

Baronsmead VCT 3 plc

Investing in Private Equity generating tax-free dividends

2007

Interim report for the
six months ended
30 June 2007



Managed by ISIS EP LLP



ISIS

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.

Dividend policy

The Board seeks to pay attractive dividends, which are tax-free to qualifying UK private investors. The annual dividends paid since launch in 2001 have shown steady growth in terms of both amounts paid and yield as a percentage of share price. The Board's intention is to sustain this record in the medium term but continuance of this trend depends primarily on the level of profitable realisations and it cannot be guaranteed.

Secondary market in the shares of Baronsmead VCT 3

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

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

Shareholder communication

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

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

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

Financial Highlights

For the six months to 30 June 2007

+3.5%

NAV per ordinary share increased to 131.16p, before payment of a 3.0p interim dividend.

+8.9%

NAV per C share increased to 107.75p, before payment of a 2.0p interim dividend.

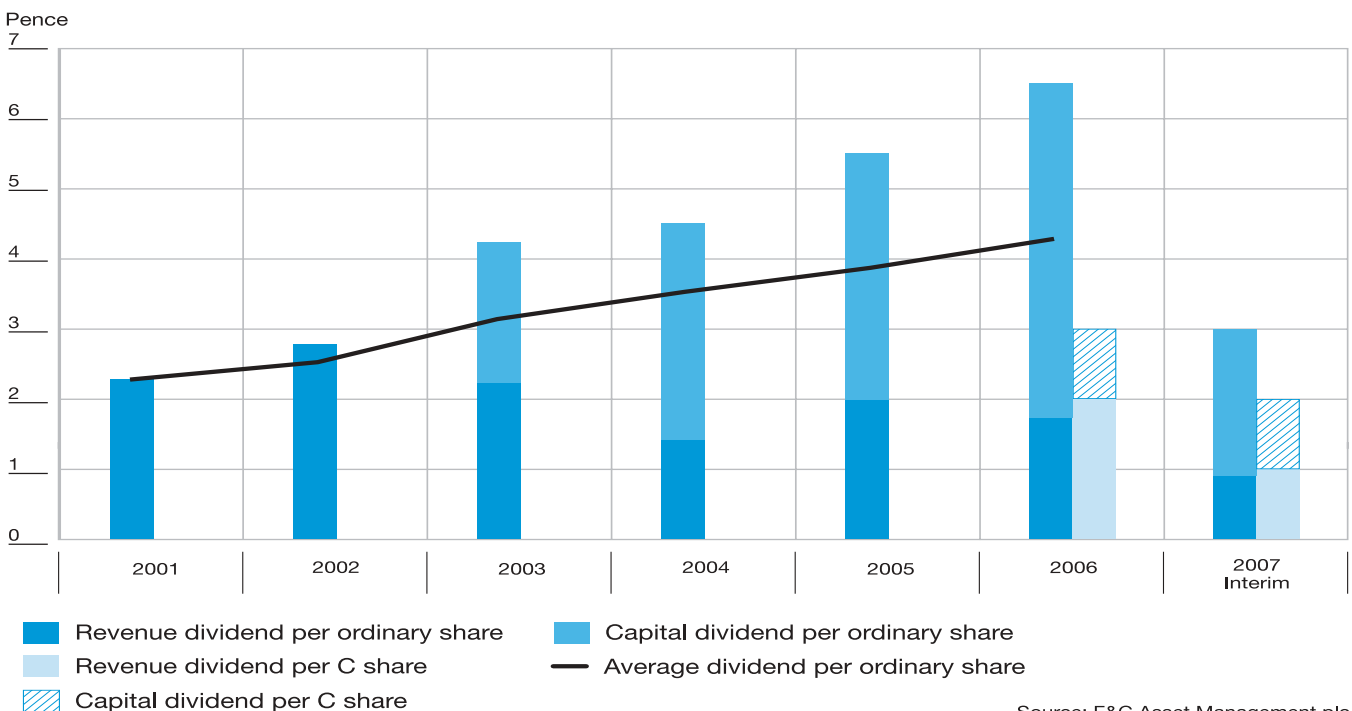
+75.0%

Total return to ordinary shareholders since launch in 2001, equivalent to an annualised return of 9.09% before 20% income tax relief and 11.36% afterwards.

+16.7%

Total return to C shareholders since launch in 2005, equivalent to an annualised return of 9.36% before 40% income tax relief and 15.60% afterwards.

Dividend history since launch

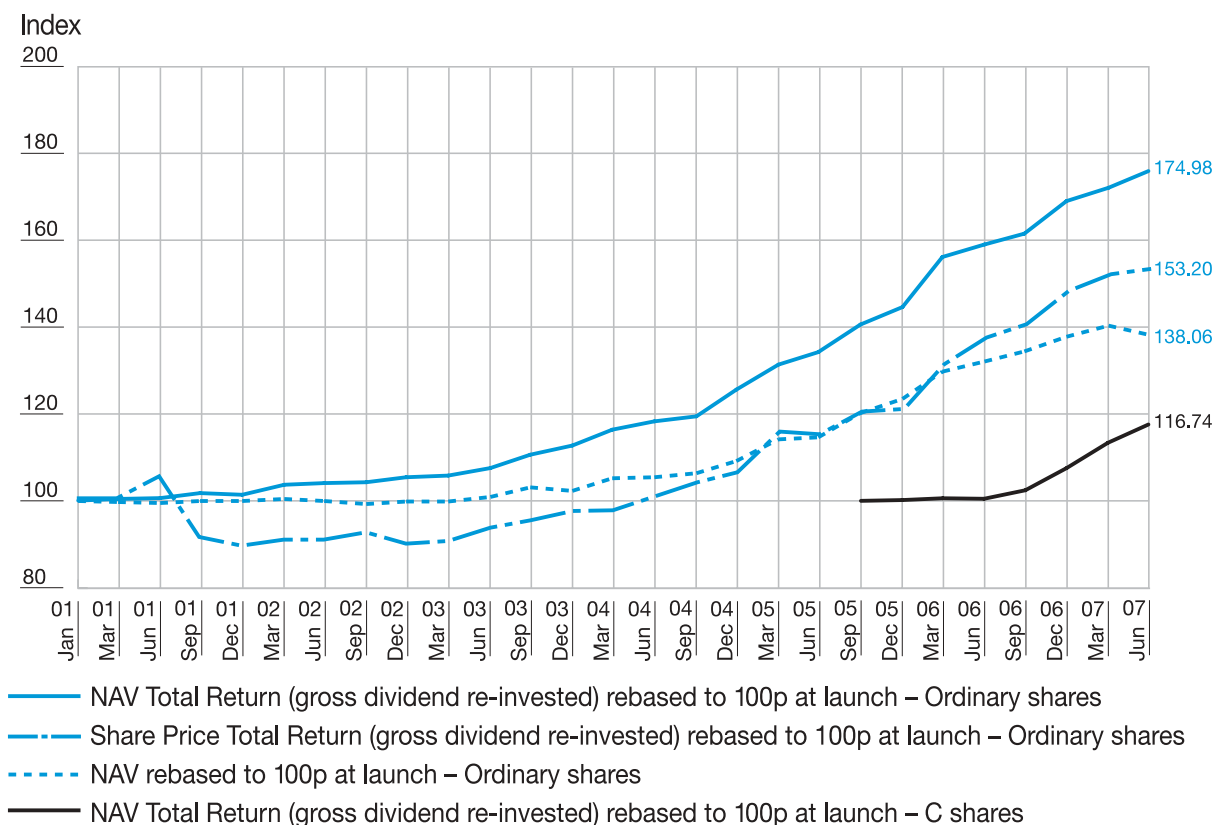


Source: F&C Asset Management plc

Financial Highlights

Baronsmead VCT 3 plc

Performance Graph



Cash Returned to Shareholders

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

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross yield† %
2001	100	20.0	80.0	28.8	5.6	8.3
2005	100	40.0	60.0	5.0	4.8	7.2

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

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

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

Chairman's Statement

The period has seen a steady pace of investment, strong gains in the portfolio and an extremely pleasing level of realisations with proceeds from Ordinary share investments exited in the period totalling £7.6 million which included profits of £4.8 million. Profits of over £0.7 million were additionally generated from investments held by the C shares.

The share price total return of 69 per cent over the last five years is an important measure of the investment achievements of Baronsmead VCT 3. This record should be attractive to purchasers of the shares in the secondary market especially as qualifying shareholders can also benefit from future dividends and capital gains, both which are free of tax.

Results

In the six months to 30 June 2007, the Net Asset Value (NAV) per ordinary share increased by 3.5 per cent from 126.77 pence to 131.16 pence before payment of the 3 pence interim dividend on 28 September 2007 following a series of profitable realisations, notably Domantis, Americana and Martin Audio. These three investments were sold at significant uplifts over cost (as set out on page 4).

The NAV of the C shares increased by 8.9 per cent from 98.95 pence to 107.75 pence per share before payment of the 2 pence interim dividend, again on 28 September 2007. The C shares are due to convert into Ordinary shares based on a conversion ratio to be calculated at 31 December 2007.

The six VCT tests relating to the running of Baronsmead VCT 3 were met during the period. At the period end, 87 per cent of the ordinary capital raised (net of launch costs) prior to 31 December 2004 was invested in VCT qualifying investments.

Long Term Performance

The NAV total return since inception is 75 per cent for the ordinary shares and 17 per cent for the C shares. These returns are stated net of running costs but prior to launch costs being taken into account. The annual growth in NAV total returns since January 2001 and October 2005 for the two share classes is 9.1 per cent and 9.4 per cent respectively. Total dividends of 28.8 pence and 5 pence for ordinary and C shares have been paid representing annual averages of 4.4 pence and 3.3 pence.

The ordinary share total return is over 34 per cent ahead of the peer group average of five generalist VCTs to which we compare.

The Fact Sheet sent to shareholders for the quarter to 31 March 2007 introduced the measure of share price total return, which combines the increase in share price together with dividends paid. The Board believes this is a more appropriate measure for purchasing shareholders who did not benefit from the original income tax relief

Investments in the six months to 30 June 2007

Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments				
Cablecom Networking	Somerset	IT	IT managed services	1,381
Occam *	Bath	Business services	Integrated data services	3
Quantix	Nottingham	IT	Database services	1,194
Scriptswitch	Coventry	Business services	Prescription software system	1,167
Total unquoted investments				3,745
AiM-traded investments				
Claimar Care *	Birmingham	Healthcare	Domiciliary care	219
EBTM	London	Consumer	Online fashion retailer	244
Essentially Group	Jersey	Media	Sports marketing	255
FfastFill	London	IT	Trading platform software	130
IDOX*	London	IT	Document management software	320
INVU	Northampton	IT	Document management software	35
Mount Engineering	York	Business services	Industrial engineering	385
Tangent Communications	London	Business services	Customised direct marketing	180
Tasty*	London	Consumer	Restaurant operator	25
Total AiM-traded investments				1,793
Total investments				5,538

*Further round of financing

Chairman's Statement

available on subscription. Individual purchasers, aged 18 and over who are tax resident in the UK, can benefit from tax free income and capital growth when buying existing shares in VCTs.

The returns over 1, 3 and 5 years for the periods to 30 June 2007 are detailed below:

Ordinary Shares (% growth)	One year	Three years	Five years
NAV total return	9.9	48.0	68.3
Share price total return	11.6	52.5	69.4
FTSE All-Share total return	18.4	68.2	77.5
Gross equivalent returns	17.9	79.7	98.6

(source F&C Asset Management plc and Datastream)

VCTs are tax efficient investments that pay tax-free dividends with any increase in the share price also being free of capital gains tax (CGT) on sale. For instance the ordinary mid share price has increased from 89.5 pence to 116.5 pence in the three years to 30 June 2007, an annual compound increase of 9.2 per cent, which is CGT free.

The gross equivalent share price total return shown above represents the maximum return that a higher rate tax payer would need to make on an alternative investment (with no tax advantage) to be in an equivalent position to having invested in Baronsmead VCT 3 over the last 1, 3 and 5 years. For the purposes of this calculation it is assumed that the taxpayer has utilised their capital gains tax allowances.

Ability to acquire further shares in Baronsmead VCT 3

The record of share price total returns and the availability of ISA style tax reliefs illustrate some of the merits for private investors of

acquiring existing shares. The Board is aware from both the recent surveys across the 'Baronsmead' family of VCTs that some 15 per cent of existing shareholders may be interested in purchasing more shares. The Manager is sending a pamphlet to all shareholders giving more detail about this as well as the differences between this option and subscribing for more shares in top up offers.

The last top up offer was in March 2005 prior to the C share offer in winter 2005/06. Since then legislation has been revised twice in the Finance Acts 2006 and 2007. The detailed way in which new share capital can be deployed is now understood and as a consequence the Board is able to increase the financial planning opportunities for both existing ordinary and C Shareholders by offering them the ability to subscribe for new 'top up' shares.

The Directors have decided to offer for subscription up to Euros 2.5 million (equivalent to £1.7 million at 30 June 2007), in accordance with the Prospectus Directive 2005, to each pool of existing ordinary and C shareholders, at the same time as the interim and final statutory reports are sent to all shareholders. Any offer over €2.5 million requires the publication of a full prospectus, the cost of which makes larger top up offers too costly.

Shareholders are invited to subscribe for New Shares in the knowledge that the next time shareholders will be asked to confirm that the Company should continue as a Venture Capital Trust will be in 2013. Income tax relief of 30 per cent can be claimed on the subscription cost and retained as long as shareholders hold these shares for five years or more. If more subscription monies are received than the upper limit of €2.5 million, subscription levels will be scaled back accordingly.

Six months to 30 June 2007

Combined Ordinary Share and C Share Realisations		First investment date	Cost £'000	Proceeds £'000	Multiple return
Domantis	Trade sale	April 2004	601	2,229	3.7
Martin Audio	Trade sale	August 2003	786	2,622	3.3
Worthington Nicholls	Market sale	May 2006	368	1,170	3.2
Americana	Complete sale	August 2003	443	1,375	3.1
Talarius	Trade sale	May 2005	250	700	2.8
Interactive Prospect Targeting	Part sale	November 2004	76	151	2.0
Blooms of Bressingham	Trade sale	April 2001	320	291	0.9
Polaron	Trade sale	March 2004	296	188	0.6
			3,140	8,726	

Chairman's Statement

The Portfolio

In the six months under review, nine new investments were made and after the sale of seven investments the portfolio increased to 70 companies. Further rounds of investment were made in four companies.

The Board reviews the relative health of portfolio companies quarterly in terms of profitability as well as other non-financial benchmarks. At the period-end, 80 per cent of the portfolio companies were reporting better or steady progress.

Public markets showed a degree of volatility in the first half of 2007 although the AiM portfolio finished up in the C share pool but remained at the same value in the ordinary share portfolio by the period end. Good progress was evident across most of the unquoted portfolio with an overall gain of 10 per cent and good up lifts in value at a number of newer investments; Independent Living Services, Empire World Trade and Fisher Outdoor Leisure. There was a reduction in value at The Art Group following lower trading profits.

The main influence on the AiM portion of the portfolio was the rise in interest rates and a relative move away from the higher risks perceived to be associated with smaller AiM-traded companies. Good diversity remains across the Ordinary Share portfolio but the two biggest falls were in Debtmatters, as the debt management sector is under scrutiny; and Huveaux, where there was a profits warning following a recent French acquisition. Newer AiM investments particularly in the C share portfolio showed progress including advances in Claimar, Concateno and Worthington Nicholls where the remaining stake was sold during the period..

The cash realisations set out on page 4 show some strong outcomes of which Domantis, Americana and Martin Audio have already been reported. In aggregate the multiple for unquoted investments was 3.4 times their cost and illustrates the disciplines of private equity in the identification of opportunities and their active management prior to exit. The AiM realisations yielded a positive multiple over cost of 1.9 times.

Investment Management

As shareholders will know the Baronsmead funds managed by ISIS have grown substantially over the last 10 years from under £10 million to a current level of approximately £290 million.

The senior VCT team at ISIS has been reinforced in recent years. Andrew Garside joined in 2005 with a 14 year private equity track record from 3i to support David Thorp, and has since led the unquoted VCT investment team of 7 executives delivering the last 12 unquoted transactions which have been a key contributor to recent performance. Andrew will increasingly contribute to the overall investment management of the four generalist Baronsmead VCTs.

Henrietta Marsh joined in 2005 with 14 years' quoted fund management and private equity experience at 3i and Unicorn to lead the AiM investing for all the Baronsmead VCTs. Henrietta is now the fund manager of Baronsmead AIM VCT plc and is responsible for the performance of the whole Baronsmead family AiM portfolio.

Prem Mohan Raj has recently been promoted within ISIS to Chief Financial Officer, Funds and his main role is to lead the administration and operations of the Baronsmead VCTs. Prem has 15 years' accounting experience predominantly in the financial services arena and will be responsible for the continued improvement of the back office systems in conjunction with F&C Asset Management.

David Thorp continues his role at ISIS, providing strategic direction to the VCT business. David is also Chairman of the AIC VCT Forum and chairman of the VCT Managers Committee, two groups that are instrumental in the development of initiatives across the VCT industry.

Outlook

Rising interest rates and problems in the credit markets are bound to have some economic consequences. However, the Managers have been prudent in the level of gearing they have employed in the unquoted service company investments and will remain cautious in the selection of new unquoted and AiM-traded opportunities. Current trading remains resilient across the portfolio.

Mark Cannon Brookes

Chairman

14 August 2007

Investment Portfolio

Company	Book Cost		Valuation		Total £'000	% of Total Assets Less Current Liabilities
	Ordinary Shares £'000	C Shares £'000	Ordinary Shares £'000	C Shares £'000		
Unquoted						
Fisher Outdoor Leisure	100	1,323	171	2,257	2,428	3.6
Independent Living Services	801	–	2,340	–	2,340	3.5
Reed & Mackay	1,211	–	2,110	–	2,110	3.1
Empire World Trade	120	1,177	193	1,899	2,092	3.1
RLA Group	1,105	–	2,025	–	2,025	3.0
Kafévend	1,247	–	1,917	–	1,917	2.8
The Art Group	1,281	–	1,673	–	1,673	2.5
The Crucible Group	1,032	–	1,462	–	1,462	2.2
Boldon James	562	–	1,395	–	1,395	2.1
Cablecom Networking	385	996	385	996	1,381	2.0
kidsunlimited	481	–	1,211	–	1,211	1.8
Quantix	261	933	261	933	1,194	1.8
Scriptswitch	326	841	326	841	1,167	1.7
SLR Holdings	290	–	1,057	–	1,057	1.6
Crew Clothing	59	873	59	873	932	1.4
Hawksmere	766	–	776	–	776	1.2
MLS	62	719	61	709	770	1.1
Green Issues	99	399	153	616	769	1.1
Xention Discovery	650	–	673	–	673	1.0
Occam	424	–	571	–	571	0.8
Country Artists	448	–	–	–	–	–
Total unquoted	11,710	7,261	18,819	9,124	27,943	41.4
FTSE SmallCap						
Ardana	619	–	562	–	562	0.8
Total FTSE SmallCap	619	–	562	–	562	0.8
Traded on AiM						
Jelf Group	550	–	1,681	–	1,681	2.5
Vectura Group	771	–	1,367	–	1,367	2.0
Murgitroyd Group	319	–	1,173	–	1,173	1.7
Claimar Care	72	497	122	836	958	1.4
Begbies Traynor Group	283	–	956	–	956	1.4
IDOX	920	–	864	–	864	1.3
Huveaux	541	–	821	–	821	1.2
Driver Group	438	–	738	–	738	1.1
Proactis Holdings	29	371	52	673	725	1.1
Colliers CRE	470	–	687	–	687	1.0
Concateno	19	306	38	612	650	1.0
InterQuest Group	311	–	591	–	591	0.9
Adventis Group	281	–	527	–	527	0.8
Quadnetics Group	296	–	414	–	414	0.6
Brulines Holdings	16	273	22	372	394	0.6
Mount Engineering (commenced trading 06/07/07)	107	278	107	278	385	0.6
Sanderson Group	387	–	372	–	372	0.5
Prologic	310	–	372	–	372	0.5
Interactive Prospect Targeting	177	–	358	–	358	0.5
Autoclenz Holdings	80	320	68	274	342	0.5
Business Direct Group	665	–	315	–	315	0.5
Appian Technology	46	204	58	257	315	0.5
Debtatters Group	169	–	299	–	299	0.4
Stagecoach Theatre Arts	419	–	293	–	293	0.4
EBTM	68	176	79	204	283	0.4
WIN	263	–	274	–	274	0.4
Real Good Food Company	540	–	272	–	272	0.4
Essentially Group (commenced trading 16/07/07)	71	184	71	184	255	0.4
VI Group	300	–	237	–	237	0.3
Kiotech International	12	188	14	220	234	0.3
Tangent Communications	38	142	41	156	197	0.3
Eg Solutions	375	–	185	–	185	0.3
Air Music & Media Group	575	–	167	–	167	0.2
Cardpoint	89	–	154	–	154	0.2
Medal Entertainment & Media	227	–	151	–	151	0.2
Xpertise Group	296	–	141	–	141	0.2
FfastFill (commenced trading 02/07/07)	36	94	36	94	130	0.2
Tasty	6	59	8	74	82	0.1
Brainjuicer	3	47	5	74	79	0.1
Oxford BioMedica	250	–	69	–	69	0.1
Fishworks	128	–	50	–	50	0.1
MKM Group	284	–	49	–	49	0.1
Universe Group	158	–	47	–	47	0.1
INVU	10	25	10	25	35	0.1
Cantono (previously Hamsard Group)	375	–	35	–	35	0.1
Zoo Digital Group	584	–	28	–	28	0.1
Capcon Holdings	137	–	11	–	11	–
Micap	325	–	8	–	8	–
Total AiM	12,826	3,164	14,437	4,333	18,770	27.7
Interest bearing securities						
UK Treasury 5.0% 07/03/08	4,686	9,778	4,677	9,753	14,430	21.3
Money Market OEIC	2,243	1,710	2,243	1,710	3,953	5.8
Total fixed interest	6,929	11,488	6,920	11,463	18,383	27.1
Total investments	32,084	21,913	40,738	24,920	65,658	97.0
Net current assets			1,118	940	2,058	3.0
Total assets less current liabilities			41,856	25,860	67,716	100.0

Independent Review Report to Baronsmead VCT 3 plc

Introduction

We have been engaged by the Company to review the financial information set out on pages 8 to 12 and 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 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 there are to be changes in the next annual accounts in which case any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 Review of interim financial information 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 is substantially less in scope than an audit performed in accordance with 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 2007.

KPMG Audit Plc
Chartered Accountants
Edinburgh

14 August 2007

Unaudited Income Statement

For the Six Months to 30 June 2007

	Ordinary Shares			C Shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	1,110	1,110	–	1,888	1,888	–	2,998	2,998
Realised gains on investments	–	324	324	–	302	302	–	626	626
Income	663	–	663	494	–	494	1,157	–	1,157
Investment management fee	(155)	(466)	(621)	(75)	(415)	(490)	(230)	(881)	(1,111)
Other expenses	(122)	–	(122)	(81)	–	(81)	(203)	–	(203)
Profit on ordinary activities before taxation	386	968	1,354	338	1,775	2,113	724	2,743	3,467
Taxation on ordinary activities	(72)	72	–	(85)	85	–	(157)	157	–
Profit on ordinary activities after taxation	314	1,040	1,354	253	1,860	2,113	567	2,900	3,467
Return per ordinary share/C share:									
Basic	0.97p	3.23p	4.20p	1.05p	7.75p	8.80p	1.01p	5.16p	6.17p

Unaudited Reconciliation of Movement in Shareholders' Funds

For the Six Months ended 30 June 2007

	2007 Ordinary Shares £'000	2007 C Shares £'000	2007 Total £'000
Opening shareholders' funds	42,321	24,227	66,548
Profit for the period	1,354	2,113	3,467
Purchase of shares for Treasury	(524)	–	(524)
Dividends paid	(1,295)	(480)	(1,775)
Closing shareholders' funds	41,856	25,860	67,716

Notes

- The unaudited interim results which cover the six months to 30 June 2007 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the year ended 31 December 2006.
- Return per ordinary share is based on a weighted average of 32,218,193 ordinary shares in issue (31 December 2006 – 32,776,271, 30 June 2006 – 33,097,562).
Return per C share is based on a weighted average of 23,999,772 C shares in issue (31 December 2006 – 23,966,316, 30 June 2006 – 23,932,306).
- Earnings for the first six months should not be taken as a guide to the results of the full year.
- During the six months ended 30 June 2007 the Company bought back 450,000 ordinary shares at a cost of £524,000. At 30 June 2007 the Company held 3,180,000 ordinary shares in Treasury. These shares may be re-issued below Net Asset Value as long as the discount at issue is narrower than the average discount at which the shares were bought back.
There were 31,912,392 ordinary shares in issue at 30 June 2007 (31 December 2006 – 32,362,392, 30 June 2006 – 32,612,392).
During the six months ended 30 June 2007 the Company did not issue or buy back any C shares. There were 23,999,772 C shares in issue at 30 June 2007 (31 December 2006 – 23,999,772, 30 June 2006 – 23,999,772).

Unaudited Income Statement

For the Six Months to 30 June 2006

	Ordinary Shares			C Shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	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)
Profit/(loss) on ordinary activities before taxation	255	3,417	3,672	379	(263)	116	634	3,154	3,788
Taxation on ordinary activities	(32)	70	38	(104)	66	(38)	(136)	136	–
Profit/(loss) on ordinary activities after taxation	223	3,487	3,710	275	(197)	78	498	3,290	3,788
Return per ordinary share/C share:									
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
Opening shareholders' funds	39,226	17,022	56,248
Profit for the period	3,710	78	3,788
Increase in share capital	367	5,804	6,171
Purchase of shares for Treasury	(1,222)	–	(1,222)
Dividends paid	(1,170)	–	(1,170)
Closing shareholders' funds	40,911	22,904	63,815

Notes

- The interim dividend of 3.0 pence per ordinary share (0.9 pence revenue and 2.1 pence capital) and 2.0 pence per C share (1.0 pence revenue and 1.0 pence capital) will be paid on 28 September 2007 to shareholders on the register on 24 August 2007.
- 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 2006, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2006 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 to 31 December 2006

	Ordinary Shares			C Shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gain on investments	–	6,884	6,884	–	1,509	1,509	–	8,393	8,393
Realised gain on investments	–	779	779	–	241	241	–	1,020	1,020
Income	1,170	–	1,170	950	–	950	2,120	–	2,120
Investment management fee	(309)	(2,077)	(2,386)	(139)	(775)	(914)	(448)	(2,852)	(3,300)
Other expenses	(230)	–	(230)	(139)	–	(139)	(369)	–	(369)
Profit on ordinary activities before taxation	631	5,586	6,217	672	975	1,647	1,303	6,561	7,864
Taxation on ordinary activities	(65)	65	–	(199)	199	–	(264)	264	–
Profit on ordinary activities after taxation	566	5,651	6,217	473	1,174	1,647	1,039	6,825	7,864
Return per ordinary share/C share:									
Basic	1.73p	17.24p	18.97p	1.97p	4.90p	6.87p	1.83p	12.03p	13.86p

Audited Reconciliation of Movement in Shareholders' Funds

For the Year ended 31 December 2006

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

Unaudited Balance Sheet

	As at 30 June 2007			As at 30 June 2006			As at 31 December 2006 †		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets									
Unquoted investments	18,819	9,124	27,943	19,733	1,722	21,455	22,718	5,115	27,833
Traded on AiM	14,437	4,333	18,770	14,809	1,816	16,625	15,080	3,352	18,432
Quoted on FTSE SmallCap	562	–	562	670	–	670	600	–	600
Interest bearing securities	6,920	11,463	18,383	4,755	17,573	22,328	3,989	14,882	18,871
	40,738	24,920	65,658	39,967	21,111	61,078	42,387	23,349	65,736
Current assets									
Debtors	510	298	808	285	291	576	317	338	655
Cash at bank and on deposit	1,288	1,305	2,593	1,466	1,696	3,162	1,251	1,081	2,332
	1,798	1,603	3,401	1,751	1,987	3,738	1,568	1,419	2,987
Creditors: amounts falling due within one year	(680)	(663)	(1,343)	(807)	(194)	(1,001)	(1,634)	(541)	(2,175)
Net current assets/(liabilities)	1,118	940	2,058	944	1,793	2,737	(66)	878	812
Net assets	41,856	25,860	67,716	40,911	22,904	63,815	42,321	24,227	66,548
Capital and reserves									
Called-up share capital	3,509	12,000	15,509	3,509	12,000	15,509	3,509	12,000	15,509
Share premium account	4,253	–	4,253	4,255	10,815	15,070	4,253	–	4,253
Capital redemption reserve	247	–	247	247	–	247	247	–	247
Revaluation reserve	8,654	3,007	11,661	9,095	(60)	9,035	12,102	1,511	13,613
Profit and loss account	25,193	10,853	36,046	23,805	149	23,954	22,210	10,716	32,926
Equity shareholders' funds	41,856	25,860	67,716	40,911	22,904	63,815	42,321	24,227	66,548

	As at 30 June 2007		As at 30 June 2006		As at 31 December 2006 †	
	Ordinary Shares	C Shares	Ordinary Shares	C Shares	Ordinary Shares	C Shares
Net asset value per share	131.16p	107.75p	125.45p	95.43p	130.77p	100.95p
Number of ordinary shares in issue	31,912,392	–	32,612,392	–	32,362,392	–
Number of C shares in issue	–	23,999,772	–	23,999,772	–	23,999,772
Treasury net asset value per share ‡	129.83p	–	124.39p	–	129.66p	–
Number of ordinary shares in issue	31,912,392	–	32,612,392	–	32,362,392	–
Number of ordinary shares held in Treasury	3,180,000	–	2,480,000	–	2,730,000	–
Number of listed ordinary shares	35,092,392	–	35,092,392	–	35,092,392	–

† At the AGM held on 17 April 2007, 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. Treasury shares will be valued at the lower of the prevailing NAV or middle market price.

‡ These figures are audited.

Summarised Unaudited Statement of Cash Flows

	Six months to 30 June 2007			Six months to 30 June 2006			Year to 31 December 2006 ‡		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Net cash (outflow)/inflow from operating activities	(1,181)	(193)	(1,374)	(329)	122	(207)	(466)	150	(316)
Taxation	–	–	–	–	–	–	–	–	–
Capital expenditure and financial investment	2,833	897	3,730	1,886	(11,422)	(9,536)	2,906	(11,848)	(8,942)
Equity dividends paid	(1,295)	(480)	(1,775)	(1,170)	–	(1,170)	(1,983)	(240)	(2,223)
Net cash inflow/(outflow) before financing	357	224	581	387	(11,300)	(10,913)	457	(11,938)	(11,481)
Net cash (outflow)/inflow from financing	(320)	–	(320)	(854)	7,181	6,327	(1,139)	7,204	6,065
Increase/(decrease) in cash	37	224	261	(467)	(4,119)	(4,586)	(682)	(4,734)	(5,416)
Reconciliation of net cash flow to movement in cash									
Increase/(decrease) in cash	37	224	261	(467)	(4,119)	(4,586)	(682)	(4,734)	(5,416)
Opening net cash	1,251	1,081	2,332	1,933	5,815	7,748	1,933	5,815	7,748
Net cash at 30 June/31 December	1,288	1,305	2,593	1,466	1,696	3,162	1,251	1,081	2,332
Reconciliation of operating profit before taxation to net cash flow from operating activities									
Profit on ordinary activities before taxation	1,354	2,113	3,467	3,672	116	3,788	6,217	1,647	7,864
Unrealised (gains)/losses on investments	(1,110)	(1,888)	(2,998)	(4,035)	62	(3,973)	(6,884)	(1,509)	(8,393)
Profit on realisation of investments	(324)	(302)	(626)	(230)	–	(230)	(779)	(241)	(1,020)
Changes in working capital and other non-cash items	(1,101)	(116)	(1,217)	264	(56)	208	980	253	1,233
Net cash (outflow)/inflow from operating activities	(1,181)	(193)	(1,374)	(329)	122	(207)	(466)	150	(316)

‡ These figures are audited.

Shareholder Information

Enquiries

Shareholders should contact the following regarding queries:

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

Computershare (Company Registrar)

www.computershare.com/investor

Shareholder Helpline

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

Automated Functions

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

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

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



Information on share price movements, the share price discount and selling shares:

F&C Asset Management plc (Company Secretary)

www.baronsmeadvct3.co.uk

e-mail: rhonda.nicoll@fandc.com

Tel: 0131 718 1074. Fax: 0131 225 2375.



Any other points, i.e. asset allocations, dividend policies and the investment process:

ISIS EP LLP (Investment Manager)

www.isisep.com

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

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Share Price

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

Trading Shares

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

- Landsbanki Securities (020 7426 9000)
- UBS Warburg (020 7567 8000)
- Winterfloods (020 7621 0004)

Please call the Company Secretary, whose details are printed above, if you or your adviser have any questions about this process.

Financial Calendar

November 2007	Quarterly fact sheet to 30 September 2007
February 2008	Results for year to 31 December 2007 announced and annual report and accounts sent to shareholders
March 2008	Seventh Annual General Meeting

Corporate Information

Directors

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

Secretary

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Registered Number

04115341

*Chairman of the Audit Committee

†Senior Independent Director

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VCT Status Adviser

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Solicitors

Norton Rose
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London SE1 2AQ

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 Financial Services Authority. 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.