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Baronsmead VCT 3 plc

2002

Annual report & accounts
for the year ended
31 December 2002

Investment Objective

Baronsmead VCT 3 is a tax efficient listed company which aims to achieve long-term capital growth and generate tax free dividends for private investors.

Investment Policy

To establish a diverse portfolio of more than 30 investments comprising:

- Larger unquoted companies, typically as lead investor and alongside institutional investors, which do not offer the same tax benefits to their shareholders as a VCT.
- Technology-enabled companies.

Contents

Financial Highlights

Net asset value increased to 94.85 pence per share

Total return of 5.4 per cent since launch

Portfolio grown to 21 companies

Total dividends of 2.80 pence per share for the year

Baronsmead VCT 3 NAV and NAV Total Return since launch against the FTSE All-Share Index Total Return

Performance Summary

	31 December 2002	31 December 2001	% change
Ordinary Share – capital values			
Net asset value	**94.85p**	93.85p	1.1
Share price	**85.50p**	88.00p	(2.8)
Discount	**(9.9%)**	(6.2%)	
Net asset value total return since launch (note 1)	**5.4%**	1.2%	
Total assets less current liabilities	**£32.1m**	£31.1m	

(note 1) Net asset value total return assuming gross dividends re-invested.

	Year to 31 December 2002	22 November 2000 to 31 December 2001	% change
Revenue and dividends			
Earnings per Ordinary Share	**2.85p**	2.52p	13.1
Dividends per Ordinary Share	**2.80p**	2.30p	21.7

Chairman's Statement

When I last wrote to you in August 2002, markets were signalling difficult times ahead. Since then Government finances have worsened, taxes are rising and consumer spending is showing signs of easing. War in Iraq is a distinct possibility and corporate pension schemes will come under increased scrutiny. This is an environment that does not normally lead to the anticipation of increased company profits and dividends, which are necessary for improved market conditions. However in this adverse climate we still have the advantage of significant cash balances and an initial well-diversified portfolio. Since launch, almost two years ago, a positive return has been achieved and the relative performance has been strong.

Mark Cannon Brookes
Chairman

Results

During the year to 31 December 2002, the NAV per share increased by 1.1 per cent to 94.9p. While not directly comparable, the FTSE All-Share Index fell 25.0 per cent over the same period. The Board recommends a final dividend of 1.4p per share which, together with the interim dividend of 1.4p per share, makes a total dividend for the year of 2.8p resulting in a total return for the year of 4.2 per cent. We anticipate dividend levels will fall as the remaining cash is invested.

A similar picture emerges for the longer period since launch on 29 January 2001. Total return for Baronsmead VCT 3 has been 5.4 per cent assuming the inclusion of all dividends recommended and paid to date. The FTSE All-Share Index total return dropped 34.2 per cent over the same period. The positive difference of some 39.6 per cent excludes any benefits that shareholders may have received from the available VCT tax reliefs.

The Board monitors closely the performance of your Company against its peer group of five other generalist VCTs launched in the same tax year. Generalist VCTs invest primarily in unquoted private companies across a range of business sectors. Baronsmead VCT 3 compares favourably in this analysis, showing the highest total return within the peer group. Performance differences are likely to be seen more clearly as the portfolio becomes more fully invested.

Investment rate

The VCT legislation requires at least 70 per cent of net proceeds raised to be invested in qualifying investments within three years. This means that Baronsmead VCT 3 needs to invest approximately another £12 million by 31 December 2003. In seeking to achieve this challenging rate of investment, however, the Manager is rightly unwilling to sacrifice quality. The Board is considering appropriate options to ensure that the 70 per cent test is achieved by the end of this financial year. To enhance the overall flow of opportunities, the Manager opened an office in Manchester during December 2002, expanded its investment team in London and is planning to extend its geographical reach with a local presence in Reading.

Additionally, the Board has agreed that, where applicable during the course of 2003, a larger share of unquoted investments participated in by the family of VCTs will be apportioned to your Company. Such a collective investment approach allows Baronsmead VCT 3 and other clients of the Manager to benefit from access to larger transactions (typically with an investment requirement of between £3 million and £6 million overall).

Investment policy

The objective is to build a diverse portfolio by sector, stage, investment type and asset class. Investments will be made in unquoted companies but also in AiM-traded businesses. The sector-focused approach differentiates the Manager's investment approach from other generalist VCTs. These sectors are constantly reviewed to identify niches where companies are better placed to establish pricing power and have flexible business costs.

The policy for biotech/healthcare investing has been extended during the year to include a larger number of smaller unit-sized investments to create greater diversity. The Manager will co-invest

Chairman's Statement

with a number of the leading investors in these sectors with whom a close working relationship has been developed.

Portfolio performance

The portfolio has grown to 21 investees by 31 December 2002 and the plan is to increase this to between 30-35 by the end of the current year. The Manager's Review comments on the overall trend in the trading profits of the portfolio. This is more positive than the current economic climate would imply and encourages the Board to believe that the existing investments can build longer-term value for shareholders.

The Board values the unquoted investments in accordance with BVCA guidelines, which state that investments should be held at cost throughout the first year of investment unless there is evidence of a permanent diminution in value. After the initial twelve month period, investments which have progressed well are valued using a discounted price earnings ratio. Thomas Sanderson has shown strong growth in profits and sales. The valuation has been arrived at by applying a discounted price earnings ratio to its profits in the calendar year 2002. Its value has moved sharply ahead and is the main reason for the uplift in value of the portfolio for the year to 31 December 2002.

The value of the AiM portfolio fell by 6.6 per cent in the year and at 31 December 2002 stood at 4.9 per cent below cost. The FTSE AIM Index fell 32.9 per cent in 2002.

Before funds are invested in qualifying companies, they are held in a combination of gilts, corporate bonds and cash. The split between these instruments balances the expected timing of new investment with the achievement of the highest yield with minimal capital risk.

Meeting shareholder needs

The Board wishes to extend the level of communication with shareholders in addition to the statutory half-yearly requirements of being a fully listed company. At the end of the first and third quarters, the change in NAV per share and portfolio changes will be circulated to shareholders. In addition, investors will receive their first annual statement from the Company's Registrars detailing the history of their shareholding and dividends paid by the Company. We welcome feedback from shareholders and their advisers on these communications in order that we can provide appropriate updates.

We hope that many of you can attend our Annual General Meeting to be held on 28 March 2003 at 11.00am at the offices of ISIS Equity Partners plc, 100 Wood Street, London EC2V 7AN. The Lead Investment Manager, David Thorp, will give a presentation on the investment portfolio and current prospects. We have invited **kidsunlimited** to present their view of their day-care activities for children younger than 6 years old and the company's plan for growth. Light refreshments will follow the presentations. Shortly afterwards we will be holding a short workshop for those shareholders who wish to understand more about private equity and the financial planning options available.

During the year 559,855 new shares were issued to existing shareholders and in addition 296,149 new shares were issued under the dividend re-investment scheme. The Company bought back 170,000 shares during the year at an average 10 per cent discount to NAV. The Board has decided that presently it will not be making a top up offer to shareholders.

Risk management

The Board operates within the Combined Code for full list companies, including the Turnbull guidelines. Risk management is reviewed quarterly with the Manager covering the risks inherent in the Company. The Company Secretary is Rhonda Nicoll, whose team is part of ISIS Asset Management, which has extensive experience of technical and Stock Exchange requirements for Investment Trusts and VCTs. Together with the Company's advisers, the Company Secretary provides regular information for the Board to monitor performance and the requirements of VCT legislation.

Outlook

Our plan remains unchanged. We intend to build a portfolio of over 30 businesses, spread across diverse sectors including a proportion that are technology-enabled. The level of investment required to meet the 70 per cent test is challenging but the Board has taken the view that caution needs to be exercised currently so that we can build a stronger portfolio for the long term.

Mark Cannon Brookes
Chairman
11 February 2003

Manager's Review

The priority during our second year has been to shape the portfolio through making diverse new investments and then to support investees in attaining their growth plans in difficult external markets.

David Thorp
Lead Investment Manager

Gareth Banks
Fund Manager

Michael Probin
Investor Relations Manager

Rhonda Nicoll
Company Secretary

New investments

Eleven new investments were made during the year, six of which were described in the Chairman's Interim Statement. The table on page 6 and the schedule on page 12 of this report give more information. Four of the most recent investments have been made in more established businesses at a time when we anticipate the UK economy will recover over the medium term.

- Brownsword is a provider of outsourced road-traffic accident investigation services to insurance companies.
- Roland Long Advertising is a regional marketing services agency, predominantly with automotive brands through local franchised retail outlets.
- Air Music & Media produces budget CDs and DVDs from extensive music and film catalogues.
- Xpertise is an IT training company at the heart of a sector that needs to consolidate.

The final investment in the period was made in Xention Discovery and fits within the biotech investment policy. It is an early stage drug discovery company focused on developing novel drugs that modulate the function of ion channels. The intention is to generate a pipeline of joint venture opportunities with large pharmaceutical companies later in development.

Origination and making new investments

The way in which new unquoted investments are made is very different from quoted fund managers. Approximately 200 to 300 proposals within specified criteria are received annually from which about 1 in 40 are selected and eventually become investments. Typically the origination of such opportunities and then due diligence can take six months. Once completed, the expected life of an unquoted investment prior to its sale or realisation ranges between 3 and 5 years.

The number of suitable transactions in the UK has reduced since 2001 as confidence about the economic environment has fallen. The Manager has responded to these more difficult market conditions by both strengthening local contacts with the introducers of transactions and more direct approaches to target companies. The Manchester Office staffed by three executives opened in late 2002 and a new Reading Office is planned to open in summer 2003. To facilitate direct origination, an experienced business development director has joined the London team. Overall the origination and transacting team has more than doubled over the last three years.

In addition, Gareth Banks joined ISIS Equity Partners plc in 2001 and is responsible for the Company's investment in AiM companies.

Manager's Review

Portfolio performance

As at 31 December 2002, the portfolio consisted of 21 companies. As a measure of portfolio progress, the latest year-end profits of each investee is compared with the previous performance to form a sense of the 'direction of travel'. Overall 18 out of 21 are showing higher or steady profits.

Portfolio diversity is set out on page 7 of this report.

The structure of investments in unquoted companies may comprise a combination of ordinary shares and redeemable loan notes/preference shares. The latter rank in priority to the ordinary shares and can generate a running yield on the investment.

Asset class	Percentage of fund by value at 31 December 2002	at 31 December 2001
Fixed interest	**53%**	84%
Unquoted – ordinary shares/preference shares	**13%**	3%
Unquoted – loan notes	**12%**	5%
AiM	**11%**	7%
Current assets (mainly cash)	**11%**	1%

The Manager adopts an active management style for unquoted portfolio companies. This involves attendance by an executive member of the Manager, usually appointed as a non-executive director on investee boards. An external Chairman is also normally appointed to these boards at which monthly information is discussed and key decisions are made. The plan towards a realisation of the investment is regularly discussed even if this is expected to be in several years' time. The portfolio team comprising three executives, all with operational management skills, actively manages these investments.

Investor relations

Shareholders, and their advisers if they so wish, are welcome to attend regular workshops held by the Manager. During 2002, eight workshops were held covering both the investment process and financial planning options that shareholders may wish to consider. The next dates are 17 March and 28 March 2003. Michael Probin, the VCT investor relations manager, can be contacted on 020 7506 1651 or michael.probin@isisam.com to arrange a convenient date.

Outlook

Although merger and acquisition activity has reduced, this potentially is a good time to invest as prices have been falling. The Manager has increased both the depth and breadth of its ability to select and then actively manage investees with hopefully above average growth. The intention is to build a fully diversified spread of investments to generate long term performance and provide financial planning alternatives to shareholders.

David Thorp

Lead Investment Manager

11 February 2003

Manager's Review

Company	Location	Sector	Activity	Investment cost (£'000)
New unquoted investments				
AIMS Group	Towcester	Business services	Environmental services	1,000
Brownsword	Manchester	Business services	Motor claims investigators	676
Fretwell Downing	Sheffield	IT software	Library systems	736
Rarrigini & Rosso	Peterborough	Business services	Insurance services	703
Roland Long Advertising	Bournemouth	Media	Marketing services agency	681
Xention Discovery	Cambridge	Biotech	Drug discovery	75
Follow-on unquoted investments				
kidsunlimited	Wilmslow	Business services	Day-care nurseries	81
Vectura	Bath	Healthcare	Drug delivery	496
AiM-traded investments				
Air Music & Media	Berkhamsted	Media	Music copyright licensor	204
i-documentsystems	London	IT software	Document systems	400
Medal Entertainment & Media	London	Media	Audio-visual publishing	360
VI Group	Stroud	IT software	CAD/CAM software	300
Xpertise Group	Altrincham	Business services	Technical IT training	296
Total investments in period				£6,008

Venture Capital Trust Status

Summary of the tests to be satisfied:

VCT condition	% required
Minimum income from shares and securities	70% of total income
Maximum retention of income	15% of total investment income
Maximum investment in one company or group	15% of the company's value
*Minimum investment in qualifying companies	70% of the company's value
*Minimum investment in ordinary shares in qualifying companies	30% of total investment in qualifying companies

*For accounting period beginning 1.1.2004

Portfolio Analysis

Portfolio by Sector . . .

Company Investments
(excluding fixed interest portfolio)
Sector Analysis as at 31 December 2002

. . . and by Asset Classification

Total Assets less Current Liabilities
Market Analysis as at 31 December 2002

. . . and by Development Stage

by Value as at 31 December 2002

Twenty Largest Investments

Thomas Sanderson Limited *Waterlooville*

First Investment: March 2001
Cost: £667,000
Valuation: £1,758,000
Valuation Basis: Price earnings

Thomas Sanderson is an assembler and seller of pleated conservatory blinds and external patio awnings. The company markets its product directly and through other mediums such as direct mail and television advertising. Thomas Sanderson is the market leader of pleated blinds.

Year ended 31 December	2001	16 months to 31 December 2000
	£ million	£ million
Sales	**24.2**	25.1
Profit before tax	**3.5**	2.2
Retained profit	**–**	1.5
Net assets	**2.3**	3.3

AIMS Group Services Limited *Towcester*

First Investment: March 2002
Cost: £1,000,000
Valuation: £1,000,000
Valuation Basis: Cost

AIMS Group specialises in the provision of environmental health and safety support services for the 'indoor' environment. The main areas of focus are ensuring customers comply with legislation on air, water and fire safety, disability and asbestos. AIMS Group plans to build the company through a combination of organic growth and complementary acquisitions.

Year ended 31 March	2002	2001
	£ million	£ million
Sales	**9.4**	6.0
Profit before tax	**1.1**	0.2
Retained profit	**0.4**	0.2
Net assets	**2.0**	0.6

BodyCare International Limited *Darlington*

First Investment: November 2001
Cost: £1,000,000
Valuation: £1,000,000
Valuation Basis: Cost

BodyCare operates 'The Tanning Shop' chain of indoor tanning salons. It is the number one operator in the UK through 44 retail outlets and 56 franchise operations. In addition, BodyCare owns BodyCare Direct, the UK's leading wholesale dealer and distributor of tanning equipment and related beauty products.

Year ended 31 August	2001	2000
	£ million	£ million
Sales	**8.3**	0.6
Profit before tax	**0.7**	0.6
Retained profit	**0.5**	0.6
Net assets	**0.9**	0.3

Vectura Limited *Bath*

First Investment: April 2001
Cost: £941,000
Valuation: £941,000
Valuation Basis: Cost

Vectura is a drug delivery company specialising in particle science for solving pulmonary treatments. It raised £10.5 million of institutional equity facility in April 2001 to accelerate the development of its delivery platforms.

Year ended 31 March	2002	2001
	£ million	£ million
Sales	**3.2**	2.7
Loss before tax	**2.7**	1.1
Retained loss	**2.7**	1.1
Net assets	**12.8**	2.1

Fretwell Downing Limited *Sheffield*

First Investment: April 2002
Cost: £736,000
Valuation: £753,000
Valuation Basis: Cost plus capitalised interest

Fretwell Downing provides software solutions to public, research and corporate libraries across the UK, the USA and Australia. In April 2002, £3.2 million of institutional equity money was raised.

Year ended 31 May	2002
	£ million
Sales	**4.7**
Loss before tax	**1.5**
Retained loss	**1.5**
Net assets	**2.8**

Twenty Largest Investments

Rarrigini & Rosso Group Limited *Peterborough*

First Investment: April 2002
Cost: £703,000
Valuation: £703,000
Valuation Basis: Cost

Rarrigini & Rosso provides business support services to the general insurance market. It raised £5.5 million in April 2002 to launch a new service provider product ('24/7') designed to meet all the IT needs of the general insurance broker.

Year ended 31 August	**2001**
	£ million
Sales	**5.3**
Loss before tax	**5.1**
Retained loss	**4.5**
Net assets	**0.2**

Roland Long Advertising Limited *Bournemouth*

First Investment: December 2002
Cost: £681,000
Valuation: £681,000
Valuation Basis: Cost

RLA is a regional marketing services agency, predominantly servicing national and multinational brands selling through local outlets. £2.4 million was raised in December 2002 to fund a replacement capital deal.

Year ended 31 May	**2002**
	£ million
Sales	**9.4**
Profit before tax	**0.4**
Retained profit	**0.1**
Net assets	**1.4**

Brownsword Limited *Manchester*

First Investment: December 2002
Cost: £676,000
Valuation: £676,000
Valuation Basis: Cost

Brownsword provide outsourced road traffic accident investigation services to insurance companies. In December 2002, £4.0 million was raised to fund a replacement capital deal.

Year ended 31 July	**2002**	2001
	£ million	£ million
Sales	**4.0**	2.9
Profit before tax	**0.8**	0.4
Retained profit	**0.3**	0.1
Net assets	**0.8**	0.5

Murgitroyd Group PLC *Glasgow*

First Investment: November 2001
Cost: £500,000
Valuation: £562,000
Valuation Basis: Middle market price

Murgitroyd Group provides a range of Intellectual Property Services relating to patents and trademarks through a network of attorneys based in the UK and Europe. It joined AiM in November 2001 and raised £3 million of institutional equity to extend its expansion in European markets.

		Year ended 31 July
Ten months ended 31 May	**2002**	2001
	£ million	£ million
Sales	**4.9**	7.7
Profit before tax	**0.3**	–
Retained profit/(loss)	**0.1**	(0.4)
Net assets	**9.6**	0.9

kidsunlimited Limited *Wilmslow*

First Investment: June 2001
Cost: £481,000
Valuation: £538,000
Valuation Basis: Cost plus capitalised interest

kidsunlimited is the UK's third largest provider of day care facilities for children under six years old. As at August 2002, the company operated 34 sites through a combination of owned nurseries and those located within the workplace.

Year ended 30 April	**2002**	2001
	£ million	£ million
Sales	**9.2**	9.8
Loss before tax	**1.9**	0.7
Retained loss	**1.9**	0.7
Net assets	**4.1**	1.1

Twenty Largest Investments

Medal Entertainment & Media PLC *London*

First Investment: August 2002
Cost: £360,000
Valuation: £481,000
Valuation Basis: Middle market price

Medal Entertainment & Media acquired Leisureview, a video publishing business, and Fountain, the UK's largest independent TV studio, in August 2002. The intention is to build a significant audio visual publishing business.

Six months ended 30 September	**2002**
	£ million
Sales	**0.6**
Loss before tax	**0.2**
Retained loss	**0.2**
Net assets	**5.5**

Stagecoach Theatre Arts PLC *Walton-on-Thames*

First Investment: December 2001
Cost: £418,000
Valuation: £450,000
Valuation Basis: Middle market price

Stagecoach Theatre Arts operates a network of performing arts schools for young people aged between 4 and 16. It floated on AiM in December 2001 and raised £2.5 million before expenses to continue the expansion of Stagecoach schools in both the UK and overseas.

Year ended 31 May	**2002**	2001
	£ million	£ million
Sales	**3.5**	2.3
Profit before tax	**0.7**	0.7
Retained (loss)/profit	**(0.3)**	0.4
Net assets	**2.1**	0.7

Fitzhardinge plc *London*

First Investment: July 2001
Cost: £470,000
Valuation: £435,000
Valuation Basis: Middle market price

Fitzhardinge plc provides property consultancy services and solutions to the real estate market throughout the United Kingdom and internationally. Fitzhardinge plc acquired the holding company of Milner Consultancies Limited on 10 August 2001.

Period from 10 August 2001 to 31 December	**2001**
	£ million
Sales	**15.3**
Profit before tax	**2.1**
Retained profit	**1.1**
Net assets	**27.1**

i-documentsystems Group Plc *London*

First Investment: May 2002
Cost: £400,000
Valuation: £392,000
Valuation Basis: Middle market price

The company provides IT software and services to UK Local Authorities. It joined AiM in December 2000. Baronsmead VCT 3 subscribed as part of a £1.4 million placing in May 2002 when The Planning Exchange based in Glasgow was acquired.

Year ended 31 October	**2002**	2001
	£ million	£ million
Sales	**3.0**	1.2
Loss before tax	**1.5**	1.2
Retained loss	**1.5**	1.2
Net assets	**2.7**	2.7

Xpertise Group PLC *Altrincham*

First Investment: November 2002
Cost: £296,000
Valuation: £296,000
Valuation Basis: Cost

Xpertise is one of the UK's foremost providers of training and education for IT professionals and developers.

Year ended 31 December	**2001**	2000
	£ million	£ million
Sales	**5.3**	5.8
Loss before tax	**1.6**	4.0
Retained loss	**1.6**	4.0
Net assets	**3.0**	3.5

Twenty Largest Investments

***NeuTec* Pharma plc** *Manchester*

First Investment: February 2002
Cost: £317,000
Valuation: £290,000
Valuation Basis: Middle market price

NeuTec Pharma is an early-stage biopharmaceutical company that is developing a portfolio of antibody-based therapeutic products designed to treat life-threatening infections, particularly hospital-acquired infections such as MRSA.

Year ended 30 June	**2002**	2001
	£ million	£ million
Sales	**–**	–
Loss before tax	**2.1**	0.8
Retained loss	**1.9**	0.8
Net assets	**12.1**	3.6

Air Music & Media Group PLC *Berkhamsted*

First Investment: December 2002
Cost: £204,000
Valuation: £229,000
Valuation Basis: Middle market price

Air Music & Media acquire and exploit music copyright to produce and sell budgeted price CDs. In December 2002 they raised £0.8 million to fund the acquisition of Hollywood, a budget DVD distributor. Air Music & Media transferred from OFEX to AiM in July 2002.

Year ended 31 March	**2002**	2001
	£ million	£ million
Sales	**4.4**	3.6
Profit before tax	**0.8**	0.4
Retained profit	**0.5**	0.2
Net assets	**1.6**	0.5

VI Group plc *Stroud*

First Investment: April 2002
Cost: £300,000
Valuation: £217,000
Valuation Basis: Middle market price

VI Group designs, develops and supplies software products, which are used to enhance the capabilities of many design manufacturing processes.

Year ended 31 December	**2001**	2000
	£ million	£ million
Sales	**6.5**	5.6
Profit before tax	**0.7**	0.5
Retained profit	**0.4**	0.2
Net assets	**3.2**	2.5

Capcon Holdings PLC *Watford*

First Investment: May 2001
Cost: £137,000
Valuation: £98,000
Valuation Basis: Middle market price

Capcon operates two businesses; audit and stocktaking for the brewery trade together with commercial investigatory services for ticket and freight fraud. The flotation in May 2001 raised £1.4 million net of expenses on AiM to restructure its balance sheet and provide working capital.

Year ended 30 September	**(Preliminary)**	
	2002	2001
	£ million	£ million
Sales	**5.0**	4.0
Profit before tax	**0.1**	–
Retained loss	**0.1**	–
Net assets	**2.9**	2.6

Blooms of Bressingham Holdings PLC *Maidenhead*

First Investment: April 2001
Cost: £320,000
Valuation: £89,000
Valuation Basis: Middle market price

Blooms of Bressingham manages a range of garden centres across the southern half of the UK. It floated on AiM in December 1999 and raised another round of institutional equity of £4 million in May 2001 to acquire Jardinerie, a complementary sized group of garden centres.

Year ended 27 January	**2002**	7 December 1999 to 28 January 2001
	£ million	£ million
Sales	**16.9**	5.8
Loss before tax	**4.0**	2.2
Retained loss	**4.0**	2.2
Net assets	**12.6**	10.5

Investment Portfolio

Company	Sector	Book Cost £'000	Carrying Value £'000	% of Total Assets less Current Liabilities	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by Other Funds*
AiM						
Murgitroyd Group	Business services	500	562	1.7	5.0	5.0
Medal Entertainment & Media	Media	360	481	1.5	5.6	8.4
Stagecoach Theatre Arts	Consumer	418	450	1.4	4.6	4.6
Fitzhardinge	Business services	470	435	1.4	1.8	3.6
i-documentsystems	IT support services	400	392	1.2	2.4	3.6
Xpertise (commenced trading 2/1/03)	Business services	296	296	0.9	7.1	12.0
*Neu*Tec Pharma	Healthcare	317	290	0.9	0.9	0.9
Air Music & Media	Media	204	229	0.7	2.0	3.4
VI Group	IT support services	300	217	0.7	3.7	10.5
Capcon Holdings	Business services	137	98	0.3	2.3	4.6
Blooms of Bressingham	Consumer	320	89	0.3	1.4	1.4
Total AiM		**3,722**	**3,539**	**11.0**		
Unquoted						
Thomas Sanderson	Consumer	667	1,758	5.5	6.2	49.8
AIMS Group Services	Business services	1,000	1,000	3.1	12.7	25.3
BodyCare International	Consumer	1,000	1,000	3.1	11.7	23.4
Vectura	Healthcare	941	941	3.0	2.6	9.3
Fretwell Downing	IT support services	736	753	2.4	5.8	18.8
Rarrigini & Rosso	Business services	703	703	2.2	4.7	15.3
Roland Long Advertising	Media	681	681	2.1	8.7	21.3
Brownsword	Business services	676	676	2.1	10.8	29.2
kidsunlimited	Business services	481	538	1.7	3.3	37.7
Xention Discovery	Healthcare	75	75	0.2	2.7	–
Total unquoted		**6,960**	**8,125**	**25.4**		
Fixed interest						
UK Treasury 2.5% Index Linked 20/05/03		5,600	5,611	17.5		
UK Treasury 6.75% 26/11/2004		2,545	2,551	8.0		
UK Treasury 7.25% 07/12/2007		2,545	2,544	7.9		
UK Treasury 6.5% 07/12/2003		1,805	1,795	5.6		
UK Treasury 8.5% 07/12/2005		1,775	1,765	5.5		
UK Treasury 7.5% 07/12/2006		1,619	1,629	5.1		
IBRD 11.5% 09/11/03		564	531	1.6		
Bayer Ver 8.625% 15/06/2005		273	259	0.8		
Ford Motor 7.25% 22/02/2005		258	242	0.8		
Total fixed interest		**16,984**	**16,927**	**52.8**		
Total investments		**27,666**	**28,591**	**89.2**		
Net current assets		**–**	**3,459**	**10.8**		
Total assets less current liabilities		**–**	**32,050**	**100.0**		

*Additional details of Equity Share Capital percentage held by other funds managed by ISIS Equity Partners plc.

Tax Benefits for Shareholders

Tax benefits for individuals

The following is a summary of the main tax benefits available to individuals who subscribe for or purchase shares in a VCT. Investors are recommended to take professional advice as to how these might apply to their own circumstances.

Venture Capital Trusts are fully listed companies whose shares are traded on the London Stock Exchange. VCTs invest in small unquoted companies, which includes companies whose shares are traded on AiM, that carry on qualifying trading activities mainly in the UK.

To obtain VCT tax reliefs, a VCT investor must be an individual 'qualifying individual' over the age of 18 with UK taxable income who is UK resident for tax purposes. An eligible investor can invest up to £100,000 per annum in VCT shares. This annual limit includes subscriptions for new VCT shares and investments in existing shares and includes shares issued through a VCT dividend reinvestment scheme.

No tax is payable by a VCT on any income (other than interest) that arises within the VCT and any gains it makes on the disposal of its investments are free of tax. Furthermore, provided the VCT has sufficient realised capital reserves, these gains can be distributed tax-free to shareholders.

Tax reliefs on subscription for new VCT shares

The following tax reliefs are available on subscription for new shares provided no more than £100,000 is invested in VCT shares in any one tax year.

1. Initial Income Tax relief of 20%.
   This initial income tax relief will be withdrawn if the investor does not hold the shares for a minimum period of five years for VCT shares issued before 5 April 2000 and three years for shares issued thereafter ('the holding period').
2. Capital Gains Tax (CGT) deferral.
   The investor can defer paying the CGT on all or part of a realised capital gain. Such a gain may arise either from the disposal of an asset or from a gain coming into charge that had previously been deferred. That disposal or chargeable event must have occurred during the 12 months before or during the 12 months after the date of the issue of the VCT shares. The CGT deferral is conditional on the investor having an income tax liability and obtaining some initial income tax relief.

   The deferred gain becomes chargeable when there is a disposal of the VCT shares; the investor becomes non-UK resident within the holding period; or the initial income tax relief is withdrawn because of a breach of the VCT rules.
3. VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
4. Capital gains on disposal of VCT shares are tax free, whenever the disposal occurs.

Sources of new VCT shares

- Offers for subscription

Consequences of selling shares that were new VCT shares when acquired

- Provided the VCT shares have been held for the holding period, no initial income tax relief is withdrawn. If the VCT shares are sold within the holding period, initial income tax relief is withdrawn.
- No CGT payable on any profit made on the VCT shares (no allowable loss for losses made on disposal).
- If a gain was deferred at the time of the subscription to the VCT, it comes back into charge as a gain in the year of disposal.
- For part disposals, the part of the gain deferred, which relates to the part of the holding sold, becomes chargeable to tax as a gain in the tax year of disposal. If the gain deferred was less than the amount subscribed, the part of the shareholding on which no gain was deferred, is treated as having been disposed of first.

Tax reliefs on VCT shares purchased through the market (listed VCT shares)

1. VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
2. Tax-free capital gains on disposal of VCT shares, whenever the disposal occurs.

These tax reliefs are available regardless of the length of time the shares are held.

Source of listed VCT shares

The shares in an existing VCT can be bought and sold via a stockbroker, just like shares in any other listed company. Prior to the relevant anniversary of the issue of shares, there may be a limited supply of shares, as the original subscribers, in order to retain initial income tax relief, may not wish to dispose of their shares during the holding period.

Consequences of disposing of shares which were existing shares when bought

- No CGT payable on profits made on VCT shares (no allowable loss for losses made on disposal)
- There is no required holding period for these shares but on a part disposal, shares acquired earliest (subscribed or purchased) will be treated as disposed of before later acquisitions.

Estate Planning

If an investor dies owning VCT shares they form part of their estate for inheritance tax purposes because they are quoted shares. If a qualifying individual inherits VCT shares, VCT reliefs are retained provided the value of the shares inherited and acquired in that tax year does not exceed the £100,000 limit.

On death, no CGT is payable on any gain that was deferred at the time of the investment or on any increase in the value of VCT shares themselves.

If death occurs within the holding period, the initial income tax relief is not withdrawn.

Board of Directors

as at 31 December 2002

Mark Cannon Brookes (Chairman)

(age 63) is a director of NCL Smith & Williamson. The NCL group has £5 billion of investments under management. He is also a director of Ivory & Sime ISIS Trust plc and a number of other companies, mostly overseas.

Andrew Karney
(age 60) is a director of The Guardian Media Group plc, Guardian Newspapers Limited and a number of unquoted companies. Previously he was a director of Integrated Micro Products plc, a founder director of Cable London plc and an executive director of Logica plc.

Gillian Nott
(age 57) was until March 1999 chief executive of ProShare (UK) Limited. She is a director of the Financial Services Authority and on the board of a number of listed and unlisted companies including Foreign and Colonial Pacific Investment Trust plc and Martin Currie Portfolio Investment Trust plc. Previously she worked for the BP Group where she managed their venture capital portfolio. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 2 plc.

Robert Owen
(age 57) is a director of Baronsmead VCT 4 plc. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio.

The Board was appointed on 10 January 2001 in accordance with the Stock Exchange Listing Rules. The Board regularly reviews the Combined Code and other Corporate Governance standards. The Board is mindful of recent proposals and where applicable will adopt best practice.

Report of the Directors

Results and Dividends

The Directors submit the Second Report and Accounts of the Company for the year ended 31 December 2002.

	£'000
Revenue for the year ended 31 December 2002 available for dividends	**953**
Interim dividend of 1.40p per Ordinary Share paid on 30 September 2002	**(468)**
Final dividend proposed for the year of 1.40p per Ordinary Share payable on 4 April 2003 to shareholders on the register on 21 February 2003	**(473)**
Transferred to reserves	**12**

Principal Activity and Status

The Company is an investment company as defined in Section 266 of the Companies Act 1985 and has received provisional approval as a Venture Capital Trust from the Inland Revenue. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act. A review of the Company's business during the year is contained in the Chairman's Statement and Manager's Review.

Issue and Buy-Back of Shares

During the year the Company issued 856,004 Ordinary Shares and raised gross proceeds of £836,000. The Company bought back 170,000 Ordinary Shares (being 0.5 per cent of closing issued share capital) during the year, at a cost of £145,000 (2001: none).

Directors

Mark Cannon Brookes retires by rotation at the second Annual General Meeting of the Company, and, being eligible, offers himself for re-election.

The Directors who held office during the year, and their interests in the Ordinary Shares of the Company were:

	31 December 2002 Ordinary 10p Shares	31 December 2001 Ordinary 10p Shares
Mark Cannon Brookes	**103,979**	101,062
Andrew Karney	**21,419**	20,818
Gillian Nott	**15,450**	15,450
Robert Owen	**10,709**	10,409

All Directors were appointed to the Board on 10 January 2001.

There were no rights attaching to those shares granted or exercised during the year.

There have been no changes in the holdings of the Directors between 31 December 2002 and 11 February 2003.

No Director has a service contract with the Company.

Corporate Governance

The Board consists solely of non-executive Directors who are all independent of the Company's Manager. The Board has access to a Company Secretary who also attends all Board meetings which are held 5 times a year. Informal meetings with management are also held between Board meetings as required. The Company Secretary provides full information on the Company's assets, liabilities and other relevant information to the Board before each Board meeting convenes.

The Audit Committee comprises all members of the Board. The Committee operates within clearly defined terms of reference. The Committee meets twice a year to review the Interim Financial Statement, Annual Report and Accounts and the terms of appointment of the auditors together with their remuneration. Arrangements to ensure the appropriate level of corporate governance have been put in place by the Board which it believes are appropriate to a venture capital trust and will enable the Company to operate within the spirit of the Code.

The Remuneration and Nominations Committees comprise all Directors and have written terms of reference. The Remuneration Committee is responsible for reviewing the terms of the Investment Manager's contract and sets the Directors' remuneration using external comparisons and advice. The Nominations Committee reviews the composition and balance of the Board and would make nominations in the event of a vacancy.

The Code states that the Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that the direction and control of the Company is firmly in its hands. This is achieved by a management agreement between the Company and its Manager, which sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

Apart from matters referred to in the following paragraph the Company has complied with the Code throughout the year under review.

Under the Articles of Association all Directors retire by rotation at the Annual General Meeting. The Directors are appointed for a specified term of no more than three years subject to re-appointment as recommended by the Code. There is no formal training programme for Directors. Full details of duties and obligations are provided at the time of appointment and are supplemented by further details as requirements change. In view

Report of the Directors

of its non-executive nature, the Board considers that it is not appropriate for a senior independent director to be appointed as recommended by the Code.

After making enquiries and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

Internal Control

The Board is responsible for ensuring that the Company is managed so that risks to its profitability and assets are minimised. In the pursuit of profit for shareholders it is impossible to eliminate risk. The Board has considered specifically the high level risks which face the Company in areas such as investment management, custody of assets and regulatory matters to ensure that these are fully recognised in the operating methods of the Manager. Furthermore, to fulfil its obligations for maintaining an effective system of internal control, the Board has established an ongoing formal process to ensure that risk exposure is reviewed thoroughly.

The process is based principally on a review of the Manager's existing risk-based approach to internal control. The key functions carried out by the Manager are identified, the individual activities undertaken within those functions are reviewed and the risks associated with each activity as well as the controls employed to minimise those risks are assessed. The resulting matrix is updated by the Manager on a rolling basis and the Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has been, or is being, taken. A formal annual review of these procedures is carried out by the Board and this includes consideration of reports on controls and similar reports issued by the Manager and other service providers. A second meeting in the year receives formal updates on any material changes in the risk environment and the action taken, and in addition the Board has instituted a review of major risks at each meeting.

These procedures have been in place for the full financial year and also up to the date of approval of the report and the Board is satisfied with the effectiveness of internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company at each Board meeting. They also review the Company's activities since the previous Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines. If necessary, changes to such policy and guidelines are agreed with the Manager.

The Board has reviewed the need for an internal audit function. The Board has concluded that the systems and procedures employed by the Manager, including the Manager's own internal audit function and the work carried out by the Company's external auditors, 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.

Relations with Shareholders

The Company welcomes the views of shareholders, and the Annual General Meeting of the Company provides a forum both formal and informal for investors to meet and discuss issues with Directors of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 28 March 2003 can be found in the Notice of Meeting on page 32.

Management

ISIS Equity Partners plc ('the Manager') manages the AiM and unquoted investments for the Company. The Manager will also provide or procure the provision of secretarial, administrative and custodian services to the Company. The management agreement has an initial fixed term of three years and may be terminated at any date by either party giving twelve months' notice of termination after the initial term. Under the management agreement, the Manager receives a fee of 2 per cent per annum of the net assets of the Company in the first three years and 2.5 per cent per annum thereafter. In addition, the Manager receives an annual administration fee of £30,209 plus a variable administration fee equivalent to 0.125 per cent per annum on net assets over £5 million, subject to annual review. Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

Cazenove Fund Management Limited is the manager of funds invested in fixed interest securities and cash deposits. The Cazenove agreement is terminable on one month's written notice by the Company or Cazenove and provides for a fee to Cazenove of 0.2 per cent per annum of the amount invested in fixed interest securities subject to a minimum of £10,000 per annum plus VAT.

Performance Incentive

The Manager may become entitled to receive a performance fee from the Company calculated by reference to the increase (if any) in the net asset value of the Company, calculated on the

Report of the Directors

assumption that any dividends paid by the Company are re-invested by way of subscription for further shares (the 'Total Return').

No performance fee will be paid unless and until the Total Return on net proceeds of the Offers exceeds 8 per cent per annum (simple) over the period from the issue of shares under the 2000/2002 Offers to the end of the relevant accounting period. To the extent that the Total Return to the end of an accounting period exceeds this threshold, a performance fee (plus VAT) will be paid to the Manager of 20 per cent of the excess. The first performance fee will not be paid to the Manager unless and until the Total Return on the net proceeds of the Offers exceeds 40 per cent. In addition, the amount of any performance fee due which is paid in respect of an accounting period shall not exceed 5 per cent of the net asset value of the Company at the end of the year.

In the event that the Company purchases shares or raises new capital, the threshold returns required in order for the Manager to earn a performance fee will be adjusted so that the Manager's entitlement is unaffected by the purchase of new capital raising.

Name Changes

On 9 October 2002, ISIS Capital plc changed its name to ISIS Equity Partners plc. On 27 September 2002, Friends Ivory & Sime plc changed its name to ISIS Asset Management plc.

ISIS Equity Partners plc – Arrangement Fees

During the year to 31 December 2002, ISIS Equity Partners plc received net income of £82,436 in connection with arrangement fees and after abort costs in investee companies.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers as the VCT Tax Status Advisers to the Company. PricewaterhouseCoopers review new investment opportunities, as appropriate, and review regularly the investment portfolio of the Company. PricewaterhouseCoopers work closely with the Manager but report directly to the Board.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms.

The Company did not have any trade creditors at the year end.

Auditors

PKF have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Substantial Interests

At 11 February 2003 the Company was not aware of any beneficial interest exceeding 3 per cent of the issued Ordinary Share capital.

Reduction of Share Premium Account

In the Prospectus of the Company dated 12 January 2001, a special resolution was passed, whereby the amount standing to the credit of the share premium account of the Company immediately following the issue of Ordinary Shares pursuant to the 2000/2001 and 2001/2002 offers be cancelled. Subsequently, the amount of £28,050,000 standing to the share premium account was transferred on 14 August 2002 (on receipt of Court approval) to a special distributable reserve. Expenses of £7,000 in relation to the conversion were charged to this reserve, which was also used to fund subsequent buy-backs of Ordinary Shares (see 'Issue and Buy-Back of Shares', page 15 of this report).

Directors' Authority to Allot Shares and to Disapply Pre-emption Rights

The authorities proposed under Resolutions 6 and 7 are required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally and will not dilute their existing interest. Any such issues would only be made at a price greater than the net asset value per share and therefore would increase the assets underlying each Ordinary Share. The issue proceeds would be available for investment in line with the Company's investment policy.

Resolution No. 6 renews the Directors' authority to issue Ordinary Shares. This would enable the Directors, until 28 March 2004, to allot up to 11,151,410 Ordinary Shares (representing approximately 33 per cent of the Company's issued share capital as at 11 February 2003).

Resolution No. 7 renews and extends (see 'Dividend Reinvestment' below) the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain

Report of the Directors

circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company to issue Ordinary Shares for cash without pre-emption rights applying by way of offer to existing shareholders, under the Dividend Reinvestment Scheme, or otherwise up to a maximum of 3,345,420 Ordinary Shares (representing approximately 10 per cent of the Company's issued share capital as at 11 February 2003).

Dividend Reinvestment

The Directors offer to shareholders the opportunity to reinvest their dividends by subscribing for new Ordinary Shares in the Company.

The substantial tax reliefs detailed on page 13, should be available to qualifying investors reinvesting their dividends in these new Ordinary Shares. Such reliefs will not be available in any tax year where a shareholder has already subscribed £100,000 for venture capital trust shares. In the event of the Company being wound up within three years of such shares being issued (under dividend reinvestment or otherwise) then shareholders may be required to repay their initial income tax relief.

The extension of the Directors' authority to allot equity securities for cash without pre-emption rights applying referred to above (see 'Directors' Authority to Allot Shares and to Disapply Pre-emption Rights') will enable the Directors to allot Ordinary Shares when dividends are reinvested.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and resolution 8 seeks renewal of such authority until the Annual General Meeting in 2004 (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value of 10p per share nor more than the maximum amount determined by the rules of the UK Listing Authority at the time of purchase (which currently set a maximum equal to 5 per cent above the average of the market values of those shares for the five business days before the shares are purchased). This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. The funding required to purchase Ordinary Shares would be met either from available cash resources, including borrowing facilities, or from selling investments in the portfolio. Any Ordinary Shares repurchased under this authority would be cancelled.

By Order of the Board,

Rhonda Nicoll

for ISIS Asset Management plc
Secretary

One Charlotte Square
Edinburgh EH2 4DZ
11 February 2003

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the 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. The auditors' opinion is included in their report on page 31.

Directors' Fees

The Board consists solely of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

The Remuneration Committee is Mark Cannon Brookes (Chairman), Andrew Karney, Gillian Nott and Robert Owen. As the Company has no executive Directors, the Committee meets, at least annually, to determine the remuneration and terms of appointment of the Investment Manager.

The Board concluded following the review of the level of Directors' fees for the forthcoming year that the amounts should remain unchanged at present.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to properly oversee the Company and to 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 31 December 2003 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £52,162 per annum and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Director	Date of Re-appointment	Due date for Re-election
Mark Cannon Brookes	22 March 2002	AGM 2003
Andrew Karney	22 March 2002	AGM 2004
Gillian Nott	22 March 2002	AGM 2005
Robert Owen	22 March 2002	AGM 2005

The terms of Directors' appointment are for an initial period of three years and provide that a Director shall retire and be subject to re-election at the first annual general meeting after their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election by shareholders, at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment

Company performance

The Board are responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Report of the Directors on page 16. The graph on page 1 compares from 29 January 2001 (the date the Company commenced trading) to 31 December 2002, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index. An explanation of the performance of the Company is given in the Chairman's statement and Manager's review.

Directors' emoluments for the year (audited)

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

	Fees 2002 £	Fees 2001* £
Mark Cannon Brookes	**15,000**	14,589
Andrew Karney	**10,000**	9,726
Gillian Nott	**10,000**	9,726
Robert Owen	**10,000**	9,726

* From date of appointment on 10 January 2001.

On behalf of the Board,

Mark Cannon Brookes
Chairman
11 February 2003

Statement of Total Return

(incorporating the Revenue Account of the Company) for the year to 31 December 2002

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001* Revenue £'000	2001* Capital £'000	2001* Total £'000
Gains/(losses) on investments	8	**–**	**698**	**698**	–	(74)	(74)
Income	2	**1,825**	**–**	**1,825**	1,504	–	1,504
Investment management fee	3	**(186)**	**(559)**	**(745)**	(159)	(477)	(636)
Other expenses	4	**(290)**	**–**	**(290)**	(248)	–	(248)
Return on ordinary activities before taxation		**1,349**	**139**	**1,488**	1,097	(551)	546
Taxation on ordinary activities	5	**(396)**	**181**	**(215)**	(322)	155	(167)
Return attributable to equity shareholders	14	**953**	**320**	**1,273**	775	(396)	379
Dividends in respect of equity shares	6	**(941)**	**–**	**(941)**	(760)	–	(760)
Transfer to/(from) reserves		**12**	**320**	**332**	15	(396)	(381)
Return per Ordinary Share	7	**2.85p**	**0.96p**	**3.81p**	2.52p	(1.29)p	1.23p

*For the period from 22 November 2000 to 31 December 2001.

The revenue column of this statement is the profit and loss account of the company.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 31 December 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Investments	8	**28,591**	30,889
Current assets			
Debtors	9	**189**	616
Cash at bank and on deposit		**4,587**	408
		4,776	1,024
Creditors (amounts falling due within one year)	10	**(1,317)**	(844)
Net current assets		**3,459**	180
Total assets less current liabilities		**32,050**	31,069
Capital and reserves			
Called-up share capital	11	**3,379**	3,311
Share premium account	12	**805**	28,139
Special distributable reserve	12	**27,898**	–
Capital redemption reserve	12	**17**	–
Other reserves:			
Capital reserve – realised	12	**(1,001)**	(362)
Capital reserve – unrealised	12	**925**	(34)
Revenue reserve	12	**27**	15
Equity shareholders' funds	13, 14	**32,050**	31,069
Net asset value per Ordinary Share	13	**94.85p**	93.85p

The financial statements on pages 20 to 30 were approved by the Board of Directors on 11 February 2003 and were signed on its behalf by:

MARK CANNON BROOKES (Chairman)

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement

For the year to 31 December 2002

	Notes	2002 £'000	2001* £'000
Operating activities			
Investment income received		**2,172**	247
Deposit interest received		**80**	646
Underwriting commission received		**1**	–
Investment management fees		**(741)**	(453)
Other cash payments		**(284)**	(189)
Net cash inflow from operating activities	16	**1,228**	251
Taxation			
Corporation tax paid		**(167)**	–
Tax paid		**(167)**	–
Capital expenditure and financial investment			
Purchase of investments		**(27,046)**	(37,030)
Disposal of investments		**30,413**	6,067
Net cash inflow/(outflow) from capital expenditure and financial investment		**3,367**	(30,963)
Equity dividends paid		**(898)**	(330)
Net cash inflow/(outflow) before financing		**3,530**	(31,042)
Financing			
Issue of Ordinary Shares		**836**	33,100
Buy back of Ordinary Shares		**(145)**	–
Expenses of the issue		**(42)**	(1,650)
Net cash inflow from financing		**649**	31,450
Increase in cash		**4,179**	408
Reconciliation of net cash flow to movement in net cash			
Increase in cash in the year		**4,179**	408
Net cash at 31 December 2001		**408**	–
Net cash at 31 December 2002	15	**4,587**	408

*For the period from 22 November 2000 to 31 December 2001.

The accompanying notes are an integral part of these statements

Notes to the Accounts

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies are described below.

(a) Basis of accounting

The accounts are prepared under the historic cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' and on the assumption that the Company maintains VCT status.

(b) Valuation of investments

UK listed investments have been valued at middle market prices. Investments traded on the AiM market are valued at the middle market price quoted by the market-makers. Placings of new shares in AiM listed companies or new companies joining AiM are valued at cost until such time as the new shares commence trading on the AiM market.

Unquoted investments are valued by the Directors in accordance with the following rules, which are consistent with the British Venture Capital Association guidelines:

1. Investments which have been made in the last twelve months are valued at cost in the absence of overriding factors.

2. Investments in companies at an early stage of their development are also valued at cost in the absence of overriding factors.

3. Investments which have been held for more than twelve months and which have gone beyond the stage of their development in 2 above are valued using a price earnings ratio (at a significant discount to an appropriate stock market price earnings ratio) in the absence of overriding factors. Where such factors apply, alternative methods of valuation will include application of an arm's length third party valuation, cost, a provision on cost, or a net asset basis.

Early stage investments are valued at cost, less any provision considered necessary, until they cease to be viewed as early stage.

Where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate, in bands of 25 per cent.

(c) Income

Dividends are recognised as income on the date that the related investments are marked ex-dividend.

Income from fixed interest securities, other investment income and deposit income are included on an accruals basis.

(d) Taxation

The Company allocates tax relief on expenses and financing costs charged to capital on the basis of the effective method of taxation.

(e) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

(f) Expenses

All expenses are accounted for on an accruals basis.

Expenses are charged through the revenue account except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long term returns as follows:

- Management fees payable have been allocated 25 per cent to revenue and 75 per cent to capital.

(g) Capital reserves

Capital Reserve – Realised
The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- expenses together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital Reserve – Unrealised
The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end.

Notes to the Accounts

2. Income

	2002 £'000	2001 £'000
Income from investments		
UK franked	**16**	–
UK unfranked	**1,728**	833
	1,744	833
Other income		
Deposit interest	**80**	671
Underwriting commission	**1**	–
Total income	**1,825**	1,504
Total income comprises:		
Dividends	**16**	–
Interest	**1,808**	1,504
Other income	**1**	–
	1,825	1,504
Income from investments:		
Listed UK	**1,595**	786
Unlisted UK	**149**	47
	1,744	833

3. Investment management fee

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Investment management fee	**186**	**559**	**745**	159	477	636

The management agreement is for an initial fixed term of three years, commencing 10 January 2001, and may be terminated by either party on one year's notice to expire at the end of any calendar month after the third anniversary of the date of the management agreement. ISIS Equity Partners plc receives a quarterly fee, payable in arrears, equal to 2 per cent of the value of the net assets of the Company: in addition a performance fee may also be payable and further details are provided on pages 16 and 17. ISIS Asset Management plc receives a quarterly administration fee, payable in arrears, comprising an annual fee of £30,209 (2001: £30,000) and a variable fee of 0.125 per cent per annum on net assets over £5 million adjusted for movements in the Retail Price Index (see note 4). The Company's management fees are allocated 25 per cent to the revenue account and 75 per cent to capital reserve-realised, in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

4. Other expenses

	2002 £'000	2001 £'000
Directors' fees	**45**	44
Secretarial fees	**64**	63
Audit fees	**8**	10
Other	**173**	131
	290	248

During the year the Chairman received Directors' fees at the rate of £15,000 per annum (2001: £15,000) and the other Directors £10,000 per annum (2001: £10,000).

Notes to the Accounts

5a. Taxation on ordinary activities

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
UK corporation tax	**(396)**	**181**	**(215)**	(322)	155	(167)
	(396)	**181**	**(215)**	(322)	155	(167)

5b. Factors affecting tax charge for the year

The revenue account tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company (30 per cent). The differences are explained below:

	2002 £'000	2001 £'000
Return on ordinary activities before taxation	**1,349**	1,097
Corporation tax at a standard rate of 30 per cent	**(405)**	(329)
Effect of:		
– non-taxable dividend income	**(5)**	–
– expenses utilised	**14**	7
Tax charge for the period (5a)	**(396)**	(322)

6. Dividends

	2002 Total £'000	2001 Total £'000
Dividends on equity shares:		
– ordinary – interim 1.40p per share on 33,533,749 Ordinary Shares paid on 30 September 2002 (2001: 1.0p)	**468**	330
– ordinary – final proposed 1.40p per share on 33,792,157 Ordinary Shares payable on 4 April 2003 (2001: 1.30p)	**473**	430
	941	760

7. Return per Ordinary Share

	2002 Revenue p	2002 Capital p	2002 Total p	2001 Revenue p	2001 Capital p	2001 Total p
Basic	**2.85**	**0.96**	**3.81**	2.52	(1.29)	1.23

Basic revenue return per Ordinary Share is based on the net revenue on ordinary activities after taxation of £953,000 (2001: £775,000) and on 33,446,891 (2001: 30,748,766) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Basic capital return per Ordinary Share is based on net capital gain for the financial year of £320,000 (2001: loss of £396,000) and on 33,446,891 (2001: 30,748,766) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year.

Notes to the Accounts

8. Investments

	2002 £'000	2001 £'000
Investments quoted on the Alternative Investment Market (AiM)	**3,539**	2,116
Unquoted investments	**8,125**	2,512
Fixed interest securities	**16,927**	26,261
	28,591	30,889

	Quoted on AiM £'000	Unquoted £'000	Fixed interest securities £'000	Total £'000
Opening book cost	1,845	2,512	26,566	30,923
Opening unrealised appreciation/(depreciation)	271	–	(305)	(34)
	2,116	2,512	26,261	30,889
Movements in the year:				
Purchases at cost	1,877	4,464	21,076	27,417
Sales – proceeds	–	(1)	(30,397)	(30,398)
– realised losses on sales	–	–	(261)	(261)
Adjustment to book cost	–	(15)	–	(15)
(Decrease)/increase in unrealised appreciation	(454)	1,165	248	959
Closing valuation	**3,539**	**8,125**	**16,927**	**28,591**
Closing book cost	3,722	6,960	16,984	27,666
Closing unrealised (depreciation)/appreciation	(183)	1,165	(57)	925
	3,539	**8,125**	**16,927**	**28,591**

	2002 £'000	2001 £'000
Realised losses on sales	**(261)**	(40)
Increase/(decrease) in unrealised appreciation/(depreciation)	**959**	(34)
	698	(74)

	2002 £'000	2001 £'000
Equity shares	**11,664**	3,001
Fixed income securities	**16,927**	27,888
	28,591	30,889

Notes to the Accounts

9. Debtors

	2002 £'000	2001 £'000
Prepayments and accrued income	**189**	616
	189	616

10. Creditors (amounts falling due within one year)

	2002 £'000	2001 £'000
Amounts due to brokers	**371**	–
Proposed dividend	**473**	430
Taxation	**215**	167
Management and secretarial fees due to the manager	**207**	202
Other creditors	**51**	45
	1,317	844

11. Called-up share capital

	2002 £'000
Authorised:	
80,000,000 Ordinary Shares of 10p each	**8,000**
Allotted, called-up and fully-paid:	
33,106,153 Ordinary Shares of 10p each at 31 December 2001	**3,311**
418,993 Ordinary Shares of 10p each issued during April 2002	**42**
153,603 Ordinary Shares of 10p each issued on 30 September 2002	**15**
283,408 Ordinary Shares of 10p each issued on 1 October 2002	**28**
170,000 Ordinary Shares of 10p each repurchased and cancelled during the year	**(17)**
33,792,157 Ordinary Shares of 10p each at 31 December 2002	**3,379**

Notes to the Accounts

12. Reserves

	Non distributable reserves				Distributable reserves	
	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Special distributable reserve £'000	Revenue reserve £'000
Opening balance at 31 December 2001	28,139	–	(362)	(34)	–	15
Transfer to special distributable reserve per court order	(28,050)	–	–	–	28,050	–
Arising from shares issued during April 2002	365	–	–	–	–	–
Arising from shares issued on 30 September 2002	131	–	–	–	–	–
Arising from shares issued on 1 October 2002	255	–	–	–	–	–
Arising from repurchase and cancellation of shares	–	17	–	–	(145)	–
Fees associated with the special distributable reserve	–	–	–	–	(7)	–
Expenses of issue	(35)	–	–	–	–	–
Loss on realisation of investments	–	–	(261)	–	–	–
Increase in unrealised appreciation	–	–	–	959	–	–
Management fees charged to capital	–	–	(559)	–	–	–
Taxation credited to capital	–	–	181	–	–	–
Retained net revenue for the year	–	–	–	–	–	12
	805	**17**	**(1,001)**	**925**	**27,898**	**27**

The Court approval to sanction the cancellation of the share premium account and the creation of a special distributable reserve was given on 14 August 2002.

13. Net asset value per share

The net asset value per share and the net asset values attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Attributable net asset value per share		Attributable net asset value	
	2002 pence	2001 pence	**2002 £'000**	2001 £'000
Ordinary Shares (basic)	**94.85**	93.85	**32,050**	31,069

The movements during the year of the assets attributable to the Ordinary Shares were as follows:

	Ordinary Shares (basic) £'000
Total net assets attributable at beginning of the year	31,069
Capital subscribed	836
Capital redeemed	(145)
Expenses of issue and share premium cancellation fee	(42)
Total recognised gains before dividends for the year	1,273
Dividends in respect of equity shares	(941)
	32,050

Basic net asset value per Ordinary Share is based on £32,050,000 net assets (2001: £31,069,000), and on 33,792,157 Ordinary Shares (2001: 33,106,153), being the number of Ordinary Shares in issue at the year end.

Notes to the Accounts

14. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds	**31,069**	–
Premium resulting from issue of shares	**751**	29,789
Increase in share capital	**85**	3,311
Capital redeemed	**(145)**	–
Expenses of issue and share premium cancellation fee	**(42)**	(1,650)
Dividends in respect of equity shares	**(941)**	(760)
Total recognised gains before dividends	**1,273**	379
Closing shareholders' funds	**32,050**	31,069

15. Analysis of changes in cash

	At 31 December 2001 £'000	Cash Inflow £'000	At 31 December 2002 £'000
Cash at bank and on deposit	408	4,179	**4,587**

16. Reconciliation of net revenue before taxation to net cash inflow from operating activities

	2002 £'000	2001 £'000
Net revenue before taxation	**1,349**	1,097
Investment management fee charged to capital	**(559)**	(477)
Decrease/(increase) in debtors	**427**	(616)
Increase in other creditors	**11**	247
Net cash inflow from operating activities	**1,228**	251

17. Contingencies, guarantees and financial commitments

As at 31 December 2002 there were no contingencies, guarantees and financial commitments of the Company.

Notes to the Accounts

18. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diversified portfolio of companies raising new share capital on AiM.

Fixed asset investments held (see note 8) are valued at middle market prices or cost which equate to their fair values. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet.

19. Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investment in AiM-listed companies, by its nature, involves a higher degree of risk than investment in the main market. AiM investments may be more difficult to realise. Further information on the investment portfolio is set out on page 12.

20. Interest rate and liquidity risk

Floating rate

When the Company retains cash balances the majority of the cash held is on deposit accounts. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

Fixed rate

The Company holds a fixed interest investment.

At 31 December this was:

	2002			2001		
Fixed interest investment:	**£'000**	**Average interest rate**	**Average period until maturity (days)**	£'000	Average interest rate	Average period until maturity (days)
Financial assets	**16,927**	**5.8%**	**746**	26,261	7.6%	1,041

Directors' Responsibility Statement

Directors' Responsibility Statement

The Directors are required by law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the revenue of the Company for that year.

They are also responsible for maintaining adequate accounting records and safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts have been prepared on the going concern basis, appropriate accounting policies have been used and consistently applied and the Board believes that reasonable and prudent judgements and estimates have been made in the preparation of the accounts. Applicable UK accounting standards have been followed.

The Directors are responsible for ensuring that the Directors' Report, Directors' Remuneration Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Independent Auditors' Report

Independent Auditors' Report to the Shareholders of Baronsmead VCT 3 plc

We have audited the financial statements of Baronsmead VCT 3 plc for the year ended 31 December 2002 which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditor's 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Financial Highlights, the Chairman's Statement, the Manager's Review, the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2002 and of its total return for the year then ended; and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF PKF

Registered Auditors
London, UK
11 February 2003

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Baronsmead VCT 3 plc will be held at the offices of ISIS Asset Management plc, 100 Wood Street, London EC2V 7AN, on 28 March 2003 at 11.00 am for the following purposes:

To consider and, if thought fit, pass the following Resolutions:

Ordinary Business

1. That the Report and Accounts for the year to 31 December 2002 be received.
2. That the payment of a final dividend of 1.40 pence per Ordinary Share be approved.
3. That Mark Cannon Brookes, who retires by rotation, be re-elected as a Director.
4. That the Directors' Remuneration Report for the year to 31 December 2002 be approved.
5. That PKF, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolution

6. That:
   (a) the Directors of the Company (the "Directors") be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £1,115,141during the period commencing on the passing of this resolution and expiring on 28 March 2007 (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry; and

   (b) all previous authorities given to the Directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

7. That subject to the passing of Resolution 6 set out in the notice of this meeting:
   (a) the Directors of the Company (the "Directors") be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities for cash pursuant to the authority given in accordance with section 80 of the Act by that resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:

      (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of Ordinary Shares of 10p each in the Company and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

      (ii) the dividend reinvestment plan as more particularly described in the Report of the Directors;

      (iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £334,542;

   and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry;

   (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

8. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of Ordinary Shares of 10p each in the Company ("Ordinary Shares"), provided that:
   (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 5,065,440;
   (b) the minimum price which may be paid for each Ordinary Share is 10p;
   (c) the maximum price which may be paid for an Ordinary Share shall be equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
   (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2004 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and
   (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.

By Order of the Board

Rhonda Nicoll
for ISIS Asset Management plc
Secretary
One Charlotte Square
Edinburgh EH2 4DZ
11 February 2003

Rhonda Nicoll

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

To be valid, a Proxy Card must be lodged with the Company's Registrar, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA at least 48 hours before the meeting. A Proxy Card for use by ordinary shareholders is enclosed with this Report. Completion of the Proxy Card will not prevent a shareholder from attending the meeting and voting in person.

No Director has a contract of service with the Company.

Shareholder Information

Dividends

Interim dividends are paid to shareholders in September. Final dividends are paid to shareholders in April. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained by telephoning the Company's registrar, Northern Registrars Limited.

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme to enable shareholders to buy shares using their dividends. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details can be obtained from the Company's Investor Relations Manager, Michael Probin.

Share Price

The Company's Ordinary Shares are listed on the London Stock Exchange. The mid-price of the Company's Ordinary Shares is given daily in the *Financial Times* in the Investment Companies section of the London Share Service. Share price information can also be obtained from many financial websites.

Trading Shares

The Company's Ordinary Shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker. The market makers for Baronsmead VCT 3 plc are:

- Teather & Greenwood
- UBS Warburg

Please call Michael Probin if you or your adviser have any questions about this process.

Financial Calendar

21 March 2003	Date by which applications to join the dividend reinvestment scheme must be received by the registrars
28 March 2003	Annual General Meeting – offices of ISIS Asset Management plc
4 April 2003	Final dividend for the year to 31 December on Ordinary Shares paid
August 2003	Announcement of interim results
August 2003	Posting of interim report
September 2003	Interim dividend on Ordinary Shares paid
February 2004	Announcement of final results for year to 31 December 2003

VCT Workshops

Workshops for shareholders and their advisers are being held on the following dates and will be held at the offices of the Investment Manager at 2.30 pm on 17 March 2003 and 1.30 pm on 28 March 2003. Additional workshops will be arranged during 2003 and shareholders will be advised accordingly.

Please call Michael Probin if you or your adviser would wish to attend a workshop.

Shareholder Information

Ordinary Shares

There are 2,071 holders of Ordinary Shares. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
Over 100,000	17	0.8	1,933,844	5.7
50,001–100,000	92	4.4	6,304,814	18.7
25,001–50,000	275	13.3	9,508,225	28.1
10,001–25,000	623	30.1	10,144,214	30.0
5,001–10,000	560	27.0	4,017,201	11.9
2,001–5,000	494	23.9	1,874,917	5.6
1–2,000	10	0.5	8,942	0
Total	2,071	100.0	33,792,157	100.0

Notification of Change of Address

Communications with shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Northern Registrars Limited, under the signature of the registered holder.

Enquiries

Contact Michael Probin, VCT Investor Relations Manager for Baronsmead VCT 3 plc:

Telephone:	020 7506 1651
Fax:	020 7601 1787
e-mail:	michael.probin@isisam.com
website:	www.isisam.com

Registrars

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Tel: 01484 600900
website: www.northernregistrars.co.uk

Baronsmead VCT 3 plc

PROXY

I/We ______________________________
(BLOCK LETTERS PLEASE)

of ______________________________

being a member of Baronsmead VCT 3 plc, hereby appoint the Chairman of the meeting, or*

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 28 March 2003, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

Ordinary Resolutions	For	Against
1. To receive the Report and Accounts for the year to 31 December 2002.		
2. To approve payment of a final dividend of 1.40 pence per Ordinary Share.		
3. To re-elect Mark Cannon Brookes as a Director.		
4. To approve the Directors' Remuneration Report for the year to 31 December 2002.		
5. To re-appoint PKF as Auditors, and to authorise the Directors to determine their remuneration.		
6. To renew the Directors' authority to allot Ordinary Shares.		
Special Resolutions		
7. To renew the Directors' authority to disapply statutory pre-emption rights.		
8. To renew the Directors' authority to buy-in shares.		

Signature ______________________________

Dated this ____________ day of ______________________ 2003

Notes

*You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be deposited at the Company's Registrars, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA at least 48 hours before the time of the meeting or any adjournment thereof together where appropriate with the power of attorney under which it is signed or a notarially certified copy of such power.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

Any alterations made in this proxy should be initialled.

Completion of a proxy shall not prevent a shareholder from attending the Annual General Meeting and voting in person should you decide to do so.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence HF106

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Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0JQ

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

Directors
Mark Cannon Brookes (Chairman)
Andrew Lumsdaine Karney
Gillian Nott OBE
Robert Richardson Owen

Secretary
ISIS Asset Management plc
One Charlotte Square
Edinburgh EH2 4DZ

Registered Office and Investment Managers
ISIS Equity Partners plc
100 Wood Street
London EC2V 7AN

VCT Status Adviser
PricewaterhouseCoopers
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office
Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 600900

Brokers
Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Auditors
PKF
New Garden House
Hatton Garden
London EC1N 8JA

Solicitors
Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

ISIS Equity Partners plc – Investment Manager

ISIS Equity Partners plc is a wholly owned subsidiary of ISIS Asset Management plc, itself part of the Friends Provident Group. Its focus is on investments in unquoted companies for clients of the ISIS Asset Management Group. It is a member of the British Venture Capital Association and is regulated by the FSA.

ISIS Asset Management plc is listed on the London Stock Exchange and has offices in London and Edinburgh.

Pillans & Wilson, Edinburgh. 71146