

# Baronsmead VCT 3 plc

## 2006

Interim report for the  
six months ended  
30 June 2006



## 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 other institutional investors, which do not offer the same tax benefits to their shareholders as a VCT.
- Companies raising new share capital on AiM.
- Technology-enabled companies.

## Dividend policy

The Board wishes to sustain annual dividends at a level of 4.5p per ordinary share if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. Hence, there may be variations in the amount of dividends paid year on year. Since launch the average annual tax-free dividend paid to shareholders has been 4.0p per ordinary share (equivalent to a pre-tax return of 5.9p per ordinary share for a higher rate taxpayer).

## 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.

## Re-issue of ordinary shares out of Treasury

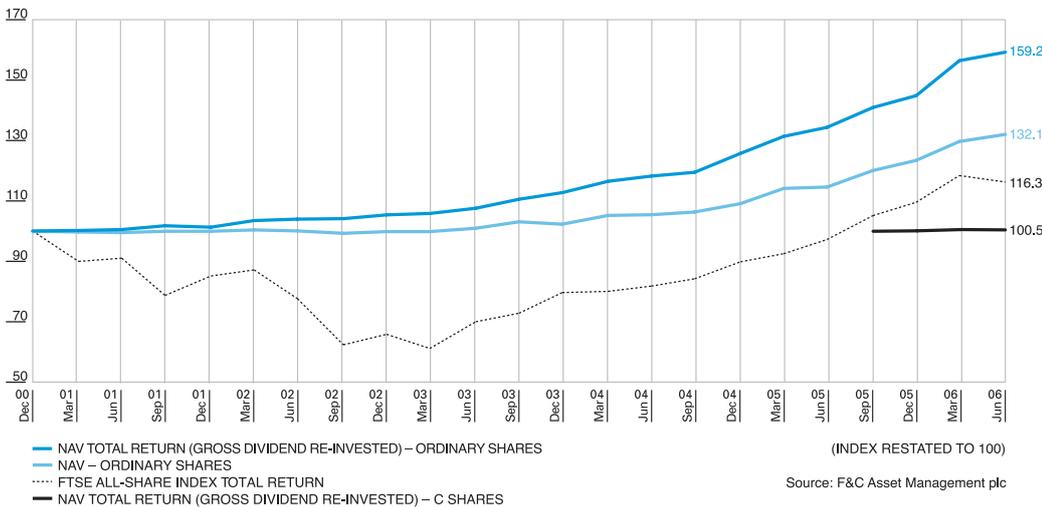
As a fully listed public company, shares in Baronsmead VCT 3 can be freely traded via the Company's market makers in the normal way. Through the operation of the buy back policy above, ordinary shares have been bought into Treasury but can subsequently be re-issued when demand for the Company's shares is greater than the supply available in the market place. Treasury shares will never be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company.

# Financial Highlights

- NAV per ordinary share increased by 10.2 per cent to 125.45p before payment of a 2.5p interim dividend.
- NAV per C share increased by 0.3 per cent to 95.43p before payment of a 1p interim dividend.
- After dividend payments, the NAV per ordinary share will be 122.95p and the C share will be 94.43p at 30 June 2006.
- The total return since launch in 2001 on the ordinary shares is 59.2 per cent (Association of Investment Trust Companies (AIRC) method) which is equivalent to an annualised investment return of 9.0 per cent.

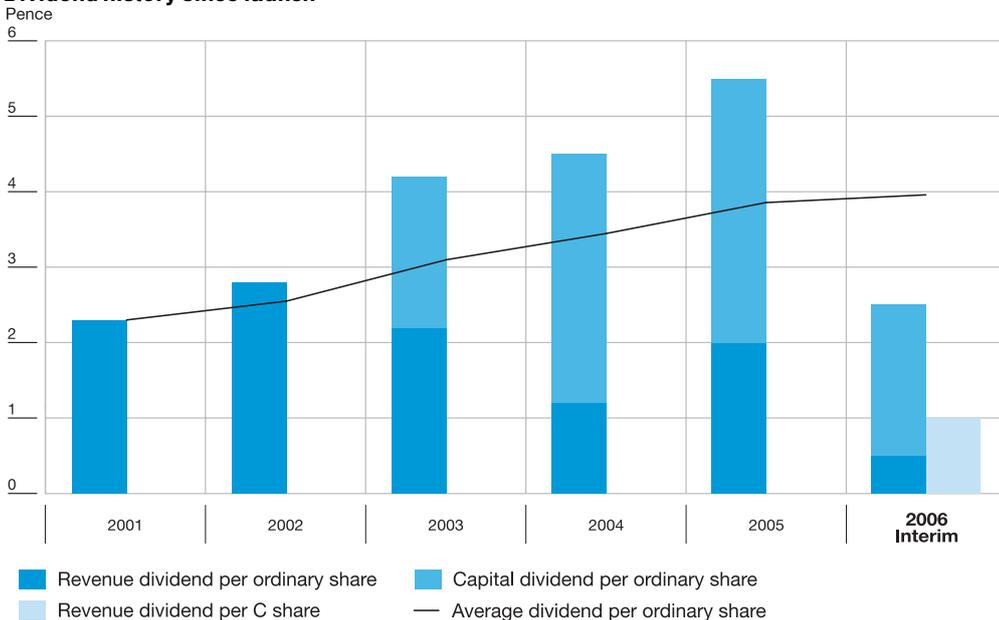
## Baronsmead VCT 3 plc

### NAV and NAV Total Return (based on bid market price) since launch against the FTSE All-Share Index Total Return



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

### Dividend history since launch



# Chairman's Statement

**The unquoted investments have continued to progress well with good uplifts in value. The resulting increase in NAV per share for the ordinary shares at 30 June 2006 has been achieved against a backdrop of increasingly uncertain and volatile markets.**

**The Finance Act 2006 confirmed the earlier proposed VCT legislative revisions. As a result the Dividend Reinvestment Scheme will be suspended and replaced by a Scheme whereby existing ordinary shares will be issued in lieu of dividends to ordinary shareholders only.**

## Results

In the six months to 30 June 2006, the Net Asset Value (NAV) per ordinary share increased by 10.23 per cent from 113.81p (after the final dividend) to 125.45p before payment of the interim dividend. A 2.5p interim dividend for ordinary shares has been declared and will be paid on 20 October 2006 once ordinary shareholders have confirmed whether they wish to receive cash or existing shares in lieu.

The final tranche of the 24 million C share fund raising was issued on 3 January 2006 amounting to £5.8 million net proceeds. The total return for the C shares increased by 0.3 per cent based on the net revenue received from the gilt and cash portfolio. After the interim dividend of 1p per share, the resulting NAV per C share was 94.43p at 30 June 2006.

The total return in the first six months for the ordinary share portfolio was achieved after a performance fee of £288,000 (including VAT) has been accrued, assuming that the performance is sustained in the remaining six months. This is equivalent to 0.9p per ordinary share. No performance fee has yet been triggered by the C share pool of assets.

The six VCT tests relating to the running of Baronsmead VCT 3 were met during the period. The most visible of these tests is that more than 70 per cent of the portfolio has been invested in qualifying investments beyond the first three accounting periods. At the period end, 89 per cent of the capital raised (net of launch costs) prior to 1 January 2004 was invested in VCT qualifying investments. Some £12 million of the C share capital requires to be invested in qualifying investments by 31 December 2007 and this rate has been achieved to date with £3.5 million invested.

During the period 313,708 new ordinary shares were issued at a price of 117.8p per share to existing shareholders who had subscribed to the Dividend Reinvestment Scheme (DRIS). The Company bought back 1,140,000 ordinary shares to be held in Treasury at an average price of 106p, representing a discount of approximately 10 per cent to NAV per share.

## Long term performance

The total return since inception is 59 per cent for the ordinary shares and 0.5 per cent for the C shares to date. These returns are stated net of running costs but prior to launch costs being taken into account. The ordinary share total return is over 20 per cent ahead of the peer group average of five generalist VCTs and in the five years to 30 June 2006 also ranks Baronsmead VCT 3 in the top half of the 17 conventional Private Equity Investment Trusts identified by AITC (source: www.trustnet.com).

## Realisations in the period to 30 June 2006

		First investment date	Cost £'000	Proceeds £'000	Multiple return
Debtmatters Group	Market sales	June 2005	37	193	5.2
Begbies Traynor	Market sales	September 2004	131	403	3.1
Accuma Group	Market sales	February 2005	108	225	2.1
Language Line	Trade sale	September 2003	660	1,143	2.1*
Talarius	Market sales	May 2005	44	80	1.8
Medal Entertainment & Media	Market sales	August 2002	72	84	1.2
Boldon James	Loan note redemption	June 2005	125	125	–
<b>Totals</b>			<b>£1,177</b>	<b>£2,253</b>	<b>1.9</b>

\* includes interest received

VCT reliefs were designed to redress both the restrictive nature of the VCT legislation under which qualifying investments can be selected and the perceived higher risk for investing in smaller unquoted and AiM-traded companies. If the initial 20 per cent subscription relief is taken into account, Baronsmead VCT 3 is ranked in the top quartile and ahead of many well-known names in private equity.

The total return since launch of 59 per cent is the absolute measure of the Manager's investment performance. From an investor's perspective, if a shareholder had invested £100 (before £5 launch costs) in 2001, the NAV per share assuming dividends reinvested is £152 to which the subscription tax relief can also be added.

## The portfolio

In the six months under review, 5 new investments were made and after the sale of the investments in Language Line and Accuma Group, the portfolio increased to 63 companies. Further rounds of investment were made in Jelf Group and Driver Group. The C share portfolio now has 8 investments valued at £3.5 million.

Five unquoted investments were revalued for the first time. Good trading progress was also sustained at Martin Audio, Occam, RLA Group and Americana leading to an 8.4p NAV per ordinary share uplift well spread across this part of the portfolio.

There was considerable volatility in the prices of AiM-traded companies as the market rose strongly until the end of May and then went sharply into reverse taking many of the gains away leaving the value of the portfolio £0.8 million ahead from 31 December 2005. Top slicing profits of £476,000 were taken from the part sale of four AiM shareholdings plus the £117,000 profit on full sale of Accuma. The main ups and downs reflect several themes inherent in smaller companies:

- The impact of technology advances can be seen in neuTec Pharma and also Zoo Digital. After the period end, the former was sold to Novartis where the residual shares realised 7 times their cost and the overall outcome represented 3.4 times cost of the original investment of £317,000 in early 2002. The company specialises in the science of producing anti-bodies to mitigate the MRSA bug in hospitals. Conversely Zoo failed to convert its interactive DVD software into sufficient commercial applications and at the period end stood at only 14 per cent of cost.
- Buoyant niche markets often provide the opportunity for growth as seen at Colliers CRE, Debtmatters and IPT whereas the reverse also applies as experienced by Real Good Food and WIN.

# Chairman's Statement

The relative health of portfolio companies is measured quarterly in terms of profitability as well as other non-financial bench-marks. At the year end, 84 per cent of the portfolio companies were reporting better or steady progress.

## Introduction of the Dividend Reinvestment Plan (DRIP)

The Budget statement in March 2006 signalled that the Government wished to redirect the future capital raised by VCTs after 6 April 2006 into smaller companies with gross assets of up to £7 million, half that of the level that applied to capital raised before this date. An analysis of the last 40 investments made by Baronsmead VCT 3 highlights that most of these could have qualified within the revised level although a significant minority of investees would have not qualified subsequently for further rounds of finance.

The Board has decided not to issue new shares in the current financial year until the impact of the revisions is better understood. The immediate consequence is that the current Dividend Reinvestment Scheme is suspended. Nonetheless, the Board believe that the proposal to introduce a DRIP to purchase existing ordinary shares does provide investment attractions for ordinary shareholders who wish to build their capital as opposed to receiving cash dividends.

Shareholders who increase their holding via the DRIP will be buying into a well-diversified portfolio, which has shown consistent overall growth. Realised capital profits and net revenue have historically supported the current dividend policy and this is also the future intention. Dividends generated by the DRIP shares will be tax-free for qualifying ordinary shareholders and the shares are not subject to capital gains tax.

If shareholders wish to participate in the DRIP the Registrars need to receive the application no later than 29 September 2006 in order for the interim dividend to qualify for the DRIP. The DRIP scheme is not available to C shareholders as there is unlikely to be any market in the shares until conversion into ordinary shares in early 2008.

The Terms and Conditions of the DRIP accompany this Report. Shareholders' attention is drawn to the tax position set out in the accompanying document. In summary shareholders should be aware that

- The subscription relief on the issue of new shares in the previous scheme is no longer available.
- On sale of DRIP shares, first in first out rules apply so that shareholders need to take professional advice on their personal tax position.

- The aggregate of VCT shares purchased or subscribed in any one tax year should not exceed £200,000 if the shares are to remain qualifying for tax purposes

The resolution at the EGM to enable the Board to re-issue shares out of Treasury was passed on the 8 August 2006, with 92 per cent of shareholders voting in favour, some 20 per cent of the shareholder base. This authority will help satisfy demand for shares that cannot be met by the normal market mechanisms.

In light of the VCT legislation revisions, the Board will be surveying shareholders later in 2006 not only to check their understanding of shareholders' main priorities for the future but also so that the Board can consider how to develop the secondary market in the shares of Baronsmead VCT 3.

## Development of the Secondary Market

The track record of Baronsmead VCT 3 over the last five years demonstrates a strong positive total return and favourable comparison with both the FTSE Indices and other Private Equity Investment Trusts. For the first time, this report illustrates performance against the APCIMS (Association of Private Client Investment Managers and Stockbrokers) index, a recognised Private Investor Index. As dividends are tax-free incorporating the income tax relief Baronsmead VCT 3 has exceeded the APCIMS 'growth' portfolio total returns over 1, 3 and 5 years. If the VCT tax relief is excluded your Company's total return exceeds APCIMS over 1 and 5 years.

The share price has typically been 10 per cent less than the NAV per ordinary share and currently trades at around 110p. The Board believes that the yield on the ordinary shares may well be a more appropriate metric for judging the share price. The historic yield in 2005 was 5 per cent for basic rate taxpayers or 7.4 per cent for those paying tax at the higher rate, which are attractive levels for shareholders with a preference for income.

## Outlook

Quoted markets have come back from their peak in May following the prospects of interest rates rising and the subsequent adverse impact on debt leverage. This suggests a rockier economic climate in the near term and a feeling that the market will be flat.

The portfolio of your Company is in a healthy state and with a good degree of diversity. We are still in a phase of increasing the portfolio, hopefully to some 70 qualifying companies by the year-end, and believe that we can sustain a consistent investment performance.

## Mark Cannon Brookes

Chairman

11 August 2006

## New Investments in the six months to 30 June 2006

Company	Location	Sector	Activity	Investment Cost (£'000)	
				C shares	Ordinary shares
<b>Unquoted investments</b>					
Fisher Outdoor Leisure	St Albans	Consumer	Bike accessories	1,323	100
<b>Total Unquoted</b>				1,323	100
<b>AiM-traded investments</b>					
Claimar Care	Birmingham	Healthcare	Domiciliary Care	306	45
Driver Group *	Rosendale	Business services	Dispute resolution	–	92
Jelf Group *	Yate	Business services	Corporate financial services	–	157
Ovum	London	Media	Market research	212	38
Proactis Holdings	York	IT	Procurement software	371	29
Worthington Nicholls	Manchester	Business services	Air conditioning contractors	486	39
<b>Total AiM-traded</b>				1,375	400
				2,698	500
<b>Total investment in period</b>					£3,198

\* Follow-on investments

# Investment Portfolio

Company	Cost		Valuation		% of Total Assets Less Current Liabilities	
	Ordinary Shares £'000	C Shares £'000	Ordinary Shares £'000	C Shares £'000	Ordinary Shares %	C Shares %
<b>Unquoted</b>						
The Art Group	1,281	–	2,592	–	6.3	–
Martin Audio	786	–	2,410	–	5.9	–
Reed & Mackay	1,211	–	1,972	–	4.8	–
RLA Group	1,105	–	1,892	–	4.6	–
Kafevend	1,247	–	1,775	–	4.3	–
Fisher Outdoor Leisure Holdings	100	1,323	100	1,323	0.3	5.8
The Crucible Group	1,032	–	1,271	–	3.1	–
Americana	443	–	1,207	–	3.0	–
SLR Holdings	494	–	1,182	–	2.9	–
Boldon James	562	–	1,027	–	2.5	–
kidsunlimited	481	–	983	–	2.4	–
Occam	420	–	877	–	2.1	–
Independent Living Services	624	–	839	–	2.1	–
Domantis	601	–	705	–	1.7	–
Green Issues	99	399	99	399	0.2	1.7
Country Artists	448	–	402	–	1.0	–
Xention Discovery	377	–	400	–	1.0	–
Hawksmere	766	–	–	–	–	–
Oxxon Pharmaccines	250	–	–	–	–	–
<b>Total unquoted</b>	<b>12,327</b>	<b>1,722</b>	<b>19,733</b>	<b>1,722</b>	<b>48.2</b>	<b>7.5</b>
<b>FTSE SmallCap</b>						
Ardana	619	–	670	–	1.6	–
<b>Total FTSE SmallCap</b>	<b>619</b>	<b>–</b>	<b>670</b>	<b>–</b>	<b>1.6</b>	<b>–</b>
<b>Quoted on AiM</b>						
Vectura Group	771	–	1,471	–	3.6	–
Begbies Traynor Group	283	–	1,261	–	3.1	–
Jelf Group	550	–	996	–	2.4	–
Colliers CRE	470	–	981	–	2.4	–
Debt matters Group	182	–	961	–	2.3	–
Huveaux	541	–	905	–	2.2	–
Interactive Prospect Targeting	253	–	755	–	1.8	–
Murgitroyd Group	319	–	677	–	1.7	–
Eg Solutions	375	–	640	–	1.6	–
neuTec Pharma	79	–	544	–	1.3	–
Worthington Nicholls	39	486	39	486	0.1	2.1
Talaris	269	–	470	–	1.1	–
Proactis Holdings	29	371	31	406	0.1	1.8
Driver Group	438	–	420	–	1.0	–
Adventis Group	281	–	394	–	1.0	–
IDOX	600	–	373	–	0.9	–
Claimar Care	45	306	45	310	0.1	1.4
InterQuest Group	323	–	341	–	0.8	–
Sanderson Group	387	–	325	–	0.8	–
Autoclenz Holdings	80	320	65	259	0.2	1.1
Prologic	310	–	310	–	0.8	–
Medal Entertainment & Media	227	–	280	–	0.7	–
Quadnetics Group	296	–	229	–	0.6	–
Blooms of Bressingham	320	–	219	–	0.5	–
Ovum	38	212	32	182	0.1	0.8
Appian Technology	23	102	39	173	0.1	0.8
Air Music & Media Group	575	–	209	–	0.5	–
WIN	263	–	202	–	0.5	–
Real Good Food Company	540	–	188	–	0.5	–
Stagecoach Theatre Arts	419	–	167	–	0.4	–
Fishworks	128	–	163	–	0.4	–
Hamsard Group	375	–	163	–	0.4	–
Business Direct Group	457	–	155	–	0.4	–
Cardpoint	92	–	139	–	0.3	–
Polaron	296	–	128	–	0.3	–
VI Group	300	–	126	–	0.3	–
Universe Group	158	–	90	–	0.2	–
Scott Tod	421	–	87	–	0.2	–
Zoo Digital Group	584	–	83	–	0.2	–
Xpertise Group	296	–	63	–	0.2	–
MKM Group	284	–	26	–	0.1	–
Micap	325	–	13	–	–	–
Capcon Holdings	137	–	4	–	–	–
<b>Total AiM</b>	<b>13,178</b>	<b>1,797</b>	<b>14,809</b>	<b>1,816</b>	<b>36.2</b>	<b>8.0</b>
<b>Interest bearing securities</b>						
UK Treasury 4.5% 07/03/07	1,440	15,452	1,447	15,373	3.5	67.1
Money Market OEIC	3,308	2,200	3,308	2,200	8.1	9.6
<b>Total interest bearing securities</b>	<b>4,748</b>	<b>17,652</b>	<b>4,755</b>	<b>17,573</b>	<b>11.6</b>	<b>76.7</b>
<b>Total investments</b>	<b>30,872</b>	<b>21,171</b>	<b>39,967</b>	<b>21,111</b>	<b>97.6</b>	<b>92.2</b>
<b>Net current assets</b>			<b>944</b>	<b>1,793</b>	<b>2.4</b>	<b>7.8</b>
<b>Total assets less current liabilities</b>			<b>40,911</b>	<b>22,904</b>	<b>100.0</b>	<b>100.0</b>

# Unaudited Income Statement

For the Six Months to 30 June 2006

	Ordinary Shares			C Shares			Total		
	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Unrealised gains/(losses) on investments	–	4,035	4,035	–	(62)	(62)	–	3,973	3,973
Realised gains on investments	–	230	230	–	–	–	–	230	230
Income	517	–	517	495	–	495	1,012	–	1,012
Investment management fee	(151)	(848)	(999)	(67)	(201)	(268)	(218)	(1,049)	(1,267)
Other expenses	(111)	–	(111)	(49)	–	(49)	(160)	–	(160)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>255</b>	<b>3,417</b>	<b>3,672</b>	<b>379</b>	<b>(263)</b>	<b>116</b>	<b>634</b>	<b>3,154</b>	<b>3,788</b>
Taxation on ordinary activities	(32)	70	38	(104)	66	(38)	(136)	136	–
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>223</b>	<b>3,487</b>	<b>3,710</b>	<b>275</b>	<b>(197)</b>	<b>78</b>	<b>498</b>	<b>3,290</b>	<b>3,788</b>
<b>Return per ordinary share/C share:</b>									
Basic	0.67p	10.54p	11.21p	1.15p	(0.82)p	0.33p	0.87p	5.77p	6.64p

# Unaudited Reconciliation of Movement in Shareholders' Funds

For the Six Months ended 30 June 2006

	2006 Ordinary Shares £'000	2006 C Shares £'000	2006 Total £'000
<b>Opening shareholders' funds</b>	<b>39,226</b>	<b>17,022</b>	<b>56,248</b>
Profit for the period	3,710	78	3,788
Increase in share capital in issue	367	5,804	6,171
Purchase of shares for Treasury	(1,222)	–	(1,222)
Dividends paid	(1,170)	–	(1,170)
<b>Closing shareholders' funds</b>	<b>40,911</b>	<b>22,904</b>	<b>63,815</b>

	Ordinary Shares			C Shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Dividends paid/proposed:</b>									
Final dividend for the year ended 31 December 2005 of 3.5p per ordinary share	501	669	1,170	–	–	–	501	669	1,170
Interim dividend for the year ending 31 December 2006 of 2.5p per ordinary share	168	672	840	–	–	–	168	672	840
Interim dividend for the year ending 31 December 2006 of 1.0p per C share	–	–	–	240	–	240	240	–	240
	<b>669</b>	<b>1,341</b>	<b>2,010</b>	<b>240</b>	<b>–</b>	<b>240</b>	<b>909</b>	<b>1,341</b>	<b>2,250</b>

# Unaudited Income Statement

For the Six Months to 30 June 2005

	Ordinary Shares		
	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Unrealised gains on investments	–	2,670	2,670
Realised losses on investments	–	(185)	(185)
Income	433	–	433
Investment management fee	(134)	(400)	(534)
Other expenses	(135)	–	(135)
<b>Profit on ordinary activities before taxation</b>	164	2,085	2,249
Taxation on ordinary activities	–	–	–
<b>Profit on ordinary activities after taxation</b>	164	2,085	2,249
<b>Return per ordinary share:</b>			
Basic	0.49p	6.20p	6.69p

# Unaudited Reconciliation of Movement in Shareholders' Funds

For the Six Months ended 30 June 2005

	2005 Ordinary Shares £'000
<b>Opening shareholders' funds</b>	<b>35,488</b>
Profit for the period	2,249
Deferred consideration	12
Net increase in share capital in issue	789
Dividends paid	(894)
<b>Closing shareholders' funds</b>	<b>37,644</b>

	Ordinary Shares		
	Revenue £'000	Capital £'000	Total £'000
<b>Dividends paid/proposed:</b>			
Final dividend for the year ended 31 December 2004 of 2.7p per ordinary share	298	596	894
Interim capital dividend for the year ended 31 December 2005 of 2.0p per ordinary share	169	509	678
	467	1,105	1,572

## Notes

- The unaudited interim results which cover the six months to 30 June 2006 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 2005.
- There were 32,612,392 ordinary shares in issue at 30 June 2006 (31 December 2005: 33,438,684; 30 June 2005: 33,937,092). During the period 313,708 ordinary shares were issued and 1,140,000 ordinary shares were bought in by the Company to be held in Treasury at a cost of £1,222,000. There were 23,999,772 C shares in issue at 30 June 2006 (31 December 2005: 17,894,064; 30 June 2005: nil). During the period 6,105,708 C shares were issued.
- Earnings for the six months to 30 June 2006 should not be taken as a guide to the results for the full year. The returns per ordinary share are based on a weighted average of 33,097,562 (31 December 2005: 33,702,319; 30 June 2005: 33,594,934) ordinary shares in issue during the period. The returns per C share are based on a weighted average of 23,932,306 (31 December 2005: 11,117,964) C shares in issue during the period.
- The interim dividends of 2.5 pence per ordinary share and 1.0 pence per C share will be paid on 20 October 2006 to shareholders on the register on 25 August 2006.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the year to 31 December 2005, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2005 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- 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.

# Audited Income Statement

For the Year ended 31 December 2005

	Ordinary Shares			C Shares			Total		
	2005	2005	2005	2005	2005	2005	2005	2005	2005
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	3,793	3,793	–	2	2	–	3,795	3,795
Realised gains on investments	–	1,295	1,295	–	–	–	–	1,295	1,295
Income	1,461	–	1,461	92	–	92	1,553	–	1,553
Investment management fee	(278)	(1,026)	(1,304)	(14)	(42)	(56)	(292)	(1,068)	(1,360)
Other expenses	(251)	–	(251)	(27)	–	(27)	(278)	–	(278)
<b>Profit/(loss) on ordinary activities before taxation</b>	932	4,062	4,994	51	(40)	11	983	4,022	5,005
Taxation on ordinary activities	(226)	226	–	(10)	10	–	(236)	236	–
<b>Profit/(loss) on ordinary activities after taxation</b>	706	4,288	4,994	41	(30)	11	747	4,258	5,005
<b>Return per ordinary share/C share:</b>									
Basic	2.09p	12.73p	14.82p	0.37p	(0.27)p	0.10p	2.06p	11.75p	13.81p

# Audited Reconciliation of Movement in Shareholders' Funds

For the Year ended 31 December 2005

	2005 Ordinary Shares £'000	2005 C Shares £'000	2005 Total £'000
<b>Opening shareholders' funds</b>	<b>35,488</b>	–	<b>35,488</b>
Profit for the year	4,994	11	5,005
Deferred consideration	13	–	13
Net increase in share capital in issue	303	17,011	17,314
Dividends paid	(1,572)	–	(1,572)
<b>Closing shareholders' funds</b>	<b>39,226</b>	<b>17,022</b>	<b>56,248</b>

	Ordinary Shares			C Shares			Total		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Dividends paid/proposed:</b>									
Final dividend for the year ended 31 December 2004 of 2.7p per ordinary share	298	596	894	–	–	–	298	596	894
Interim dividend for the year ended 31 December 2005 of 2.0p per ordinary share	169	509	678	–	–	–	169	509	678
Final dividend for the year ended 31 December 2005 of 3.5p per ordinary share	501	669	1,170	–	–	–	501	669	1,170
	968	1,774	2,742	–	–	–	968	1,774	2,742

# Unaudited Balance Sheet

	As at 30 June 2006			As at 30 June 2005	As at 31 December 2005†		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
<b>Fixed assets</b>							
<b>Held at Fair Value Investments</b>							
Quoted on AiM	14,809	1,816	16,625	13,442	13,983	422	14,405
Quoted FTSE SmallCap	670	–	670	619	610	–	610
Unquoted investments	19,733	1,722	21,455	17,498	18,153	399	18,552
Listed interest bearing securities	4,755	17,573	22,328	4,803	4,799	9,033	13,832
	<b>39,967</b>	<b>21,111</b>	<b>61,078</b>	<b>36,362</b>	<b>37,545</b>	<b>9,854</b>	<b>47,399</b>
<b>Net current assets</b>	<b>944</b>	<b>1,793</b>	<b>2,737</b>	<b>1,282</b>	<b>1,681</b>	<b>7,168</b>	<b>8,849</b>
<b>Net assets</b>	<b>40,911</b>	<b>22,904</b>	<b>63,815</b>	<b>37,644</b>	<b>39,226</b>	<b>17,022</b>	<b>56,248</b>
<b>Capital and reserves</b>							
Called-up share capital	3,509	12,000	15,509	3,458	3,477	8,947	12,424
Share premium account*	4,255	10,815	15,070	3,721	3,920	8,064	11,984
Capital redemption reserve	247	–	247	247	247	–	247
Revaluation reserve	9,095	(60)	9,035	6,621	5,093	2	5,095
Profit and loss account	23,805	149	23,954	23,597	26,489	9	26,498
Equity shareholders' funds	<b>40,911</b>	<b>22,904</b>	<b>63,815</b>	<b>37,644</b>	<b>39,226</b>	<b>17,022</b>	<b>56,248</b>

‡ These figures are audited.

	As at 30 June 2006		As at 30 June 2005	As at 31 December 2005	
	Ordinary Shares	C Shares	Ordinary Shares	Ordinary Shares	C Shares
<b>Net asset value per share</b>	<b>125.45p</b>	<b>95.43p</b>	110.92p	117.31p	95.13p
Number of ordinary shares in issue	<b>32,612,392</b>	–	33,937,092	33,438,684	–
Number of C shares in issue	–	<b>23,999,772</b>	–	–	17,894,064
<b>Treasury net asset value per share†</b>	<b>124.39p</b>	–	110.92p	117.31p	–
Number of ordinary shares in issue	<b>32,612,392</b>	–	33,937,092	33,438,684	–
Number of ordinary shares held in Treasury	<b>2,480,000</b>	–	645,000	1,340,000	–
Number of listed ordinary shares	<b>35,092,392</b>	–	34,582,092	34,778,684	–

\* On 26 July 2006 the Company received court approval to transfer £10,815,000, being the amount standing to the credit of the share premium account regarding the C shares, to a special distributable reserve. Shareholder approval allows that reserve to make any distributions, and accordingly, the reserve will be amalgamated with the Profit and Loss account of the Company.

† At an EGM held on 8 August 2006, shareholders renewed the existing authority to disapply pre-emption rights in relation to the allotment or sale from Treasury of up to 10 per cent of the listed share capital. The Board is now mandated to sell Treasury shares at a discount to the prevailing NAV. Accordingly the shares held in Treasury at 30 June 2006 have been valued at middle market price where as previously they had been valued at NAV.

# Summarised Unaudited Statement of Cash Flows

	Six months to 30 June 2006			Six months to 30 June 2005	Year to 31 December 2005‡		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Net cash (outflow)/inflow from operating activities	(329)	122	(207)	(152)	(33)	(40)	(73)
Capital expenditure and financial investment	1,886	(11,422)	(9,536)	(192)	1,284	(9,750)	(8,466)
Equity dividends paid	(1,170)	–	(1,170)	(894)	(1,572)	–	(1,572)
Net cash inflow/(outflow) before financing	387	(11,300)	(10,913)	(1,238)	(321)	(9,790)	(10,111)
Net cash (outflow)/inflow from financing	(854)	7,181	6,327	790	303	15,605	15,908
(Decrease)/increase in cash	(467)	(4,119)	(4,586)	(448)	(18)	5,815	5,797
<b>Reconciliation of net cash flow to movement in cash</b>							
(Decrease)/increase in cash	(467)	(4,119)	(4,586)	(448)	(18)	5,815	5,797
Opening net cash	1,933	5,815	7,748	1,951	1,951	–	1,951
Net cash at end of period	1,466	1,696	3,162	1,503	1,933	5,815	7,748
<b>Reconciliation of operating profit before taxation to net cash flow from operating activities</b>							
Profit on ordinary activities before taxation	3,672	116	3,788	2,249	4,994	11	5,005
Unrealised (gains)/losses on investments	(4,035)	62	(3,973)	(2,670)	(3,793)	(2)	(3,795)
Realised (gains)/losses on investments	(230)	–	(230)	185	(1,295)	–	(1,295)
Decrease/(increase) in debtors	166	(131)	35	80	(154)	(130)	(284)
Increase in creditors	98	75	173	4	215	81	296
Net cash (outflow)/inflow from operating activities	(329)	122	(207)	(152)	(33)	(40)	(73)

‡ These figures are audited.

# Independent Review Report by KPMG Audit Plc 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 2006 which comprises the unaudited Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet and Statement of Cash Flows. 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.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## 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 UK. 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 International Statements on Auditing (UK and Ireland) 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 2006.

KPMG Audit Plc  
Chartered Accountants  
Edinburgh

11 August 2006

# Shareholder Information

## Enquiries

Shareholders should contact the following regarding queries:

**Basic contact details**, ie change of address, queries re: share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

[www.computershare.com/investor](http://www.computershare.com/investor)

Shareholders self service tool to help track and manage personal holdings free, i.e.

– View your share portfolio, prices, historicals.

– Make secure updates to your portfolio, i.e. change of address.

[e-mail: web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

[Tel: 0870 703 0137 \(Calls charged at national rate\).](tel:08707030137)



**Policies and historical information** together with the DRIS/DRIP mechanism, share price movements, the share price discount and selling shares:

F&C Asset Management plc (Company Secretary)

[www.baronsmeadvct3.co.uk](http://www.baronsmeadvct3.co.uk)

Baronsmead VCTs' website is in the process of being updated

[e-mail: rhonda.nicoll@fandc.com](mailto:rhonda.nicoll@fandc.com)

[Tel: 0131 465 1074. Fax: 0131 225 2375.](tel:01314651074)



**Any other points**, i.e. valuations of underlying companies, asset allocations, dividend policies and the investment process:

ISIS EP LLP (Investment Manager)

[www.isisep.com](http://www.isisep.com)

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

e-mail: [david.thorp@isisep.com](mailto:david.thorp@isisep.com); [gerard.kelly@isisep.com](mailto:gerard.kelly@isisep.com); [margaret.barff@isisep.com](mailto:margaret.barff@isisep.com)

Tel: [David Thorp 0207 506 1609](tel:02075061609); [Ged Kelly 0207 506 1182](tel:02075061182); [Margaret Barff 0207 506 1601](tel:02075061601).



# Shareholder Information

## Share Price

The Company's ordinary shares and C 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.

The middle market share price of the Company was as follows:

	Share Price		(Discount)/Premium	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
Ordinary	110.5p	100.5p	(11.9%)	(14.3%)
C shares	100.0p	100.0p	4.8%	5.1%

## Trading Shares

The Company's ordinary shares and C 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, whose details are printed on page 11, if you or your adviser have any questions about this process.

## Financial Calendar

November 2006	Quarterly fact sheet to 30 September 2006
February 2007	Results for year to 31 December 2006 announced and annual report and accounts sent to shareholders
March 2007	Sixth Annual General Meeting

## Additional Information

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

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

# Corporate Information

## Directors

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

## Secretary

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

## Registered Office and Investment Managers

ISIS EP LLP  
100 Wood Street  
London EC2V 7AN

## VCT Status Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Financial Adviser

Noble & Company Limited  
76 George Street  
Edinburgh EH2 3BU

## Registrars and Transfer Office

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

## Bankers

JP Morgan Chase Bank  
125 London Wall  
London EC2Y 5AJ

## Stockbrokers

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

## Auditors

KPMG Audit Plc  
Chartered Accountants  
20 Castle Terrace  
Edinburgh EH1 2EG

## Solicitors

Norton Rose  
Kempson House  
Camomile Street  
London EC3A 7AN

\*Chairman of the Audit Committee

†Senior Independent Director