation.

Dividend

The Board has approved the payment of an interim dividend of 1.0p per ordinary share which will be paid on 11 July 2008 to ordinary shareholders on the Register of Members at the close of business on 30 May 2008. This represents total dividends paid of 3.5p and is part of the Fund's long term objective to distribute tax free dividends to ordinary shareholders.

VCT Qualifying Status

The Fund remains on track to meet the key test, which is to have 70% of funds raised invested in qualifying companies by 30 September 2008. The current deal pipeline remains strong and the Investment Manager remains confident of reaching the target.

Acuity Capital LLP

In February 2008, Acuity Capital LLP, a limited liability partnership established by the current investment management team, acquired the Company's Investment Manager, Electra Quoted Management. On acquisition, Electra Quoted Management changed its name to Acuity Capital Management. The key to the Acuity transaction is that the investment team are now the majority owners of the management company and this will help to ensure that they are committed to the management company over the long term. It will also enable further recruitment of experienced fund managers. Electra Partners Group holds a minority equity interest in Acuity Capital LLP and maintains close ties with the Investment Manager as well as providing support services. The transaction will enable Acuity Capital LLP to build on its Electra Partners Group heritage and to further develop its niche as an independent smaller companies specialist. Following the buyout of Acuity Capital Management, a resolution was passed by shareholders at the Company's AGM in March 2008 to change the name of your Company to Acuity VCT 3.

Change of Auditors

As we were not able to arrive at a mutually agreeable fee for the audit, PricewaterhouseCoopers LLP have resigned as auditors for the year ending 30 September 2008. The Board has duly appointed KPMG LLP as auditors to the Company.

Outlook

Overall it has been a challenging six months but the Fund has performed well in the face of difficult market conditions. The current investment portfolio is on track to deliver good long term returns to investors, and the Fund has a healthy cash balance which will allow the Investment Manager to take advantage of better priced investment opportunities.

Stuart Stradling, Chairman
20 May 2008

Performance

In the period the Net Asset Value per ordinary share, adjusted for dividends paid to date, fell 1.8%, which compares with a significant decline in the UK stockmarket. Overall this is a satisfactory outcome given that over 26% of the Fund is invested in quoted funds and companies. This weighting is comprised principally of investments in Electra Private Equity and Electra Active Management, which represent 19% by value of the portfolio, and which both declined in value over the period.

The portfolio weighting towards AIM companies is low at 11%, and is in line with our strategy to focus on the unquoted market where we see better opportunities for building long term value. The AIM market has fallen significantly in the period with a considerable decline in the number of new issues and a marked deterioration in trading volumes. It will take some time for confidence to be restored, therefore we remain cautious in committing further funds to AIM investments.

The qualifying investment portfolio increased in value during the period, principally due to uplifts in Factory Media, Munro Global and Zamano, which offset declines in Defaqto and Worthington Nicholls. Factory Media, a publisher of active sports magazines, has made good progress in developing its online community website www.mpora.com, recording record levels of visitors. Munro Global, a market research specialist, is growing steadily both organically and through acquisition. Since the Fund invested in the company in 2006, it has successfully integrated three acquisitions. Zamano, a mobile technology platform, completed the acquisition of Red Circle and reported strong organic growth on the back of the growing market for mobile text messaging and games. Defaqto, despite identifying strong growth opportunities in the IFA market, decreased in value in line with comparative market valuations.

Investment Activity

There were three new unquoted investments added to the portfolio in the period. The first of these was the Fin Machine Company, a specialist manufacturer of machines for the assembly of fan cooling systems within the automotive industry. The company has a strong position which has been enhanced by recent legislation introduced into the US, governing the environmental efficiency of air conditioning and refrigeration units. If these new markets adopt the same cooling technology as used in the automotive industry it will lead to significant energy and cost savings. Fin is therefore well positioned to apply its technology to a significantly larger market. In total the three Acuity VCTs invested £5.5 million in the transaction.

Brand Acquisitions was a company established to acquire the Peter Werth clothing brand. Peter Werth specialises in men's knitwear and casual wear aimed at the 18 to 35 age group. The strategy of the company is to develop Peter Werth into a lifestyle brand covering wholesale, concession and retail sales. This strategy will be complemented by adding further brands that exploit the company's existing design, sourcing, sales and distribution infrastructure. We are backing a buy-in team with considerable retail experience, particularly in brand development and acquisitions. The three Acuity VCTs committed total funding of £4.5m to facilitate the acquisition.

Red Reef Media was set up to acquire TNT Magazine Group, a business aimed at the growing Antipodean and South African community in the UK. The TNT magazine is one of the pioneers in free distribution through its 700 unique distribution points. Known as the 'bible' for Antipodeans, it reports news and sport as well as providing information on travel, jobs and accommodation. The strategy going forward is to offer a complete marketing solution for its targeted advertisers by developing the TNT brand across digital platforms. The three Acuity VCTs committed £3.4m of equity capital to support the growth development plans of the company.

Deal Flow

Overall it has been a good period for deal flow and we have continued to see a number of interesting investment opportunities. As yet we have seen no evidence that the decline in the equity markets has materially affected the volume and quality of our deal flow. The credit crunch has had a negative impact on large MBO transactions leading to a significant fall in transaction activity. However, this has yet to filter fully down to the smaller MBO sector partly because the leverage multiples are more conservative and the banks are less reliant on syndicating small business lending to the commercial markets. Overall we believe that the weakening economic environment will provide good buying opportunities as vendors' pricing expectations will come down accordingly.

Half Yearly Report **Portfolio Summary**

(unaudited)

	Cost at 31 March 2008 £'000	Valuation at 31 March 2008 £'000	* Performance in period ended 31 March 2008 £'000	% of Portfolio by Value %
Qualifying Investments:				
Factory Media	1,925	2,374	449	11.23
Munro Global	1,615	2,239	156	10.59
Defaqto (Find Portal)	1,150	1,229	(296)	5.82
Target Group	1,000	1,000	–	4.73
Acrobat	1,000	1,000	–	4.73
The Fin Machine Company	1,000	1,000	–	4.73
Brand Acquisitions	1,000	1,000	–	4.73
Emote Games	943	943	–	4.46
Zamano	750	938	148	4.44
Mount Engineering	759	802	87	3.79
Jelf Group	250	590	28	2.79
Red Reef Media	588	588	–	2.78
Sport Media Group	500	267	(207)	1.27
Worthington Nicholls	887	155	(261)	0.74
Other	500	399	(101)	1.89
	13,867	14,524	3	68.72
Non–Qualifying Investments:				
Electra Private Equity	5,151	6,264	(371)	29.64
Electra Active Management	500	348	(94)	1.64
	5,651	6,612	(465)	31.28
Total	**19,518**	**21,136**	**(462)**	**100.00**

* This reflects unrealised gains/(losses) in investments for the period 1 October 2007 to 31 March 2008

Half Yearly Report Co-investment Arrangements

Co-investment Arrangements with other Acuity VCTs

The Directors welcome the fact that the Investment Manager has four VCT funds, Acuity VCT Plc Ordinary Share pool, Acuity VCT Plc C Share pool (formerly Electra Kingsway VCT Plc Ordinary Share pool and Electra Kingsway VCT Plc C Share pool), Acuity VCT 2 Plc (formerly Electra Kingsway VCT 2 Plc) and Acuity VCT 3 Plc (formerly Electra Kingsway VCT 3 Plc) ("the Acuity 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 Acuity VCTs and the Investment Manager as follows:-

- Other than as set out below, investments will be allocated between the Company and the Acuity 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 Acuity 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 Acuity 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 Acuity 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, Acuity VCT Plc or Acuity 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.

Half Yearly Report Business Review and Responsibility Statement

Current and Future Development

A review of the main features of the six months to 31 March 2008 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 that 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.

A detailed review of performance during the six months to 31 March 2008 is contained in the Investment Manager's Review on page 5.

Risk Management

As the Company's investments are focused in unquoted companies and AIM listed companies, which by their nature entail a higher level of risk and lower liquidity than investments in large listed 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 principal risks faced by the Company are Credit Risk, Market Price Risk, Interest Rate Risk, and Currency Risk as further detailed in Note 19 of the Notes to the Accounts in the Company's Annual Report and Accounts to 30 September 2007. This Business Review also refers, where appropriate, to specific risks and uncertainties and these should be viewed in conjunction with the principal risks.

Responsibility Statement of the Directors in respect of the Half Yearly Financial Report

We confirm to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with the Statement *Half Yearly Financial Reports* issued by the UK Accounting Standards Board;
- The interim management report includes a fair review of the information required by:
    a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
    b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board of Directors
Stuart Stradling, Chairman
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
20 May 2008

Half Yearly Accounts **Income Statement**

	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
		For the six months ended 31 March 2008 (unaudited)			For the six months ended 31 March 2007 (unaudited)			For the year ended 30 September 2007 (audited)		
Realised (losses)/gains on investments		**–**	**(151)**	**(151)**	–	196	196	–	196	196
Unrealised (losses)/gains on investments		**–**	**(461)**	**(461)**	–	4,493	4,493	–	1,447	1,447
Income	**2**	**644**	**–**	**644**	734	–	734	1,440	–	1,440
		644	**(612)**	**32**	734	4,689	5,423	1,440	1,643	3,083
Investment management fees		**(130)**	**(390)**	**(520)**	(109)	(328)	(437)	(234)	(701)	(935)
Other expenses		**(161)**	**–**	**(161)**	(144)	–	(144)	(238)	–	(238)
		(291)	**(390)**	**(681)**	(253)	(328)	(581)	(472)	(701)	(1,173)
Return on Ordinary Activities before Taxation		**353**	**(1,002)**	**(649)**	481	4,361	4,842	968	942	1,910
Tax on ordinary activities		**(67)**	**67**	**–**	–	–	–	(170)	136	(34)
Return on Ordinary Activities after Taxation		**286**	**(935)**	**(649)**	481	4,361	4,842	798	1,078	1,876
Basic and Diluted Return Per Ordinary Share	**3**	**0.8p**	**(2.7)p**	**(1.9)p**	1.4p	12.4p	13.8p	2.3p	3.1p	5.4p

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 discounted 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 page 12 form part of these financial statements.

Reconciliation of Movements in Total Shareholders' Funds

	For the six months ended 31 March 2008 (unaudited) £'000	For the six months ended 31 March 2007 (unaudited) £'000	For year ended 30 September 2007 (audited) £'000
Total Return on Ordinary Activities after taxation	**(649)**	4,842	1,876
Dividend Payment on Ordinary Shares	**(350)**	–	(526)
Repurchase of Ordinary Shares	**(36)**	(4)	(19)
Share issue expenses charged to Share Premium account	**–**	–	(714)
Movements in Total Shareholders' Funds	**(1,035)**	4,838	617
Total Shareholders' Funds as at 1 October	**35,436**	34,819	34,819
Total Shareholders' Funds at end of the period	**34,401**	39,657	35,436

Half Yearly Accounts **Balance Sheet**

	As at 31 March 2008		As at 31 March 2007		As at 30 September 2007	
		(unaudited)		(unaudited)		(audited)
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets						
Investments held at fair value		**21,136**		18,924		20,705
Current Assets						
Debtors	**324**		176		258	
Other investments	**13,650**		20,775		14,075	
Cash at bank	**74**		159		1,557	
		14,048		21,110		15,890
Current Liabilities						
Creditors: amounts falling due within one year	**(80)**		321		(458)	
		(80)		321		(458)
Net Current Assets		**13,968**		20,789		15,432
Total assets less current liabilities		**35,104**		39,713		36,137
Creditors: amounts falling due after more than one year		**(703)**		56		(701)
Net Assets		**34,401**		39,657		35,436
Capital and Reserves						
Called–up share capital		**350**		351		351
Share premium account		**32,007**		32,808		32,007
Realised capital reserve		**(1,142)**		(431)		(668)
Unrealised capital reserve		**2,700**		6,206		3,160
Revenue reserve		**486**		723		586
Total Equity Shareholders' Funds		**34,401**		39,657		35,436
Net Asset Value per Ordinary Share		**98.2p**		113.0p		101.0p

	As at 31 March 2008	As at 31 March 2007	As at 30 September 2007
Number of Ordinary Shares in issue at end of period	**35,033,198**	35,083,698	35,069,648

Half Yearly Accounts **Cash Flow Statement**

	For the six months ended 31 March 2008 (unaudited) £'000	£'000	For the six months ended 31 March 2007 (unaudited) £'000	£'000	For the year ended 30 September 2007 (audited) £'000	£'000
Operating Activities						
Investment income received	**537**		655		1,274	
Bank deposit interest received	**4**		4		41	
Investment management fees paid	**(786)**		(407)		(871)	
Other cash payments	**(207)**		(186)		(233)	
Net Cash (Outflow)/Inflow from Operating Activities		**(452)**		66		211
Capital Expenditure and Financial Investment						
Purchases of investments	**(3,074)**		(3,904)		(8,731)	
Sales of investments	**2,029**		353		352	
Net Cash Outflow from Capital Expenditure and Financial Investment		**(1,045)**		(3,551)		(8,379)
Equity Dividends Paid		**(350)**		–		(526)
Cash Outflow before Financing and Management of Liquid Resources		**(1,847)**		(3,485)		(8,694)
Management of Liquid Resources						
Sales/Purchases of current asset investments	**4,175**		3,500		10,200	
Net Cash Inflow from Management of Liquid Resources		**4,175**		3,500		10,200
Financing						
Expenses of the issue of shares	**–**		–		(88)	
Repurchase of ordinary shares	**(47)**		–		(5)	
Net Cash Outflow from Financing		**(47)**		–		(93)
Increase in Cash for the Period		**2,281**		15		1,413

1 Accounting Policies

The principal accounting policies remain unchanged from the year ended 30 September 2007, apart from a presentational change to the reserves, whereby changes in fair value of investments which are readily convertible to cash, without accepting adverse terms, are treated as realised. Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in December 2005, is consistent with the requirements of UKGAAP, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

2 Income

	For the six months ended 31 March 2008 (unaudited) £'000	For the six months ended 31 March 2007 (unaudited) £'000	For the year ended 30 September 2007 (audited) £'000
Franked investment income	**111**	605	79
Income from liquidity funds	**327**	–	1,032
Unfranked investment income	**202**	124	288
Interest from bank deposits	**4**	5	41
	644	734	1,440

3 Return to Shareholders per Ordinary Share

The revenue return per share is based on the net revenue from ordinary activities after taxation of £286,000 (31.03.07: £481,000; 30.09.07: £798,000) and on 35,057,299 (31.03.07: 35,088,807; 30.09.07: 35,086,245) shares, being the weighted average number of shares in issue during the period.

The capital return per share is based on net capital (losses)/gains of £(935,000) (31.03.07: £4,361,000; 30.09.07: £1,078,000) and on 35,057,299 (31.03.07: 35,088,807; 30.09.07: 35,086,245) shares, being the weighted average number of shares in issue during the period.

The total return per ordinary share is based on total net (loss)/profit from ordinary activities after taxation of £(649,000) (31.03.07: £4,842,000; 30.09.07 £1,876,000) and on 35,057,299 (31.03.07: 35,088,807; 30.09.07 35,086,245) 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 share because the Company has no potentially dilutive shares in issue.

4 Share Buybacks

For the Half Year ended 31 March 2008 the Company bought back 36,450 ordinary shares in accordance with its stated buyback policy. The shares were bought back at 91 pence per ordinary share.

5 Dividends

The interim dividend of £350,000 was the payment of the declared dividend at 30 September 2007. The dividend was paid on 14 March 2008 to ordinary shareholders on the Register of Members at the close of business on 1 February 2008.

Additional Information Contact Details

Acuity VCT 3 Plc (formerly Electra Kingsway VCT 3 Plc)

Board of Directors
Stuart Stradling (Chairman)
Kevin D'Silva
David Hurst–Brown
Nicholas Ross

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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.