BARONSMEAD

Baronsmead VCT 3 plc

2008

Summary report & accounts
for the year ended
31 December 2008

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 invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM.
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Further detail on the investment policy is contained in the Summary Directors' Report on pages 17 and 18.

Dividend policy

The Board wishes to maintain a minimum annual dividend level of around 4.5p per ordinary share if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year. Since the Company's launch the average annual tax-free dividend paid to shareholders has been 5.10p per ordinary share (equivalent to a pre-tax return of 7.56p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs of 20 per cent, their returns would have been even higher.

Secondary market in the shares of Baronsmead VCT 3

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

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

www.baronsmeadvct3.co.uk

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

Financial Headlines

–12.5%

NAV per share decrease to 105.72p before deduction of dividends. After payment of dividends totalling 7.5p per share in the year to 31 December 2008, the NAV was 98.2p. The interim dividend of 3p per share was paid in September 2008 and the proposed final dividend of 4.5p per share is payable in March 2009. The FTSE All-Share Index fell 32.8% over the same period.

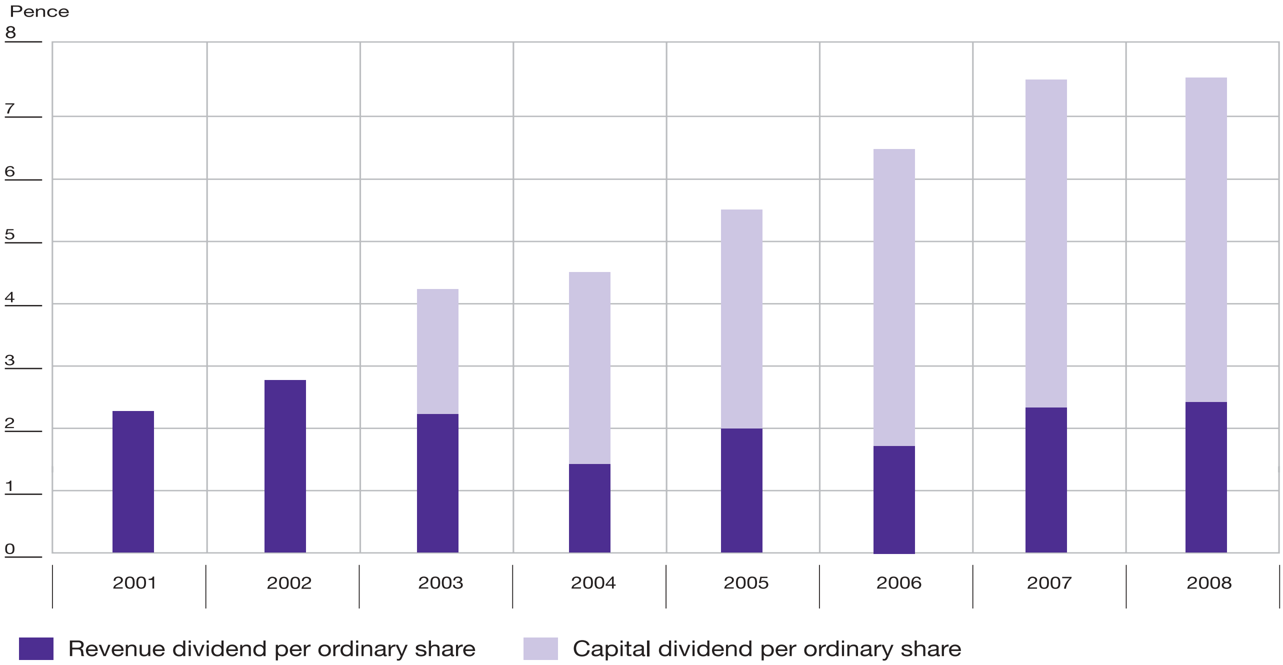
+49.6%

NAV total return since launch in 2001 of 149.6p per 100p invested, representing annualised total return of 5.2% (on original subscription at launch) which equates to 7.7% for higher rate taxpayers.

8.3%

Dividend yield tax-free to qualifying shareholders (gross equivalent yield for a higher rate taxpayer is 12.3 per cent) based on the 7.5p dividend in the year divided by the mid share price of 90.5p at the year end.

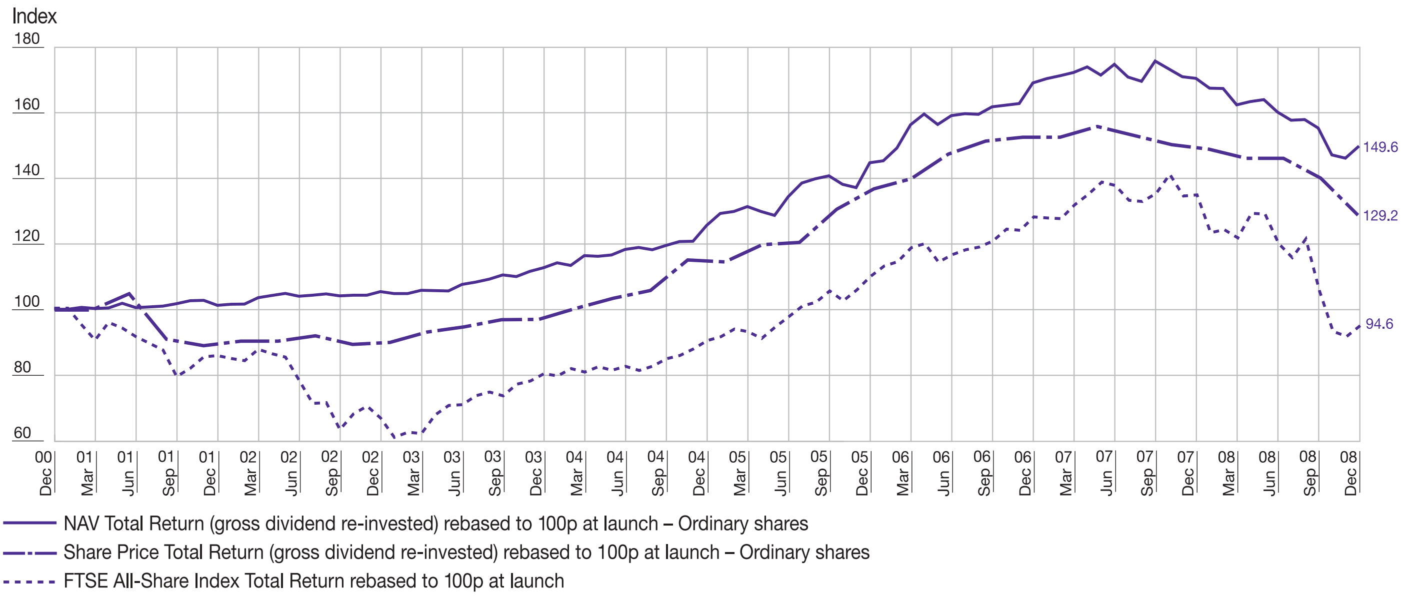
Dividend history since launch



Summary Since Launch

Baronsmead VCT 3 plc

Net asset value total return and share price total return since launch against the FTSE All-share Index total return



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

Performance Summary to 31 December 2008

Total return*	1 year %	3 year %	5 year %	Since launch %
Net asset value†	(12.3)	+3.3	+32.8	+49.6
Share price†	(16.4)	+8.4	+34.2	+29.2
FTSE All-share	(29.9)	(13.8)	+18.7	(5.4)

* Source: ISIS EP LLP and AIC.
† These returns for BVCT 3 ignore up front tax reliefs and the impact of receiving dividends tax free.

Performance Record

Year ended 31 December	Total net assets £m	Ordinary Share: Net asset value p	Ordinary Share: Share price (mid) p	Ordinary Share: Net asset value total return* %	FTSE All-Share total return %	Combined total expense ratio† %
2001	31	93.85	88.0	101.21	85.14	2.9
2002	32	94.85	85.5	105.35	65.83	3.3
2003	33	97.15	90.0	112.65	79.56	3.1
2004	35	106.38	92.5	125.64	89.77	3.5
2005	56	117.31	100.5	144.77	109.56	3.5
2006	67	130.77	116.5	169.27	127.91	3.4
2007	65	120.44	111.5	170.56	134.71	3.4
2008	55	102.72	90.5	149.56	94.61	3.0

* Source: ISIS EP LLP.
† As a percentage of average total shareholders' funds (excluding performance fee).

Summary Since Launch

Dividends Paid Since Launch

Year ended 31 December	Ordinary Share Revenue dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends p	Average total annual dividend p
2001	2.30	–	**2.30**	2.30	2.30
2002	2.80	–	**2.80**	5.10	2.55
2003	2.20	2.00	**4.20**	9.30	3.10
2004	1.20	3.30	**4.50**	13.80	3.45
2005	2.00	3.50	**5.50**	19.30	3.86
2006	1.75	4.75	**6.50**	25.80	4.30
2007	2.30	5.20	**7.50**	33.30	4.76
2008	2.40	5.10	7.50*	40.80	5.10

* Includes proposed final dividend of 4.5p

Cash Returned to Shareholders

The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid and proposed p	Net annual yield* %	Gross yield† %
2001 (January)	100	20.0	80.0	40.80	6.4	9.5
2005 (March) – C share	100	40.0	60.0	13.42	5.8	8.6

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

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

†The gross equivalent yield if the dividends had been subject to higher rate (32.5%) income tax.

Chairman's Statement

Mark Cannon Brookes
Chairman

The impact of the credit crunch has had severe implications, initially for equity and property asset values and currently for consumer spending both of which have led to depressed prospects for the UK economy. Whilst disappointing, the resulting fall in Net Asset Value per share for Baronsmead VCT 3 during the period is materially less than for most UK Stock Exchange Indices.

A good level of new investment in the first half of the year under review balanced by realisations have sustained our cash resources and will permit us to take advantage of future investment opportunities as they arise.

INVESTMENT PERFORMANCE

Results to 31 December 2008

In the 12 months to 31 December 2008, the Net Asset Value (NAV) per share decreased by 12.5 per cent from 120.44p to 105.72p before payment of the interim dividend and final proposed dividend totalling 7.5p per share. These dividends are made up of 2.4p per share generated from net revenue while the balance came from net realised capital profits.

Over the same period the FTSE All-Share index fell by 32.8 per cent while the FTSE indices for UK smaller companies fell further.

The values of the unquoted investments have held up relatively well despite the market turmoil. It must be remembered that these are based largely on historic data. Much management effort is focussed on preparing for the difficult economic environment in 2009. However, the exceptional falls in quoted markets during the second half of 2008 has led to the value of our AiM portfolio decreasing dramatically and this has been the main contributor to the decline in NAV this year. The continuing relevance of the AiM element of the portfolio and the future strategy to improve returns is discussed below in the Portfolio section of this statement.

The six VCT tests relating to the management of Baronsmead VCT 3 were met during the year. At the period end over 75 per cent of the ordinary share capital raised prior to 31 December 2006 was invested in qualifying investments, which is well above the 70 per cent minimum level.

Longer term performance

Dividends paid/proposed to founder shareholders now total 40.8p per share. This is an average annual dividend throughout the 8 year period of 5.1p per share.
C shareholders who subscribed in the four month period to 3 January 2006 have received 13.4p of dividends for each £1 invested.

The table on page 2 of the report and accounts shows the total returns generated over 1, 3, 5 years and since launch compared against the FTSE All-Share Total Return index. The share price total return of Baronsmead VCT 3 is the direct comparator and has exceeded this FTSE index over each of these periods.

These total returns are stated before the inclusion of VCT tax reliefs, which are designed to redress the VCT constraints and investing in a limited range of companies, which by their smaller size can be higher risk. At a time of lower and sometimes negative investment returns, the proportional benefits from these reliefs are greater. Quantification of the scale of these gains depends on the individual circumstances of each shareholder but the table at the bottom of page 3 in this report indicates some of the yields achieved for those who subscribed in 2001 and 2005.

The up front income tax reliefs have also varied between 20 per cent, 40 per cent and 30 per cent over the years and so any adjusted performance measure including this relief will vary depending on the date of subscription. There is the additional benefit of receiving dividends tax free and has been worth an equivalent of another 19.6p per share for a higher rate founder shareholder.

ANALYSIS OF THE PORTFOLIO

Portfolio valuations

Investments are valued at fair value, which for quoted securities is either bid price or the last traded price. Unquoted investments are fair valued by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines developed by the British Venture Capital Association (BVCA) in conjunction with the European Venture Capital Association (EVCA) and the Association Francaise des Investisseurs en Capital (AFIC).

Chairman's Statement

Despite the substantial fall in the rating of smaller quoted companies, the 21 unquoted portfolio investments have shown only a smaller fall in value over all. Some companies were down rated but several others performed well with rises in profits that helped to reduce the overall fall to 5.2 per cent. For instance eight out of the top ten investments have shown year on year profits growth.

The AiM market has suffered a severe drop in value. At the year end, the portfolio of 53 AiM investees had fallen in value by 46 per cent over the 12 month period. The FTSE AiM index has fallen by 62 per cent over the same period.

Baronsmead VCT 3 was launched as a generalist VCT with the unquoted investments complemented by AiM-traded stocks to provide a more liquid and diversified element to the portfolio. The AiM investments have performed well in the past and the Manager believes that the current lower valuations reflect the poor liquidity currently experienced on AiM and a change in the taxation status of AiM securities (affecting their beneficial capital gains tax status) as well as the difficult economic outlook affecting most UK companies.

The strategy relating to AiM investments has been refined to incorporate more of the private equity investment process. In particular, we are focussing on taking more influential stakes in a smaller number of investments where a likely exit strategy can be envisaged, while looking to sell the long tail of older investments as and when the constraints of the VCT legislation allow. As explained further in the Manager's report the AiM team utilise the knowledge and skills of the wider private equity team to provide input to the selection of new investments and during their ongoing development. It is expected that these refinements to the investment strategy for AiM investments together with the current lower valuations will have a positive impact on returns over the coming years.

Realisations and New Investments

The private equity disciplines developed by ISIS over the last ten years have generated a series of successful exits for unquoted investments taking advantage of the timing of the investment cycle. The oldest unquoted investment is now one that was made in 2004. Total sale proceeds of unquoted investments, yielded £7.9 million and after accounting for one major write off, the unquoted portfolio generated profits of £4.5 million during the year.

A number of AiM investments were sold resulting in overall proceeds representing some 45 per cent of their £1.3 million aggregate cost. Write offs from one full list investment in Ardana and four AiM-traded investments totalled £2.1 million, most of which had an earlier stage technology bias (although we had had a number of technology investment gains during 2005 – 2007). New investment totalled £8.2 million across ten unquoted companies and £2.75 million in 13 AiM-traded companies. Details are set out in the Manager's Review on page 9.

Asset allocation

At the year end, the percentage of unquoted investments is at 50 per cent of NAV. The percentage of private equity investments held in the portfolio is expected to continue to increase gradually as realisation opportunities at premium prices are likely to be lower in the near term. With this higher level of retention, the Manager will be able to manage more actively the AiM portfolio as opportunities arise.

We continue to have a large pool of cash and other liquid resources of £15.9 million within the fund available for unexpected eventualities. A significant proportion of the cash available was raised prior to April 2006 so it can be used for larger qualifying investees with gross assets up to £15 million pre investment.

SHAREHOLDER ISSUES

Risk Management

The Board manages the risks associated with the Company through the framework established within the Combined Code for all fully listed public companies. At quarterly Board meetings all the key performance indicators are reviewed as well as wider topics which are spread annually across these meetings. In the current difficult conditions we have paid particular attention to the security of the uninvested funds, which have been moved into Government securities, and to the diverse challenges facing the portfolio companies. The Managers' experience in navigating through a downturn is of substantial value to our unquoted companies but they are less able to influence our AiM investments.

VAT reclaim

It was announced in March 2008 that VAT is no longer to be charged on management fees from 1 October 2008. Subsequently HMRC announced that VAT paid from a number of previous years could also be reclaimed. Where VAT recoverable can be quantified with a degree of certainty, the reclaim can be recognised in the financial statements. At 31 December 2008, £1,304,000 was accrued representing

Chairman's Statement

VAT reclaimed by ISIS and a further claim by F&C (the former parent company of the Manager). In all equivalent to 2.4p per share.

Future running costs are also reduced by around 0.4 per cent p.a.

Shareholder liquidity

An important risk that the Board monitors relates to those few shareholders who have wished to realise their shareholding, normally achieved by share buy backs. The policy of buying back shares from the market makers at an approximate price of 10 per cent less than NAV per share was established at launch so that shareholders have been able to sell on this basis since then. The main market maker, Landsbanki, ceased trading in October but Teathers were appointed two months later who restored the previously adopted discount level.

During the year, 1.37 million shares were bought back by the company and separately another 0.3 million ordinary shares were acquired in the secondary market to satisfy the Dividend Reinvestment Plan (DRIP). Shares acquired through the DRIP are bought at the prevailing market prices at the time dividends are paid. In September 2008 DRIP shares were bought at an average discount to NAV of 7.3 per cent.

Fund Raising

As reported at the interim stage, the top up offers in February 2008 resulted in applications from 121 existing shareholders totalling £1.12 million for new ordinary shares.

A top up offer to raise up to the Sterling equivalent of 2.5 million euros will be sent to shareholders in February 2009 to coincide with the publication of the Annual Report.

Board succession

The new Listing Rules requirements for Investment Companies Director's independence mean that there may have to be Board changes before these rules come into force for VCTs in September 2010. In addition the current Board members have been in place since 2001 and therefore, whilst being conscious of the need for continuity, it is also time to consider the introduction of some new blood. Andrew Karney, as the Senior Independent Director, is co-ordinating the plan for Board succession.

ANNUAL GENERAL MEETING

We have approximately 3,000 ordinary shareholders and our task as a Board is to ensure that we meet and understand your requirements. I look forward to welcoming as many shareholders as possible to the eighth AGM on 18 March 2009 at 11 a.m. followed by an investee presentation, a buffet lunch and a shareholder workshop finishing by 2.00 p.m.

OUTLOOK

The UK economy is officially in recession and this will pose challenges for all our portfolio companies. This is also likely to reduce the level of realisations in the near term. Most of our portfolio companies have a relatively low level of bank debt leverage, which should provide some protection from financing pressures faced by many companies.

The Manager is taking an active role working with our unquoted portfolio companies to help them through these conditions. The strategy with respect to AiM investments is evolving so that larger, more influential investments can be made in companies where a clear exit strategy can be envisaged, thereby utilising much of the private equity skill and experience of the Manager.

In such circumstances the Manager and the Board will continue to monitor the portfolio closely and seek to minimise the impact of these adverse conditions on the fund. The priority for portfolio companies is therefore to face any recessionary pressures in a measured way and be strong enough not to be diverted from a longer term growth path. The Manager will remain focussed on these investment fundamentals.

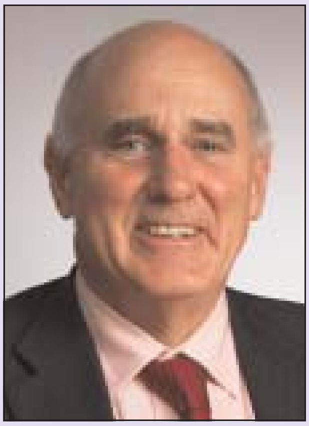
Baronsmead VCT 3 does not have an over stretched balance sheet. We therefore have the capacity to both protect the existing portfolio and take advantage of potentially significant investment opportunities once a measure of stability returns but at lower prices than in recent years.

Mark Cannon Brookes
Chairman

11 February 2009

Manager's Review

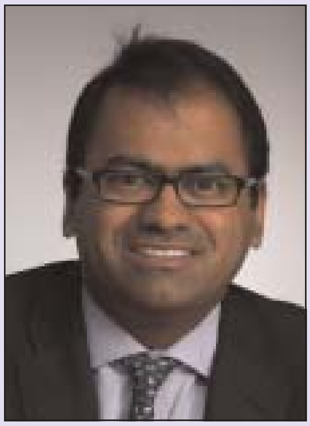
Following a high level of investment in the first half of 2008, the priority now is to work closely with portfolio companies to ensure their stability and that they can then thrive once we move out of the current economic downturn. The unquoted portfolio is showing good resilience currently although the valuation of AiM investees has been adversely affected in line with market falls. The dedicated origination team at ISIS is focussed on finding new attractive investment opportunities and to invest the cash resources available for this purpose.



David Thorp
Investment Manager

Andrew Garside
Investment Manager

Het Marsh
Investment Manager



Prem Mohan Raj
Chief Financial Officer Funds

PORTFOLIO REVIEW

The total portfolio comprised 74 investee companies at the year end. There were fifteen new investments and eight full exits plus six write offs. Including further rounds of capital raising, £11.0 million was invested, split £8.2 million into ten unquoted investments and £2.8 million into 13 AiM-traded investments. Sale proceeds from all realisations totalled £8.5 million. All new investment and the exits are scheduled on page 9 of the annual report.

Interest bearing securities and cash amounted to £21.4 million at the start of the year and by 31 December 2008 totalled £15.9 million. During October 2008 the holdings in money market OEICS were switched into Gilts and Treasury Bills leaving cash deposits of approximately £2 million for immediate operational requirements. This structure will be reviewed regularly and some reversion back to higher yielding OEICs will be considered once financial markets are exhibiting more conventional behaviour.

The Portfolio companies are reviewed quarterly in terms of their financial health and there has been a fall in those companies exhibiting steady or better trading progress from 83 per cent to 70 per cent at the year end. In addition financial gearing is measured regularly both as a ratio of debt to current enterprise value as well as the debt divided by operating profits. The ratios for the unquoted portfolio are currently at reasonably prudent levels both historically and against industry standards.

Over the last few years, we have endeavoured to build a portfolio that can perform relatively well even in challenging circumstances. There has been a focus on investing in more robust business models and away from more cyclical sectors where growth strategies are less dependent on overall economic growth. A good example of this is Scriptswitch where the demand driver for its unique prescribing software is reducing cost within Primary Care Trusts' drug budgets. This and three other case studies of unquoted companies across a number of different market sectors within the portfolio are set out on pages 14 and 15.

A proportion of the unquoted portfolio has been affected by the economic downturn and this has been reflected in the unquoted valuations. A full provision and partial provision have been made in Green Issues and TVC respectively where, in each case their main customers reduced demand. We are active in challenging and supporting the management of all investees, especially where there is any degree of underperformance.

Manager's Review

During early 2008 the climate still allowed good assets to be sold at attractive valuations. SLR, Hawksmere and Kidsunlimited were sold at 6.0, 2.5 and 4.7 times original cost. However the sale of the business within The Art Group recouped only 15 per cent of cost. This company had struggled with declining profitability in recent years and then a sharp drop off in demand in the first half of 2008 proved impossible to reverse.

The severe AiM market de-rating has adversely affected the NAV performance over the last year which has also seen price/earnings multiples more than halved for both the AiM All Share and the FTSE Small Cap indices (*source: Blue Oar Securities*). This de-rating was partially offset by earnings growth within the majority of portfolio companies although there was an impact with a number of portfolio companies issuing negative trading statements in the final quarter.

THE ROLE OF THE MANAGER IN A DOWN TURN

Trading conditions for companies during the economic recession are more volatile making forecasts difficult to believe. These greater uncertainties can be translated into new investment opportunities. Whilst bank finance is scarce your Company has adequate cash resources and is therefore relatively well placed to take advantage of opportunities that arise.

As an example of the Manager's involvement with unquoted portfolio companies the appointment of an external chairman and one or more non-executive directors typically instils good standards of governance and key decision-making. This is normally reinforced by the alignment between all the shareholders including the executive directors who are incentivised to grow the business prior to exit.

Active portfolio management

The Manager constantly strives to achieve greater consistency through all stages of the investment process. The present focus is on financial control and managing the relationship with the company's bankers. Regular monthly meetings enable a constant challenge and refinement of the value strategy, development of the executive team and formulation of an exit strategy to deliver the investment return.

AiM investing

The intent is to apply private equity disciplines when possible in AiM investees. These inputs range from use of sector knowledge, prior contact before float as an unquoted company, board appointment introductions and experience of exits for similar unquoted companies. 76 per cent of the value of the Listed and AiM portion of the portfolio is within 19 stocks and this will be where the focus will be while the tail of investments is slowly reduced as market conditions allow.

Getting ready for the upswing

The Manager has an experienced Private Equity team a number of whom lived through the last significant recession in the early 1990s. Currently asset prices are on the decline, accelerated by lack of credit and corporate distress. These circumstances will create attractive opportunities in the future, both for well managed portfolio companies to take advantage of weaker competitors and for new investments at lower entry prices.

The investment strategy is also driven by the considerable sector knowledge that has been built up over the years and understanding what industry factors are the key growth drivers within specific sub-sectors. This has been supported by a programme of proactively contacting interesting companies to build relationships well ahead of a transaction being triggered. This historic knowledge of targets reduces the investment risk when an opportunity eventually arises. For example, the investment team knew the management of Playforce for two years prior to the investment completing in January 2008.

In January 2009 the Manager has added Energy and Environmental as an additional sector as the volume of investment opportunities in this area has grown.

OUTLOOK

It will take some time for the turbulence in financial markets to settle down but our role will be to stick to our investment principles during the current period of uncertainty whether seeking to protect the existing portfolio or investing afresh. We are confident that new investment opportunities will arise and at keener pricing than for some time.

ISIS EP LLP
Investment Manager
11 February 2009

Manager’s Review

New Investments

The new investment (including further rounds of financing) is set out below and totalled £11 million including 6 sizeable unquoted investments and nine smaller AiM subscriptions averaging £210,000. Further rounds of financing are included within the total amount invested and were spread over seven other investees.

Company	Location	Sector	Activity	Investment cost (£’000)
Unquoted investments				
Active Assistance Ltd	Sevenoaks	Healthcare	Provision of live-in care to spinally injured clients	679
Carnell Contractors Ltd	Penkridge	Business Services	Support service provider in the highways sector	1,499
CSC (World) Ltd	Pudsey	IT Support Services	Software for structural engineers	1,606
Kafevend Holdings Ltd*	Crawley	Consumer	Vending Services	6
Kidsunlimited Group Ltd	Wilmslow	Business Services	Daycare provider	113
Nexus Vehicle Holdings Ltd	Leeds	Business Services	Vehicle rental broker	1,868
Occam DM Ltd*	Bath	Business Services	Integrated data services	47
Playforce Holdings Ltd	Wiltshire	Business Services	Provider of playground equipment	1,033
TVC Group Ltd	London	Media	Broadcast public relations firm	1,233
Xention Discovery Ltd*	Cambridge	Healthcare	Developer of ion channel modulating drugs	152
Total Unquoted investments				**8,236**
AiM-traded investments				
Advanced Computer Software plc	London	IT Support Services	Consolidation of Healthcare IT businesses focused on primary care, particularly focused on patient record data management	525
Brulines Holdings plc*	Stockton-On-Tees	Business Services	Pub management systems	298
Character Group plc	New Malden	Media	Design, development and international distribution of toys and games	144
Electric Word plc	London	Media	Specialist information business serving the sport and education sectors	17
Essentially Group plc*	Jersey	Media	Sports marketing	240
Ffastfill plc*	London	IT Support Services	Trading platform software provider	205
Independent Media Distribution plc	London	IT Support Services	Media logistics	15
IS Pharma plc	Chester	Healthcare	Specialist hospital medicines group	246
Praesepe plc	London	Consumer	Gaming	525
Relax Group plc	Chesterfield	Consumer	IVA and debt management group	262
Silverdell plc	Barking	Business Services	Asbestos removal, asbestos abatement and asbestos management firm	14
STM Group plc	Gibraltar	Business Services	Offshore trust and company administration services for high net worth individuals	140
Tasty plc*	London	Consumer	Restaurant chain	116
Total AiM-traded investments				**2,747**
Total Investment in the period				**10,983**

* Follow on investment

Realisations in the year to 31 December 2008

		First Investment date	Original Cost £’000	Total Proceeds £’000	Multiple return*
Unquoted investments					
Hawksmere Group Limited	Trade sale	December 2003	766	1,948	2.5
Kidsunlimited	Secondary buy-out	June 2001	481	2,285	4.8
Scriptswitch	Partial Loan Note redemption	May 2007	422	522	1.2
SLR Group Limited	Secondary buy-out	September 2002	494	2,953	6.0
The Art Group	Written off	October 2003	1,281	198	0.2
Total Unquoted realisations			**3,444**	**7,906**	
AiM-traded investments					
Appian Technology plc	Written off	December 2005	302	–	–
Ardana plc	Written off	August 2003	619	–	–
Begbies Traynor Group plc	Part sale	September 2004	52	218	4.2
Business Direct Group plc	Written off	August 2004	665	–	–
Cantono plc	Market sale	April 2005	375	19	0.1
Capcon Holdings plc	Market sale	May 2001	137	6	0.1
Loanmakers (Holdings) plc	Written off	June 2005	169	–	–
Micap plc	Written off	July 2003	325	–	–
Oxford BioMedica plc	Trade sale	April 2003	250	65	0.3
Universe Group plc	Market sale	May 2003	158	37	0.2
Xpertise Group plc	Trade sale	November 2002	296	226	0.8
Total AiM-traded investments			**3,348**	**571**	
Total Investments			**6,792**	**8,477**	

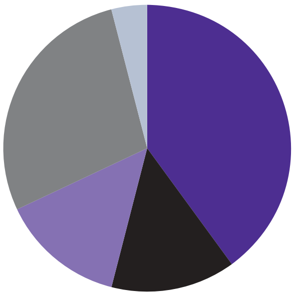
* Includes interest/dividends received and loan note redemptions accounted for in prior periods.

Deferred proceeds were received for Boldon James £45,000, RLA Media £81,000 and Oxxon Pharmaccines Ltd £4,000.

Investment Portfolio

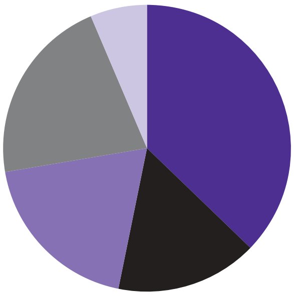
Investment Classification at 31 December 2008

By Sector



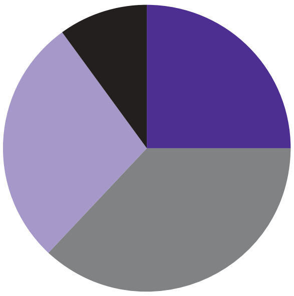
Business services	40%
Consumer	14%
Healthcare	14%
IT support services	28%
Media	4%

Total Assets



Unquoted – loan stock	35%
Unquoted – ordinary and preference shares	15%
AiM & Listed	18%
Fixed interest	26%
Net current assets	6%

Time Investments Held



Less than 1 year	25%
Between 1 and 3 years	37%
Between 3 and 5 years	28%
Greater than 5 years	10%

Company	Nature of business	Book cost £'000	Valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by other funds*
Unquoted						
Scriptswitch	IT Support Services	746	2,806	5.1	7.2	25.4
Reed & Mackay	Business Services	1,211	2,763	5.0	9.3	29.9
Carnell Contractors	Business Services	1,499	2,372	4.2	8.3	29.2
Independent Living Services	Healthcare	801	2,034	3.6	14.4	46.1
Nexus Vehicle Holdings Ltd	Business Services	1,868	1,868	3.4	12.6	44.8
CableCom Networking Holdings Ltd	IT Support Services	1,381	1,655	3.0	10.6	37.4
Kafevend Holdings Ltd	Consumer	1,252	1,535	2.8	15.8	50.7
Quantix Limited	IT Support Services	1,194	1,498	2.7	11.4	36.6
Fisher Outdoor Leisure Holdings Ltd	Consumer	1,423	1,433	2.6	10.5	33.6
Crew Clothing Company Ltd	Consumer	933	1,359	2.4	5.9	19.1
CSC (World) Limited	IT Support Services	1,606	1,250	2.3	8.8	31.2
Empire World Trade Limited	Business Services	1,297	1,138	2.1	7.1	22.9
Credit Solutions	Business Services	1,032	1,130	2.0	8.6	26.4
Playforce Holdings Limited	Business Services	1,033	1,033	1.9	9.7	34.3
Active Assistance	Healthcare	679	982	1.8	7.4	26.1
MLS	IT Support Services	781	969	1.8	5.3	17.2
Xention Discovery	Healthcare	802	660	1.2	3.0	2.0
Occam DM Ltd	Business Services	509	636	1.2	5.2	44.8
TVC Group Limited	Media	1,233	587	1.1	6.4	22.6
Kidsunlimited Group Ltd	Business Services	113	113	0.2	0.0	0.0
Green Issues	Media	497	0	0.0	9.5	30.5
Total unquoted		**21,890**	**27,821**	**50.4**		
AiM						
IDOX plc	IT Support Services	920	792	1.5	2.8	4.8
Begbies Traynor Group plc	Business Services	231	775	1.4	0.6	1.9
Brulines Holdings plc	Business Services	646	647	1.2	1.9	7.8
Murgitroyd Group plc	Business Services	319	553	1.0	3.1	3.1
Advanced Computer Software plc	IT Support Services	525	525	0.9	1.6	7.6
Jelf Group plc	Business Services	551	406	0.7	1.3	3.9
Concateno plc	Healthcare	397	394	0.7	0.5	2.0
Driver Group plc	Business Services	438	390	0.7	2.4	8.7
Mount Engineering plc	Business Services	385	302	0.5	2.3	10.6
Craneware plc	IT Support Services	179	290	0.5	0.6	2.3
Research Now plc	Media	263	227	0.4	0.5	1.9

Investment Portfolio

Company	Nature of business	Book cost £'000	Valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by other funds*
AiM (continued)						
Stagecoach Theatre Arts plc	Consumer	419	216	0.4	4.6	4.6
Ffastfill plc	IT Support Services	336	215	0.4	1.3	6.9
Praesepe plc	Consumer	525	215	0.4	1.4	6.7
IS Pharma plc	Healthcare	246	207	0.4	1.0	4.9
Relax Group plc	Consumer	262	198	0.4	2.1	10.1
InterQuest Group plc	Business Services	310	197	0.4	1.8	5.5
MBL Group plc	Media	575	195	0.4	1.6	2.8
Plastics Capital plc	Business Services	473	189	0.3	1.8	8.3
Essentially Group ltd	Media	494	189	0.3	1.5	7.8
Huveaux plc	Media	541	179	0.3	1.4	3.0
Vero Software plc	IT Support Services	300	167	0.3	3.7	10.5
Tasty plc	Consumer	355	161	0.3	1.7	11.3
Sanderson Group plc	IT Support Services	387	139	0.3	1.8	5.3
Cohort plc	Business Services	179	137	0.2	0.3	1.1
WIN plc	IT Support Services	263	120	0.2	1.3	3.6
Adventis Group plc	Media	281	118	0.2	2.3	5.9
Prologic plc	IT Support Services	310	112	0.2	4.1	10.9
Quadnetics Group plc	Business Services	296	101	0.2	0.7	1.7
STM Group plc	Business Services	140	93	0.2	0.5	3.3
Proactis Holdings plc	IT Support Services	400	93	0.2	3.0	12.1
Mission Marketing Group (The) plc	Media	190	68	0.1	0.4	1.1
Claimar Care Group plc	Healthcare	569	59	0.1	1.4	5.5
Colliers CRE plc	Business Services	470	57	0.1	0.9	1.8
EG Solutions plc	IT Support Services	375	53	0.1	3.1	11.1
EBTM plc	Consumer	244	51	0.1	1.5	15.3
Kiotech International plc	Healthcare	200	50	0.1	1.4	5.6
Tangent Communications plc	Business Services	180	45	0.1	0.8	3.8
Brainjuicer Group plc	Media	50	42	0.1	0.4	1.5
Character Group plc	Media	144	38	0.1	0.3	1.8
Autoclenz Holdings plc	Consumer	400	32	0.1	3.1	9.2
Optimisa plc	Media	298	28	0.1	1.5	7.3
FishWorks plc	Consumer	174	15	0.0	1.0	3.1
Electric Word plc	Media	17	9	0.0	0.2	1.2
Independent Media Distribution plc	IT Support Services	15	9	0.0	0.1	0.6
Real Good Food Company (The) plc	Consumer	540	7	0.0	0.6	1.7
Zoo Digital Group plc	IT Support Services	584	6	0.0	0.3	0.6
MKM Group plc	Business Services	284	5	0.0	0.7	1.8
IPT Holdings plc	Media	138	4	0.0	0.5	1.6
INVU plc	IT Support Services	35	4	0.0	0.1	1.7
Payzone plc	Business Services	88	2	0.0	0.0	0.1
Silverdell plc	Business Services	14	2	0.0	0.0	0.2
Total AiM		**16,956**	**9,128**	**16.6**		
Listed						
Vectura Group plc	Healthcare	771	804	1.5	0.5	0.9
Total Listed		**771**	**804**	**1.5**		
Interest bearing securities						
UK Treasury Bill 09/03/09		3,487	3,487	6.3		
UK Treasury 5.75% 07/12/09		3,136	3,202	5.8		
UK Treasury Bill 02/03/09		2,996	2,996	5.4		
UK Treasury Bill 19/01/09		1,999	1,999	3.6		
UK Treasury Bill 16/03/09		1,993	1,993	3.6		
UK Treasury 4.75% 07/06/10		493	526	1.0		
Total interest bearing securities		**14,104**	**14,203**	**25.7**		
Total investments		**53,721**	**51,956**	**94.2**		
Net current assets less creditors due after 1 year			**3,180**	**5.8**		
Net assets			**55,136**	**100.0**		

*Other Funds managed by the same Investment Manager, ISIS EP LLP.

Ten Largest Investments

The top ten investments by current value at 31 December 2008 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information, which has been audited by the auditors of the investee companies.

1 SCRIPTSWITCH LIMITED Coventry

Prescription software

First Investment: May 2007
Cost: £746,000
Valuation: £2,806,000
Valuation basis: Discounted price earnings
Percentage of equity held: 7.2%

ScriptSwitch Limited provides an innovative prescribing software product to Primary Care Trusts ('PCTs'), which is then employed by GPs in their surgeries. ScriptSwitch is a unique medicines management tool that provides decision support to GPs and enables PCTs to save millions of pounds from their drugs budgets.

In May 2007, funding was provided to complete a £4.7 million secondary buy-out of ScriptSwitch.

Year ended 30 June	2008	2007
	£ million	£ million
Net assets	2.2	0.4

(Source: ScriptSwitch Limited, Abbreviated Accounts 2008)

Note: Due to the size of the business ScriptSwitch is not required to file a full set of accounts.

www.scriptswitch.com

2 REED & MACKAY LIMITED London

High quality business travel

First Investment: November 2005
Cost: £1,211,000
Valuation: £2,763,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 9.3%

Reed & Mackay Limited is a provider of business travel management services to professional services firms and corporates. £5.0 million was raised in November 2005 to fund a replacement capital deal.

*Net assets fell due to a capital reorganisation

Year ended 31 March	2008	2007
	£ million	£ million
Income	13.4	10.8
Profit before tax	3.3	2.8
Profit after tax	2.7	2.3
Net assets*	2.6	3.4

(Source: Reed & Mackay Travel Limited, Report and Financial Statements 2008)

www.reedmac.com

3 CARNELL CONTRACTORS LIMITED Penkridge

Providing support to the highways sector

First Investment: March 2008
Cost: £1,499,000
Valuation: £2,372,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 8.3%

Carnell Support Services is a provider of specialist support and technology maintenance services to the Highways Agency road network. £6 million was invested in March 2008 to fund a replacement capital deal. Carnell currently employs over 115 people.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	12.7	7.7
Profit before tax	2.0	0.5
Profit after tax	1.4	0.3
Net assets	2.3	0.9

(Source: Carnell Contractors Limited audited Annual Report and Accounts 2007)

www.carnellcontractors.com

4 INDEPENDENT LIVING SERVICES (ILS) LIMITED Alloa

Acute domiciliary care

First Investment: September 2005
Cost: £801,000
Valuation: £2,034,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 14.4%

Independent Living Services Limited (ILS) is one of the leading providers of acute domiciliary care to its local authority customers, mainly based in east Scotland.

The first investment in ILS was made in September 2005 and, further funding was provided in November 2006 to support its first acquisition, giving the enlarged group a stronger presence in the west of Scotland.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	8.1	6.8
Profit before tax	1.3	0.9
Profit after tax	0.9	0.7
Net assets	2.9	2.0

(Source: Independent Living Services (ILS) Limited audited Annual Report and Accounts 2007)

www.ilsscotland.com

5 NEXUS VEHICLE MANAGEMENT LIMITED Leeds

Vehicle rental broker

First Investment: February 2008
Cost: £1,868,000
Valuation: £1,868,000
Valuation Basis: Cost
Percentage of equity held: 12.6%

Nexus is a web based vehicle rental broker. It enables corporate users to source vehicles from over 40 suppliers using a web based IT system. In February 2008, £11 million was raised for a management buy-out.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	7.8	3.5
Profit before tax	0.8	–
Profit after tax	0.6	–
Net assets	0.1	0.3

(Source: Nexus Vehicle Management Limited, Financial Statements 2007))

www.nexusrental.com

6 CABLECOM NETWORKING HOLDINGS LIMITED Clevedon

Internet access solutions

First Investment: May 2007
Cost: £1,381,000
Valuation: £1,655,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 10.6%

Cablecom Network Holdings Limited is a provider of networking solutions to corporate clients and since 2003 has evolved into providing IT and communication managed services to high density multi-tenanted accommodation in the student and key worker sectors. In May 2007, £5.6 million was raised for a management buy-out.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**4.9**	4.3
Profit before tax	**1.2**	1.0
Profit after tax	**0.9**	0.8
Net assets	**2.0**	1.2

(Source: Cablecom Networking Holdings Limited audited Annual Report and Accounts 2007)

www.cablecomnetworking.co.uk

7 KAFÉVEND GROUP LIMITED Crawley

SME drinks vending

First Investment: October 2005
Cost: £1,252,000
Valuation: £1,535,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 15.8%

Kafévend Group Limited is a leading drinks vending machine service provider to the SME market. £5 million was invested in October 2005 to fund a management buyout.

Kafévend employs over 70 people and operates from seven sites across the UK.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**14.4**	12.1
Profit before tax	**0.7**	0.3
Profit after tax	**0.6**	0.2
Net assets	**2.1**	1.5

(Source: Kafévend Group Limited audited Annual Report and Accounts 2007)

www.kafevending.co.uk

8 QUANTIX LIMITED Nottingham

Outsourced database maintenance

First Investment: March 2007
Cost: £1,194,000
Valuation: £1,498,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 11.4%

Quantix Limited operates in the fast growing niche area of IT Managed Services – more specifically, the outsourced support and maintenance of databases, applications and security. It also offers consultancy and product sales to new and existing clients for key technology partners including Oracle, Microsoft, Juniper, Surfcontrol and Checkpoint.

ISIS invested £4.8 million in the management buy-out of Quantix Limited from Lynx Plc in March 2007.

Year ended 30 September	2007	2006
	£ million	£ million
Sales	**6.2**	5.9
Profit before tax	**1.2**	1.1
Profit after tax	**0.9**	0.7
Net assets	**1.0**	0.1

(Source: Quantix Limited audited Annual Report and Accounts 2007)

www.quantix-uk.com

9 FISHER OUTDOOR HOLDINGS LIMITED St. Albans

Supplying the bike industry

First Investment: June 2006
Cost: £1,423,000
Valuation: £1,433,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 10.5%

Fisher Outdoor Holdings Limited has grown to be the strongest name in the supply of cycle accessories and components to the UK cycle trade. £5.6 million was invested to fund the Management buyout in June 2006. Fisher employs 80 staff distributing key branded and own label products.

Year ended 31 January	2008	2007
	£ million	£ million
Sales	**19.2**	18.1
Profit before tax	**1.9**	2.5
Profit after tax	**1.7**	2.1
Net assets	**7.7**	7.7

(Source: Fisher Outdoor Leisure Limited, Directors Report and Financial Statements 2008)

www.fisheroutdoor.co.uk

10 CREW CLOTHING HOLDINGS LIMITED London

Branded multi-channel clothing retailer

First Investment: November 2006
Cost: £933,000
Valuation: £1,359,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 5.9%

Crew Clothing Holdings Limited is a branded multi-channel retailer of men's and women's clothing headquartered in Wandsworth, London.

In November 2006 funding was provided to complete a £3.75 million investment for a 25 per cent stake in the company.

Year ended 28 October	2007	2006
	£ million	£ million
Sales	**15.9**	13.3
Profit/(loss) before tax	**0.6**	0.8
Profit/(loss) after tax	**0.4**	0.6
Net assets	**1.0**	2.4

(Source: Crew Clothing Holdings Limited audited Annual Report and Accounts 2007 and Crew Clothing Co. Limited audited Annual Report and Accounts 2006)

www.crewclothing.co.uk

HOW ISIS REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT 3 PLC

Baronsmead VCT 3 plc invests in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM, run by entrepreneurial managers. It is the growth aspirations of these companies and their track record that make them above average and out of the ordinary.

The following four examples show how this approach has led to an increase in the investment value. The ISIS selection criteria include:

- Ability to become a market leader in their chosen niche
- Management teams who can deliver profitable and sustained growth
- Company can become a premium asset attractive to multiple bidders on exit

ISIS seeks selective opportunities from its four UK offices through a combination of corporate finance advisers and direct approaches.

For the unquoted investments the ISIS team participates actively at Board level in the major decisions setting the business plan and development of the management team. The intention is to build on the initial platform and grow the business so that it can become an attractive target able to be either sold or floated in the medium term.

REED & MACKAY, London

Reed and Mackay is a leading strategic business travel management company. Utilising i-Q, its in-house developed bespoke technology, the business deals with professional services firms and corporates providing them with comprehensive corporate wide business travel services. Key client include global legal firms and insurance companies, who demand precise high quality services.

Reed and Mackay's skill in managing diverse and demanding clientele has set them apart from their peers. The majority of customers have come through word of mouth recommendation and more than half of customers have traded with the business for more than 5 years.

Following the replacement capital investment by ISIS in 2005, the business has shown the ability and confidence to accelerate its growth over the last three years. Key to the double digit earnings growth in each of the last three years the business has achieved has been the building of an expanded management team.

> "I've dealt with many travel companies over the years before I came to Skandia and can honestly say I've never experienced expertise, help, knowledge or patience such as Reed and Mackay on every call".
>
> *Skandia UK*

www.reedmac.com

"Confidence to Grow"

PLAYFORCE, Wiltshire

Playforce provides playground equipment to local authorities, parish councils and park authorities. To date, Playforce has been commissioned to design and install over 2,000 school playgrounds.

Launched in 1998, Playforce has developed over the last ten years into a market leader within a fragmented market. The Company has turnover in excess of £6m and employs 38 staff from its Wiltshire offices.

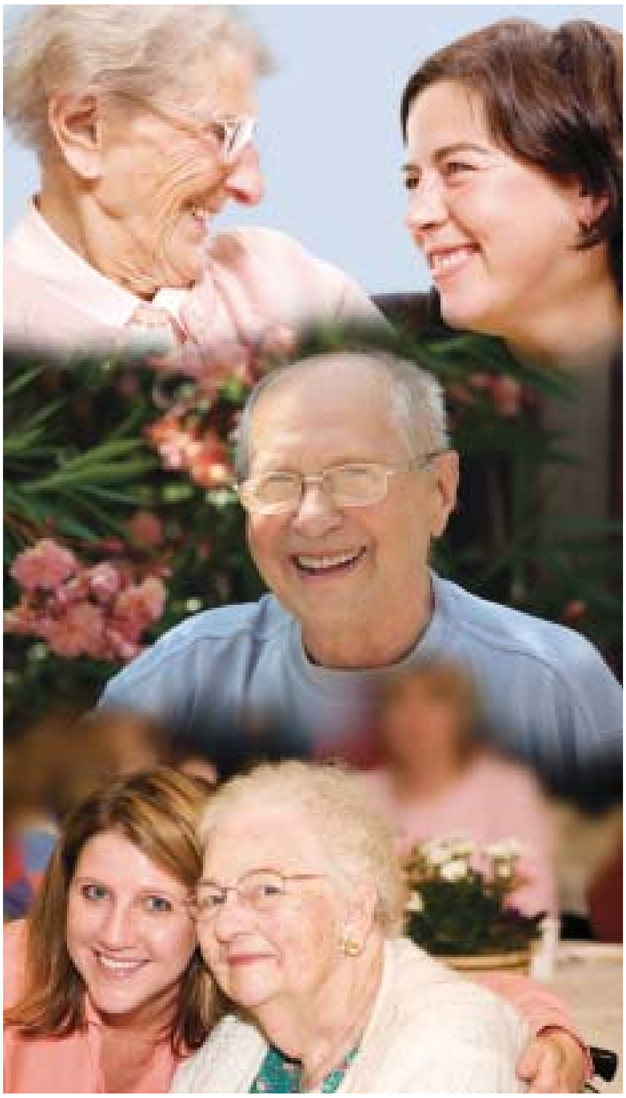
Growth has been recognised by several awards most notably by The Sunday Times Virgin Fast Track 100 which listed Playforce as the 61st fastest growing company in the UK with an annual compound growth rate of 77% in 2007.

Having identified the market opportunity, ISIS built up a two year relationship with the founders of Playforce before investing in January 2008. ISIS is working closely with the management team to invest to develop the company's capabilities and to support further growth.

www.playforce.co.uk

"Relationship and Opportunity"

Creating Shareholder Value



INDEPENDENT LIVING SERVICES, Alloa

Independent Living Services is the leading independent provider of 'care at home' services in Scotland. Services are developed to support people living in the community including the elderly and adults with physical disabilities or learning difficulties.

ISIS was attracted to the care at home market in Scotland as it exhibits strong growth potential as provision of support is outsourced by local authorities and market supply remains relatively fragmented. ISIS completed its investment in September 2005. Since then ISIS has supported growth through a series of four acquisitions. This has resulted in an increased geographical presence in Scotland with the Company now working with eighteen local authorities in Scotland.

The combination of the 'buy and build' and organic growth has resulted in the valuation rising to 2.5 times original cost of the investment.

www.ilsscotland.com

''Buy and Build''

SCRIPTSWITCH, Coventry

ScriptSwitch provides innovative prescribing software to healthcare organisations throughout the UK. The business was formed in 2003 and developed over a number of years by a team of skilled professionals (in conjunction with the NHS) from its University of Warwick base.

The ScriptSwitch software is a sophisticated medicines management tool that provides decision support to General Practitioners in prescribing medicines, whilst also quantifying and reporting on cost savings they are able to achieve.

Healthcare organisations are increasingly faced with budgetary challenges as the NHS is looking to reduce costs in prescribed pharmaceuticals. ScriptSwitch is well placed to support the NHS in achieving these objectives.

> ''In our area, the savings in our first year look set to be more than £100,000 from ScriptSwitch. As uptake improves and the database expands, this figure will rise''
>
> *Huntingdonshire Primary Care Trust*

Initially attracted by the market opportunity, ISIS have supported the business growth including the expansion of the management team, and the move to new premises in Coventry. The valuation has risen to 3.8 times cost since investment in May 2007.

www.scriptswitch.com

''Investing in the business platform''

Board of Directors

as at 31 December 2008

Mark Cannon Brookes (Chairman)

(age 69) is a director of Smith & Williamson Investment Management. The Smith and Williamson Group has £8 billion of investments under management. He is chairman of CG Asset Management Limited and is also a director of F&C UK Select Trust plc and a number of other companies, mostly overseas.

Andrew Karney
(age 66) was deputy chairman and a shareholder of Language Line Limited in which Baronsmead VCT 3, was an investor. He is chairman of Tiri an anti-corruption NGO. He was previously a director of The Guardian Media Group plc, Guardian News and Media Limited, Integrated Micro Products plc and a number of unquoted companies. He was a founder director of Cable London plc and an executive director of Logica plc.

Gillian Nott
(age 63) Gill has in-depth experience of private investors as chief executive of ProShare (1994–1999). Previously she was responsible for the private equity at BP and has been on the board of the FSA. She is currently a non-executive director of investment trusts at Black Rock and Martin Currie and is chairman of Witan Pacific Investment Trust plc. She is also on the board of Liverpool Victoria Friendly Society, and a deputy chairman of the Association of Investment Companies. Gill is a non-executive director of Baronsmead VCT 2 plc and Baronsmead VCT.

Robert Owen
(age 63) is a business consultant to developing companies and a director of Baronsmead VCT 4 plc. He is a director of Nucleus Financial Group and other unquoted companies. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio. He was involved with tax efficient private equity investment for many years as an adviser and commentator.

As a fully listed company, Baronsmead VCT 3 is required to comply with the Financial Reporting Council's Combined Code on 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 UK Listing Authority to have sufficient and satisfactory experience in the management of a portfolio of unquoted investments of the size and type in which the VCT proposes to invest.

Summary Financial Statement

This Summary Financial Statement has been prepared voluntarily by the Directors in accordance with section 428 of the Companies Act 2006. It does not contain sufficient information to allow a full understanding of the results and state of affairs of the Company. For further information, the full annual financial statements, the Auditor's Report on those financial statements and the Directors' Report should be consulted. A copy of the Annual Report, which may be obtained free of charge from the Company Secretary, will be delivered to the Registrar of Companies after the Annual General Meeting. Shareholders wishing to receive the full Annual Report in future years may opt to do so by sending signed, written notice to the Company Secretary. KPMG Audit Plc have reported on the Company's Annual Accounts and the auditable part of the Directors' Remuneration Report for the year ended 31 December 2008; this report was unqualified and contained no statement under section 498(2) and 498(3) of the Companies Act 2006.

Summary Report of the Directors

Results and Dividends

The Directors present the eighth Report and audited financial statements of the Company for the year ended 31 December 2008.

Ordinary Shares	£'000
Loss on ordinary activities after taxation	(8,125)
Interim capital dividend of 1.6p per ordinary share paid on 26 September 2008	(869)
Interim revenue dividend of 1.4p per ordinary share paid on 26 September 2008	(760)
Transferred from reserves	(9,754)

Subject to approval at the forthcoming Annual General Meeting, a final dividend of 4.5p per ordinary share will be paid on 20 March 2009 to shareholders recorded on the register on 20 February 2009. The ex-dividend date for the payment will be 18 February 2009.

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Acts 1985 and 2006. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 274 of the Income Tax Act 2007 and the Company has received full approval as a Venture Capital Trust (VCT) from HM Revenue & Customs for the year to 31 December 2007. A review of the Company's business during the period is contained in the Chairman's Statement and Manager's Review.

Business Review

The purpose of this review is to provide shareholders with a summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators (KPIs) used to measure performance.

Strategy for achieving objectives

Baronsmead VCT 3 plc is a tax efficient company listed on The London Stock Exchange's main market for listed securities.

Investment Objective

The investment objective of the Company is to achieve long-term capital growth, generate tax-free dividends and capital distributions for private investors.

Investment Policy

The Company's investment policy is to invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM.

Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities, and fixed-interest securities, as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AiM investments are primarily held in ordinary shares. Pending investment in unquoted and AiM-traded securities, cash is primarily held in UK gilts or government securities and may be invested in interest bearing money market open-ended investment companies.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees will trade overseas. The companies in which investments are made must have no more than £15 million of gross assets at the time of investment (or £7 million if the funds being invested were raised after 5 April 2006) to be classed as a VCT qualifying holding.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Amongst other conditions, the Company may not invest more than 15 per cent of its investments in a single company and must have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in qualifying holdings, of which 30 per cent by value must be ordinary shares which carry no preferential rights. In addition, it must have at least 10 per cent by value of its total investments in any qualifying company in ordinary shares which carry no preferential rights.

Asset mix

The Company aims to be at least 90 per cent invested in growth businesses subject always to the quality of investment opportunities and the timing of realisations. Any un-invested funds are held in cash and interest bearing securities. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities.

Summary Financial Statement

The maximum qualifying amount invested in any one company is limited to £1 million in a fiscal year and generally no more than £2.5 million, at cost, is invested in the same company. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale.

Investment style

Investments are selected in the expectation that the application of private equity disciplines, including an active management style for unquoted companies, will enhance value and enable profits to be realised from planned exits.

Co-investment

The Company aims to invest in larger more mature unquoted and AiM companies and to achieve this it invests alongside the other Baronsmead VCTs. As such, at the time of initial investment, the combined investment can currently total up to a maximum of £6.5 million for unquoted and £4.4 million for AiM investees. Currently ISIS EP LLP ('the Manager') and its executive members are mandated to invest in unquoted companies alongside the Company on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's Articles permit borrowing to give a degree of investment flexibility. The Company's policy is to use borrowing for short term liquidity purposes only.

Management

The Board has delegated the management of the investment portfolio to the Manager. The Manager also provides or procures the provision of company secretarial, accounting, administrative and custodian services to the Company.

The Manager has adopted a 'top-down, sector-driven' approach to identifying and evaluating potential investment opportunities, by assessing a forward view of firstly the business environment, then the sector and finally the specific potential investment opportunity. Based on its research, the Manager has selected a number of sectors that it believes will offer attractive growth prospects and investment opportunities. Diversification is also achieved by spreading investments across different asset classes and making investments for a variety of different periods.

The Manager's Review on pages 7 and 8 provides a review of the investment portfolio and of market conditions during the year.

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the twin objectives of achieving long term capital growth and generating tax-free dividends.

Performance, measured by dividends paid to shareholders and the change in NAV per share, is also measured against the FTSE All-Share Total Return Index. This index, as the widest measure of UK quoted equities, has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of seven other generalist venture capital trusts. A review of the Company's performance during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's statement on pages 4 to 6.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted in pages 1 to 3 of this report.

Issue and Buy-Back of Shares

In accordance with the rights attaching to the C shares as set out in the Company's Articles of Association all of the issued C shares converted at an effective date of 31 December 2007. The conversion ratio of C shares into ordinary shares was 0.85642528 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 December 2007 (103.15 pence per share) and dividing it by the net asset value of the assets of the existing ordinary shareholders at 31 December 2007 (120.44 pence per share). On 28 January 2008, the conversion of the C shares into ordinary shares resulted in 21,899,078 ordinary shares being issued.

During the year the Company bought back 1,372,151 ordinary shares. The Company currently holds 4,552,151 ordinary shares in Treasury, representing 7.8 per cent of the Company's issued ordinary share capital (including shares held in Treasury) as at 11 February 2009. Shares held in Treasury will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company.

Directors

Biographies of the Directors are shown on page 16.

In accordance with Listing Rule (LR) 15.2.13, the Company should have no more than one Director who is also a Director of another company managed by ISIS EP LLP. Transitional provisions are in place for Venture Capital Trusts and the Company must comply with LR 15.2.13 by 28 September 2010. Notwithstanding this, the Board has decided that Mrs G Nott who is a director of Baronsmead VCT 2 plc and Baronsmead VCT plc and Mr R Owen who is a director of Baronsmead VCT 4 plc will seek annual re-election. Accordingly Mrs G Nott and Mr R Owen will retire at the forthcoming Annual General Meeting of the Company and, being eligible, will offer themselves for re-election.

Mr M Cannon Brookes retires by rotation at the forthcoming Annual General Meeting of the Company and being eligible offers himself for re-election.

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

The Directors who held office during the year, and their interests in the ordinary and, in respect of the year 2007, C shares of the Company, were:

Summary Financial Statement

	31 December 2008	31 December 2007	
	Ordinary 10p shares	Ordinary 10p shares	C 50p shares
Mark Cannon Brookes	158,062	135,818	20,700
Andrew Karney	76,115	38,656	41,200
Gillian Nott	25,461	16,597	10,350
Robert Owen	10,709	10,709	–
Total shares held	270,347	201,780	72,250

On 28 January 2008, the C share holdings of Mark Cannon Brookes, Andrew Karney and Gillian Nott converted into ordinary shares of 10p each.

There have been no changes in the holdings of the Directors between 31 December 2008 and 11 February 2009.

No Director has a service contract with the Company.

All Directors are members of the Audit, Management Engagement and Remuneration and Nomination Committees.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Corporate Governance

The full Corporate Governance Statement is set out in the Annual Report to 31 December 2008.

Whistleblowing

The Board has considered the Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 18 March 2009 can be found in the Notice of Meeting on pages 26 and 27.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the Association of Investment Companies Corporate Governance Guide for Investment Companies. The process is based principally on the Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular 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 Audit Committee and includes consideration of internal control reports issued by the Manager and other service providers.

Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate the risk of failure to meet business objectives and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to the benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Manager adheres to the published investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines, although no material changes may be made to the Company's published investment policy as set out on pages 17 and 18 without the prior approval of shareholders by passing an ordinary resolution.

The Board has reviewed the need for an internal audit function. The Board has concluded that the systems and procedures employed by the Manager 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.

Management

The personnel involved in providing management and investment management services to the Company has not changed as a result of the implementation of these arrangements.

The Manager also provides or procures the provision of company secretarial, administrative and custodian services to the Company. During the year the accounting and company secretarial services transferred from F&C Asset Management Limited to ISIS EP LLP. The management agreement may be terminated at any date by either party giving twelve months' notice of termination. Under the management agreement, the Manager receives a fee of 2.5 per cent per annum of the net assets relating to the ordinary shares. In addition, the Manager receives an annual secretarial and accounting fee subject to a maximum of £106,352 excluding VAT (adjusted for the movement in RPI).

Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the

Summary Financial Statement

Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

It is the Board's opinion that the continuing appointment of ISIS EP LLP on the terms agreed is in the best interests of shareholders as a whole.

Co-investment Scheme

The Co-investment Scheme requires that executive members of the Manager invest their own personal capital into 12 per cent of the ordinary shares of each and every unquoted investment except those life science transactions where ISIS EP LLP is not the lead investor. By 31 December 2008, a total of £487,744 had been invested in ordinary shares of 19 unquoted investments by 36 executives.

Shares under the Scheme cannot be sold unless and until each investment held by the four Baronsmead VCTs is sold contemporaneously. Gains for the executives will only be achieved if the Baronsmead VCTs make gains from the underlying investment. If the executive leaves before the sale of the investment, they may miss out on much of the potential value inherent in their Co-investment shares. The Scheme is intended to help attract, recruit, retain and incentivise executive members of the Manager.

Procedures are in place whereby the Board receives regular updates from the Manager regarding participants in the Co-investment Scheme and the amounts committed by ISIS EP LLP to each new unquoted investment. The Board also reviews the Co-investment Scheme arrangements at each quarterly valuation meeting. An open dialogue is maintained between the Board and the Manager regarding the operation of the Scheme.

Performance Incentive

A performance fee is payable to the Manager when the total return on net proceeds of the ordinary share offers exceeds 8 per cent per annum (simple) on net funds raised. The performance fee payable in any one year is capped at 4.99 per cent of net assets.

To the extent that the total return exceeds the threshold, a performance fee (plus VAT) will be paid to the Manager of 16.66 per cent of the excess in respect of the period to 31 March 2008, 13.33 per cent in respect of the period to 31 March 2009, and 10 per cent thereafter.

No performance fee is payable for the year to 31 December 2008.

ISIS Equity Partners – Arrangement Fees

During the year to 31 December 2008, ISIS EP LLP received net income of £203,298 (2007: £73,616) in connection with arrangement fees (net of abort costs) for six investee companies. This amount was paid by the investee companies.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP (PwC) to advise it on compliance with VCT requirements. PwC, as the Company's VCT Tax Status Adviser, 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.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

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

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

Substantial Interests

At 11 February 2009 the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital.

Authority to Allot Shares, disapplication of pre-emption rights and authority to re-issue Treasury Shares

Resolutions 8 and 9 to be proposed at the Annual General Meeting will authorise the issue of Ordinary Shares in the Company (having disapplied pre-emption rights).

Resolution 8 will authorise the Directors pursuant to Section 80 CA 1985 to allot shares up to an aggregate nominal value of £3,450,000 (representing 64.3 per cent of the issued ordinary share capital of the Company, excluding shares held in treasury, as at 11 February 2009, being the latest practicable date prior to the publication of this document). This authority will be used for the purposes of:

(a) the issue of Ordinary Shares pursuant to one or more offerings to raise in aggregate up to £12 million; and

(b) the issue of Ordinary Shares up to an aggregate of 30 per cent of the issued Ordinary Share capital immediately following the allotment of Ordinary Shares pursuant to paragraph (a) of Resolution 9, the proceeds of which may be used, in whole or in part, to purchase the Company's own Ordinary Shares in the market.

The authority conferred by Resolution 8 will expire on the fifth anniversary of the passing of the resolution. The Company held 4,552,151 Ordinary Shares in treasury representing 8.48 per cent of the Company's issued ordinary share capital (excluding Shares held in treasury) as at 11 February 2009 (being the latest practicable date prior to the publication of this document).

Summary Financial Statement

Resolution 9 will disapply pre-emption rights in respect of Ordinary Shares which may be allotted or re-issued out of Treasury for cash pursuant to the authority granted by Resolution 8. The maximum number of Ordinary Shares which may be allotted or reissued out of Treasury for cash on a non pre-emptive basis pursuant to the authority conferred by Resolution 8 will be 34,500,000 (representing 59.25 per cent of the issued ordinary share capital of the Company as at 11 February 2009, being the latest practicable date prior to the publication of this document). The authority conferred by Resolution 9 will expire on the conclusion of the annual general meeting of the Company to be held in 2010.

Treasury Shares

The Company currently holds 4,552,151 ordinary shares in Treasury. If Resolution 9 is passed the Board will consider itself permitted by shareholders to re-issue Ordinary Shares out of Treasury at a discount to the prevailing NAV per Ordinary Share if the Board considers it in the best interests of the Company to do so. However, Ordinary Shares will not be re-issued out of Treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company.

Teathers Limited, the Company's brokers, currently provide a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing Treasury shares when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from Treasury will not attract the 30 per cent initial income tax relief, all further dividends will be tax-free and if they are subsequently sold, no capital gains tax is payable by qualifying shareholders on these shares.

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 10 seeks renewal of such authority until the next Annual General Meeting 2010. The price paid for shares will not be less than the nominal value nor more than 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. 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. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Extension to the life of the Company

One of the main changes brought about by the Finance Act 2006 is that the holding period for investments increases from 3 years to 5 years from 6 April 2006. This means that in order for initial income tax relief not to be withdrawn, shareholders must hold their shares for 5 years from the date of investment. Shareholders gave approval at the Extraordinary General Meeting held on 25 September 2008 to extend the life of the Company to the annual general meeting falling after the fifth anniversary of the last allotment (from time to time) of shares of the Company.

Articles of Association

The Company proposes to adopt new Articles of Association which incorporate changes to the current Articles of Association to reflect the provisions of the Companies Act 2006 and otherwise generally update the Articles of Association for current regulations and market practice. As the 2006 Act will not be fully in force until October 2009, it is not yet possible to fully reflect the 2006 Act changes and it is anticipated that shareholders will be asked to approve further changes to the Articles at the 2010 AGM. The principal changes brought about by the new Articles of Association proposed to be adopted at the forthcoming AGM can be found on pages 28 to 29 following the Notice of Meeting.

The new Articles of Association proposed to be adopted by the passing of Resolution 11 include a provision which will allow general meetings of the Company (other than annual general meetings) to be called on 14 clear days' notice (being the minimum notice period currently provided under the Companies Act 2006). However, the Companies Act 2006 provisions relating to meetings are due to be amended with effect from August 2009, as a result of the UK implementation of the EU Shareholder Rights Directive. The Government is still consulting on the detail of the amendments that are to be made and will not publish the final form regulations until Spring 2009. One of the amendments to be made will, in accordance with the Directive, increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. It is not yet clear what this will require and the details will be set out in the final regulations when published. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. The Board believes that it is in the best interests of shareholders of the Company to ensure that the minimum notice period can remain at 14 days after August 2009. The Board is therefore proposing Resolution 12 as a special resolution to approve 14 days as the minimum period of notice for all general meetings other than annual general meetings.

Annual General Meeting

A notice of the Annual General Meeting of the Company is to be held at 11.00 am on 18 March 2009 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 26 and 27.

By Order of the Board,

PM Forster

Secretary

100 Wood Street

London EC2V 7AN

11 February 2009

Summary Financial Statement

Summary Directors' Remuneration Report

Directors' Fees

The Board which is profiled on page 16 consists solely of non-executive Directors and is considered to be entirely independent. The Board considers at least annually the level of the Board's fees, in accordance with the revised 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 Board concluded following the review of the level of Directors' fees for the forthcoming year that the Chairman's and Directors' fees should remain the same.

The Management Engagement and Remuneration Committee comprises 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 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 oversee properly 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 2009 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 £100,000 per annum. 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.

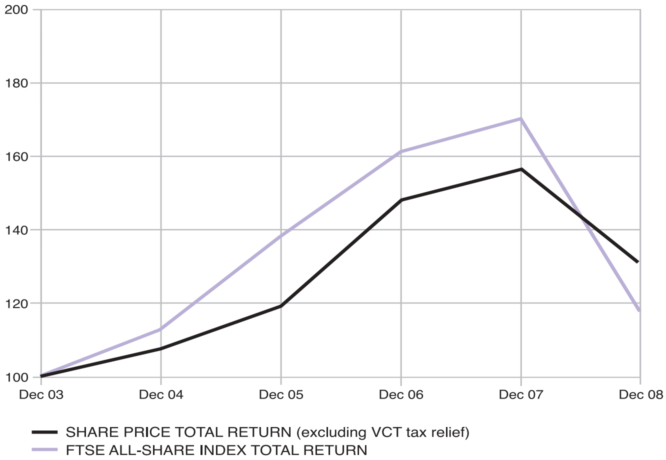
Director	Date of Original appointment	Due date for Re-election
Mark Cannon Brookes	10 January 2001	AGM 2009
Andrew Karney	10 January 2001	AGM 2010
Gillian Nott	10 January 2001	AGM 2009
Robert Owen	10 January 2001	AGM 2009

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. In accordance with the revised Combined Code on Corporate Governance, Directors who have served on the Board for more than nine years must offer themselves for re-election on an annual basis. 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 for the five financial years ending 31 December 2008, 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 Company. An explanation of the performance of the Company is given in the Chairman's Statement and the Manager's Review.

Share Price and the FTSE All-Share Index Total Returns 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 2008 £	Fees 2007 £
Mark Cannon Brookes	**21,000**	21,000
Andrew Karney	**14,000**	14,000
Gillian Nott	**14,000**	14,000
Robert Owen	**14,000**	14,000
Total	**63,000**	63,000

On behalf of the Board,

Mark Cannon Brookes
Chairman
11 February 2009

Independent Auditors' Report

Independent Auditors' statement to the shareholders of Baronsmead VCT 3 plc

We have examined the summary financial statement for the year ended 31 December 2008 set out on pages 24 to 25.

Respective responsibilities of the directors and the auditor

The Directors are responsible for preparing the summarised annual report in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the full annual financial statements, the Directors' Remuneration Report and the Directors' Report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the summarised annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement. The other information comprises only the Chairman's Statement and the Corporate Governance Statement.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Company's full annual financial statements describes the basis of our opinion on those financial statements, the Directors' Remuneration Report, and the Directors' Report.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of Baronsmead VCT 3 plc for the year ended 31 December 2008 and complies with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
11 February 2009

Income Statement

For the Year ended 31 December 2008

	2008			2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised (losses)/gains on investments	–	(8,894)	(8,894)	–	1,093	1,093
Realised (losses)/gains on investments	–	(808)	(808)	–	873	873
Income	2,255	–	2,255	2,569	–	2,569
Recoverable VAT	266	1,038	1,304	–	–	–
Investment management fee	(405)	(1,215)	(1,620)	(457)	(1,371)	(1,828)
Other expenses	(362)	–	(362)	(481)	–	(481)
Profit/(loss) on ordinary activities before taxation	1,754	(9,879)	(8,125)	1,631	595	2,226
Taxation on ordinary activities	(433)	433	–	(371)	371	–
Profit/(loss) on ordinary activities after taxation	1,321	(9,446)	(8,125)	1,260	966	2,226
Return per ordinary share:						
Basic	2.44p	(17.43p)	(14.99p)	–	–	–

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2008

	2008	2007	2007	2007
	Ordinary shares £'000	Ordinary shares £'000	C shares £'000	Total £'000
Opening shareholders' funds	65,221	42,321	24,227	66,548
(Loss)/profit for the year	(8,125)	302	1,924	2,226
Increase in share capital in issue	1,118	680	1,696	2,376
Purchase of shares for Treasury or cancellation	(1,398)	(759)	–	(759)
Dividends paid	(1,629)	(3,698)	(1,472)	(5,170)
Expenses of share issue and conversion of share premium	(51)	–	–	–
Closing shareholders' funds	55,136	38,846	26,375	65,221

Balance Sheet

As at 31 December 2008

	2008	2007		
	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets				
Investments	**51,956**	35,050	25,069	60,119
Current assets				
Debtors	**2,000**	943	405	1,348
Cash at bank and on deposit	**1,732**	3,231	1,340	4,571
	3,732	4,174	1,745	5,919
Creditors (amounts falling due within one year)	**(493)**	(378)	(354)	(732)
Net current assets	**3,239**	3,796	1,391	5,187
Total assets less current liabilities	**55,195**	38,846	26,460	65,306
Creditors (amounts falling due after one year)	**(59)**	–	(85)	(85)
Net assets	**55,136**	38,846	26,375	65,221
Capital and reserves				
Called-up share capital	**5,822**	3,543	12,785	16,328
Share premium account	**6,768**	4,879	911	5,790
Capital redemption reserve	**10,862**	267	–	267
Revaluation reserve	**(1,765)**	5,954	2,622	8,576
Profit and loss account	**33,449**	24,203	10,057	34,260
Equity shareholders' funds	**55,136**	38,846	26,375	65,221
Net asset value per share				
– Basic	**102.72p**	120.44p	103.15p	–
– Treasury	**101.77p**	119.64p	–	–

The financial statements were approved by the Board of Directors on 11 February 2009 and were signed on its behalf by:

MARK CANNON BROOKES (Chairman)

Notice of Annual General Meeting

Notice is hereby given that the eighth Annual General Meeting of the Baronsmead VCT 3 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS on 18 March 2009 at 11.00 am for the following purposes:

Ordinary Business

1. That the Report and Accounts for the year to 31 December 2008 be received.

2. That the Directors' Remuneration Report for the year to 31 December 2008 be approved.

3. To approve a final dividend of 4.5p per ordinary share.

4. That Mr M Cannon Brookes, who retires by rotation, be re-elected as a Director.

5. That Mrs G Nott be re-elected as a Director.

6. That Mr R Owen be re-elected as a Director.

7. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

8. THAT in substitution for all subsisting authorities to the extent unused, the Directors be and hereby are authorised to exercise all of the powers of the Company to allot relevant securities which expression shall have the meaning ascribed to it in Section 80 of the Companies Act 1985 (''the Act'') up to an aggregate nominal value of £3,450,000, provided that the authority conferred by this Resolution shall expire on the fifth anniversary of the date of the passing of this Resolution unless renewed, varied or revoked by the Company in general meeting (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 notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements).

9. THAT in substitution for all subsisting authorities to the extent unused, the Directors be and hereby are empowered pursuant to Section 95(1) of the Companies Act 1985 ('the Act') to allot (within the meaning of Section 94 (3A) of the Act) or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by Resolution 8 as set out in the notice of this meeting as if Section 89(1) of the Act did not apply to such allotment provided that the power provided by this Resolution shall expire on the conclusion of the annual general meeting to be held in 2010 and provided further that this power shall be limited to the allotment and issue of equity securities in connection with:

   (a) the allotment of equity securities with an aggregate nominal value not exceeding £1,300,000 pursuant to one or more offers for subscription of ordinary shares of 10 pence each in the capital of the Company (''Ordinary Shares'') to raise in aggregate up to £12 million (''Offer(s)''); and

   (b) the allotment, otherwise than pursuant to sub-paragraph (a) of this Resolution, of equity securities with an aggregate nominal value of up to £2,140,000 but not exceeding the nominal value of such number of Ordinary Shares as shall equal 30 per cent of the issued Ordinary Shares immediately following the final allotment following the closing of the Offer(s), where the proceeds of the allotment may be used in whole or in part to purchase the Company's Ordinary Shares in the market.

10. THAT the Company be and hereby is empowered to make market purchases within the meaning of Section 163 of the Companies Act 1985 (''the Act'') of its own Ordinary Shares of 10p each in the capital of the Company ('Ordinary Shares') provided that:

   (a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 10,000,000 or if lower such number of Ordinary Shares as shall equal 14.99 per cent of the issued Ordinary Shares as at the date of such purchase (excluding any Ordinary Shares held in treasury);

   (b) the minimum price which may be paid for an Ordinary Share is the nominal value thereof of 10 pence;

   (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotation for an Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary Shares are to be purchased;

   (d) the authority conferred by this Resolution shall expire on 18 June 2010 or, if earlier, the conclusion of the annual general meeting to be held in 2010 unless such authority is renewed prior to such time; and

Notice of Annual General Meeting

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

11. That the Articles of Association contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the Annual General Meeting.

12. THAT, subject to the adoption of the new Articles of Association of the Company by the passing of Resolution 11 as set out in the notice of this meeting, a general meeting (other than an annual general meeting) may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company.

By Order of the Board

P M Forster
Secretary
100 Wood Street
London EC2V 7AN
11 February 2009

Notes:

1. No Director has a service contract with the Company.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), members must be registered in the Register of Members of the Company by not later than 11.00 a.m. two days prior to the time fixed for the meeting. If the meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned meeting is 11.00 a.m. two days prior to the time of the adjournment. Changes to the Register of Members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member, but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. To appoint more than one proxy, an additional proxy form(s) may be obtained by contacting the Company's registrars, Computershare Investor Services PLC, helpline on 0870 703 0137 or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name, the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. A reply paid form of proxy is enclosed with Shareholders' copies of this document. To be valid, it should be lodged with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received not later than 48 hours before the time-appointed for the meeting or any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.
6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
7. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
8. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a ''Nominated Person'') should note that the provisions in Notes 3 and 4 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
9. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
10. As at 11 February 2009 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consists of 58,226,997 Ordinary Shares, carrying one vote each. Excluding those Ordinary Shares held in treasury, the total voting rights in the Company as at 11 February 2009 are 53,674,846 Ordinary Shares.

Explanatory notes of principal changes to the Company's Articles of Association

It is proposed to adopt new Articles of Association (New Articles) in order to update the Company's current Articles of Association (Current Articles) primarily to take account of changes in English company law brought about by the Companies Act 2006 that came into force on or before 1 October 2008. These changes are in addition to the new provisions of the Companies Act 2006 relating to Directors' conflicts of interest which were approved by Shareholders at the Extraordinary General Meeting held on 25 September 2008 and which are already included in the Current Articles.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted below. The New Articles showing all the changes to the Current Articles are available for inspection at the offices of ISIS EP LLP from the date of this notice until the close of the Annual General Meeting on 18 March 2009 and will also be available for inspection at the venue of the Company's Annual General Meeting for at least 15 minutes before and during the Annual General Meeting.

1 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main being amended to bring them into line with or to cross refer to the relevant provisions of the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions and provisions regarding the period of notice required to convene general meetings.

2 Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

3 Notice of annual general meetings and general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. Accordingly, a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. However, as noted on page 21 of the Directors' Report the Companies Act 2006 provisions relating to meetings are due to be amended with effect from August 2009, as a result of the UK implementation of the EU Shareholder Rights Directive and one of the amendments to be made will, in accordance with the Directive, increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided the two conditions referred to in the Directors Report are met. As the Board believes that it is in the best interests of shareholders of the Company to ensure that the minimum notice period can remain at 14 days after August 2009, the Board intends to seek shareholder approval, on an annual basis, through the passing of a special resolution at its Annual General Meetings, to permit it to convene general meetings other than annual general meetings on 14 days' notice.

4 Amendments to resolutions

The New Articles include a provision allowing members to submit amendments to proposed ordinary resolutions 48 hours prior to the meeting at which such resolutions are to be considered.

5 Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions other than the ability to exclude weekends and bank holidays.

6 Age of directors on appointment

The Current Articles contain a provision stating that a person is not incapable of being appointed a Director by reason of his having attained the age of 70 or any other age, nor shall any special notice be required in connection with the appointment or the approval of the appointment of such person. Such provision is now unnecessary due to the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

Explanatory notes of principal changes to the Company's Articles of Association

7 Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

8 Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. The existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

9 Share transfers

Under the Current Articles, the Company is not obliged to give any reason for refusing to register a transfer of shares. Provisions of the Companies Act which came into force in April 2008 require a company to give the transferee reasons for refusal, and the New Articles have been amended accordingly.

10 Execution of deeds

It is now possible for a company to execute a deed in the presence of a single director, provided a witness attests the signature and the New Articles reflect this.

11 General

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles.

Shareholder Information and Contact Details

Shareholder Helpline

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

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

Automated Functions

– confirm the latest share price

– confirm your current share holding balance

– confirm payment history

– order a Change of Address, Dividend Bank Mandate or Stock Transfer Form

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

Enquiries

Shareholders should contact the following regarding queries:

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

Computershare (Company Registrar)

www-uk.computershare.com/investor

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www-uk.computershare.com. Please note that to access this facility investors will need to quote the reference number shown on their share certificate.

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation. Please see www.investorcentre.co.uk for further information.

For information on asset allocations, dividend policies, investment process, DRIP mechanism, share price movements, the share price discount and selling shares:

ISIS EP LLP (the Investment Manager) at www.isisep.com

e-mail: michael.probin@isisep.com; paul.forster@isisep.com; margaret.barff@isisep.com

Tel: Michael Probin 020 7506 5796; Paul Forster 020 7506 5652; Margaret Barff 020 7506 5630.

The Baronsmead website (www.baronsmeadvcts.co.uk) links to helpful sites, contains details of the team and some case studies of investments.

Shareholder communication

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

Electronic communication has been introduced following new legislation in the 2006 Companies Act and the Baronsmead website is available at www.baronsmeadvcts.co.uk.

Shareholder Information and Contact Details

Share Price

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

Trading Shares

The Company's shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker.

The marketmakers in the shares of Baronsmead VCT 3 plc are:

Teathers Limited	020 7426 9000
Winterfloods	020 3400 0251

Financial Calendar

18 March 2009	Eighth Annual General Meeting
August 2009	Announcement of interim results
August 2009	Posting of interim report
February 2010	Announcement of final results for year to 31 December 2009

The shareholdings as at 31 December 2008 are analysed as follows:

	Ordinary Shares			
Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
1–2,000	65	2.21	33,281	0.06
2,001–5,000	775	26.31	2,937,665	5.05
5,001–10,000	751	25.49	5,768,447	9.91
10,001–25,000	791	26.85	13,161,635	22.60
25,001–50,000	382	12.97	13,632,225	23.41
50,001–100,000	131	4.45	9,539,089	16.38
Over 10,0001	51	1.73	13,154,655	22.59
Total	2,946	100.00	58,226,997	100.00

Additional Information

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

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

Corporate Information

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

Secretary
Paul Forster, FCIS

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Investment Manager
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London EC2V 7AN

Investor Relations
Michael Probin
020 7506 5796

Registered Number
04115341

*Chairman of the Audit Committee
†Senior Independent Director

Registrars and Transfer Office
Computershare Investor Services PLC
PO Box 82
The Pavilions
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Berkeley Square
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Auditors
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