

# Electra Kingsway VCT 3 Plc

## Report & Accounts

30 September 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 and non-qualifying investments.

## **Investment Strategy**

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 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.



	<b>Annual Review</b>
2	Financial Highlights
3	Chairman's Statement
4	Investment Manager's Review
5	Portfolio Summary
6	Investment Manager
7	Co-investment Arrangements
8	Qualifying Investments
	<b>Company information</b>
9	Contact Details
10	Board of Directors
	<b>Accounts</b>
11	Report of the Directors
15	Corporate Governance
18	Statement of Directors' Responsibilities
19	Directors' Remuneration Report
20	Independent Auditors' Report
21	Income Statement
22	Reconciliation of Total Shareholders' Funds
23	Balance Sheet
24	Cash Flow Statement
25	Statement of Accounting Policies
28	Notes to the Accounts
	<b>Annual General Meeting</b>
37	Notice of Annual General Meeting
39	Form of Proxy

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 and references to Electra Quoted Management Limited have been abbreviated to Electra Quoted Management.

# Annual Review Financial Highlights

---

	<b>2006</b>
<b>Net assets at 30 September 2006</b>	£34.8m
Net asset value per ordinary share at 30 September 2006	99.23p
<hr/>	
<b>Dividend per ordinary share</b>	
Revenue	-
<hr/>	
<b>Cumulative return to shareholders since launch</b>	
Dividends per share	-
Net asset value plus dividends per share	99.23p
<hr/>	

# Annual Review Chairman's Statement

---

I am pleased to be able to welcome all shareholders to the Company and to be able to present my first Chairman's Statement. The 2005/2006 tax year was a significant year for the VCT industry with over £750m funds raised and I am particularly pleased to report that your Fund closed its offer on 5 April 2006, having raised £35m, which is a good result and provides an ideal sized fund to take advantage of the investment opportunities in the market.

## Results

Although it is extremely early days, it is pleasing to note that the Fund has got off to a very good start with the net asset value per share rising from the 94.5p starting point to 99.23p. This is a promising start and bodes well for the future.

The investment policy of the Fund is to invest the majority of the funds in unquoted and AIM qualifying investments, which offer the opportunity for capital appreciation. As these investments mature and are sold, the majority of the capital profits will be returned to shareholders in the form of tax free dividends. Therefore, the flow of dividends will tend to be lower in the first few years of operation as the Fund becomes invested.

## VCT Qualifying Status

VCTs have to comply with a number of industry tests, in particular at the end of the third year of operation, and thereafter the Fund has to ensure that 70% of its assets are invested in qualifying companies. It is anticipated that at the end of year three, the investment portfolio will comprise over 25 unquoted and AIM qualifying investments, which will represent approximately 80% of the total assets with the remaining 20% of the assets invested in two investment funds: Electra Private Equity and Electra Active Management. This should ensure that the portfolio is well balanced and diversified.

Your Board monitors the Company's VCT qualification status and I am pleased to report that all of the required tests in the period were met.

## Qualifying Investments: Valuation Methodology

This period's accounts have been prepared using a valuation policy drawn substantially from the latest International Private Equity and Venture Capital Valuation Guidelines in respect of unquoted investments. Further details are provided on page 25.

## Share Buybacks and Dividend Reinvestment Scheme

The Company operates a share buyback scheme that offers shareholders the opportunity to sell their shares back to the Company at a 10% discount to the last published Net Asset Value. Shareholders wishing to take advantage of the share buyback programme should contact the investor helpline, maintained by Downing Corporate Finance, on 020 7411 4700.

Owing to changes in the VCT legislation contained in the 2006/2007 Budget, the Board has withdrawn the Company's Dividend Reinvestment Scheme.

Both the Board and the Investment Manager are keen to maintain high standards in shareholder communication through the use of regular newsletters and deal updates. Further information is available on the Investment Manager's website - [www.electraquoted.com](http://www.electraquoted.com).

## Shareholder Communication

Should shareholders have any general queries, a helpline is operated by the Fund's Corporate Adviser, Downing Corporate Finance, whose details are set out on page 9. Any queries in respect of lost certificates or changes of address of a shareholder should in the first case be directed in writing to the Company's Registrar, whose details are also on page 9.

## Outlook

The outlook for the Fund is encouraging, as the economic investment environment remains buoyant and the Fund is able to take advantage of the strong deal flow that the Investment Manager has established. It is important to appreciate that the investment strategy of this Fund entails co-investing, when appropriate, with the two other Electra Kingsway VCTs that the Investment Manager manages in order to ensure access to larger unquoted transactions which in turn provide better risk adjusted returns. Details of the Company's co-investment arrangements with the other Electra Kingsway VCTs are set out on page 7.

As the majority of the funding was received halfway through the accounting period, the Board is not recommending the payment of a final dividend in respect of this first financial reporting period.

I would like to thank you for your investment in the Company and I look forward to reporting good progress to you in due course.

S Stradling, Chairman

21 December 2006

# Annual Review Investment Manager's Review

---

The Fund closed its initial offer on 5 April 2006, having raised £35m in a particularly buoyant funding market, which resulted from the proposed VCT tax changes for 2006/7 announced by the Government, which entailed a reduction in the income tax relief from 40% to 30%. Overall, we are particularly pleased with the funding outcome and consider the size of the Fund to be an ideal platform from which to build a well diversified investment portfolio.

Our investment strategy is primarily to invest in unquoted qualifying companies, which we currently favour over AIM companies. The main reasons for this are the generally lower entry multiples, downside protection, better information flow and the ability to carry out considerably more due diligence. The majority of the investments will be in profitable companies where we can add further value either through strategic partnerships or the provision of expansion capital to enable synergistic acquisitions.

## Investment Overview

As at 30 September 2006, the net asset value per share was 99.23p, which represents an increase of 5.0% from the starting net asset value per share of the Fund. Four qualifying investments have been made, representing a total investment of £3.3m. In addition, since the year end we invested £750,000 in Zamano, a mobile telephone services company, £1m in Gyro International, an advertising agency and £1.9m in Factory Media, a specialist extreme sports publisher. The four investments made in the reporting period have all performed well and further details on each are set out below.

## New Investments in the Period

Jelf Group ([www.jelfgroup.com](http://www.jelfgroup.com)) is an independent full service financial consultancy, working primarily with businesses. It provides insurance healthcare financial services and commercial financial solutions. In 2004 it floated on AIM in order to achieve additional scale through acquisitions. In 2006, after reporting good progress, the company sought to raise further funding to finance the acquisition of a larger company. The Fund invested £250,160 alongside Electra Kingsway VCT 2 for a combined stake of 1.93%. At the period end the share price was up 70% since investment.

Find Portal owns and operates one of the UK's leading internet financial services directory websites, [www.find.co.uk](http://www.find.co.uk), which has the most complete A to Z listing of any UK directory website. The company was founded in 1996 and has demonstrated a successful record of profits growth, the key to which has been the rapid growth of online advertising and the attractiveness of the internet for the marketing of financial products. In September 2006 the company completed the bolt-on acquisition of Defaqto ([www.defaqto.com](http://www.defaqto.com)), a company which provides an online service to the IFA market. In total the Fund has invested £1.15m alongside Electra Kingsway VCT 2. The carrying value of the investment was increased by 91% to reflect the

improvement in profitability and the high prices being paid for other comparison websites.

Munro Global ([www.munroglobal.net](http://www.munroglobal.net)) specialises in providing market research services in the UK, with offices in London and Newcastle. The transaction was a management buy-in and the vendor was the retiring founder. The investment provides both the opportunity for promoting new initiatives for organic growth and also through further acquisitions as the market research industry is generally very fragmented. For the year ended February 2006, Munro Global Group's sales were in excess of £6m. The Fund invested £875,000 alongside Electra Kingsway VCT 2, which invested £875,000. Each fund holds a stake of 24.95% respectively.

Worthington Nicholls ([www.worthington-nicholls.co.uk](http://www.worthington-nicholls.co.uk)) installs and maintains air conditioning units in the UK hotel and retail markets. The Company successfully floated on AIM in June 2006, raising £7.5 m of new money to fund acquisitions and £12.5m of replacement capital to reduce the founding family's holding. The shares were placed at 50p per share. Soon after its flotation, the company announced the acquisition of Project Air, a specialist installer of air conditioning systems to the retail sector. The estimated turnover of the group is £25m for the year ended September 2006. Given the timing of its recent acquisition, its full impact will be seen in the year ending September 2007. Due to the shortage of qualified air conditioning providers, the company had already contracted an estimated 100% and 50% respectively of its 2006 and 2007 turnover at flotation. The future of the company is linked to European Union legislation enforcing air conditioning standards and the age of the UK's hotel and retail estate. On flotation, the Fund invested £1,000,000 with Electra Kingsway VCT 2 investing a further £1,000,000. The two funds each hold 3% respectively of Worthington Nicholls. At the period end the share price had risen by 39%.

## Non-qualifying Investments

The Fund has also committed investments to two non-qualifying collective investment funds. Of these, Electra Private Equity represents 15% of the net asset value of the Fund and the holding increased in value by 3.5% in the period. Electra Private Equity is a private equity fund specialising in unquoted investments and is managed by Electra Partners LLP.

## Outlook

The Fund has started well and is on track to meet its investment objectives. Deal flow is currently particularly strong and we would anticipate completing a number of further transactions over the next few months. The majority of the transactions in the pipeline are unquoted investments, where we tend to be able to invest at a significant discount to the quoted market.

# Annual Review Portfolio Summary

---

	Cost at 30 September 2006 £	Performance in period ended 30 September 2006 £	Valuation at 30 September 2006 £	% of Portfolio by Value %
<b>Qualifying Investments</b>				
Find Portal	1,150,000	1,041,900	2,191,900	20.52
Worthington Nicholls	1,000,000	390,000	1,390,000	13.01
Munro Global	875,000	-	875,000	8.19
Jelf Group	250,160	174,640	424,800	3.98
	3,275,160	1,606,540	4,881,700	45.70
<b>Non Qualifying Investments</b>				
Electra Private Equity	5,150,708	181,792	5,332,500	49.91
Electra Active Management	500,000	(30,891)	469,109	4.39
	5,650,708	150,901	5,801,609	54.30
	8,925,868	1,757,441	10,683,309	100.00
<b>Other Assets</b>				
Liquidity Funds			24,275,000	
Cash			143,768	
			24,418,768	
<b>Total</b>			<b>35,102,077</b>	

## 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, Electra Kingsway VCT 2 and Electra Active Management.

The Investment Manager has established an 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 three VCT funds (“the 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 other 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 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 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 Qualifying Investments\*

<b>Find Portal</b>		<b>Period ended May</b>		<b>2006</b>
Cost	£1,150,000			£'m
Valuation	£2,191,900	Sales		3.0
Basis of Valuation	Fair value	Profit before tax		-0.9
Equity held	8.54%	Retained profit		-1.4
Business	An internet financial directory	Net assets		-0.7

<b>Worthington Nicholls</b>		<b>Year ended September</b>		<b>2005</b>
Cost	£1,000,000			£'m
Valuation	£1,390,000	Sales		10.1
Basis of Valuation	Bid market price (AIM)	Profit before tax		-0.8
Equity held	3.08%	Retained profit		-0.7
Business	Air conditioning contractor	Net assets		0.8

<b>Munro Global (FDS)</b>		<b>Year ended February</b>		<b>2006</b>
Cost	£875,000			£'m
Valuation	£875,000	Sales		6.1
Basis of Valuation	Price of recent investment	Profit before tax		0.2
Equity held	24.95%	Retained profit		0.1
Business	Market research company	Net assets		0.7

<b>Jelf Group</b>		<b>Year ended September</b>		<b>2005</b>
Cost	£250,160			£'m
Valuation	£424,800	Sales		11.5
Basis of Valuation	Bid market price (AIM)	Profit before tax		1.0
Equity held	0.96%	Retained profit		0.7
Business	Regional IFA network	Net assets		4.4

\* Information on the above investments is extracted from their latest audited accounts

# 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**

Electra Quoted Management Limited  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB  
Telephone +44 (0)20 7214 4200  
[www.electraquoted.com](http://www.electraquoted.com)

### **Secretary and Registered Office**

Philip Dyke  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB  
Telephone +44 (0)20 7214 4200

### **Company Number**

5544383

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

### **Investor Enquiries and Fixed Income Investment Adviser**

Downing Corporate Finance Limited  
69 Eccleston Square  
London  
SW1V 1PJ  
Telephone +44 (0)20 7411 4700  
[www.downing.co.uk](http://www.downing.co.uk)

### **Registrar and Transfer Office**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA  
Telephone +44 (0)8701 623124  
[www.capitaregistrars.com](http://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**

Aged 62, was appointed a Director on 14 September 2005.

He is a chartered accountant with 36 years experience in the City of London and has recently retired as Managing Director of investment banking and Chairman of corporate banking at Dresdner Kleinwort Wasserstein. 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\***

Aged 56, was 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 Plc 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 Limited, a MRI scanning products business and Chairman of Surface Transforms plc, 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\***

Aged 57, was appointed a Director on 14 September 2005.

He has 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 plc and Keydata Income VCT Plc. He is Chairman of the Audit Committee and has been nominated the Senior Independent Director under the Combined Code on Corporate Governance.

**Nicholas Ross**

Aged 43, was 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.

\* 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 period from incorporation to 30 September 2006 and their Report on its affairs.

The Company was incorporated on 23 August 2005 under the name De Facto 1286 Limited. The Company was re-registered as a public limited company on 26 September 2005 with the name Electra Kingsway VCT 3 Plc.

## **Investment Company Status**

On 5 October 2005 the Company gave notice to the Registrar of Companies of its intention to carry on business as 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 ICTA 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. Investments in start-up companies where levels of risk are unacceptably high, in particular the technology sector will generally be avoided.

### **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 3 and 4 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 promotion of the Company, including effective communication with shareholders and other external parties.

## **Performance**

A detailed review of performance during the period under review is contained in the Investment Manager's Review on page 4.

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 19.

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 Directors' Report on page 12, the Board intends to seek renewal of its share buy-back authority.

## **Risk Management**

As the Company's investments are focused on unquoted companies and AIM quoted companies, the Directors aim to limit the risk attaching to the portfolio as a whole by careful selection and redistribution of investments, 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 key risks facing the Company include Credit Risk, Market Price Risk, Interest Rate Risk and Market Rate Risk as further detailed in Note 18 of the Notes to the Accounts.

## Share Capital

The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, two of which were issued nil paid to the subscribers to the Memorandum of Association of the Company.

By written resolutions passed on 15 September 2005:

- (i) it was resolved that each of the two issued ordinary shares and each of the 998 unissued ordinary shares of £1 each in the Company be sub-divided into 100 ordinary shares of 1p each giving a total of 100,000 ordinary shares of 1p each; and
- (ii) it was resolved to increase the authorised share capital of the Company to £600,000 by the creation of 54,900,000 ordinary shares of 1p each and 50,000 redeemable preference shares of £1 each in the capital of the Company.

On 15 September 2005, the Investment Manager was allotted 50,000 redeemable preference shares of £1 each against its irrevocable undertaking to pay £1 in cash for each such share as set out in the Share Registration Document.

On 5 April 2006, the Investment Manager's 50,000 redeemable preference shares of £1 each in the capital of the Company were redeemed by the Company and each redeemable preference share of £1 was thereafter sub-divided and redesignated as 100 ordinary shares of 1p each in the authorised but unissued share capital of the Company.

Accordingly, the current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each.

Between 25 November 2005 and 30 September 2006 a total of 35,088,635 ordinary shares of 1p each were issued at a price of £1 per share.

At 30 September 2006, a total of 35,088,835 ordinary shares of 1p each of the Company were in issue.

### Authority to Make Market Purchases of Shares

By written resolution dated 15 September 2005, authority was given to make market purchases of the Company's own ordinary shares of up to 10% of the Company's issued share capital from time to time. During the period to 30 September 2006 no purchases were made under this authority.

A Special Resolution will be proposed at the Annual General Meeting to be held on 14 February 2007 to renew, for one year, the Board's authority to buy up to 3,508,883 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.

The Directors believe that the renewal of the Board's authority to purchase shares, as detailed above, is in the best interests of shareholders as a whole. The Directors recommend shareholders to vote in favour of this special resolution.

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

At the Annual General Meeting an Ordinary Resolution will be proposed seeking to renew the authority conferred upon the Directors by written resolution passed on 15 September 2005 to allot additional shares, up to an aggregate nominal amount of £116,962, 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 2008.

A Special Resolution will be proposed at the Annual General Meeting seeking to renew the authority conferred upon the Directors by written resolution passed on 15 September 2005 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 2008.

### Results and Dividend

Revenue returns attributable to shareholders amounted to £243,891. The Directors do not recommend the payment of a final dividend in respect of the period ended 30 September 2006.

### Post Balance Sheet Events

The Fund has made the following investments since the period end:

October 2006	Gyro International Limited	£1,000,000
October 2006	Zamano Plc	£750,000
November 2006	Factory Media Limited	£1,925,001

## Directors

The current Directors of the Company are listed on page 10. The Directors of the Company upon incorporation were Travers Smith Secretaries Limited and Travers Smith Limited who resigned as Directors on 14 September 2005 following the appointment of Mr SR Stradling, Mr KA D'Silva, Mr D Hurst-Brown and Mr NRW Ross on the same date. No other person was a Director of the Company during any part of the period under review. All the current Directors will retire at the Annual General Meeting in 2007 and, being eligible, offer themselves for re-election. Short biographical details of all the Directors are provided on page 10. Following performance appraisals of all of the Directors, details of which are to be found in the Corporate Governance Statement on page 15, 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 2007 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. There have been no changes in the interests of any of the Directors in the ordinary shares of the Company between 1 October 2006 and 21 December 2006. No options over shares in the capital of the Company have been granted to the Directors.

	30 September 2006 Ordinary shares of 1p each	*23 August 2005 Ordinary shares of 1p each
SR Stradling	51,500	-
KA D'Silva	10,300	-
D Hurst-Brown	25,750	-
NRW Ross**	51,600	100

\* Or date of appointment

\*\* NRW Ross also has an interest in £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 2007.

## 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 21 December 2006 the Directors had not been notified of any interests of 3% or more in 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 2007. A separate resolution will be proposed at the Annual General Meeting authorising the Directors to fix the remuneration of the Auditors.

## 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 2006 was one day.

## 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%

## 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 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 11 of the Financial Statements. At 30 September there was no amount due under the Incentive Schemes.

**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 14 February 2007.

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

21 December 2006

The Directors confirm that during the period 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

	Scheduled Board	Audit Committee
Stuart Stradling	3	n/a
Kevin D’Silva	3	1
Nicholas Ross	3	n/a
David Hurst-Brown	3	1

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 2006 all of whom were non-executive. All of the Directors who held office at 30 September 2006, 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 the independence of each Director in the 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 comprised 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 numbers 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 10.

## Performance Appraisal

The Board carried out a formal appraisal process of its own and of its Committees’ operation and performance during the period 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 period 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, all Directors will submit themselves for re-election at the Company’s first Annual General Meeting to be held in 2007. At subsequent Annual General Meetings one third of Directors will retire by rotation and seek re-election and Directors appointed by the Board will seek re-appointment at the Annual General Meeting following their appointment.

## 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 of 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 request.

The Committee's Responsibilities Include:

- monitoring and reviewing the integrity of the financial statements, 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 Partners Group 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 Partners Group 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 period 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 period. The Committee has written details of reference which are available on request. 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 period. The Committee has written terms of reference which are available on request. 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 Partners Group. 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. In addition to the Annual and Interim Reports shareholders will be sent regular newsletters from the Investment Manager.

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 period and has continued since the period end and up to the date of this report. It is reviewed at regular intervals by the Board and accords with the guidance set out in 'Internal Control: Guidance for Directors on the Combined Code'.

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the period ended 30 September 2006. 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 Partners Group, the Company's system of internal control mainly comprises the monitoring of services provided by Electra Partners Group, 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 Partners Group 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 Partners Group's system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Electra Partners Group'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 Partners Group as follows:

- The Board reviews the terms of the Management Agreement and receives regular reports from Electra Partners Group executives.
- The Board reviews the certificates provided by Electra Partners Group 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 Partners Group to vote on its behalf.

Electra Partners Group'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 Partners Group'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 Financial Statements

---

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Company's Financial Statements comply with the applicable UK Accounting Standards, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Company's Financial Statements 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 Financial Statements.

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 Financial Statements 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 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.

# 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 period 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 period.

The Remuneration Committee reviewed the level of Directors' fees during the period under review and agreed that no changes should be made to the level of these fees. 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 period.

## 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 2007 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 to compensation for loss of office.

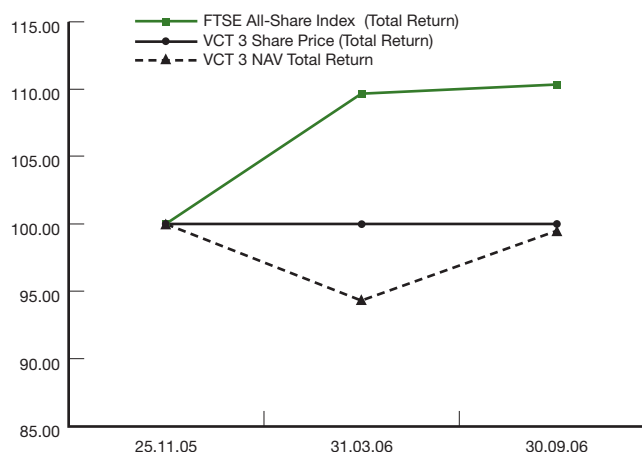
## Performance Graph

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 25 November 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 period received the following emoluments in the form of fees:

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

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 of his remuneration is estimated to be in respect of the duties he undertakes for the Company. The Directors' fees include £15,000 paid to third parties 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  
21 December 2006

# Accounts Independent Auditors' Report

---

## To the Members of Electra Kingsway VCT 3 Plc

We have audited the financial statements of Electra Kingsway VCT 3 Plc for the period ended 30 September 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Total Shareholders' Funds and the related notes. These Financial Statements 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 Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements 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 Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. 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 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 Financial

Statements. The other information comprises only the Chairman's Statement, the Investment Manager's Review and other parts of the Annual Review, 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 Financial Statements. 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 Financial Statements 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 Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the Company's affairs as at 30 September 2006 and of its profit and cash flows for the period then ended;
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

*PricewaterhouseCoopers LLP*

*Chartered Accountants and Registered Auditors, London*  
21 December 2006

## Notes:

- a The maintenance and integrity of the Electra Quoted Management website is the responsibility of the Investment Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
- b Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# Accounts Income Statement

For the period ended 30 September 2006

	Notes	Revenue £	Capital £	2006 Total £
Unrealised gains on investments	7	-	1,757,441	1,757,441
Income	1	667,942	-	667,942
		667,942	1,757,441	2,425,383
Investment management fees	2	(114,459)	(343,376)	(457,835)
Other expenses	3	(307,143)	-	(307,143)
		(421,602)	(343,376)	(764,978)
<b>Return on Ordinary Activities before Taxation</b>		246,340	1,414,065	1,660,405
Tax on ordinary activities	5	-	-	-
<b>Return on Ordinary Activities after Taxation</b>		246,340	1,414,065	1,660,405
<b>Basic and diluted return to Shareholders per Ordinary Share</b>	6	1.38p	7.94p	9.32p

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

No operations were acquired or discontinued in the period.

There are no recognised gains and losses other than those included in the Income Statement.

# Accounts Reconciliation of Total Shareholders' Funds

For the period ended 30 September 2006

	2006 £
Total Return on ordinary activities after taxation	1,660,405
Share issue expenses charged to Share Premium account	(1,929,875)
Ordinary shares issued	35,088,835
Preference shares issued	50,000
Repurchase of preference shares	(50,000)
<b>Movements in Total Shareholders' Funds</b>	<b>34,819,365</b>
Total Shareholders' Funds at incorporation	-
<b>Total Shareholders' Funds</b>	<b>34,819,365</b>



# Accounts Balance Sheet

As at 30 September 2006

	Notes	£	2006 £
<b>Fixed Assets</b>			
Investments held at fair value	7		10,683,309
<b>Current Assets</b>			
Debtors	8	101,583	
Other investments	9	24,275,000	
Cash at bank		143,768	
			24,520,351
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	10	328,570	
			328,570
<b>Net Current Assets</b>			
			24,191,781
<b>Total assets less current liabilities</b>			
			34,875,090
Creditors: amounts falling due after more than one year	11		55,725
<b>Net Assets</b>			
			34,819,365
<b>Capital and Reserves</b>			
Called-up share capital	13		350,888
Share premium	14		32,808,072
Realised capital reserve	14		(343,376)
Unrealised capital reserve	14		1,757,441
Revenue reserve	14		246,340
<b>Total Equity Shareholders' Funds</b>			
			34,819,365
<b>Net Asset Value per Ordinary Share</b>			
			99.23p
<b>Number of Ordinary Shares in issue at end of period</b>			
			35,088,835

The information on pages 25 to 36 forms part of these Financial Statements.

The Financial Statements on pages 21 to 36 were approved by the Board of Directors on 21 December 2006 and were signed on its behalf by:

Stuart Stradling  
Chairman  
21 December 2006

# Accounts Cash Flow Statement

For the period ended 30 September 2006

	Notes	£	2006 £
<b>Operating Activities</b>			
Investment income received		512,677	
Bank deposit interest received		53,680	
Investment management fees paid		(254,338)	
Other cash payments		(182,068)	
<b>Net Cash Inflow from Operating Activities</b>	16		129,951
<b>Investing Activities</b>			
Purchase of investments		(8,925,868)	
<b>Net Cash Outflow from Investing Activities</b>			(8,925,868)
<b>Cash Outflow before use of Liquid Resources and Financing</b>			(8,795,917)
<b>Management of Liquid Resources</b>			
Purchase of current asset investments		(24,275,000)	
<b>Net Cash Outflow from Management of Liquid Resources</b>			(24,275,000)
<b>Financing</b>			
Issue of ordinary shares		35,088,835	
Expenses of the issue of ordinary shares		(1,929,875)	
Issue of loan notes		55,725	
<b>Net Cash Inflow from Financing</b>			33,214,685
<b>Increase in Cash for the Period</b>	17		143,768

# Accounts Statement of Accounting Policies

---

## Basis of accounting

The accounts have been prepared in accordance with the Companies Act 1985 and with applicable accounting standards in the United Kingdom.

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 Trust 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 reserves and unrealised gains are transferred to the unrealised 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 total of 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 and capital 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, net capital return may not be distributed by way of dividend.

The Accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

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

## 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 unlisted 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 account.

## Quoted Investments

Quoted investments are stated at the last traded bid price on the balance sheet date without discount.

## Unquoted Investments

Unquoted investments are held at fair value as fixed asset investments. The fair value is calculated in accordance with International Private Equity and Venture Capital Guidelines issued in March 2005 following the methodology outlined below.

## Principles of Valuation of Investments

### General

In valuing investments, the Directors follow the principles recommended in the International Private Equity and Venture Capital Valuation Guidelines issued in March 2005.

Investments are valued at Fair Value at the reporting date.

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 value of private equity investments, the Directors exercise due caution in applying the various methodologies. The Directors are however wary of applying excessive caution.

### Unquoted investments

The principal methodologies applied in valuing unquoted investments including PLUS investments (a UK market focussed on small and medium companies which the Directors do not regard as an active market with sufficient liquidity) include the following:

- 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 an Earnings Before Interest and Tax multiple applied to current year's earnings where

---

these can be forecast 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 Fair Value of an investment in a company will be arrived at through the following process:

- The Enterprise Value of the underlying business will be calculated using one of the above methodologies;
- The Enterprise Value of the underlying business will then be adjusted for surplus assets or excess liabilities to arrive at an Enterprise Value for the company; and
- The valuation of the Company's investment will be calculated from the Enterprise Value for the company after deduction of prior ranking debt and other financial instruments and an appropriate marketability discount.

In terms of the marketability discount, this will normally be in the range of 10-30% (in steps of 5%) applied to the Enterprise Value of the company after deducting prior ranking debt and other financial instruments.

The amount of the marketability discount is a question of judgement and will reflect several factors including the ability of the Company to influence the timing and nature of any realisation. Where the Company has the ability to influence an exit, or is part of a syndicate of like-minded investors who initiate the exit, a marketability discount will normally be applied. This may vary according to market and investee company circumstances. Where the likelihood of an exit is high, the discount is likely to be lower. Where there is no ability to initiate an exit and exit is not under discussion, the discount is likely to be higher. In cases where no exit is contemplated by controlling shareholders, the investment may be valued by discounting the cash flow from the investment itself.

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 lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings.

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 equity of any of the companies 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 of the holdings represent investments in subsidiary undertakings.

#### **Income**

Dividends receivable from equity investments are brought into account 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.

#### **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.

#### **Revenue and Capital reserves**

The revenue return 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 of the Company's investments which arises.

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.

## **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.

# Accounts Notes to the Accounts

## 1. Income

	For the period ended 30 September 2006 £
Franked investment income	594,413
Unfranked investment income	19,849
Interest from bank deposits	53,680
	667,942

## 2. Investment Manager's Fees

	Revenue £	Capital £	Total £
Electra Quoted Management	114,459	343,376	457,835

The Management Fee includes irrecoverable VAT of £68,188.

Electra Quoted Management also received an administration fee of £51,082, net of VAT, which increases each year in line with RPI. The administration fee is included in the administration expenses of £140,043 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%

### 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 11 of the Financial Statements.

At 30 September 2006 there was no amount due under the Incentive Schemes.

---

### 3. Other Expenses

	For the period ended 30 September 2006 £
Directors' remuneration	50,000
Employer's NIC	4,217
IFA trail commission (at rate of 0.25% per annum)	87,033
Auditors' fees	
- audit	21,150
- non audit	4,700
Administration expenses	140,043
	<hr/> 307,143 <hr/>

---

### 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 19.

The Company has no employees or employee costs.

---

### 5. Taxation on Ordinary Activities

	For the period ended 30 September 2006 £
<b>Analysis of charge in the period</b>	
Current tax:	
UK corporation tax at 19%	-
Total Current Tax	<hr/> - <hr/>
<b>Factors affecting tax charge for the period</b>	
Revenue return on ordinary activities before tax	246,340
Revenue return multiplied by corporate tax rate	46,805
Effects of:	
Dividend income not subject to tax	(112,938)
Expenses not deductible for tax purposes	16,536
Tax relief on fees charged to Capital account	(65,241)
Unutilised losses arising in period	114,838
Total Current Tax	<hr/> - <hr/>

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 2006.

There has been no recognition of a deferred tax asset for tax losses arising in the year as the Directors do not anticipate them being used.

---

## 6. Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £246,340 and on 17,822,209 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 £1,414,065 and on 17,822,209 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The total return per ordinary share is based on the net revenue from ordinary activities after taxation of £1,660,405 and on 17,822,209 ordinary shares, being the weighted average number of ordinary shares in issue during the period.

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

---

## 7. Investments

	Qualifying Investments		Non-qualifying Investments		Total £
	Traded on AIM £	Unlisted £	Open-ended Investment Company £	Closed-ended Investment Company £	
Purchases at cost	1,250,160	2,025,000	500,000	5,150,708	8,925,868
Unrealised gains/(losses) in period	564,640	1,041,900	(30,891)	181,792	1,757,441
Valuation at 30 September 2006	1,814,800	3,066,900	469,109	5,332,500	10,683,309
Cost at 30 September 2006	1,250,160	2,025,000	500,000	5,150,708	8,925,868
Unrealised gains/(losses) at 30 September 2006	564,640	1,041,900	(30,891)	181,792	1,757,441
Valuation at 30 September 2006	1,814,800	3,066,900	469,109	5,332,500	10,683,309

Further details of investments are provided in the Portfolio Summary on page 5 of these accounts.

---

## 8. Debtors

	2006 £
Amounts due within one year:	
Accrued income	101,583
	101,583

---

---

## 9. Other Investments

	2006 £
Liquidity Funds	24,275,000
	24,275,000

The market value of the Liquidity Funds is £24,275,000.

---

## 10. Creditors: amounts falling due within one year

	2006 £
Other creditors	125,073
Electra Quoted Management Limited	203,497
	328,570

---

## 11. Creditors: amounts falling due after one year

	2006 £
Unsecured 3.75% Loan Notes	
Authorised	125,000
Unissued	(69,275)
Issued at 30 September 2006	55,725

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 Financial Statements.

---

## 12. Significant Interests

At 30 September 2006 the Company held significant investments, amounting to 3% or more of the equity capital in the following companies:-

	Equity Investment (Ordinary Shares)	Investments Loan Stock and Preference Shares	Total Investments	Percentage of Investee Company's Total Equity
	£	£	£	%
Find Portal Limited	115,000	1,035,000	1,150,000	8.54
Worthington Nicholls Group Plc	1,000,000	-	1,000,000	3.08
Munro Global Limited	87,500	787,500	875,000	24.95

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 marketable value as part of its portfolio.

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



### 13. Called Up Share Capital

	Number	2006 £
<b>Authorised:</b>		
Ordinary Shares of 1p each: 60,000,000	60,000,000	600,000
<b>Issued:</b>		
Ordinary Shares of 1p each issued during the period	35,088,835	350,888
At 30 September 2006	35,088,835	350,888

The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, two of which were issued nil paid to the subscribers to the Memorandum of Association of the Company.

By written resolutions passed on 15 September 2005:

- (i) it was resolved that each of the two issued ordinary shares and each of the 998 unissued ordinary shares of £1 each in the Company be sub-divided into 100 ordinary shares of 1p each giving a total of 100,000 ordinary shares of 1p each; and
- (ii) it was resolved to increase the authorised share capital of the Company to £600,000 by the creation of 54,900,000 ordinary shares of 1p each and 50,000 redeemable preference shares of £1 each in the capital of the Company.

On 15 September 2005, the Investment Manager was allotted 50,000 redeemable preference shares of £1 each against its irrevocable undertaking to pay £1 in cash for each such share as set out in the Share Registration Document.

On 5 April 2006, the Investment Manager's 50,000 redeemable preference shares of £1 each in the capital of the Company were redeemed by the Company and each redeemable preference share of £1 was thereafter sub-divided and redesignated as 100 ordinary shares of 1p each in the authorised but unissued share capital of the Company.

Accordingly, the current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each.

Between 25 November 2005 and 30 September 2006 a total of 35,088,635 ordinary shares of 1p each were issued at a price of £1 per share.

At 30 September 2006, a total of 35,088,835 ordinary shares of 1p each of the Company were in issue.

### 14. Reserves

	Share Premium Account (Non distributable)	Realised Capital Reserve (Non distributable)	Unrealised Capital Reserve (Non distributable)	Revenue Reserve (Distributable)
	£	£	£	£
Premium on issues of shares during the period	34,737,947	-	-	-
Expenses of share issues	(1,929,875)	-	-	-
Increase in unrealised appreciation	-	-	1,757,441	-
Investment management fees charged to capital account	-	(343,376)	-	-
Retained net revenue for the period	-	-	-	246,340
At 30 September 2006	32,808,072	(343,376)	1,757,441	246,340

---

## 15. Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2006, and on 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 NAV per ordinary share because the Company has no potentially dilutive shares in issue.

---

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

	For the period ended 30 September 2006 £
Net revenue before taxation	246,340
Investment management fees charged to capital	(343,376)
Increase in debtors	(101,583)
Increase in creditors and accruals	328,570
Net cash inflow from operating activities	129,951

---

## 17. Analysis of Changes in Cash

	For the period ended 30 September 2006 £
At beginning of the period	-
Net cash inflow	143,768
At 30 September	143,768

---

## 18. 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.

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

	Financial Assets on which no Interest Paid £	Fixed Rate Financial Assets £	Variable Rate Financial Assets £	Total £	Weighted Average Interest Rates %	Average Period to Maturity years
Equity shares	8,860,809	-	-	8,860,809	-	-
Loan stock	-	1,822,500	-	1,822,500	8.0	4.9
Liquidity Funds	-	-	24,275,000	24,275,000	-	-
Cash	-	-	143,768	143,768	-	-
Debtors	101,583	-	-	101,583	-	-
Total	8,962,392	1,822,500	24,418,768	35,203,660	-	-

The only financial liabilities are the unsecured loan notes of £55,725 which carry a 3.75% coupon.

---

## 19. Post Balance Sheet Events

The Fund has made the following investments since the period end:

October 2006	Gyro International Limited	£1,000,000
October 2006	Zamano Plc	£750,000
November 2006	Factory Media Limited	£1,925,001

---

## 20. Geographical Analysis

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

---

## 21. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments of the Company at 30 September 2006.

---

## 22. Transactions with the Manager

During the period ended 30 September 2006 the Company paid £314,360 to Electra Quoted Management, the Investment Manager. At 30 September 2006, the Company owed £203,497 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 first Annual General Meeting of Electra Kingsway VCT 3 Plc will be held on 14 February 2007 at 1.00pm at The Mermaid Conference and Events Centre, Puddle Dock, Blackfriars, London EC4V 3DB for the purpose of considering and, if thought fit, passing the following Resolutions (of which, Resolutions 1 to 9 will be proposed as Ordinary Resolutions and Resolutions 10 and 11 will be proposed as Special Resolutions):

## Ordinary Business

- 1 To receive, consider and adopt the Reports of the Directors and Auditors and the Company's Accounts for the period ended 30 September 2006.
- 2 To approve the Directors' Remuneration Report for the period ended 30 September 2006.
- 3 To elect Mr SR Stradling as a Director of the Company.
- 4 To elect Mr D Hurst-Brown as a Director of the Company.
- 5 To elect Mr NRW Ross as a Director of the Company.
- 6 To elect Mr KA D'Silva as a Director of the Company.
- 7 To 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.
- 8 To authorise the Directors to fix the remuneration of the Auditors.
- 9 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 £116,962 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 2008; 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 Business

- 10 THAT, subject to the passing of Resolution 9, 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 sub-paragraph (a) above) of equity securities up to an aggregate nominal value not exceeding £17,544, and this power, unless renewed, shall expire at the conclusion of the Company's Annual General Meeting in 2008 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.
- 11 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 pence each, provided that:
  - i) the maximum number of ordinary shares of 1 pence each hereby authorised to be purchased is 3,508,883 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 which may be paid for an ordinary share shall be 1 penny;

- iii) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
- iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors); and
- v) unless renewed, the authority hereby conferred shall expire on the earlier of 14 May 2008 or the conclusion of the Company's Annual General Meeting in 2008 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.

By order of the Board of Directors  
 PJ Dyke, Secretary, Paternoster House,  
 65 St Paul's Churchyard, London EC4M 8AB  
 21 December 2006

#### Notes

- A Any member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. Such 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, The Registry, 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 12 February 2007 (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 Register of Directors' Interests in the share capital of the Company maintained in accordance with Section 325 of the Companies Act 1985; and
  - the Articles of Association of the Company.
- F Short biographical details of all of the Directors are contained in the Report & Accounts for the period to 30 September 2006 on page 10.

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.

