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Baronsmead VCT 4 plc

2008

Annual report & accounts
for the year ended
31 December 2008

Investment Objective

Baronsmead VCT 4 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 companies 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.

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Dividend policy

The Board wishes to sustain a progressive dividend policy for ordinary shareholders but this depends primarily on the level of profitable realisations and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

www.baronsmeadvct4.co.uk

Secondary market in the shares of Baronsmead VCT 4

Shares can be bought and sold using a stockbroker, just like shares in any other listed investment company albeit market liquidity is limited. 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.

If you have sold or otherwise transferred all of your shares in Baronsmead VCT 4 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 Headlines

−17.3%	NAV per ordinary share decreased to 97.68p before deduction of dividends. After dividends totalling 7.0p per ordinary share in the year to 31 December 2008, the NAV was 90.68p
−0.8%	NAV per C share decreased to 97.56p before deduction of dividends. After dividends totalling 3.5p per C share in the year to 31 December 2008, the NAV was 94.06p
127.2p	NAV total return to ordinary shareholders for every 100p invested since launch in 2001
8.3%	Dividend yield tax-free to qualifying ordinary shareholders (gross equivalent yield for a higher rate taxpayer is 12.3 per cent) based on 7.0p dividends divided by the mid ordinary share price of 84.0p at the year end

Seven Year Summary

Baronsmead VCT 4 plc

Net asset value total return (based on bid market prices)

AIC methodology: The NAV total return to the investor, including the original amount invested (rebased to 100) from launch, assuming that dividends paid were re-invested at NAV of the Company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

Performance Summary to 31 December 2008

Total return	1 year %	3 year %	5 year %	Since launch %
Net asset value†	(17.3)	(1.4)	20.8	27.2
Share price†	(16.86)	8.7	28.9	15.2
FTSE All-share	(29.93)	(13.8)	18.7	10.9

* Source: ISIS EP LLP and AIC.
† These returns for BVCT 4 ignore up front tax reliefs and the impact of receiving dividends tax free.

Performance Record

		C Share			Ordinary Share				
Year ended 31 December	Total net assets £m	Net asset value p	Share price (mid) p	Total net total return* %	Net asset value p	Share price (mid) p	Net asset value total return* %	FTSE All-Share total return %	Combined total expense ratio† %
2002	18.4				94.12	88.00	100.13	83.16	2.84
2003	20.6				96.71	87.50	105.27	92.45	3.61
2004	33.9				103.54	89.50	114.00	107.36	3.59
2005	36.4				112.41	96.50	129.03	131.03	3.78
2006	58.8	97.11	100.00	102.71	123.21	109.50	147.45	152.97	3.32
2007	58.6	100.34	88.50	108.87	122.06	113.50	153.86	161.11	3.06
2008	47.9	94.06	75.50	107.99	90.68	84.00	127.19	110.87	3.01

* Source: ISIS EP LLP.
† As a percentage of average total shareholders' funds (excluding performance fee).

Seven Year Summary

Dividends Paid Since Launch

	C Share		Ordinary Share			
Year ended	Revenue dividend p	Capital dividend p	Revenue dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends
2002			1.0	–	1.0	1.0
2003			2.2	-	2.2	3.2
2004			2.3	1.0	3.3	6.5
2005			1.9	2.6	4.5	11.0
2006	1.5	–	1.9	4.1	6.0	17.0
2007	2.1	1.4	2.4	4.6	7.0	24.0
2008	1.3	2.2	1.5	5.5	7.0	31.0

Cash Returned to Shareholders

The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Net asset value total return %	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross yield† %
2002	27.2	100	20.0	80.0	31.0	5.5	8.2
2006 (C shareholders)	8.0	100	40.0	60.0	8.5	5.0	7.5

Note 1 – The total return 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 (32.5%) income tax.

Chairman's Statement

Philip Dunne
Chairman

The impact of the credit crunch has had severe implications, initially for equity and property asset values, subsequently for consumer spending and now the UK economy as a whole is officially in recession. The resulting fall in Net Asset Value per ordinary share for Baronsmead VCT 4 during the period is less than for most UK Stock Exchange Indices while the NAV per C share has remained firm.

Despite a good level of new investment in the first half of the year under review, the Company retains a high enough level of cash both to take advantage of future investment opportunities as they arise and to support the existing portfolio if needed.

INVESTMENT PERFORMANCE

Results to 31 December 2008

In the year to 31 December 2008, the Net Asset Value (NAV) per ordinary share decreased by 17.3 per cent from 118.06p to 97.68p before deduction of dividends. Two interim dividends were paid in September (3p) and December 2008 (4p) per ordinary share, mainly out of realised capital profits.

The C share capital was converted into ordinary shares on 28 January 2009 at a NAV of 94.06p which resulted in 10,372 new ordinary shares being issued for every 10,000 C shares held. Two interim dividends were paid in September (1.5p) and December 2008 (2p) per C share. Since their launch in March 2006, the NAV total return for the C shares to 31 December 2008 was 8 per cent. These returns are free of tax for qualifying shareholders.

Over the same period the FTSE All-Share index fell by 32.78 per cent while the FTSE indices for UK smaller companies fell further.

The difference between the proportional fall in the ordinary and C shares is due partly to the latter having a higher proportion of assets held in cash. Cash represented 68 per cent of the C share portfolio at 31 December 2007 falling to 31 per cent by the year end. The ordinary share portfolio also contained a number of unquoted investments held for several years which declined in value both due to more level trading and applying lower earnings multiples. The revaluation of investments in both Scriptswitch and Carnell in the C share pool also had a proportionally more significant positive impact than for the ordinary shares.

The six VCT tests relating to the management of Baronsmead VCT 4 were met throughout the year. At the period end 75 per cent of the ordinary share capital raised prior to 31 December 2006 was invested in qualifying investments, which is well above the 70 per cent minimum level.

The values of the unquoted investments have held up relatively well despite the market turmoil. Much management effort is focussed on coping with the difficult economic environment in 2009. However, along with the exceptional falls in quoted markets during the second half of 2008, the value of our AiM portfolio has decreased dramatically and this has been the main contributor to the decline in NAV this year. The continuing relevance of the AiM element of the portfolio and the future strategy to improve returns is discussed below in the Portfolio section of this statement.

Longer term performance

Dividends paid to founder shareholders now total 31p per ordinary share. The average annual dividend throughout the seven year period is 4.4p per ordinary share since December 2001. C share subscribers will have received 8.5p of dividends and up to 40p income tax relief for every £1 subscribed (provided these shares are retained for more than three years).

The table on page 2 of the report and accounts shows the total returns generated over 1, 3 and 5 years since launch compared against the FTSE All-Share Total Return index. The share price total return of Baronsmead VCT 4 is the direct comparator which has performed better than this FTSE index over each of these periods.

These total returns are stated before the inclusion of VCT tax reliefs, which are designed to redress the VCT constraints and the requirement to invest in a limited range of smaller companies, which for reasons of size can be higher risk. At a time of lower and indeed negative investment returns, the proportional benefits from these reliefs are greater. Quantification of the scale of these gains depends on the individual circumstances of each shareholder but the table at

Chairman's Statement

the bottom of page 3 in this report indicates the range of yields achievable for the original subscribers and those in 2006.

The initial income tax reliefs have also varied between 20 per cent, 40 per cent and 30 per cent over the years and so any adjusted performance measure including this relief will vary depending on the date of subscription. There is the additional benefit of receiving dividends tax free, which has been worth the equivalent of a further 14.9p per share for a higher rate founder shareholder.

ANALYSIS OF THE PORTFOLIO

Portfolio valuations

Investments are valued at fair value, which for quoted securities is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Unquoted investments are fair valued by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines developed by the British Venture Capital Association (BVCA) in conjunction with the European Venture Capital Association (EVCA) and the Association Francaise des Investisseuses en Capital (AFIC).

Despite the fall in the ratings of smaller quoted companies, the 19 unquoted portfolio investments have declined in value by only 3 per cent in aggregate due to improving profitability across much of the portfolio.

The AiM market has suffered a severe drop in value. At the year end, the portfolio of 49 AiM investees had fallen in value by 50 per cent and 39 per cent for the ordinary and C share portions respectively over the 12 month period. The FTSE AiM All Share Index has fallen by 62 per cent over the same period.

Baronsmead VCT 4 was launched as a generalist VCT with the unquoted investments complemented by AiM-traded stocks to provide a more diversified element to the portfolio. The AiM investments have performed well in the past and the Manager believes that the current lower valuations reflect the poor liquidity currently experienced on AiM as well as the difficult economic outlook affecting most UK companies.

The strategy relating to AiM investments has been refined to incorporate more of the private equity investment process. In particular, we are focussing on taking more influential stakes in a smaller number of investments where a likely exit strategy can be envisaged, while looking to sell the long tail of older investments as and when the constraints of the VCT legislation allow. As explained further in the Manager's report the AiM team utilise the knowledge and skills of the wider private equity team to provide input to the selection of new investments and during their ongoing development. It is expected that these refinements to the investment strategy for AiM investments together with the current lower valuations will have a positive impact on returns over the coming years.

Realisations and New Investments

The private equity disciplines developed by ISIS in recent years have generated a series of successful exits for unquoted investments taking advantage of the timing of the investment cycle. The oldest unquoted investment is now one that was made in 2004. Total sale and income proceeds of unquoted investments realised £3.6 million during the year.

A number of AiM investments were sold resulting in overall proceeds representing some 56 per cent of their £0.7 million aggregate cost. These included further top slicing of the shares held in Begbies Traynor, the insolvency specialists as well as the sale of some less successful investments. Write offs from three AiM-traded investments totalled £0.9 million. New investment totalled £8.0 million across eight unquoted companies and £2.75 million in 13 AiM-traded companies. Details are set out in the Manager's Review on page 7.

Asset allocation

At the year end, the percentage of unquoted investments comprised 57 per cent of the combined NAVs. The percentage of private equity investments held in the portfolio is expected to continue to increase gradually as realisation opportunities at premium prices are likely to be lower in the near term. With this higher level of retention, the Manager will be able to manage more actively the AiM portfolio as opportunities arise.

We continue to have a large pool of £12 million capital resources most of which was raised prior to April 2006 so can be invested in larger qualifying companies with gross assets up to £15 million pre investment.

SHAREHOLDER ISSUES

Risk Management

The Board manages the risks associated with the Company in accordance with the framework established within the Combined Code for all fully listed public companies. Through quarterly Board meetings all key performance indicators are

Chairman's Statement

reviewed, as well as wider topics which are spread annually across these meetings. In the current difficult conditions we have paid particular attention to the security of the uninvested funds, which have been moved into Government securities, and to the diverse challenges facing the portfolio companies. The Manager's experience in navigating through a downturn is of substantial value to our unquoted companies but the Manager has less influence over our AiM investments.

VAT reclaim

It was announced in March 2008 that VAT is no longer to be charged on management fees from 1 October 2008. Subsequently HMRC announced that VAT paid from a number of previous years could also be reclaimed. Where VAT recoverable can be quantified with a degree of certainty, the reclaim can be recognised in the financial statements. At 31 December 2008, £947,000 was accrued representing VAT reclaimed by ISIS and a further claim by F&C (the former parent company of the Manager). The ordinary and C shares have benefited by some 2.6p and 0.7p per share respectively.

Future running costs are also reduced by around 0.4 per cent p.a. based on VAT no longer being applicable.

Shareholder liquidity

An important risk that the Board monitors relates to those few shareholders who have wished to realise their shareholding, normally achieved by share buy backs. The policy of buying back shares from the market makers at an approximate price of 10 per cent less than NAV per share was established at launch so that shareholders have been able to sell on this basis since then. The main market maker, Landsbanki, ceased trading in October but Teathers were appointed two months later who restored the previously adopted discount level.

During the year, 1 million shares were bought back by the company and separately another 0.46 million ordinary shares were acquired in the secondary market to satisfy the Dividend Reinvestment Plan (DRIP). Shares acquired through the DRIP are bought at the prevailing market prices at the time dividends are paid. In September and December 2008 DRIP shares were bought at an average discount to NAV of 9.5 per cent.

Fund Raising

As reported at the interim stage, the top up offers in February 2008 resulted in applications from 187 existing shareholders totaling £1.57 million with £0.69 million and £0.88 million raised from Ordinary and C shareholders respectively.

A top up offer to raise up to the Sterling equivalent of 2.5 million euros will be sent to shareholders in February 2009 to coincide with the publication of the Annual Report.

ANNUAL GENERAL MEETING

We have approximately 2,700 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 seventh AGM on 26 March 2009 at 11 a.m. followed by an investee presentation, a buffet lunch and a shareholder workshop finishing by 2.00 p.m.

OUTLOOK

The UK economy is officially in recession and this will pose challenges for all our portfolio companies. This is also likely to reduce the level of realisations in the near term. Most of our portfolio companies have a relatively low level of bank debt leverage, which should provide some protection from financing pressures faced by many companies.

The Manager is taking an active role working with our unquoted portfolio companies to help them through these conditions. The strategy with respect to AiM investments is evolving so that larger, more influential investments can be made in companies where a clear exit strategy can be envisaged, thereby utilising much of the private equity skill and experience of the Manager.

Our priority for our portfolio companies is therefore to help them face any recessionary pressures in a measured way and be strong enough not to be diverted from longer term growth. The Manager will remain focussed on these investment fundamentals.

Baronsmead VCT 4 has a strong balance sheet. We therefore have the capacity both to protect the existing portfolio and to take advantage of potentially significant investment opportunities at lower prices than in recent years.

P M Dunne

Philip Dunne
Chairman

28 January 2009

Manager's Review

Following a high level of investment in the first half of 2008, the priority now is to work closely with portfolio companies to ensure their stability and that they can then thrive once we move out of the current economic downturn. The unquoted portfolio is showing good resilience currently although the valuation of AiM investees has been adversely affected in line with market falls. This allows the dedicated origination team at ISIS to seek out new attractive investment opportunities and invest the cash resources available for this purpose.

David Thorp
Investment Manager

Andrew Garside
Investment Manager

Het Marsh
Investment Manager

Prem Mohan Raj
Chief Financial Officer Funds

PORTFOLIO REVIEW

The total portfolio comprised 68 investee companies at the year end. There were 15 new investments and six full exits plus three write offs. Including further rounds of capital raising, £10.7 million was invested, split £7.95 million into eight unquoted investments and £2.75 million into 13 AiM-traded investments. Sale proceeds from all realisations totalled £4.0m. All new investment and the exits are scheduled on page 9 of the annual report.

Interest bearing securities and cash amounted to £23 million at the start of the year and by 31 December 2008 totalled £12m. During October 2008 the holdings in money market OEICS were switched into Gilts and Treasury Bills leaving cash deposits of over £2 million for immediate operational requirements. This structure will be reviewed regularly and some reversion back to higher yielding OEICs will be considered once financial markets are exhibiting more conventional behaviour.

Portfolio companies are reviewed quarterly in terms of their financial health and there has been a fall in those companies reporting steady or better trading progress from 83 per cent to 73 per cent at the year end. In addition, financial gearing is measured regularly both as a ratio of debt to current enterprise value as well as the debt divided by operating profits. The ratios for the unquoted portfolio are currently at reasonably prudent levels both historically and against industry standards.

Over the last few years, we have endeavoured to build a portfolio that can perform relatively well even in challenging circumstances. There has been a focus on investing in more robust business models and away from more cyclical sectors where growth strategies are less dependent on overall economic growth. A good example of this is Scriptswitch where the demand driver for its unique prescribing software is reducing cost within Primary Care Trusts' drug budgets. This and three other case studies of unquoted companies across a number of different market sectors within the portfolio are set out on pages 14 and 15.

A proportion of the unquoted portfolio has been affected by the economic downturn and this has been reflected in the unquoted valuations. A full provision and partial provision have been made in Green Issues and TVC respectively where, in each case their main customers reduced demand. We are active in challenging and supporting the management of all investees, especially where there is any degree of underperformance.

Manager's Review

During early 2008 the climate still allowed good assets to be sold at attractive valuations. SLR and Hawksmere were sold at 6.0 times and 2.5 times original cost. However the sale of the business within The Art Group recouped only 15 per cent of cost. This company had struggled with declining profitability in recent years and then a sharp drop off in demand in the first half of 2008 proved impossible to reverse.

The severe AiM market de-rating has adversely affected the NAV performance over the last year which has also seen price/earnings multiples more than halved for both the AiM All Share and the FTSE Small Cap indices (*source: Blue Oar Securities*). This de-rating was partially offset by earnings growth within the majority of portfolio companies although there was an impact with a number of portfolio companies issuing negative trading statements in the final quarter.

THE ROLE OF THE MANAGER IN A DOWN TURN

Trading conditions for companies during an economic recession are more volatile making forecasts difficult to believe. These greater uncertainties can be translated into new investment opportunities. Whilst bank finance is scarce your Company has adequate cash resources and is therefore relatively well placed to take advantage of opportunities that arise.

As an example of the Manager's involvement with unquoted portfolio companies the appointment of an external chairman and one or more non-executive directors typically instils good standards of governance and key decision-making. This is normally reinforced by the alignment between all the shareholders including the executive directors who are incentivised to grow the business prior to exit.

Active portfolio management

The Manager constantly strives to achieve greater consistency through all stages of the investment process. The present focus is on financial control and managing the relationship with the company's bankers. Regular monthly meetings enable a constant challenge and refinement of the value strategy, development of the executive team and formulation of an exit strategy to deliver the investment return.

AiM investing

The intent is to apply private equity disciplines when possible in AiM investees. These inputs range from use of sector knowledge, prior contact before float as an unquoted company, board appointment introductions and experience of exits for similar unquoted companies. 57 per cent of the value of the listed and AiM traded portion of the portfolio is within 10 stocks and this will be where the focus will be while the tail of investments is slowly reduced as market conditions allow.

Getting ready for the upswing

The Manager has an experienced Private Equity team a number of whom lived through the last significant recession in the early 1990s. Currently asset prices are on the decline, accelerated by lack of credit and corporate distress. These circumstances will create attractive opportunities in the future, both for well managed portfolio companies to take advantage of weaker competitors and for new investments at lower entry prices.

The investment strategy is also driven by the considerable sector knowledge that has been built up over the years and understanding what industry factors are the key growth drivers within specific sub-sectors. This has been supported by a programme of proactively contacting interesting companies to build relationships well ahead of a transaction being triggered. This historic knowledge of targets reduces the investment risk when an opportunity eventually arises. For example, the investment team knew the management of Playforce for two years prior to the investment completing in January 2008.

In January 2009 the Manager added Energy and Environmental as an additional sector as the volume of investment opportunities in this area has grown.

OUTLOOK

It will take some time for the turbulence in financial markets to settle down but our role will be to stick to our investment principles during the current period of uncertainty whether seeking to protect the existing portfolio or investing afresh. We are confident that new opportunities will arise that exhibit sound economic reasons behind the anticipated growth and at keener pricing than for some time.

ISIS EP LLP
Investment Manager
28 January 2009

Manager's Review

New Investments

The total portfolio grew to 68 companies after new investments, net of realisations. The new investments set out below totalled £10.7 million, including six sizeable unquoted investments and nine smaller AiM subscriptions averaging £209,000. Further financings are within the total amount invested and were spread over six other investees.

Company	Sector	Location	Activity	Investment cost (£'000)
AIM-traded investments				
Essentially Group ltd ‡	Media	Jersey	Sports marketing	240
Silverdell plc	Business Services	Barking	Asbestos removal, asbestos abatement and asbestos management firm	14
Brulines Holdings plc ‡	Business Services	Stockton-On-Tees	Pub management systems	299
Character Group plc	Media	New Malden	Design, development and international distribution of toys and games	144
Electric Word plc	Media	London	Specialist information business serving the sport and education sectors	17
Independent Media Distribution plc	IT Support Services	London	Media Logistics	15
IS Pharma plc	Healthcare	Chester	Specialist hospital medicines group	246
STM Group plc	Business Services	Gibraltar	Offshore trust and company administration services for high net worth individuals	140
Tasty plc ‡	Consumer	London	Restaurant chain	116
Advanced Computer Software plc	IT Support Services	London	Consolidation of Healthcare IT businesses focused on primary care, particularly focused on patient record data management	525
Ffastfill plc ‡	IT Support Services	London	Trading platform software provider	206
Praesepe plc	Consumer	London	Gaming	525
Relax Group plc	Consumer	Chesterfield	IVA and debt management group	262
Total AIM-traded investments				**2,749**
Unquoted investments				
Active Assistance	Healthcare	Sevenoaks	Provision of live-in care to spinally injured clients	679
Carnell Contractors	Business Services	Penkridge	Support service provider in the highways sector	1,499
CSC (World) Limited	IT Support Services	Pudsey, Leeds	Software for Structural Engineers	1,606
Nexus Vehicle Holdings Ltd	Business Services	Leeds	Vehicle rental broker	1,868
Occam DM Ltd ‡	Business Services	Bath	Integrated data services	35
Playforce Holdings Limited	Business Services	Wiltshire	Provider of playground equipment	1,033
TVC Group Limited	Media	London	Broadcast Public Relations Firm	1,233
Kafevend Holdings Ltd ‡	Consumer	Crawley	Into SME hot drinks vending.	6
Total Unquoted investments				**7,959**
Total investment in the period				**10,708**

‡ Further round of financing.

Realisations in the year to 31 December 2008

Ordinary Shares	First investment date	Original Cost £'000	Total Proceeds £'000	Multiple return*
Unquoted investments				
Hawksmere Group Limited	December 2003	453	1,152	2.54
SLR Group Ltd	September 2004	371	2,214	5.97
The Art Group	October 2003	758	117	0.15
Scriptswitch †	May 2007	84	104	1.24
Total Unquoted realisations		**1,666**	**3,587**	
AIM-traded realisations				
Cantono plc	April 2005	375	19	0.05
Begbies Traynor Group plc	September 2004	49	204	4.20
Xpertise Group plc	November 2002	207	158	0.76
Universe Group plc	May 2003	94	22	0.23
Appian Technology plc	January 2006	302	-	-
Business Direct Group plc	August 2004	416	-	-
Loanmakers (Holdings) plc	June 2005	164	-	-
Total AIM-traded realisations		**1,607**	**403**	
Total realisations in the period		**3,273**	**3,990**	

* Includes interest received and some earlier loan note redemptions.
† In addition C share holders received total proceeds of £419,000 on an original cost £338,000.
In addition deferred proceeds were received of £45,000 Boldon James and £61,000 RLA Media.

Investment Portfolio

Investment Classification at 31 December 2008

(Combined investments of both ordinary shares and C shares)

Company	Nature of business	Book cost Ordinary shares £'000	Book cost C shares £'000	Valuation Ordinary shares £'000	Valuation C shares £'000	Total £'000	% of Net assets	% of Equity held by Baronsmead VCT 4 plc	% of Equity held by other funds
Unquoted									
Reed & Mackay	Business Services	1,211	–	2,920	–	2,920	6.1	9.31	27.93
Scriptswitch	IT Support Services	148	598	557	2,248	2,805	5.9	7.15	21.45
Carnell Contractors	Business Services	439	1,060	694	1,678	2,372	5.0	8.25	24.75
Independent Living Services	Healthcare	801	–	2,033	–	2,033	4.2	14.36	43.07
Nexus Vehicle Holdings Ltd	Business Services	547	1,321	547	1,320	1,867	3.9	12.63	37.9
CableCom Networking Holdings Ltd	IT Support Services	274	1,107	328	1,327	1,655	3.5	10.56	24.07
Kafevend Holdings Ltd	Consumer	1,252	–	1,535	–	1,535	3.2	15.79	47.38
Quantix Limited	IT Support Services	895	298	1,123	374	1,497	3.1	11.4	34.2
Fisher Outdoor Leisure Holdings Ltd	Consumer	1,423	–	1,433	–	1,433	3.0	10.45	31.35
Crew Clothing Company Ltd	Consumer	699	233	1,020	340	1,360	2.8	5.94	17.81
CSC (World) Limited	IT Support Services	470	1,136	366	884	1,250	2.6	8.81	26.42
Empire World Trade Limited	Business Services	973	324	854	285	1,139	2.4	7.13	21.37
Credit Solutions	Business Services	1,031	–	1,130	–	1,130	2.4	8.58	24.67
Playforce Holdings Limited	Business Services	303	731	303	731	1,034	2.1	9.68	29.04
Active Assistance	Healthcare	199	480	288	695	983	2.1	7.37	22.11
MLS	IT Support Services	390	390	485	485	970	2.0	5.34	16.04
TVC Group Limited	Media	395	838	188	399	587	1.2	6.38	19.14
Occam DM Ltd	Business Services	382	–	477	–	477	1.0	4.02	15.09
Green Issues	Media	497	–	–	–	–	0.0	9.5	28.5
Total unquoted		12,329	8,516	16,281	10,766	27,047	56.6		
FTSE Small Cap									
Vectura Group plc	Healthcare	245	–	255	–	255	0.5	0.2	1.2
Total FTSE SmallCap		245	–	255	–	255	0.5		

Investment Portfolio

Company	Nature of business	Book cost Ordinary shares £'000	Book cost C shares £'000	Valuation Ordinary shares £'000	Valuation C shares £'000	Total £'000	% of Net assets	% of Equity held by Baronsmead VCT 4 plc	% of Equity held by other funds
Quoted on AIM									
Begbies Traynor Group plc	Business Services	217	-	726	-	726	1.5	0.6	1.9
Brulines Holdings plc	Business Services	353	293	356	291	647	1.4	1	8.6
IDOX plc	IT Support Services	620	-	572	-	572	1.2	2	5.6
Advanced Computer Software plc	IT Support Services	168	357	168	357	525	1.1	0.5	8.7
Concateno plc	Healthcare	258	139	268	126	394	0.8	0.3	2.2
Driver Group plc	Business Services	438	-	390	-	390	0.8	2.4	8.7
Jelf Group plc	Business Services	516	-	381	-	381	0.8	1.2	4
Mount Engineering plc	Business Services	76	309	60	242	302	0.7	0.4	12.4
Craneware plc	IT Support Services	35	143	58	233	291	0.6	0.1	2.7
Research Now plc	Media	52	211	45	183	228	0.5	0.1	2.3
Praesepe plc	Consumer	168	357	69	146	215	0.4	0.5	7.6
Ffastfill plc	IT Support Services	103	233	67	148	215	0.4	0.4	7.8
IS Pharma plc	Healthcare	72	174	61	147	208	0.4	0.3	5.6
Relax Group plc	Consumer	77	186	58	140	198	0.4	0.6	11.6
InterQuest Group plc	Business Services	310	-	197	-	197	0.4	1.8	5.5
Plastics Capital plc	Business Services	93	380	37	152	189	0.4	0.3	9.7
Essentially Group ltd	Media	132	362	52	136	188	0.4	0.4	8.8
Tasty plc	Consumer	120	236	53	109	162	0.4	0.6	12.5
Sanderson Group plc	IT Support Services	387	-	139	-	139	0.3	1.8	5.3
Cohort plc	Business Services	35	143	27	110	137	0.3	0.1	1.4
MBL Group plc	Media	402	-	136	-	136	0.3	1.1	3.2
WIN plc	IT Support Services	247	-	112	-	112	0.2	1.2	3.7
Huveaux plc	Media	313	-	103	-	103	0.2	0.8	3.6
Proactis Holdings plc	IT Support Services	200	200	47	47	94	0.2	1.5	13.6
STM Group plc	Business Services	41	99	27	66	93	0.2	0.2	3.6
Adventis Group plc	Media	211	-	89	-	89	0.2	1.7	6.5
Prologic plc	IT Support Services	233	-	84	-	84	0.2	3.1	11.9
Quadnetics Group plc	Business Services	185	-	63	-	63	0.1	0.4	2
Claimar Care Group plc	Healthcare	569	-	59	-	59	0.1	1.4	5.5
EG Solutions plc	IT Support Services	375	-	53	-	53	0.1	3.1	11.1
Mission Marketing Group (The) plc	Media	143	-	51	-	51	0.1	0.3	1.2
EBTM plc	Consumer	49	196	10	41	51	0.1	0.3	16.5
Kiotech International plc	Healthcare	150	50	37	13	50	0.1	1.1	6
Tangent Communications plc	Business Services	135	45	34	11	45	0.1	0.6	4
Brainjuicer Group plc	Media	37	12	31	10	41	0.1	0.3	1.6
Character Group plc	Media	44	99	12	26	38	0.1	0.1	2
Autoclenz Holdings plc	Consumer	400	-	32	-	32	0.1	3.1	9.2
Optimisa plc	Media	59	239	5	22	27	0.1	0.3	8.5
FishWorks plc	Consumer	174	-	14	-	14	0.0	1	3.1
Independent Media Distribution plc	IT Support Services	5	10	3	6	9	0.0	0	0.7
Electric Word plc	Media	5	11	3	6	9	0.0	0.1	1.3
IPT Holdings plc	Media	138	-	4	-	4	0.0	0.5	1.6
Real Good Food Company (The) plc	Consumer	340	-	4	-	4	0.0	0.4	1.9
MKM Group plc	Business Services	213	-	4	-	4	0.0	0.5	1.9
INVU plc	IT Support Services	7	28	1	3	4	0.0	0	1.7
Zoo Digital Group plc	IT Support Services	233	-	2	-	2	0.0	0.1	0.8
Silverdell plc	Business Services	5	9	1	1	2	0.0	0	0.2
Payzone plc	Business Services	52	-	1	-	1	0.0	0	0.1
Total AIM		9,195	4,521	4,806	2,772	7,578	15.8		
Interest bearing securities									
UK Treasury 5.75% 07/12/09		1,372	980	1,401	1,001	2,402	5.0	0	0
UK Treasury Bill 19/01/09		1,000	1,000	1,000	1,000	2,000	4.2	0	0
UK Treasury Bill 09/03/09		697	996	697	996	1,693	3.5	0	0
UK Treasury Bill 02/03/09		1,299	-	1,299	-	1,299	2.7	0	0
UK Treasury 4% 07/03/09		-	1,096	-	1,106	1,106	2.3	0	0
UK Treasury Bill 16/03/09		-	997	-	997	997	2.1	0	0
Total fixed interest		4,368	5,069	4,397	5,100	9,497	19.8	0	0
Total investments		26,137	18,106	25,739	18,638	44,377	92.7		
Net current assets				2,225	1,294	3,519	7.3		
Net assets				27,964	19,932	47,896	100.0		

Ten Largest Investments

The top ten investments by current value at 31 December 2008 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.

1 REED & MACKAY LIMITED London — High quality business travel

First Investment: November 2005
Cost: £1,211,000
Valuation: £2,920,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 9.3%

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.

*Net assets fell due to a capital reorganisation

Year ended 31 March	2008	2007
	£ million	£ million
Income	**13.4**	10.8
Profit before tax	**3.3**	2.8
Profit after tax	**2.7**	2.3
Net assets*	**2.6**	3.4

(Source: Reed & Mackay Travel Limited, Report and Financial Statements 2008)

www.reedmac.com

2 SCRIPTSWITCH LIMITED Coventry — Prescription software

First Investment: May 2007
Cost: £746,000
Valuation: £2,805,000
Valuation basis: Discounted price earnings
Percentage of equity held: 7.2%

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 provides decision support to GPs and enables PCTs to save millions of pounds from their drugs budgets.

In May 2007, funding was provided to complete a £4.7 million secondary buy-out of ScriptSwitch.

Year ended 30 June	2008	2007
	£ million	£ million
Net assets	**2.2**	0.4

(Source: ScriptSwitch Limited, Abbreviated Accounts 2008)

Note: Due to the size of the business ScriptSwitch is not required to file a full set of accounts.

www.scriptswitch.com

3 CARNELL CONTRACTORS LIMITED Penkridge — Providing support to the highways sector

First Investment: March 2008
Cost: £1,499,000
Valuation: £2,372,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 8.3%

Carnell Support Services is a provider of specialist support and technology maintenance services to the Highways Agency road network. £6 million was invested in March 2008 to fund a replacement capital deal. Carnell currently employs over 115 people.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**12.7**	7.7
Profit before tax	**2.0**	0.5
Profit after tax	**1.4**	0.3
Net assets	**2.3**	0.9

(Source: Carnell Contractors Limited audited Annual Report and Accounts 2007)

www.carnellcontractors.com

4 INDEPENDENT LIVING SERVICES (ILS) LIMITED Alloa — Acute domiciliary care

First Investment: September 2005
Cost: £801,000
Valuation: £2,033,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 14.4%

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.

The first investment in ILS was made in September 2005 and, further funding was provided in November 2006 to support its first acquisition, giving the enlarged group a stronger presence in the west of Scotland.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**8.1**	6.8
Profit before tax	**1.3**	0.9
Profit after tax	**0.9**	0.7
Net assets	**2.9**	2.0

(Source: Independent Living Services (ILS) Limited audited Annual Report and Accounts 2007)

www.ilsscotland.com

5 NEXUS VEHICLE MANAGEMENT LIMITED Leeds — Vehicle rental broker

First Investment: February 2008
Cost: £1,867,000
Valuation: £1,867,000
Valuation Basis: Cost
Percentage of equity held: 12.6%

Nexus is a web based vehicle rental broker. It enables corporate users to source vehicles from over 40 suppliers using a web based IT system. In February 2008, £11 million was raised for a management buy-out.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**7.8**	3.5
Profit before tax	**0.8**	–
Profit after tax	**0.6**	–
Net assets	**0.1**	0.3

(Source: Nexus Vehicle Management Limited, Financial Statements 2007)

www.nexusrental.com

6 CABLECOM NETWORKING HOLDINGS LIMITED Clevedon — Internet access solutions

First Investment: May 2007
Cost: £1,381,000
Valuation: £1,655,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 10.6%

Cablecom Network Holdings Limited is a provider of networking solutions to corporate clients and since 2003 has evolved into providing IT and communication managed services to high density multi-tenanted accommodation in the student and key worker sectors. In May 2007, £5.6 million was raised for a management buy-out.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**4.9**	4.3
Profit before tax	**1.2**	1.0
Profit after tax	**0.9**	0.8
Net assets	**2.0**	1.2

(Source: Cablecom Networking Holdings Limited audited Annual Report and Accounts 2007)

www.cablecomnetworking.co.uk

7 KAFÉVEND GROUP LIMITED Crawley — SME drinks vending

First Investment: October 2005
Cost: £1,252,000
Valuation: £1,535,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 15.8%

Kafévend Group Limited is a leading drinks vending machine service provider 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.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**14.4**	12.1
Profit before tax	**0.7**	0.3
Profit after tax	**0.6**	0.2
Net assets	**2.1**	1.5

(Source: Kafévend Group Limited audited Annual Report and Accounts 2007)

www.kafevending.co.uk

8 QUANTIX LIMITED Nottingham — Outsourced database maintenance

First Investment: March 2007
Cost: £1,194,000
Valuation: £1,497,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 11.4%

Quantix Limited operates in the fast growing niche area of IT Managed Services – more specifically, the outsourced support and maintenance of databases, applications and security. It also offers consultancy and product sales to new and existing clients for key technology partners including Oracle, Microsoft, Juniper, Surfcontrol and Checkpoint.

ISIS invested £4.8 million in the management buy-out of Quantix Limited from Lynx Plc in March 2007.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**6.2**	5.9
Profit before tax	**1.2**	1.1
Profit after tax	**0.9**	0.7
Net assets	**1.0**	0.1

(Source: Quantix Limited audited Annual Report and Accounts 2007)

www.quantix-uk.com

9 FISHER OUTDOOR HOLDINGS LIMITED St. Albans — Supplying the bike industry

First Investment: June 2006
Cost: £1,423,000
Valuation: £1,433,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 10.5%

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 fund the Management buyout in June 2006. Fisher employs 80 staff distributing key branded and own label products.

Year ended 31 January	2008	2007
	£ million	£ million
Sales	**19.2**	18.1
Profit before tax	**1.9**	2.5
Profit after tax	**1.7**	2.1
Net assets	**7.7**	7.7

(Source: Fisher Outdoor Leisure Limited, Directors Report and Financial Statements 2008)

www.fisheroutdoor.co.uk

10 CREW CLOTHING HOLDINGS LIMITED London — Branded multi-channel clothing retailer

First Investment: November 2006
Cost: £933,000
Valuation: £1,360,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 5.9%

Crew Clothing Holdings Limited is a branded multi-channel retailer of men's and women's clothing headquartered in Wandsworth, London.

In November 2006 funding was provided to complete a £3.75 million investment for a 25 per cent stake in the company.

Year ended 28 October	2007	2006
	£ million	£ million
Sales	**15.9**	13.3
Profit/(loss) before tax	**0.6**	0.8
Profit/(loss) after tax	**0.4**	0.6
Net assets	**1.0**	2.4

(Source: Crew Clothing Holdings Limited audited Annual Report and Accounts 2007 and Crew Clothing Co. Limited audited Annual Report and Accounts 2006)

www.crewclothing.co.uk

HOW ISIS REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT 4 PLC

Baronsmead VCT 4 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.

REED & MACKAY, London

Reed and Mackay is a leading strategic business travel management company. Utilising i-Q, its in-house developed bespoke technology, the business deals with professional services firms and corporates providing them with comprehensive corporate wide business travel services. Key client include global legal firms and insurance companies, who demand precise high quality services.

Reed and Mackay's skill in managing diverse and demanding clientele has set them apart from their peers. The majority of customers have come through word of mouth recommendation and more than half of customers have traded with the business for more than 5 years.

Following the replacement capital investment by ISIS in 2005, the business has shown the ability and confidence to accelerate its growth over the last three years. Key to the double digit earnings growth in each of the last three years the business has achieved has been the building of an expanded management team.

> "I've dealt with many travel companies over the years before I came to Skandia and can honestly say I've never experienced expertise, help, knowledge or patience such as Reed and Mackay on every call".
>
> *Skandia UK*

www.reedmac.com

"Confidence to Grow"

PLAYFORCE, Wiltshire

Playforce provides playground equipment to local authorities, parish councils and park authorities. To date, Playforce has been commissioned to design and install over 2,000 school playgrounds.

Launched in 1998, Playforce has developed over the last ten years into a market leader within a fragmented market. The Company has turnover in excess of £6m and employs 38 staff from its Wiltshire offices.

Growth has been recognised by several awards most notably by The Sunday Times Virgin Fast Track 100 which listed Playforce as the 61st fastest growing company in the UK with an annual compound growth rate of 77%, in 2007.

Having identified the market opportunity, ISIS built up a two year relationship with the founders of Playforce before investing in January 2008. ISIS is working closely with the management team to invest to develop the company's capabilities and to support further growth.

www.playforce.co.uk

"Relationship and Opportunity"

Creating Shareholder Value

INDEPENDENT LIVING SERVICES, Alloa

Independent Living Services is the leading independent provider of 'care at home' services in Scotland. Services are developed to support people living in the community including the elderly and adults with physical disabilities or learning difficulties.

ISIS was attracted to the care at home market in Scotland as it exhibits strong growth potential as provision of support is outsourced by local authorities and market supply remains relatively fragmented. ISIS completed its investment in September 2005. Since then ISIS has supported growth through a series of four acquisitions. This has resulted in an increased geographical presence in Scotland with the Company now working with eighteen local authorities in Scotland.

The combination of the 'buy and build' and organic growth has resulted in the valuation rising to 2.5 times original cost of the investment.

www.ilsscotland.com

"Buy and Build"

SCRIPTSWITCH, Coventry

ScriptSwitch provides innovative prescribing software to healthcare organisations throughout the UK. The business was formed in 2003 and developed over a number of years by a team of skilled professionals (in conjunction with the NHS) from its University of Warwick base.

The ScriptSwitch software is a sophisticated medicines management tool that provides decision support to General Practitioners in prescribing medicines, whilst also quantifying and reporting on cost savings they are able to achieve.

Healthcare organisations are increasingly faced with budgetary challenges as the NHS is looking to reduce costs in prescribed pharmaceuticals. ScriptSwitch is well placed to support the NHS in achieving these objectives.

> "In our area, the savings in our first year look set to be more than £100,000 from ScriptSwitch. As uptake improves and the database expands, this figure will rise"
>
> *Huntingdonshire Primary Care Trust*

Initially attracted by the market opportunity, ISIS have supported the business growth including the expansion of the management team, and the move to new premises in Coventry. The valuation has risen to 3.8 times cost since investment in May 2007.

www.scriptswitch.com

"Investing in the business platform"

Board of Directors

as at 31 December 2008

Philip Dunne (Chairman)

(Date of Appointment 5 November 2001)
(age 50) he is a non-executive director of Ruffer LLP, a private client investment management firm. Previously he had 20 years' corporate finance expertise, initially with S. G. Warburg and latterly at Phoenix Securities and Donaldson, Lufkin & Jenrette. In May 2005 he was elected Member of Parliament for Ludlow. He was until July 2006 non-executive Chairman of Ottakar's plc.

Ian Kirkpatrick
(Date of Appointment 5 November 2001)
(age 64) is chairman of Harvey Nash Group PLC and Prime Estates Ltd. He has also been a non-executive director of Saracen Value Investment Trust. Previously he worked for 15 years with Bank of Scotland, predominantly in their merchant banking arm, British Linen Bank.

Robert Owen
(Date of Appointment 5 November 2001)
(age 63) is a business consultant to developing companies and director of Baronsmead VCT 3 plc. He is a director of Nucleus Financial Group and other unquoted companies. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio. He was involved with tax efficient private equity investment for many years as an adviser and commentator.

Alan Pedder CBE
(Date of Appointment 5 November 2001)
(age 70) is a business consultant in the industrial and chemical sectors. He was until recently non-executive Chairman of both AECI Ltd (South Africa) and Remploy Ltd. Previously he worked for ICI plc and led a number of international businesses as CEO before becoming Technology Director for the Group.

As a fully listed Company, Baronsmead VCT 4 is required to comply with the Financial Reporting Council's Combined Code on 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 UK Listing Authority 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 present the Seventh Report and audited financial statements of the Company for the year ended 31 December 2008.

Ordinary Shares	£'000
Loss on ordinary activities after taxation	(6,455)
Interim capital dividend of 2.1p per ordinary share paid on 20 September 2008	(656)
Interim revenue dividend of 0.9p per ordinary share paid on 20 September 2008	(281)
Second interim capital dividend of 3.4p per ordinary share paid on 30 December 2008	(1,048)
Second interim revenue dividend of 0.6p per ordinary share paid on 30 December 2008	(185)
Transfer from reserves	(8,625)

C Shares	£'000
Loss on ordinary activities after taxation	(160)
Interim capital dividend of 0.5p per ordinary share paid on 20 September 2008	(106)
Interim revenue dividend of 1.0p per C share paid on 20 September 2008	(212)
Second interim capital dividend of 1.4p per C share paid on 30 December 2008	(297)
Second interim revenue dividend of 0.6p per C Share paid on 30 December 2008	(127)
Transfer from reserves	(902)

Principal Activity and Status

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

Business Review

The purpose of this review is to provide shareholders with a 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 4 plc is a tax efficient company listed on The London Stock Exchange's main market for listed securities.

Investment Objective

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

Investment Policy

The Company's investment 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 UK gilts or government securities and may be invested in interest bearing money market open-ended investment companies (OEICS).

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 HM Revenue and Customs. 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 qualifying amount invested in any one company is limited to £1 million in a fiscal year and generally no more

Report of the Directors

than £2.5 million, at cost, is invested in the same company. The value 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 ISIS EP LLP ('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.

Management

The Board has delegated the management of the investment portfolio to the Manager. The Manager also provides or procures the provision of company secretarial, accounting, 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 7 to 9 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 or administrator's accounting systems or disruption to its business 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.
- Competitive Risk – Retention of key personnel is vital to the success of the Company. Incentives to the Manager's key staff were recently strengthened.

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 19 to 21.

Report of the Directors

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 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 to 6.

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 563,512 ordinary shares of 10p each and raised net proceeds of £693,120. The Company bought back 1,011,453 ordinary shares of 10p each to be held in Treasury at a cost of £996,638. 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 held 2,441,453 ordinary shares in Treasury, representing 7.3 per cent of the Company's issued ordinary share capital as at 31 December 2008.

C shares

During the year the Company issued 847,002 C shares of 50p each and raised net proceeds of £872,412. No C shares were bought back during the year.

In accordance with the rights attaching to the C shares and, as set out in the Company's existing articles of association all the issued C shares convert at an effective date of 31 December 2008. The conversion ratio of C shares into ordinary shares was 1.03723828 and this was calculated by taking the net asset value of the assets of the C shareholders as at the calculation date of 31 December 2008 (94.06 pence per C share) and dividing it by the net asset value of the assets of the existing ordinary shareholders at 31 December 2008 (90.68 pence per ordinary share). On 28 January 2009, the conversion of the C shares into ordinary shares resulted in 21,980,574 ordinary shares being issued.

Directors

Biographies of the Directors are shown on page 16.

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 the Manager. 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 Robert Owen who is a director of Baronsmead VCT 3 plc will seek annual re-election at the Annual General Meeting of the Company and, being eligible, will offer himself for re-election.

Alan Pedder retires by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offers himself 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 believes that it is therefore in the best interest of shareholders that each of these Directors be re-elected.

The Directors who held office during the year, and their beneficial interests in the ordinary shares and C shares of the Company (the figures at 28 January 2009 are stated after the conversion of all the C shares), were:

	28 January 2009	31 December 2008		31 December 2007	
	Ordinary 10p shares	Ordinary 10p shares	C 50p shares	Ordinary 10p shares	C 50p shares
Philip Dunne	337,605	123,934	206,000	103,000	206,000
Ian Kirkpatrick	7,372	3,979	3,090	3,722	3,090
Robert Owen	115,703	115,703	-	115,703	-
Alan Pedder CBE	56,887	38,425	17,800	35,935	17,800
Total shares held	517,567	282,041	226,890	258,360	226,890

Other than disclosed in the above table, there have been no other changes in the holdings of the Directors between 31 December 2008 and 28 January 2009.

No Director has a service contract with the Company.

All the Directors are members of the Audit, Management Engagement and Remuneration and Nomination Committees.

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 and revised in June 2006 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

Report of the Directors

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 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 Philip Dunne is Chairman and Robert Owen is the Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. New Directors receive an induction from the Manager on joining the Board, and all Directors receive other relevant training as necessary.

Robert Owen is a Director of Baronsmead VCT 3 plc. As explained earlier 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. 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 Robert Owen, 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 Management Engagement and Remuneration Committee, chaired by Alan Pedder, comprises the full Board and reviews the appropriateness of the Manager's appointment (including key executives thereof) together with the terms and conditions thereof on a regular basis.

The Nomination Committee. chaired by Ian Kirkpatrick, 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 performance of the Board, Committees and individual Directors were evaluated through an assessment process led by the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director.

The following table sets out the number of Board and Committee meetings held for the period to 28 January 2009 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
Philip Dunne (Chairman)	8	7	2	2	1	1	1	1
Ian Kirkpatrick‡	8	8	2	2	1	1	1	1
Robert Owen*	8	8	2	2	1	1	1	1
Alan Pedder CBE†	8	8	2	2	1	1	1	1

‡Chairman of Nomination Committee
*Chairman of the Audit Committee and Senior Independent Director
†Chairman of the Management Engagement and Remuneration Committee

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

Report of the Directors

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 Combined Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns 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.

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 26 March 2009 can be found in the Notice of Meeting on pages 45 and 46.

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 Association of Investment Companies Corporate Governance Guide for Investment Companies. 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, approve 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 17 and 18, 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 concluded that the systems and procedures employed by the Manager 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

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 accounting, company secretarial, administrative and custodian services to the Company. During the year the accounting and company secretarial services were transferred from F&C Asset Management Limited to ISIS EP LLP. 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 of the Company's ordinary shares and prior to the conversion of the C shares 2 per cent per annum on the net assets of the C shares. In addition, the Manager receives an annual accounting and secretarial fee of £46,535 (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 £104,050 (excluding VAT) per annum (linked to the movement in RPI).

Annual running costs are capped at 3.5 per cent of the average net assets of the Company during the period (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 12 per cent of the ordinary shares of each and every unquoted investment excepting those life science transactions where ISIS EP LLP is not the lead investor. By 31 December 2008, a total of £487,744 had been invested in ordinary shares of 19 unquoted investments by 36 executives.

Report of the Directors

Shares under the Scheme cannot be sold until each investment held by the four Baronsmead VCTs is sold contemporaneously. Gains for the executives will only be 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. In this way the Scheme can continue to attract, recruit, retain and incentivise 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 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 2008 (simple) applied to the funds raised under the C Share Offer after which the existing arrangement described above apply. The performance fee payable in any one year is capped at 4.99 per cent of each pool of assets. All of the issued C Shares converted into Ordinary Shares on 28 January 2009 in accordance with the rights attaching to the C Shares.

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

No performance fee is payable for the year to 31 December 2008.

ISIS Equity Partners – Arrangement Fees

During the year to 31 December 2008, ISIS EP LLP received net income of £203,298 (2007: £73,616) in connection with arrangement fees (net of abort costs) for six investee companies. This amount was paid by the investee companies.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP ('PwC') to advise it on compliance with VCT requirements. PwC, as the Company's VCT Tax Status Advisers, 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.

Environment

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

Creditor Payment Policy

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

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

Auditors

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 forthcoming Annual General Meeting.

Substantial Interests

At 28 January 2009 the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital.

Authority to allot shares, disapplication of pre-emption rights and authority to re-issue Treasury Shares

Resolutions 6 and 7 to be proposed at the Annual General Meeting will authorise the issue of Ordinary Shares in the Company (having disapplied pre-emption rights).

Resolution 6 will authorise the Directors pursuant to Section 80 CA 1985 to allot shares up to an aggregate nominal value of £3,500,000 (representing 66.26 per cent of the issued ordinary share capital of the Company, excluding shares held in treasury, as at 28 January 2009). This authority will be used for the purposes of:

(a) the issue of Ordinary Shares pursuant to one or more offerings to raise in aggregate up to £12 million; and

(b) the issue of Ordinary Shares up to an aggregate of 30 per cent of the issued Ordinary Share capital immediately following the allotment of Ordinary Shares pursuant to paragraph (a) of Resolution 7, the proceeds of which may be used, in whole or in part, to purchase the Company's own Ordinary Shares in the market.

The authority conferred by Resolution 6 will expire on the fifth anniversary of the passing of the resolution. The Company held 2,441,453 Ordinary Shares in treasury representing 4.62 per cent of the Company's issued ordinary share capital (excluding Shares held in treasury) as at 28 January 2009. Resolution 7 will disapply pre-emption rights in respect of Ordinary Shares which may be allotted or re-issued out of Treasury for cash pursuant to the authority granted by Resolution 6. The maximum number of

Report of the Directors

Ordinary Shares which may be allotted for cash on a non pre-emptive basis pursuant to the authority conferred by Resolution 6 will be 35,000,000 (representing 63.3 per cent of the issued ordinary share capital of the Company as at 28 January 2009). The authority conferred by Resolution 7 will expire on the conclusion of the annual general meeting of the Company to be held in 2010.

Treasury Shares

The Company currently holds 2,441,453 ordinary shares in Treasury. If Resolution 7 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.

Teathers Limited (formerly Landsbanki Securities (UK) Limited), 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 these shares are subsequently sold no capital gains tax is payable by qualifying shareholders.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and Resolution 8 seeks renewal of such authority until the Annual General Meeting in 2010. 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 increases 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. Shareholders gave approval at the Extraordinary General Meeting held on 22 September 2008 to extend the life of the Company to the annual general meeting falling after the fifth anniversary of the last allotment (from time to time) of shares by the Company.

Articles of Association

The Company proposes to adopt new Articles of Association which incorporate changes to the current Articles of Association to reflect the provisions of the Companies Act 2006 and otherwise generally update the Articles of Association for current regulations and market practice. As the 2006 Act will not be fully in force until October 2009, it is not yet possible to fully reflect the 2006 Act changes and it is anticipated that shareholders will be asked to approve further changes to the Articles at the 2010 AGM. The principal changes brought about by the new Articles of Association proposed to be adopted at the forthcoming AGM can be found on pages 47 to 48 following the Notice of Meeting.

The new Articles of Association proposed to be adopted by the passing of Resolution 9 include a provision which will allow general meetings of the Company (other than annual general meetings) to be called on 14 clear days' notice (being the minimum notice period currently provided under the Companies Act 2006). However, the Companies Act 2006 provisions relating to meetings are due to be amended with effect from August 2009, as a result of the UK implementation of the EU Shareholder Rights Directive. The Government is still consulting on the detail of the amendments that are to be made and will not publish the final form regulations until Spring 2009. One of the amendments to be made will, in accordance with the Directive, increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. It is not yet clear what this will require and the details will be set out in the final regulations when published. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. The Board believes that it is in the best interests of shareholders of the Company to ensure that the minimum notice period can remain at 14 days after August 2009. The Board is therefore proposing Resolution 10 as a special resolution to approve 14 days as the minimum period of notice for all general meetings other than annual general meetings.

Annual General Meeting

A notice for the Annual General Meeting of the Company to be held at 11 am on 26 March 2009 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 45 and 46.

By Order of the Board,

P M Forster
Secretary
100 Wood Street
London EC2V 7AN

28 January 2009

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 which is profiled on page 16 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 revised 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 fee should remain at £20,000 and the other Directors' fees should remain at £15,000.

The Management Engagement and Remuneration Committee comprises Philip Dunne, Ian Kirkpatrick, Robert Owen and Alan Pedder (who is Chairman of the Committee). As the Company has no executive Directors, the Management Engagement and Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the 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 2009 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 £75,000 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	Next date for Re-election
Philip Dunne	5/11/2001	AGM 2010
Ian Kirkpatrick	5/11/2001	AGM 2011
Robert Owen	5/11/2001	AGM 2009
Alan Pedder CBE	5/11/2001	AGM 2009

The terms of Directors' appointments are for an initial period of three years and provide that Directors should 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 to offer themselves for re-election by shareholders at least every three years after that. In accordance with the 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 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 2008, 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 widely understood broad equity market index against which investors can measure the relative performance of the Company. An explanation of the performance of the Company is given in the Chairman's Statement and the Manager's Review.

Share Price and The FTSE All-Share Total Returns Index 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 2008 £	Fees 2007 £
Philip Dunne	20,000	20,000
Ian Kirkpatrick	15,000	14,000
Robert Owen	15,000	14,000
Alan Pedder CBE	15,000	14,000
Total	65,000	62,000

On behalf of the Board,
Philip Dunne
Chairman
28 January 2009

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 (UK GAAP).

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 (UK GAAP) 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. Visitors to the website should be aware that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face.

On behalf of the Board,

Philip Dunne
Chairman
28 January 2009

Independent Auditors' Report

Independent Auditors' report to the members of Baronsmead VCT 4 plc

We have audited the financial statements of Baronsmead VCT 4 plc for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 25.

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, Financial Highlights and Summary Since Launch 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 2008 and of its loss for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
28 January 2009

Income Statement

For the Year ended 31 December 2008

		Ordinary Shares			C Shares			Total		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised losses on investments	9	-	(6,996)	(6,996)	-	(323)	(323)	-	(7,319)	(7,319)
Realised (losses)/gains on investments	9	-	(277)	(277)	-	18	18	-	(259)	(259)
Income	2	1,071	-	1,071	691	-	691	1,762	-	1,762
Recoverable VAT	3	165	641	806	33	108	141	198	749	947
Investment management fee	4	(218)	(654)	(872)	(112)	(335)	(447)	(330)	(989)	(1,319)
Other expenses	5	(243)	-	(243)	(184)	-	(184)	(427)	-	(427)
Profit/(loss) on ordinary activities before taxation		775	(7,286)	(6,511)	428	(532)	(104)	1,203	(7,818)	(6,615)
Taxation on ordinary activities	6	(184)	240	56	(122)	66	(56)	(306)	306	-
Profit/(loss) on ordinary activities after taxation		591	(7,046)	(6,455)	306	(466)	(160)	897	(7,512)	(6,615)
Return per ordinary share/C share:										
Basic		1.89p	(22.58p)	(20.69p)	1.46p	(2.22p)	(0.76p)	-	-	-

The 'Total' column of this statement is the profit and loss account of the Company.
All revenue and capital items in this statement derive from continuing operations.
No operations were acquired or discontinued in the year.

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2008

	Notes	2008 Ordinary shares £'000	2008 C shares £'000	2008 Total £'000
Opening shareholders' funds		38,186	20,413	58,599
Loss for the period		(6,455)	(160)	(6,615)
Issue of shares		676	850	1,526
Expenses of share issue	14	(13)	(21)	(34)
Purchase of shares for Treasury/cancellation		(1,001)	(1)	(1,002)
Dividends paid	7	(3,429)	(1,149)	(4,578)
Closing shareholders' funds		27,964	19,932	47,896

The accompanying notes are an integral part of these statements.

Income Statement

For the Year ended 31 December 2007

	Notes	Ordinary Shares Revenue £'000	Ordinary Shares Capital £'000	Ordinary Shares Total £'000	C Shares Revenue £'000	C Shares Capital £'000	C Shares Total £'000	Total Revenue £'000	Total Capital £'000	Total Total £'000
Unrealised gains on investments	9	–	1,134	1,134	-	717	717	–	1,851	1,851
Realised gains on investments	9	–	273	273	-	178	178	–	451	451
Income	2	1,535	–	1,535	876	-	876	2,411	-	2,411
Investment management fee	4	(290)	(871)	(1,161)	(117)	(352)	(469)	(407)	(1,223)	(1,630)
Other expenses	5	(265)	–	(265)	(140)	-	(140)	(405)	-	(405)
Profit on ordinary activities before taxation		980	536	1,516	619	543	1,162	1,599	1,079	2,678
Taxation on ordinary activities	6	(218)	249	31	(182)	151	(31)	(400)	400	-
Profit on ordinary activities after taxation		762	785	1,547	437	694	1,131	1,199	1,479	2,678
Return per ordinary share:										
Basic		2.41p	2.49p	4.90p	2.17p	3.44p	5.61p	–	–	–

The 'Total' column of this statement is the profit and loss account of the Company.
All revenue and capital items in this statement derive from continuing operations.
No operations were acquired or discontinued in the year.

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		39,361	19,421	58,782
Profit for the year		1,547	1,131	2,678
Increase in share capital		708	550	1,258
Purchase of shares		(1,381)	(189)	(1,570)
Dividends paid	7	(2,049)	(500)	(2,549)
Closing shareholders' funds		38,186	20,413	58,599

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 31 December 2008

	Notes	2008 Ordinary Shares £'000	2008 C Shares £'000	2008 Total £'000	2007 Ordinary Shares £'000	2007 C Shares £'000	2007 Total £'000
Fixed assets							
Investments	9	25,739	18,638	44,377	33,670	18,503	52,173
Current assets							
Debtors	10	1,121	572	1,693	680	304	984
Cash at bank and on deposit		1,368	984	2,352	4,561	2,127	6,688
		2,489	1,556	4,045	5,241	2,431	7,672
Creditors (amounts falling due within one year)	11	(264)	(241)	(505)	(725)	(521)	(1,246)
Net current assets		2,225	1,315	3,540	4,516	1,910	6,426
Total assets less current liabilities		27,964	19,953	47,917	-	-	-
Creditors (amounts falling due after one year)	12	-	(21)	(21)	-	-	-
Net assets		27,964	19,932	47,896	38,186	20,413	58,599
Capital and reserves							
Called-up share capital	13	3,328	10,595	13,923	3,272	10,172	13,444
Share premium account	14	13,151	675	13,826	12,543	270	12,813
Capital redemption reserve	14	116	108	224	116	108	224
Revaluation reserve	14	(400)	531	131	7,199	854	8,053
Profit and loss account	14	11,769	8,023	19,792	15,056	9,009	24,065
Equity shareholders' funds		27,964	19,932	47,896	38,186	20,413	58,599
Net asset value per share							
Number of Shares (excluding those held in treasury)		30,837,886	21,191,442	-	31,285,827	20,344,440	-
– Basic	15	90.68p	94.06p	-	122.06p	100.34p	-
Number of Shares (including those held in treasury)		33,279,339	21,191,442	-	32,715,827	20,344,440	-
– Treasury	15	90.19p	94.06p	-	121.68p	100.34p	-

The financial statements on pages 27 to 44 were approved by the Board of Directors on 28 January 2009 and were signed on its behalf by:

PHILIP DUNNE (Chairman)

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

Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 Ordinary Shares £'000	2008 C Shares £'000	2008 Total £'000	2007 Ordinary Shares £'000	2007 C Shares £'000	2007 Total £'000
Operating activities							
Investment income received		1,398	810	2,208	1,195	783	1,978
Deposit interest received		119	90	209	86	71	157
Investment management fees		(957)	(452)	(1,409)	(2,273)	(530)	(2,803)
Other cash payments		(255)	(140)	(395)	(261)	(141)	(402)
Net cash (outflow)/inflow from operating activities	17	305	308	613	(1,253)	183	(1,070)
Taxation							
Tax		58	(58)	-	-	-	-
Capital expenditure and financial investment							
Purchases of investments		(19,692)	(24,492)	(44,184)	(8,106)	(18,231)	(26,337)
Disposals of investments		19,902	23,421	43,323	13,938	19,094	33,032
Net cash inflow/(outflow) from capital expenditure and financial investment		210	(1,071)	(861)	5,832	863	6,695
Dividends							
Equity dividends paid		(3,429)	(1,149)	(4,578)	(2,049)	(500)	(2,549)
Net cash inflow/(outflow) before financing		(2,856)	(1,970)	(4,826)	2,530	546	3,076
Financing							
Issue of shares		708	849	1,557	735	577	1,312
Buy-back of ordinary shares		(1,001)	(1)	(1,002)	(1,042)	-	(1,042)
Expenses of issue of shares		(44)	(21)	(65)	(27)	(27)	(54)
Net cash (outflow)/inflow from financing		(337)	827	490	(334)	550	216
Increase/(decrease) in cash		(3,193)	(1,143)	(4,336)	2,196	1,096	3,292
Reconciliation of net cash flow to movement in net cash							
Increase/(decrease) in cash in the year		(3,193)	(1,143)	(4,336)	2,196	1,096	3,292
Opening cash position		4,561	2,127	6,688	2,365	1,031	3,396
Closing cash position	16	1,368	984	2,352	4,561	2,127	6,688

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 15 December 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 net profit 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 are recognised at the date of transaction.

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 (IPEVC) guidelines:

1. Investments are to be held at cost for a limited period only and not necessarily for a full 12 month period. The Company generally values new investments on an 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 an earnings multiple (at a discount to an appropriate stock market or comparable transaction multiple) 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 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 is 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 recorded on an accruals basis.

Expenses attributable to the ordinary shares and C shares have been allocated in proportion to 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 profit and loss 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 the 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

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Income from investments†						
UK franked	136	26	162	284	4	288
UK unfranked	815	574	1,389	1,165	801	1,966
	951	600	1,551	1,449	805	2,254
Other income‡						
Deposit interest	120	91	211	86	71	157
Total income	1,071	691	1,762	1,535	876	2,411
Total income comprises:						
Dividends	136	26	162	284	4	288
Interest	935	665	1,600	1,251	872	2,123
	1,071	691	1,762	1,535	876	2,411
Income from investments:						
Listed and AiM securities	382	344	726	404	747	1,151
Unquoted securities	569	256	825	1,045	58	1,103
	951	600	1,551	1,449	805	2,254

†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. Recoverable VAT

HM Revenue and Customs (HMRC) confirmed in October 2007, following the European Court of Justice decision in the JPMorgan Claverhouse case, that the provision of management services to investment trusts is exempt from VAT. Accordingly ISIS EP LLP ceased to charge VAT on management fees payable by the Company with effect from 30 June 2008.

On the basis of information supplied by ISIS EP LLP and discussions with the Company's professional advisors, the Directors consider it reasonably certain that the Company will in the foreseeable future obtain a repayment of VAT of not less than £947,000. This amount has been recognised as a separate item in the income statement, allocated between revenue and capital return in the same proportion as that in which the irrecoverable VAT was originally charged.

Notes to the Accounts

4. Investment management fee

	2008 Total £'000	2007 Total £'000
Investment management fee		
Ordinary shares	872	1,161
C shares	447	469
Performance fee:		
Ordinary shares	-	-
C shares	-	-
	1,319	1,630

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. However, the first performance fee will not be paid unless and until the total return on the net funds raised exceeds 40 per cent. To take account of the proceeds from the C share offer which is held initially in cash and fixed interest securities, an annual threshold of only 2 per cent for the period to 31 December 2008 (simple) will apply to the funds raised under the Offer after which the existing arrangement described above will be applied. The performance fee payable in any one year will be capped at 4.99 per cent of each pool of assets. A performance fee is not payable for the year ended 31 December 2008.

ISIS EP LLP receives an annual accounting and secretarial fee (plus VAT) of £46,535 (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 £104,050 (excluding VAT per annum) and is linked to the movement in RPI. It is chargeable 100 per cent to revenue.

Amounts payable to the Managers at the period end are disclosed in the creditors note on page 38.

5. Other expenses

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Directors' fees	43	22	65	40	22	62
Accounting and secretarial fees	77	43	120	79	39	118
Remuneration of the auditors and their associates:						
- audit	14	7	21	13	7	20
- other services supplied pursuant to legislation (interim review)	3	1	4	3	1	4
- other services supplied relating to taxation	2	1	3	3	2	5
Trail commission	2	63	65	23	24	47
Other	102	47	149	104	45	149
	243	184	427	265	140	405

The Chairman receives £20,000 (2007: £20,000) per annum. Each of the other Directors receives £15,000 (2007: £14,000) per annum.

The Directors consider the auditors were best placed to provide the non-audit services above. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

Notes to the Accounts

6. Tax on ordinary activities

6a. Analysis of charge for the year

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
UK corporation tax	56	(56)	-	31	(31)	-

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

6b. 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 (blended rate 28.5 per cent). The differences are explained below:

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
(Loss)/profit on ordinary activities before tax	(6,511)	(104)	(6,615)	1,516	1,162	2,678
Corporation tax at blended rate of 28.5 per cent	(1,856)	(30)	(1,886)	455	349	804
Effect of:						
Non-taxable dividend income	(39)	(7)	(46)	(85)	(1)	(86)
Non-taxable realisation gains	2,073	87	2,160	(422)	(269)	(691)
Losses carried forward/(utilised)	(234)	6	(228)	21	(48)	(27)
Tax (credit)/charge for the period (note 6a)	(56)	56	-	(31)	31	-

At 31 December 2008 the Company had surplus management expenses of £507,000 (2007: £1,374,000) 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

7. Dividends

	2008			2007		
	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 2006 of 3.5p per ordinary share				1,118	–	1,118
- final dividend for the year ended 31 December 2006 of 1.0p per C share				–	200	200
- interim dividend for the year ended 31 December 2007 of 3.0p per ordinary share				931	–	931
- interim dividend for the year ended 31 December 2007 of 1.5p per C share				–	300	300
- final dividend for the year ended 31 December 2007 of 4.0p per ordinary share	1,259	–	1,259	–	–	–
- final dividend for the year ended 31 December 2007 of 2.0p per C share	–	407	407	–	–	–
- interim dividend for the year ended 31 December 2008 of 3.0p per ordinary share	937	–	937	–	–	–
- interim dividend for the year ended 31 December 2008 of 1.5p per C share	–	318	318	–	–	–
- second interim dividend for the year ended 31 December 2008 of 4.0p per ordinary share	1,233	–	1,233	–	–	–
- second interim dividend for the year ended 31 December 2008 of 2.0p per C share	–	424	424	–	–	–
	3,429	1,149	4,578	2,049	500	2,549

8. Returns per share

Ordinary Shares

The 20.69p loss per share (2007: 4.90p profit per share) is based on the net loss from ordinary activities after tax of £(6,455,000) (2007: profit of £1,547,000) and on 31,200,831 (2007: 31,558,217) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

C Shares

The 0.76p loss per share (2007: 5.61p profit per share) is based on the net loss from ordinary activities after tax of £(160,000) (2007: £1,131,000) and on 21,007,453 (2007: 20,146,505) C shares, being the weighted average number of C shares in issue during the year.

Notes to the Accounts

9. 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 the movement in these fair values are treated as unrealised.

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Interest bearing securities	4,397	5,100	9,497	4,877	11,695	16,572
Traded on FTSE SmallCap	255	-	255	273	-	273
Traded on AiM	4,806	2,772	7,578	9,317	2,707	12,024
Unquoted investments	16,281	10,766	27,047	19,203	4,101	23,304
	25,739	18,638	44,377	33,670	18,503	52,173
Equity shares	9,633	5,273	14,906	17,302	3,716	21,018
Loan notes/preference shares	11,709	8,265	19,974	11,491	3,092	14,583
Fixed income securities	4,397	5,100	9,497	4,877	11,695	16,572
	25,739	18,638	44,377	33,670	18,503	52,173

	Ordinary Shares				
	Traded on FTSE Small Cap £'000	Interest bearing securities £'000	Traded on AiM £'000	Unquoted £'000	Total £'000
Opening book cost	245	4,877	9,899	11,450	26,471
Opening unrealised (depreciation)/appreciation	28	-	(582)	7,753	7,199
Opening valuation	273	4,877	9,317	19,203	33,670
Movements in the year:					
Purchases at cost	-	16,030	905	2,393	19,328
Sales - proceeds	-	(16,539)	(385)	(3,062)	(19,986)
- realised (losses) on sales	-	-	(274)	(3)	(277)
Unrealised (losses)/gains realised during the year	-	-	(949)	1,552	603
Increase/(decrease) in unrealised appreciation	(18)	29	(3,808)	(3,802)	(6,996)
Closing valuation	255	4,397	4,806	16,281	25,739
Closing book cost	245	4,368	9,196	12,330	26,139
Closing unrealised appreciation/(depreciation)	10	29	(4,390)	3,951	(400)
	255	4,397	4,806	16,281	25,739

	2008 £'000
Decrease in unrealised appreciation	(7,599)

During the course of the year the Company incurred brokerage costs on purchases of £276 (2007: £94) and brokerage costs on sales of £693 (2007: £2,448) in respect of ordinary shareholder interests.

Notes to the Accounts

9. Investments (continued)

	C Shares			
	Interest bearing securities £'000	Traded on AiM £'000	Unquoted £'000	Total £'000
Opening book cost	11,681	2,679	3,289	17,649
Opening unrealised (depreciation)/appreciation	14	28	812	854
Opening valuation	11,695	2,707	4,101	18,503
Movements in the year:				
Purchases at cost	16,789	1,841	5,566	24,196
Sales – proceeds	(23,419)	-	(337)	(23,756)
– realised gains on sales	18	-	-	18
Unrealised (losses)/gains realised during the year	-	-	-	-
Increase/(decrease) in unrealised appreciation	17	(1,776)	1,436	(323)
Closing valuation	**5,100**	**2,772**	**10,766**	**18,638**
Closing book cost	5,069	4,520	8,518	18,107
Closing unrealised appreciation/(depreciation)	31	(1,748)	2,248	531
	5,100	**2,772**	**10,766**	**18,638**

	2008 £'000
Decrease in unrealised appreciation	**(323)**

During the year the Company incurred brokerage costs on purchases of £610 (2007: £369) in respect of C shareholder interests and brokerage costs on sales of £nil (2007: £1,766).

10. Debtors

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Prepayments and accrued income	259	431	690	623	304	927
Recoverable VAT	806	141	947	-	-	-
Taxation due from C shares	56	-	56	57	-	57
	1,121	572	1,693	680	304	984

Notes to the Accounts

11. Creditors (amounts falling due within one year)

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Management, performance and accounting and secretarial fees due to the Manager	214	123	337	300	129	429
Amounts due to brokers	-	-	-	365	295	660
Taxation due to ordinary shares	-	56	56	-	57	57
Trail commission payable	9	42	51	-	-	-
Other creditors	41	20	61	60	40	100
	264	241	505	725	521	1,246

12. Creditors (amounts falling due after one year)

	2008 C Shares £'000	2007 C Shares £'000
Trail commission payable	21	-

13. Called-up share capital

	£'000
Authorised:	
80,000,000 ordinary shares of 10p each	8,000
25,000,000 C shares of 50p each	12,500
	20,500
Allotted, called-up and fully paid:	
Ordinary Shares	
32,715,827 ordinary shares of 10p each listed at 31 December 2007	3,272
563,312 ordinary shares of 10p issued during the year	56
33,279,339 ordinary shares of 10p each listed at 31 December 2008	3,328
1,011,453 ordinary shares of 10p repurchased during the year and held in treasury at the year end	(101)
1,430,000 ordinary shares of 10p each held in treasury at the start of the year	(143)
30,837,886 ordinary shares of 10p each in issue at 31 December 2008	3,084
C Shares	
20,344,440 C shares of 50p each listed at 31 December 2007	10,172
847,002 C shares of 50p issued during the year	423
21,191,442 C shares of 50p each in issue at 31 December 2008	10,595

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objectives, both of which are detailed in the Report of the Directors on pages 17 and 18.

Notes to the Accounts

13. Called-up share capital (continued)

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. Shareholders have previously 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 €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.

Where shares are bought back but not cancelled the cost of the shares bought back is offset against the special distributable reserve contained in the profit and loss account and the share capital remains unchanged. The NAV per share is calculated by using the number of shares in issue less those bought back and held in treasury.

C shares

C share issues may be 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.

The Company does not have any externally imposed capital requirements.

14. Reserves

	Ordinary Shares			
	Share premium account* £'000	Capital redemption reserve* £'000	Revaluation reserve*† £'000	Profit and loss account‡ £'000
At 31 December 2007	12,543	116	7,199	15,056
Issue of shares	621	-	-	-
Repurchase of shares	-	-	-	(1,001)
Expenses of share issue	(13)	-	-	-
Transfer of prior years' revaluation to profit and loss account	-	-	(603)	603
Dividends paid	-	-	-	(3,429)
Net decrease in value of investments	-	-	(6,996)	6,996
Retained profit for the year	-	-	-	(6,455)
At 31 December 2008	**13,151**	**116**	**(400)**	**11,769**

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve. 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.

†This reserve is unrealised.

‡Included in the profit and loss account are realised capital reserves and special distributable reserves of £10,576 (2007: £14,933).

14. Reserves (continued)

	C Shares			
	Share premium account* £'000	Capital redemption reserve* £'000	Revaluation reserve*† £'000	Profit and loss account‡ £'000
At 31 December 2007	270	108	854	9,009
Issue of shares	426	-	-	-
Expenses of share issue	(21)	-	-	-
Dividends paid	-	-	-	(1,149)
Net increase in value of investments	-	-	(323)	323
Retained profit for the year	-	-	-	(160)
At 31 December 2008	**675**	**108**	**531**	**8,023**

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve. 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.

†This reserve is unrealised.

‡Included in the profit and loss account are realised capital reserves and special distributable reserves of £7,818 (2007: £8,831).

15. 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 both were:

	Number of shares		Net asset value per share attributable		Net asset value attributable	
	2008 number	2007 number	2008 pence	2007 pence	2008 £'000	2007 £'000
Ordinary shares (basic)	**30,837,886**	31,285,827	**90.68**	122.06	**27,964**	38,186
Ordinary shares (treasury)	**33,279,339**	32,715,827	**90.19**	121.68	**30,015**	39,809
C shares (basic)	**21,191,442**	20,344,440	**94.06**	100.34	**19,932**	20,413

Basic net asset value per share is based on net assets at the year end, and on 30,837,886 (2007: 31,285,827) ordinary shares and 21,191,442 (2007: 20,344,440) C shares, being the respective number of shares in issue at the year end.

Treasury net asset value per ordinary share is based on net assets at the year end, inclusive of the 2,441,453 ordinary shares held in treasury valued at middle market share price, and on 33,279,339 ordinary shares being the number of ordinary shares listed at the year end.

Notes to the Accounts

16. Analysis of changes in cash

	Ordinary Shares £'000	C Shares £'000
Beginning of year	4,561	2,127
Net cash outflow	(3,193)	(1,143)
As at 31 December 2008	1,368	984

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

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
(Loss)/profit on ordinary activities before taxation	(6,511)	(104)	(6,615)	1,516	1,162	2,678
Loss/(profit) on realisation of investments	277	(18)	259	(273)	(178)	(451)
Unrealised gains on investments	6,996	323	7,319	(1,134)	(717)	(1,851)
(Increase)/decrease in debtors	(391)	69	(322)	(255)	(22)	(277)
(Decrease)/increase in creditors	(66)	38	(28)	(1,107)	(62)	(1,169)
Net cash inflow/(outflow) from operating activities	305	308	613	(1,253)	183	(1,070)

18. Contingencies, guarantees and financial commitments

At 31 December 2008 there were no contingencies, guarantees or financial commitments of the Company.

19. Significant interests

There are no interests of 20 per cent or more of any class of share capital.

Further information on the significant interests is disclosed on pages 10 and 11.

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 9) 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 IPEVC 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 23, 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 traded 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 10 and 11. An analysis of investments between debt and equity instruments is disclosed in note 9.

18 per cent (2007: 21 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 2008 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £392,000 (2007: £615,000); 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.

57 per cent (2007: 40 per cent) of the Company's investments are in unquoted companies held at fair value. Valuation methodology includes the application of an earnings multiple 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 2008 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,352,000 (2007: £1,165,000); 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

	2008			2007		
	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	4,397	3.7	122	45	5	67
C Shares						
Fixed rate						
Financial assets	5,100	3.2	114	9,310	5	67

Floating rate

When the Company retains cash balances, the majority of cash is ordinarily held on interest bearing deposit accounts and, where appropriate, within interest bearing government securities. The benchmark rate which determines the interest payments received on interest bearing cash balances is the bank base rate which was 2.0 per cent as at 31 December 2008 (2007: 5.75 per cent).

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Floating rate						
OEIC	-	-	-	4,832	2,385	7,217
Cash on deposit	1,368	984	2,352	4,561	2,127	6,688

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:

	2008			2007		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Investments in fixed interest instruments	4,397	5,100	9,497	45	9,310	9,355
Investments in floating rate instruments	-	-	-	4,832	2,385	7,217
Cash and cash equivalents	1,368	984	2,352	4,561	2,127	6,688
Interest, dividends and other receivables	259	431	690	623	304	927
	6,024	6,515	12,539	10,061	14,126	24,187

Notes to the Accounts

23. Credit risk (continued)

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

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 21.

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 seek to move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 31 December 2008 or 31 December 2007. No individual investment exceeded 6.1 per cent of the net assets attributable to the Company's shareholders at 31 December 2008 (2007: 3.9 per cent).

24. Liquidity risk

The Company's financial instruments include investments in AiM traded 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 page 18. 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 2008 these investments were valued at £11,849,000 (2007: £23,260,000).

25. Related parties

Related party transactions include Management, Company Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 4 and 5, and fees paid to the Directors as disclosed in note 5. In addition, the Manager operates a Co-Investment Scheme, detailed in the Report of the Directors on page 22, 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 seventh Annual General Meeting of Baronsmead VCT 4 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS, on 26 March 2009 at 11.00 am for the following purposes:

Ordinary Business

1. That the Report and Accounts for the year to 31 December 2008 be received.
2. That the Directors' Remuneration Report for the year to 31 December 2008 be approved.
3. That Alan Pedder, who retires by rotation, be re-elected as a Director.
4. That Robert Owen be re-elected as a Director.
5. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

6. THAT in substitution for all subsisting authorities to the extent unused, the Directors be and hereby are authorised to exercise all of the powers of the Company to allot relevant securities which expression shall have the meaning ascribed to it in Section 80 of the Companies Act 1985 ("the Act") up to an aggregate nominal value of £3,500,000, provided that the authority conferred by this paragraph shall expire on the fifth anniversary of the date of the passing of this resolution unless renewed, varied or revoked by the Company in general meeting (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 notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements).
7. THAT in substitution for all subsisting authorities to the extent unused, the Directors be and hereby are empowered pursuant to Section 95(1) of the Companies Act 1985 ("the Act") to allot (within the meaning of Section 94(3A) of the Act) or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by Resolution 6 as set out in the notice of this meeting as if Section 89(1) of the Act did not apply to such allotment provided that the power provided by this Resolution shall expire on the conclusion of the annual general meeting to be held in 2010 and provided further that this power shall be limited to the allotment and issue of equity securities in connection with:
   - (a) the allotment of equity securities with an aggregate nominal value not exceeding £1,400,000 pursuant to one or more offers for subscription of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") to raise in aggregate up to £12 million ("Offer(s)"); and
   - (b) the allotment, otherwise than pursuant to sub-paragraph (a) of this Resolution 7 of equity securities with an aggregate nominal value of up to £2,100,000 but not exceeding the nominal value of such number of Ordinary Shares as shall equal 30 per cent of the issued Ordinary Shares immediately following the final allotment following the closing of the Offer(s), where the proceeds of the allotment may be used in whole or in part to purchase the Company's Ordinary Shares in the market.
8. THAT the Company be and hereby is empowered to make market purchases within the meaning of Section 163 of the Companies Acts 1985 ("the Act")of its own Ordinary Shares of 10p each in the capital of the Company ("Ordinary Shares") provided that:
   - (a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 10,100,000 or if lower such number of Ordinary Shares as shall equal 14.99 per cent of the issued Ordinary Shares as at the date of such purchase (excluding any Ordinary Shares held in treasury);
   - (b) the minimum price which may be paid for an Ordinary Share is the nominal value thereof of 10 pence;
   - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotation for an Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary Shares are to be purchased;
   - (d) the authority conferred by this Resolution shall expire on 26 June 2010 or, if earlier, the conclusion of the annual general meeting to be held in 2010 unless such authority is renewed prior to such time; and
   - (e) the Company may make a contract to purchase Ordinary Shares under the authority conferred by this Resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of such Ordinary Shares.

Notice of Annual General Meeting

9. That the Articles of Association contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the Annual General Meeting.

10. THAT, subject to the adoption of the new Articles of Association of the Company by the passing of Resolution 9 as set out in the notice of this meeting, a general meeting (other than an annual general meeting) may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company.

By Order of the Board

PM Forster
Secretary
100 Wood Street
London EC2V 7AN
28 January 2009

1. No Director has a service contract with the Company.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast), Members must be registered in the Register of Members of the Company at 11.00 am on 24 March 2009 (or, in the event of any adjournment, 11.00 am on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member, but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. To appoint more than one proxy, an additional proxy form(s) may be obtained by contacting the Company's registrars, Computershare Investor Services PLC, helpline on 0870 703 0137 or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name, the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. A reply paid form of proxy is enclosed with Shareholders' copies of this document. To be valid, it should be lodged with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received not later than 48 hours before the time appointed for the meeting or any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.
6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
7. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
8. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in Notes 3 and 4 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
9. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
10. As at 28 January 2009 the Company's issued share capital consists of 55,259,913 Ordinary Shares, carrying one vote each. Excluding those Shares held in treasury, the total voting rights in the Company as at 28 January 2009 are 52,818,460 Shares.

Explanatory Notes of Principal Changes to the Company's Articles of Association

It is proposed to adopt new Articles of Association (New Articles) in order to update the Company's current Articles of Association (Current Articles) primarily to take account of changes in English company law brought about by the Companies Act 2006 that came into force on or before 1 October 2008. These changes are in addition to the new provisions of the Companies Act 2006 relating to Directors' conflicts of interest which were approved by Shareholders at the Extraordinary General Meeting held on 22 September 2008 and which are already included in the Current Articles.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted below. The New Articles showing all the changes to the Current Articles are available for inspection at the offices of ISIS EP LLP from the date of this notice until the close of the Annual General Meeting on 26 March 2009 and will also be available for inspection at the venue of the Company's Annual General Meeting for at least 15 minutes before and during the Annual General Meeting.

1 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main being amended to bring them into line with or to cross refer to the relevant provisions of the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions and provisions regarding the period of notice required to convene general meetings.

2 Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

3 Notice of annual general meetings and general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. Accordingly, a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. However, as noted on page 23 of the Directors' Report the Companies Act 2006 provisions relating to meetings are due to be amended with effect from August 2009, as a result of the UK implementation of the EU Shareholder Rights Directive and one of the amendments to be made will, in accordance with the Directive, increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided the two conditions referred to in the Directors Report are met. As the Board believes that it is in the best interests of shareholders of the Company to ensure that the minimum notice period can remain at 14 days after August 2009, the Board intends to seek shareholder approval, on an annual basis, through the passing of a special resolution at its Annual General Meetings, to permit it to convene general meetings other than annual general meetings on 14 days' notice.

4 Amendments to resolutions

The New Articles include a provision allowing members to submit amendments to proposed ordinary resolutions 48 hours prior to the meeting at which such resolutions are to be considered.

5 Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions other than the ability to exclude weekends and bank holidays.

6 Age of directors on appointment

The Current Articles contain a provision stating that a person is not incapable of being appointed a Director by reason of his having attained the age of 70 or any other age, nor shall any special notice be required in connection with the appointment or the approval of the appointment of such person. Such provision is now unnecessary due to the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

Explanatory Notes of Principal Changes to the Company's Articles of Association

7 Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

8 Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. The existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9 Share transfers

Under the Current Articles, the Company is not obliged to give any reason for refusing to register a transfer of shares. Provisions of the Companies Act which came into force in April 2008 require a company to give the transferee reasons for refusal, and the New Articles have been amended accordingly.

10 Execution of deeds

It is now possible for a company to execute a deed in the presence of a single director, provided a witness attests the signature and the New Articles reflect this.

11 General

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles.

Shareholder Information and Contact Details

Shareholder Helpline

Tel: 0870 703 0137 (Calls charged at national rate).

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 enable you achieve 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

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-uk.computershare.com/investor

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www-uk.computershare.com. Please note that to access this facility investors will need to quote the Shareholder 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.investorcentre.co.uk for further information.

For information on asset allocations, dividend policies, investment process, DRIP mechanism, share price movements, the share price discount and selling shares:

ISIS EP LLP (the Investment Manager) at www.isisep.com

e-mail: michael.probin@isisep.com; paul.forster@isisep.com; margaret.barff@isisep.com

Tel: Michael Probin 020 7506 5796; Paul Forster 020 7506 5652; Margaret Barff 020 7506 5630.

The Baronsmead website (www.baronsmeadvcts.co.uk) links to helpful sites, contains details of the team and some case studies of investments.

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 Baronsmead website is available at www.baronsmeadvcts.co.uk.

Shareholder Information and Contact Details

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 4 plc are:

Teathers Limited 020 7426 9000

Winterfloods 020 3400 0251

Please call Michael Probin (020 7506 5796) or Paul Forster (020 7506 5652) if you or your adviser have any questions about this process.

Financial Calendar

26 March 2009	Seventh Annual General Meeting
August 2009	Announcement of interim results
August 2009	Posting of interim report
February 2010	Announcement of final results for year to 31 December 2009

The shareholdings as at 31 December 2008 are analysed as follows:

	Ordinary Shares				C Shares			
Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
1-2,000	46	2.70	32,885	0.10	1	0.10	385	0.00
2,001-5,000	344	20.22	1,315,902	3.95	225	21.72	826,837	3.90
5,001-10,000	454	26.69	3,276,823	9.85	324	31.27	2,242,032	10.58
10,001-25,000	504	29.63	8,029,454	24.13	280	27.03	4,396,402	20.75
25,001-50,000	242	14.23	8,622,874	25.91	110	10.62	4,031,599	19.02
50,001-100,000	84	4.94	6,042,885	18.16	66	6.37	4.130,818	19.49
Over 100,000	27	1.59	5,958,546	17.90	30	2.90	5,563,369	26.25
Total	1,701	100.00	33,279,339	100.00	1,036	100.00	21,191,442	100.00

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 4 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
Philip Dunne (Chairman)
Ian Kirkpatrick†
Robert Owen*
Alan Pedder CBE‡

Secretary
Paul Forster, FCIS

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100 Wood Street
London EC2V 7AN

Investment Manager
ISIS EP LLP
100 Wood Street
London EC2V 7AN

Investor Relations
Michael Probin
0207 506 5796

Registered Number
04313537

†Chairman of the Nomination Committee
*Chairman of the Audit Committee and Senior Independent Director
‡Chairman of the Management Engagement and Remuneration Committee

Registrars and Transfer Office
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Edinburgh EH1 2EG

Solicitors
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3 More London Riverside
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London WC2N 6RH

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