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References in this Report to Acuity VCT 3 Plc have been abbreviated to "the Company" or "the Fund". References to the Investment Manager, Acuity Capital Management Limited, have been abbreviated to "Acuity Capital".

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# Annual Review Investment Strategy

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## Investment Objective

In accordance with the Prospectus dated 14 October 2005, the Company's objective is to achieve capital gains and maximise UK tax free income to its shareholders from dividends and capital distributions. It is intended that this objective is to be achieved by investing the majority of the Company's funds in a portfolio of Qualifying Investments as described under "Investment Strategy" below.

## Investment Strategy

The Company offers investors the opportunity to gain access to the venture capital market.

The investment focus of the Investment Manager has been to seek out established companies, most of whom are cash positive, in preference to early stage opportunities.

In addition, investments are normally structured as a mixture of equity and loan stock. The loan stock represents the majority of the finance provided. Typically, funds managed by Acuity Capital own a significant percentage of the equity of the investee companies.

This investment focus, combined with a diversified sector strategy and the typical investment structure, will, in the opinion of the Directors, contribute materially to reducing the overall risk of investing in smaller companies.

As at 30 September 2010, the Company has invested in 14 qualifying companies and 3 non-qualifying companies.

As at 30 September 2010, the Company has no bank indebtedness.

The Directors do not wish the Company to be restricted by having a fixed limit on what exposure to gearing it may have, apart from the restriction in the Company's Articles, which limits borrowing to an amount equal to its adjusted capital and reserves.

## Co-investment

The Company invests alongside Acuity Growth VCT Plc which enables shareholders to participate in larger unquoted transactions, which tend to have a lower risk profile than smaller venture capital investments.

## Qualifying Investments

The Company intends to invest in companies that it believes have a high growth potential. In the Directors' opinion, each of these companies should generally reflect the following criteria:

- A well defined business plan and ability to demonstrate strong demand for its products or services,
- Products or services that can be supplied at sustainable high margins and be cash generative,

- Objectives of management and shareholders to be similarly aligned,
- Adequate capital resources or access to further resources to achieve the targets set out in the business plan, and
- High calibre management teams.

The Company seeks to invest in a diversified portfolio of unquoted and AIM quoted companies and will not specialise unduly in any particular industry sector. Unquoted investments will typically be in companies where the Company believes that there are reasonable prospects of an exit through a trade sale or flotation in the medium term.

There are no criteria set by the Directors regarding the size of the target companies, except, with respect to each specific pool of capital that an investee company's gross assets must comply with current UK VCT legislation. Investments in start-up companies where, in the opinion of the Company, levels of risk are unacceptably high, in particular the technology sector, will generally be avoided.

As at 30 September 2010, the Company has invested approximately 83% of its net assets by valuation in qualifying companies. The average investment size at cost is £1.4 million.

## Non-Qualifying Investments

### Associated Funds

As at 30 September 2010, 1% of total assets by valuation of the Company was invested in CF Acuity Real Active Management Fund and a further 4% in Electra Private Equity Plc.

### Cash Management

In addition to investments held in associated funds, as at 30 September 2010, 4% of its net funds by valuation of the Company were invested in cash deposits to provide immediate liquidity, pending suitable qualifying investments being identified.

### Risk Management

Since the Company is flexible with regard to those areas in which it invests, it aims to achieve a significant degree of diversification and to spread risk by investing in unquoted, PLUS traded and AIM quoted companies.

In addition, there is no emphasis on any particular industry sector and even the non qualifying investments have quite a high level of in built diversification. The Company is restricted to investing no more than 15% of the value of its total assets at the time of investment in any one individual qualifying investment or non qualifying investment.

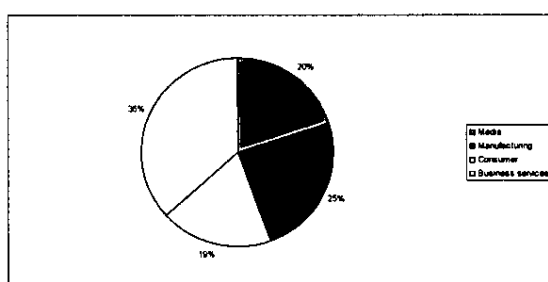
# Annual Review Investment Strategy

## Investment Portfolio

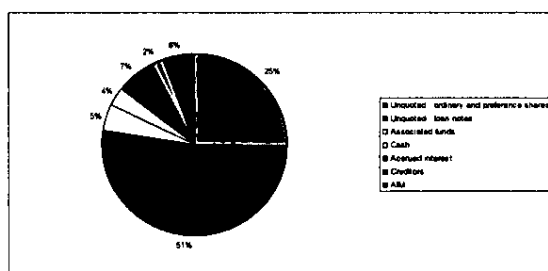
### Ordinary Shares

The investment classification by value expressed as a percentage as at 30 September 2010 was as follows

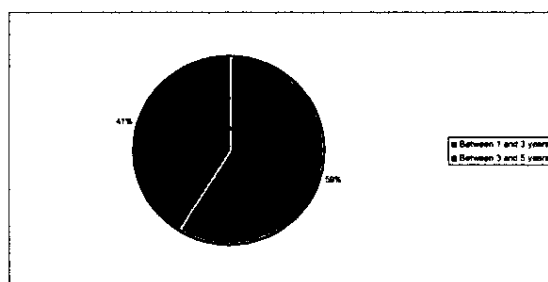
#### By Sector



#### By Asset Type



#### By Time Investments Held



## Annual Review Financial Highlights

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Year ended 30 September	2010	2009
Net Assets	£21.3m	£30.0m
Net asset value per ordinary share	61.9p	85.7p
Dividend paid per ordinary share	1.0p	0.0p
<b>Cumulative return to shareholders since launch</b>		
Dividends paid per ordinary share	4.5p	3.5p
Net asset value plus dividends paid per ordinary share	66.4p	89.2p

# Annual Review Chairman's Statement

## Overview

I am disappointed to report that during the year ended 30 September 2010 the Net Asset Value (NAV) of the ordinary shares decreased by 28% to 61.9 p per share. The Net Asset Value of the Fund is £21.3 million. In the same period the FTSE All Share Index increased by 9%.

## Ordinary Shares

When 4.5 pence of cumulative dividends are added to the Net Asset Value (the amount distributed since the Company's inception), the total was 66.4 p per ordinary share, a decrease of 26% over the period.

The performance of the portfolio in the second half of the year has been poor. In particular the Company's largest holding, The Fin Machine Company, experienced significant working capital issues following the establishment of a manufacturing plant in China. A new Chairman was appointed in November 2010 and corrective actions including senior management changes have been taken. The company has entered 2011 with an improved order book and increased working capital facilities and we are hopeful this will lead to a recovery in the value of the investment. Despite this the Directors felt it prudent to write down the Company's investment by 60% as at 30<sup>th</sup> September 2010 which has accounted for a significant part in the overall decline in the Net Asset Value of the fund. Further details of the movement in the investment portfolio are contained within the Investment Manager's report.

The investment portfolio is focussed on unquoted investments which now represent over 90% of the portfolio by value. The portfolio comprises investments in 14 qualifying companies but has become increasingly concentrated with the top five investments now representing over 63%.

## Investment Manager

On 13 December 2010, the Board announced that it was interviewing other Investment Managers with a view to appointing a new Investment Manager for the fund. Agreement on Heads of Terms, which will be subject to contract, has been reached with the Foresight Group. It is anticipated the terms of this appointment will be substantially the same as those in our management contract with Acuity Capital. Foresight Group is a well respected VCT Manager in the UK with a good history of success in managing funds.

## Portfolio Activity

No new investments were made during the year other than a further £3.8m was invested to support existing portfolio companies. The largest of these investments were the Fin Machine Company (£1.1m) and Loseley Dairy Ice Cream (£1.4m).

Soon after the year ended the Company realised its holding in Amber Taverns and received £913,000 which represents an uplift of 83% on the original cost of the investment. Amber Taverns is a wet led freehold pub portfolio which targets the lower end of the marketplace. The original investment was made in 2006. Also,

following an agreed offer for Mount Engineering, we realised our shareholding in this company for £846,000, a 10% uplift on cost.

## Dividends and Share Buy Backs

A Dividend of 1.0p was paid in February 2010 in relation to the accounting period ending 30 September 2009. No dividends have been proposed by the board for the year ended 30 September 2010.

A total of 724,299 shares were bought back in the period for a total of £397,000 at an average of 53.7p per share.

Although the worst effects of the recession may be behind us the Board continues to review the liquidity position of the fund and will ask the new Investment Manager to undertake a rigorous review of the portfolio.

## Top Up Offer

A top up offer was offered to existing shareholders in the year. In total £0.1m was raised under the offer which closed on 6 December 2010.

## Risks

Risks associated with the Company are set out in detail in the Report of the Directors' and in note 19 of the Notes to the accounts.

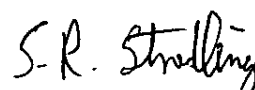
## Outlook

The first task of the new fund manager will be to conduct a full scale review of all portfolio companies. A summary of the findings of this review will be communicated to all shareholders.

Business conditions for a number of our investee companies are likely to remain difficult during 2011 but prospects for others, notably those engaged in export businesses appear to be brightening.

I will write to Shareholders again once the board have executed contracts with both Foresight Group and Acuity Capital and inform you of the date and location of the Annual General Meeting together with the Notice of Annual General Meeting.

Stuart Stradling  
Chairman  
28 January 2011



# Annual Review Investment Managers Review

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## Overview

As set out in the investment strategy on page 2 of the Report, our objective is to invest in small unquoted companies with significant existing revenues and profits and to seek to add value through organic growth and buy and build strategies. Access to these types of investment is enhanced through co-investing with Acuity Growth VCT Plc.

## Performance Review

Although the first half results indicated that the portfolio had weathered the worst of the economic recession, four portfolio companies have since reported difficulties in the summer which have had a significant negative impact on the year end Net Asset Value. As at 30 September 2010, the Net asset Value per share had fallen to 61.9p, a reduction of 28% over the year. The main declines in the year were The Fin Machine Company, Loseley Dairy Iced Cream, Munro Global and Target Entertainment. Collectively they accounted for the majority of the overall decrease in the net asset value.

Fin Machine Company encountered working capital difficulties as a result of its expansion into China. This had a knock on impact on trading which has resulted in a disappointing year for the company. The fund invested a further £1.1 million to help bridge the working capital shortfall. We have instigated the appointment of a new Chairman during November 2010. The company also replaced its Financial Director and put in place tighter internal controls. The company has started its new financial year with a healthy order book and the long term growth prospects for the company remain good. The key driver of future growth will be the continued growth of the automotive sector in China and India and the adoption of its cooling technology by air conditioning manufacturers.

Although Loseley Dairy Ice Cream attracted other investors in the year, the delay in receiving the funding meant that the company was unable to achieve the production efficiencies it had planned for and as a result profitability was below forecast. Over the last eighteen months the company has made good progress in increasing its annualised turnover and winning new customers. In particular it won a supply contract with a major national retailer, a significant milestone, which could lead to much larger orders over the next two years. A new CEO, Neil Burchell, the former MD of Yoghurt producer Rachel's Organic, has been appointed. Loseley has the opportunity to further grow its own label business and to use the benefits of scale to market its own higher margin ice cream brands. Loseley, Thayers and Yorkshire Dales.

Munro Global is a market research company which has demonstrated good growth both organically and through bolt on acquisitions. One of its trading subsidiaries which had established good long term contracts with the public sector has recently disappointed following the impact of the Government's austerity spending cuts. This has necessitated a programme of redundancies and a shortfall in forecast profitability for the current year.

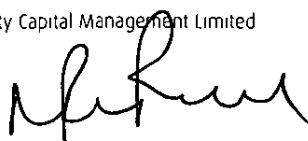
Despite Target Entertainment receiving an attractive offer, a successful negotiation between the prospective buyer and all the shareholders proved elusive. As a result, the company's bank decided to place the company into administration. The downturn in the media sector had put the company under significant pressure with its drama production business, in particular, suffering from a lack of commissions from the TV broadcasters.

On a more positive note Amber Taverns, the pub operator, was sold in October 2010 at an uplift of 2.9x cost. The key to the success of the transaction was an experienced management team who were able to acquire underperforming pubs in the North West of England at attractive prices and to drive through better operating performance in each unit. Mount Engineering was also sold after the reporting date realising £846,000 a 10% uplift on cost.
















The best performer in the period was Factory Media who have continued to show good momentum in their online website *mpora.com*. Factory Media has become one of Europe's largest and most innovative Action Sports media owners with 19 traditional print publications and 23 new media brands reaching over 500,000 readers and 4 million online users every month. The business currently focuses on two market segments, Board sports and Bike, with an international footprint and multilingual products.

The results for the last six months have been disappointing largely due to trading difficulties at four portfolio companies. The investment manager has been working closely with the investee company management teams to ensure that they have reacted quickly to cut costs and where appropriate added management resource to ensure that the companies are being optimally managed. Whereas the worst of the economic downturn may well have passed the ripple effect feeding into the smaller companies market has continued to cause problems for many companies.

Acuity Capital Management Limited



## Annual Review Portfolio Summary

	Qualifying Investments at 30 September 2010	Cost £'000	Valuation £'000	Valuation movement in the year £'000	% of Portfolio by Value
	Amber Taverns	500	624	81	3.2%
	Brand Acquisitions Limited	1 900	1 621	(256)	8.3%
	Connect 2 Play	2 250	2 450	0	12.6%
	DeLaqto Group Limited	1 285	1 765	300	9.1%
	Factory Media	1 925	3 663	813	18.9%
	Fin Machine Company	3 260	2 794	(4 130)	14.4%
	Jelf	250	111	(31)	0.6%
	Loseley Dairy Ice Cream Ltd	1 898	1 424	(934)	7.3%
	Managed Support Services	888	138	(31)	0.7%
	Mount Engineering	759	845	217	4.3%
	Munro Global	1 615	883	(1 402)	4.5%
	Red Reef Media Ltd	1 488	1 248	(35)	6.4%
	Sport Media Group	500	11	(17)	0.1%
	Zamano	750	139	(438)	0.8%
	Sub Total	19 268	17 716	(5 863)	91.2%
	Non Qualifying Investments				
	CF Acuity Real Active Mgt Fnd	218	220	(3)	1.1%
	Electra Private Equity	770	808	85	4.2%
	Future Noise	1 248	684	(532)	3.5%
	Sub Total	2 236	1 712	(450)	8.8%
	Total Investments	21 504	19 428	(6 313)	100%

# Annual Review Investment Manager and Unquoted Investment Valuation Process

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## The Investment Manager

The Board of the Company has decided to appoint another Investment Manager to manage the Fund and subject to contract this will take effect after the issue of this Report and Accounts of the Company. During the year the Fund's investments were managed by Acuity Capital Management Limited. Acuity Capital Management Limited was established in 1981 and is authorised and regulated by the Financial Services Authority.

Acuity Capital 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.

Acuity Capital is also the Investment Manager of Acuity Growth Plc, Acuity Environmental VCT Plc and CF Acuity Real Active Management Fund as well as the Company.

The Investment Manager has established an Investment Committee comprising three Acuity Capital executives and two independent members. The independent members of the Investment Committee are Angela Lane and Tony Everett. After 18 years working in private equity at 3i, Angela's final role was as a partner in 3i's Growth Capital business managing the UK Portfolio. Tony has a background as an entrepreneur and business owner and acts as a consultant to Fleming Family and Partners Private Equity. In addition, the Investment Committee is chaired by Hugh Mumford, a senior executive of Electra Partners Group. The Investment Committee meets as required to consider and review investment proposals.

## The Unquoted Investment Valuation Process

The Directors follow the principles recommended in the International Private Equity and Venture Capital (IPEV) Valuation Guidelines issued in September 2010.

Initially the valuations of the unquoted investments will be compiled by the fund managers. They will then be reviewed in detail by the executive members of the Investment Committee and further reviewed in detail by the independent members of the Investment Committee. Finally, they will be presented to the full Audit Committee of the Board and then be recommended to the Board of Directors for adoption. All Board members have open access to the investee companies and to all papers relating to the valuations.



# Annual Review Co-investment Arrangements

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## Co-investment Arrangements with other Acuity VCTs


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


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


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

The Board of the Company acknowledges that the Investment Manager may occasionally recommend an allocation of investments on a different basis from the one described above. For example, an exception may be made to ensure that one or more of the Company and Acuity Growth VCT Plc maintain their status as a HMRC approved VCT, or in the interests of balancing their portfolios. A different basis may also be necessary to meet the requirements of potential investee companies. In these cases the Directors may use their judgement.

## Annual Review Largest 10 Investments


	<b>Factory Media</b>		<b>Audited financial information</b>		
	Cost	£1,925,000	Year Ended 31 December	2009	2008
	Valuation	£3,663,000		£m	£m
	Basis of Valuation	EV/Sales Multiple			
	Equity held	24.99%	Sales	7.2	8.4
	Business	Sports Publishing Company	Loss before tax	(0.4)	(0.5)
	Other Acuity funds investing	Acuity Growth VCT	Retained Loss	(0.4)	(0.5)
			Net assets	(0.7)	(0.2)

	<b>Fin Machine Company</b>		<b>Audited financial information</b>		
	Cost	£3,260,000	Year Ended 30 September	2009	2008
	Valuation	£2,794,000		£m	£m
	Basis of Valuation	EV/EBITDA Multiple			
	Equity held	19.50%	Sales	21.2	19.5
	Business	Specialist Engineering	(Loss)/Profit before tax	(1.2)	2.8
	Other Acuity funds investing	Acuity Growth VCT	Retained (Loss)/Profit	(0.7)	2.1
			Net assets	3.7	4.4

 <b>connect2media</b>	<b>Connect2Media</b>		<b>Audited financial information</b>	
	Cost	£2,250,000	Period 16 June 2008 to 31 December 2008	2008
	Valuation	£2,450,000		£m
	Basis of Valuation	EV/Sales Multiple		
	Equity held	17.45%	Sales	2.4
	Business	Mobile Games	Loss before tax	(0.7)
	Other Acuity funds investing	Acuity Growth VCT	Retained Loss	(0.7)
			Net assets	3.8


## Annual Review Largest 10 Investments


defaqto.	Defaqto Group		Audited financial information		
	Cost	£1,285,000			
	Valuation	£1,765,000			
	Basis of Valuation	Earnings Multiple			
	Equity held	8.45%			
	Business	Financial product data provider			
	Other Acuity funds investing	Acuity Growth VCT			
		Year Ended 31 March	2010	2009	
			£m	£m	
		Sales	8.8	8.3	
		Loss before tax	(0.6)	(0.5)	
		Retained Loss	(0.8)	(0.5)	
		Net liabilities	(8.9)	(8.1)	

	Brand Acquisitions		Audited financial information		
	Cost	£1,900,000			
	Valuation	£1,621,000			
	Basis of Valuation	EV/EBITDA Multiple	Year Ended 31 January	2010	2009
	Equity held	16.63%		£m	£m
	Business	Branded Menswear	Sales	9.1	11.3
			(Loss)/Profit before tax	(1.5)	0.3
			(Loss)/Profit after tax	(1.4)	0.2
	Other Acuity funds investing	Acuity Growth VCT	Net (liabilities)/assets	(0.6)	0.7


LOSELEY	Loseley Dairy Ice Cream	Audited financial information		
	Cost	£1,898,000		
	Valuation	£1,424,000	18 Month period Ended 31	2010
	Basis of Valuation	EV/Sales Multiple	March	£m
	Equity held	26.20%	Sales	8.7
	Business	Producer of Fine Dairy Ice Cream	Loss before tax	(4.7)
			Loss after tax	(4.7)
	Other Acuity funds investing	Acuity Growth VCT	Net liabilities	(3.6)

## Annual Review Largest 10 Investments

	Red Reef Media		Audited financial information		
	Cost	£1,488,000	Year Ended 31 March	2010	2009
	Valuation	£1,248,000		£m	£m
	Basis of Valuation	Bid Price	Sales	3.7	4.9
	Equity held	14.41%	Loss before tax	(1.0)	(0.7)
	Business	Magazine Publishing	Loss after tax	(1.0)	(0.6)
			Net assets	4.1	4.1
	Other Acuity funds investing	Acuity Growth VCT			



# Munro

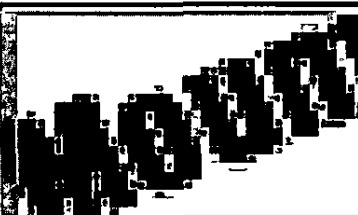


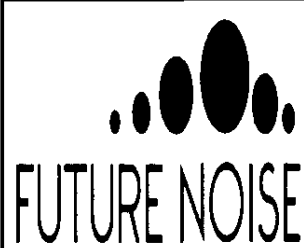
## Munro Global

Cost	£1,615,000
Valuation	£883,000
Basis of Valuation	EV/Sales Multiple
Equity held	24.79%
Business	Market Research Company
Other Acuity funds investing	Acuity Growth VCT

## Audited financial information

Year Ended 31 July	2009	2008
	£m	£m
Sales	9.4	10.2
Loss before tax	(0.2)	0.0
Loss after tax	(0.2)	0.0
Net assets	0.4	0.6

	Mount Engineering		Audited financial information		
	Cost	£759,000	Year Ended 31 December	2009	2008
	Valuation	£845,000		£m	£m
	Basis of Valuation	Bid Price	Sales	9.3	11.8
	Equity held	3.24%	Profit before tax	2.7	3.1
	Business	Engineering	Retained Profit	1.9	2.2
			Net assets	22.7	23.5
	Other Acuity funds investing	Acuity Growth VCT			



Future Noise		Audited financial information		
Cost	£1,248,000	Period ended 31 December	2009	2008
Valuation	£684 000		£m	£m
Basis of Valuation	Net Present Value	Sales	0.5	0.0
Equity held	37.04%	Loss before tax	(0.4)	0.0
Business	Recorded music, master rights management	Retained Loss	(0.4)	0.0
Other Acuity funds investing	Acuity Growth VCT	Net assets	0.2	0.0

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

## Company Information Contact Details

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### **Acuity VCT 3 Plc**

#### **Board of Directors**

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

#### **Investment Manager and Administrator**

Acuity Capital Management Limited  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB  
Telephone +44 (0)20 7306 3901  
Web [www.acuitycapital.co.uk](http://www.acuitycapital.co.uk)  
Enquiries [info@acuitycapital.co.uk](mailto:info@acuitycapital.co.uk)

#### **Secretary and Registered Office**

Acuity Capital Management Limited  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB  
Telephone +44 (0)20 7306 3901

#### **Company Number**

5544383

#### **Registered Independent Auditors**

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG  
Telephone +44 (0)131 222 2000

#### **Registrar and Transfer Office**

Capita Registrars Limited  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0GA  
Telephone (UK) 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30am-5.30pm Monday to Friday)  
Telephone (Overseas) +44 208 639 3399  
Email [shareholder.services@capitaregistrars.com](mailto:shareholder.services@capitaregistrars.com)  
Web [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

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### Stuart Stradling, Chairman

Appointed a Director on 14 September 2005

He is a chartered accountant with 36 years experience in the City of London. He was Managing Director of investment banking and Chairman of corporate banking at Dresdner Kleinwort Wasserstein until he retired in April 2006. He previously held a similar position at SG Warburg and was partner in charge of corporate broking at Rowe and Pitman for 10 years prior to the firm's sale to SG Warburg in 1986. In addition, he holds a number of non executive positions in small companies in several fields, including media and technology. He is Chairman of the Nomination Committee.

### Kevin D'Silva\*

Appointed a Director on 14 September 2005

He is a chemical engineer who has specialised in the medical devices industry. He was formerly Group Managing Director of Ferraris Group Plc and he has managed the growth of a number of publicly quoted and unquoted companies. He is Chairman of Hallmarq Veterinary Imaging Ltd, a MRI scanning business. Chairman of Ai2 Ltd, a antimicrobial peptide supplier. Chairman of Crystallon Ltd and Oxford Cryosystems Ltd, a cryogenics cooler manufacturer and Chairman of Surface Transforms plc, a publically listed manufacturer of carbon ceramic brake discs. He is also a partner in Salusinvest LP that invests and manages a portfolio of medical products businesses. He is Chairman of the Remuneration Committee.

### David Hurst-Brown\*

Appointed a Director on 14 September 2005

Having graduated as a Production Engineer he worked for over 25 years in the investment banking industry. Prior to his retirement from UBS in 2002 he had worked for 15 years as an executive in the corporate finance division of UBS Warburg. Presently he is a non executive of Anite Plc, Imagination Technologies Plc, Flastfill Plc, Hargreave Hale AIM VCT and Keydata Income VCT. He is Chairman of the Audit Committee and has been nominated the Senior Independent Director under the Combined Code on Corporate Governance.

### Nicholas Ross

Appointed a Director on 14 September 2005

He is a founding member of Acuity Capital LLP, prior to the Management buy-out he had been at Electra Quoted Management since 1993. Previously he had several years in investment analysis and fund management. He has been responsible for the launch of the three Acuity Capital VCT funds. He is a Managing Partner of Acuity Capital LLP and a Director of Acuity Capital and all three Acuity VCT funds. He also sits on a number of investee company boards.

\* Member of the Audit, Remuneration and Nomination Committees

# Accounts Report of the Directors

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## To the Members of Acuity VCT 3 Plc

The Directors present the audited accounts of the Company for the year ended 30 September 2010 and their Report on its affairs

## Investment Company Status

Throughout the year under review the Company was an investment company as defined under Section 833 of the Companies Act 2006

## VCT Status

HM Revenue and Customs has granted the Company approval under Section 274 of the Income Tax Act 2007 (ITA 2007) 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

A review of the Company's Objective and Investment Strategy is detailed on page 2

### Current and Future Development

A review of the main features of the year is contained in the Chairman's Statement and the Investment Manager's Review on pages 5 and 6 respectively

The Board of the Company has decided to appoint another Investment Manager to manage the Fund and subject to contract this will take effect after the issue of this Report and Accounts of the Company

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 an investment process and on factors which may have an impact on this approach. Due regard is given to the marketing and promotion of the Company, including effective communication with shareholders and other external parties

## Performance

A detailed review of performance during the year under review is contained in the Investment Manager's Review on page 6

A number of performance measures are considered by the Board and 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 the Financial Highlights on page 4 and through a graph comparing the Company's total return on a share price and net asset value basis over the period since shares were first issued with the FTSE All-Share Index total return over the same period as set out in the Directors' Remuneration Report on page 23

## Risk Management

Since the Company is flexible with regard to those areas in which it invests, it aims to achieve a significant degree of diversification and to spread risk by investing in unquoted, PLUS traded and AIM quoted companies. In addition, there is no emphasis on any particular industry sector and even the non qualifying investments have quite a high level of in built diversification. The Company is restricted to investing no more than 15% of the value of its total assets at the time of investment in any one individual qualifying investment or non qualifying investment

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

In addition the Company is also focused on the following risks

### Macroeconomic risks

The performance of the Company's underlying investment portfolio is principally influenced by a combination of economic growth, interest rates, the availability of well priced debt finance, the number of active trade and private equity buyers and the level of merger and acquisition activity. All of these factors have an impact on the Company's ability to invest and on the Company's ability to exit from its underlying portfolio or on the levels of profitability achieved on exit

### Long-term strategic risk

The Company is subject to the risk that its long term strategy and its level of performance fails to meet the expectations of its shareholders. The Company constantly monitors the level of discount of its Net Asset Value to its share price and considers the most effective methodologies to keep this at a minimum including its share buy back policy

In addition the Company regularly reviews its Objectives and Investment Strategy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders

### Government policy and regulation risk

The Company carries on business as a VCT under section 274 of the Income Tax Act 2007 (ICTA 2007). Continuation of this status is

# Accounts Report of the Directors

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subject to the Company directing its affairs in line with the relevant requirements of the legislation. Anticipated and actual changes in government policy and related tax treatment of VCTs are closely monitored, as are other changes which could affect results of operations or financial position.

Acuity Capital is an authorised person under the Financial Services and Markets Act 2000 and regulated by the FSA. Changes to the regulatory framework under which Acuity Capital operates are closely monitored and reported upon as necessary by Acuity Capital to the Company.

## Investment risks

The Company operates in a very competitive market. Changes in the number of market participants, the availability of funds within the market, the pricing of assets, or in the ability of its Investment Manager to access deals on a proprietary basis, could have a significant effect on the Company's competitive position and on the sustainability of returns.

In order to source and execute good quality investments the Company is primarily dependent on Acuity Capital having the ability to attract and retain people with the requisite investment experience and whose compensation is in line with the Company's objectives.

Once invested, the performance of the Company's portfolio is dependent upon a range of factors. These include but are not limited to: (i) the quality of the initial investment decision described above, (ii) the ability of the portfolio company to execute its business strategy successfully, and (iii) actual outcomes against the key assumptions underlying the portfolio company's financial projections. Any one of these factors could have an impact on the valuation of a portfolio company and upon the Company's ability to make a profitable exit from the investment within the desired timeframe.

A rigorous process is put in place by Acuity Capital for managing the relationship with each investee company for the period prior to anticipated realisation. This includes regular asset reviews and, in many cases, board representation by one of Acuity Capital's executives.

The Company reviews both the performance of Acuity Capital and its incentive arrangements on a regular basis to ensure that both are appropriate to the objectives of the Company. As part of this process the Board has concluded that the best interests of Shareholders are served by appointing a new Investment Manager.

## Operational risks

The Company's investment management, custody of assets and all administrative systems are provided or arranged for the Company by Acuity Capital. Therefore the Company is exposed to a range of operational risks at Acuity Capital which can arise from

inadequate or failed processes, people and systems or from external factors affecting these.

The Company's system of internal control mainly comprises the monitoring of the services provided by Acuity Capital, including the operating controls established by them to ensure they meet the Company's business objectives, as discussed further in the Corporate Governance Statement on page 19.

## Share Capital

The current authorised share capital of the Company is £600,000 divided into 60,000,000 ordinary shares of 1p each. The ordinary shares have voting rights attached, holders are entitled to receive notice of and attend shareholder meetings and to receive dividends once declared and approved. The other rights and obligations attaching to the ordinary shares are set out in the Company's Articles of Association.

## Authority to make Market Purchases of Shares

At the Annual General Meeting of the Company held on 3 March 2010 authority was given to make market purchases of up to 5,208,544 of the Company's issued ordinary share capital.

The Company does not hold any shares in treasury.

Accordingly, at 30 September 2010 authority remained to purchase a further 4,484,245 ordinary shares.

At 30 September 2010, a total of 34,337,164 ordinary shares of 1p each of the Company were in issue.

A Special Resolution will be proposed at the Annual General Meeting to renew, for one year, the Board's authority to buy up to 3,433,716 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 do not intend to use this authority to purchase shares unless this would result in an increase in the net asset value per share and would be in the best interests of shareholders generally. The Directors recommend shareholders to vote in favour of this Special Resolution.

## Results and Dividend

Revenue (losses)/returns attributable to shareholders amounted to £(347,000) (2009: £139,000). Capital losses attributable to shareholders amounted to £(7,696,000) (2009: £(3,780,000)). The Directors do not recommend the payment of a final dividend in respect of the year ended 30 September 2010.



# Accounts Report of the Directors

## Directors

The current Directors of the Company are listed on page 13. Mr SR Stradling, Mr D Hurst-Brown, Mr KA D'Silva and Mr NRW Ross all served as Directors throughout the year ended 30 September 2010. No other person was a Director of the Company during any part of the year under review. Mr N Ross and Mr K D'Silva will retire at the Annual General Meeting in 2011 and, being eligible, Mr K D'Silva will offer himself for re-election. Mr N Ross will not offer himself for re-election. Short biographical details of all the Directors are provided on page 14. Following performance appraisals of all of the Directors, details of which are to be found in the Corporate Governance Statement on page 19, the Board considers that the performance of each Director retiring at the Annual General Meeting and offering himself for re-election continues to be effective and that each Director continues to show commitment to his role. Accordingly, the Board recommends that those Directors retiring at the Annual General Meeting in 2011 and offering themselves for re-election be re-elected.

## Directors' Interests

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

No Director bought or sold any ordinary shares of the Company during the year under review. There have been no changes in the interests of any of the Directors in the ordinary shares of the Company between 1 October 2010 and 28 January 2011. No options over ordinary shares in the capital of the Company have been granted to the Directors.

	30 September 2010 Ordinary Shares of 1p each	1 October 2009 Ordinary Shares of 1p each
SR Stradling	51,500	51,500
KA D'Silva	10,300	10,300
D Hurst-Brown	25,750	25,750
NRW Ross**	51,600	51,600

\*\* NRW Ross also has an interest in £25,575 (2009: £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 2011.

## Contracts with Directors

No Director has a service contract with the Company. As a result of being a Partner of Acuity Capital LLP, Mr NRW Ross is deemed to have an interest in the Management Contract between the Company and Acuity Capital.

## Directors' and Officers' Liability Insurance

Directors' and Officers' Liability Insurance is maintained on behalf of the Directors in respect of their positions as Directors of the Company.

## Substantial Shareholders

At 28 January 2011 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 re-appoint KPMG Audit Plc as Auditors to the Company will be proposed at the Annual General Meeting in 2011. A separate resolution will be proposed at the Annual General Meeting in 2011 authorising the Directors to fix the remuneration of the Auditors.

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

## Creditor Payment Policy

The Company agrees the terms of payment with its suppliers when agreeing the terms of each agreement. Suppliers are aware of the terms of payment and the Company abides by the terms of payment. The Company's average creditor payment period at 30 September 2010 was one day.

## Investment Manager

In February 2008 Acuity Capital LLP, a limited liability partnership established by the current investment management team, acquired the Company's Investment Manager, Electra Quoted Management Limited. On acquisition Electra Quoted Management changed its name to Acuity Capital Management Limited ("Acuity Capital").

Acuity Capital was the Investment Manager of the Company during the year under review. The Board regularly reviews the performance of the Investment Manager and as a result of its poor performance in the year the Board conducted a beauty parade of alternative Investment Managers and intends to appoint Foresight Group.

## Management Fees and Arrangements

Acuity Capital 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 on

# Accounts Report of the Directors

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investments on funds managed by Acuity Capital 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 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 quartile industry ranking, before any performance fee payment is made. Therefore, if, by the end of a financial year, aggregate 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 a performance fee 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 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 13 of the Financial Statements. At 30 September 2010 there was no amount due under the Incentive Schemes.

## Going Concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company had adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the Company and its ability to meet obligations as they fall due for a period of at least twelve months from the date that these financial statements were approved. As at 30 September 2010 the Company held cash balances and listed investments in Electra Private Equity plc amounting to £1,589,000. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the share buyback programme and dividend policy. The Company has no external loan finance in place and therefore is not exposed to any gearing or covenants.

## Annual General Meeting

The Annual General Meeting of the Company will be held on 2 March 2011. In addition to the ordinary business, the following special business will be considered -

## Authority to Allot Shares Resolution 7

At the Annual General Meeting an Ordinary Resolution will be proposed seeking to renew the authority conferred upon the Directors at the Annual General Meeting held on 2 March 2011 to allot additional shares, up to an aggregate nominal amount of £115,199.17 representing one third of the nominal value of the issued share capital of the Company at the date of this Directors' Report. 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 2012. The Directors recommend shareholders to vote in favour of this Ordinary Resolution.

## Authority to Disapply Pre-emption Rights Resolution 8

A Special Resolution will be proposed at the Annual General Meeting seeking to renew the authority conferred upon the Directors at the Annual General Meeting held on 2 March 2010 to issue equity securities of the Company for cash without the application of the pre-emption rights provided by the Companies Act 2006. 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 nominal value of the issued ordinary share capital of the Company shown in the accounts for the year ended 30 September 2010. The Directors' authority will expire at the conclusion of the Company's Annual General Meeting in 2012. The Directors recommend shareholders to vote in favour of this Special Resolution.

## Authority to Make Market Purchases of Shares Resolution 9

As set out in the Chairman's Statement, in the interest of all the Company's shareholders the Board has decided to suspend the Company's buy back programme temporarily because of the exceptional economic circumstances. Nevertheless the Board wishes to have in place the authority to purchase the Company's own shares so that the buy back programme can be re-instated as and when conditions permit. Accordingly, a Special Resolution will be proposed to renew, for one year, the Board's authority to buy up to 3,433,716 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 immediately prior to the passing of the resolution, subject to the constraints set out in the Special Resolution. Should any shares be purchased under this authority, it is the intention of the Board that such shares be cancelled and not held as treasury shares.

The Directors do not intend to use this authority to purchase shares unless this would result in an increase in the net asset value per share and would be in the best interests of shareholders generally. The Directors recommend shareholders to vote in favour of this Special Resolution.

# Accounts Report of the Directors

## Corporate Governance

The Directors confirm that during the year under review the Company has complied with Section 1 of the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in 2008

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

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

Director	Board Meetings		Audit Meetings		Remuneration Committee		GM	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Stradling	3	3	2	2	1	1	1	1
D Hurst-Brown	3	3	2	2	1	1	1	1
K D'Silva	3	3	2	2	1	1	1	1
N Ross	3	3	2	2	1	1	1	1

## The Board of Directors

The Board, which meets regularly, comprised four Directors at 30 September 2010, all of whom were non executive

Acuity Growth VCT Plc is also managed by Acuity Capital and Mr NRW Ross is one of its Directors. The Board has particularly considered the independence of each Director in light of the Code's provisions on that subject

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

The Board has agreed a schedule of matters reserved for its specific approval, which includes a regular review of the Company's Management Agreement with Acuity Capital, together with the monitoring of the performance thereunder. As such the board have conducted a beauty parade with the intention of changing the Investment Manager. The Management Agreement sets out the matters over which Acuity Capital 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 14

## Performance Appraisal

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

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

## Re-election of Directors

In accordance with the Code's provisions and the Company's Articles, Mr K D'Silva and Mr N Ross will retire at the Annual General Meeting to be held in 2011 and Mr D'Silva will offer himself for re-election. Mr N Ross will not offer himself for re-election

## Independent Professional Advice

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

## The Audit Committee

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

# Accounts Report of the Directors

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## 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 Acuity Capital 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. 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 Acuity Capital provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

## The Remuneration Committee

During the year under review the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross, with Mr KA D'Silva as Chairman of the Committee. The Committee met once during the year. It was agreed for there to be no change in salaries. The Committee has written terms of reference which are available on Acuity Capital's website. Full details of its role are set out in the Directors' Remuneration Report.

## The Nomination Committee

The Nomination Committee meets on an ad hoc basis to consider suitable candidates for appointment as Director. It comprises all the Directors apart from Mr NRW Ross, with Mr S Stradling as

Chairman of the Committee. It was not necessary to hold any meeting of the Committee during the course of this year. The Committee has written terms of reference which are available on Acuity Capital's website. The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill board vacancies to maintain a balanced Board. Letters of appointment, which specify the terms of appointment, are issued to new Directors.

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

## Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee and which includes being briefed fully about the Company by the Chairman and senior executives of Acuity Capital. 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

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 21 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 level of proxies lodged for each resolution is announced at the Meeting and is published on Acuity Capital's website.

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

## Internal Control

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

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

The Board is responsible for the Company's system of internal control and it has reviewed its effectiveness for the year ended 30 September 2010. The system of internal control is designed to

## Accounts Report of the Directors

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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 Acuity Capital, the Company's system of internal control mainly comprises the monitoring of services provided by Acuity Capital, 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 monitoring of all large investments
- Management Agreements – The Board regularly monitors the performance of Acuity Capital 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 – Acuity Capital's system of internal control includes clear lines of responsibility, delegated authority, control procedures and systems. Acuity Capital's compliance department monitors compliance with the Financial Services Authority rules

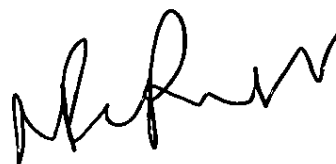
The Board keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of key controls of Acuity Capital as follows

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

Acuity Capital'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. Acuity Capital's voting policy has been reviewed and endorsed by the Board.



Acuity Capital Management Limited  
Secretary  
Registered Office  
Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB  
28 January 2011

# Accounts Statement of Director' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements

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The Directors are responsible for preparing the Annual 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 they have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK 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 these 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 whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

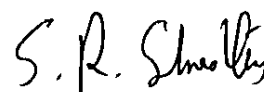
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Management Company's website, relating to Acuity VCT 3 PLC. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The accounts of the Company are published on [www.acuitycapital.co.uk](http://www.acuitycapital.co.uk) which is a website maintained by the Company's Investment Manager, Acuity Capital.

In accordance with the FSA's Disclosure and Transparency Rules, the Directors confirm to the best of their knowledge that

- (a) the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- (b) the Report of the Directors includes a fair review of the development and performance of the business and position of the Company together with a description of the principal risks and uncertainties that it faces.

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



28 January 2011

# Accounts Directors' Remuneration Report

The Directors submit this report in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. An Ordinary Resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such.

## Remuneration Committee

During the year under review the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross. Mr KA D'Silva was Chairman of the Remuneration Committee throughout the year.

The Committee met once during the year. The current annual fee rates are £20,000 for the Chairman and Mr David Hurst-Brown and £15,000 for the other Directors, apart from Mr NRW Ross who receives no remuneration from the Company. The Company has not been provided with advice or services by any person in respect of Directors' remuneration during the year.

## Policy on Directors' Remuneration

In accordance with the Articles of Association of the Company, the aggregate remuneration of the Directors may not exceed £100,000 per annum or such higher amount as may from time to time be determined by an Ordinary Resolution of the Company. Subject to this overall limit, the Remuneration Committee's policy is that remuneration of non-executive Directors should be sufficient to attract and retain the Directors needed to oversee the Company and reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2011 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.

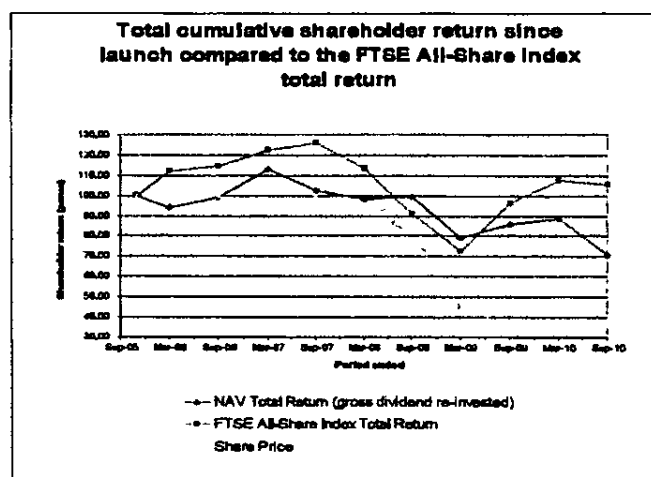
## Performance Graph

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.

## Acuity VCT 3 Share Price Total Return v Acuity VCT 3 Net Asset Value v FTSE All Share Index (Total Return)



## Directors' Remuneration for the Year (audited)

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

	For the year ended 30 September 2010	For the year ended 30 September 2009
	£'000	£'000
SR Stradling (Chairman & Joint highest paid Director)	20	20
D Hurst Brown (Joint highest paid Director)	20	20
KA D'Silva	15	15
NRW Ross		
<b>Total</b>	<b>55</b>	<b>55</b>

As a current executive of Acuity Capital, NRW Ross has an interest in the Management Contract between the Company and Acuity Capital and also holds loan notes. NRW Ross has waived his right to receive a salary in the Company.

By order of the Board of Directors  
Mr KA D'Silva  
Chairman of the Remuneration Committee  
Registered Office: Paternoster House, 65 St Paul's Churchyard,  
London, EC4M 8AB  
28 January 2011

# Accounts Directors' Remuneration Report

The Directors submit this report in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. An Ordinary Resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting. The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such.

## Remuneration Committee

During the year under review the Remuneration Committee comprised all the Directors of the Company other than the Chairman of the Board and Mr NRW Ross. Mr KA D'Silva was Chairman of the Remuneration Committee throughout the year.

The Committee met once during the year. The current annual fee rates are £20,000 for the Chairman and Mr David Hurst-Brown and £15,000 for the other Directors, apart from Mr NRW Ross who receives no remuneration from the Company. The Company has not been provided with advice or services by any person in respect of Directors' remuneration during the year.

## Policy on Directors' Remuneration

In accordance with the Articles of Association of the Company, the aggregate remuneration of the Directors may not exceed £100,000 per annum or such higher amount as may from time to time be determined by an Ordinary Resolution of the Company. Subject to this overall limit, the Remuneration Committee's policy is that remuneration of non executive Directors should be sufficient to attract and retain the Directors needed to oversee the Company and reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2011 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.

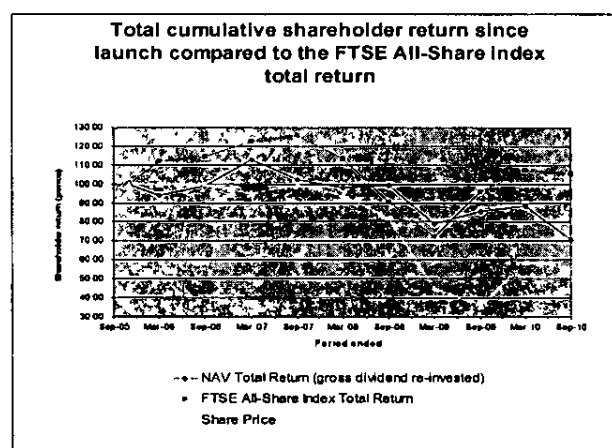
## Performance Graph

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.

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



## Directors' Remuneration for the Year (audited)

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

	For the year ended 30 September 2010	For the year ended 30 September 2009
	£'000	£'000
SR Stradling (Chairman & joint highest paid Director)	20	20
D Hurst Brown (joint highest paid Director)	20	20
KA D Silva	15	15
NRW Ross		
<b>Total</b>	<b>55</b>	<b>55</b>

As a current executive of Acuity Capital, NRW Ross has an interest in the Management Contract between the Company and Acuity Capital and also holds loan notes. NRW Ross has waived his right to receive a salary in the Company.

## By order of the Board of Directors

Mr KA D'Silva

Chairman of the Remuneration Committee

Registered Office: Paternoster House, 65 St Paul's Churchyard,  
London, EC4M 8AB

28 January 2011



# Accounts Independent Auditors' Report

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## Independent Auditors' Report to the Members of Acuity VCT 3 Plc

We have audited the financial statements of Acuity VCT 3 Plc for the period ended 30 September 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web site at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

## Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

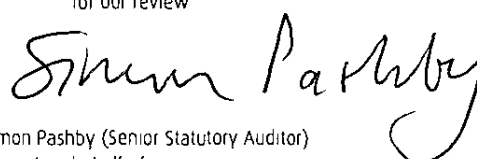
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review

- the directors' statement, set out on page 18, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



Simon Pashby (Senior Statutory Auditor)  
for and on behalf of  
KPMG Audit Plc,  
Statutory Auditor  
Chartered Accountants  
Edinburgh  
28 January 2011

## Accounts Income Statement

		For the year ended 30 September 2010			For the year ended 30 September 2009		
	Notes	Revenue £'000	Capital £ 000	Total £ 000	Revenue £ 000	Capital £ 000	Total £'000
Realised losses on investments sold	9	-	(1,328)	(1,328)	-	(1,154)	(1,154)
Investment holding losses	9	-	(6,111)	(6,111)	-	(2,332)	(2,332)
Income	1	130	-	130	670	-	670
Recoverable VAT		-	-	-	33	98	131
		130	(7,439)	(7,309)	703	(3,388)	(2,685)
Investment management fees	2	(133)	(398)	(531)	(185)	(556)	(741)
Other expenses	3	(275)	141	(134)	(297)	124	(173)
		(408)	(257)	(665)	(482)	(432)	(914)
Return/(Loss) on Ordinary Activities before interest and taxation		(278)	(7,696)	(7,974)	221	(3,820)	(3,599)
Finance cost	4	(69)	-	(69)	(42)	-	(42)
Return/(Loss) on Ordinary Activities before taxation		(347)	(7,696)	(8,043)	179	(3,820)	(3,641)
Tax on ordinary activities	6	-	-	-	(40)	40	-
Net Return/(Loss) on Ordinary Activities after taxation		(347)	(7,696)	(8,043)	139	(3,780)	(3,641)
Basic and Diluted (Loss)/Return to Shareholders per Ordinary Share	7	(10p)	(22.2p)	(23.2p)	0.4p	(10.8)p	(10.4)p

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

The information on pages 29 to 42 from part of these financial statements

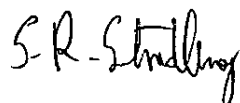
# Accounts Balance Sheet

		For the year ended 30 September 2010 £'000	For the year ended 30 September 2009 £'000
<b>Fixed Assets</b>			
Investments held at fair value	9	19,428	27,731
<b>Current Assets</b>			
Debtors	10	1,494	1,159
Cash at bank		781	1,826
		2,275	2,985
<b>Current Liabilities</b>			
Creditors' amounts falling due within one year	11	(114)	(297)
		(114)	(297)
<b>Net Current Assets</b>		2,161	2,688
<b>Total Assets less current liabilities</b>		21,589	30,419
Creditors' amounts falling due after more than one year	12	(324)	(454)
<b>Net Assets</b>		21,265	29,965
<b>Capital and Reserves</b>			
Called-up share capital	14	344	350
Share Premium	15	89	-
Capital Redemption Reserve	15	7	
Special reserve	15	31,160	31,907
Capital reserve	15	(10,649)	(2,953)
Revenue reserve	15	314	661
<b>Total Equity Shareholders' Funds</b>		21,265	29,965
<b>Net Asset Value per Ordinary Share</b>	16	61.9p	85.7p
		As at 30 September 2010	As at 30 September 2009
Number of Ordinary Shares in issue at end of year		34,337,164	34,956,673

The information on pages 29 to 42 forms part of these Financial Statements

The Financial Statements on pages 25 to 42 were approved and authorised for issue by the Board of Directors on 28 January 2011 and were signed on their behalf by

S Stradling  
Chairman



## Accounts Cash Flow Statement

	Notes	For the year ended 30 September 2010 £'000	For the year ended 30 September 2009 £'000
<b>Operating Activities</b>			
Investment income received		29	215
Bank deposit interest received		1	1
Recoverable VAT			140
Investment management fees paid		(711)	(584)
Other cash payments		(371)	(337)
<b>Net Cash (Outflow) from Operating Activities</b>	17	(1,052)	(565)
<b>Investing Activities</b>			
Purchase of investments		(3,573)	(5,167)
Sales of investments		4,437	4,969
Cash held in escrow pending investment		(200)	(445)
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>		664	(643)
<b>Equity Dividends Paid</b>		(350)	-
<b>Cash Outflow before Financing and Management of Liquid Resources</b>		(738)	(1,208)
<b>Management of Liquid Resources</b>			
Sale of current asset investments		-	630
<b>Net Cash Inflow from Management of Liquid Resources</b>		-	630
<b>Financing</b>			
Issue of shares		90	
Share issue expenses		-	
Repurchase of shares		(397)	
<b>Net Cash Outflow from Financing</b>		(307)	-
<b>Decrease in Cash for the Period</b>	18	(1,045)	(578)

## Accounts Reconciliation of Movements in Shareholders' Funds

	For the year ended 30 September 2010 £'000	For the year ended 30 September 2009 £ 000
Total Return on ordinary activities after taxation	(8,043)	(3,641)
Repurchase of ordinary shares	(397)	
Shares issued during the year	90	
Dividend payment	(350)	
<b>Movements in Total Shareholders' Funds</b>	<b>(8,700)</b>	<b>(3,641)</b>
Total Shareholders Funds as at 1 October	29,965	33,606
<b>Total Shareholders' Funds at the end of the period</b>	<b>21,265</b>	<b>29,965</b>

# Accounts Statement of Accounting Policies

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## Basis of Accounting

The accounts are prepared on a going concern basis and on the historical cost basis of accounting, modified to include the revaluation of fixed asset investments, in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for Investment Trust Companies and Venture Capital Trusts issued by the Association of Investment Companies in December 2005 and revised in January 2009 (the "SORP")

In order to reflect the activities of an investment company, supplementary information which analyses the financial statements between items of a revenue and capital nature has been presented alongside the financial statements. In analysing total income between capital and revenue returns, the Directors have followed the guidance contained in the SORP

The management fee is allocated between revenue and capital in accordance with the Board's expected long term split of returns, and other expenses are charged to capital only to the extent that a clear connection with the maintenance or enhancement of the value of investments can be demonstrated

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

## Investments

Purchases and sales of quoted investments are recognised on the trade date where a contract exists whose terms require delivery within a timeframe determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional. Investments are designated at fair value through profit and loss on initial recognition (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 bid market prices on the balance sheet date without discount.

### 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 September 2009. 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. 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 appropriate prudence in applying the various methodologies.

As part of the valuation process, the proposed valuations are reviewed by the independent members of the Investment Committee before being examined by the auditors and then approved by the Directors.

### 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, but not exclusively, 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, Tax and Depreciation 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 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. Unquoted investments may be subject to an impairment adjustment to valuation where necessary.

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,

## Accounts Statement of Accounting Policies

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- 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 discount

In terms of the discount, this will normally be in the range of 10-30% (in steps of 5%) applied to the comparable multiple of the company

The amount of the 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 smaller discount will 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 an effective interest rate basis. 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 expected split of returns from the investment portfolio of the Company. Incentive fees are fully charged to the capital account. The incentive fee on realisations 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. Gains and losses arising from changes in fair value are considered to be realised only to the extent that they are readily convertible to cash in full at the balance sheet date. Otherwise Gains and Losses are treated as unrealised.

### 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 274 of the Income Tax Act 2007 (ITA 2007), no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are 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 Statement of Accounting Policies

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## Foreign Currency

The Company does not hold any assets or liabilities denominated in foreign currencies at the year end

## Trail Commission

The fair value of trail commission payable on new share issues is estimated on the date the new shares are issued based on the net asset value of the trust at that time, an estimate of annualised growth in NAV over the life of the contract and an appropriate discount rate. Subsequent to initial recognition, changes in the value of the creditor arising through the unwinding of the discount rate are recognised in the revenue column of the Income Statement and movements in the value of the creditor resulting from changes in assumptions are recognised in the capital column of the Income Statement



## Accounts Notes to the Accounts

1	Income	For the year ended 30 September 2010 £'000	For the year ended 30 September 2009 £'000
	Franked investment income*	28	25
	Income from Liquidity Funds*	-	1
	Unfranked investment income*	101	634
	Interest from bank deposits#	1	1
	Interest on VAT Rebate from HMRC#		9
		130	670

\* Denotes income arising from investments designated as fair value through profit or loss on initial recognition

# Denotes income arising on financial assets not designated as fair value through profit or loss

2)	Investment Manager's Fees	For the year ended 30 September 2010			For the year ended 30 September 2009		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
	Acuty Capital	133	398	531	185	556	741

Acuty Capital also received an administration fee of £67,000 (2009: £68,000), net of VAT which increases or decreases each year in line with RPI. The administration fee is included in the administration expenses of £172,000 (2009: £146,000) in Note 3.

3)	Other Expenses	For the year ended 30 September 2010 £'000	For the year ended 30 September 2009 £'000
	Directors' remuneration	55	55
	Employer's NIC	5	8
	Audit		
	KPMG	24	18
	Auditors' fees -- non-audit		
	KPMG Other services	2	
	Legal fees	5	9
	Re-estimation of Trail Commission creditor	(141)	(124)
	Recharge of non-recoverable VAT from ACML	-	50
	Administration expenses	184	157
		134	173

In addition to the audit fees above, an amount of £3,000 was settled by Acuty Capital in relation to the period to 30 September 2009.

## Accounts Notes to the Accounts

4) Finance Cost	As at 30 September 2010	As at 30 September 2009
	Total	Total
	£'000	£'000
Deferred trail commission expense amortisation	69	42
	69	42

Details of Directors' remuneration are shown in the table in the "Directors Remuneration for the year (audited)" section of the Directors' Remuneration Report on page 23

The Company had no employees or employee costs in 2010. Enil (2009: Enil)

6) Taxation on Ordinary Activities	For the year ended 30 September 2010	For the year ended 30 September 2009
	£'000	£'000
Analysis of charge in the year:		
Current tax:		
UK Corporation tax at 21% (2009: 21%)		
Total Current Tax		
Factors affecting tax charge for the year:		
Total return on ordinary activities before tax	(8,043)	(3,641)
Total Return multiplied by corporate tax rate	(1,689)	(765)
Effects of:		
Dividend income not subject to tax	6	(5)
Expenses not deductible for tax purposes	(14)	(17)
Losses on investments	1,562	732
Unutilised tax losses arising in the year	135	55
Total Current Tax		

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 2010 (2009: nil).

There has been no recognition of a deferred tax asset of £92,000 (2009: £68,000) as the Directors do not anticipate there being future taxable profits in excess of the deductible expenses and accordingly the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses.

7) Return per Ordinary Share	
The revenue return per ordinary share is based on the net (loss)/revenue from ordinary activities after taxation of (£347,000) (2009: £139,000) and on 34,614,246 (2009: 34,956,673) ordinary shares, being the weighted average number of ordinary shares in issue during the year.	
The capital return per ordinary share is based on net capital losses of £7,696,000 (2009: £3,780,000) and on 34,614,246 (2009: 34,956,673) ordinary shares, being the weighted average number of ordinary shares in issue during the year.	
The total return per ordinary share is based on the net deficit from ordinary activities after taxation of (£8,043,000) (2009: £3,641,000) and on 34,614,246 (2009: 34,956,673) ordinary shares, being the weighted average number of shares in issue during the year.	
There is no difference between the basic and diluted return per ordinary share because the Company has no potentially dilutive shares in issue.	

## Accounts Notes to the Accounts

### 8) Dividend

Ordinary Shares	Revenue £ 000	As at 30 September 2010		Revenue £ 000	Capital £ 000	As at 30 September 2009	
		Capital £ 000	Total £ 000			Total £ 000	

Recognised as distribution in the financial statements  
for the year

First interim paid 10p (2009 10p) per share 350 350

350 350

Ordinary Shares	Revenue £ 000	As at 30 September 2010		Revenue £ 000	Capital £ 000	As at 30 September 2009	
		Capital £ 000	Total £ 000			Total £ 000	

Paid and proposed in respect of the period

First interim paid 0p (2009 10p) per share 350 350 350 350

350 350 350 350

## Accounts Notes to the Accounts

### 9 Investments

#### Ordinary Shares

	Qualifying Investments		Non qualifying Investments		Total
	Level 3	Level 1	Level 2	Level 1	
	Unlisted £'000	Traded on AIM £'000	Open-ended Investment Company £'000	Closed ended Investment Company £'000	£'000
Cost at 1 October 2009	20,061	3,147	218	3,847	27,273
Investment holding gains/(losses) at 1 October 2009	2,292	(1,603)	5	(236)	458
Valuation at 1 October 2009	22,353	1,544	223	3,611	27,731
Purchases at cost	3,573				3,573
Proceeds from sale	(1,420)			(3,017)	(4,437)
Realised gains/(losses) in year	(1,457)			129	(1,328)
Unrealised losses realised during the year	(3,388)	-	-	(189)	(3,577)
Investment holding (losses)/gains in year	(2,505)	(299)	(4)	274	(2,534)
Valuation at 30 September 2010	17,156	1,245	219	808	19,428
Cost at 30 September 2010	17,369	3,147	218	770	21,504
Investment holding (losses)/gains at 30 September 2010	(213)	(1,902)	1	38	(2,076)
Valuation at 30 September 2010	17,156	1,245	219	808	19,428

## Accounts Notes to the Accounts

### 9 Investments (cont.)

The purchases and sales proceeds figures above include transaction costs of £nil (2009: £nil) and £6,000 (£2,000) respectively.

The gains and losses included in the above table have all been recognised in the Income Statement on page 25.

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 - investment prices quoted in an active market

Level 2 - investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices

Level 3 - investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data

The Standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company such as visibility of earnings streams and marketability discounts. The portfolio has been reviewed and both downside and upside reasonable possible alternatives have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives the value of the unquoted investments would be £1.4 million or 7.3% lower. Using the upside alternative the value would be increased by £2.0 million or 10.2%.

	2010 £'000	2009 £'000
Level 1		
Traded on FTSE	808	3,611
Traded on AIM	1,245	1,544
	2,053	5,155
Level 2 - OEIC	219	223
Level 3		
Unquoted investments	17,156	22,353
	19,428	27,731
Equity shares	6,741	15,766
Loan notes/preference shares	12,687	11,965
	19,428	27,731

## Accounts Notes to the Accounts

### 10 Debtors

	2010 £' 000	2009 £' 000
Amounts receivable within one year		
Investment Manager's loan interest	26	26
Amounts held in escrow awaiting investment	200	
Debtor due from ACML	34	
Amounts receivable after one year		
Accrued income	1 234	1 133
	1 494	1 159

### 11 Creditors amounts falling due within one year

	2010 £' 000	2009 £' 000
Due to Acuity Capital	16	198
Trail Commission Payable	54	69
Other creditors	44	30
	114	297

### 12 Creditors amounts falling due after one year

	2010 £' 000	2009 £' 000
Trail Commission Payable	248	378
Unsecured 3.75% Loan Notes	76	76
At 30 September 2009	324	454

## Accounts Notes to the Accounts

### 13 Significant Interests

At 30 September 2010 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
	£'000	£'000	£'000	%
Future Noise	19	1,229	1,248	37.04%
Loseley Dairy Ice Cream Ltd	293	1,605	1,898	26.20%
Factory Media	193	1,732	1,925	24.99%
Munro Global	162	1,453	1,615	24.79%
Fin Machine Company	215	3,045	3,260	19.50%
Connect 2 Play	2,250		2,250	17.45%
Brand Acquisitions	200	1,700	1,900	16.63%
Red Reel Media Ltd	309	1,179	1,488	14.41%
Defaqto	129	1,157	1,285	8.46%
Mount Engineering	759		759	32.4%

## Accounts Notes to the Accounts

### 14 Called Up Share Capital

	Number	2010 £'000	Number	2009 £'000
<b>Authorised</b>				
Ordinary Shares of 1p each	60 000 000	600	60 000 000	600
<b>Issued</b>				
At 1 October 2009	34,956,673	350	34 956 673	350
Ordinary Shares of 1p each repurchased during the year	(724 299)	(7)		
New issue of shares	104,790	1		
<b>As at 30 September 2010</b>	<b>34 337 164</b>	<b>344</b>	<b>34 956 673</b>	<b>350</b>

### 15 Reserves

	Share Premium (Non distributable)	Special Reserve (Distributable)	Capital Reserve (Non distributable)	Capital Redemption Reserve (Non distributable)	Revenue Reserve (Distributable)
As at 1 October 2009		31 907	(2 953)		661
Shares issued during the year	89				
Ordinary shares repurchased during the year		(397)		7	
Profit/(loss) on disposal of investment			(1,328)		
Investment holding losses			(6,111)		
Investment management fees charged to capital account (net of tax and VAT recoverable)			(398)		
Re estimation of trail commission creditor charged to capital account			141		
Retained loss for the year					(347)
Dividends paid		(350)			
<b>Valuation at 30 September 2010</b>	<b>89</b>	<b>31 160</b>	<b>(10 649)</b>	<b>7</b>	<b>314</b>

During the year ended 30 September 2007, the Company received court approval to cancel its Share Premium. The resulting special reserve can be used for the payment of dividends and the repurchase of Ordinary Shares.



# Accounts Notes to the Accounts

## 16 Net Asset Value per Ordinary Share

Net asset value per ordinary share is based on net assets at 30 September 2010 of £21 265 000 (2009 £29 965 000) and on 34 337 164 (2009 34 956 673) ordinary shares being the number of ordinary shares in issue on that date

## 17 Reconciliation of Net Revenue on Ordinary Activities Before Taxation to Net Cash Outflow from Operating Activities

	At 30 September 2010 £000	At 30 September 2009 £000
Return on ordinary activities before		
finance costs and taxation	(7 974)	(3,599)
(Losses)/gains in investments	7 439	3 486
Non cash movements	(141)	(124)
Increase in debtors	(135)	(436)
Increase/(decrease) in creditors and accruals	(241)	108
Net cash outflow from operating activities	(1 052)	(565)

## 18 Analysis of Changes in Cash

	As at 30 September 2010 £000	As at 30 September 2009 £000
At beginning of period	1 826	2 404
Net cash outflow	(1 045)	(578)
At 30 September	781	1 826

# Accounts Notes to the Accounts

## 19 Financial Instruments

**Market Risk** Market Risk incorporates the possibility for losses and gains from Investments and encompasses interest rate risk and price risk

Investment risk management is governed by the Investment Strategy detailed on page 2 of these accounts and Market Risk is within that process. On a regular basis the Investment Manager monitors the Fund's Market Risk in accordance with policies and procedures documented in the Report of the Directors. The Board meets regularly to review the Fund's market position.

Details of the nature of the Fund's investment portfolio at the balance sheet date can be found on page 9 within the Portfolio Summary. The constituent parts of those investments are set out below.

The investment note Note 9 details the split between listed and unlisted investments which shows that at the balance sheet date 12% was invested in quoted investments (2009 19%). A 5% increase in the bid price of the quoted investments as at the balance sheet date would have increased net assets and the total return for the year by £114,000 (2009 £269,000) and an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount. A 5% increase in the value of unquoted investments held at the Balance Sheet date would have increased net assets and the total return for the year by £858,000 (2009 £1,118,000) an equivalent change in the opposite direction would have reduced net asset and the total return for the year by the same amount.

**Interest Rate Risk** A proportion of the Fund's financial assets are interest bearing, earning a fixed or a variable rate. Therefore, the Fund has exposure to fair value interest rate risk due to fluctuations in the market interest rates.

The interest rate profile of the Company's financial assets as at 30 September 2010 was

	Financial Assets on which no Interest Paid £'000	Fixed Rate Financial Assets £'000	Variable Rate Financial Assets £'000	Total £'000	Weighted Average Interest Rates %	Weighted Average Period for which rate is fixed (Years)
Equity Shares	6,741			6,741		
Non Equity Shares		860		860	8%	
Loan Stock		10,127	1,700	11,827	8%	1.6
Liquidity Funds						
Cash			781	781	0%	
Debtors	1,494			1,494		
<b>Total</b>	<b>8,235</b>	<b>10,987</b>	<b>2,481</b>	<b>21,703</b>		

The only financial liabilities were the unsecured Loan Notes of £76,000 which carry a 3.75% coupon and trail commission creditor of £301,000.

The interest rate profile of the Company's financial assets as at 30 September 2009 was

	Financial Assets on which no Interest Paid £'000	Fixed Rate Financial Assets £'000	Variable Rate Financial Assets £'000	Total £'000	Weighted Average Interest Rates %	Weighted Average Period for which rate is fixed (Years)
Equity Shares	15,766			15,766		
Non Equity Shares		860		860	8%	
Loan Stock		11,105		11,105	8%	3.7
Liquidity Funds						
Cash			1,826	1,826	2%	
Debtors	1,159			1,159		
<b>Total</b>	<b>16,925</b>	<b>11,965</b>	<b>1,826</b>	<b>30,716</b>		

# Accounts Notes to the Accounts

## 19 Financial Instruments (Cont.)

The only financial liabilities were the unsecured Loan Notes of £76,000 which carry a 3.75% coupon and trail commission creditor of £447,000.

**Fixed Rate Assets:** Represent investments with predetermined yield targets. The fixed rate investments are held for the medium term and have a predetermined interest rate, in-line with their risk profile. Therefore a change of 25 basis points in the interest rate at the balance sheet date would not have a significant impact on the company's net assets.

**Variable Rate Assets:** Represent investments with interest rates linked, by formula, to utilisation of funds by investee companies and cash held in interest bearing deposit accounts.

**Credit Risk:** Credit risk is the risk that a counterparty to a financial instrument is unable to discharge an obligation or commitment entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is monitored on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

Credit Risk	2010 £'000	2009 £'000
Investments in fixed interest instruments	10,987	11,965
Investments in variable interest instruments	1,700	
Cash	781	1,826
Interest, dividends and other receivables	1,494	1,159

Credit risk on fixed interest instruments which are solely comprised of loan stock is part of the Company's venture capital procedures and are managed within the main investment management procedures.

All the assets of the Company which are traded on a recognised exchange are held in a secured facility on site. This mitigates the risk of a third party custodian going into liquidation or becoming bankrupt.

**Liquidity risk:** The liquidity risk is that the Company might encounter difficulty in meeting its obligations arising from holding financial instruments.

The Company's financial instruments also include investments in unlisted equity investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager as presented in the Report of the Directors.

The Company maintains sufficient investments in cash to pay all accounts payable and accrued expenses as they become due.

## 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 2010.

## 22 Transactions with the Investment Manager

During the year ended 30 September 2010, £778,000 was payable (2009: 809,000) to Acuity Capital, the Investment Manager. At 30 September 2010, the Company was owed £35,000 by the Investment Manager.