Baronsmead VCT 3 plc

ISIS

2003
Annual report & accounts
for the year ended
31 December 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:

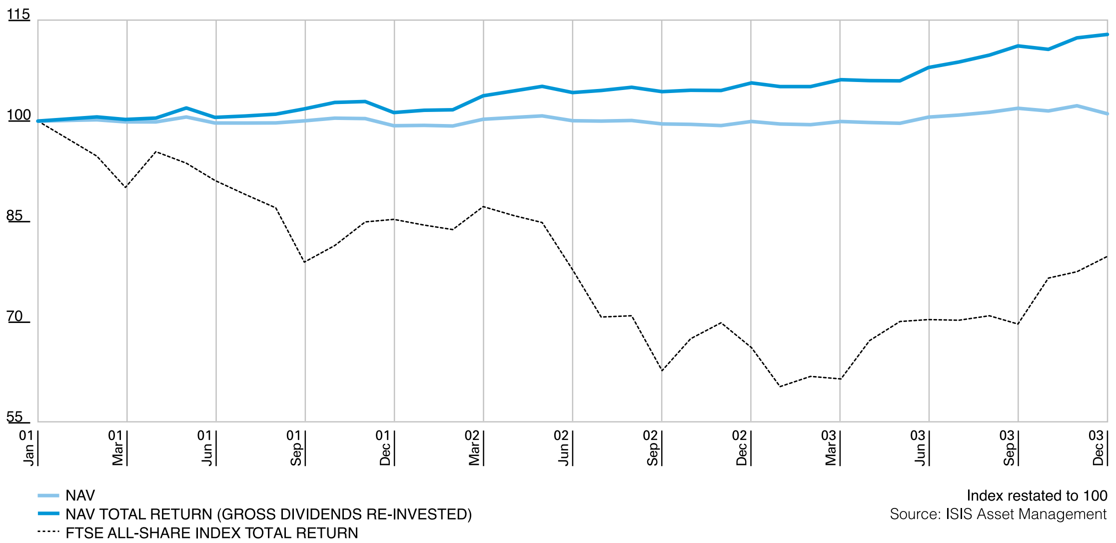
- Larger unquoted companies, typically as lead investor and alongside institutional investors, which do not offer the same tax benefits to their shareholders as a VCT.
- Technology-enabled companies.

Contents

Financial Highlights

Net asset value increased to 97.15 pence per share after deduction of dividends
Total return of 12.7 per cent since launch
Portfolio grown to 32 companies
Initial capital dividend of 2 pence per share
Total dividend of 4.2 pence per share for the year

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



Performance Summary

	31 December 2003	31 December 2002	% change
Ordinary Share – capital values			
Net asset value	**97.15p**	94.85p	2.4
Share price	**90.00p**	85.50p	5.3
Discount	**(7.4)%**	(9.9)%	
Net asset value total return since launch (note 1)	**12.7%**	5.4%	
Total assets less current liabilities	**£33.0m**	£32.1m	

(note 1) Net asset value total return assuming gross dividends re-invested.

	Year to 31 December 2003	Year to 31 December 2002
Dividends		
Revenue dividends per Ordinary Share	**2.20p**	2.80p
Capital dividend per Ordinary Share	**2.00p**	–

Three Year Record

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

Chairman's Statement

During the last year, we made progress towards achieving our objectives of providing shareholders with long-term capital growth and tax-free dividends. We have met two early targets; investing in over 30 qualifying companies and generating the first capital distribution from the net profits realised on sale of three investments.

Mark Cannon Brookes
Chairman

Results

In the year to 31 December 2003, net asset value (NAV) per share increased by 6.9 per cent from 94.85p to 101.35p per share before providing for total dividends of 4.2p per share. This includes the proposed final revenue dividend of 1.3p per share and the first capital dividend of 2p per share, both payable on 26 March 2004. At 31 December 2003 after dividends paid, the NAV per share had increased to 97.15p.

The rise in NAV came from both the unquoted and AiM investments. The sale of The AIMS Group and the uplift in value of kidsunlimited and RLA Media were the main unquoted contributors. The market value of AiM shareholdings was 16 per cent ahead of cost largely due to the strong share price gains for Huveaux, Air Music & Media and NeuTec Pharma.

Since our launch in January 2001, the total return of Baronsmead VCT 3 to 31 December 2003 is 12.7 per cent. This compares to a decrease in the FTSE All-Share index of 20.4 per cent over the same period. The differential of some 33.1 per cent increases further if the benefits from the available VCT tax reliefs are taken into account.

Investment rate

As I have indicated to shareholders previously, the level of new investment to reach 70 per cent of the funds to be invested in qualifying companies by 31 December 2003, has been a challenging target. The Directors and the Managers have been unwilling to sacrifice quality particularly in the uncertain times prior to May 2003. The successful sale of investments realising £4.3 million has also reduced the level of qualifying investments. However, the second half of 2003 has seen the rate of investment move forward sharply and this is continuing at the present time.

The improved UK economic climate has helped to restore confidence for investment in our typically fast growth investees. The Managers also have increased their coverage of deal flow opportunities from their enhanced regional presence in Manchester as well as existing operations in London and Birmingham.

At 31 December 2003, in order to ensure that the Company met the critical qualifying investment test, whereby 70 per cent of the Company's net proceeds raised must be invested in qualifying investments by the third accounting period, funds have been placed on a non-interest bearing account (which is not regarded as an investment for VCT purposes) pending investment of those funds into further VCT qualifying investments. The loss of interest as a result of this is relatively small. I am pleased to confirm all other appropriate VCT tests have been met as at 31 December 2003.

Portfolio performance

By 31 December 2003, the portfolio totals 32 investments at a cost of £17 million. There were 14 additions to the portfolio during the year and our two largest investments, Thomas Sanderson and The AIMS Group, were successfully sold in May and June 2003 respectively. Since the year-end, an additional three investments have been completed and during 2004 we aim to increase the portfolio size to more than 40 companies.

The performance of investee companies is measured quarterly by reference to the change in operating profits or for early stage companies against their progress in meeting the objectives of their business plan. Of the 32 strong portfolio at the year-end, 27 reported better or steady results. Two investee companies, ASSA and Xpertise Group each operating in different parts of the training industry, had lower than expected operating profits which have

Chairman's Statement

resulted in a provision against the former and a decline in AiM share price for the latter.

Meeting shareholder needs

Shareholders' comment and feedback provide important guidance to the Board in formulating future policy and this year we gained insight into shareholders' priorities prior to the end of the first three years since subscription. Beyond this time, shareholders are able to permanently retain their income tax reclaim granted when they subscribed in the first half of 2001. Over 600 shareholders (29 per cent) responded to the questionnaire survey carried out during September 2003. Subsequently, some 250 shareholders were sent or attended the workshop presentations that were held in London, Birmingham, Manchester and Edinburgh.

There was a strong long-term theme in this feedback, as almost 80 per cent of respondents do not intend selling their shares in the foreseeable future. 59 per cent ranked capital growth as their main investment objective.

When setting the dividend policy for shareholders, the Board is mindful of the objectives of Baronsmead VCT 3 to achieve capital growth and pay attractive dividends. Shareholder feedback supports the need to balance these two objectives. The Company has built up sufficient realised capital profits for the Board to propose a sustainable dividend policy, initially at 4.2p per share for 2003, comprising both revenue and capital payments.

During the year, 255,253 new shares were issued at an average price of 97p per share via the dividend reinvestment scheme. The Company bought back 85,000 shares at an average share price of 87.5p representing a discount of 10 per cent to NAV per share.

The Board remains committed to regular and full communication with shareholders and their advisers. We consulted with shareholders about the provision of an abridged final report and accounts. The majority wished to receive a shorter report and we welcome feedback from this first set of summary accounts. The full report is being sent to shareholders who have requested it and is available on the ISIS website or by contacting either the Company Secretary or Investor Relations Manager.

The valuation of the unquoted companies within the portfolio is based on the BVCA guidelines. These have recently been revised and the new guidelines apply from 1 August 2003. The principles behind the valuation decisions made by the Board have changed little but these judgements can require lengthy deliberations in fulfilling our obligations to value at 'fair value' suitably discounted for market illiquidity. AiM and other quoted investments are valued at mid-market prices less discounts where appropriate.

Changes to Venture Capital Trusts

In his Pre-Budget Speech of 10 December 2003, the Chancellor of the Exchequer announced his intention to change the tax benefits for VCT investors for subscription on or after 6 April 2004. In summary the proposed changes to the tax incentives for investors in VCTs are:

- Abolition of CGT deferral as of 6 April 2004;
- For the tax years 2004/05 and 2005/06 government to make a payment of 20 per cent of the amounts raised by VCTs directly to the VCT, initial VCT income tax relief to remain at 20 per cent of the amount subscribed;
- Annual VCT limit to be raised to £200k per person.

At the time of writing these proposed changes may be subject to revision and there is no certainty as to when the new tax benefits will come into force. Consequently, as soon as possible after these new tax benefits have been finalised, shareholders approval will be sought to enable the Company to continue to raise further funds in a manner which best accommodates the new tax benefits for investors. The Investment Manager continues to discuss these issues with the Inland Revenue to try to ensure the best tax position is attained for shareholders.

Outlook

Improved world stability and steady stock markets are signalling better conditions for investment. The portfolio of Baronsmead VCT 3 is still at a relatively early stage of maturity and so I have been heartened by our absolute and comparative performance to date. We expect to become fully invested during 2004 and judging by the level of operating profits and the trends within the portfolio, I am confident that we can continue to satisfy our investment objectives. We shall endeavour to keep shareholders as fully abreast of this progress as possible.

I look forward to welcoming shareholders to the AGM on 25 March 2004 at 11.00 am at the offices of ISIS Equity Partners, 100 Wood Street, London EC2V 7AN. The Investment Manager, David Thorp, will give a presentation on portfolio issues and the current prospects. The Managing Director of The Art Group has accepted an invitation to comment on this company and its progress since investment in October 2003. The presentations will be followed by a buffet lunch and a shareholders' workshop with the intention of finishing by 3 pm.

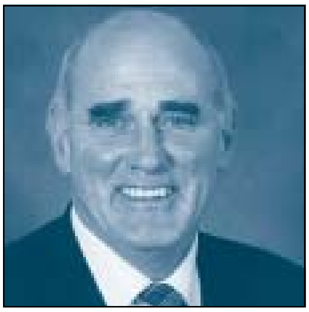
Mark Cannon Brookes

Chairman

10 February 2004

Manager's Review

The pace of new investment accelerated during 2003 as economic confidence returned and lower prices prevailed. The sale of three unquoted investments occurred sooner than might have been expected and from these profits the first capital dividend can be paid.



David Thorp
Investment Manager

Michael Probin
Investor Relations Manager

Rhonda Nicoll
Company Secretary

New investment

A high level of investment was achieved in the second half of the year, mainly into management buy-out opportunities across a broad range of activities. The underlying growth of these companies is expected to be strong, typically 20 per cent or more annually, as their management focus on and implement their business plans. The bioscience companies and a number of the AiM subscriptions are at an earlier stage of their development and their progress is more likely to be judged on non-financial milestones. The third group of investments typically grow both organically and by acquisition and these include Huveaux, Air Music and Media and i-documentsystems.

Portfolio Diversity

The investment policy of Baronsmead VCT 3 is to invest in VCT qualifying investments that are larger unquoted companies, AiM subscriptions and technology enabled businesses. This 32 strong portfolio is currently represented by 15 and 17 across the first two categories while 23 are later stage and 9 are technology enabled. This latter group might have been higher if the number of suitable opportunities had been more, but the major customers for technology companies only recently resumed normal services in their supplies. Wide diversity is an important aspect of the portfolio so as to catch the right part of each sector's demand cycle when possible. This is evident in the recent media investments and hopefully in IT and healthcare in future.

The three realisations scheduled below had their different elements of success. Thomas Sanderson is the market leader in pleated conservatory blinds and had more than doubled its profits in the two years that the investment was held. The AIMS Group is an environmental consultancy and operates in a sector that attracted its acquirer. The loan stock invested in Rarrigini & Rosso was recovered on sale when the new activity that we had backed did not fulfil its plans.

Realisations		First investment date	Cost £'000	Proceeds £'000	Multiple return
Thomas Sanderson	Trade sale	2001	667	1,689	2.53
The AIMS Group	Trade sale	2002	1,000	1,923	1.92
Rarrigini & Rosso	Trade sale	2002	703	640	0.91
Totals			**2,370**	**4,252**	**1.79**

Manager's Review

The unquoted portfolio showed some changes in value during the year with both gains and provisions. The Chairman of kidsunlimited presented at the last AGM highlighting the growth in daycare centres for children under 6 years old. This is a sector in flux and 'kids' is likely to be one of the key companies for the future. Provisions were made on BodyCare and ASSA when their trading profitability fell. The role of the managers will be to assist in getting these companies back onto a growth path.

The AiM portfolio made steady progress with strong advances by Huveaux and NeuTec Pharma. The former is an acquisitive group seeking specialist publishing activities, currently in parliamentary affairs and education. NeuTec Pharma is developing drugs that tackle hospital infections and has reported early acceptance by the European Medicines Evaluation Agency in accelerating its trials.

Investor relations

There has been active dialogue with shareholders and their advisers over the last year through the questionnaire and workshops and everyday contact via our helpline. By answering shareholder queries, an invaluable insight is gained into the use of Baronsmead VCT 3 for a variety of the financial planning needs of investors. Michael Probin, our VCT investor relations manager, and I have been actively involved in the consultation regarding the new proposed VCT legislation. We plan to communicate with shareholders regarding the possible implications as the detailed changes become known.

Outlook

It is the underlying performance of the portfolio companies that will dictate overall investment performance. We shall continue to concentrate on being highly selective in both unquoted and AiM companies and retain an active involvement prior to their sale in the medium term. Baronsmead VCT 3 has a well-diversified portfolio and the number of companies will increase during 2004. From this portfolio, the plan is to increase NAV per share and the level of realised reserves from which distributions can be made. The aim is to provide shareholders with a wide choice of financial planning alternatives to suit their own purposes.

David Thorp

Investment Manager

ISIS Equity Partners

10 February 2004

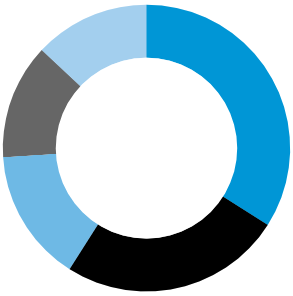
Company	Location	Sector	Activity	Investment cost £'000
New unquoted investments				
Americana	Manchester	Consumer	Branded fashion clothing	567
Ardana	Cambridge	Healthcare	Drug delivery	450
The Art Group	London	Media	Publisher of art content	1,281
ASSA	Washington	Business services	Work place training	974
Language Line	London	Business services	Interpretation services	638
Hawksmere	London	Business services	Training course provider	766
Martin Audio	High Wycombe	Business services	Professional sound systems	849
Oxxon Pharmaccines	Oxford	Healthcare	Drug discovery	250
Follow-on investments				
Air Music and Media Group	Berkhamsted	Media	Music copyright licensor	371
i-documentsystems	London	IT support services	Document systems	200
Xention Discovery	Cambridge	Healthcare	Drug discovery	37
Medal Entertainment & Media	London	Media	Audio visual publishing	11
AiM-traded investments				
Cardpoint	Lytham St Annes	Business services	Independent ATM systems	92
Huveaux	London	Media	Publishing group	578
Micap	Warrington	Healthcare	Encapsulation	325
The Real Good Food Company	Devizes	Consumer	Chilled food supplier	540
Universe Group	Southampton	IT support services	Payment systems	158
Zoo Digital	Sheffield	IT support services	Software and computer services	584
Total investments in the year				£8,671

Portfolio Analysis

Portfolio by Sector . . .

Company Investments (excluding fixed interest portfolio)

Sector Analysis as at 31 December 2003



Business services	**33%**
Media	**27%**
Healthcare	**15%**
IT support services	**13%**
Consumer	**12%**

. . . and by Asset Classification

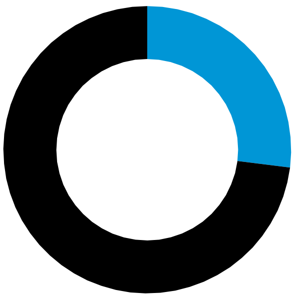
Total Assets less Current Liabilities

Market Analysis as at 31 December 2003

Net current assets	**27%**
AiM	**23%**
Fixed interest	**17%**
Unquoted – loan stock	**17%**
Unquoted – ordinary and preference shares	**16%**

. . . and by Development Stage

by Value as at 31 December 2003



Early stage	**24%**
Late stage	**76%**

Investment Portfolio

Company	Nature of Business	Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by Other Funds*
AiM						
Huveaux	Media	578	1,337	4.0	3.1	5.7
Air Music & Media Group	Media	575	751	2.3	4.2	7.1
Zoo Digital	IT support services	584	653	2.0	2.0	3.5
NeuTec Pharma	Healthcare	317	602	1.8	0.6	0.6
Murgitroyd Group	Business services	500	587	1.8	5.0	5.0
i-documentsystems	IT support services	600	567	1.7	3.5	5.2
The Real Good Food Company	Consumer	540	540	1.6	3.5	9.5
Fitzhardinge	Business services	470	490	1.5	1.3	2.6
Medal Entertainment & Media	Media	371	485	1.5	5.8	8.7
Stagecoach Theatre Arts	Consumer	418	428	1.3	4.6	4.6
Micap	Healthcare	325	310	0.9	2.0	4.0
VI Group	IT support services	300	185	0.6	3.7	10.5
Cardpoint	Business services	92	175	0.5	0.5	1.4
Universe Group	IT support services	158	171	0.5	1.1	3.0
Blooms of Bressingham	Consumer	320	152	0.5	1.4	1.4
Xpertise	Business services	296	121	0.4	2.6	4.4
Capcon Holdings	Business services	137	91	0.3	1.9	3.8
Total AiM		**6,581**	**7,645**	**23.2**		
Unquoted						
The Art Group	Media	1,281	1,281	3.9	7.0	18.0
RLA Media	Media	681	1,010	3.1	8.7	21.3
kidsunlimited	Business services	481	962	2.9	4.1	46.9
Vectura	Healthcare	941	941	2.9	2.6	9.3
Martin Audio	Business services	849	849	2.6	13.0	33.6
Hawksmere	Business services	766	766	2.3	10.5	27.0
Fretwell Downing	IT support services	703	759	2.3	5.8	18.8
Brownsword	Business services	676	676	2.1	10.8	29.2
BodyCare International	Consumer	1,000	667	2.0	11.7	23.3
ASSA	Business services	974	658	2.0	6.2	31.8
Language Line	Business services	638	638	1.9	6.0	62.0
Americana	Consumer	567	567	1.7	3.2	33.2
Ardana	Healthcare	450	450	1.4	1.4	1.1
Oxxon Pharmaccines	Healthcare	250	250	0.7	0.8	0.8
Xention Discovery	Healthcare	112	112	0.3	2.7	–
Total unquoted		**10,369**	**10,586**	**32.1**		
Fixed interest						
UK Treasury 7.25% 07/12/2007		2,545	2,454	7.4		
UK Treasury 8.5% 07/12/2005		1,775	1,691	5.1		
UK Treasury 7.5% 07/12/2006		1,619	1,570	4.8		
Total fixed interest		**5,939**	**5,715**	**17.3**		
Total investments		**22,889**	**23,946**	**72.6**		
Net current assets		**–**	**9,048**	**27.4**		
Total assets less current liabilities		**–**	**32,994**	**100.0**		

A provision of £649,000 has been made against unquoted investments at 31 December 2003 (2002 – Nil).
*Other funds managed by the same Investment Managers, ISIS Equity Partners plc.

Ten Largest Investments

Huveaux Plc *London*

HUVEAUX PLC

First Investment:	March 2003
Cost:	£578,000
Valuation:	£1,337,000
Valuation Basis:	Middle market price

In the first six months Huvueax acquired Vacher Dod Publishing, the market leader in the UK and EU parliamentary and government directories and reference books, as the first stage in its plan to become a broad-based media and publishing group.

Year ended 31 December	**2002**	2001
	£ million	£ million
Sales	**1.1**	–
Profit before tax	**0.4**	–
Retained profit	**0.3**	–
Net assets	**6.1**	2.7

The Art Group Limited *London*

First Investment:	October 2003
Cost:	£1,281,000
Valuation:	£1,281,000
Valuation Basis:	Cost

The Art Group is a market leading publisher of art content on cards, posters and canvas prints sold to retailers in over 50 countries such as IKEA and Habitat. The Art Group manages artistic property rights on behalf of contemporary artists and photographers as well as working with many of the world's leading museums and artists' estates including Matisse and Picasso.

Year ended 31 December	**2002**	2001
	£ million	£ million
Sales	**16.7**	17.1
Profit before tax	**1.6**	0.8
Retained profit	**1.1**	0.4
Net assets	**2.5**	2.0

RLA Media Limited *Bournemouth*

First Investment:	December 2002
Cost:	£681,000
Valuation:	£1,010,000
Valuation Basis:	Discounted price earnings

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

Year ended 31 May	**2003***	2002
	£ million	£ million
Sales	**4.5**	9.4
Profit before tax	**0.4**	0.4
Retained profit	**0.1**	0.1
Net assets	**5.3**	1.4

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

kidsunlimited Limited *Wilmslow*

First Investment:	August 2003
Cost:	£481,000
Valuation:	£962,000
Valuation Basis:	Comparable sector earnings multiple plus capitalised interest

kidsunlimited is a major UK provider of day care facilities for children under six years old. The company raised £5 million of capital to expand its combination of owned nurseries and those located within the workplace.

Year ended 30 April	**2003**	2002
	£ million	£ million
Sales	**13.8**	9.3
Loss before tax	**1.3**	1.6
Retained loss	**1.3**	1.6
Net liabilities	**2.4**	1.1

Vectura Limited *Bath*

First Investment:	April 2001
Cost:	£941,000
Valuation:	£941,000
Valuation Basis:	Cost

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

Year ended 31 March	**2003**	2002
	£ million	£ million
Sales	**3.5**	3.2
Loss before tax	**6.9**	2.7
Retained loss	**5.5**	2.7
Net assets	**14.4**	12.8

Ten Largest Investments

Martin Audio Limited *High Wycombe*

First Investment: August 2003
Cost: £849,000
Valuation: £849,000
Valuation Basis: Cost

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

Year ended 30 June	**2002**	2001
	(15 months)	(12 months)
	£ million	£ million
Sales	**9.9**	6.6
Profit before tax	**1.2**	0.7
Retained profit/(loss)	**0.2**	(0.5)
Net assets	**1.3**	1.1

Hawksmere Limited *London*

First Investment: December 2003
Cost: £766,000
Valuation: £766,000
Valuation Basis: Cost

Hawksmere is a leading provider of training seminars, with a strong emphasis on continuing professional development courses. It raised £2.7 million of capital to support the management buy-out.

No accounts have been prepared by the company since its incorporation.

Fretwell Downing Limited *Sheffield*

First Investment: April 2002
Cost: £703,000
Valuation: £759,000
Valuation Basis: Discounted price earnings

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

Year ended 31 May	**2003**	2002
	£ million	£ million
Sales	**4.7**	4.7
Loss before tax	**1.7**	1.5
Retained loss	**1.5**	1.5
Net assets	**1.5**	2.8

Air Music & Media Group Plc *Berkhamsted*

First Investment: December 2002
Cost: £575,000
Valuation: £751,000
Valuation Basis: Middle market price

Air Music & Media acquire and exploit music copyright to produce and sell budgeted price CDs. In December 2002 they raised £0.8 million to fund the acquisition of Hollywood, a budget DVD distributor. Air Music & Media transferred from OFEX to AiM in July 2002.

Year ended 31 March	**2003**	2002
	£ million	£ million
Sales	**8.0**	4.4
Profit before tax	**0.9**	0.8
Retained profit	**0.6**	0.5
Net assets	**4.2**	1.6

Brownsword Limited *Manchester*

First Investment: December 2002
Cost: £676,000
Valuation: £676,000
Valuation Basis: Cost

Brownsword provide outsourced road traffic accident investigation services to insurance companies. In December 2002, £4.0 million was raised to fund a replacement capital deal.

Year ended 31 July	**2002**	2001
	£ million	£ million
Sales	**4.0**	2.9
Profit before tax	**0.8**	0.4
Retained profit	**0.3**	0.1
Net assets	**0.8**	0.5

Tax Benefits for Shareholders

Tax benefits for individuals

The following is a summary of the main tax benefits available to individuals who subscribe for or purchase shares in a VCT. Investors are recommended to take professional advice as to how these might apply to their own circumstances.

Venture Capital Trusts are fully listed companies whose shares are traded on the London Stock Exchange. VCTs invest in small unquoted companies, which includes companies whose shares are traded on AiM, that carry on qualifying trading activities mainly in the UK.

To obtain VCT tax reliefs, a VCT investor must be an individual 'qualifying individual' over the age of 18 with UK taxable income who is UK resident for tax purposes. An eligible investor can invest up to £100,000 per annum in VCT shares. This annual limit includes subscriptions for new VCT shares and investments in existing shares and includes shares issued through a VCT dividend reinvestment scheme.

No tax is payable by a VCT on any income (other than interest) that arises within the VCT and any gains it makes on the disposal of its investments are free of tax. Furthermore, provided the VCT has sufficient distributable reserves, these gains can be distributed tax-free to shareholders.

Tax reliefs on subscription for new VCT shares

The following tax reliefs are available on subscription for new shares provided no more than £100,000 is invested in VCT shares in any one tax year.

1. Initial Income Tax relief of 20%.
   This initial income tax relief will be withdrawn if the investor does not hold the shares for a minimum period of five years for VCT shares issued before 5 April 2000 and three years for shares issued thereafter ('the holding period').
2. Capital Gains Tax (CGT) deferral.
   The investor can defer paying the CGT on all or part of a realised capital gain. Such a gain may arise either from the disposal of an asset or from a gain coming into charge that had previously been deferred. That disposal or chargeable event must have occurred during the 12 months before or during the 12 months after the date of the issue of the VCT shares. The CGT deferral is conditional on the investor having an income tax liability and obtaining some initial income tax relief.

   The deferred gain becomes chargeable when there is a disposal of the VCT shares; the investor becomes non-UK resident within the holding period; or the initial income tax relief is withdrawn because of a breach of the VCT rules.
3. VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
4. Capital gains on disposal of VCT shares are tax free, whenever the disposal occurs.

Sources of new VCT shares

- Offers for subscription
- Dividend reinvestment scheme for the existing shareholders of a VCT

Consequences of selling shares that were new VCT shares when acquired

- Provided the VCT shares have been held for the holding period, no initial income tax relief is withdrawn. If the VCT shares are sold within the holding period, initial income tax relief is withdrawn.
- No CGT payable on any profit made on the VCT shares (no allowable loss for losses made on disposal).
- If a gain was deferred at the time of the subscription to the VCT, it comes back into charge as a gain in the year of disposal.
- For part disposals, the part of the gain deferred, which relates to the part of the holding sold, becomes chargeable to tax as a gain in the tax year of disposal. If the gain deferred was less than the amount subscribed, the part of the shareholding on which no gain was deferred, is treated as having been disposed of first.

Tax reliefs on VCT shares purchased through the market (listed VCT shares)

1. VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
2. Tax-free capital gains on disposal of VCT shares, whenever the disposal occurs.

These tax reliefs are available regardless of the length of time the shares are held. Individuals who are most likely to buy existing VCT shares are those who:

- Anticipate an increase in the NAV per share and the share price
- Require tax-free income
- Do not have capital gains to shelter
- Need an additional and/or flexible scheme for pension planning
- Want venture capital exposure within a self administered pension scheme.

Source of listed VCT shares

The shares in an existing VCT can be bought and sold via a stockbroker, just like shares in any other listed company. Prior to the relevant anniversary of the issue of shares, there may be a limited supply of shares, as the original subscribers, in order to retain initial income tax relief, may not wish to dispose of their shares during the holding period.

Consequences of disposing of shares which were existing shares when bought

- No CGT payable on profits made on VCT shares (no allowable loss for losses made on disposal).
- There is no required holding period for these shares but on a part disposal, shares acquired earliest (subscribed or purchased) will be treated as disposed of before later acquisitions.

Estate Planning

If an investor dies owning VCT shares they form part of their estate for inheritance tax purposes because they are quoted shares. If a qualifying individual inherits VCT shares, VCT reliefs are retained provided the value of the shares inherited and acquired in that tax year does not exceed the £100,000 limit.

On death, no CGT is payable on any gain that was deferred at the time of the investment or on any increase in the value of VCT shares themselves.

If death occurs within the holding period, the initial income tax relief is not withdrawn.

This legislation applies until 5 April 2004. Shareholders will be updated following the enaction of new legislation due to be finalised during summer 2004. Enquiries: Michael Probin, ISIS Equity Partners; Tel: 0207 506 1651; email: michael.probin@isisam.com.

Board of Directors

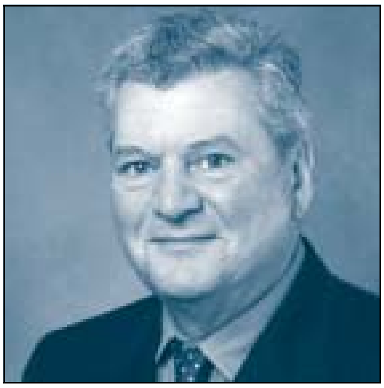
as at 31 December 2003

Mark Cannon Brookes (Chairman)

(age 64) is a director of NCL Smith & Williamson. The NCL group has £5 billion of investments under management. He is chairman of CG Asset Management Limited and is also a director of Ivory & Sime ISIS Trust plc and a number of other companies, mostly overseas.

Andrew Karney
(age 61) is deputy chairman of Language Line Limited and is also a director of The Guardian Media Group plc, Guardian Newspapers Limited and a number of unquoted companies. Previously he was a director of Integrated Micro Products plc, a founder director of Cable London plc and an executive director of Logica plc.

Gillian Nott
(age 58) was until March 1999 chief executive of ProShare (UK) Limited. She is a director of the Financial Services Authority and on the board of a number of listed and unlisted companies including Foreign and Colonial Pacific Investment Trust plc and Martin Currie Portfolio Investment Trust plc. Previously she worked for the BP Group where she managed their venture capital portfolio. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 2 plc.



Robert Owen
(age 58) is a director of Baronsmead VCT 4 plc. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio.

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

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

Report of the Directors

Results and Dividends

The Directors submit the Third Report and Accounts of the Company for the year ended 31 December 2003.

	£'000
Profit on ordinary activities after taxation	**1,573**
Interim dividend of 0.9p per share paid on 20 September 2003	**(305)**
Final dividend for the year of 3.3p per ordinary share payable on 26 March 2004 to shareholders on the register on 20 February 2004	**(1,121)**
Transferred to profit and loss account	**147**

The proposed final dividend of 3.3p per share is represented by a revenue dividend of 1.3p per share (total £442,000) and a capital dividend of 2.0p per share (total £679,000). The interim dividend of 0.9p per share is represented by a revenue dividend of 0.9p per share (total £305,000). (See note 6 to the accounts).

Principal Activity and Status

From 4 February 2004, the Company is a trading company and has received provisional approval as a Venture Capital Trust from the Inland Revenue. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act. A review of the Company's business during the year is contained in the Chairman's Statement and Manager's Review.

Investment Company Status

The Directors revoked Investment Company Status on 4 February 2004 to give it trading company status. This change was undertaken to allow the Company to distribute to shareholders capital gains made by the Company. As a consequence the format of the financial statements has changed which is explained more fully in note1 to the accounts under 'Basis of accounting'.

Issue and Buy-Back of Shares

During the year the Company issued 255,253 Ordinary Shares and raised proceeds of £235,000. The Company bought back for cancellation 85,000 Ordinary Shares (being 0.25 per cent of closing issued share capital) during the year, at a cost of £74,000 (2002: 170,000 shares at a cost of £145,000).

Directors

Andrew Karney retires by rotation at the third Annual General Meeting of the Company and, being eligible, offers himself for re-election.

Andrew Karney joined the Board of Baronsmead VCT 3 on its inception in January 2001 at a time when technology investment was at a high level. Andrew has extensive industrial experience particularly in the information technology, telecommunications and media sectors and is an experienced non-executive director.

He started his career in electronics research and then moved to Logica where he worked for 22 years. He was a main board executive director responsible for the telecommunications and media sectors and later for corporate development. He was a founder director of Cable London plc and a director of NASDAQ quoted Integrated Micro Products plc. In 1997 he joined the board of the Guardian Media Group plc and later of Guardian Newspapers Ltd as a non-executive director.

Since 1996 he has been on the Board of Language Line Limited in which Baronsmead VCT 3 is now a shareholder.

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

	31 December 2003 Ordinary 10p Shares	31 December 2002 Ordinary 10p Shares
Mark Cannon Brookes	**106,513**	103,979
Andrew Karney	**21,941**	21,419
Gillian Nott	**15,450**	15,450
Robert Owen	**10,709**	10,709

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

There have been no changes in the holdings of the Directors between 31 December 2003 and 10 February 2004.

No Director has a service contract with the Company.

All Directors are members of the Audit, Remuneration and Nomination committees.

Corporate Governance

The Board consists solely of non-executive Directors who are all independent of the Company's Manager. The Board has access to a Company Secretary who also attends all Board meetings which are held 5 times a year. Informal meetings with management are also held between Board meetings as required. The Company Secretary provides full information on the Company's assets, liabilities and other relevant information to the Board before each Board meeting convenes. The Board has appointed Andrew Karney as Senior Non-Executive Director in accordance with the Combined Code of Best Practice ('the Code') issued by the Hampel Committee on Corporate Governance 1998.

The Audit Committee comprises all members of the Board. The Committee operates within clearly defined terms of reference. The Committee meets twice a year to review the Interim Financial Statement, Annual Report and Accounts and the terms of appointment of the auditors together with their

Report of the Directors

remuneration. Arrangements to ensure the appropriate level of corporate governance have been put in place by the Board which it believes are appropriate to a venture capital trust and will enable the Company to operate within the spirit of the Code.

The Remuneration and Nominations Committees comprise all Directors and have written terms of reference. The Remuneration Committee is responsible for reviewing the terms of the Investment Manager's contract and sets the Directors' remuneration using external comparisons and advice. The Nominations Committee reviews the composition and balance of the Board and would make nominations in the event of a vacancy.

The Code states that the Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that the direction and control of the Company is firmly in its hands. This is achieved by a management agreement between the Company and its Manager, which sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

Apart from the matter referred to in the following paragraph the Company has complied with the Code throughout the year under review.

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

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

The Board has considered the provisions of the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the new Code') which are effective for reporting years beginning on or after 1 November 2003. The Board will apply the provisions of the new Code, as far as practicable, during the year ended 31 December 2004.

Internal Control

The Board is responsible for ensuring that the Company is managed so that risks to its profitability and assets are minimised. In the pursuit of profit for shareholders it is impossible to eliminate risk. The Board has considered specifically the high level risks which face the Company in areas such as investment management, custody of assets and regulatory matters to ensure that these are fully recognised in the operating methods of the Manager. Furthermore, to fulfil its obligations for maintaining an effective system of internal control, the Board has established an ongoing formal process to ensure that risk exposure is reviewed thoroughly.

The process is based principally on a review of the Manager's existing risk-based approach to internal control. The key functions carried out by the Manager are identified, the individual activities undertaken within those functions are reviewed and the risks associated with each activity as well as the controls employed to minimise those risks are assessed. The resulting matrix is updated by the Manager on a rolling basis and the Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has been, or is being, taken. A formal annual review of these procedures is carried out by the Board and this includes consideration of reports on controls and similar reports issued by the Manager and other service providers. A second meeting in the year receives formal updates on any material changes in the risk environment and the action taken, and in addition the Board has instituted a review of major risks at each meeting.

These procedures have been in place for the full financial year and also up to the date of approval of the report and the Board is satisfied with the effectiveness of internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company at each Board meeting. They also review the Company's activities since the previous Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines. If necessary, changes to such policy and guidelines are agreed with the Manager.

The Board has reviewed the need for an internal audit function. The Board has concluded that the systems and procedures employed by the Manager, including the Manager's own internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Relations with Shareholders

The Company welcomes the views of shareholders, and the Annual General Meeting of the Company provides a forum both formal and informal for investors to meet and discuss issues with

Report of the Directors

Directors of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 25 March 2004 can be found in the Notice of Meeting on page 29.

Management

ISIS Equity Partners plc ('the Manager') manages the AiM, unquoted investments and fixed interest investments for the Company. The Manager will also provide or procure the provision of secretarial, administrative and custodian services to the Company. The management agreement has an initial fixed term of three years and may be terminated at any date by either party giving twelve months' notice of termination after the initial term. Under the management agreement, the Manager receives a fee of 2 per cent per annum of the net assets of the Company in the first three years and 2.5 per cent per annum thereafter. In addition, the Manager receives an annual administration fee of £31,098 plus a variable administration fee equivalent to 0.125 per cent per annum on net assets over £5 million, subject to annual review. Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

Performance Incentive

The Manager may become entitled to receive a performance fee from the Company calculated by reference to the increase (if any) in the net asset value of the Company, calculated on the assumption that any dividends paid by the Company are re-invested by way of subscription for further shares (the 'Total Return').

No performance fee will be paid unless and until the Total Return on net proceeds of the Offers exceeds 8 per cent per annum (simple) over the period from the issue of shares under the 2000/2002 Offers to the end of the relevant accounting period. To the extent that the Total Return to the end of an accounting period exceeds this threshold, a performance fee (plus VAT) will be paid to the Manager of 20 per cent of the excess. The first performance fee will not be paid to the Manager unless and until the Total Return on the net proceeds of the Offers exceeds 40 per cent. In addition, the amount of any performance fee due which is paid in respect of an accounting period shall not exceed 5 per cent of the net asset value of the Company at the end of the year.

In the event that the Company purchases shares or raises new capital, the threshold returns required in order for the Manager to earn a performance fee will be adjusted so that the Manager's entitlement is unaffected by the purchase of new capital raising.

ISIS Equity Partners plc – Arrangement Fees

During the year to 31 December 2003, ISIS Equity Partners plc received net income of £602,000 in connection with arrangement fees and after abort costs in investee companies.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP (PwC) as the VCT Tax Status Advisers to the Company. PwC review new investment opportunities, as appropriate, and review regularly the investment portfolio of the Company. PwC work closely with the Manager but report directly to the Board.

Creditor Payment Policy

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

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

Auditors

PKF have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Substantial Interests

At 10 February 2004 the Company was not aware of any beneficial interest exceeding 3 per cent of the issued Ordinary Share capital.

Directors' Authority to Allot Shares and to Disapply Pre-emption Rights

The authorities proposed under Resolutions 6 and 7 are required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally and will not dilute their existing interest. Any such issues would only be made at a price greater than the net asset value per share and therefore would increase the assets underlying each Ordinary Share. The issue proceeds would be available for investment in line with the Company's investment policy and may be used, in part, to purchase ordinary shares in the market.

Resolution No. 6 renews the Directors' authority to issue Ordinary Shares. This would enable the Directors, until 24 March 2009, to allot up to 11,207,590 Ordinary Shares (representing approximately 33 per cent of the Company's issued share capital as at 10 February 2004).

Report of the Directors

Resolution No. 7 renews and extends (see 'Dividend Reinvestment' below) the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company to issue Ordinary Shares for cash without pre-emption rights applying by way of offer to existing shareholders, under the Dividend Reinvestment Scheme, or otherwise up to a maximum of 3,396,240 Ordinary Shares (representing approximately 10 per cent of the Company's issued share capital as at 10 February 2004).

Dividend Reinvestment

The Directors offer to shareholders the opportunity to reinvest their dividends by subscribing for new Ordinary Shares in the Company.

The substantial tax reliefs detailed on page 10, should be available to qualifying investors reinvesting their dividends in these new Ordinary Shares. Such reliefs will not be available in any tax year where a shareholder has already subscribed £100,000 for venture capital trust shares. In the event of the Company being wound up within three years of such shares being issued (under dividend reinvestment or otherwise) then shareholders may be required to repay their initial income tax relief.

The extension of the Directors' authority to allot equity securities for cash without pre-emption rights applying referred to above (see 'Directors' Authority to Allot Shares and to Disapply Pre-emption Rights') will enable the Directors to allot Ordinary Shares when dividends are reinvested.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and resolution 8 seeks renewal of such authority until the Annual General Meeting in 2005 (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value of 10p per share nor more than the maximum amount determined by the rules of the UK Listing Authority at the time of purchase (which currently set a maximum equal to 5 per cent above the average of the market values of those shares for the five business days before the shares are purchased). This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. The funding required to purchase Ordinary Shares would be met either from available cash resources, including borrowing facilities, or from selling investments in the portfolio. Any Ordinary Shares repurchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 ('the Regulations') came into force on 1 December 2003. The Regulations allow companies (such as the Company) to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Up to 10 per cent of each class of a Company's shares may be held in this way. Such shares may be subsequently cancelled or sold for cash.

This would give the Company the ability to re-issue treasury shares quickly and cost efficiently, and would provide the Company with additional flexibility in the management of its capital base.

By Order of the Board,

Rhonda Nicoll

for ISIS Asset Management plc
Secretary

80 George Street
Edinburgh EH2 3BU
10 February 2004

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on page 28.

Directors' Fees

The Board consists solely of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

The Remuneration Committee is Mark Cannon Brookes (Chairman), Andrew Karney, Gillian Nott and Robert Owen. As the Company has no executive Directors, the Committee meets, at least annually, to determine the remuneration and terms of appointment of the Investment Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to properly oversee the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31 December 2004 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £53,623 per annum and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

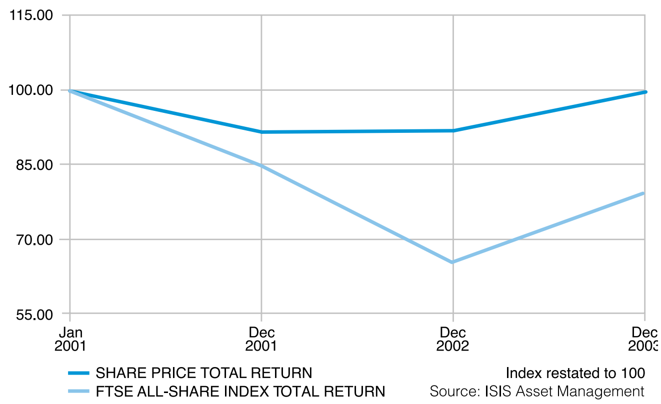
Director	Date of Original Appointment	Due date for Re-election
Mark Cannon Brookes	10 January 2001	AGM 2006
Andrew Karney	10 January 2001	AGM 2004
Gillian Nott	10 January 2001	AGM 2005
Robert Owen	10 January 2001	AGM 2005

The terms of Directors' appointment are for an initial period of three years and provide that a Director shall retire and be subject to re-election at the first annual general meeting after their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election by shareholders, at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment

Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the investment management agreement, as referred to in the 'Report of the Directors'. The graph below compares from 29 January 2001 (the date the Company commenced trading) to 31 December 2003, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a comparable broad equity market index against which investors can measure the relative performance of the fund. An explanation of the performance of the Company is given in the Chairman's statement and Manager's review.

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



Directors' emoluments for the year (audited)

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

	Fees 2003 £	Fees 2002 £
Mark Cannon Brookes	**15,000**	15,000
Andrew Karney	**10,000**	10,000
Gillian Nott	**10,000**	10,000
Robert Owen	**10,000**	10,000

On behalf of the Board,

Mark Cannon Brookes
Chairman
10 February 2004

Profit and Loss Account

for the year ended 31 December 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 As restated Capital £'000	2002 As restated Total £'000
Profit on realisation of investments	8	**–**	**1,199**	**1,199**	–	22	22
Income	2	**1,472**	**–**	**1,472**	1,825	–	1,825
Investment management fee	3	**(193)**	**(581)**	**(774)**	(186)	(559)	(745)
Other expenses	4	**(241)**	**–**	**(241)**	(290)	–	(290)
Profit/(loss) on ordinary activities before taxation		**1,038**	**618**	**1,656**	1,349	(537)	812
Tax on ordinary activities	5	**(268)**	**185**	**(83)**	(396)	181	(215)
Profit/(loss) on ordinary activities after taxation		**770**	**803**	**1,573**	953	(356)	597
Dividends payable	6	**(747)**	**(679)**	**(1,426)**	(941)	–	(941)
Retained gain/(loss) transferred to/(from) reserves	14	**23**	**124**	**147**	12	(356)	(344)
Return per ordinary 10p share	7	**2.27p**	**2.37p**	**4.64p**	2.85p	(1.06)p	1.79p

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 As restated Capital £'000	2002 As restated Total £'000
Profit/(loss) on ordinary activities after taxation		**770**	**803**	**1,573**	953	(356)	597
Unrealised profit on revaluation of investments	8	**–**	**638**	**638**	–	676	676
Total recognised gain during the year		**770**	**1,441**	**2,211**	953	320	1,273
Total recognised gain per ordinary share		**2.27p**	**4.25p**	**6.52p**	2.85p	0.96p	3.81p

Note of Historical Cost Profits and Losses

for the year ended 31 December 2003

	2003 £'000	2002 As restated £'000
Profit on ordinary activities before taxation	**1,656**	812
Realisation of revaluation profits/(losses) of previous years	**506**	(283)
Historical cost profit on ordinary activities before taxation	**2,162**	529
Historical cost profit/(loss) for the year retained after taxation and dividends	**653**	(627)

All items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.
The accompanying notes are an integral part of these statements.

Balance Sheet

as at 31 December 2003

	Notes	2003 £'000	2002 As restated £'000
Fixed assets			
Investments	8	**23,946**	28,591
Current assets			
Debtors	9	**123**	189
Cash at bank and on deposit		**10,908**	4,587
		11,031	4,776
Creditors (amounts falling due within one year)	10	**(1,983)**	(1,317)
Net current assets		**9,048**	3,459
Total assets less current liabilities		**32,994**	32,050
Capital and reserves			
Called-up share capital	11	**3,396**	3,379
Share premium account	12	**1,014**	805
Capital redemption reserve	12	**26**	17
Revaluation reserve	12	**1,057**	925
Profit and loss account	12	**27,501**	26,924
Equity shareholders' funds	13, 14	**32,994**	32,050
Net asset value per share			
– Basic	13	**97.15p**	94.85p

The financial statements on pages 17 to 27 were approved by the Board of Directors on 10 February 2004 and were signed on its behalf by:

MARK CANNON BROOKES (Chairman)

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

Cash Flow Statement

for the year to 31 December 2003

	Notes	2003 £'000	2002 £'000
Operating activities			
Investment income received		**1,310**	2,172
Deposit interest received		**228**	80
Other income		**–**	1
Investment management fees		**(764)**	(741)
Other cash payments		**(270)**	(284)
Net cash inflow from operating activities	16	**504**	1,228
Taxation			
Corporation taxation paid		**(215)**	(167)
Taxation paid		**(215)**	(167)
Capital expenditure and financial investment			
Purchase of investments		**(12,539)**	(27,046)
Disposal of investments		**19,190**	30,413
Net cash inflow from capital expenditure and financial investment		**6,651**	3,367
Dividends			
Equity dividends paid		**(778)**	(898)
Net cash inflow before financing		**6,162**	3,530
Financing			
Issue of ordinary shares		**243**	836
Buy-back of ordinary shares		**(74)**	(145)
Expenses of the issue and share premium conversion		**(10)**	(42)
Net cash inflow from financing		**159**	649
Increase in cash		**6,321**	4,179
Reconciliation of net cash flow to movement in net cash			
Increase in cash in the year		**6,321**	4,179
Net cash at 31 December 2002		**4,587**	408
Net cash at 31 December 2003	15	**10,908**	4,587

The accompanying notes are an integral part of these statements

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. These financial statements are presented in accordance with the Investment Trust Companies SORP (including the provision of additional information) except where departures are necessary to comply with Schedule 4 of the Companies Act 1985.

As a result of the Directors' decision to distribute capital profits by way of a dividend, the Company revoked its investment company status on 4 February 2004, as defined under Section 266(3) of the Companies Act 1985.

Consequently, the financial statements have been drawn up to include a statutory profit and loss account and a statement of total recognised gains and losses in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 (Reporting Financial Performance) which has no effect on total returns or net assets per share. These statements differ from the Statement of Total Return presented in prior periods as follows:

1. profit/loss on realisation of investments are now included in the profit and loss account;
2. unrealised gains and losses on investments are now included in the statement of total recognised gains and losses; and
3. all investment management fees are charged to the profit and loss account.

(b) Valuation of investments

In respect of quoted investments the British Venture Capital Association (BVCA) have stated that VCTs should have regard to Generally Accepted Accounting Practice in the valuation of investments and accordingly these are valued at mid market price, in accordance with the Investment Trust Companies SORP. The Directors consider the need for discounts as appropriate.

Unquoted investments are valued by the Directors in accordance with the following rules, which are consistent with the BVCA guidelines:

1. Investments which have been made in the last 12 months are valued at cost in the absence of overriding factors.
2. Investments in companies at an early stage of their development are also valued at cost in the absence of overriding factors.
3. Investments which have been held for more than 12 months and which have gone beyond the stage of their development in 2 above are valued using a price earnings ratio (at a significant discount to an appropriate stock market price earnings ratio) in the absence of overriding factors. Where such factors apply, alternative methods of valuation will include application of an arm's length third party valuation, cost, a provision on cost, or a net asset basis.

Early stage investments are valued at cost, less any provision considered necessary, until they cease to be viewed as early stage.

Where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate.

(c) Income

Dividends are recognised as income on the date that the related investments are marked ex-dividend. Income from fixed interest securities, other investment income and deposit income are included on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis.

(e) Revenue/capital

The revenue column of the profit and loss account includes all income and expenses. The capital column accounts for the realised profit and loss on investments and the proportion of management fee charged to capital.

(f) Issue costs

Issue costs are deducted from the share premium account in accordance with Financial Reporting Standard No. 4.

(g) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Notes to the Accounts

2. Income

	2003 £'000	2002 £'000
Income from investments		
UK franked	**108**	16
UK unfranked	**1,136**	1,728
	1,244	1,744
Other income		
Deposit interest	**228**	80
Other income	**–**	1
Total income	**1,472**	1,825
Total income comprises:		
Dividends	**108**	16
Interest	**1,364**	1,808
Other income	**–**	1
	1,472	1,825
Income from investments:		
Listed UK	**871**	1,595
Unlisted UK	**373**	149
	1,244	1,744

3. Investment management fee

	2003 £'000	2002 £'000
Investment management fee	**774**	745

For the purposes of the revenue and capital columns in the profit and loss account, the management fee has been allocated 25 per cent to revenue and 75 per cent to capital.

The management agreement may be terminated at any date by either party giving twelve months' notice of termination. ISIS Asset Management plc receives a quarterly fee, payable in arrears, equal to 2 per cent of the value of the total assets less current liabilities of the Company which increased to 2.5 per cent on 1 January 2004. Further details of the management agreement and the management performance fee are contained in the Report of the Directors. ISIS Asset Management plc also receives a quarterly secretarial fee, payable in arrears, comprising £31,098 (2002: £30,209) and a variable fee of 0.125 per cent per annum on net assets over £5 million adjusted for movements in the Retail Price Index.

4. Other expenses

	2003 £'000	2002 £'000
Directors' fees	**45**	45
Secretarial fees	**69**	64
Remuneration of the auditors and their associates:		
– audit	**9**	8
– other services to the Company	**3**	3
Other	**115**	170
	241	290

Charges for other services provided by the auditors in the year ended 31 December 2003 was in relation to tax compliance work. The Directors consider the auditors were best placed to provide this service. The Audit committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

Notes to the Accounts

5a. Taxation on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax	**83**	215
	83	215

The profit and loss account shows the tax charge allocated between revenue and capital.

5b. Factors affecting tax charge for the year

The profit and loss tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company (30 per cent). The differences are explained below:

	2003 £'000	2002 £'000
Tax @ 30 per cent	**497**	244
Effect of:		
– non-taxable dividend income	**(32)**	(5)
– non taxable profits on investment realisations	**(360)**	(7)
– small companies rate relief	**(22)**	(17)
Tax charge for the period (5a)	**83**	215

6. Dividends

	2003 Total £'000	2002 Total £'000
Dividends on equity shares:		
– ordinary shares – interim dividend 0.9p per share on 33,909,332 ordinary shares paid on 20 September 2003 (2002: 1.40p)	**305**	468
– ordinary shares – final proposed capital dividend 2.0p per share on 33,962,410 ordinary shares payable on 26 March 2004 (2002: nil)	**679**	–
– ordinary shares – final proposed 1.3p per share on 33,962,410 ordinary shares payable on 26 March 2004 (2002: 1.40p)	**442**	473
	1,426	941

The profit and loss account shows the apportionment of revenue and capital dividends.

7. Ordinary Shares

The 4.64p profit per share (2002: 1.79p profit per share) is based on the net profit from ordinary activities after tax of £1,573,000 (2002: £597,000) and on 33,895,164 (2002: 33,446,891) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total recognised gains and losses per share is based on the total gains recognised for the year of £2,211,000 (2002: £1,273,000) and on 33,895,164 (2002: 33,446,891) shares, being the weighted average number of ordinary shares in issue during the year.

Notes to the Accounts

8. Investments

	2003 £'000	2002 £'000
Fixed interest securities	**5,715**	16,927
Investments quoted on the Alternative Investment Market (AiM)	**7,645**	3,539
Unquoted investments	**10,586**	8,125
	23,946	28,591
Equity shares	**10,921**	11,664
Preference shares	**1,905**	–
Fixed income securities	**11,120**	16,927
	23,946	28,591

	Fixed interest securities £'000	Quoted on AiM £'000	Unquoted £'000	Total £'000
Opening book cost	16,984	3,722	6,960	27,666
Opening unrealised (depreciation)/appreciation	(57)	(183)	1,165	925
	16,927	3,539	8,125	28,591
Movements in the year:				
Purchases at cost	4,037	2,859	5,812	12,708
Sales – proceeds	(14,905)	–	(4,285)	(19,190)
– realised (losses)/gains on sales	(120)	–	1,319	1,199
Transfer unrealised (losses)/gains realised during the year	(57)	–	563	506
(Decrease)/increase in unrealised appreciation	(167)	1,247	(948)	132
Closing valuation	**5,715**	**7,645**	**10,586**	**23,946**
Closing book cost	5,939	6,581	10,369	22,889
Closing unrealised (depreciation)/appreciation	(224)	1,064	217	1,057
	5,715	**7,645**	**10,586**	**23,946**

	2003 £'000	2002 £'000
Increase in unrealised appreciation	**638**	676
	638	676

Notes to the Accounts

9. Debtors

	2003 £'000	2002 £'000
Prepayments and accrued income	**123**	189
	123	189

10. Creditors (amounts falling due within one year)

	2003 £'000	2002 £'000
Amounts due to brokers	**540**	371
Proposed dividend	**1,121**	473
Taxation	**83**	215
Management and secretarial fees due to the manager	**215**	207
Other creditors	**24**	51
	1,983	1,317

11. Called-up share capital

	2003 £'000
Authorised:	
80,000,000 ordinary shares of 10p each	**8,000**
Allotted, called-up and fully-paid:	
33,792,157 ordinary shares of 10p each at 31 December 2002	**3,379**
255,253 ordinary shares of 10p issued during the year	**26**
(85,000) ordinary shares of 10p repurchased and cancelled during the year	**(9)**
33,962,410 ordinary shares of 10p each at 31 December 2003	**3,396**

Notes to the Accounts

12. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 31 December 2002 (restated)	805	17	925	26,924
Issues of shares	217	–	–	–
Repurchase and cancellation of shares	–	9	–	(74)
Expenses of share issue	(8)	–	–	–
Fees associated with the special distributable reserve	–	–	–	(2)
Transfer of prior years' revaluation to profit and loss account	–	–	(506)	506
Net increase in value of investments	–	–	638	–
Retained profit for the year	–	–	–	147
	1,014	**26**	**1,057**	**27,501**

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve. When an investment is sold any balance held on the revaluation reserve is transferred to the profit and loss account as a movement in reserves.

13. Net asset value per share

The net asset value per share and the net asset values attributable to the ordinary shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Net asset value per share attributable		Net asset value attributable	
	2003 pence	2002 pence	**2003 £'000**	2002 £'000
Ordinary shares (basic)	**97.15**	94.85	**32,994**	32,050

The movements during the year of the assets attributable to the ordinary shares were as follows:

	2003 £'000
Total net assets attributable at beginning of the year	32,050
Capital subscribed	243
Expenses of issue, buy back and share premium conversion	(10)
Share capital bought back	(74)
Unrealised gain on revaluation of investments	638
Profit for the year	147
	32,994

Basic net asset value per share is based on net assets at the year end, and on 33,962,410 (2002: 33,792,157) ordinary shares, being the number of shares in issue at the year end.

Notes to the Accounts

14. Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Opening shareholders' funds	**32,050**	31,069
Increase in share capital	**159**	649
Unrealised gain on revaluation of investments	**638**	676
Profit/(loss) for the year	**147**	(344)
Closing shareholders' funds	**32,994**	32,050

15. Analysis of changes in cash

	2003 £'000	2002 £'000
Beginning of year	**4,587**	408
Net cash inflow	**6,321**	4,179
As at 31 December 2003	**10,908**	4,587

16. Reconciliation of operating profit before taxation to net cash inflow from operating activities

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	**1,656**	812
Profit on realisation of investments	**(1,199)**	(22)
Decrease in debtors	**66**	427
(Decrease)/increase in creditors	**(19)**	11
Net cash inflow from operating activities	**504**	1,228

17. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees and financial commitments of the Company as at 31 December 2003.

Notes to the Accounts

18. Significant interests

There were no interests of 20 per cent or more of any class of share capital at 31 December 2003.

19. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of established and profitable UK unquoted companies and companies raising new share capital on the Alternative Investment Market.

Fixed asset investments held (see note 8) are valued in accordance with the British Venture Capital Association guidelines and Generally Accepted Accounting Practice (see Note 1). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13.

20. Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AiM listed companies, by its nature, involves a higher degree of risk than investment in the main market. These investments may be more difficult to realise. Further information on the investment portfolio is set out on page 7.

21. Interest rate and liquidity risk

Floating rate

When the Company retains cash balances the majority of cash is ordinarily held on interest bearing deposit accounts. The Company has, however, placed £10.5 million on a non-interest bearing deposit account at 31 December 2003 to ensure compliance with relevant VCT legislation. The benchmark rate which determines the interest payments received on cash balances is the bank base rate.

Fixed rate

	2003			2002		
	Total fixed rate portfolio £'000	**Weighted average interest rate %**	**Weighted average time for which rate is fixed (days)**	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed (days)
Fixed rate Financial assets	**5,715**	**7.7**	**1,121**	16,927	5.8	746

Directors' Responsibility Statement

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report, Directors' Remuneration Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Independent Auditors' Report

Independent Auditors' Report to the Members of Baronsmead VCT 3 plc

We have audited the financial statements of Baronsmead VCT 3 plc for the year ended 31 December 2003 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, the Chairman's Statement, the Managers' Review, the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2003 and of its profit for the year then ended; and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF
Registered Auditors
London
10 February 2004

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Baronsmead VCT 3 plc will be held at the offices of ISIS Asset Management plc, 100 Wood Street, London EC2V 7AN, on 25 March 2004 at 11.00 am for the following purposes:

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

Ordinary Business

1. That the Report and Accounts for the year to 31 December 2003 be received.
2. To approve payment of a final dividend of 3.3 pence per Ordinary Share (comprising 1.3 pence revenue and 2.0 pence capital).
3. That Andrew Karney, who retires by rotation, be re-elected as a Director.
4. That the Directors' Remuneration Report for the year to 31 December 2003 be approved.
5. That PKF, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolution

6. That:
   (a) the Directors of the Company (the ''Directors'') be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the ''Act'') to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £1,120,759 during the period commencing on the passing of this resolution and expiring on 24 March 2009 (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry; and

   (b) all previous authorities given to the Directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

7. That subject to the passing of Resolution 6 set out in the notice of this meeting:
   (a) the Directors of the Company (the ''Directors'') be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the ''Act''), to allot equity securities for cash pursuant to the authority given in accordance with section 80 of the Act by that resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:

      (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of Ordinary Shares of 10p each in the Company and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

      (ii) the dividend reinvestment plan as more particularly described in the Report of the Directors;

      (iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £339,624;

      and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry; and in this resolution 'allot' and allotment shall be construed in accordance with section 94 (3A) of the act.

   (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

8. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of Ordinary Shares of 10p each in the Company (''Ordinary Shares''), provided that:
   (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 5,090,960;

   (b) the minimum price which may be paid for each Ordinary Share is 10p;

   (c) the maximum price which may be paid for an Ordinary Share shall be equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

   (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2005 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

   (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.

By Order of the Board

Rhonda Nicoll
for ISIS Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
10 February 2004

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

To be valid, a Proxy Card must be lodged with the Company's Registrar, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA at least 48 hours before the meeting. A Proxy Card for use by ordinary shareholders is enclosed with this Report. Completion of the Proxy Card will not prevent a shareholder from attending the meeting and voting in person.

No Director has a contract of service with the Company.

Shareholder Information

Dividends

Interim dividends are paid to shareholders in September. Final dividends are paid to shareholders in March. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained by telephoning the Company's registrar, Capita Registrars.

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme to enable shareholders to buy shares using their dividends. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details can be obtained from the Company's Investor Relations Manager, Michael Probin.

Share Price

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

Trading Shares

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

- Teather & Greenwood
- UBS Warburg

Please call Michael Probin if you or your adviser have any questions about this process.

Financial Calendar

12 March 2004	Date by which applications to join the dividend reinvestment scheme must be received by the registrars
25 March 2004	Annual General Meeting – offices of ISIS Asset Management plc
26 March 2004	Final dividend for the year to 31 December on Ordinary Shares paid
August 2004	Announcement of interim results
August 2004	Posting of interim report
September 2004	Interim dividend on Ordinary Shares paid
February 2005	Announcement of final results for year to 31 December 2004

VCT Workshop

A workshop for shareholders and their advisors is being held on 25 March 2004 and will be held at the office of the Investment Managers following the Annual General Meeting, which commences at 11.00 am.

Shareholder Information

Ordinary Shares

There are 2,039 holders of Ordinary Shares. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
Over 100,000	20	1.0	2,323,028	6.8
50,001–100,000	93	4.6	6,331,118	18.6
25,001–50,000	268	13.1	9,356,671	27.6
10,001–25,000	625	30.6	10,196,718	30.0
5,001–10,000	542	26.6	3,911,437	11.6
2,001–5,000	481	23.6	1,836,953	5.4
1–2,000	10	0.5	6,485	–
Total	2,039	100.0	33,962,410	100.0

Notification of Change of Address

Communications with shareholders are mailed to the registered 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, Capita Registrars, under the signature of the registered holder.

Enquiries

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

Telephone:	020 7506 1651
Fax:	020 7601 1787
e-mail:	michael.probin@isisam.com
website:	www.isisam.com/private investors.asp (then click Venture Capital Trusts)

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Tel: 0870 1623131
website: www.capitaregistrars.co.uk

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

Baronsmead VCT 3 plc PROXY

I/We ____
(BLOCK LETTERS PLEASE)

of ____

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

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 25 March 2004, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

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

Ordinary Resolutions	For	Against
1. To receive the Report and Accounts for the year to 31 December 2003.		
2. To approve payment of a final dividend of 3.30 pence per Ordinary Share.		
3. To re-elect Andrew Karney as a Director.		
4. To approve the Directors' Remuneration Report for the year to 31 December 2003.		
5. To re-appoint PKF as Auditors, and to authorise the Directors to determine their remuneration.		
6. To renew the Directors' authority to allot Ordinary Shares.		
Special Resolutions		
7. To renew the Directors' authority to disapply statutory pre-emption rights.		
8. To renew the Directors' authority to buy-in shares.		

Signature ____

Dated this ______________________ day of ______________________ 2004

Notes

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

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

In order to have effect, the proxy must be deposited at the Company's Registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA at least 48 hours before the time of the meeting or any adjournment thereof together where appropriate with the power of attorney under which it is signed or a notarially certified copy of such power.

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

Any alterations made in this proxy should be initialled.

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

SECOND FOLD

BUSINESS REPLY SERVICE
Licence HF106

2

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0JQ

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

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

Secretary
ISIS Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registered Office and Investment Managers
ISIS Equity Partners plc
100 Wood Street
London EC2V 7AN

VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 0870 162 3131

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

Auditors
PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Solicitors
Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

ISIS Equity Partners plc – Investment Manager

ISIS Equity Partners plc is a wholly owned subsidiary of ISIS Asset Management plc, itself part of the Friends Provident Group. Its focus is on investments in unquoted companies for clients of the ISIS Asset Management Group. It is a member of the British Venture Capital Association and is Authorised and regulated by the FSA.

ISIS Asset Management plc is listed on the London Stock Exchange and has offices in London and Edinburgh.

Pillans & Waddies, Edinburgh. 75084