

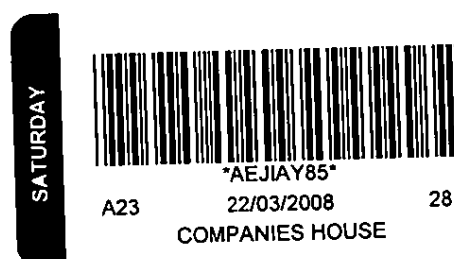
Baronsmead VCT 3 plc

Investing in Growth Businesses generating tax-free dividends

4115344

2007

Annual report & accounts for the
year ended 31 December 2007



Managed by ISIS EP LLP

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 invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value

Full details on the Company's published investment policy and risk management are contained in the Directors' Report on pages 15 and 16

Dividend policy

The Board wishes to maintain a minimum annual dividend level of around 4 5p per ordinary share if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year. Since the Company's launch the average annual tax-free dividend paid to shareholders has been 4 76p per ordinary share (equivalent to a pre-tax return of 7 05p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs of 20 per cent, their returns would have been even higher.

Secondary market in the shares of Baronsmead VCT 3

Shares can be bought and sold using a stockbroker, just like shares in any other listed company. Qualifying purchasers (individuals over the age of 18 and UK resident for tax purposes) can receive VCT dividends (including capital distributions of realised gains on investments) that are not subject to income tax, and capital gains tax is not payable on disposal of the VCT shares.

There is no minimum time for which VCT shares bought in the secondary market need to be held, and they can be sold in the normal way. The UK tax treatment of VCTs is on a first in first out basis and therefore tax advice should be obtained before shareholders dispose of their shares and also if they deferred Capital Gains Tax in respect of new shares acquired prior to 6 April 2004.

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If you have sold or otherwise transferred all of your shares in Baronsmead VCT 3 plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Financial Highlights

+0.9%

NAV per ordinary share increased to 127 94p before deduction of dividends. After payment of dividends totalling 7 5p per ordinary share in the year to 31 December 2007, the NAV was 120 44p

+8.3%

NAV per C share increased to 107 15p before deduction of dividends. After dividends totalling 4p in the year, the NAV was 103 15p

+71%

NAV total return since launch in 2001

6.7%

Dividend yield, tax-free to qualifying ordinary shareholders (gross equivalent yield for a higher rate taxpayer is 10 per cent) based on 7 5p dividends paid divided by the mid ordinary share price of 111 5p at the year end

Dividend history since launch for Ordinary and C Shareholders

Seven Year Summary

Baronsmead VCT 3 plc

Net asset value total return and share price total return since launch against the FTSE All-Share Index total return

Performance Record

Year ended 31 December	Total net assets £m	C Share			Ordinary Share			FTSE All-Share total return %	Combined total expense ratio† %
		Net asset value p	Share price p	Net asset value total return* %	Net asset value p	Share price p	Net asset value total return* %		
2001	31				93.85	88.0	101.21	85.14	2.9
2002	32				94.85	85.5	105.35	65.83	3.3
2003	33				97.15	90.0	112.65	79.56	3.1
2004	35				106.38	92.5	125.64	89.77	3.5
2005	56	95.13	100.0	100.14	117.31	100.5	144.77	109.56	3.5
2006	67	100.95	89.0	107.35	130.77	116.5	169.27	127.91	3.4
2007	65	103.15	91.5	116.07	120.44	111.5	170.56	134.71	3.4

* Source: F&C Asset Management plc based on bid prices

† As a percentage of average total shareholders' funds (excluding performance fee)

Dividends Paid Since Launch

Year ended	C Share		Ordinary Share				
	Revenue dividend p	Capital dividend p	Revenue dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends p	Average total annual dividend p
2001			2 30	–	2 30	2 30	2 30
2002			2 80	–	2 80	5 10	2 55
2003			2 20	2 00	4 20	9 30	3 10
2004			1 20	3 30	4 50	13 80	3 45
2005			2 00	3 50	5 50	19 30	3 86
2006	2 00	1 00	1 75	4 75	6 50	25 80	4 30
2007	1.55	2.45	2 30	5 20	7 50	33 30	4 76

Cash Returned to Shareholders

The Board is also aware that shareholders are concerned that the original capital subscribed into Baronsmead VCT 3 has been maintained. The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross yield† %
2001	100	20 0	80 0	33 3	5 9	8 8
2005	100	40 0	60 0	7 0	5 8	8 6

Note: The cash returns could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.

*Net annual yield represents the cumulative dividends paid expressed as a percentage of the net cash invested.

†The gross equivalent yield if the dividends had been subject to higher rate taxation.

Chairman's Statement

Baronsmead VCT 3 remained steady during 2007 with value growth from the unquoted portfolio offset by the fall in the AiM portion of the portfolio, particularly exacerbated by the sharp fall in UK economic confidence in the second half of 2007. Five profitable unquoted company exits demonstrated the ability of the private equity disciplines to generate significant uplifts in value.

With ordinary share dividends paid of 7.5p, the dividend yield grew to 6.7 per cent, which is tax-free to most ordinary shareholders. The hope is to sustain this across the enlarged ordinary share capital following the issue of approximately 22 million new ordinary shares in January 2008 on conversion of the C shares.

Mark Cannon Brookes
Chairman

Results

In the year to 31 December 2007, the Net Asset Value (NAV) per ordinary share increased by 0.9 per cent from 126.77p to 127.94p before deduction of dividends. Two interim dividends were paid in September (3p) and December 2007 (4.5p) per ordinary share.

The C share capital raised in the five month period to 3 January 2006 was converted into ordinary shares on 28 January 2008 at a NAV of 103.15p which resulted in 8,564 new ordinary shares being issued for every 10,000 shares held. Two interim dividends of 2p each were paid in September and December 2007. Since their launch, the NAV total return for the C shares to 31 December 2007 is 16 per cent.

At 31 December 2007, the respective share pools held different portfolios of companies, hence the difference in the performance of the NAVs. Over the last two years, as a result of the ordinary share pool being fully invested, most of the unquoted investments were allocated to the C share pool and many of these have subsequently increased in value, such as Fisher Outdoor Leisure and Empire World Trade. Additionally, the newer AiM investments allocated to the C share pool have been less affected by the market downturn. This has impacted the respective returns during the course of the year.

Long Term Performance

The two standard measurements for monitoring investment performance are based either on the NAV plus dividends paid (known as "NAV total return") or the movement in share price plus dividends paid (known as "share price total return"). The latter is particularly relevant to investors who buy in the secondary market. Other measures include dividend yield and cash returned to shareholders. These different measures of performance are described below and most are stated before the inclusion of VCT tax reliefs. These reliefs were designed to redress both the VCT constraints as well as the higher risks that relate to smaller unquoted and AiM-traded companies.

NAV total return to ordinary shareholders since launch in January 2001 amounts to 71 per cent which represents an annual compound growth rate of 8.0 per cent and is stated net of all running costs.

Share price total return in the last five years has been 75 per cent, which represents an annualised tax-free return of 12 per cent. This ranks Baronsmead VCT 3 as seventh out of 63 VCTs (source: Trustnet – 25 January 2008) over this period.

The results set out above compare favourably with other VCTs and fuller comparisons have recently been facilitated by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk.

Dividends and yield By 31 December 2007 dividends totalling 33.3p had been paid to founder shareholders over the last seven years. Based on the mid share price of 111.5p at the period end, the dividend yield is currently 6.7 per cent tax-free for UK private investors. The Board's intention is to sustain this record in the medium term but its continuance will depend on the level of profitable realisations and cannot be guaranteed.

Cash returned to shareholders arises from dividends paid and the initial income tax relief that qualifying shareholders can retain beyond the initial holding period. For subscribers in 2001, they will have received 33.3p plus up to 20p initial income tax relief while subscribers for C shares have received 7p dividends and up to 40p income tax relief (as long as these shares are retained for more than three years). The bid price for the ordinary and C shares prior to conversion at 31 December 2007 were 110p and 90p respectively.

The Portfolio

The portfolio increased to 72 investments with fifteen new investments made and eleven investments fully realised during the period. New investments totalled £7.6 million across three new unquoted and twelve AiM-traded investees, much of which was invested from the C share pool as the ordinary share capital was relatively fully invested. The split by value of the portfolio is approximately 63.37 between unquoted and AiM/full list investments and the largest investments in each category are 3.5 per cent and 2.3 per cent of NAV.

Six VCT tests relating to the running of Baronsmead VCT 3 have to be, and were, met throughout the period to 31 December 2007. The most significant of these tests is the need to ensure at least 70 per cent by value of its investments

is invested in VCT qualifying investments. At the period end, over 75 per cent of the share capital raised (net of launch costs) prior to 31 December 2005 was invested in such investments.

The "direction of travel" or relative health of portfolio companies is measured quarterly in terms of profitability as well as other non-financial benchmarks. At the period end 83 per cent of the portfolio companies were reporting higher or steady profits and few at this stage appear to be affected by the credit crunch. The analysis of the top ten investments set out on pages 10 and 11 gives more detail about key investments and four of these aspiring high-growth companies have been selected to illustrate the role played by the Manager in their progress and how value is added for investees (see summaries on pages 12 and 13).

The Manager's report also comments specifically on the strong performance of the unquoted portfolio as well as the down rating across the AiM portfolio. Investment sales totalled £12.6 million realising significant net profits of £7.3 million, which represents a creditable multiple on cost of 2.4 times.

Making Further Investments in Baronsmead VCT 3

The record of share price total returns and the availability of ISA-style tax reliefs illustrate some of the merits for UK private investors of acquiring existing shares in Baronsmead VCT 3. The Manager sent a guide to all shareholders in September 2007 titled "How to acquire additional shares in the generalist Baronsmead VCTs", which provides more information about how to purchase or subscribe for more shares and how the different VCT tax reliefs apply.

Following revisions to VCT legislation in the Finance Acts 2006 and 2007 the detailed way in which new share capital can be deployed has become clearer and as a consequence the Board is able to increase the financial planning opportunities available to ordinary shareholders by offering them the ability to subscribe for new "top up" shares.

In August 2007 top-up offers of up to €2.5 million (approximately £1.7 million) were sent to ordinary and C shareholders. The offers closed on 24 September 2007. The C share offer was over-subscribed by 4.2 per cent and the ordinary share offer raised approximately £0.7 million, leaving the capacity to raise an additional €1.5 million. As a result, a top-up offer to raise up to €1.5 million has been sent to the enlarged group of ordinary shareholders on the share register as at the date of this report. Full terms and conditions of that offer are contained in the offer document.

In the year to 31 December 2007, the Dividend Reinvestment Plan (DRIP) acquired a total of 655,715 ordinary shares for 391 ordinary shareholders (some 22.5 per cent). This scheme is now available to shareholders who previously held C shares and allows shareholders to re-invest their dividends in existing ordinary shares via the market. Shares acquired through the DRIP count towards an individual's annual limit for VCT investment and qualifying investors benefit from tax-free

dividends and capital gains. However, no up-front income tax relief is available on shares acquired through the DRIP. The C shareholders were sent the DRIP brochure and application form following conversion of their C shares and these are generally available if shareholders contact the Registrar.

New Listing Regulation

Listed companies are now required to state their investment policy in full and this is set out in the Report of the Directors on pages 15 and 16 of this report. In this way existing and prospective shareholders can understand the investment opportunity which the Company offers and identify how risk spreading is achieved. The Board reviews the investment policy on a regular basis to ensure that it remains appropriate in the prevailing market conditions and a summary is set out on the inside front cover.

New Disclosure and Transparency rules were introduced earlier in 2007 and as a result interim management statements will now be produced following the 31 March and 30 September quarter ends. The two statutory reports and two quarterly fact sheets will continue to be published by Baronsmead VCT 3 and sent direct to shareholders either electronically or by post, or published on the Company's website, www.baronsmeadvct3.co.uk.

Annual General Meeting

We now have approximately 3,000 ordinary shareholders and our task as a Board is to ensure that we meet and understand your requirements. I look forward to welcoming as many shareholders as possible to the AGM on 19 March 2008 at 11 a.m. followed by a presentation by ScriptSwitch, a provider of prescription software for GPs, lunch and a shareholder workshop finishing by 2.30 p.m.

Outlook

The UK stock market is currently anticipating more difficult economic conditions and further downgrades in the ratings of smaller quoted companies are possible. Unquoted companies are likely to be less affected but within both categories this may present more propitious buying opportunities for which Baronsmead VCT 3 has the necessary cash resources.

There appears to be resilience in the trading of many of the AiM investees, but in weaker markets the ratings of smaller and less liquid companies are bound to suffer. However the existing portfolio appears healthy enough to sustain performance from which the hope is to maintain the dividend record.



Mark Cannon Brookes
Chairman

28 January 2008

Manager's Review

David Thorp
Investment Manager

Andrew Garside
Investment Manager

Prem Mohan Raj
Chief Financial Officer Funds

Rhonda Nicoll
Company Secretary

New Investment

The total portfolio grew to 72 companies after fifteen new investments, net of eleven realisations. The new investments set out below totalled £7.6 million, including three sizeable unquoted investments and twelve smaller AiM subscriptions averaging £234,000. Further financings are within the total amount invested and were spread over eight other investees.

Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments				
CableCom Networking	Somerset	IT	Provider of network solutions	1,381
Occam*†	Bath	Business services	Integrated data services	42
Quantix	Nottingham	IT	Database services	1,194
ScriptSwitch	Coventry	IT	Prescription software	1,167
Total Unquoted Investments				3,784
AiM-traded investments				
Appian Technology*	Buckinghamshire	IT	Number plate recognition products	52
Brulines Holdings*†	Stockton-on-Tees	Business services	Pub management systems	57
Claimar Care*	Birmingham	Healthcare	Domiciliary care	219
Cohort†	Henley-on-Thames	Business services	Services to the defence industry	179
Concateno*†	London	Healthcare	Drugs testing	72
Craneware†	Livingston	IT	Software for US healthcare	179
EBTM	Nottingham	Consumer	Online fashion retailer	244
Essentially Group	Jersey	Media	Sports marketing	255
Ffastfill	London	IT	Trading platform software provider	130
Fishworks*	Bath	Consumer	Fishmongers and fish restaurants	46
IDOX*	London	IT	Public sector software and services	320
INVU	Northampton	IT	Document management software	35
Mission Marketing Group	London	Media	Marketing services agency	190
Mount Engineering	York	Business services	Thread adaptors and valves	385
Optimisa	London	Media	Marketing services and strategic consultancy	298
Plastics Capital	London	Business services	Plastics products manufacturing	473
Research Now†	London	Media	Online market research	263
Tangent Communications	London	Business services	Customised promotional material	180
Tasty*	London	Consumer	Restaurant operator	200
Total AiM-traded Investments				3,777
Total Investments				7,561
*Further round of financing †Non-qualifying investments totalled £353,000 during the year				

There was strong value growth across the unquoted portfolio, which increased in value by 29 per cent over the period. Organic growth was particularly evident in Crucible Group (credit management), kidsunlimited (children's daycare centres) and Kafend (hot drinks vending for small companies). ILS (domiciliary care) and SLR (UK and American environmental consultancy) achieved their growth with a combination of

acquisitions and favourable existing trading. Investments made in 2006 such as Fisher (cycle accessories distribution) and EWT (top fruit distributors) continued on plan as did the three unquoted investments made during 2007. There was a full write-off against the investments in Country Artists (resin collectibles) while the Art Group (publisher of art content) has been down-valued as it failed to meet its business plan.

Following the first half year of steady progress and profitable realisations, the share prices of the AiM portfolio fell sharply in the second half by 21 per cent overall, partly due to the announced changes to capital gains tax legislation

Cash and gilts stayed at a healthy level, due in part to realisations and in part to the proceeds of the 2005/06 C share offer waiting to be invested. The intention will be to utilise these cash resources to fund new unquoted and AiM investments, which are anticipated to be better priced than previously. The level of new unquoted transactions was lower than expected in the year although two delayed investments were subsequently completed during January 2008.

Realisations in 2007

The sales of Domantis, Martin Audio and Americana were reported at the interim stage and since then Boldon James and RLA Media have been sold to QinetiQ and Mission Marketing. Overall these five investments made between December 2002 and May 2005 showed exceptional growth. After netting out the write-off of Country Artists, the sales produced more than three times their cost and this multiple is higher still, at four times, if the earlier part sale of Americana is also taken into account.

Since the year end, in January 2008, Hawksmere has also been sold to Kaplan Financial Limited at 2.5 times the cost of investment in December 2003. This investment had been held at zero value until June 2006 but during the year under review increased in value by some £1.0 million as profitable trading returned and accelerated.

Realisations of £1.5 million, representing 1.5 times the original cost from five AiM companies, reflected the high level of bid activity and more buoyant ratings on AiM earlier in 2007. The total shareholding in Worthington Nicholls was sold through the market and, retrospectively, was well timed. This sale provided a realised profit of £744,000 for C shareholders. In addition, deferred proceeds of £35,000 were received on unquoted investments realised in prior periods.

Investor Relations

Shareholders who acquired shares through the C share offer in winter 2005/6 can permanently retain any VCT income tax relief that they may have claimed if these shares are held for 3 years or more from the date they were issued. Shareholders who acquired shares in the two top-up offers in autumn 2007 can permanently retain any VCT income tax relief that they may have claimed if those shares are held for 5 years from the date they were issued, following the revisions made in the 2006 Finance Act.

Shareholders are sent separate share certificates each time they make an investment, which will help identify which shares are

acquired at different times. On conversion, those C shareholders who invested in the top-up offer will have received two ordinary share certificates to demarcate the shares acquired in winter 2005/06 and those acquired in autumn 2007. The annual statement sent to individual shareholders in May/June each year is intended to help in this regard, as well as identifying that all dividends have been paid.

Shareholders passed the resolution concerning electronic communications at the Annual General Meeting held on 17 April 2007. Following notification from the Registrars in August 2007, 935 shareholders elected to continue to receive paper copies of the Company's shareholder communications and 265 shareholders wished to receive notification of the availability of the latest reports from the Company electronically. The 1,838 shareholders who did not respond are deemed to have given their consent to receive postal notification of the availability of the latest communications online. As a result, the Company will save printing and postal costs of approximately 2,000 fewer annual and interim reports.

Shareholders can obtain information about their shareholdings, and have the ability to change their registered details such as address and bank account details for dividend payments etc, by registering with Computershare's Investor Service at the following web site www.computershare.co.uk/investor. Once registered with Investor Centre, shareholders can also elect to receive electronic communications by ticking the box which selects "Electronic Shareholder Communications".

Outlook

An uncertain economic environment and stock markets that are trending downwards both provide a depressed backdrop for prospects in 2008. The counter balance to this general gloom is that the unquoted portfolio is currently exhibiting resilient trading, as are many within the AiM portion of the portfolio.

The investment mandate is long term so, where the Manager perceives such value, the intention is to wait until sentiment improves. In the meantime it is still possible for well-managed and well-positioned companies to become attractive take-over targets. It will be such profitable realisations that can fuel total returns for Baronsmead VCT 3 and provide the reserves for the continued payment of dividends.

Good buying opportunities should also become more evident.

Investment Manager
ISIS EP LLP

28 January 2008

Ordinary shares realisations Year to 31 December 2007		First Investment Date	Cost £'000	Proceeds £'000	Multiple Return
Unquoted					
Americana	Sale to financial buyer	August 2003	443	1,375	8.0*
Domantis	Trade sale	April 2004	601	2,491	4.1
RLA Group	Trade sale	April 2005	1,105	1,762	3.7*
Martin Audio	Trade sale	August 2003	786	2,668	3.5*
Boldon James	Trade sale	June 2005	562	1,668	3.1*
Country Artists	Liquidation	June 2004	448	-	0.1*
AiM					
Worthington Nicholls	Full sale	June 2006	27	86	3.2
Talarius	Trade sale	May 2005	250	700	2.8
IPT Holdings	Part sale	November 2004	114	226	2.0
Blooms of Bressingham	Trade sale	April 2001	320	291	0.9
Polaron	Trade sale	March 2004	296	188	0.6
Medal Entertainment & Media	Write off	August 2002	227	-	-

* includes interest received

Investment Portfolio

Investment Classification as at 31 December 2007

(Combined investments of both ordinary shares and C shares)

By Sector		Total Assets				Time Investments Held			
Company	Nature of business	Book cost		Valuation		Total	% of Net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by other funds*
		Ordinary shares £'000	C shares £'000	Ordinary shares £'000	C shares £'000	£'000			
Unquoted									
Reed & Mackay	Business services	1,211	–	2,268	–	2,268	3.5	9.5	28.5
Independent Living Services	Healthcare	801	–	2,205	–	2,205	3.4	14.4	43.1
Kafevend	Consumer markets	1,247	–	2,161	–	2,161	3.3	15.4	46.3
Fisher Outdoor Leisure	Consumer markets	100	1,323	152	2,004	2,156	3.3	10.5	31.4
Empire World Trade	Business services	120	1,177	196	1,925	2,121	3.3	7.1	21.4
kidsunlimited	Business services	481	–	1,856	–	1,856	2.8	4.6	9.2
ScriptSwitch	IT support services	326	841	484	1,250	1,734	2.7	7.2	21.5
The Crucible Group	Business services	1,032	–	1,723	–	1,723	2.6	8.6	24.7
Hawksmere	Business services	766	–	1,680	–	1,680	2.6	10.5	27.1
SLR Holdings	Business services	290	–	1,592	–	1,592	2.4	2.6	6.7
Cablecom Networking	IT support services	385	996	385	996	1,381	2.1	10.6	31.7
Quantix Holdings	IT support services	261	933	298	1,063	1,361	2.1	11.4	34.2
The Art Group	Media	1,281	–	1,339	–	1,339	2.1	7.0	18.0
Crew Clothing	Consumer markets	59	873	81	1,188	1,269	1.9	5.9	17.8
MLS	IT support services	62	719	66	768	834	1.3	5.3	16.0
Xention Discovery	Healthcare	650	–	673	–	673	1.0	3.0	1.9
Occam	Business services	462	–	651	–	651	1.0	4.6	11.6
Green Issues	Media	98	399	124	498	622	1.0	9.5	28.5
Total unquoted		9,632	7,261	17,934	9,692	27,626	42.4		
FTSE SmallCap									
Vectura Group	Healthcare	771	–	860	–	860	1.3	0.5	0.9
Ardana	Healthcare	619	–	227	–	227	0.4	0.8	0.6
Oxford BioMedica	Healthcare	250	–	73	–	73	0.1	0.1	0.1
Total FTSE SmallCap		1,640	–	1,160	–	1,160	1.8		

Company	Nature of business	Book cost		Valuation		Total £'000	% of Net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by other funds*
		Ordinary shares £'000	C shares £'000	Ordinary shares £'000	C shares £'000				
Quoted on AiM									
Jelf Group	Business services	551	–	1,503	–	1,503	2.3	2.5	7.6
IDOX	IT support services	920	–	1,080	–	1,080	1.7	2.8	4.8
Murgitroyd Group	Business services	319	–	1,054	–	1,054	1.6	3.2	3.2
Claimar Care	Healthcare	73	497	93	636	729	1.1	1.4	5.5
Begbies Traynor Group	Business services	283	–	708	–	708	1.1	0.9	2.6
Proactis Holdings	IT support services	29	371	42	544	586	0.9	3.0	12.1
Concateno	Healthcare	38	359	46	501	547	0.8	0.5	2.0
Driver Group	Business services	438	–	498	–	498	0.8	2.4	8.7
InterQuest Group	Business services	310	–	478	–	478	0.7	1.9	5.6
Plastics Capital	Business services	124	349	108	303	411	0.6	1.8	8.3
Huveaux	Media	541	–	400	–	400	0.6	1.4	3.0
Brulines Holdings	Business services	31	316	35	364	399	0.6	1.2	5.2
Adventis Group	Media	281	–	374	–	374	0.6	2.4	6.1
Mount Engineering	Business services	107	278	101	262	363	0.6	2.3	10.6
Sanderson Group	IT support services	387	–	348	–	348	0.5	1.8	5.3
Prologic	IT support services	310	–	331	–	331	0.5	4.1	10.9
Optimisa	Media	83	215	75	193	268	0.4	1.5	7.3
Research Now	Media	69	194	65	183	248	0.4	0.3	1.2
EBTM	Consumer markets	68	176	68	176	244	0.4	2.1	9.8
Colliers CRE	Business services	470	–	241	–	241	0.4	0.9	1.8
Quadnetics Group	Business services	296	–	240	–	240	0.4	0.7	1.6
Stagecoach Theatre Arts	Consumer markets	419	–	239	–	239	0.4	4.6	4.6
Business Direct Group	Business services	665	–	236	–	236	0.4	3.8	7.1
Kiotech International	Business services	12	188	14	220	234	0.4	2.7	10.6
Interactive Prospect Targeting	Business services	139	–	224	–	224	0.3	0.5	1.6
Essentially Group	Media	71	184	62	160	222	0.3	1.4	8.3
Vero Software (formerly VI Group)	IT support services	300	–	209	–	209	0.3	3.7	10.5
Autocienz Holdings	Consumer markets	80	320	42	166	208	0.3	3.1	9.2
Craneware	IT support services	50	129	58	149	207	0.3	0.6	2.6
Cohort	Business services	47	132	52	146	198	0.3	0.3	1.7
Appian Technology	IT support services	56	246	36	160	196	0.3	2.8	8.5
Tasty	Consumer markets	52	188	43	152	195	0.3	0.8	4.0
WIN	IT support services	263	–	181	–	181	0.3	1.3	3.6
Tangent Communications	Business services	38	142	36	137	173	0.3	0.9	4.0
Mission Marketing Group	Media	190	–	159	–	159	0.2	0.4	1.1
Air Music & Media Group	Media	574	–	150	–	150	0.2	1.6	2.8
Xpertise Group	Business services	296	–	148	–	148	0.2	2.4	4.1
FfastFill	IT support services	36	94	34	87	121	0.2	0.5	2.4
Payzone (formerly Cardpoint)	Business services	88	–	103	–	103	0.2	0.1	0.1
Eg Solutions	IT support services	375	–	97	–	97	0.1	3.1	11.1
Real Good Food Company	Consumer markets	540	–	92	–	92	0.1	0.6	1.7
Fishworks	Consumer markets	174	–	70	–	70	0.1	1.0	3.1
Brainjuicer	Media	3	47	4	63	67	0.1	0.4	1.5
MKM Group	Business services	284	–	48	–	48	0.1	0.9	2.3
Universe Group	IT support services	158	–	42	–	42	0.1	0.6	1.5
DebtMatters Group	Consumer markets	169	–	40	–	40	0.1	0.8	2.4
INVU	IT support services	10	25	10	25	35	0.1	0.1	1.8
Cantono (formerly Hamsard Group)	IT support services	375	–	25	–	25	0.0	0.1	0.4
Zoo Digital Group	IT support services	584	–	15	–	15	0.0	0.4	0.7
Capcon Holdings	Business services	137	–	6	–	6	0.0	1.7	3.4
Micap	Healthcare	325	–	6	–	6	0.0	0.2	0.5
Total AiM		12,238	4,450	10,369	4,627	14,996	23.0		
Interest bearing securities									
UK Treasury 5.0% 07/03/08		562	7,622	563	7,636	8,199	12.5		
Money Market OEIC		5,024	3,114	5,024	3,114	8,138	12.5		
Total interest bearing securities		5,586	10,736	5,587	10,750	16,337	25.0		
Total investments		29,096	22,447	35,050	25,069	60,119	92.2		
Net current assets less creditors due after 1 year				3,796	1,306	5,102	7.8		
Net assets				38,846	26,375	65,221	100.0		

A provision of £nil has been made against unquoted investments as at 31 December 2007 (2006 – £574,000)

*Other Funds managed by the same Investment Manager: ISIS EP LLP

Ten Largest Investments

The top ten investments by current value to 31 December 2007 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information, which has been audited by the auditors of the investee companies.

REED & MACKAY LIMITED London		Taking customers around the world		
First Investment	November 2005	Year ended 31 March	2007	2006
Cost	£1,211,000		£ million	£ million
Valuation	£2,268,000	Sales	10.8	9.4
Valuation Basis	Discounted price earnings	Profit before tax	2.8	2.6
Percentage of equity held	9.5%	Retained profit	2.3	2.0
<i>Reed & Mackay Limited is a provider of business travel management services to professional services firms and corporates. £5.0 million was raised in November 2005 to fund a replacement capital deal.</i>		Net assets	3.4	8.2
www.reedmac.com				

INDEPENDENT LIVING SERVICES LIMITED Alloa		Flexible, responsive and accountable domiciliary care		
First Investment	September 2005	Year ended	2006	2005
Cost	£801,000	30 September	£ million	£ million
Valuation	£2,205,000	Sales	6.8	6.3
Valuation Basis	Discounted price earnings	Profit before tax	0.9	0.7
Percentage of equity held	14.4%	Retained profit	0.7	0.4
<i>Independent Living Services Limited (ILS) is one of the leading providers of acute domiciliary care to its local authority customers, mainly based in East Scotland. ILS first invested in ILS in September 2005 and, in November 2006, supported its first acquisition, giving the enlarged group a strong presence in the west of Scotland.</i>		Net assets	2.0	1.2
www.ilsscotland.com				

KAFÉVEND GROUP LIMITED Crawley		SME hot drinks vending		
First Investment	October 2005	Year ended	2006	2005
Cost	£1,247,000	30 September	£ million	£ million
Valuation	£2,161,000	Sales	12.1	10.8
Valuation Basis	Discounted price earnings	Profit before tax	0.3	1.7
Percentage of equity held	15.4%	Retained profit/(loss)	0.2	(9.9)
<i>Kafévend Group Limited is a leading provider of drinks vending machines and consumables to the SME market. £5 million was invested in October 2005 to fund a management buyout. Kafévend employs over 70 people and operates from seven sites across the UK.</i>		Net assets	1.5	1.3
www.kafevend.co.uk				

FISHER OUTDOOR HOLDINGS LIMITED St Albans		Supplying the biking industry		
First Investment	June 2006	Year ended 31 January	2007	2006
Cost	£1,423,000		£ million	£ million
Valuation	£2,156,000	Sales	18.1	15.4
Valuation Basis	Discounted price earnings	Profit before tax	2.5	2.0
Percentage of equity held	10.5%	Retained profit	2.1	1.4
<i>Fisher Outdoor Holdings Limited has grown to be the strongest name in the supply of cycle accessories and components to the UK cycle trade. £5.6 million was invested to effect a management buyout in June 2006. Fisher employs 80 staff distributing key branded and own label products.</i>		Net assets	7.7	5.3
www.fisheroutdoor.co.uk				

EMPIRE WORLD TRADE LIMITED Spalding		Keeping the UK eating an apple a day		
First Investment	August 2006	Year ended 30 April	2007	2006
Cost	£1,297,000		£ million	£ million
Valuation	£2,121,000	Sales	95.3	83.7
Valuation Basis	Discounted price earnings	Profit before tax	3.9	2.8
Percentage of equity held	7.1%	Retained profit	2.8	1.9
<i>Empire World Trade Limited imports top-quality deciduous fruit, primarily apples and pears, and has achieved leadership in terms of quality and service. In August 2006, £5.2 million was invested to effect a management buyout. Empire sources and supplies fresh produce to major supermarkets like Tesco and Marks & Spencer.</i>		Net assets	5.1	2.9
www.empireworldtrade.com				

kidsunlimited wilmslow**Sales and profits growth**

First Investment	June 2001	Year ended 30 April	2007	2006
Cost	£481,000		£ million	£ million
Valuation	£1,856,000	Sales	27.4	23.6
Valuation Basis	Discounted price earnings	Loss before tax	(1.6)	(2.0)
Percentage of equity held	4.6%	Retained loss	(1.6)	(2.0)
		Net liabilities	(9.1)	(7.5)

kidsunlimited is a major UK provider of day care facilities for children under five years old. The company operates a combination of owned nurseries and those located within the workplace. It raised £4.95 million to fund expansion and a share reorganisation.

Since investment in 2001, the number of places for children has grown from 2,077 to over 4,500 across 50 sites.

www.kidsunlimited.co.uk

ScriptSwitch Limited coventry**Prescription software**

First Investment	May 2007	Year ended 30 June	2007	2006
Cost	£1,167,000		£ million	£ million
Valuation	£1,734,000	Sales	2.1	0.3
Valuation Basis	Discounted price earnings	Profit/(loss) before tax	0.9	(0.4)
Percentage of equity held	7.2%	Retained profit/(loss)	0.7	(0.4)
		Net assets/(liabilities)	0.4	(0.3)

ScriptSwitch Limited provides an innovative prescribing software product to Primary Care Trusts ('PCTs'), which is then employed by GPs in their surgeries. ScriptSwitch is a unique medicines management tool that enables PCTs to save millions of pounds from their drugs budgets.

In May 2007, ISIS completed the £9.9 million secondary buy-out of ScriptSwitch.

www.scriptswitch.com

THE CRUCIBLE GROUP LIMITED Carshalton**Credit management services**

First Investment	May 2005	Year ended 30 September	2006	2005
Cost	£1,032,000		£ million	£ million
Valuation	£1,723,000	Sales	8.0	7.3
Valuation Basis	Discounted price earnings	Profit before tax	0.8	0.8
Percentage of equity held	8.6%	Retained profit	0.7	0.7
		Net assets	2.8	2.1

The Crucible Group Limited is a credit management and debt collection business working on behalf of financial services and other commercial customers. In May 2005 £4 million was raised for a management buy-out.

The Crucible Group collects debts for credit card companies like Barclays, MBNA and Egg as well as utility companies such as Vodafone, Tiscali and NTL.

www.creditsolutions.co.uk

HAWKSMERE LIMITED London**Provider of professional training seminars and conferences**

First Investment	December 2003	Year ended 31 December	2006	2005
Cost	£766,000		£ million	£ million
Valuation	£1,680,000	Sales	8.0	8.0
Valuation Basis	Offer	Loss before tax	(1.0)	(1.5)
Percentage of equity held	10.5%	Retained loss	(1.0)	(1.5)
		Net liabilities	(3.2)	(2.2)

Hawksmere Limited is a leading provider of professional training seminars and conferences in subjects ranging from business law to PR and senior management development. Hawksmere also operates outsourced training contracts for a range of partners including Croner and the Royal Town Planning Institute. In December 2003 £6 million was invested to fund a management buy-out. Hawksmere operates from an office in London and currently employs 40 staff.

www.hawksmere.co.uk

SLR HOLDINGS LIMITED Aylesbury**Environmental consultancy**

First Investment	September 2004	Year ended 27 October	2006	2005
Cost	£290,000		£ million	£ million
Valuation	£1,592,000	Sales	23.8	18.4
Valuation Basis	Discounted price earnings	Profit before tax	2.7	1.9
Percentage of equity held	2.6%	Retained profit	1.7	1.1
		Net assets	9.7	10.4

SLR Holdings Limited provides high quality environmental services to private and public sector clients throughout the UK and overseas. The company continues to expand and, following the acquisition of SEACOR in Canada in September 2007, now employs 600 staff based in 15 offices in the UK and 24 in North America.

www.slrconsulting.co.uk

Creating Shareholder Value

HOW ISIS REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT 3 PLC

Baronsmead VCT 3 plc invests primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM, run by entrepreneurial managers. It is the growth aspirations of these companies and their track record that make them above average and out of the ordinary.

The following four examples show how this approach has led to an increase in the investment value. The ISIS selection criteria include:

- Ability to become a market leader in their chosen niche
- Management teams who can deliver profitable and sustained growth
- Company can become a premium asset attractive to multiple bidders on exit

ISIS seeks selective opportunities from its four UK offices through a combination of corporate finance advisers and direct approaches.

For the unquoted investments the ISIS team participates actively at Board level in the major decisions setting the business plan and development of the management team. The intention is to build on the initial platform and grow the business so that it can become an attractive target able to be either sold or floated in the medium term.

Development of the management team

kidsunlimited, Wilmslow

kidsunlimited has earned a reputation as leaders in top quality, progressive childcare. For over twenty years now "we've been giving young children boundless opportunities to learn through imagination, creativity and play, while offering parents peace of mind that comes from knowing their children couldn't be better cared for."

kidsunlimited is a provider of day care facilities to children up to the age of five years old operating more than 50 sites through a combination of owned nurseries and those located within the workplace.

Since first investment in June 2001, the UK market for daycare has changed markedly following rapid capacity growth, heightened regulation and government supply and demand initiatives, including the introduction of childcare vouchers. This has required the management team working in conjunction with ISIS to continually adapt the strategy of the business. Unbowed by such influences, turnover has grown almost three fold in the six years to 30 April 2007. The growth has seen the value of the investment increase 3.8 times over initial cost by 31 December 2007.

www.kidsunlimited.co.uk

Building the right strategy

JELF GROUP PLC, Yate

www.jelfgroup.co.uk

The Jelf Group is one of the leading corporate consultancies in the South of England and Wales with offices across those regions. As a full service consultancy, businesses are advised across a range of services including insurance, healthcare, employee benefits, commercial finance and wealth management.

The Group has undertaken a series of acquisitions and embraced a new regulatory environment in which the FSA oversees the general insurance, healthcare and mortgage markets. In the four years to 30 September 2007, annual turnover has grown from £8.5 million to £40.6 million.

Since first investment by ISIS in October 2004 on the AIM flotation and subsequently again in February 2006, the combination of organic and acquisition growth has increased the share price of the investment to 2.7 times the combined cost. On float, ISIS held the largest institutional shareholding of 13.8%.

FISHER OUTDOOR LEISURE, St Albans

With origins dating back to 1934, Fisher Outdoor Leisure has grown with 3 generations of the Fisher family to become one of the leading distributors of bicycle parts and accessories to the UK's independent bike dealers, retail chains and on-line retailers.

Fisher's product range consists mainly of branded products, covering most categories of the cycle parts and accessories market. Products are sourced from suppliers all over the world and over 30 brands are distributed by Fisher under exclusive distribution contracts.

In 2006 ISIS backed the former Commercial Director, Richard Allmark in a management buy out. ISIS introduced an experienced chairman to the business with highly relevant commercial experience and assisted Richard with recruitment of a Finance Director and Sales Director. With these new skills and experience the business is well placed to capitalise upon the growing level of consumer interest and government support for cycling as a healthy and 'green' mode of transport.

Based on the level of current profitable trading, the investment has been revalued to 1.5 times cost.

www.fisheroutdoor.co.uk

Exploiting the market opportunity

SLR HOLDINGS, Aylesbury

SLR Holdings Limited is a multi-disciplinary environmental consultancy which has achieved rapid growth over the last 12 years including organic growth of over 20% per annum in the five years to the end of 2006.

The company provides high quality environmental services to private and public sector clients throughout the UK and overseas. The company continues to expand and, following the acquisition of SEACOR in Canada in September 2007, now employs 600 staff based in 15 offices in the UK and 24 in North America.

Since the investment by ISIS in September 2004, the business has scaled considerably and at 31 December 2007, the value of the initial investment is 4.1 times the cost. This computation includes the 90% redemption of the investment cost in September 2006 comprising the ISIS loan stock and interest and a sizeable unscheduled dividend.

ISIS was attracted to the business by the strong management team, the broad range of technical skills and the growing levels of demand for technical assistance in sectors that were increasingly in the public eye, and facing high levels of scrutiny from government and regulators.

www.slrconsulting.co.uk

Board of Directors

as at 31 December 2007

Mark Cannon Brookes (Chairman)

(age 68) is a director of Smith & Williamson Investment Management. The Smith and Williamson Group has £8 billion of investments under management. He is chairman of CG Asset Management Limited and is also a director of F&C UK Select Trust plc and a number of other companies, mostly overseas.

Andrew Karney

(age 65) was deputy chairman and a shareholder of Language Line Limited in which Baronsmead VCT 3, was an investor. He is chairman of Tin, an anti-corruption NGO. He was previously a director of The Guardian Media Group plc, Guardian News and Media Limited, Integrated Micro Products plc and a number of unquoted companies. He was a founder director of Cable London plc and an executive director of Logica plc.

Gillian Nott

(age 62) was until March 1999 chief executive of ProShare (UK) Limited. She was a director of the Financial Services Authority for 6 years to November 2004. Previously she was responsible for the private equity portfolio at BP and latterly has been a non-executive director of investment trusts at Merrill Lynch and Martin Currie and is chairman of Witan Pacific Investment Trust plc. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 2 plc and recently she was appointed deputy chairman to the AIC.

Robert Owen

(age 62) is a business consultant to developing companies and 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.

As a fully listed company, Baronsmead VCT 3 is required to comply with the Combined Code relating to its Corporate Governance. This Code requires the Company to be headed by an effective Board of Directors who lead and control the Company's affairs.

The Directors of a VCT and investment managers are required under the listing and continuing obligations of the London Stock Exchange to have sufficient and satisfactory experience in the management of a portfolio of unquoted investments of the size and type in which the VCT proposes to invest.

Report of the Directors

Results and Dividends

The Directors submit the Seventh Report and Accounts of the Company for the year ended 31 December 2007

Ordinary Shares	£'000
Profit on ordinary activities after taxation	302
Interim capital dividend of 2 1p per ordinary share paid on 28 September 2007	(666)
Interim revenue dividend of 0 9p per ordinary share paid on 28 September 2007	(285)
Second interim capital dividend of 3 1p per ordinary share paid on 28 December 2007	(1,000)
Second interim revenue dividend of 1 4p per ordinary share paid on 28 December 2007	(452)
C Shares	£'000
Profit on ordinary activities after taxation	1,924
Interim capital dividend of 1 0p per C share paid on 28 September 2007	(240)
Interim revenue dividend of 1 0p per C share paid on 28 September 2007	(240)
Second interim capital dividend of 1 45p per C Share paid on 28 December 2007	(371)
Second interim revenue dividend of 0 55p per C share paid on 28 December 2007	(141)

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 274 of the Income Tax Act 2007 and the Company has received full approval as a Venture Capital Trust from HM Revenue & Customs for the year to 31 December 2006. A review of the Company's business during the period is contained in the Chairman's Statement and Manager's Review.

Business Review

The purpose of this review is to provide shareholders with a snapshot summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators (KPIs) used to measure performance.

Strategy for achieving objectives

Baronsmead VCT 3 plc is a tax efficient company listed on The London Stock Exchange.

Investment Objective

The investment objective of the Company is to achieve long-term capital growth and generate tax-free dividends for private investors.

Investment Policy

The Company's policy is to invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities, and fixed-interest securities, as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AiM investments are primarily held in ordinary shares. Pending investment in unquoted and AiM-traded securities, cash is primarily held in an interest bearing money market open ended investment company (OEIC) and UK gilts.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees will trade overseas. The companies in which investments are made must have no more than £15 million of gross assets at the time of investment (or £7 million if the funds being invested were raised after 5 April 2006) to be classed as a VCT qualifying holding.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HMRC. Amongst other conditions, the Company may not invest more than 15 per cent of its investments in a single company and must have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in Qualifying Holdings, of which 30 per cent by value must be ordinary shares which carry no preferential rights. In addition, it must have at least 10 per cent by value of its total investments in any Qualifying Company in ordinary shares which carry no preferential rights.

Asset mix

The Company aims to be at least 90 per cent invested in growth businesses subject always to the quality of investment opportunities and the timing of realisations. Any un-invested funds are held in cash and interest bearing securities. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities. The maximum amount invested in any one company is limited to £1 million in a fiscal year and generally no more than £2.5 million, at cost, is invested in the same company. The value

Report of the Directors

of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale

Investment style

Investments are selected in the expectation that the application of private equity disciplines, including an active management style for unquoted companies, will enhance value and enable profits to be realised from planned exits

Co-investment

The Company aims to invest in larger more mature unquoted and AiM companies and to achieve this it invests alongside the other Baronsmead VCTs. As such, at the time of initial investment, the combined investment can currently total up to a maximum of £6.5 million for unquoted and £4.4 million for AiM investees. Currently the Manager and its executive members are mandated to invest in unquoted companies alongside the Company on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's Articles permit borrowing to give a degree of investment flexibility. The Company's policy is to use borrowing for short term liquidity purposes only.

No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an ordinary resolution.

Management

The Board has delegated the management of the investment portfolio to ISIS EP LLP ('the Manager'). The Manager also provides or procures the provision of company secretarial, administrative and custodian services to the Company.

The Manager has adopted a 'top-down, sector-driven' approach to identifying and evaluating potential investment opportunities, by assessing a forward view of firstly the business environment, then the sector and finally the specific potential investment opportunity. Based on its research, the Manager has selected a number of sectors that it believes will offer attractive growth prospects and investment opportunities. Diversification is also achieved by spreading investments across different asset classes and making investments for a variety of different periods.

The Manager's Review on pages 6 and 7 provides a review of the investment portfolio and of market conditions during the year.

Principal risks, risk management and regulatory environment

The Board believes that the principal risks faced by the Company are:

- Economic risk – events such as an economic recession and movement in interest rates could affect smaller companies valuations
- Loss of approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the

Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

- Investment and strategic – inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders
- Regulatory – the Company is required to comply with the Companies Act, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report
- Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust
- Operational – failure of the Manager's and administrator's accounting systems or disruption to their businesses might lead to an inability to provide accurate reporting and monitoring
- Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations
- Market Risk – Investment in AiM-traded, PLUS-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock
- Liquidity Risk – The Company's investments may be difficult to realise. The fact that a share is traded on AiM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 17 to 19.

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the twin objectives of achieving long term capital growth and generating tax-free dividends.

Performance, measured by dividends paid to shareholders and the change in NAV per share, is also measured against the FTSE

Report of the Directors

All-Share Total Return Index This index, as the widest measure of UK quoted equities, has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of seven other generalist venture capital trusts. A review of the Company's performance during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's statement on pages 4 and 5.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted in pages 1 to 3 of this report.

Issue and Buy-Back of Shares

Ordinary shares

During the year the Company issued 541,129 ordinary shares and raised net proceeds of £680,000. The Company bought back 450,000 ordinary shares during the year at a cost of £526,000 to be held in Treasury, with a further 200,000 ordinary shares bought back for cancellation at a cost of £233,000. Shares held in Treasury will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The Company holds 3,180,000 ordinary shares in Treasury, representing 9.9 per cent of the Company's issued ordinary share capital as at 28 January 2008.

C shares

During the year the Company issued 1,570,559 C shares and raised net proceeds of £1,696,000. No C shares were bought back during the year.

Directors

Biographies of the Directors are shown on page 14.

Mrs G Nott and Mr R Owen, whose biographies appear on page 14 retire by rotation at the seventh Annual General Meeting of the Company and, being eligible, offers themselves for re-election.

In accordance with Listing Rule (LR) 15.2.13, the Company should have no more than one Director who is also a Director of another company managed by ISIS EP LLP. Transitional provisions are in place for Venture Capital Trusts and the Company must comply with LR 15.2.13 by 28 September 2010. Notwithstanding this, the Board has decided that Mrs G Nott who is a director of Baronsmead VCT 2 plc and Baronsmead VCT plc and Mr R Owen who is a director of Baronsmead VCT 4 plc will seek annual re-election. Accordingly Mrs G Nott and Mr R Owen will retire by rotation at the Annual General Meeting of the Company and, being eligible, will offer themselves for re-election.

The Board confirms that, following performance evaluations, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, and the Board believes that it is therefore in the best interests of shareholders that these Directors be re-elected.

The Directors who held office during the year, and their interests in the ordinary and C shares of the Company, were

	31 December 2007		31 December 2006	
	Ordinary 10p shares	C 50p shares	Ordinary 10p shares	C 50p shares
Mark Cannon				
Brookes	135,818	20,700	123,144	20,700
Andrew Karney	38,656	41,200	35,049	41,200
Gillian Nott	16,597	10,350	16,597	10,350
Robert Owen	10,709	–	10,709	–
Total shares held	201,780	72,250	185,499	72,250

There have been no changes in the holdings of the Directors between 31 December 2007 and 28 January 2008. On 28 January 2008, the C share holdings of Mark Cannon Brookes, Andrew Karney and Gillian Nott converted into 17,728 ordinary shares, 35,284 ordinary shares and 8,864 ordinary shares respectively. This brings their total holdings to Mark Cannon Brookes – 153,546 ordinary shares, Andrew Karney – 73,940 ordinary shares, Gillian Nott – 25,461 ordinary shares.

No Director has a service contract with the Company.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Corporate Governance

Arrangements in respect of corporate governance, appropriate to a Venture Capital Trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in May 2007 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code) will provide better information to shareholders.

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code. Since all the Directors are non-executive the provisions of the Combined Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the Combined Code relating to Directors' remuneration are not relevant except in so far as they relate specifically to non-executive

Report of the Directors

Directors For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed Venture Capital Trust. The Company has therefore not reported further in respect of these provisions.

In view of the requirement in the Articles of Association that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code and provision A 7.2 of the Combined Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years.

The Board consists solely of non-executive Directors of which Mark Cannon Brookes is Chairman and Andrew Karney is Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. New Directors will receive an induction from the Manager on joining the Board, and all Directors receive other relevant training as necessary.

Gillian Nott is chairman of Baronsmead VCT plc and is a director of Baronsmead VCT 2 plc. Robert Owen is a director of Baronsmead VCT 4 plc. The Board does not consider that a Director's tenure reduces his ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and tenure. It also believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Company has no executive Directors or employees.

A management agreement between the Company and its Manager, ISIS EP LLP, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, the Management Engagement and Remuneration Committee and the Nomination Committee.

The Audit Committee, chaired by Mark Cannon Brookes, operates within clearly defined terms of reference and comprises all of the Directors. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor

objectivity and independence is safeguarded in the provision of non-audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly. The Board has reviewed the Combined Code's recommendation that the position of Audit Committee Chairman should not be held by the Chairman of the Board, but concluded that Mark Cannon Brookes as Chairman of the Board was suited to the role.

The Management Engagement and Remuneration Committee, chaired by Mark Cannon Brookes, comprises the full Board and reviews the appropriateness of the Manager's appointment together with the terms and conditions thereof on a regular basis.

The Nomination Committee, chaired by Mark Cannon Brookes, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

During the year the Board held a non-executive Directors meeting to discuss the composition and performance of the Board.

The following table sets out the number of Board and Committee meetings held for the period to 28 January 2008 and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement and Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mark Cannon Brookes (Chairman)*	5	5	2	2	1	1	1	1
Andrew Karney†	5	5	2	2	1	1	1	1
Gillian Nott	5	4	2	2	1	1	1	1
Robert Owen	5	5	2	2	1	1	1	1
*Chairman of all the Committees								
†Senior Independent Director								

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. The Company maintains appropriate Directors' and Officers' liability insurance.

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 continue to adopt the going concern basis in preparing the accounts.

Whistleblowing

The Board has considered the Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns

Report of the Directors

within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their respective organisations.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 19 March 2008 can be found in the Notice of Meeting on pages 42 and 43.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council in October 2005. The process is based principally on the Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular 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 Audit Committee and includes consideration of internal control reports issued by the Manager and other service providers.

Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate the risk of failure to meet business objectives and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to the benchmark index and to comparable Venture Capital Trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Manager adheres to the published investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines, although no material changes may be made to the Company's published investment policy as set out on pages 15 and 16 without the prior approval of shareholders by passing an ordinary resolution.

The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager, including the internal audit function within F&C Asset Management plc and the review of its AAF 01/06 Report by a firm of 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.

Management

ISIS EP LLP ('the Manager') manages the investments for the Company. From 1 January 2007, the liquid assets within the portfolio (being cash, gilts and other assets, which are not categorised as venture capital investments for the purpose of the FSA's rules) have been managed by FPPE LLP. This was a new limited partnership, which is authorised and regulated by the FSA and which has the same controlling members as the Manager. The Manager has continued to act as the manager of the Company and as the investment manager of the Company's illiquid assets (being all AIM-traded and other venture capital investments).

The personnel involved in providing management and investment management services to the Company has not changed as a result of the implementation of these arrangements.

The Manager also provides or procures the provision of secretarial, administrative and custodian services to the Company. The management agreement may be terminated at any date by either party giving twelve months' notice of termination. Under the management agreement, the Manager receives a fee of 2.5 per cent per annum of the net assets relating to the ordinary shares and 2.0 per cent per annum of the net assets relating to the C shares. In addition, the Manager receives an annual administration fee subject to a maximum of £100,000 excluding VAT (adjusted for the movement in RPI). 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.

It is the Board's opinion that the continuing appointment of ISIS EP LLP on the terms agreed is in the best interests of shareholders as a whole.

Co-investment Scheme

The Co-investment Scheme requires that executive members of the Manager invest their own personal capital into five per cent of the ordinary shares of each and every unquoted investment except those life science transactions where ISIS EP LLP is not the lead investor. From 1 April 2007, the rate increased to 12 per cent. By 31 December 2007, a total of £251,740 had been invested in ordinary shares of 13 unquoted investments by 31 executives.

Shares under the Scheme cannot be sold unless and until each investment held by the four Baronsmead VCTs is sold contemporaneously. Gains for the executives will only be

Report of the Directors

achieved if the Baronsmead VCTs make gains from the underlying investment. If the executive leaves before the sale of the investment, they may miss out on much of the potential value inherent in their Co-investment shares. The Scheme is intended to help attract, recruit, retain and incentivise executive members of the Manager.

Procedures are in place whereby the Board receives regular updates from the Manager regarding participants in the Co-investment Scheme and the amounts committed by ISIS EP LLP to each new unquoted investment. The Board also reviews the Co-investment Scheme arrangements at each quarterly valuation meeting. An open dialogue is maintained between the Board and the Manager regarding the operation of the Scheme.

Performance Incentive

A performance fee is payable to the Manager when the Total Return on net proceeds of the ordinary share offers exceeds 8 per cent per annum (simple) on net funds raised.

To take account of the proceeds from the 2005/6 'C' Share offer which were held initially in cash and fixed interest securities, an annual threshold of only 2 per cent for the period to 31 December 2007 (simple) applied to the funds raised under the C Share offer after which the existing arrangement described above will apply. The performance fee is capped at 4.99 per cent of both pools of assets.

To the extent that the Total Return exceeds these thresholds, a performance fee (plus VAT) will be paid to the Manager of 20 per cent of the excess to 31 March 2007, 16.66 per cent to 31 March 2008, 13.33 per cent to 31 March 2009, and 10 per cent thereafter.

No performance fee is payable for the year to 31 December 2007.

ISIS EP LLP – Arrangement Fees

During the year to 31 December 2007, ISIS EP LLP received net income of £73,616 (2006: £125,313) in connection with arrangement fees (net of abort costs) in investee companies.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP (PwC) to advise it on compliance with VCT requirements. PwC review new investment opportunities, as appropriate, and review regularly the investment portfolio of the Company. PwC 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.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

Auditors

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

Post Balance Sheet Event

In accordance with the terms set out in the C share prospectus dated 14 September 2005 the C shares were due to convert into ordinary shares by reference to a date not later than 31 December 2007. The conversion ratio of C shares into ordinary shares was 0.85642528 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 December 2007 (103.15p per share) and dividing it by the net asset value of the assets of the existing ordinary shareholders at 31 December 2007 (120.44p per share).

On 28 January 2008, the conversion of the C shares into ordinary shares resulted in 21,899,078 ordinary shares being issued.

As a result of the C share conversion, the Company has assets of £65.2 million and the total number of ordinary shares in issue after conversion on 28 January 2008 was 54,152,599 (120.44p per ordinary share).

All shares will rank *pari passu* for future dividends paid by the Company.

All deferred shares which arose, as part of the conversion process, have been cancelled by the Company. No value was attributable to these shares.

Substantial Interests

At 28 January 2008 the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital.

Redesignation of unissued C shares

Resolution 6 sub-divides and redesignates all the C shares of 50p each in the authorised but unissued share capital of the Company as ordinary shares of 10p. Upon the passing of this resolution the Company's authorised issued and unissued share capital will only comprise ordinary shares of 10p each.

Directors' Authority to Allot Shares, to Disapply Pre-emption Rights and to re-issue Treasury Shares

The authority proposed under Resolution 7 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an

Report of the Directors

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. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in part, to purchase ordinary shares in the market. Resolution 7 renews the Directors' authority to allot ordinary shares. This would enable the Directors until 18 March 2013, to allot up to 5,415,250 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 28 January 2008).

Resolution 8 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain 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 and/or re-issue shares out of Treasury for cash without pre-emption rights applying by way of offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 5,415,250 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 28 January 2008). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders as a whole.

Treasury Shares

The Company currently holds 3,180,000 ordinary shares in Treasury. If Resolution 8 is passed the Board will consider itself permitted by shareholders to re-issue ordinary shares out of Treasury at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interests of the Company to do so. However, ordinary shares will never be re-issued out of Treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company.

Landsbanki Securities Limited (formerly Teather & Greenwood), the Company's brokers, currently provide a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing Treasury shares when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from Treasury will not attract the 30 per cent initial income tax relief, all further dividends will be tax-free and if they are subsequently sold, no capital gains tax is payable by qualifying shareholders on these shares.

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 9 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than 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. 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. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Extension to the life of the Company

One of the main changes brought about by the Finance Act 2006 is that the holding period for investments moves from 3 years to 5 years from 6 April 2006. This means that in order for initial income tax relief not to be withdrawn, shareholders must hold their shares for 5 years from the date of investment. Resolution 10, which would extend the life of the Company to beyond the AGM in 2014, will permit new shares to be issued on an ongoing basis.

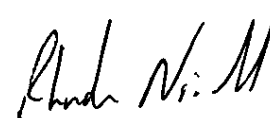
By Order of the Board,

Rhonda Nicoll

for F&C Asset Management plc
Secretary

80 George Street
Edinburgh EH2 3BU

28 January 2008



Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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 the 'Independent Auditors' Report'.

Directors' Fees

The Board consists solely of non-executive Directors and is considered to be entirely independent. The Board 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 Board concluded following the review of the level of Directors' fees for the forthcoming year that the Chairman's and Directors' fees should remain the same.

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.

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 oversee properly 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 2008 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 £100,000 per annum. 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 Original appointment	Due date for Re-election
Mark Cannon Brookes	10 January 2001	AGM 2009
Andrew Karney	10 January 2001	AGM 2010
Gillian Nott	10 January 2001	AGM 2008
Robert Owen	10 January 2001	AGM 2008

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. In accordance with the revised Combined Code on Corporate Governance, Directors who have served on the Board for more than nine years must offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon early termination of appointment.

Company performance

The Board is 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'. The graph below compares for the five financial years ending 31 December 2007, 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 against which investors can measure the relative performance of the fund. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

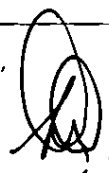
Ordinary Share Price and FTSE All-Share Index Total Return Performance Graph

Directors' emoluments for the year (audited)

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

	Fees 2007 £	Fees 2006 £
Mark Cannon Brookes	21,000	21,000
Andrew Karney	14,000	14,000
Gillian Nott	14,000	14,000
Robert Owen	14,000	14,000
Total	63,000	63,000

On behalf of the Board,
Mark Cannon Brookes
Chairman
28 January 2008



Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including Business Review), Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

Independent Auditors' report to the members of Baronsmead VCT 3 plc

We have audited the financial statements of Baronsmead VCT 3 plc for the year ended 31 December 2007 which comprise the Income Statement, Balance Sheet, Cash Flow Statement and Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report (including the Business Review) is consistent with the financial statements. The information given in the Directors' Report (including the Business Review) includes that specific information presented in the Manager's Review, Chairman's Statement and Seven Year Summary that is cross referenced from the Business Review. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC 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. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

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

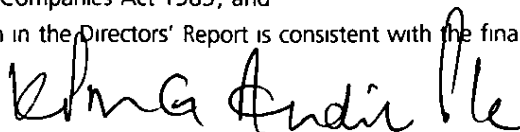
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit 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, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
28 January 2008



Income Statement

For the Year ended 31 December 2007

	Notes	Ordinary shares			C shares			Total		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised (loss)/gain on investments	8	–	(400)	(400)	–	1,493	1,493	–	1,093	1,093
Realised gain on investments	8	–	564	564	–	309	309	–	873	873
Income	2	1,548	–	1,548	1,021	–	1,021	2,569	–	2,569
Investment management fee	3	(304)	(912)	(1,216)	(153)	(459)	(612)	(457)	(1,371)	(1,828)
Other expenses	4	(234)	–	(234)	(247)	–	(247)	(481)	–	(481)
Profit/(loss) on ordinary activities before taxation		1,010	(748)	262	621	1,343	1,964	1,631	595	2,226
Tax on ordinary activities	5	(197)	237	40	(174)	134	(40)	(371)	371	–
Profit/(loss) on ordinary activities after taxation		813	(511)	302	447	1,477	1,924	1,260	966	2,226
Return per ordinary share/C share										
Basic	7	2 53p	(1 59)p	0 94p	1 83p	6 05p	7 88p	–	–	–

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2007

	Notes	2007 Ordinary shares £'000	2007 C shares £'000	2007 Total £'000
Opening shareholders' funds		42,321	24,227	66,548
Profit for the year		302	1,924	2,226
Increase in share capital		680	1,696	2,376
Purchase of shares for Treasury or cancellation	12	(759)	–	(759)
Dividends paid	6	(3,698)	(1,472)	(5,170)
Closing shareholders' funds		38,846	26,375	65,221

The accompanying notes are an integral part of this statement

Income Statement

For the Year ended 31 December 2006

	Notes	Ordinary shares			C shares			Total		
		Revenue £ 000	Capital £ 000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gain on investments		–	6,884	6,884	–	1,509	1,509	–	8,393	8,393
Realised gain on investments		–	779	779	–	241	241	–	1,020	1,020
Income	2	1,170	–	1,170	950	–	950	2,120	–	2,120
Investment management fee	3	(309)	(2,077)	(2,386)	(139)	(775)	(914)	(448)	(2,852)	(3,300)
Other expenses	4	(230)	–	(230)	(139)	–	(139)	(369)	–	(369)
Profit on ordinary activities before taxation		631	5,586	6,217	672	975	1,647	1,303	6,561	7,864
Tax on ordinary activities	5	(65)	65	–	(199)	199	–	(264)	264	–
Profit on ordinary activities after taxation		566	5,651	6,217	473	1,174	1,647	1,039	6,825	7,864
Return per ordinary share/C share										
Basic	7	1 73p	17 24p	18 97p	1 97p	4 90p	6 87p	–	–	–

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2006

	Notes	2006 Ordinary shares £ 000	2006 C shares £'000	2006 Total £'000
Opening shareholders' funds		39,226	17,022	56,248
Profit for the year		6,217	1,647	7,864
Increase in share capital		365	5,804	6,169
Cost of share premium conversion		–	(6)	(6)
Purchase of shares for Treasury		(1,504)	–	(1,504)
Dividends paid	6	(1,983)	(240)	(2,223)
Closing shareholders' funds		42,321	24,227	66,548

The accompanying notes are an integral part of this statement

Balance Sheet

As at 31 December 2007

	Notes	2007			2006		
		Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets							
Investments	8	35,050	25,069	60,119	42,387	23,349	65,736
Current assets							
Debtors	9	943	405	1,348	317	338	655
Cash at bank and on deposit		3,231	1,340	4,571	1,251	1,081	2,332
		4,174	1,745	5,919	1,568	1,419	2,987
Creditors (amounts falling due within one year)	10	(378)	(354)	(732)	(1,634)	(541)	(2,175)
Net current assets/(liabilities)		3,796	1,391	5,187	(66)	878	812
Total assets less current liabilities		38,846	26,460	65,306	42,321	24,227	66,548
Creditors (amounts falling due after one year)	11	–	(85)	(85)	–	–	–
Net assets		38,846	26,375	65,221	42,321	24,227	66,548
Capital and reserves							
Called-up share capital	12	3,543	12,785	16,328	3,509	12,000	15,509
Share premium account	13	4,879	911	5,790	4,253	–	4,253
Capital redemption reserve	13	267	–	267	247	–	247
Revaluation reserve	13	5,954	2,622	8,576	12,102	1,511	13,613
Profit and loss account	13	24,203	10,057	34,260	22,210	10,716	32,926
Equity shareholders' funds	14	38,846	26,375	65,221	42,321	24,227	66,548
Net asset value per share							
– Basic	14	120 44p	103 15p	–	130 77p	100 95p	–
– Treasury	14	119 64p	–	–	129 66p	–	–

The financial statements on pages 25 to 41 were approved by the Board of Directors on 28 January 2008 and were signed on its behalf by



MARK CANNON BROOKES (Chairman)

The accompanying notes are an integral part of this balance sheet

For the year ended 31 December 2007

The accompanying notes are an integral part of these statements

Notes to the Accounts

1 Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and on the assumption that the Company maintains VCT status

The Company is no longer an Investment Company as defined by Section 266 of the Companies Act 1985, as Investment Company status was revoked on 4 February 2004 in order to permit the distribution of capital profits

The principal accounting policies adopted are set out below Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in January 2003, revised December 2005, is consistent with the requirements of UK GAAP, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP

Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement The Revenue profit/(loss) on ordinary activities after taxation is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 Income Tax Act 2007

(b) Valuation of investments

Purchases or sales of financial assets are recognised at the date of transaction The balance of investments traded but not yet settled are disclosed as debtors/creditors as appropriate

Investments are valued at fair value For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted

In respect of unquoted investments, these are fair valued by the Directors in accordance with the following rules, which are consistent with the International Private Equity and Venture Capital Valuation Guidelines developed by the British Venture Capital Association (BVCA) in conjunction with the EVCA and AFIC

1 Investments are to be held at cost for a limited period only and not necessarily for a full 12 month period The Company values new investments on a price earnings basis when audited financial statements are available within the first 12 months of the investment being made

2 Investments outwith the initial limited holding period are valued using a price earnings ratio (at a significant discount to an appropriate stock market prospective 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, a provision on cost or a net asset basis

Gains and losses arising from changes in the fair value of the investments are included in the Income Statement for the period as a capital item Transaction costs on acquisition are included within the initial recognition and the profit or loss on disposal is calculated net of transaction costs on disposal

(c) Income

Interest income on loan stock and dividends on preference shares are accrued on a daily basis Provision is made against this income where recovery is doubtful Where the terms of unquoted loan stocks only require interest to be paid on redemption, the interest is recognised as income once redemption is reasonably certain Until such date interest is accrued daily and included within the valuation of the investment

Income from fixed interest securities and deposit interest are included on an effective interest rate basis

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex-dividend and, where no dividend date is quoted, when the Company's right to receive payment is established

(d) Expenses

All expenses are accounted for on an accruals basis

Expenses attributable to the ordinary shares and C shares were allocated in proportion to their respective net assets

(e) Revenue/capital

The revenue column of the Income Statement includes all income and expenses The capital column accounts for the realised and unrealised gains and losses on investments and the proportion of management fee charged to capital

(f) Issue costs

Issue costs are deducted from the share premium account

(g) 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

Notes to the Accounts

2 Income

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Income from investments †						
UK franked	374	28	402	413	4	417
UK unfranked	1,073	900	1,973	677	789	1,466
	1,447	928	2,375	1,090	793	1,883
Other income ‡						
Deposit interest	101	93	194	80	157	237
Total income	1,548	1,021	2,569	1,170	950	2,120
Total income comprises						
Dividends	374	28	402	413	4	417
Interest	1,174	993	2,167	757	946	1,703
	1,548	1,021	2,569	1,170	950	2,120
Income from investments						
Listed and AIM securities	502	639	1,141	340	708	1,048
Unlisted securities	945	289	1,234	750	85	835
	1,447	928	2,375	1,090	793	1,883

† All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss

‡ Other income on financial assets not designated fair value through profit or loss

3 Investment management fee

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Investment management fee (including irrecoverable VAT)	1,216	612	1,828	1,238	554	1,792
Performance fee (including irrecoverable VAT)	–	–	–	1,148	360	1,508
	1,216	612	1,828	2,386	914	3,300

For the purposes of the revenue and capital columns in the income statement, the management fee (including VAT) has been allocated 25 per cent to revenue and 75 per cent to capital, in line with the Board's expected long term return in the form of income and capital gains respectively from the Company's investment portfolio

The management agreement may be terminated by either party giving 12 months' notice of termination. The Manager, ISIS EP LLP, receives a fee of 2.5 per cent per annum (plus VAT) of the net assets of the Company's ordinary shares and 2 per cent per annum on the net assets of the C shares, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee when the total return on funds raised exceeds 8 per cent per annum (on a simple rather than compound basis) on net funds raised. To take account of the proceeds from the C share offer which was held initially in cash and fixed interest securities, an annual threshold of only 2 per cent for the period to 31 December 2007 (simple) applied to the funds raised under the Offer after which the existing arrangement described above will be applied. The performance fee will be capped at 4.99 per cent of each pool of assets. No performance fee is payable for the year ended 31 December 2007 (2006: £1,508,000). It is chargeable 100 per cent to capital.

ISIS EP LLP receives an annual secretarial fee (plus VAT) of £30,000 (linked to the movement in RPI) plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. This fee is capped at £100,000 (excluding VAT per annum) and is subject to annual review. It is chargeable 100 per cent to revenue.

Amounts payable to the Manager at the period end are disclosed in the creditors note on page 34.

Notes to the Accounts

4 Other expenses

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Directors' fees	42	21	63	42	21	63
Secretarial fees	75	42	117	74	43	117
Remuneration of the auditors and their associates						
– audit	10	7	17	10	5	15
– other services supplied pursuant to legislation (interim review)	4	3	7	3	2	5
– other services supplied relating to taxation	3	2	5	3	2	5
Trail commission	–	110	110	–	20	20
Other	100	62	162	98	46	144
	234	247	481	230	139	369

The Chairman receives £21,000 per annum (2006 £21,000). Each of the other Directors receives £14,000 per annum (2006 £14,000). All figures include irrecoverable VAT, where applicable. The Company is not registered for VAT.

The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

The Directors consider the auditors were best placed to provide the non-audit services above.

5a Tax on ordinary activities

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
UK corporation tax	(40)	40	–	–	–	–

The income statement shows the tax charge allocated between revenue and capital.

5b Factors affecting tax charge for the year

The 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.

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Profit on ordinary activities before tax	262	1,964	2,226	6,217	1,647	7,864
Corporation tax at standard rate of 30 per cent	79	589	668	1,865	494	2,359
Effect of						
Non-taxable dividend income	(112)	(8)	(120)	(124)	(1)	(125)
Non-taxable realisation gains	(49)	(541)	(590)	(2,299)	(525)	(2,824)
Losses carried forward/(utilised)	42	–	42	558	32	590
Tax charge for the year (note 5a)	(40)	40	–	–	–	–

At 31 December 2007 the Company had surplus management expenses of £2,782,000 (2006 £2,617,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

Notes to the Accounts

6 Dividends

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Amounts recognised as distributions to equity holders in the year						
– final dividend for the year ended 31 December 2005 of 3 5p per ordinary share	–	–	–	1,170	–	1,170
– interim dividend for the year ended 31 December 2006 of 2 5p per ordinary share	–	–	–	813	–	813
– interim dividend for the year ended 31 December 2006 of 1 0p per C share	–	–	–	–	240	240
– final dividend for the year ended 31 December 2006 of 4 0p per ordinary share	1,295	–	1,295	–	–	–
– final dividend for the year ended 31 December 2006 of 2 0p per C share	–	480	480	–	–	–
– interim dividend for the year ended 31 December 2007 of 3 0p per ordinary share	951	–	951	–	–	–
– interim dividend for the year ended 31 December 2007 of 2 0p per C share	–	480	480	–	–	–
– second interim dividend for the year ended 31 December 2007 of 4 5p per ordinary share	1,452	–	1,452	–	–	–
– second interim dividend for the year ended 31 December 2007 of 2 0p per C share	–	512	512	–	–	–
	3,698	1,472	5,170	1,983	240	2,223
Proposed distributions to equity holders at the year end						
– final dividend for the year ended 31 December 2006 of 4 0p per ordinary share	–	–	–	1,295	–	1,295
– final dividend for the year ended 31 December 2006 of 2 0p per C share	–	–	–	–	480	480
	–	–	–	1,295	480	1,775

7 Return per share

Ordinary Shares

The 0 94p profit per share (2006 18 97p profit per share) is based on the net profit from ordinary activities after tax of £302,000 (2006 £6,217,000) and on 32,133,709 (2006 32,776,271) ordinary shares, being the weighted average number of ordinary shares in issue during the year

C Shares

The 7 88p profit per share (2006 6 87p profit per share) is based on the net profit from ordinary activities after tax of £1,924,000 (2006 £1,647,000) and on 24,421,456 (2006 23,966,316) C Shares, being the weighted average number of C Shares in issue during the year

Notes to the Accounts

8 Investments

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss. Given the nature of the Company's investments the fair value gains recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and therefore these fair values are treated as unrealised.

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Interest bearing securities	5,587	10,750	16,337	3,989	14,882	18,871
Investments traded on AiM	10,369	4,627	14,996	15,080	3,352	18,432
Investments quoted on FTSE SmallCap	1,160	–	1,160	600	–	600
Unquoted investments	17,934	9,692	27,626	22,718	5,115	27,833
	35,050	25,069	60,119	42,387	23,349	65,736
Equity shares	20,692	6,821	27,513	28,196	3,937	32,133
Preference shares	29	61	90	696	61	757
Interest bearing securities	14,329	18,187	32,516	13,495	19,351	32,846
	35,050	25,069	60,119	42,387	23,349	65,736

	Ordinary Shares				
	Interest bearing securities £'000	Traded on AiM £'000	Quoted on FTSE SmallCap £'000	Unquoted £'000	Total £'000
Opening book cost	3,987	12,865	619	12,814	30,285
Opening unrealised appreciation/(depreciation)	2	2,215	(19)	9,904	12,102
	3,989	15,080	600	22,718	42,387
Movements in the year					
Purchases at cost	7,864	1,379	–	1,014	10,257
Sales – proceeds	(6,267)	(1,491)	–	(10,000)	(17,758)
– realised (losses)/gains on sales	(1)	(149)	–	714	564
Reclassification of investments	–	(771)	1,021	(250)	–
Unrealised gains realised during the year	3	405	–	5,340	5,748
Decrease in unrealised appreciation	(1)	(4,084)	(461)	(1,602)	(6,148)
Closing valuation	5,587	10,369	1,160	17,934	35,050
Closing book cost	5,586	12,238	1,640	9,632	29,096
Closing unrealised appreciation/(depreciation)	1	(1,869)	(480)	8,302	5,954
	5,587	10,369	1,160	17,934	35,050
				2007 £'000	2006 £'000
(Decrease)/increase in unrealised appreciation				(400)	6,884

During the year the Company incurred brokerage costs on purchases of nil (2006 £3,000) and brokerage costs on sales of £1,000 (2006 £4,000) in respect of ordinary shareholder interests.

Notes to the Accounts

8. Investments (continued)

	C Shares				
	Interest bearing securities £'000	Traded on AIM £'000	Quoted on FTSE SmallCap £'000	Unquoted £'000	Total £'000
Opening book cost	14,955	2,392	–	4,491	21,838
Opening unrealised (depreciation)/appreciation	(73)	960	–	624	1,511
	14,882	3,352	–	5,115	23,349
Movements in the year					
Purchases at cost	13,376	2,398	–	2,770	18,544
Sales – proceeds	(17,542)	(1,084)	–	–	(18,626)
– realised gains on sales	15	294	–	–	309
Unrealised (losses)/gains realised during the year	(68)	450	–	–	382
Increase/(decrease) in unrealised appreciation	87	(783)	–	1,807	1,111
Closing valuation	10,750	4,627	–	9,692	25,069
Closing book cost	10,736	4,450	–	7,261	22,447
Closing unrealised appreciation	14	177	–	2,431	2,622
	10,750	4,627	–	9,692	25,069
				2007 £'000	2006 £'000
Increase in unrealised appreciation				1,493	1,509

During the year the Company did not incur any brokerage costs on purchases or sales in respect of C shareholder interests

9 Debtors

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Prepayments and accrued income	682	405	1,087	317	338	655
Amounts due from brokers	261	–	261	–	–	–
	943	405	1,348	317	338	655

10 Creditors (amounts falling due within one year)

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Amounts due to brokers	34	97	131	209	–	209
Management, performance and secretarial fees due to the Manager	304	166	470	1,382	517	1,899
Other creditors	40	91	131	43	24	67
	378	354	732	1,634	541	2,175

Notes to the Accounts

11 Creditors (amounts falling due after one year)

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Trail commission payable	–	85	85	–	–	–
	–	85	85	–	–	–

12 Called-up share capital

	2007 £'000
Authorised	
80,000,000 ordinary shares of 10p each	8,000
27,000,000 C shares of 50p each	13,500
	21,500
Allotted, called-up and fully paid	
<i>Ordinary Shares</i>	
35,092,392 ordinary shares of 10p each at 31 December 2006	3,509
541,129 ordinary shares of 10p issued during the year	54
200,000 ordinary shares of 10p repurchased for cancellation during the year	(20)
35,433,521 ordinary shares of 10p each listed at 31 December 2007	3,543
450,000 ordinary shares of 10p each repurchased during the year and held in treasury at the year end	(45)
2,730,000 ordinary shares of 10p each held in treasury at the start of the year	(273)
32,253,521 ordinary shares of 10p each in issue at 31 December 2007	3,225
<i>C Shares</i>	
23,999,772 C shares of 50p each at 31 December 2006	12,000
1,570,559 C shares of 50p each issued during the year	785
25,570,331 C shares of 50p each at 31 December 2007	12,785

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors on pages 15 and 16

Treasury shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 and allowed the Company to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Up to 10 per cent of each class of a Company's shares may be held in this way. At the Company's AGM on 17 April 2007 shareholders approved a resolution permitting the company to issue shares from treasury at a discount to the prevailing NAV if the Board considers it in the best interests of the Company to do so. However, treasury shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. It is the Board's intention only to use the mechanism of re-issuing treasury shares when demand for the Company's shares is greater than the supply available in the market place. Such issues would be captured under the terms of the Prospectus Directive and subject to the annual cap of Euro 2.5 million on funds raised before requiring a full prospectus, although they would not be considered by HM Revenue & Customs to be new shares entitling the purchaser to initial income tax relief, and therefore shares are unlikely to be issued from treasury in the same year as a "top up" offer for subscription.

C shares

C share issues are used for large fund raisings (typically greater than £10 million) by the Company in order to

- enable shares to be issued at a consistent price to all applicants, rather than by reference to a net asset value per share which may fluctuate over the period of the offer, and
- ensure that existing ordinary shareholders are not disadvantaged by the dilution of a mature investment portfolio through a large injection of cash and near cash assets

Notes to the Accounts

12 Called-up share capital (continued)

C shares convert to ordinary shares at a ratio calculated by reference to their relative net asset value (NAV) per share as at the calculation date. Conversion takes place once the assets attributable to the C shares are considered to constitute a portfolio sufficiently mature that the integration does not disadvantage either ordinary or C share holders, and not later than the calculation date stipulated in the C share prospectus.

In accordance with the terms set out in the C share prospectus dated 14 September 2005 the C shares were due to convert into ordinary shares by reference to a date not later than 31 December 2007. The conversion ratio of C shares into ordinary shares was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 December 2007 (103.15 pence per share) and dividing by the net asset value of the assets of the existing ordinary shareholders at 31 December 2007 (120.44 pence per share). Based on this calculation the conversion ratio was 0.85642528.

On 28 January 2008, the conversion of the C shares into ordinary shares resulted in 21,899,078 ordinary shares being issued.

All deferred shares which arose, as part of the conversion process, have been cancelled by the Company. No value was attributable to these shares.

The Company does not have any externally imposed capital requirements.

13 Reserves

	Ordinary Shares			
	Share premium account* £'000	Capital redemption reserve* £'000	Revaluation reserve* £'000	Profit and loss account £'000
At 31 December 2006	4,253	247	12,102	22,210
Issue of shares	655	–	–	–
Purchase of shares	–	20	–	(759)
Expenses of share issue	(29)	–	–	–
Transfer of prior years' revaluation to profit and loss account	–	–	(5,748)	5,748
Net increase in value of investments	–	–	(400)	400
Dividends paid	–	–	–	(3,698)
Retained profit for the year	–	–	–	302
	4,879	267	5,954	24,203

	C Shares		
	Share premium account* £'000	Revaluation reserve* £'000	Profit and loss account £'000
At 31 December 2006	–	1,511	10,716
Issue of shares	958	–	–
Expenses of share issue	(47)	–	–
Transfer of prior years' revaluation to profit and loss account	–	(382)	382
Net increase in value of investments	–	1,493	(1,493)
Dividends paid	–	–	(1,472)
Retained profit for the year	–	–	1,924
	911	2,622	10,057

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve unless any diminution in fair value is considered permanent, in which case it is charged to the profit and loss account. When an investment is sold any balance held on the revaluation reserve is transferred to the profit and loss account as a movement in reserves.

*These reserves are non-distributable.

Notes to the Accounts

14 Net asset value per share

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

	Number of shares		Net asset value per share attributable		Net asset value attributable	
	2007 number	2006 number	2007 pence	2006 pence	2007 £'000	2006 £'000
Ordinary shares (basic)	32,253,521	32,362,392	120 44	130 77	38,846	42,321
Ordinary shares (treasury)	35,433,521	35,092,392	119 64	129 66	42,392	45,501
C shares (basic)	25,570,331	23,999,772	103 15	100 95	26,375	24,227

Basic net asset value per share is based on net assets at the year end, and on 32,253,521 (2006 32,362,392) ordinary shares and 25,570,331 (2006 23,999,772) C shares, being the respective number of shares in issue at the year end

Treasury net asset value per share is based on net assets at the year end, inclusive of the 3,180,000 (2006 2,730,000) ordinary shares held in treasury valued at middle market share price, and on 35,433,521 (2006 35,092,392) ordinary shares being the number of ordinary shares listed at the year end

15 Analysis of changes in cash

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Beginning of year	1,251	1,081	2,332	1,933	5,815	7,748
Net cash inflow/(outflow)	1,980	259	2,239	(682)	(4,734)	(5,416)
As at 31 December 2007	3,231	1,340	4,571	1,251	1,081	2,332

16 Reconciliation of net revenue before taxation to net cash (outflow)/inflow from operating activities

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Profit on ordinary activities before taxation	262	1,964	2,226	6,217	1,647	7,864
Profit on realisation of investments	(564)	(299)	(863)	(779)	(241)	(1,020)
Unrealised losses/(gains) on investments	400	(1,503)	(1,103)	(6,884)	(1,509)	(8,393)
(Increase)/decrease in debtors	(325)	(67)	(392)	97	(208)	(111)
(Decrease)/increase in creditors	(1,081)	(239)	(1,320)	883	461	1,344
Net cash (outflow)/inflow from operating activities	(1,308)	(144)	(1,452)	(466)	150	(316)

17 Contingencies, guarantees and financial commitments

There were no contingencies, guarantees and financial commitments of the Company as at 31 December 2007 (2006 nil)

18 Significant interests

There were no interests of 20 per cent or more of any class of share capital, in investee companies at 31 December 2007 (2006 nil)

Further information on the significant interests is disclosed on pages 8 and 9

Notes to the Accounts

19 Post balance sheet event

On 28 January 2008 the C shares were converted into ordinary shares in accordance with the terms set out in the C share prospectus dated 14 September 2005. Further details are provided in note 12.

20 Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM.

Fixed asset investments (see note 8) are valued at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are fair valued by the Directors (using rules consistent with the International Private Equity and Venture Capital Valuation Guidelines). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Fund are discussed below.

21 Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and price risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined in note 20. The management of market risk is part of the investment management process and is typical of private equity investment. The portfolio is managed in accordance with policies and procedures in place as described in more detail in the Report of the Directors on pages 17 to 19, with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AiM listed companies, by their nature, involve a higher degree of risk than investments in the main market. Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out on pages 8 and 9. An analysis of investments between debt and equity instruments is disclosed in note 8.

27 per cent of the Company's investments are listed on the London Stock Exchange or traded on AiM. A 5 per cent increase in stock prices as at 31 December 2007 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £808,000 (2006: £952,000), an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

46 per cent of the Company's investments are in unquoted companies held at fair value. Valuation methodology includes the application of a Price/Earnings ratio derived from listed companies with similar characteristics. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed exchanges. A 5 per cent increase in the valuations of unquoted investments at 31 December 2007 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,381,000 (2006: £1,392,000), an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

Notes to the Accounts

22 Interest rate risk

Some of the Company's financial assets are interest bearing, some of which are at fixed rates and some at variable. As a result, the Company is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

The table below summarises weighted average effective interest rates for the fixed interest-bearing financial instruments.

Fixed rate	2007			2006		
	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Ordinary Shares						
Fixed rate						
Financial assets	563	5	67	1,746	4.7	233
C Shares						
Fixed rate						
Financial assets	7,636	5	67	13,172	4.5	66

Floating rate

When the Company retains cash balances, the majority of cash is ordinarily held on interest bearing deposit accounts and, where appropriate, within an interest bearing money market open ended investment company (OEIC). The benchmark rate which determines the interest payments received on interest bearing cash balances is the bank base rate which was 5.75 per cent as at 31 December 2007 (2006: 5.0 per cent).

	Ordinary shares £'000	2007 C shares £'000	Total £'000	Ordinary shares £'000	2006 C shares £'000	Total £'000
Floating rate						
OEIC	5,024	3,114	8,138	2,243	1,710	3,953
Cash on deposit	3,231	1,340	4,571	1,251	1,081	2,332

An increase of 25 basis points in interest rates as at the reporting date would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by £390,000 (2006: £779,000). A decrease of 25 basis points would have had an equal but opposite effect.

Notes to the Accounts

23 Credit risk

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

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

	Ordinary shares £'000	2007 C shares £'000	Total £'000	Ordinary shares £'000	2006 C shares £'000	Total £'000
Investments in fixed interest instruments	563	7,636	8,199	1,746	13,172	14,918
Investments in floating rate instruments	5,024	3,114	8,138	2,243	1,710	3,953
Cash and cash equivalents	3,231	1,340	4,571	1,251	1,081	2,332
Balances due from brokers	261	–	261	–	–	–
Interest, dividends and other receivables	682	405	1,087	317	338	655
	9,761	12,495	22,256	5,557	16,301	21,858

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock.

Credit risk arising on floating rate instruments is mitigated by investing in a money market open ended investment company managed by F&C Fund Management Limited, a trading subsidiary of F&C Asset Management plc, to whom the Manager has delegated the provision of company secretarial and administrative services, and the risk management procedures of which the Board regularly reviews in this regard.

Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed in note 21.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase (JPM), the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Report of the Directors on page 19.

Substantially all of the cash held by the Company is held by JPM. Bankruptcy or insolvency of JPM may cause the Company's rights with respect to the cash held by JPM to be delayed or limited. The Board monitors the Company's risk by reviewing regularly JPM's internal control reports as previously described. Should the credit quality or the financial position of JPM deteriorate significantly the Investment Manager will move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 31 December 2007 or 31 December 2006. No individual investment exceeded 3.5 per cent of the net assets attributable to the Company's shareholders at 31 December 2007 (2006: 3.7 per cent).

Notes to the Accounts

24 Liquidity risk

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

The Company's listed securities are considered to be readily realisable as they are predominantly UK Government Stock.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures in place as described in the Report of the Directors on pages 17 to 19. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 December 2007 these investments were valued at £20,908,000 (2006: £21,203,000).

25 Related parties

Related party transactions include Management, Secretarial and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 3 and 10, and fees paid to the Directors as disclosed in note 4. In addition, the Manager operates a Co-Investment Scheme, detailed in the Report of the Directors on pages 19 and 20, whereby employees of the Manager are entitled to participate in certain unquoted investments alongside the Company.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Baronsmead VCT 3 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS on 19 March 2008 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 2007 be received
- 2 That the Directors' Remuneration Report for the year to 31 December 2007 be approved
- 3 That Mrs G Nott, who retires by rotation, be re-elected as a Director
- 4 That Mr R Owen, who retires by rotation, be re-elected as a Director
- 5 That KPMG Audit Plc, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration

Special Business

Ordinary Resolution

- 6 That each and every C share of 50p each in the authorised but unissued share capital of the Company be and they are hereby sub-divided and redesignated into five ordinary shares of 10p each in the authorised but unissued share capital of the Company
- 7 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 £541,525 during the period commencing on the passing of this resolution and expiring on 18 March 2013 (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

- 8 That subject to the passing of resolution 7 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 (as defined in section 94 of the Act) for cash pursuant to the authority given in accordance with section 80 of the Act pursuant to resolution 7 set out in the notice of this meeting 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) (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount of £541,525 provided that the maximum number of ordinary shares of 10p each in the Company which may be allotted pursuant to this sub-paragraph (ii) shall be 5,415,250 ordinary shares,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 and this resolution "allot" and "allotment" shall be construed in accordance with section 94(3A) of the Act, and
 - (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution

Notice of Annual General Meeting

- 9 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 8,117,470,
 - (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 next Annual General Meeting of the Company 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
- 10 That Article 160 1 of the Articles of Association of the Company, be and is hereby amended by replacing the first sentence of that Article with the following sentence
- "The Board shall procure that at the annual general meeting of the Company in 2014, and every annual general meeting thereafter, an ordinary resolution will be proposed to the effect that the Company shall continue in being as a venture capital trust"

By Order of the Board

Rhonda Nicoll

for F&C Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
28 January 2008



Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company as at 11 00 a.m. on 17 March 2008, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that relevant time. Changes to entries on the register of members after 11 00 a.m. on 17 March 2008, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB at least 48 hours before the meeting. A Proxy Card for use by 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

Enquiries

Shareholders should contact the following regarding queries

Basic contact details, ie change of address, joining the DRIP, queries re share and tax certificates and bank mandate forms

Computershare (Company Registrar)

www.computershare.com/investor

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www.computershare.com. Please note that to access this facility investors will need to quote the reference number shown on their share certificate

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation. Please see www.computershare.com/investor for further information

Shareholder Helpline

The Shareholder Helpline is available on UK business days between Monday and Friday, 8.30 am to 5 pm. The helpline contains automated self-service functionality which is available 24 hours a day, 7 days a week. Using your Shareholder Reference Number which is available on your share certificate or dividend tax voucher, our self-service functionality will let you do the following things

Automated Functions

- confirm the latest share price
- confirm your current share holding balance
- confirm payment history
- order a Change of Address, Dividend Bank Mandate or Stock Transfer Form

e-mail web.queries@computershare.co.uk

Tel 0870 703 0137 (Calls charged at national rate)

Information on DRIP mechanism, share price movements, the share price discount and selling shares

F&C Asset Management plc (Company Secretary)

www.baronsmeadvct3.co.uk

e-mail rhonda.nicoll@fandc.com

Tel 0131 718 1074 Fax 0131 225 2375

Any other points, i.e. valuations of underlying companies, asset allocations, dividend policies and the investment process
ISIS EP LLP (Investment Manager)

www.isisep.com

Contains details of the team and some case studies of historical investments

e-mail david.thorp@isisep.com, prem.mohan-raj@isisep.com, margaret.barff@isisep.com

Tel David Thorp 020 7506 5631, Prem Mohan Raj 020 7506 5640,
Margaret Barff 020 7506 5630

Shareholder communication

The Board has a policy of regular and open communication with shareholders based around quarterly statutory reporting

Electronic communication has been introduced following new legislation in the 2006 Companies Act and the website, www.baronsmeadvct3.co.uk, is currently being developed

Shareholder Information

Share Price

The Company's Shares are listed on the London Stock Exchange. The mid-price of the Company's 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 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:

- Landsbanki Securities (formerly Teather & Greenwood) (020 7426 9000)
- UBS Warburg (020 7567 8000)
- Winterfloods (020 7621 0004)

Please call the Company Secretary if you or your adviser have any questions about this process.

Financial Calendar

19 March 2008	Seventh Annual General Meeting
August 2008	Announcement of interim results
August 2008	Posting of interim report
February 2009	Announcement of final results for year to 31 December 2008

Shareholdings

The shareholdings are analysed as follows:

Size of shareholding	Ordinary Shares				C Shares			
	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage Ordinary Shares	Number of shareholders	Percentage of total number of shareholders	Number of C Shares	Percentage of C Shares
Over 100,000	31	1.8	7,834,080	22.1	39	2.7	5,414,242	21.2
50,001–100,000	81	4.7	5,675,923	16.0	70	4.8	4,466,937	17.5
25,001–50,000	245	14.3	8,545,637	24.1	140	9.6	5,068,719	19.8
10,001–25,000	522	30.3	8,650,525	24.4	417	28.6	6,357,449	24.8
5,001–10,000	451	26.2	3,382,593	9.6	439	30.2	2,986,505	11.7
2,001–5,000	331	19.2	1,313,911	3.7	350	24.0	1,274,949	5.0
1–2,000	60	3.5	30,852	0.1	1	0.1	1,530	–
Total	1,721	100.0	35,433,521	100.0	1,456	100.0	25,570,331	100.0

Additional Information

The information provided in this report has been produced for shareholders to be informed of the activities of the Company during the period it covers. ISIS EP LLP does not give investment advice and the naming of companies in this report is not a recommendation to deal in them.

Baronsmead VCT 3 plc is managed by ISIS EP LLP which is Authorised and regulated by the FSA. Past performance is not necessarily a guide to future performance. Stock markets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount they originally invested. Where investments are made in unquoted securities and smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investment.

Corporate Information

Directors

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

Secretary

F&C Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registered Office and Investment Managers

ISIS EP LLP
100 Wood Street
London EC2V 7AN

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registered Number

04115341

Registrars and Transfer Office

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel 0870 703 0137

Brokers

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Beaufort House
15 St Botolph Street
London EC3A 7QR

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors

Norton Rose
3 More London Riverside
London SE1 2AQ

*Chairman of the Audit Committee

†Senior Independent Director