

Baronsmead VCT 3 plc

2004

Summary annual report
for the year ended
31 December 2004



Investment Objective

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

Investment Policy

To establish a diverse portfolio comprising:

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

Shareholder Policies

Since launch in 2001, the Board of Directors has sought to communicate regularly and openly with Shareholders. Dialogue has been achieved principally through questionnaires, workshops and General Meetings. By understanding Shareholders' priorities, the Board has been able to initiate a number of policies, which provide greater choice for Shareholders and address their expressed objectives. The website, www.baronsmeadvct3.co.uk, contains both annual and interim statutory reports as well as other generic VCT publications.

Shareholder choice

This is achieved by offering Shareholders the ability to:

- increase their shareholding through top-up offers
- reinvest their dividends, enabling those whose personal investment objective is capital growth to achieve this in a tax efficient manner
- sell their shares through the operation of a buy-back policy

Buy-back policy

Purchases of shares will be made within guidelines established from time to time by the Board. This power will be exercised only if in the opinion of the Board a repurchase would be in the interests of shareholders as a whole. Historically the repurchase price has represented an approximate 10 per cent discount to Net Asset Value per share.

Dividend policy

Since launch the average annual tax-free dividends paid to Shareholders has been 3.5p per share (equivalent to a pre-tax return of 5.2p per share for a higher rate taxpayer). The Board wishes to sustain this level of average dividends if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

Dividend reinvestment

The Directors offer to Shareholders the opportunity to reinvest their dividends by subscribing for new shares in the Company. The Dividend Reinvestment Scheme enables Shareholders to increase their shareholding without incurring dealing costs, issue costs or stamp duty. These shares should qualify for the VCT tax reliefs that are applicable to subscriptions for new shares and form part of each Shareholder's current annual limit of £200,000 for investing in VCTs.

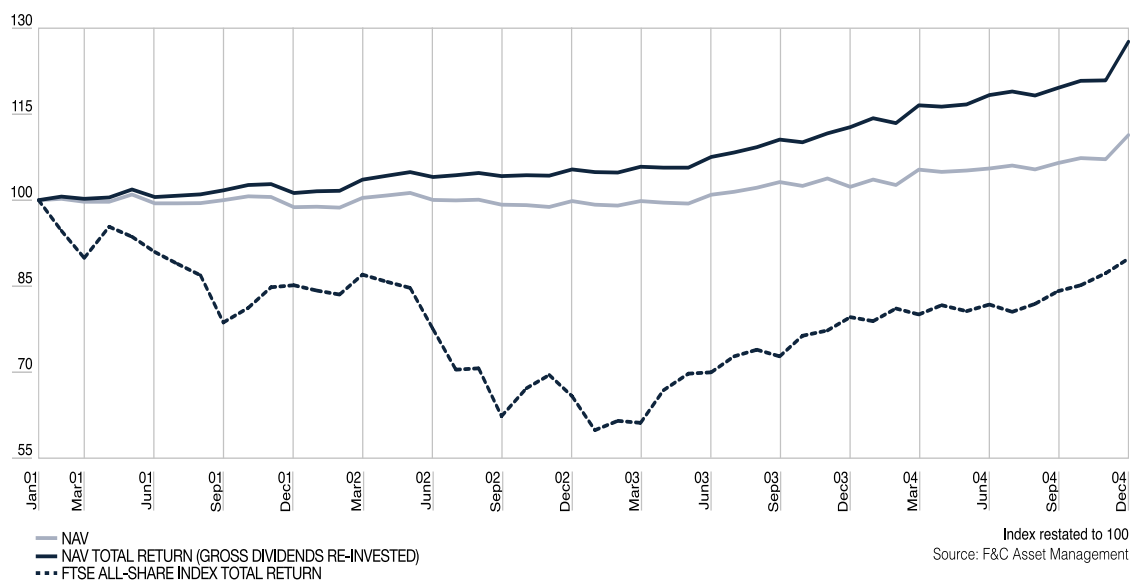
Financial Highlights

NAV per ordinary share increased by 13.0 per cent before deduction of dividends; giving a net change of 8.3 per cent after deduction of dividends

NAV per ordinary share after deduction of dividends was 105.26p

Revenue and capital dividends total 4.50p per ordinary share for the year

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



Performance Summary

	31 December 2004	31 December 2003	% change
Ordinary Share – capital values			
Net asset value	105.26p	97.15p	8.3
Share price	92.50p	90.00p	2.8
Discount	(12.1)%	(7.4)%	
Net asset value total return since launch (note 1)	27.5%	12.7%	
Total assets less current liabilities	£35.1m	£33.0m	
(note 1) Net asset value total return assuming gross dividends re-invested.			
	Year to 31 December 2004	Year to 31 December 2003	
Dividends			
Revenue dividends per Ordinary Share	1.20p	2.20p	
Capital dividend per Ordinary Share	3.30p	2.00p	

Four Year Record

At 31 December	Shareholders' funds £'000	Net asset value per share p	Net asset value total return* p	Share price p	Discount (note 1) %	Revenue dividend per Ordinary share p	Capital dividend per Ordinary share p
2001	31,069	93.85	101.21	88.00	(6.2)	2.30	–
2002	32,050	94.85	105.35	85.50	(9.9)	2.80	–
2003	32,994	97.15	112.66	90.00	(7.4)	2.20	2.00
2004	35,116	105.26	127.52	92.50	(12.1)	1.20	3.30

*Source: F&C Asset Management plc.

Note 1 – (Discount)/premium is the difference between Baronsmead VCT 3's quoted price and its underlying net asset value.

Cash Returned to Shareholders

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

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross annual yield† %
2001	100	20.0	80.0	13.8	4.4	6.5

Note 1 – The cash returns could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.

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

†The gross equivalent yield if the dividends had been subject to higher rate (40% income tax).

Secondary market in the shares of Baronsmead VCT 3

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

As shares in Baronsmead VCT 3 have been historically priced at 10 per cent below their net asset value, the 4.5p dividend being paid for 2004 equates to an approximate yield of 4.9 per cent based on the share price of 92.5p at 31 December 2004. The gross equivalent yield for a higher rate taxpayer would be 7.2 per cent.

There is no minimum time for which shares need to be held and they can be sold in the normal way.

Chairman's Statement

We have met our twin objectives of creating capital growth and paying attractive tax free dividends in 2004. NAV value per share has advanced again based on the good underlying trading and asset growth across the portfolio.



Mark Cannon Brookes
Chairman

Results

In the year to 31 December 2004, NAV per share increased by 13.0 per cent from 97.15p to 109.76p per share before providing for the full year dividends of 4.5p per share. These dividends comprise 3.3p per share from net realised capital profit and 1.2p per share from net revenue. The NAV per share at the year end was 105.3p per share.

The increase in the FTSE All-Share Index (total return) was 12.8 per cent over the comparable period to 31 December 2004.

The total return for Baronsmead VCT 3 of 27.5 per cent, net of all costs, since launch combines growth in NAV per share and reinvested dividends per share of 13.8p. This performance places your Company ahead of most other 'generalist' VCTs, which have a similar strategy investing across a range of unquoted and AiM companies. The FTSE All-Share Index (total return) over the comparable period since launch is down 10 per cent and so the performance of your Company remains substantially ahead of this index. The positive differential increases further if the benefits from the available VCT tax reliefs are also taken into account.

The Portfolio

In the year under review, £7.3m was invested. Seventeen new investments were made with five unquoted and twelve AiM-traded companies resulting in a 47 strong portfolio as at 31 December 2004. Two investments were fully realised and details of these and other partial realisations are described within the Manager's review.

At times shareholders wish to know more about the performance of individual companies but it is not always possible to share detailed progress, either good or bad, as making confidential information public could potentially harm the commercial prospects of individual companies. This could influence the value of underlying investments to the possible detriment of overall shareholder value. As a result our policy is to publish publicly available information either recorded at Companies House or via the website of individual investees. Page 10 lists all investments within the portfolio.

The overall health of investee companies is monitored quarterly by noting the direction of travel of operating profits/other non-financial measures across the portfolio. Some 90 per cent of these companies are reporting steady or better profits and progress.

Although the Manager uses similar investment disciplines to select unquoted and AiM investments, the geared nature of the former increases the individual company risk as their balance sheets have higher levels of debt. Successful trading typically makes the return for shareholders that much higher whereas problematic trading will have the opposite effect should their business plans not be met. The Manager's review addresses this issue with specific reference to the existing portfolio companies.

Meeting Shareholders Needs

The level of qualifying investment across the total portfolio at 31 December 2004 is approximately 72 per cent invested. The Board is mindful of the next phase of investment opportunities over the coming three years in order to build wider diversity across a larger number of investments and the business cycle. As previously announced, the Board is planning a C share fund raising later in 2005. Shareholder approval for this C share issue is being sought at the EGM to be held later after the AGM on the 23 March 2005. This will have the advantage of economies of scale but also will attract a wider base of new shareholders.

Chairman's Statement

In the meantime, existing shareholders may wish to take advantage of the current 40 per cent income tax relief on subscription for both the current tax year ending 5 April 2005 and also the next tax year 2005/06 by availing themselves of the top up offer on publication of the fourth annual report.

To ensure that subscribers have at least three years to hold the new shares so as to retain the 40 per cent income tax relief, shareholders are being asked at the AGM to extend the life of the Company from 2008 to 2013. This longer horizon is consistent with the view of more than 80 per cent of shareholders, who in response as to how long they wished to hold their shares, stated that they did not intend to sell in the foreseeable future.

Existing shareholders were issued with 331,991 shares via a 'top up' offer in early 2004 and 551,623 new shares were issued under the dividend reinvestment scheme during 2004. 1.49m shares were bought back and cancelled within the last year at approximately a 10 per cent discount to NAV per share at around the level anticipated from the shareholder survey in autumn 2003.

As first stated in March 2004, the Board proposed an annual dividend policy and this has been increased to 4.5p per share. This cannot be guaranteed as it depends on the level of realised capital profits from the realisation of portfolio companies and economic circumstances beyond our control.

For the first time, the summary financial information on pages 1 and 2 of this report sets out the benefits of the VCT tax reliefs for shareholders in terms of average annual net yield for both standard rate and higher rate tax payers. The historic averages of 4.4 per cent and 6.5 per cent respectively illustrate that VCTs can be an important part of a retirement planning portfolio as VCTs are heritable and relatively flexible when compared to pensions.

Corporate Governance

The Board operates within the Combined Code for fully listed companies and reviews quarterly the direction and control of the Company with the Investment Managers.

The Manager continues to evolve its strategy to improve the way in which unquoted transactions are found, managed and sold. It has also made good progress in the application of private equity disciplines when subscribing into AiM-traded companies applying its sector knowledge and exerting influence as normally one of the larger institutional shareholders.

Outlook

UK economic conditions are more settled than previously and provide a better environment in which the Manager can select and then manage both unquoted and AiM investments through to eventual sale. Worldwide growth should continue at least close to the long term trend given the absence of unforeseen shocks.

The last year has seen sizeable growth in the portfolio and the task now is to sustain investment performance. The Board's role will be to continue to monitor such developments in order that we can sustain our twin investment objectives of achieving capital growth and paying attractive tax free dividends.

I look forward to welcoming as many shareholders as possible at the AGM on 23 March 2005 at 11.00 a.m. at the Offices of F&C Asset Management, Exchange House, Primrose Street, London EC2A 2NY. Please note this change of address which is adjacent to Liverpool Street Station in the City of London. The Investment Manager, David Thorp, will lead a presentation on portfolio issues and the current prospects. The Managing Director of Occam has accepted the invitation to comment on this company and its progress. The presentations will be followed by a buffet lunch with the intention of finishing by 12.30 p.m. prior to a shareholders workshop.

Mark Cannon Brookes

Chairman

9 February 2005

Manager's Review

The high level of investment has increased the portfolio to 47 companies, the majority of which are trading strongly.



David Thorp
Investment Manager

For example within the portfolio the strongest advances in valuation have come from the investments in Americana, The Art Group and AssA while conversely provisions have been made for Spaform and Hawksmere. The £510,000 loan stock in Americana was repaid in December 2004 and the value of the shareholding has increased from £0.84m to £2.08m over the last six months as profits have grown. The sale of BodyCare for 0.46 times cost (including interest received) illustrates that loan stock can play an important part increasing the sale proceeds.



Rhonda Nicoll
Company Secretary

In terms of active portfolio management, an investment executive from the Manager normally joins the board of unquoted companies as a non-executive director. They can deploy their experience in helping the investee meet or exceed its plans as well as play their part in remedying problems when they arise. The investment in AssA demonstrates this as it has increased in value as trading has improved following some board changes.

In selecting new AiM-traded opportunities, the Manager applies a similar analytical /private equity approach to the extent that this is possible given the information and timescale available for making the investment. Co-investment by the four Baronsmead VCTs can often result in the combined investment being amongst the largest institutional shareholdings, which enables the Manager to sustain a regular and informed dialogue over the progress of these companies.

New Investment

The target of increasing the portfolio to over 40 companies during 2004 was achieved mainly due to the larger number of AiM subscriptions. £7.3m was invested across seventeen new investments of which five were unquoted companies and twelve AiM-traded businesses.

£2.52m was realised from the part sale of two AiM shareholdings and the complete sale of investments in two unquoted companies plus the Americana redemption. Previously it had been announced that kidsunlimited had exchanged contracts in July 2004 to merge with a larger business within the child nursery sector. The board of 'kids' withdrew from the proposed transaction in November 2004 when it became clear that further delays and uncertainties were likely due to complex tax clearances. This business continues to expand its network of child day care centres and increase operating profits.

Portfolio Performance and Realisations

The nature of creating greater shareholder value within unquoted and AiM-traded companies differs in that the investment into AiM investees is a straightforward subscription of shares whereas the structure of an unquoted transaction typically involves a substantial element of debt in the initial financing package.

Financial gearing via the use of loan stock is used in pursuit of higher potential returns but there are increased risks as well. These can be mitigated by the closer involvement of the Manager.

Diversity is evident by the number of investments in different years and a variety of activities within the five chosen sectors. The proportion of unquoted and AiM investments is almost level

Realisations/Flotation in year to 31 December 2004		First investment date	Cost £'000	Proceeds £'000	Multiple return
Huveaux	Market sale	March 2003	18	45	2.50
neuTec Pharma	Market sale	February 2002	239	544	2.28
Brownsword	Trade sale	December 2002	676	1,149	1.85*
Vectura	Flotation	April 2001	1,041	1,371†	1.32
Americana	Loan repayment	August 2003	510	510	1.00*
BodyCare	Secondary buyout	November 2001	1,000	273	0.46*

*includes interest received
†share price at 31/12/2004

Manager's Review

following a period of more unquoted realisations than from AiM and the flotation of Vectura.

The technology section of the portfolio currently encompasses 16 investees, split into 7 within the bioscience/healthcare sector and 9 with an IT service/software activity. To date partial profit has been realised in neuTec which specialises in products to remedy MRSA 'hospital bugs'. Vectura shares can be sold on AiM now that Baronsmead VCT 3 is out of its restricted sale period following the AiM flotation in July 2004.

Investor Relations

Computershare was appointed registrars in July 2004 and to date their capacity to handle relatively complex systems has aided more effective shareholder communication.

The web site for Baronsmead VCT 3 is now easier to access via www.baronsmeadvct3.co.uk and contains a number of reports including not only the statutory reports and fact sheets but also the presentations at the annual general meeting and shareholder workshop. It also contains published generic information to aid financial planning for shareholders including the fourth edition of the guide 'A closer look at VCTs', a dividend reinvestment scheme document that explains how the 40 per cent income tax relief on subscription makes this scheme more advantageous (at least until April 2006) and finally a magazine 'VCT Forum informed choices'.

Michael Probin leaves ISIS Equity Partners to live with his family in the Falkland Islands at the beginning of March 2005. His skills will be retained for some project work/technical advice over the two or three years that he may be away from the UK.

For the last five years he has made a significant contribution to the development of investor relations not only across the four Baronsmead VCTs but also in helping to set standards for the whole VCT sector. We send him our best wishes and thank him for being a knowledgeable and accessible point of contact for shareholders and their advisers.

Outlook

The priority remains to select unquoted and AiM-traded opportunities within our chosen sectors and continue to expand the portfolio towards 60 companies. The portfolio is well-diversified and the intention is to grow and then realise these investments when possible so as to meet the twin objectives of capital growth and sustain the dividend policy.

David Thorp

Investment Manager

ISIS Equity Partners

9 February 2005

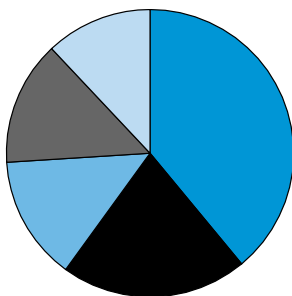
Company	Location	Sector	Activity	Investment cost £'000
New unquoted investments				
Country Artists	Stratford on Avon	Consumer	Giftware products	448
Domantis	Cambridge	Healthcare	Drug discovery	356
Occam	Bath	Business services	Integrated data services	420
SLR	Aylesbury	Business services	Environmental consultancy	494
Spaform	Portsmouth	Consumer	Portable spa baths	867
Follow-on investments				
AssA	Tyne & Wear	Business services	Work place training	139
Ardana	Cambridge	Healthcare	Drug discovery	170
Language Line	London	Business services	Interpretation services	22
Vectura	Chippenham	Healthcare	Drug delivery	100
Xention Discovery	Cambridge	Healthcare	Drug discovery	19
AiM-traded investments				
Adventis	London	Media	Advertising agency	281
Begbies Traynor	Manchester	Business services	Insolvency specialists	525
Business Direct	Rugby	Business services	Secure remote lockers	522
Interactive Prospect Targeting	London	Business services	On line marketing	253
Jelf Group	Yate	Business services	Corporate financial services	393
MKM	Chester	Business services	Sales promotion	284
Polaron	Watford	IT support services	Electronic equipment	296
Prologic	Berkhamsted	IT support services	Fashion software	310
Quadnetics	Nottingham	Business services	CCTV security systems	296
Sanderson	Coventry	IT support services	Software systems	387
Scott Tod	Powys	Business services	ATM operators	421
WIN	High Wycombe	IT support services	Text messaging services	263
Total investments in the year				£7,266

Portfolio Analysis

Portfolio by Sector ...

Company Investments (excluding fixed interest portfolio)

Sector Analysis as at 31 December 2004

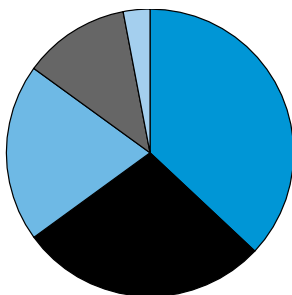


■ Business services	39%
■ Media	21%
■ IT support services	14%
■ Consumer	14%
■ Healthcare	12%

... and by Asset Classification

Total Assets less Current Liabilities

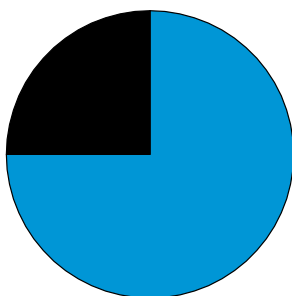
Market Analysis as at 31 December 2004



■ AiM	37%
■ Unquoted – ordinary and preference shares	28%
■ Fixed interest	20%
■ Unquoted – loan stock	12%
■ Net current assets	3%

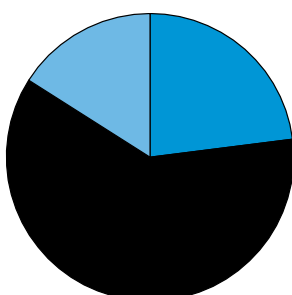
... and by Development Stage

by Value as at 31 December 2004



■ Late stage	75%
■ Early stage	25%

... and by Time Investments Held



■ < 1 year	23%
■ Between 1 and 3 years	61%
■ > 3 years	16%

Ten Largest Investments

by Current Value at 31 December 2004

Americana Holdings Limited *Manchester*

First Investment:	July 2003	Year ended 30 June	2004	2002
Cost:	£57,000		(18 months)	
Valuation:	£2,076,000		£ million	£ million
Valuation Basis:	Discounted price earnings	Sales	32.2	25.3
		Profit before tax	6.1	4.9
		Retained profit	4.1	3.4
		Net assets	5.2	5.4

Americana is a fashion clothing business aimed at the youth market wholesaling and retailing under the brand names 'Bench' and 'Hooch'. In August 2003, £6.4m was raised to support a management buy-out.



The Art Group Limited *London*

First Investment:	October 2003	Year ended 31 December	2003	2002
Cost:	£1,281,000		£ million	£ million
Valuation:	£1,830,000	Sales	18.3	16.7
Valuation Basis:	Discounted price earnings	Profit before tax	2.0	1.6
		Retained profit	1.3	1.1
		Net assets	1.4	2.5

The Art Group is a market leading publisher of art content on cards, posters and canvas prints sold to retailers in over 50 countries such as IKEA and Habitat. It raised £4.5m to support a management buy-out.



AssA Training and Learnings Limited *Tyne & Wear*

First Investment:	September 2003	Year ended 31 July	2004	2003
Cost:	£1,113,000		£ million	£ million
Valuation:	£1,614,000	Sales	13.6	7.2
Valuation Basis:	Discounted price earnings	Loss before tax	(7.2)	(10.8)
		Retained loss	(7.8)	(10.8)
		Net liabilities	(6.9)	(6.4)

AssA Training and Learnings is a training developer and provider specialising in the marketing and delivery of public sector funded vocational training to the automotive and manufacture sectors. It raised £3m to support a management buy-out.



Martin Audio Limited *High Wycombe*

First Investment:	August 2003	Year ended 30 June	2004	2003
Cost:	£786,000		£ million	£ million
Valuation:	£1,540,000	Sales	11.4	9.5
Valuation Basis:	Discounted price earnings	Profit before tax	1.1	1.0
		Retained loss	(0.8)	–
		Net assets	0.9	1.3

Martin Audio designs, assembles and markets high performance speaker systems for use in the concert and public entertainment markets, in the UK and overseas. It raised £3m of capital to support a management buy-out.



Vectura Limited *Chippenham*

First Investment:	April 2001	Year ended 31 March	2004	2003
Cost:	£1,041,000		£ million	£ million
Valuation:	£1,371,000	Sales	2.9	3.5
Valuation Basis:	Middle market price	Loss before tax	(9.0)	(6.9)
		Retained loss	(8.1)	(5.5)
		Net assets	6.4	14.4

Vectura is a small, but rapidly growing drug formulation and drug delivery company. The role of drug delivery is to encapsulate a drug into an appropriate system that is acceptable for human use. The Company raised three rounds of capital between April 2001 and November 2002. Vectura floated on AiM in July 2004.



Ten Largest Investments

RLA Media Limited Bournemouth

First Investment:	December 2002	Year ended 31 May	2004	2003*
Cost:	£681,000		£ million	£ million
Valuation:	£1,347,000	Sales	10.6	4.5
Valuation Basis:	Discounted price earnings	Profit before tax	1.7	0.4
		Retained profit	0.6	0.1
		Net assets	3.5	2.9

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

*for the period from 19 November 2002 to 31 May 2003



Huveaux Plc London

First Investment:	March 2003	Year ended 31 December	2003	2002
Cost:	£559,000		£ million	£ million
Valuation:	£1,230,000	Sales	1.5	1.1
Valuation Basis:	Middle market price	Profit before tax	1.2	0.4
		Retained profit	0.3	0.3
		Net assets	21.6	6.1

Huveaux is a publishing and media group with a strategy to expand into the government and educational sectors. The company joined AiM in December 2001. The Group raised £7.6m to purchase Lonsdale Publishing and support the Group's buy and build strategy.

HUVEAUX PLC

Kidsunlimited Limited Wilmslow

First Investment:	August 2003	Year ended 30 April	2004	2003
Cost:	£481,000		£ million	£ million
Valuation:	£1,112,000	Sales	16.8	13.8
Valuation Basis:	Discounted price earnings	Loss before tax	(1.3)	(1.3)
		Retained loss	(1.3)	(1.3)
		Net liabilities	(3.6)	(2.3)

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

kidsunlimited®

Fretwell Downing Limited Sheffield

First Investment:	April 2002	Year ended 31 May	2004	2003
Cost:	£685,000		£ million	£ million
Valuation:	£811,000	Sales	4.6	4.7
Valuation Basis:	Discounted revenue multiple	Profit/(loss) before tax	0.1	(1.7)
		Retained loss	-	(1.5)
		Net assets	1.8	1.5

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



Zoo Digital Group plc Sheffield

First Investment:	November 2003	Year ended 31 December	2003	2002
Cost:	£584,000		£ million	£ million
Valuation:	£736,000	Sales	5.1	1.9
Valuation Basis:	Middle market price	Loss before tax	(1.5)	(2.3)
		Retained loss	(1.5)	(2.2)
		Net assets	9.2	3.7

Zoo Digital is a digital media developer and solutions provider, particularly for interactive DVD software. It joined AiM in 2001 and raised £5.7m of institutional equity in November 2003.



Investment Portfolio

Company	Nature of Business	Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by Other Funds*
Unquoted						
Americana	Consumer	57	2,076	5.9	3.2	33.1
The Art Group	Media	1,281	1,830	5.2	7.0	18.0
AssA	Business services	1,113	1,614	4.6	13.1	33.9
Martin Audio	Business services	786	1,540	4.4	13.0	33.6
RLA Media	Media	681	1,347	3.8	8.7	21.3
kidsunlimited	Business services	481	1,112	3.2	4.1	46.9
Fretwell Downing	IT support services	685	811	2.3	5.8	18.8
Language Line	Business services	660	660	1.9	6.0	61.9
Ardana	Healthcare	619	619	1.7	1.4	1.1
SLR Holding	Business services	494	494	1.4	2.6	22.6
Country Artists	Consumer	448	448	1.3	5.3	54.7
Occam	Business services	420	420	1.2	4.1	35.9
Domantis	Healthcare	356	356	1.0	1.0	1.2
Hawksmere	Business services	766	345	1.0	10.4	34.6
Oxxon Pharmaccines	Healthcare	250	250	0.7	0.8	0.8
Xention Discovery	Healthcare	131	131	0.4	2.7	–
Spaform	Consumer	867	0	0	13.5	36.5
Total unquoted		10,095	14,053	40.0		
AiM						
Vectura	Healthcare	1,041	1,371	3.9	2.0	6.8
Huveaux	Media	559	1,230	3.5	2.0	3.7
Zoo Digital	IT support services	584	736	2.1	2.0	3.5
The Real Good Food Company	Consumer	540	734	2.1	2.8	7.7
Begbies Traynor	Business services	525	688	2.0	2.0	5.6
Murgitroyd Group	Business services	500	687	1.9	5.0	5.0
Air Music & Media Group	Media	575	604	1.7	2.3	3.8
IDOX	IT support services	600	593	1.7	2.9	4.4
Medal Entertainment & Media	Media	371	528	1.5	4.1	6.2
Colliers CRE	Business services	470	525	1.5	1.2	2.5
Sanderson Group	IT support services	387	464	1.3	1.9	5.5
Business Direct	Business services	522	459	1.3	3.9	7.2
Jelf Group	Business services	393	444	1.3	3.6	10.2
Scott Tod	Business services	421	385	1.1	2.3	6.0
Interactive Prospect Targeting	Business services	253	329	0.9	1.1	3.2
Stagecoach Theatre Arts	Consumer	419	327	0.9	4.6	4.6
Quadnetics	Business services	296	324	0.9	1.0	2.3
Prologic	IT support services	310	321	0.9	4.1	10.9
Adventis	Media	281	320	0.9	3.0	7.8
Polaron	IT support services	296	307	0.9	1.4	3.4
WIN	IT support services	263	278	0.8	1.4	3.9
neuTec Pharma	Healthcare	79	246	0.7	0.2	0.2
MKM	Business services	284	245	0.7	4.9	12.6
Cardpoint	Business services	92	200	0.6	0.3	0.7
VI Group	IT support services	300	199	0.6	3.7	10.5
Micap	Healthcare	325	174	0.5	2.0	3.9
Universe Group	IT support services	158	136	0.4	1.1	2.8
Blooms of Bressingham	Consumer	320	126	0.4	1.1	1.1
Xpertise	Business services	296	81	0.2	2.6	4.4
Capcon Holdings	Business services	137	62	0.2	1.7	3.4
Total AiM		11,597	13,123	37.4		
Fixed interest						
UK Treasury 4.5% 07/03/07		4,941	5,005	14.3		
Money Market OEIC		2,042	2,043	5.8		
Total fixed interest		6,983	7,048	20.1		
Total investments		28,675	34,224	97.5		
Net current assets		–	892	2.5		
Total assets less current liabilities		–	35,116	100.0		

A provision of £1,288,000 has been made against unquoted investments as at 31 December 2004 (31 December 2003 – £649,000).

*Other funds managed by the same Investment Managers, ISIS Equity Partners plc.

Board of Directors

as at 31 December 2004



Mark Cannon Brookes (Chairman)

(age 65) is a director of NCL Smith & Williamson. The NCL group has £6 billion of investments under management. He is chairman of CG Asset Management Limited and is also a director of ISIS UK Select Trust plc and a number of other companies, mostly overseas.



Andrew Karney

(age 62) is deputy chairman and a shareholder of Language Line Limited in which Baronsmead VCT 3 is an investor. He is also a director of The Guardian Media Group plc, Guardian Newspapers Limited and a number of unquoted companies. Previously he was a director of Integrated Micro Products plc, a founder director of Cable London plc and an executive director of Logica plc.



Gillian Nott

(age 59) was until March 1999 chief executive of ProShare (UK) Limited. She was, until recently, a director of the Financial Services Authority and is on the board of a number of listed and unlisted companies including Foreign and Colonial Pacific Investment Trust plc and Martin Currie Portfolio Investment Trust plc. Previously she worked for the BP Group where she managed their venture capital portfolio. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 2 plc.



Robert Owen

(age 59) is a director of Baronsmead VCT 4 plc. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio.

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

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

Summary Financial Statement

This summary financial statement has been prepared voluntarily by the Directors in accordance with the relevant requirements of section 251 of the Companies Act 1985. It does not contain sufficient information to allow a full understanding of the results and state of affairs of the Company. For further information, the full Annual Financial Statements, the Auditors' Report on those financial statements and the Directors' Report should be consulted. A copy of the Annual Report, which may be obtained free of charge, will be delivered to the Registrar of Companies after the Annual General Meeting. PKF have reported on the Company's statutory accounts for the year ended 31 December 2004. The report was unqualified.

Summary Directors' Report

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act and the Company has received full approval as a Venture Capital Trust from the Inland Revenue for the year to 31 December 2003. A review of the Company's business during the year is contained in the Chairman's Statement and Manager's Review.

Results and Dividends

	£'000
Unrealised gain on revaluation of investments	4,173
Loss on ordinary activities after taxation	(59)
Interim dividend of 1.8p per share paid on 12 August 2004	(612)
Final dividend for the year of 2.7p per ordinary share payable on 24 March 2005 to shareholders on the register on 18 February 2005	(900)
Transferred from profit and loss account	(1,571)
Retained gain during the year	2,602

The proposed final dividend of 2.7p per share is represented by a revenue dividend of 0.9p per share (total £300,000) and a capital dividend of 1.8p per share (total £600,000). The interim dividend of 1.8p per share is represented by a revenue dividend of 0.3p per share (total £102,000) and a capital dividend of 1.5p per share (total £510,000).

Issue and Buy-Back of Shares

During the year the Company issued 883,614 Ordinary Shares and raised net proceeds of £860,000. The Company bought back for cancellation 1,485,000 Ordinary Shares (being 4.5 per

cent of closing issued share capital) during the year, at a cost of £1,340,000 (2003: 85,000 shares at a cost of £74,000).

Directors

Gillian Nott and Robert Owen whose biographies appear on page 11 both retire by rotation at the fourth Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

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

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

	31 December 2004 Ordinary 10p Shares	31 December 2003 Ordinary 10p Shares
Mark Cannon Brookes	112,128	106,513
Andrew Karney	23,098	21,941
Gillian Nott	15,450	15,450
Robert Owen	10,709	10,709

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

There have been no changes in the holdings of the Directors between 31 December 2004 and 9 February 2005.

No Director has a service contract with the Company.

All Directors are members of the Audit, Remuneration and Nomination committees, all chaired by Mark Cannon Brookes, the Chairman of the Company.

Corporate Governance

Arrangements to ensure the appropriate level of corporate governance have been put in place by the Board, which it believes are appropriate to a venture capital trust. During the year the Company took the necessary steps such that, except as disclosed below, it also complies with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, which is applicable for accounting years beginning on or after 1 November 2003 ('the revised Code').

Since all Directors are non executive, the Company is not required to comply with the provisions of the revised Code in respect of the Directors' remuneration, except in so far as they relate specifically to non-executive Directors.

The Board consists solely of non-executive Directors of which Mark Cannon Brookes is Chairman and Andrew Karney is

Report of the Directors

Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager.

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

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

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 23 March 2005 can be found in the Notice of Meeting on page 17.

Summary Directors' Remuneration Report

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to properly oversee the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31 December 2005 and subsequent years.

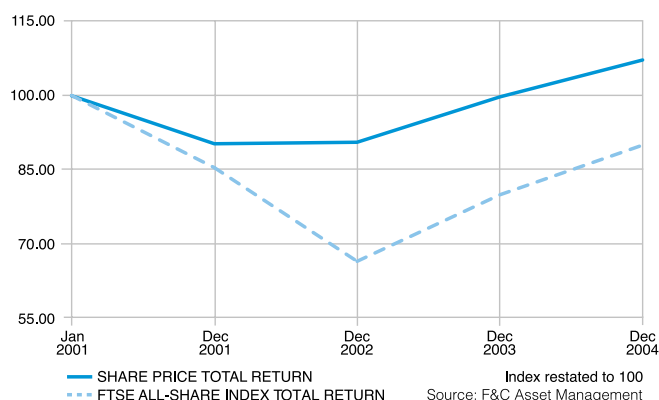
The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £55,493 per annum and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses,

pension benefits, share options, long-term incentive schemes or other benefits.

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. The graph below compares from 29 January 2001 (the date the Company commenced trading) to 31 December 2004, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index against which investors can measure the relative performance of the fund. An explanation of the performance of the Company is given in the Chairman's statement and Manager's review.

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



Directors' emoluments for the year (audited)

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

	Fees 2004 £	Fees 2003 £
Mark Cannon Brookes	16,500	15,000
Andrew Karney	11,000	10,000
Gillian Nott	11,000	10,000
Robert Owen	11,000	10,000

Profit and Loss Account

for the year ended 31 December 2004

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Profit on realisation of investments	–	200	200	–	1,199	1,199
Income	987	–	987	1,472	–	1,472
Investment management fee	(248)	(745)	(993)	(193)	(581)	(774)
Other expenses	(253)	–	(253)	(241)	–	(241)
Profit/(loss) on ordinary activities before taxation	486	(545)	(59)	1,038	618	1,656
Tax on ordinary activities	(76)	76	–	(268)	185	(83)
Profit/(loss) on ordinary activities after taxation	410	(469)	(59)	770	803	1,573
Dividends paid/payable	(402)	(1,110)	(1,512)	(747)	(679)	(1,426)
Retained profit/(loss) transferred to/(from) reserves	8	(1,579)	(1,571)	23	124	147
Return per ordinary 10p share	1.21p	(1.38)p	(0.17)p	2.27p	2.37p	4.64p

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2004

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Profit/(loss) on ordinary activities after taxation	410	(469)	(59)	770	803	1,573
Unrealised gain on revaluation of investments	–	4,173	4,173	–	638	638
Total recognised gain during the year	410	3,704	4,114	770	1,441	2,211
Total recognised gain per ordinary share	1.21p	10.92p	12.13p	2.27p	4.25p	6.52p

Note of Historical Cost Profits and Losses

for the year ended 31 December 2004

	2004 £'000	2003 £'000
(Loss)/profit on ordinary activities before taxation	(59)	1,656
Realisation of revaluation (losses)/profits of previous years	(319)	506
Historical cost (loss)/profit on ordinary activities before taxation	(378)	2,162
Historical cost (loss)/profit for the year retained after taxation and dividends	(1,890)	653

All items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.

Balance Sheet

as at 31 December 2004

	2004 £'000	2003 £'000
Fixed assets		
Investments	34,224	23,946
Current assets		
Debtors	260	123
Cash at bank and on deposit	1,951	10,908
	2,211	11,031
Creditors (amounts falling due within one year)	(1,319)	(1,983)
Net current assets	892	9,048
Total assets less current liabilities	35,116	32,994
Capital and reserves		
Called-up share capital	3,335	3,396
Share premium account	1,786	1,014
Capital redemption reserve	175	26
Revaluation reserve	5,549	1,057
Profit and loss account	24,271	27,501
Equity shareholders' funds	35,116	32,994
Net asset value per share		
– Basic	105.26p	97.15p

The financial statements were approved by the Board of Directors on 9 February 2005 and were signed on its behalf by:

MARK CANNON BROOKES (Chairman)

Independent Auditors' Statement

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

We have examined the summary financial statement of Baronsmead VCT 3 plc.

This statement is made solely to the Company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the summary financial statement in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summary annual report with the full annual accounts, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summary annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of Opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, the Directors' Report and the Directors' Remuneration Report of Baronsmead VCT 3 plc for the year ended 31 December 2004 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

PKF
Registered Auditors
London
9 February 2005

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Baronsmead VCT 3 plc will be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY, on 23 March 2005 at 11.00 am for the following purposes:

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

Ordinary Business

1. That the Report and Accounts for the year to 31 December 2004 be received.
2. To approve payment of a final dividend of 2.7 pence per Ordinary Share (comprising 0.9 pence revenue and 1.8 pence capital).
3. That Gillian Nott, who retires by rotation, be re-elected as a Director.
4. That Robert Owen, who retires by rotation, be re-elected as a Director.
5. That the Directors' Remuneration Report for the year to 31 December 2004 be approved.
6. That PKF, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolution

7. That:
 - (a) the Directors of the Company (the "Directors") be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £2,502,076 during the period commencing on the passing of this resolution and expiring on 22 March 2010 (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry; and
 - (b) all previous authorities given to the Directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

8. That subject to the passing of Resolution 7 set out in the notice of this meeting:
 - (a) the Directors of the Company (the "Directors") be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities for cash pursuant to the authority given in accordance with section 80 of the Act by that resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:
 - (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of Ordinary Shares of 10p each in the Company and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);
 - (ii) the dividend reinvestment plan as more particularly described in the Report of the Directors;
 - (iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £1,000,830; and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry; and in this resolution 'allot' and allotment shall be construed in accordance with section 94 (3A) of the act.
 - (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.
9. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of Ordinary Shares of 10p each in the Company ("Ordinary Shares"), provided that:
 - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 5,000,810;
 - (b) the minimum price which may be paid for each Ordinary Share is 10p;
 - (c) the maximum price which may be paid for an Ordinary Share shall be equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
 - (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2006 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and
 - (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.
10. That the Articles of Association of the Company (the 'Articles') be and are hereby amended by replacing the first sentence in Article 161.1 with the following sentence:

"The Board shall procure that the annual general meeting of the Company in 2013 and every third annual general meeting thereafter an ordinary resolution will be proposed to the effect that the Company shall continue in being as a venture capital trust."

By Order of the Board

Rhonda Nicoll

for F&C Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
9 February 2005

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company as at 6.00 pm on 21 March 2005, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that relevant time. Changes to entries on the register of members after 6.00 pm on 21 March 2005, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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

To be valid, a Proxy Card must be lodged with the Company's Registrar, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3ZZ at least 48 hours before the meeting. A Proxy Card for use by ordinary shareholders is enclosed with this Report. Completion of the Proxy Card will not prevent a shareholder from attending the meeting and voting in person.

No Director has a contract of service with the Company.

Shareholder Information

Dividends

Interim dividends are paid to shareholders in September. Final dividends are paid to shareholders in March. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained by telephoning the Company's registrar on 0870 703 0137 or by writing to them at, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme to enable shareholders to buy shares using their dividends. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details can be obtained from the Company Secretary.

Share Price

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

Trading Shares

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

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

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

Financial Calendar

12 March 2005	Date by which applications to join the dividend reinvestment scheme must be received by the registrars
23 March 2005	Annual General Meeting – offices of F&C Asset Management plc
24 March 2005	Final dividend paid for the year to 31 December
4 April 2005	Offer for subscription to close – tax year 2004/2005
8 April 2005	Offer for subscription to close – tax year 2005/2006
August 2005	Announcement of interim results and posting of interim report
September 2005	Interim dividend paid
February 2006	Announcement of final results for year to 31 December 2005

VCT Workshop

A workshop for shareholders and their advisors is being held on 23 March 2005 and will be held at the office of the Investment Managers following the Annual General Meeting, which commences at 11.00 am.

Enquiries

Computershare Investor Services PLC contact details

Shareholder Helpline: 0870 703 0317
e-mail: web.queries@computershare.co.uk
Internet: www.computershare.com

Investor Centre

A free Internet based service provided by our registrars which enables shareholders to manage their share portfolio online. Once registered shareholders will be able to access the following information:

- view their share portfolio
- see the market price of their shares
- calculate the total market value of each shareholding as well as the overall share portfolio in a choice of currencies
- view transaction history and dividend payment history
- online update facility for Change of Address and Dividend Mandate Instructions

To join this service please visit: www-uk.computershare.com/investor

F&C Broker Support Helpline: 08457 99 22 99.

Baronsmead VCT 3 plc is managed by ISIS Equity Partners plc a wholly owned subsidiary of F&C Asset Management plc which is Authorised and regulated by the FSA. Past performance is not necessarily a guide to future performance. Stockmarkets 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.

I/We _____
 (BLOCK LETTERS PLEASE)

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

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 23 March 2005, on the following Resolutions to be submitted to the meeting and at any adjournment thereof and at their discretion on any matter arising at such meeting.

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

Ordinary Resolutions	For	Against	Vote Withheld
1. To receive the Report and Accounts for the year to 31 December 2004.			
2. To approve payment of a final dividend of 2.70 pence per Ordinary Share.			
3. To re-elect Gillian Nott as a Director.			
4. To re-elect Robert Owen as a Director.			
5. To approve the Directors' Remuneration Report for the year to 31 December 2004.			
6. To re-appoint PKF as Auditors, and to authorise the Directors to determine their remuneration.			
7. To renew the Directors' authority to allot Ordinary Shares.			
Special Resolutions			
8. To renew the Directors' authority to disapply statutory pre-emption rights.			
9. To renew the Directors' authority to buy-in shares.			
10. To amend Article 161.1 'Duration of the Company' of the Articles of Association.			

Signature _____

Dated this _____ day of _____ 2005

Notes

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

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

In order to have effect, the proxy must be deposited at the Company's Registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3ZZ at least 48 hours before the time of the meeting or any adjournment thereof together where appropriate with the power of attorney under which it is signed or a notarially certified copy of such power.

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

Any alterations made in this proxy should be initialled.

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

SECOND FOLD

BUSINESS REPLY SERVICE
Licence SWB 1002

2



Computershare Investor Services PLC
PO Box 1075
The Pavilions
Bridgwater Road
Bristol BS99 3ZZ

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

Directors

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

Secretary

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

Registered Office and Investment Managers

ISIS Equity Partners plc
Exchange House
Primrose Street
London EC2A 2NY

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office

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

Brokers

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

Auditors

PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Solicitors

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

ISIS Equity Partners – Investment Managers

ISIS Equity Partners is a wholly owned subsidiary of F&C Asset Management plc. F&C Asset Management plc (F&C) is the new business created on 11 October 2004 following the merger of ISIS Asset Management plc and F&C Group Limited. The combined business has around £125 billion of funds under management and is a leading asset manager in both the UK and Europe. The merger created a well balanced and diversified asset management business. F&C is a company listed on the London Stock Exchange.