

Baronsmead VCT 3 plc



2003

Interim report for the
six months ended
30 June 2003



Investment Objective

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

Investment Policy

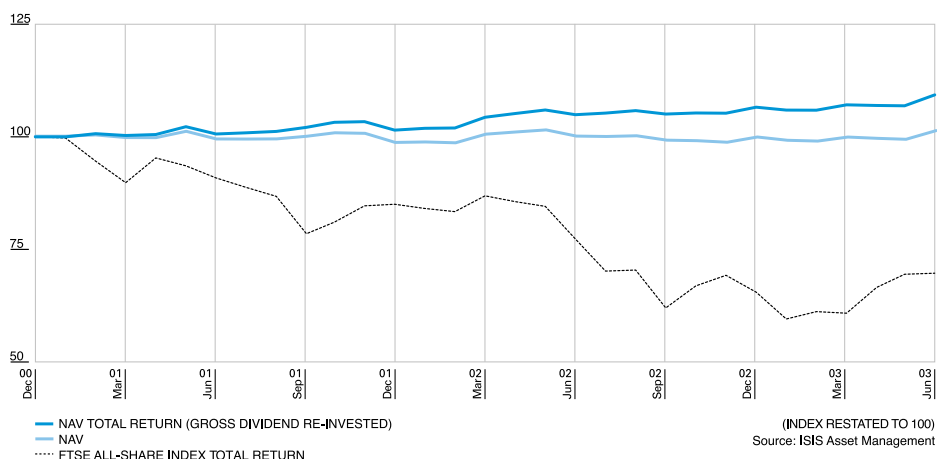
To establish a diverse portfolio of more than 30 investments comprising:

- Larger unquoted companies, typically as lead investor and alongside other institutional investors.
- Companies raising new share capital on the Alternative Investment Market.
- Technology-enabled companies.

Financial Highlights

NAV increased by 1.1 per cent to 95.87p per share
 Interim dividend of 0.9p per share declared
 Investments in period increased to 23 companies
 Total return of 7.5 per cent since launch

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



Performance summary

	30 June 2003	31 December 2002	% Change
Ordinary shares – capital values			
Net asset value per share	95.87p	94.85p	1.1
Share price (mid market)	87.50p	85.50p	2.3
Net asset value total return since launch	7.5%	5.4%	–
Discount	(8.7%)	(9.9%)	–
Total assets	£32.5m	£32.1m	1.2
	Six months ended 30 June 2003	Six months ended 30 June 2002	% Change
Revenue and dividends			
Earnings per ordinary share (note 1)	1.16p	1.66p	(30.1)
Dividends per ordinary share (note 2)	0.90p	1.40p	(35.7)

Notes:

1. Based on a weighted average of 33.8 million shares in issue.
2. Based on the number of shares ranking for dividend of 33.9 million.

Chairman's Statement

Our investment performance has remained steady over the half year to 30 June 2003. This contrasts with the volatility of quoted equity markets in a period that encompassed the Iraq war followed by some market improvement after its resolution.

The two largest unquoted investments were sold in May and June realising aggregate profits of £1.9 million on the sale of Thomas Sanderson and the AIMS Group to trade purchasers. These are examples of how successful private equity investment can add value to growth companies and achieve excellent returns for the shareholders in these companies.

Results | During this interim period, the Net Asset Value per share increased by 1.1 per cent to 95.9p per share after declaring an interim dividend of 0.9p per share. This dividend will be paid on 20 September 2003 to shareholders who are on the register at the close of business on 29 August 2003.

The objective of Baronsmead VCT 3 is to achieve long-term capital growth and generate tax-free dividends. At this stage it is the Board's policy going forward to maintain a regular payment to shareholders whilst enhancing the Company's net asset value.

Investment Portfolio | One measure of portfolio progress is to compare the latest year-end results of each investee with the previous year. This measure can be described as 'the direction of travel' and overall 18 of the 23 investee companies have reported better or steady results at 30 June 2003. Many of the AiM-traded companies have shown profitable growth with the recent exception of Xpertise Group. This IT training company experienced lower demand for its services and a further fund raising took place at a lower valuation than our entry price in which we did not participate.

This analysis excludes the sale of Thomas Sanderson and the AIMS Group, to Hunter Douglas and Alfred McAlpine respectively, producing an annual rate of return of 61 per cent and 70 per cent. These unusually high returns have been accentuated by the relatively short holding period of these investments. Thomas Sanderson, the leading supplier of UK conservatory blinds, was our first investment made in March 2001 and has since achieved an exceptional growth in profits. AIMS Group is an environmental consultancy that specialises in advice and audit of the 'built environment', such

as supermarket sites, and was held for 15 months.

As at 30 June 2003, the portfolio had increased to 23 qualifying companies. This number has increased to 27 since then, as four new investments have been made.

New investment | In the six months to 30 June 2003, one unquoted and three AiM subscriptions were transacted.

- **Huveaux – Specialist publishing group based in London**

Huveaux owns three publishing businesses: Vacher Dod and Le Trombinoscope produce UK and French political biographies; Lonsdale publishes revision guides aimed at school children sitting GCSEs. Baronsmead VCT 3 invested £534,000 of a £7.6 million placing for acquisitions.

- **Universe Group – provides payment and currency exchange systems**

Based in London and Southampton, Universe has two divisions: HTEC designs loyalty and payment systems to the retail petrol industry and currency exchange via bureau de change outlets and money transfer systems. Baronsmead VCT 3 invested £158,000 of a £1.5 million placing, raised to develop their global money transfer business.

- **Cardpoint – operates independent cash machines**

Based in Lytham, Cardpoint operates 1,600 independent ATMs throughout the UK in service stations, pubs and hospitals. Baronsmead VCT 3 invested £92,000 of the £5.5 million placing on AiM, raised to purchase the automated teller machine estate of Securicor.

Chairman's Statement

● Oxon Pharmacinnes – develops treatments for chronic infectious diseases

Based in Oxford, the core activity of Oxon is the development of innovative 'Pharmacinnes' for the treatment of chronic infectious diseases and cancer. Baronsmead VCT 3 invested £250,000 as part of a £12 million funding round.

The Investment Managers have focused on completing new and follow-on round investments to meet the requirement that at least 70 per cent of the value of the Company's total assets be invested in VCT qualifying holdings by the end of the third accounting period, 31 December 2003, and thereafter. As part of this focus, the new investment team has increased to 12 investment professionals based in London, Birmingham and Manchester with a particular emphasis on origination of transactions and their subsequent conversion.

The Board with its advisers monitors the VCT status of its new and existing investments with a view to ensuring that the Company will be able to comply. We will be considering a range of options in this regard whilst maintaining our investment policy and sustaining quality standards.

Cash management | The Investment Managers have replaced Cazenove Fund Management in managing the Company's liquid capital, awaiting investment into qualifying holdings. The original intention was that active management of a corporate bond portfolio merited Cazenove's involvement. In view of the low yield environment and small relative fund size, Cazenove subsequently recommended that investing in a portfolio of gilts rather than corporate bonds would be more appropriate to achieve the required diversity and flexibility. In these circumstances the Board has decided that the Investment Manager's in-house expertise would be as effective and more cost efficient.

Meeting shareholder needs | Since launch, we have sustained performance measured in terms of total return some way ahead of the FTSE All-Share Index. Baronsmead VCT 3 has returned a

positive 7.5 per cent total return since launch compared to a fall in total return of 30.0 per cent in the FTSE All-Share index. The relatively high level of cash balances has helped. The performance differential improves further if the VCT tax reliefs are also taken into account.

The Board wishes to maintain a regular dialogue with shareholders to understand their priorities relating to their perspective on investment, tax and liquidity. Shareholders will be asked to complete a short questionnaire to provide the Board with a better understanding of shareholders' needs when considering policy and other matters.

Shareholders who subscribed at the launch of Baronsmead VCT 3 between January and March 2001 will be nearing the end of their holding period. These shareholders will be entitled to retain their initial income tax relief, at various dates, in the first quarter of 2004. To assist shareholders' understanding of their investment and financial planning options, the Managers will be holding a series of workshops for shareholders and their advisers during autumn 2003 in London and other provincial centres.

Outlook | There are some signs of increasing corporate activity from trade purchasers, of which the recent sales to corporate purchasers are strong evidence. Economic conditions, however, are unlikely to return to the more buoyant times of the 1990s for some years.

There has been resilient performance to date, both relatively and absolutely, and the first sales of investments demonstrate what private equity can achieve. The Managers are focusing hard on building the level of new investment within our criteria to establish a diversified portfolio of over 30 holdings in qualifying unquoted and AIM-traded companies.

Mark Cannon Brookes

Chairman
20 August 2003

Unaudited Statement of Total Return

(Incorporating the Revenue Account)

For the Six Months to 30 June 2003

	Six months to 30 June 2003		
	Revenue £'000	Capital £'000	Total £'000
Gains on investments	–	459	459
Income	745	–	745
Investment management fee	(95)	(284)	(379)
Other expenses	(116)	–	(116)
Return on ordinary activities before tax	534	175	709
Tax on ordinary activities	(140)	92	(48)
Return attributable to equity shareholders	394	267	661
Dividends in respect of equity shares	(308)	–	(308)
Transfer to reserves	86	267	353
Return per ordinary share:			
Basic	1.16p	0.79p	1.95p

Notes

- The unaudited interim results which cover the six months to 30 June 2003 have been drawn up in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts for the year ended 31 December 2002.
- There were 33,909,332 ordinary shares in issue at 30 June 2003 (31 December 2002: 33,792,157; 30 June 2002: 33,400,146). During the period 157,175 ordinary shares were issued and 40,000 ordinary shares were bought in by the Company for cancellation.
- Earnings for the six months to 30 June 2003 should not be taken as a guide to the results for the full year and are based on a weighted average of 33,842,855 (31 December 2002: 33,446,891; 30 June 2002: 33,298,728) ordinary shares in issue during the period.

- Income for the six months to 30 June is derived from:

	2003 £'000	2002 £'000
Equity investments	50	14
Fixed interest investment	584	994
Deposit interest	111	25
Other income	–	4
	745	1,037

Six months to 30 June 2002			Year to 31 December 2002		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	491	491	–	698	698
1,037	–	1,037	1,825	–	1,825
(94)	(282)	(376)	(186)	(559)	(745)
(157)	–	(157)	(290)	–	(290)
786	209	995	1,349	139	1,488
(232)	91	(141)	(396)	181	(215)
554	300	854	953	320	1,273
(468)	–	(468)	(941)	–	(941)
86	300	386	12	320	332
1.66p	0.90p	2.56p	2.85p	0.96p	3.81p

5. The interim dividend of 0.9 pence per ordinary share will be paid on 20 September 2003 to shareholders on the register on 29 August 2003.
6. These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the period to 31 December 2002, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2002 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
7. Copies of the Interim Report have been mailed to shareholders and are available from the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

Unaudited Balance Sheet

	As at 30 June 2003 £'000	As at 30 June 2002 £'000	As at 31 December 2002 £'000
Fixed assets			
Investments			
Quoted on the Alternative Investment Market	4,337	3,016	3,539
Unquoted investments	5,217	5,724	8,125
Listed fixed interest investments	11,281	20,104	16,927
	20,835	28,844	28,591
Net current assets	11,675	2,892	3,459
Net assets	32,510	31,736	32,050
Capital and reserves			
Called-up share capital	3,391	3,340	3,379
Share premium account	932	28,391	805
Special distributable reserve	27,862	–	27,898
Capital redemption reserve	21	–	17
Other reserves –			
Capital reserve – realised	789	(716)	(1,001)
Capital reserve – unrealised	(598)	620	925
Revenue reserve	113	101	27
Equity shareholders' funds	32,510	31,736	32,050
Net asset value per share:			
Ordinary	95.87p	95.02p	94.85p
Number of shares in issue at balance sheet date	33,909,332	33,400,146	33,792,157

Summarised Unaudited Statement of Cash Flows

	Six months to 30 June 2003 £'000	Six months to 30 June 2002 £'000	Year to 31 December 2002 £'000
Net cash inflow from operating activities	493	405	1,228
Tax paid	–	–	(167)
Capital expenditure and financial investment	7,850	2,536	3,367
Equity dividends paid	(476)	(430)	(898)
Net cash inflow before financing	7,867	2,511	3,530
Financing	108	367	649
Increase in cash	7,975	2,878	4,179
Reconciliation of net cash flow to movement in net cash			
Increase in cash	7,975	2,878	4,179
Opening net cash	4,587	408	408
Net cash at 30 June/31 December	12,562	3,286	4,587
Reconciliation of net revenue before taxation to net cash flow from operating activities			
Net return before taxation	534	786	1,349
Investment management fee charged to capital	(284)	(282)	(559)
Decrease/(increase) in debtors	48	(87)	427
Increase/(decrease) in creditors	195	(12)	11
Net cash inflow from operating activities	493	405	1,228

Investment Portfolio

Company	Book Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities
Unquoted			
Vectura	941	941	2.9
RLA Media	681	681	2.1
Brownsword	676	676	2.1
Fretwell Downing	719	674	2.1
BodyCare International	1,000	667	2.0
Rarrigini & Rosso	703	632	1.9
kidsunlimited	481	615	1.9
Oxxon Pharmacinnes	250	250	0.8
Xention Discovery	81	81	0.2
Total unquoted	5,532	5,217	16.0
Quoted on AiM			
Huveaux	534	780	2.4
Murgitroyd Group	500	517	1.6
Medal Entertainment & Media	371	482	1.5
Fitzhardinge	470	439	1.4
i-documentsystems	400	392	1.2
NeuTec Pharma	317	343	1.1
Stagecoach Theatre Arts	418	293	0.9
Air Music & Media Group	204	246	0.8
VI Group	300	230	0.7
Universe Group	158	178	0.5
Xpertise Group	296	121	0.4
Cardpoint	92	110	0.3
Capcon Holdings	137	108	0.3
Blooms of Bressingham	320	98	0.3
Total AiM	4,517	4,337	13.4
Fixed interest securities	11,384	11,281	34.7
Total investments	21,433	20,835	64.1
Net current assets		11,675	35.9
Total assets less current liabilities		32,510	100.00

The unquoted investments are valued in accordance with the British Venture Capital Association ('BVCA') guidelines and the Investment Trust Statement of Recommended Practice ('SORP').

Independent Review Report to Baronsmead VCT 3 plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2003 which comprises a summarised statement of total return, summarised balance sheet, summarised cash flow statement and associated notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

PKF
Registered Auditor
London, UK

20 August 2003

Shareholder Information

Dividends

Interim dividends are ordinarily paid to shareholders in September. Final dividends are ordinarily paid to shareholders in April. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from the Company's registrar, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

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 Michael Probin, VCT Investor Relations Manager.

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.

Notification of Change of Address

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

Financial Calendar

20 September 2003	Interim dividend paid
February 2004	Results for year to 31 December 2003 announced and annual report and accounts sent to shareholders
26 March 2004	Third Annual General Meeting

Shareholder Enquiries

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

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e-mail: michael.probin@isisam.com

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* Telephone calls may be recorded.

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

Corporate Information

Directors

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

Secretary

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