BARONSMEAD

Baronsmead VCT 3 plc

2009

Annual report & accounts
for the year ended
31 December 2009

Investment Objective

Baronsmead VCT 3 is a tax efficient listed company which aims to achieve long-term investment returns 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.

Full details on the Company's published investment policy and risk management are contained in the Directors' Report on pages 17 and 18.

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Dividend policy

The Board of Baronsmead VCT 3 has the objective 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 cannot be guaranteed. There will be variations in the amount of dividends paid year on year. Since launch, the average annual tax-free dividend paid to Shareholders has been 5.4p per Ordinary Share (equivalent to a pre-tax return of 8.0p per Ordinary Share for a higher rate taxpayer). For Shareholders who received up front tax reliefs, their returns would have been 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.

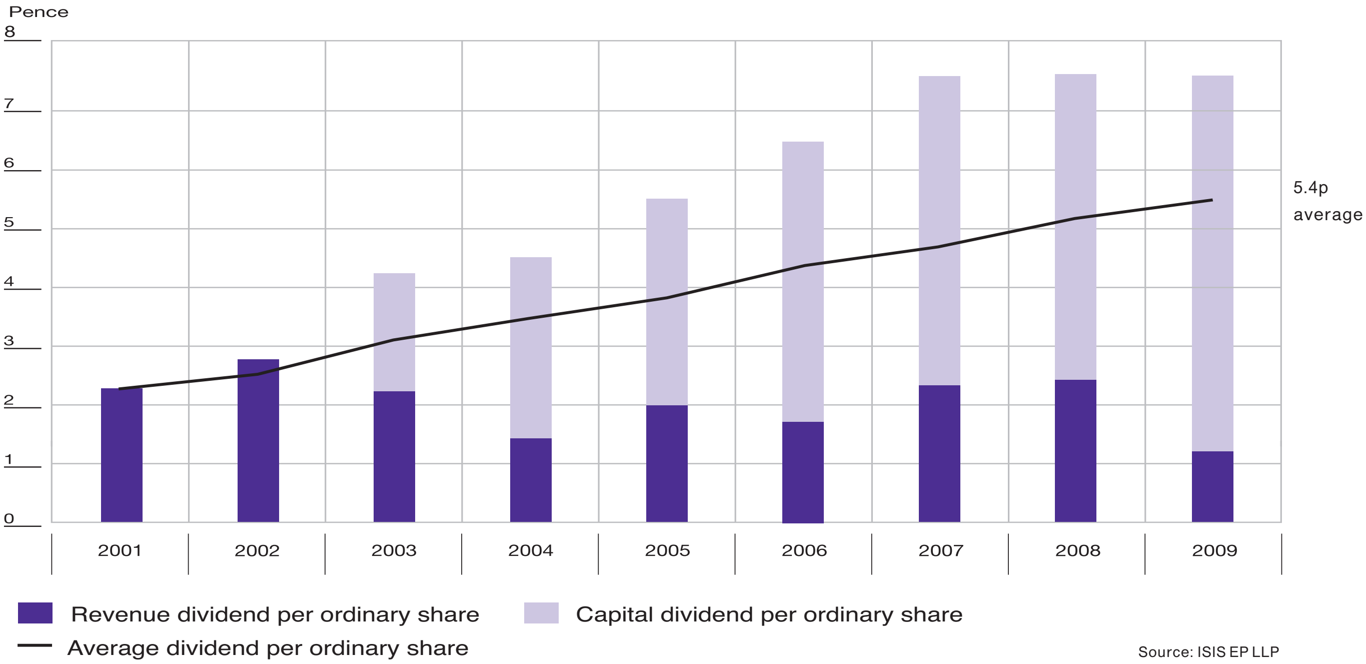
www.baronsmeadvct3.co.uk

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

6.9%	**NAV per ordinary share** increased 6.9% to 105.0p before deduction of dividends.
7.5p	**Dividends for the year** totalled 7.5p per share comprising two interim dividends of 3p and 4.5p paid during the year, tax free for qualifying shareholders.
48.3p	**Cumulative tax free dividends** total 48.3p per share for founder shareholders since launch in 2001, equivalent to an annual average dividend of 5.4p per share. The average annual dividend over the last five years has been 6.9p per share.
159.9p	**NAV total return to ordinary shareholders** for every 100p invested since launch.
8.7%	**Based on the 7.5p dividends paid** in the year and the mid share price of 86.25p at year end shareholders have received a tax free return of 8.7% for qualifying shareholders (the gross equivalent yield for a higher rate tax payer is 12.9%).

Dividend history since launch

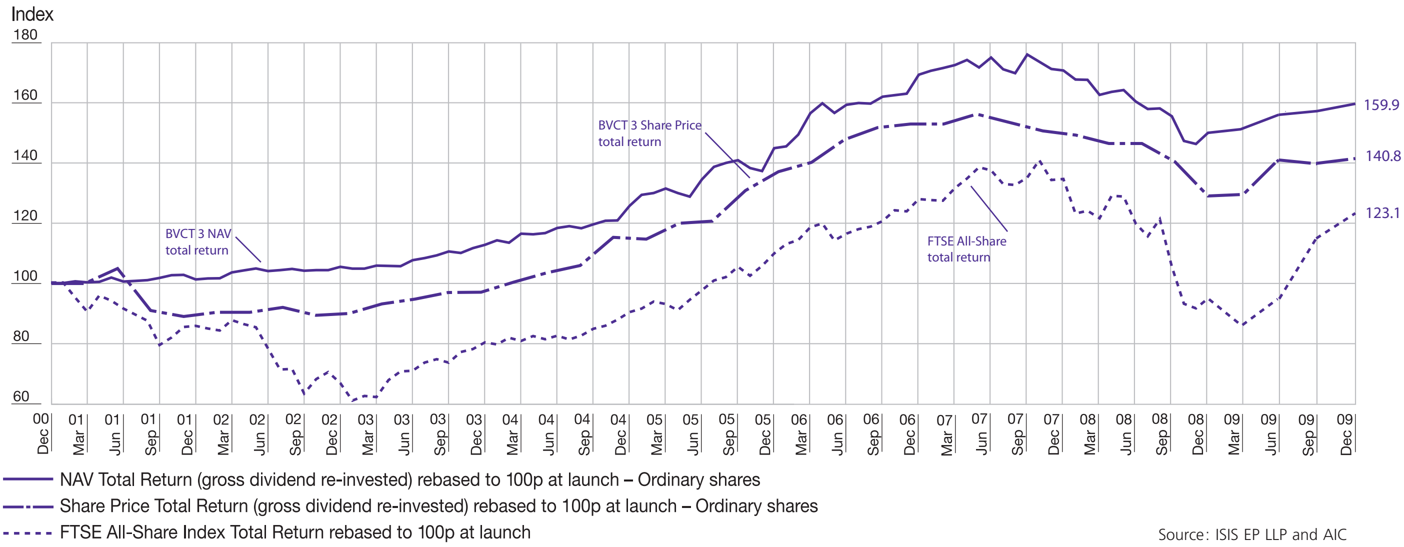


Source: ISIS EP LLP

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



Source: ISIS EP LLP and AIC

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 the 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 2009

Total return*	1 year %	3 year %	5 year %	Since launch %
Net asset value†	6.9	(5.5)	27.3	59.9
Share price†	9.0	(3.7)	34.6	40.8
FTSE All-share	30.1	(4.0)	36.8	23.1

* 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

		Ordinary Share				
Year ended 31 December	Total net assets £m	Net asset value p	Share price (mid) p	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
2009	53	97.50	86.25	159.89	123.11	3.1

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

Summary Since Launch

Dividends Paid Since Launch

	Ordinary Share				
Year ended 31 December	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
2009	1.20	6.30	**7.50**	48.30	5.37

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	100	20.0	80.0	48.30	6.8	10.1
2005 – C share	100	40.0	60.0	19.85	6.8	10.1

*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.

Dividends paid to C Shareholders post conversion have been adjusted by the conversion ratio (0.85642528).

Chairman's Statement

Mark Cannon Brookes
Chairman

The year to 31 December 2009 has seen a resumption of positive investment returns amounting to a 6.9 per cent increase in Net Asset Value per share. The unquoted investees have shown good resilience while there has been a strong recovery in many of the share prices of our AIM portfolio. The unchanged 7.5p dividend per share paid in the year has been largely paid out of reserves generated during this period.

I am delighted to welcome Anthony Townsend as the second Chairman of Baronsmead VCT 3 on my retirement at the close of the Company's AGM. For most of the last nine years, the Company's performance has consistently been top quartile. There have been a number of profitable realisations that have enabled us to generate significant dividends since launch. With the portfolio in good shape, I believe the Company is well positioned to take advantage of improving market conditions.

INVESTMENT PERFORMANCE

Results to 31 December 2009

In the twelve months to 31 December 2009, the Net Asset Value (NAV) per share increased 6.9 per cent from 98.22p to 105.00p before the dividend payments. The position can be summarised as follows:

NAV at 1 January 2009	98.22*
Valuation uplift	6.78
	105.00
Interim dividend paid on 7 September 2009	(3.00)
Interim dividend paid on 30 December 2009	(4.50)
NAV at 31 December 2009	97.50

*Adjusted for 4.5p 2008 final dividend for comparative purposes.

The 6.9 per cent growth in NAV per share over the year was generated by a 4 per cent increase in the value of the unquoted portfolio and an increase in the value of the AIM portfolio of 33 per cent. The FTSE All-Share Index increased 30.1 per cent over the same 12 month period. The positive direction of NAV per share started in March 2009 and has steadily increased since then.

At the period end, over 70 per cent of the capital raised prior to 31 December 2007 was invested in VCT qualifying investments and the 5 other VCT qualifying tests had also been met throughout the year.

Long term performance

The Company's Investment Objective emphasises the longer term performance of the Company. This is also consistent with our understanding of shareholders investment horizons. The Board reviews the long term performance of the Company using a number of different metrics, but takes particular account of total dividends paid to shareholders as well as NAV and Share Price total returns.

The second interim dividend took the cumulative dividends paid (tax free to qualifying shareholders) to founder shareholders to 48.3p per share. This is an average annual dividend throughout the life of the Company of 5.4p per year.

There have been two prospectus fund raisings by Baronsmead VCT 3 excluding the current Joint Offer with Baronsmead VCT 4. Shareholders from these prior offers have to date achieved positive absolute NAV returns. The performance since launch to December 2009 puts Baronsmead VCT 3 in the top quartile of other Generalist VCTs launched in the same tax year. Fuller comparisons have recently been provided by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk.

The returns to shareholders are significantly enhanced by the tax benefits available to VCT investors. At a time of lower and sometimes negative investment returns, the proportional benefit from these taxation reliefs is greater.

PORTFOLIO

The valuation guidelines for unquoted companies have been revised by the International Private Equity and Venture Capital Valuation Board to facilitate compliance with International, US and UK accounting standards. The Board has applied the new guidelines having been satisfied that these provide an improved framework for estimating market value. In valuing the unquoted investments the Board has available to it a significant amount of information for comparison purposes including earnings multiples of recent transactions, P/Es of comparable quoted companies and FTSE sectors, all suitably adjusted for size, liquidity, gearing, growth prospects and business mix. AIM investments continue to be valued at bid price.

ScriptSwitch was sold in October 2009 at almost four times the initial cost of the investment made in May 2007 while the unquoted investment in Green Issues was realised at zero value. Seven AIM investments were realised (but shares retained in two of the purchasers) and another six written off. Those companies which were sold in 2009 had increased in value by £1.4 million since 31 December 2008, split almost equally between ScriptSwitch and those realised from the AIM portfolio. Three new AIM investments were made and as a result the overall portfolio of quoted investments reduced in number to 45 companies during the year.

48 per cent of the net asset value of £52.9 million was invested in unquoted companies, 23 per cent in AIM, listed and collective investment vehicles and the balance of 29 per cent remained in liquid assets or government securities. The largest unquoted investment, Reed & Mackay, and the largest AIM investment, IDOX plc, represented 5.9 and 2.2 per cent of Net Asset Value respectively.

Chairman's Statement

Unquoted portfolio

The performance of the unquoted portfolio has been robust and its valuation has increased by 4 per cent. This validates the quality of the portfolio and the effectiveness of close cooperation and active Manager involvement with the investee companies.

On average, the current portfolio of unquoted investments is valued at some 22 per cent higher than original cost. 13 companies are valued at higher than cost and 5 are valued below cost.

AIM-traded portfolio

The AIM portion of the portfolio has improved 33 per cent over the last 12 months recovering a good part of the previous year's falls. In the second half of the year five of the investee companies were sold outright confirming that acquirers could still appreciate the good value that resided in these relatively lowly rated situations. This also supports the longer term strategy of taking more influential stakes in a smaller number of AIM investments, where a likely exit strategy to a trade buyer can be envisaged.

Non-Qualifying AIM and Small Cap Investments

The Company has invested a very small proportion of its assets in non-VCT qualifying AIM and Small Cap companies in order to take advantage of investment opportunities that the Manager identifies in this area. These investments are now arranged through a collective investment vehicle set up and managed by the Manager in order to provide the Baronsmead VCT Boards with greater flexibility to choose and vary their respective Company's allocation to this area of investing. This investment is referred to in the portfolio and the various notes to the accounts as Wood Street Microcap Investment Fund and during the year Baronsmead VCT 3 invested £525,000 (approximately 1 per cent of the Company's NAV) in this vehicle. The Manager receives no additional fee for managing the Company's investments in this way.

UK economic impact from VCT investment

VCT tax reliefs encourage private investors to invest in UK growth companies that mainly require £2 million to £10 million of risk capital.

The return on this investment in tax reliefs can be gauged by the subsequent growth of the investee companies, many of which since our launch in 2001 have grown successfully during our period of ownership. The number of employees across the investee companies acquired since April 2004 within the unquoted portfolio of the Baronsmead VCTs increased from 1,995 to 3,077 from the date of initial investment as stated in their latest audited accounts.

PROSPECTS FOR NEW INVESTMENT

The market for investing in new transactions has been depressed over the last 12 months with overall M&A volumes down significantly although eight follow on investments were completed during the year under review. The quality of new unquoted proposals is improving as confidence begins to return to the market. Additionally the Manager has an active programme of directly approaching prospective investee companies in selected sectors, and this is building a strong pipeline of entrepreneurs who would like to work with the Manager when the timing is right. This continues to be a significant investment for the future.

The volume of qualifying AIM opportunities has increased markedly although conversion rates have, so far, remained low as the Manager continues to maintain a high quality threshold for new investments. Prospects for the AIM market generally have been at a low ebb but are now improving as recent research is increasingly recognising that the AIM market plays an important role for venture backed companies as they transition into more mature companies through an IPO.

SHAREHOLDER ISSUES

Joint offer prospectus launched in January 2010

Shareholders gave the Board authority at the annual general meeting held on 18 March 2009 to issue up to 13 million ordinary shares, by way of a Joint Offer. The Securities Note for a Joint Offer in conjunction with Baronsmead VCT 4 was sent to all Shareholders in January 2010 and aims to raise up to £8 million for each of Baronsmead VCT 3 and Baronsmead VCT 4. The final closing date is 1 April 2010 but the Directors reserve the right to extend the Joint Offer beyond this date.

One of the key messages in the Securities Note is ''the Directors and Manager believe that it is an advantageous time in the economic cycle, when prices of assets are expected to be attractive, to raise capital to enable the Companies to continue making investments in accordance with their investment strategies''.

The Directors of Baronsmead VCT 3 already hold over a quarter of a million shares in the Company and have agreed to subscribe at least another £45,000 for further shares as part of the Joint Offer with Baronsmead VCT 4 plc.

Company brokers

The Company's former broker, Teathers, ceased to operate as a market maker during March 2009. However, several other firms became market makers during that month thereby minimising the impact this could have had on the discount to NAV at which the Company's shares were traded. Currently the Company's shares have three market makers, namely Matrix Corporate Capital, Winterflood and Singer Capital Markets.

Following a review of brokers the Board agreed to appoint Matrix Corporate Capital as the new broker to the Company from the

Chairman's Statement

beginning of August 2009. Their specialist knowledge of the VCT sector enables the bid – offer spread to remain narrow at around 2p to 3p per share rather than the much wider spreads typical for similarly sized quoted public companies.

Buy backs and market discounts

During the 12 months to 31 December 2009, 0.9 million shares were bought back (all between March and May 2009). This was a peak time as the 24.0m ordinary shares, issued originally as C shares in 2005/2006, reached their third year anniversary. Since then most of the shares that have come up for sale have been acquired as part of the Dividend Reinvestment Plan, totalling 702,000 shares in the second half of the year. The average market price discount to NAV was around 10 per cent over the year which compares favourably to the rest of the VCT sector where discounts to NAV were generally higher.

Finance Act 2009 and Pre-Budget Report 2009

Following the changes announced in the 2009 Budget and implemented in the Finance Act 2009, for those individuals earning in excess of £150,000 annually, restrictions have been introduced which curb both the level of contributions and the amount of tax relief available on those contributions made into a pension scheme with effect from 6 April 2011. Further restrictions have been introduced for this tax year and next, known as ''anti-forestalling measures'' which prevent many individuals investing large sums into their pension schemes ahead of the changes coming into force.

As a result, VCTs may now represent an attractive supplement to traditional pension planning for people affected by these changes and others seeking to implement their retirement planning options and tax efficient investing generally. Investors should consult their financial advisers about how these changes might affect them and whether or not investing in VCTs is suitable for them, taking into account their personal circumstances.

The Pre-Budget Report announced a consultation process on a number of changes to conclude the EU's State Aid approval conditions and refine the targeting of tax relief. The Manager is actively engaged with industry bodies in the consultation process.

BOARD SUCCESSION

Last year I alerted shareholders to the review being carried out by Andrew Karney, the Senior Independent Director, regarding Board Succession as the current Board had been in post since our inception in January 2001. As a result Anthony Townsend joined the Board in August 2009 and I am now very pleased that he has accepted the Board's invitation to take on the Chairman's role. He is an experienced Chairman and has in depth experience of both investment banking and fund management. The latter includes much knowledge of investment trusts and he has previously been chairman of the AIC (formerly the Association of Investment Trust Companies).

It is rewarding for me to see the progress of Baronsmead VCT 3 since 2001. Our total return performance places us among the top quartile in the VCT sector and compares favourably against larger investment trusts in Private Equity. Much of this return comes from the unquoted portfolio and from the profitable sale of investments, distributions of net capital realisations amounted to 30p per share (out of the 48.3p total paid out) over this period. This performance is a testament to sticking to our investment policies through the previous stock market low of March 2003 and now the current global financial crisis.

This has been achieved in part because of a strong focus on risk management. Good diversity in the portfolio has been paramount as evidenced by 64 holdings in the present portfolio.

ANNUAL GENERAL MEETING

I look forward to meeting as many shareholders as possible at our Annual General Meeting at 10.30 am on Tuesday 18 May 2010 to be held at the London Stock Exchange, 10 Paternoster Square near St Paul's Cathedral. The AGM will be followed by presentations from the Manager and an investee company, a light lunch and shareholder workshop.

OUTLOOK

Equity markets have rallied in recent months anticipating that the pace of decline in the UK economy over the past 12 months has slowed and perhaps stabilised. There can be little doubt that the finances of the consumer will come under considerable pressure but whilst remaining cautious, the Board and Manager share the belief that once greater stability has returned to UK financial and industrial markets your Company is well placed to capitalise on a more favourable investment environment.

The Directors believe that the new capital being raised in this quarter is an attractive opportunity for both existing and new shareholders, providing further balance sheet strength and flexibility for Baronsmead VCT 3 to sustain investment in smaller UK growth companies.

We continue to monitor developments in relation to the proposed EU Directive on Alternative Investment Fund Managers (AIFM) which may impose restrictions on the Manager and/or the Company over the manner in which investments are made and funds raised. The Directive is currently in a consultation phase that encompasses both the EU Council and Parliament and the Company and Manager are supporting the AIC and BVCA in their representation to this process.

Mark Cannon Brookes
Chairman
18 February 2010

Manager's Review

Sheenagh Egan
Chief Operating Officer

Andrew Garside
Fund Manager

Michael Probin
Investor Relations

Het Marsh
AIM Investment Manager

We have worked closely with the companies in the unquoted portfolio to ensure their stability and to position them advantageously as the economic climate improves. Trading across the portfolio has generally improved.

Investment opportunities for both potential and existing AIM companies of the right quality are evident. Management teams in unquoted companies are also gaining confidence to partner with us in fulfilling their growth ambitions.

PORTFOLIO REVIEW

The total portfolio comprised 64 investee companies at the year end after seven realisations and seven write offs. For those AIM-traded companies that have been written off, they had largely been revalued at low share prices in prior years and so the decrease in value this year was limited to £0.3 million, approximately 0.5p NAV per share. Cash proceeds from all realisations totalled £6.0 million, including £3.5 million from the sale of ScriptSwitch.

Three new investments were made in Clarity Commerce Solutions, Green Compliance and Marwyn Value Investors, all AIM-traded companies. Further investments were made in existing investees amounting to £0.9 million. The shareholding in Inverness Medical, a NYSE listed company, was taken in exchange for selling our holding in Concateno and we also received shares in Chime Communications for our holding in Essentially Group.

All new investment and realisations are scheduled on page 9 of the annual report.

Portfolio companies are reviewed quarterly in terms of their financial health and in the last two quarters, those exhibiting steady or better trading progress have improved to 84 per cent. In part this has come from focusing on robust business models where growth strategies are less dependent on overall economic growth and more on the competitive advantage in delivering superior value to their end customers.

ScriptSwitch was sold to a US trade buyer in the healthcare market, resulting in a return, including expected escrow payments, approaching 4.0 times the cost of the initial investment made in May 2007. It had grown rapidly due to the demand for its unique prescribing software in reducing cost within Primary Care Trusts' drug budgets. More than 115 NHS Primary Care Organisations have benefited from their prescribing decision support estimated to presently save £1.2 million per month. The CEO, Mike Washburn, became the BVCA 'Venture Capital backed CEO of the year' in October 2009.

Manager's Review

Unquoted portfolio management

ScriptSwitch and three other case studies of unquoted companies from different sectors within the portfolio are set out on pages 14 and 15. These are the same four companies that were profiled last year and the intention this year has been to show how the Manager has worked with the management teams to prepare each business for the more difficult trading conditions that they would experience.

For example, the financial structures adopted in the unquoted portfolio have been designed to be prudent wherever possible with relatively low levels of external debt. There are several ways of measuring borrowings but the most common relates to the level of net borrowings divided by annual operating profits defined as EBITDA – earnings before interest, tax, depreciation and amortisation. At an average ratio of 1.7 times across the unquoted portfolio, the level of debt within the portfolio as a whole is relatively low and considerably less than those typically used in larger private equity transactions.

The Manager is also actively involved in assisting investee companies maintain tight control of overheads, focusing on efficient working capital management and ensuring early communication with each investee company's banks to help manage risk and minimise issues. Presentations by investee companies at each AGM have illustrated the close relationship between the executive management of unquoted companies and the Manager.

Nexus is a good example of a growth company operating in the relatively mature UK car and van rental market. After the initial investment in early 2008, we encouraged the acquisition of a competitor partly financed by further investment from the Baronsmead VCTs late last year. As a broker, Nexus provides a comprehensive procurement service for corporate users, which delivers access to a huge range of rental suppliers and vehicles from a single ordering point. At the heart of the business is an innovative internet based system that offers these extensive capabilities cost effectively.

The two rounds of investment in Nexus cost £1.9 million and have been valued at £2.5 million as at 31 December 2009.

AIM investment

The sentiment towards the AIM market has materially improved during the year and this confidence can be seen in several ways. A series of satisfactory trade sales occurred in the second half of the year as well as trade buyers taking strategic stakes in a number of investees as they perceive greater value. There is also greater demand currently for potential AIM floats (IPOs) where the companies believe that capital raised from AIM can satisfy their growth aspirations.

During the year, further investment was made in six AIM companies where we perceived good value and wished to be supportive of their growth plans. Most of these companies endeavour to dominate their specialist market niche and we believe can then become attractive takeover targets with greater critical mass. The portfolio as a whole was 33 per cent higher over the year.

Our strategy for investing in AIM-traded companies is to use private equity disciplines where possible and focus on holdings where the Manager can be an influential shareholder. This approach means that the portfolio will become more concentrated and already the tail of smaller investments has been shortened with a number of write offs and sales. Some of these investments, however, may be retained over the medium term as they still contribute significantly to the 70 per cent VCT qualifying test even though they have a relatively low market value.

OUTLOOK

The last year has been a time for entrepreneurial companies to be focused on running a tight operation and ensuring they can control their destiny despite the difficulties of the banking market. This has largely been achieved across the portfolio. The improving economic climate is now there for these companies to grow both market share and profits. It will be the continued innovation and drive of these companies aided by the support of experienced and active investors like ISIS that can create value for the shareholders in Baronsmead VCT 3.

ISIS EP LLP
Investment Manager
18 February 2010

Manager's Review

New investments in the year to 31 December 2009

Number	Company	Location	Sector	Activity	Investment cost (£'000)
	AIM-traded and listed investments				
	New				
1	Clarity Commerce Solutions plc	Basingstoke	IT & Media	Software for leisure industry	50
2	Green Compliance plc	Cirencester	Business Services	Blue collar compliance	250
3	Marwyn Value Investors plc	London	Financial Services	Investment fund	64
	Follow on				
1	Adventis Group plc	London	IT & Media	Marketing services agency	82
2	Electric Word plc	London	IT & Media	Business to business publisher	237
3	Ffastfill plc	Sevenoaks	IT & Media	Trading platform software provider	140
4	IDOX plc	London	IT & Media	Public sector software and services	118
5	Kiotech International plc	Surrey	Healthcare & education	Animal feed additives	75
6	WIN plc	High Wycombe	IT & Media	Text messaging services	150
	Paper consideration				
1	Inverness Medical Inc†	USA	Healthcare & Education	Developer of health management programmes	180
2	Chime Communications Group plc‡	London	IT & Media	Marketing services agency	369
	Total AIM-traded and listed investments				**1,535**
	Unquoted investments				
	Follow on				
1	Occam DM Ltd	Bath	IT & Media	Integrated data services	8
2	Xention Discovery	Cambridge	Healthcare & education	Developer of ion channel modulating drugs	90
	Total Unquoted investments				**98**
	Collective investment vehicle				
	New				
1	Wood Street Microcap Investment Fund				525
	Total Collective investment vehicle				**525**
	Total Investments in the period				**2,158**

† Paper consideration from sale of Concateno plc traded on New York Stock Exchange ‡ Paper consideration from sale of Essentially Ltd

Realisations in the year to 31 December 2009

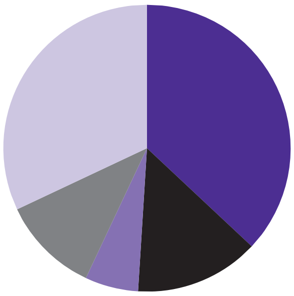
Number	Company		First investment date	Value at 31 December 2008 £'000	Proceeds (£'000)	Realised profit/(loss) this period £'000	Overall Multiple return*
	AIM-traded realisations						
1	Claimar Care Group plc	Trade sale	Jan 06	59	271	211	0.5
2	Concateno plc	Trade sale	Oct 06	394	525	131	1.3
3	Craneware plc	Part sale	Sep 07	174	185	11	1.7
4	Electric Word plc	Part sale	Mar 08	9	12	3	0.7
5	Essentially Group Ltd	Trade sale	Jun 07	189	369	180	0.7
6	Ffastfill plc	Part sale	Jun 07	166	360	193	1.6
7	Independent Media Distribution plc	Market sale	Mar 08	9	13	4	0.9
8	MBL Group plc	Market sale	Jan 03	195	382	187	0.7
9	Research Now plc	Market sale	Dec 07	227	376	149	1.4
10	Silverdell plc	Market sale	May 08	2	1	(1)	0.1
				1,424	**2,494**	**1,068**	
	Written off						
1	EBTM plc		May 07	51	–	(51)	–
2	Fishworks plc		Jun 05	15	–	(15)	–
3	IPT Holdings plc		Nov 04	4	–	(4)	0.9
4	MKM Group plc		May 04	5	–	(5)	–
5	Optimisa plc		Oct 07	28	–	(28)	–
6	Relax Group plc		Feb 08	198	–	(198)	–
				301	**–**	**(301)**	
	Total AIM-traded realisations			**1,725**	**2,494**	**767**	
	Unquoted realisations						
1	Green Issues	Written off	Dec 05	–	–	–	–
2	ScriptSwitch	Trade sale	May 07	2,806	3,509	703	3.7
	Total Unquoted realisations			**2,806**	**3,509**	**703†**	
	Total Realisations			**4,531**	**6,003**	**1,470**	

*Includes interest/dividends received, loan note redemptions and partial realisations accounted for in prior periods.
†Before deferred proceeds of £27,000 received for Language Line.

Investment Portfolio

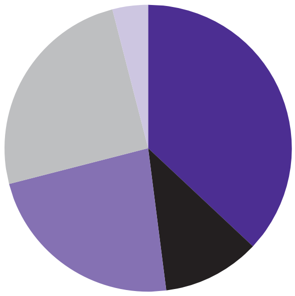
Investment Classification at 31 December 2009

By Sector



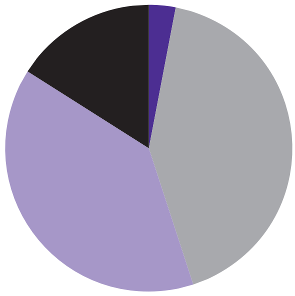
- Business services 36%
- Consumer markets 14%
- Financial Services 6%
- Healthcare & Education 13%
- IT & Media 31%

Total Assets



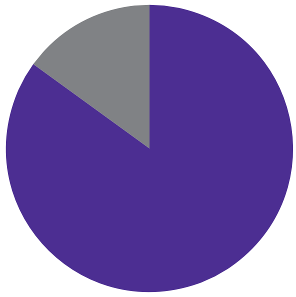
- Unquoted–loan stock 37%
- Unquoted–ordinary/pref 11%
- AiM, Listed & Collective Investment 23%
- Fixed interest 25%
- Net current assets 4%

Time Investments Held



- Less than 1 year 3%
- Between 1 and 3 years 42%
- Between 3 and 5 years 39%
- Greater than 5 years 16%

Unquoted Valuation Basis



- Earnings 85%
- Written down* 15%

*Written down represents investments where equity value has been written down to zero and provision made against loan stock.

Company	Nature of business	Book cost £'000	31 December 2008 Valuation £'000	31 December 2009 Valuation £'000	% of net assets	% of equity held by Baronsmead VCT 3 plc	% of equity held by all funds*
Unquoted							
Reed & Mackay	Business Services	1,211	2,763	3,145	5.9	9.3	39.2
Carnell Contractors	Business Services	1,499	2,372	2,639	5.0	8.3	37.5
Nexus Vehicle Holdings Ltd	Business Services	1,868	1,868	2,511	4.7	12.6	57.4
Quantix Limited	IT & Media	1,194	1,498	1,862	3.5	11.4	48.0
CableCom Networking Holdings Ltd	IT & Media	1,381	1,655	1,848	3.5	10.6	48.0
Fisher Outdoor Leisure Holdings Ltd	Consumer markets	1,423	1,433	1,777	3.4	10.5	44.0
Independent Living Services	Healthcare & Education	801	2,034	1,566	3.0	14.4	60.5
Kafevend Holdings Ltd	Consumer markets	1,252	1,535	1,445	2.7	15.8	66.5
Crew Clothing Company Ltd	Consumer markets	933	1,359	1,300	2.5	5.9	25.0
CSC (World) Limited	IT & Media	1,606	1,250	1,250	2.4	8.8	40.0
Active Assistance	Healthcare & Education	679	982	1,155	2.2	7.4	33.5
MLS	IT & Media	781	969	1,138	2.2	5.3	22.5
Credit Solutions	Financial Services	1,032	1,130	1,127	2.1	8.6	35.0
Playforce Holdings Limited	Business Services	1,033	1,033	1,106	2.1	9.7	44.0
Empire World Trade Limited	Business Services	1,297	1,138	658	1.2	7.1	30.0
TVC Group Limited	IT & Media	1,233	587	341	0.7	13.0	59.3
Xention Discovery	Healthcare & Education	893	660	183	0.3	3.3	5.6
Occam DM Ltd	IT & Media	516	636	121	0.2	5.8	57.0
Kidsunlimited Group Ltd	Business Services	113	113	113	0.2	0.0	0.0
Total unquoted		**20,745**	**25,015**	**25,285**	**47.8**		
AIM							
IDOX plc	IT & Media	1,038	792	1,136	2.2	3.2	9.6
Advanced Computer Software plc	IT & Media	525	525	1,081	2.1	0.9	4.5
Brulines Holdings plc	Business Services	646	647	715	1.5	1.9	9.7
Murgitroyd Group plc	Business Services	319	553	712	1.4	3.1	6.2
Begbies Traynor Group plc	Financial Services	231	775	607	1.1	0.6	2.5
Green Compliance plc	Business Services	250	–	500	0.9	2.4	14.6
WIN plc	IT & Media	413	120	374	0.7	4.4	19.7
Proactis Holdings plc	IT & Media	400	93	307	0.6	3.0	15.1
Kiotech International plc	Healthcare & Education	275	50	298	0.6	2.2	15.8
Ffastfill plc	IT & Media	251	215	297	0.6	0.9	6.6
Driver Group plc	Business Services	438	390	294	0.6	2.3	10.4
Mount Engineering plc	Business Services	385	302	275	0.5	2.3	13.4

Investment Portfolio

Company	Nature of business	Book cost £'000	31 December 2008 Valuation £'000	31 December 2009 Valuation £'000	% of net assets	% of equity held by Baronsmead VCT 3 plc	% of equity held by all funds*
AIM (continued)							
Adventis Group plc	IT & Media	361	118	267	0.5	3.5	23.0
InterQuest Group plc	Business Services	310	197	259	0.5	1.8	7.4
Electric Word plc	IT & Media	236	9	247	0.5	2.9	21.6
IS Pharma plc	Healthcare & Education	246	207	239	0.5	1.0	5.9
Jelf Group plc	Financial Services	551	406	235	0.4	1.3	5.2
Stagecoach Theatre Arts plc	Consumer markets	419	216	194	0.4	4.5	9.1
Praesepe plc	Consumer markets	525	215	185	0.3	1.1	6.2
Plastics Capital plc	Business Services	473	189	184	0.3	1.8	10.0
Craneware plc	IT & Media	71	290	184	0.3	0.2	1.1
Vero Software plc	IT & Media	300	167	181	0.3	3.7	14.3
Quadnetics Group plc	Business Services	296	101	162	0.3	0.6	2.1
Tasty plc	Consumer markets	356	161	161	0.3	1.7	13.0
Huveaux plc	IT & Media	541	179	158	0.3	1.4	4.4
Cohort plc	Business Services	179	137	138	0.3	0.3	1.4
Sanderson Group plc	IT & Media	387	139	132	0.2	1.8	6.9
Prologic plc	IT & Media	310	112	124	0.2	4.1	15.0
Autoclenz Holdings plc	Business Services	400	32	122	0.2	3.1	12.3
EG Solutions plc	IT & Media	375	53	101	0.2	3.1	14.2
Character Group plc	Consumer markets	144	38	88	0.2	0.4	2.6
Colliers CRE plc	Financial Services	470	57	78	0.1	0.3	0.8
Tangent Communications plc	Business Services	180	45	73	0.1	0.8	4.7
Marwyn Value Investors plc	Financial Services	64	–	62	0.1	1.3	6.0
Brainjuicer Group plc	IT & Media	50	42	59	0.1	0.4	1.8
STM Group plc	Financial Services	140	93	58	0.1	0.5	3.8
Clarity Commerce Solutions plc	IT & Media	50	–	40	0.1	0.3	6.4
Mission Marketing Group (The) plc	IT & Media	190	68	35	0.1	0.4	1.4
Real Good Food Company (The) plc	Consumer markets	540	7	17	0.0	0.6	2.3
Zoo Digital Group plc	IT & Media	584	6	15	0.0	0.3	1.0
INVU plc	IT & Media	35	4	0	0.0	0.1	1.2
Payzone plc	Consumer markets	88	2	0	0.0	0.0	0.1
Total AIM		**14,042**	**7,752**	**10,394**	**19.7**		
Listed							
Vectura Group plc	Healthcare & Education	771	804	1,208	2.3	0.5	1.3
Chime Communications plc	IT & Media	369	–	372	0.7	0.3	1.6
Total listed		**1,140**	**804**	**1,580**	**3.0**		
New York Stock Exchange							
Inverness Medical Inc.	Healthcare & Education	180	–	224	0.4	0.0	0.1
Total New York Stock Exchange		**180**	**–**	**224**	**0.4**		
Interest bearing securities							
UK T-Bill 04/01/10		5,498	–	5,498	10.4		
UK T- Bill 08/02/10		1,249	–	1,249	2.4		
UK Treasury 4.75% 07/06/10		493	–	509	1.0		
BlackRock Cash Market OEIC		5,700	–	5,700	10.7		
Total interest bearing securities		**12,940**	**–**	**12,956**	**24.5**		
Collective investment vehicles							
Wood Street Microcap Investment Fund		525	–	526	1.0		
Total collective investment vehicles		**525**	**–**	**526**	**1.0**		
Total investments		**49,572**	**–**	**50,965**	**96.4**		
Net current assets less creditors due after one year			**–**	**1,913**	**3.6**		
Net assets			**–**	**52,878**	**100.0**		

* All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 3.

AIM and Listed Portfolio Concentration Analysis (at 31 December 2009)

Investment ranking by valuation	Book cost £'000	Valuation £'000	% of Quoted portfolio
Top Ten	4,963	7,011	57.5
11–20	3,232	2,635	21.6
21–30	3,547	1,680	13.8
30+	3,620	872	7.1
Total	**15,362**	**12,198**	**100.0**

Ten Largest Investments

The top ten investments by current value at 31 December 2009 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.

This analysis now details figures for the top ten investments at the holding company level rather than at the trading entity level. We believe this gives an improved presentation and although a different basis to previous annual reports the prior year comparison figures are internally consistent.

1 REED & MACKAY HOLDINGS LIMITED London

High quality business travel

All ISIS EP LLP managed funds

First Investment:	November 2005
Total Cost:	£4,870,000
Total equity held:	39.20%

Baronsmead VCT 3 only

Cost:	£1,211,000
Valuation:	£3,145,000
Valuation basis:	Earnings Multiple
% of equity held:	9.31%

Year ended 31 March	**2009**	2008
	£ million	£ million
Sales	**16.0**	13.4
EBITA	**3.5**	3.2
Profit before tax	**1.6**	1.1
Net Assets	**2.3**	1.5
No. of Employees	**221**	195

www.reedmac.com

(Source: Reed & Mackay Holdings Limited, Report and Financial Statements 2009)

Reed & Mackay provides specialist business travel management services to professional services firms and corporates. Its high touch service has been developed to deliver the complex travel requirements demanded by high performing clients from the legal, financial, insurance and entertainment sectors.

2 CARNELL SUPPORT SERVICES LIMITED Penkridge

Providing support to the highways sector

All ISIS EP LLP managed funds

First Investment:	March 2008
Total Cost:	£6,000,000
Total equity held:	37.50%

Baronsmead VCT 3 only

Cost:	£1,499,000
Valuation:	£2,639,000
Valuation basis:	Earnings Multiple
% of equity held:	8.25%

Year ended 30 September	**2008**
	£ million
Sales	**13.8**
EBITA	**1.7**
Profit before tax	**0.3**
Net Assets	**0.7**
No. of Employees	**113**

www.carnellcontractors.com

(Source: Carnell Support Services Limited, Audited Annual Report and Accounts 2008)

Carnell provides specialist maintenance and support services to the Highways Agency strategic road network. It provides services across a broad spectrum including infrastructure, technology, drainage and water management.

3 NEXUS VEHICLE HOLDINGS LIMITED Leeds

Vehicle rental broker

All ISIS EP LLP managed funds

First Investment:	February 2008
Total Cost:	£7,500,000
Total equity held:	57.42%

Baronsmead VCT 3 only

Cost:	£1,868,000
Valuation:	£2,511,000
Valuation basis:	Earnings Multiple
% of equity held:	12.63%

Year ended 30 September	**2008***
	£ million
Sales	**6.9**
EBITA	**0.4**
Loss before tax	**(0.5)**
Net Assets	**0.2**
No. of Employees	**22**

www.nexusrental.co.uk

*Accounts for 9 month period (Source: Nexus Vehicle Holdings Limited, Financial Statements 2008)

Nexus is a broker of car and van rental, providing a comprehensive procurement service for corporate users which delivers access to a huge range of rental suppliers and vehicle types from a single ordering point. The system is internet based and offers extensive capabilities at the same time as cost effective supply.

4 QUANTIX Nottingham

Outsourced database maintenance

(A trading name of Newincco 635 Limited)

All ISIS EP LLP managed funds

First Investment:	March 2007
Total Cost:	£4,800,000
Total equity held:	48.00%

Baronsmead VCT 3 only

Cost:	£1,194,000
Valuation:	£1,862,000
Valuation basis:	Earnings Multiple
% of equity held:	11.40%

Year ended 30 September	**2008**	2007
	£ million	£ million
Sales	**8.3**	3.4
EBITA	**1.2**	0.4
Loss before tax	**(0.3)**	(0.3)
Net Assets	**0.7**	1.0
No. of Employees	**42**	33

www.quantix-uk.com

(Source: Newincco 635 Limited, audited Annual Report and Accounts 2008)

Quantix operates in the growing field of IT outsourced services. It provides remote maintenance and support to corporates that use large databases, saving them the cost of employing specialist expertise in house. It also provides consultancy and product sales for database and IT security applications.

5 CABLECOM NETWORKING HOLDINGS LIMITED Clevedon

Internet access solutions

All ISIS EP LLP managed funds

First Investment:	May 2007
Total Cost:	£5,600,000
Total equity held:	48.00%

Baronsmead VCT 3 only

Cost:	£1,381,000
Valuation:	£1,848,000
Valuation basis:	Earnings Multiple
% of equity held:	10.56%

Year ended 30 September	**2008**	2007*
	£ million	£ million
Sales	**6.1**	2.2
EBITA	**1.3**	0.5
Loss before tax	**(0.1)**	(0.1)
Net Assets	**1.4**	1.6
No. of Employees	**40**	36

*Accounts for 5 month period

www.cablecomnetworking.co.uk

(Source: Cablecom Networking Holdings Limited, Audited Annual Report and Accounts 2008)

Cablecom's primary business is to deliver and manage wired and wireless broadband communication services to high density accommodation such as student halls of residences. These managed services are provided through long term contracts. In addition the business installs networked communication systems for corporate customers.

6 FISHER OUTDOOR LEISURE HOLDINGS LIMITED St. Albans *Supplying the cycling industry*

All ISIS EP LLP managed funds

First Investment:	June 2006
Total Cost:	£5,700,000
Total equity held:	44.00%

Baronsmead VCT 3 only

Cost:	£1,423,000
Valuation:	£1,777,000
Valuation basis:	Earnings Multiple
% of equity held:	10.45%

Year ended 31 January	**2009**	2008
	£ million	£ million
Sales	**22.2**	19.3
EBITA	**1.8**	2.1
Profit before tax	**0.1**	0.5
Net Assets	**1.0**	1.1
No. of Employees	**83**	83

www.fisheroutdoor.co.uk

(Source: Fisher Outdoor Leisure Holdings Limited, Directors Report and Financial Statements 2009)

Fisher is a key supplier of bicycle parts and accessories to chains, on-line retailers and independent shops. It has exclusive rights to promote and distribute some of the key international branded products within the UK and also has some own branded products.

7 ILS GROUP LIMITED Alloa *Acute domiciliary care*

All ISIS EP LLP managed funds

First Investment:	September 2005
Total Cost:	£3,235,000
Total equity held:	60.45%

Baronsmead VCT 3 only

Cost:	£801,000
Valuation:	£1,566,000
Valuation basis:	Earnings Multiple
% of equity held:	14.36%

Year ended 30 September	**2008**	2007
	£ million	£ million
Sales	**12.7**	11.0
EBITA	**1.8**	1.7
Profit before tax	**0.6**	0.6
Net Assets	**0.9**	0.9
No. of Employees	**838**	646

www.ilsscotland.com

(Source: ILS Group Limited, Directors Report and Financial Statements 2008)

ILS is one of the leading providers of acute domiciliary care in Scotland. ILS trained carers provide services in the home for care users on behalf of its Local Authority customers. As well as growing from winning new contracts as LAs outsource more work, ISIS has supported four acquisitions to date.

8 KAFÉVEND GROUP LIMITED Crawley *SME drinks vending*

All ISIS EP LLP managed funds

First Investment:	October 2005
Total Cost:	£5,024,000
Total equity held:	66.50%

Baronsmead VCT 3 only

Cost:	£1,252,000
Valuation:	£1,445,000
Valuation basis:	Earnings Multiple
% of equity held:	15.79%

Year ended 30 September	**2008**	2007
	£ million	£ million
Sales	**16.1**	14.4
EBITA	**1.1**	0.6
Profit before tax	**1.2**	0.7
Net Assets	**2.7**	1.9
No. of Employees	**107**	103

www.kafevending.co.uk

(Source: Kafevend Group Limited, audited Annual Report and Accounts 2008)

Kafevend provides a comprehensive hot drinks vending service across the UK. It supplies corporate customers with a range of vending machines typically on rental or lease terms, and then supplies consumables and machine servicing.

9 CREW CLOTHING HOLDINGS LIMITED London *Multi-channel clothing retailer*

All ISIS EP LLP managed funds

First Investment:	November 2006
Total Cost:	£3,750,000
Total equity held:	25.00%

Baronsmead VCT 3 only

Cost:	£933,000
Valuation:	£1,300,000
Valuation basis:	Earnings Multiple
% of equity held:	5.94%

Year ended 26 October	**2008**	2007
	£ million	£ million
Sales	**22.0**	15.9
EBITA	**1.4**	1.2
Profit before tax	**0.8**	0.6
Net Assets	**2.3**	1.8
No. of Employees	**209**	155

www.crewclothing.co.uk

(Source: Crew Clothing Holdings Limited, audited Annual Report and Financial Statements 2008)

Crew is a British brand of men's and women's casual upmarket clothing and accessories. All products are designed in-house and its range is sold through its own estate of retail outlets and also through its own website and via various wholesale accounts.

10 CSC (WORLD) LIMITED Leeds *Software for Structural Engineers*

(A trading name of Cobco 867 Limited)

All ISIS EP LLP managed funds

First Investment:	January 2008
Total Cost:	£6,450,000
Total equity held:	40.03%

Baronsmead VCT 3 only

Cost:	£1,606,000
Valuation:	£1,250,000
Valuation basis:	Earnings Multiple
% of equity held:	8.81%

Year ended 31 March	**2009**	2008*
	£ million	£ million
Sales	**6.6**	1.7
EBITA	**2.0**	0.6
Loss before tax	**(1.0)**	0.1
Net Assets	**0.3**	1.0
No. of Employees	**51**	57

*Accounts for four month period

www.cscworld.com

(Source: Cobco 867 Limited, Directors Report and Consolidated Financial Statements 2009)

CSC is an international leader in the provision of quality software, training, consultancy and technical support to many thousands of structural engineers throughout the world. Its advanced software applications cover 3D structural analysis and design software for steel, concrete, timber and masonry framed buildings. It has offices in Australia, Malaysia, Singapore and the USA as well as the UK.

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

Baronsmead VCT 3 plc invests in a diverse portfolio of UK growth businesses run by entrepreneurial managers, whether unquoted or traded on AIM. 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 the Manager's approach can lead to growth in the investment value over time. 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 an attractive asset appealing to a wide range of bidders at the time of sale

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

For the unquoted investments the ISIS team are active Board participants ensuring that strategy is clear, the business plan well thought through and the management resources are in place to deliver profitable growth. 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.

The four investments described in this section were introduced to shareholders in last years report. This year we focus on the challenges faced by these portfolio companies during the recession and how, with the support of the Manager, they have emerged ready to take advantage of opportunities as the economy improves.

REED & MACKAY

Reed and Mackay is a leading strategic business travel management business based in the City. Utilising i-Q, its in house developed bespoke technology and the expertise of teams of Travel Consultants the business deals with professional services firms providing them with comprehensive corporate wide business travel services.

Baronsmead invested in 2005 as part of a replacement capital transaction and has been key to the double digit earnings growth that has been achieved each year since the investment. Critical to that growth has been the broadening and strengthening of the senior management team and the additional investment in technology to support the Travel Consultants to deliver outstanding service to travellers.

Reed and Mackay has worked even harder than normal during the recession to support its customers looking for lower cost travel solutions. It is clear that the years of investment in i-Q combined with the extensive knowledge of the Consultants has enabled the business to deliver demonstrable value to its clients which has ensured that many more professional services firms have signed up with Reed and Mackay to gain access to its unique services; and so notwithstanding any reduction in the volume of travel undertaken by individual clients, the business has continued to grow in a difficult market.

www.reedmac.com

"Confidence to Grow"

PLAYFORCE, Wiltshire

Playforce offers a wide range of creative play equipment from 'wobble walkways', timber trails, and climbing walls, to outdoor classrooms and shelters. All are designed to inspire children to have fun and stimulate their imagination. To date the business has been commissioned to design and install in excess of 2,000 school playgrounds for local authorities, parish councils and park authorities across the UK.

When Baronsmead invested in Playforce in 2008 it recognized that the business is at the forefront of innovation in a sector which has enjoyed increasing focus over recent years. Outdoor play and learning activities are seen as key to children's development and help counter concerns over obesity and behaviour underlined by the government's increased commitment to playground provision outlined in the Children's Plan, announced in December 2007.

The demand created by Education policy and the ambition of schools and PTAs has resulted in some insulation for Playforce from recessionary pressures felt elsewhere in the economy over the last year. This has meant that the business has continued to grow, improve its operating platform, strengthen the management team and invest in new product development meaning it will enter 2010 as a stronger business looking to capitalise on the opportunities that lie ahead.

www.playforce.co.uk

"Relationship and Opportunity"

Creating Shareholder Value

INDEPENDENT LIVING SERVICES

Independent Living Services 'ILS' is the leading independent provider of 'care at home' services in Scotland. Services are developed to support both older and younger people living in the community with physical or learning disabilities. These services are delivered through partnership with local and health authorities, voluntary organizations or directly with the individual service user.

Baronsmead invested in 2005, attracted by the dynamics of the 'care at home' market in Scotland, where there were continuing moves to involve the private sector in the provision of services and the market supply was fragmented. Baronsmead has subsequently supported four acquisitions resulting in a broader geographic footprint across Scotland with the business now providing services across eighteen local authorities.

ILS provides cost efficient services to vulnerable members of society and as such has not suffered as a result of the recession. In fact, the business has continued to secure new contracts and enjoyed double digit revenue growth during the year to September 2009.

www.ilsscotland.com

''Buy and Build''

SCRIPTSWITCH, Coventry

ScriptSwitch provides innovative prescribing decision support software to healthcare organisations throughout the UK. ScriptSwitch is the leading provider of software designed to support GPs with patient safety information, drug switch recommendations and dosage optimisation information at the point at which they are prescribing. Its success in boosting patient safety as well as driving cost savings on prescribed drugs has meant that it is now used by more than 60% of Primary Care Organisations in the UK, with annualised savings to the NHS now set to exceed £20 million.

Baronsmead invested in 2007 as part of a secondary management buy out having recognized the unique position the business occupied in the Healthcare IT and Medicines Management market. ISIS have supported the business to continue its impressive growth through the expansion of the senior management team, further investment in product and service development and the relocation to and investment in new premises.

ScriptSwitch has been unaffected by the recession. The business delivers a tangible return on investment to each PCT it partners with as the cost savings generated on drug purchases exceed the annual license fee by some way. This makes the service compelling to the NHS and has fuelled the growth in the business over the last three years.

As noted in the Chairman's Statement, the investment in ScriptSwitch was realised during the year resulting in a return, including expected future payments, approaching four times cost.

www.scriptswitch.com

''Investing in the business platform''

Board of Directors

as at 31 December 2009

Mark Cannon Brookes (Chairman)

(age 70) is an investment director of Smith & Williamson Ltd. The Smith and Williamson Group had £9.1 billion of investments under management as at 31 August 2009. 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 67) was deputy chairman and a shareholder of Language Line Limited in which Baronsmead VCT 3, was an investor. He is chairman of Tiri–making integrity work, an integrity reform non governmental organisation and a director and trustee of the charity Medical Aid for Palestinians. 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 64) Gill has in-depth experience of private investors as chief executive of ProShare (1994-1999). Previously she was responsible for private equity at BP and was on the board of the FSA for 6 years to 2004. She is currently a non-executive director of Black Rock Smaller Companies Trust plc and Martin Currie Portfolio Investment Trust plc and is chairman of Witan Pacific Investment Trust plc. She is also on the board of Liverpool Victoria Friendly Society plc, and a deputy chairman of The Association of Investment Companies. Gill is a non-executive director of Baronsmead VCT 2 plc.

Robert Owen
(age 64) is a business consultant to developing companies and a director of Baronsmead VCT 4 plc. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio. He was involved with tax efficient private equity investments for many years as an adviser and commentator.

Anthony Townsend
(aged 62) has over 40 years experience in financial services and in industry. He is chairman of British & American Investment Trust plc, F&C Global Smaller Companies plc, Finsbury Growth and Income Trust plc and iimia Investment Trust plc, and a Non-executive director of Hansa Capital Limited and the Finsbury Worldwide Pharmaceutical Trust plc. He was previously a director of Rea Brothers Group plc and was chairman of the Association of Investment Companies.

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 rules 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.

Report of the Directors

Results and Dividends

The Directors present the ninth Report and audited financial statements of the Company for the year ended 31 December 2009.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	3,587
Interim dividend of 3.0p per ordinary share paid on 7 September 2009	(1,627)
Interim dividend of 4.5p per ordinary share paid on 30 December 2009	(2,440)
Total dividends paid in the year	(4,067)

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 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 which grants approval as a VCT.

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.

Investment strategy and objectives

Baronsmead VCT 3 is a tax efficient company listed on the London Stock Exchange main market which aims to achieve long-term investment returns 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 stock, convertible securities and fixed-interest securities, as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stock, while AIM investments are primarily held in ordinary shares. Pending investment in unquoted and AIM-traded securities, cash is 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 may trade overseas. Under current legislation, 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). For funds raised after 5 April 2007, in order to be classed as Qualifying Holdings, companies in which investments are made must have fewer than 50 employees and must not have raised more than £2 million via venture capital schemes in the 12 months ending on the date of the relevant investment.

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, the Company 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. For the investment of funds raised after 5 April 2010, at least 70 per cent. by value of Qualifying Holdings must be in shares which have no fixed rights to dividends, no preferential rights to assets on a winding up and no rights to be redeemed.

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 funds raised by the Company will be invested in Qualifying Holdings.

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. 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.

Report of the Directors

Co-investment

The Company aims to invest in larger, more mature unquoted and AIM companies and to achieve this the Company 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 investee companies and £4.4 million for AIM investee companies.

A Co-investment scheme was introduced in November 2004 to attract, recruit, retain and incentivise the Manager's staff in line with current market practices of private equity houses. This requires the majority of members of the investment team to co-invest alongside the Company in the ordinary shares of all unquoted investments in accordance with a pre-existing agreement.

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. The Company's borrowings are restricted to 25 per cent. of the value of the gross assets of that Company.

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 9 provides a review of the investment portfolio and of market conditions during the year.

Principal risks, risk management and regulatory environment

The Board believes that the principal risks faced by the Company are:

- Economic risk – events such as an economic recession and movement in interest rates could affect smaller companies valuations.

- Loss of approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

- Investment and strategic – inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders.

- Regulatory – the Company is required to comply with the Companies Act, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

- Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.

- Operational – failure of the Manager's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

- Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

- Market Risk – Investment in Listed, AIM-traded, PLUS-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

- Liquidity Risk – The Company's investments may be difficult to realise. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.

- Competitive Risk – Retention of key personnel is vital to the success of the Company. Appropriate incentives are in place to ensure retention of such personnel.

The Board seeks to mitigate the internal risks by setting policies, regular reviews of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the Turnbull guidance. Details of the Company's internal controls are contained in the Corporate Governance Review and Internal Control sections on pages 20 to 22.

Report of the Directors

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the objective of achieving long term investment returns for private investors.

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

During the year the Company bought back 915,166 ordinary shares. The Company currently holds 5,467,317 ordinary shares in Treasury, representing 9.2 per cent of the Company's issued ordinary share capital (including shares held in Treasury) as at 18 February 2010. 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.

On 4 August 2009 Anthony Townsend was appointed as a Director and having been appointed during the year will submit himself for election as a director at the forthcoming Annual General Meeting being the first General Meeting since his appointment.

It is the intention of Mark Cannon Brookes not to seek re-election and to retire as a director on 18 May 2010 at the cessation of the forthcoming Annual General Meeting. Following Mr Cannon Brookes retirement Mr Anthony Townsend will become Chairman.

In accordance with the independence provisions of the Listing Rules (LR), and in particular 15.2.12A, the Company should have a majority of the Board who are not also Directors of another company managed by ISIS EP LLP. Transitional provisions are in place for Venture Capital Trusts and the Company must comply with these provisions by 28 September 2010. Notwithstanding this, the Board has decided that Mrs G Nott who is a director of Baronsmead VCT 2 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.

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 shares of the Company, were:

	15 January 2010*	31 December 2009	31 December 2008
	Ordinary 10p shares	Ordinary 10p shares	Ordinary 10p shares
Mark Cannon Brookes	**180,655**	171,756	158,062
Andrew Karney	**82,709**	82,709	76,115
Gillian Nott	**25,461**	25,461	25,461
Robert Owen	**10,709**	10,709	10,709
Anthony Townsend	**–**	–	–
Total shares held	**299,534**	290,635	270,347

*After latest allocation of shares through the dividend reinvestment plan.

Other than as disclosed in the table above, there have been no changes in the holdings of the Directors between 31 December 2009 and 18 February 2010.

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.

Companies Act 2006 Disclosures

In accordance with The Small Companies & Groups (Accounts & Directors' Report) Regulations 2008 the Directors disclose the following information:

- the Company's capital structure and voting rights are summarised in note 13, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employees' share scheme;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;

Report of the Directors

- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid;

The Board recognises the requirement under Section 417(5) of the Act to detail information about environmental matters (including the impact of the Company's business on the environment), any Company employees and social and community issues; including information about any policies it has in relation to these matters and effectiveness of these policies. As the Company has no employees or policies in these matters this requirement does not apply.

Corporate Governance Review

The FRC confirmed in February 2009 that it remained their view that the AIC Guide was appropriate and that investment companies may report against the AIC code.

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in March 2009 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and revised in June 2006 and June 2008 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code) will provide better information to shareholders.

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code. Since all the Directors are non-executive the provisions of the Combined Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the Combined Code relating to Directors' remuneration are not relevant except in so far as they relate specifically to non-executive Directors. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

In view of the requirement in the Articles of Association that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code and provision A.7.2 of the Combined Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years.

The Board consists solely of non-executive Directors of which Mark Cannon Brookes is Chairman and Andrew Karney is Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. New Directors receive an induction from the Company Secretary on joining the Board, and all Directors receive other relevant training as necessary.

Gillian Nott is a director of Baronsmead VCT 2 plc. Robert Owen is a director of Baronsmead VCT 4 plc. The Board does not consider that a Director's tenure reduces his/her ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and tenure. It also believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director. The Company has no executive Directors or employees.

A management agreement between the Company and its Manager, ISIS EP LLP, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Throughout the year a number of committees have been in operation. The committees are the Audit Committee, the Management Engagement and Remuneration Committee and the Nomination Committee.

Audit Committee

The Audit Committee, chaired by Mark Cannon Brookes, operates within clearly defined terms of reference and comprises all of the Directors. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly. The Board has reviewed the Combined Code's recommendation that the position of Audit Committee Chairman should not be held by the Chairman of the

Report of the Directors

Board, but concluded that Mark Cannon Brookes as Chairman of the Board was best suited to the role.

Management, Engagement and Remuneration Committee

The Management Engagement and Remuneration Committee, chaired by Mark Cannon Brookes, comprises the full Board and reviews the appropriateness of the Manager's appointment including key executives thereof together with the terms and conditions thereof on a regular basis.

Nomination Committee

The Nomination Committee, chaired by Mark Cannon Brookes, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

During the year the performance of the Board, Committees and individual Directors was evaluated through an assessment process that was led by the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director.

The following table sets out the number of Board and Committee meetings held during the year and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement and Remuneration Committee		Nomination Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Mark Cannon Brookes (Chairman)*	5	5	2	2	1	1	1	4
Andrew Karney†	5	5	2	2	1	1	4	4
Gillian Nott	5	5	2	2	1	1	4	4
Robert Owen	5	5	2	2	1	1	4	4
Anthony Townsend‡	1	2	1	2	n/a	n/a	n/a	n/a

*Chairman of the Audit Committee
†Senior Independent Director
‡Anthony Townsend was appointed a Director in August 2009 and was eligible to attend only one Audit Committee meeting and two Board meetings.

The provisions of the Combined Code precluded Mark Cannon Brookes from attending three of the Committee meetings.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and Officers' liability insurance.

Conflicts of Interest

The Companies Act 2006 sets out Directors' general rules which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008, a Director must avoid a situation where he has, or could have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The 2006 Act allows Directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty.

On 25 September 2008 shareholders approved a resolution amending the Company's articles of association to give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position. There are safeguards which will apply when Directors decide whether to authorise a conflict of interest or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any conflicts of interest to the Company Secretary, who maintains the Register of Directors' Conflicts of Interests. It is reviewed annually by the Board, except when changes are notified, and the Directors advise the Company Secretary as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest will not take part in any discussions which relate to any of their conflicts.

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 May 2010 can be found in the Notice of Meeting on pages 43 and 44.

Report of the Directors

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 Manager also provides or procures the provision of company secretarial, administrative and custodian services to the Company. 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 £112,112 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 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 Scheme is intended to help attract, retain and incentivise certain executive members of the Manager and reflects schemes which are used elsewhere in the private equity industry in the UK. It requires all the members of the Scheme to invest their own capital into a proportion of the ordinary shares of each and every unquoted investment made by the Baronsmead VCTs (except those life sciences transactions where the Manager is not the lead investor).

The shares held by the members of the Co-investment Scheme in any portfolio company can only be sold at the same time as the investment held by the generalist Baronsmead VCTs. In addition, any prior ranking financial instruments, e.g. loan stock, held by the Baronsmead VCTs have to be repaid in full prior to any gain accruing to the ordinary shares.

As at 31 December 2009 36 executives of the Manager had invested a total of approximately £122,000 in the ordinary shares of 19 unquoted investments through the Co-investment Scheme with respect to investments attributable to Baronsmead VCT 3 plc. The amount invested by Baronsmead VCT 3 plc in these 19 companies totals approximately £22.0 million.

As at 31 December 2009 three of the investments in the scheme have been sold realising total proceeds of £6.6 million for Baronsmead VCT 3 and £0.4 million for the members of the Co-investment Scheme.

The Board reviews the operation of the Co-investment Scheme at each quarterly valuation meeting.

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 20.00 per cent of the excess in respect of the period to 31 March 2007, 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 2009.

Report of the Directors

ISIS Equity Partners – Arrangement Fees

During the year to 31 December 2009, ISIS EP LLP received income of £nil (2008: £203,298) in connection with arrangement fees and incurred abort fees of £1,945 with respect to investments attributable to Baronsmead VCT 3.

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.

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 2010 the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital.

Treasury Shares

The Company currently holds 5,467,317 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.

Matrix Corporate Capital LLP, 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 in 2011. 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 VCT shares increased 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. The last such allotment took place in April 2009.

Going Concern

After making enquiries, and bearing in mind the nature of the company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the Company and its ability to meet obligations as they fall due for a period of at least twelve months from the date that these financial statements were approved. As at 31 December 2009 the company held cash balances, investments in UK Gilts and Money Market Funds with a combined value of £14,989,000. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the share buyback programme and dividend policy. In reaching their conclusions the Directors have also taken note of the offer for subscription made alongside Baronsmead VCT 4 and the additional cash resources which this will generate for the Company. The Company has no external loan finance in place and is therefore not exposed to any gearing covenants.

Annual General Meeting

A notice of the Annual General Meeting of the Company to be held at 10.30 am on 18 May 2010 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 43 and 44.

By Order of the Board,

B Lawson, Secretary

100 Wood Street
London EC2V 7AN

18 February 2010

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 3 of The Small Companies & Groups (Accounts & Directors' Report) Regulations 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors KPMG plc to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' 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 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 that, as the fees of the Chairman and Directors have not increased since 2006, it is appropriate to increase the Directors fees, in line with inflation which has been 12.3 per cent over the period, to £15,500 p.a. and that of the Chairman to £23,500 p.a. from 1 January 2010.

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 2010 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.

There are no employees of the Company.

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.

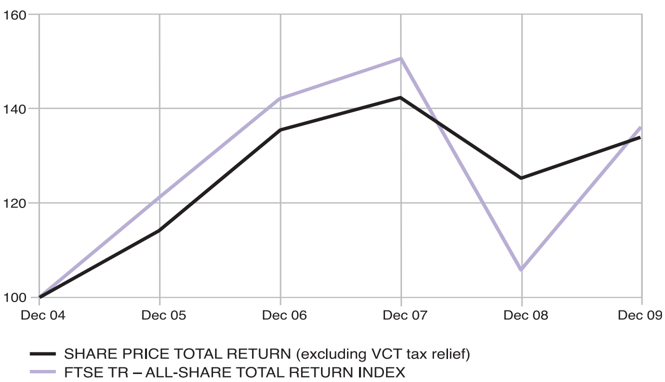
Director	Date of Original appointment	Due date for Re-election
Mark Cannon Brookes	10 January 2001	N/A
Andrew Karney	10 January 2001	AGM 2010
Gillian Nott	10 January 2001	AGM 2010
Robert Owen	10 January 2001	AGM 2010
Anthony Townsend	4 August 2009	AGM 2010

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 2009, 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 2009 £	Fees 2008 £
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
Anthony Townsend*	**5,725**	–
Total	**68,725**	63,000

* Pro rata fee for the period since joining the Board.

On behalf of the Board,

Mark Cannon Brookes
Chairman
18 February 2010

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including Business Review), Directors' Remuneration Report and Corporate Governance Review that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face.

On behalf of the Board,

Mark Cannon Brookes
Chairman
18 February 2010

Independent Auditors' Report

Independent Auditors' Report to the members of Baronsmead VCT 3 Plc

We have audited the financial statements of Baronsmead VCT 3 Plc for the period ended 31 December 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Alastair Barbour (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Edinburgh

18 February 2010

Income Statement

For the Year ended 31 December 2009

	Notes	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Unrealised gains/(losses) on investments	9	–	2,434	2,434	–	(8,894)	(8,894)
Realised gains/(losses) on investments	9	–	1,350	1,350	–	(808)	(808)
Income	2	1,513	–	1,513	2,255	–	2,255
VAT	3	(2)	(6)	(8)	266	1,038	1,304
Investment management fee	4	(339)	(1,016)	(1,355)	(405)	(1,215)	(1,620)
Other expenses	5	(347)	–	(347)	(362)	–	(362)
Profit/(loss) on ordinary activities before taxation		825	2,762	3,587	1,754	(9,879)	(8,125)
Taxation on ordinary activities	6	(167)	167	–	(433)	433	–
Profit/(loss) on ordinary activities after taxation		658	2,929	3,587	1,321	(9,446)	(8,125)
Return per ordinary share							
Basic	8	1.22p	5.41p	6.63p	2.44p	(17.43p)	(14.99p)

The 'Total' column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations.

No operations were acquired or discontinued in the year.

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2009

	Note	2009 Ordinary shares Total £'000	2008 Ordinary shares Total £'000
Opening shareholders' funds		55,136	65,221
Profit/(loss) for the year		3,587	(8,125)
Increase in share capital in issue		1,524	1,118
Purchase of shares for Treasury	14	(821)	(1,398)
Dividends paid	7	(6,483)*	(1,629)
Expenses of share issue		(65)	(51)
Closing shareholders' funds		52,878	55,136

* Includes payment of 2008 final dividend.

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 31 December 2009

	Notes	2009 Total £'000	2008 Total £'000
Fixed assets			
Investments	9	**50,965**	51,956
Current assets			
Debtors	10	**349**	2,000
Cash at bank and on deposit		**2,033**	1,732
		2,382	3,732
Creditors (amounts falling due within one year)	11	**(439)**	(493)
Net current assets		**1,943**	3,239
Total assets less current liabilities		**52,908**	55,195
Creditors (amounts falling due after one year)	12	**(30)**	(59)
Net assets		**52,878**	55,136
Capital and reserves			
Called-up share capital	13	**5,970**	5,822
Share premium account	14	**8,080**	6,768
Capital redemption reserve	14	**10,862**	10,862
Revaluation reserve	14	**1,393**	(1,765)
Capital reserve	14	**26,271**	32,617
Revenue reserve	14	**302**	832
Equity shareholders' funds	15	**52,878**	55,136
Net asset value per share			
– Basic	15	**97.50p**	102.72p
– Treasury	15	**96.47p**	101.77p

The financial statements on pages 27 to 29 were approved by the Board of Directors on 18 February 2010 and were signed on its behalf by:

MARK CANNON BROOKES (Chairman)

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

Cash Flow Statement

For the year ended 31 December 2009

	Notes	2009 Total £'000	2008 Total £'000
Operating activities			
Investment income received		1,302	2,859
VAT income received		1,296	–
Interest received		144	162
Investment management fees		(1,371)	(1,718)
Other cash payments		(416)	(352)
Net cash inflow from operating activities	17	955	951
Capital expenditure and financial investment			
Purchases of investments		(39,388)	(52,079)
Disposals of investments		44,583	50,249
Net cash inflow/(outflow) from capital expenditure and financial investment		5,195	(1,830)
Dividends			
Equity dividends paid		(6,483)	(1,629)
Net cash outflow before financing		(333)	(2,508)
Financing			
Issue of shares		1,524	1,118
Buy-back of ordinary shares		(821)	(1,398)
Expenses relating to issue of shares		(69)	(51)
Net cash inflow/(outflow) from financing		634	(331)
Increase/(decrease) in cash		301	(2,839)
Reconciliation of net cash flow to movement in net cash			
Increase/(decrease) in cash		301	(2,839)
Opening cash position		1,732	4,571
Closing cash position	16	2,033	1,732

The accompanying notes are an integral part of this statement.

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and in accordance with the Statement of Recommended Practice (''SORP'') for investment trust companies and venture capital trusts issued by the Association of Investment Companies (''AIC'') in January 2003, revised January 2009 and on the assumption that the Company maintains VCT status.

The Company is no longer an investment Company as defined by Section 833 of the Companies Act 2006, as investment Company status was revoked on 4 February 2004 in order to permit the distribution of capital profits.

The principal accounting policies adopted are set out below.

Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. Profit/(loss) on ordinary activities after taxation is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 of the Income Tax Act 2007.

(b) Valuation of investments

Purchases or sales of investments are recognised at the date of transaction.

Investments are valued at fair value. For AIM traded, listed securities and Collective Investment Vehicles this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

In respect of unquoted investments, these are recognised initially at cost and subsequently fair valued by the Directors using methodology which is consistent with the International Private Equity and Venture Capital (IPEV) guidelines. This means investments are valued using an earnings multiple, which has a discount or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a net asset value basis.

Gains and losses arising from changes in the fair value of the investments are included in the Income Statement for the period as a capital item. Transaction costs on acquisition are included within the initial recognition and the profit or loss on disposal is calculated net of transaction costs on disposal.

(c) Income

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where the terms of unquoted loan stocks only require interest to be paid on redemption, the interest is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment.

Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

(d) Expenses

All expenses are recorded on an accruals basis.

(e) Revenue/capital

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

(f) Issue costs

Issue costs are deducted from the share premium account.

(g) Deferred taxation

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

(h) Capital reserves

(i) *Capital Reserve*

Gains and losses on realisation of investments of a capital nature are dealt with in this reserve. Purchase of the Company's own shares to be either held in treasury or cancelled are also funded from this reserve. 75% of management fees are allocated to the capital reserve in accordance with the Board's expected split between long term income and capital returns.

(ii) *Revaluation Reserve*

Changes in fair value of unrealised investments, are dealt with in this reserve.

Notes to the Accounts

2. Income

	2009 Total £'000	2008 Total £'000
Income from investments†		
UK franked	**198**	235
UK unfranked	**1,005**	1,655
Redemption premium on repayment of Loan Notes	**168**	221
	1,371	2,111
Other income‡		
Interest	**142**	144
Total income	**1,513**	2,255
Total income comprises:		
Dividends	**198**	235
Interest	**1,315**	2,020
	1,513	2,255
Income from investments:		
Listed and AIM securities	**456**	919
Unquoted securities	**915**	1,192
	1,371	2,111

†All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

‡Other income on financial assets not designated fair value through profit or loss.

3. Recoverable VAT

HM Revenue and Customs (HMRC) confirmed in October 2007, following the European Court of Justice decision in the JPMorgan Claverhouse case, that the provision of management services to investment trusts is exempt from VAT. Accordingly ISIS EP LLP ceased to charge VAT on management fees payable by the Company with effect from 30 June 2008.

Following recognition in the income statement last year of £1,304,000 and subsequent recovery this year of £1,296,000 the Company does not foresee any further future repayment of VAT.

Notes to the Accounts

4. Investment management fee

	2009 Total £'000	2008 Total £'000
Investment management fee	**1,355**	1,620
	1,355	1,620

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 25 per cent to revenue and 75 per cent to capital, in line with the Board's expected long term return in the form of income and capital gains respectively from the Company's investment portfolio.

The management agreement may be terminated by either party giving 12 months notice of termination. The Manager, ISIS EP LLP, receives a fee of 2.5 per cent per annum of the net assets of the Company, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee when the total return on funds raised exceeds 8 per cent per annum (on a simple rather than compound basis) on net funds raised. The performance fee payable in any one year will be capped at 4.99 per cent. No performance fee is payable for the year ended 31 December 2009 (2008: £Nil). It is chargeable 100 per cent to capital.

ISIS EP LLP receives an annual secretarial and accounting fee of £37,091 (linked to the movement in RPI) plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. This fee is capped at £112,112 (excluding VAT per annum) and is subject to RPI. It is charged 100 per cent to revenue.

Amounts payable to the Manager at the period end are disclosed in note 11.

5. Other expenses

	2009 Total £'000	2008 Total £'000
Directors' fees	**69**	63
Secretarial and accounting fees	**96**	121
Remuneration of the auditors and their associates:		
– audit	**21**	20
– other services supplied pursuant to legislation (interim review)	**5**	4
– other services supplied relating to taxation	**6**	6
Trail Commission	**(2)**	–
Other	**152**	148
	347	362

The Chairman received £21,000 per annum (2008: £21,000). Each of the other Directors received £14,000 per annum (2008: £14,000).

Charges for other services provided by the auditors in the year ended 31 December 2009 were in relation to the interim review and tax compliance work. The Directors consider the auditors were best placed to provide these services. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

Notes to the Accounts

6. Tax on ordinary activities

6a. Analysis of charge for the year

	2009 Total £'000	2008 Total £'000
UK corporation tax	–	–

The income statement shows the tax charge allocated between revenue and capital.

6b. Factors affecting tax charge for the year

The tax charge for the year is lower than the standard rate of corporation tax in the UK for a company. The differences are explained below:

	2009			2008		
		Ordinary Shares			Ordinary Shares	
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) on ordinary activities before tax	825	2,762	3,587	1,754	(9,879)	(8,125)
Corporation tax at rate of 28% (2008: 28.5% blended)	231	773	1,004	500	(2,816)	(2,316)
Effect of:						
Non-taxable dividend income	(55)	–	(55)	(67)	–	(67)
Non-taxable investment gains/(losses)	–	(1,059)	(1,059)	–	2,765	2,765
Marginal tax relief	(9)	9	–	–	–	–
Losses carried forward/(utilised)	–	110	110	–	(382)	(382)
Tax charge for the period (note 6a)	167	(167)	–	433	(433)	–

At 31 December 2009 the Company had surplus management expenses of £1,830,000 (2008: £1,440,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

7. Dividends

	2009			2008		
		Ordinary Shares			Ordinary Shares	
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Amounts recognised as distributions to equity holders in the year/period:						
For the year ended 31 December 2009						
– First interim dividend of 3.0p per ordinary share paid on 7 September 2009	271	1,356	1,627	–	–	–
– Second interim dividend of 4.5p per ordinary share paid on 30 December 2009	380	2,060	2,440	–	–	–
Amounts recognised as distributions to equity holders in the year/period:						
For the year ended 31 December 2008						
– Interim dividend of 3.0p per ordinary share paid on 30 September 2008	–	–	–	759	870	1,629
– Final dividend of 4.5p per ordinary share paid on 20 March 2009	537	1,879	2,416	–	–	–
	1,188	5,295	6,483	759	870	1,629

Notes to the Accounts

8. Returns per share

The 6.63p return per ordinary share (2008: 14.99p loss per ordinary share) is based on the net profit from ordinary activities after tax of £3,587,000 (2008: £8,125,000 loss for the ordinary shares) and on 54,121,721 ordinary shares (2008: 54,190,257 ordinary shares), being the weighted average number of shares in issue during the year.

9. Investments

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investments quoted prices in an active market.
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices.
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

	2009 Total £'000	2008 Total £'000
Level 1		
Interest bearing securities	**12,956**	14,203
Investments traded on AIM	**10,394**	9,128
Investment traded on NYSE	**224**	–
Investments listed on FTSE SmallCap	**1,580**	804
	25,154	24,135
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	**526**	–
Level 3		
Unquoted investments	**25,285**	27,821
	50,965	51,956

	2009 Total £'000	2008 Total £'000
Equity shares	**18,582**	17,839
Loan notes	**19,226**	19,776
Preference shares	**201**	138
Interest bearing securities	**12,956**	14,203
	50,965	51,956

Notes to the Accounts

9. Investments (continued)

	Level 1				Level 2	Level 3	
	Traded on NYSE £'000	Listed on FTSE Small Cap £'000	Interest bearing securities £'000	Traded on AIM £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	–	771	14,104	16,956	–	21,890	53,721
Opening unrealised appreciation/(depreciation)	–	33	99	(7,828)	–	5,931	(1,765)
Opening valuation	–	804	14,203	9,128	–	27,821	51,956
Movements in the year:							
Purchases at cost	180	369	37,050	1,166	525	98	39,388
Sales – proceeds	–	–	(38,133)	(2,494)	–	(3,536)	(44,163)
– realised (losses)/gains on sales	–	–	(147)	767	–	730	1,350
Unrealised gains/(losses) realised during the year	–	–	66	(2,353)	–	1,563	(724)
Increase/(decrease) in unrealised appreciation	44	407	(83)	4,180	1	(1,391)	3,158
Closing valuation	**224**	**1,580**	**12,956**	**10,394**	**526**	**25,285**	**50,965**
Closing book cost	180	1,140	12,940	14,042	525	20,745	49,572
Closing unrealised appreciation/(depreciation)	44	440	16	(3,648)	1	4,540	1,393
	224	**1,580**	**12,956**	**10,394**	**526**	**25,285**	**50,965**

During the year the Company incurred brokerage costs on purchases of £1,700 (2008: £1,000) and brokerage costs on sales of £2,800 (2008: £1,000) in respect of ordinary shareholder interests.

The gains and losses included in the above table have all been recognised in the Income Statement on page 27.

The Standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternatives have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives the value of the unquoted investments would be £2.1 million or 8.4 per cent lower. Using the upside alternative the value would be increased by £2.9 million or 11.5 per cent.

10. Debtors

	2009 Total £'000	2008 Total £'000
Prepayments and accrued income	**349**	275
Loan stock repayment receivable	**–**	421
VAT recoverable	**–**	1,304
	349	2,000

11. Creditors (amounts falling due within one year)

	2009 Total £'000	2008 Total £'000
Management and secretarial fees due to the Manager	**357**	406
Trail commission payable	**29**	26
Other creditors	**53**	61
	439	493

Notes to the Accounts

12. Creditors (amounts falling due after one year)

	2009 Total £'000	2008 Total £'000
Trail commission payable	**30**	59

13. Called-up share capital

	£'000
Authorised:	
80,000,000 ordinary shares of 10p each	**8,000**
27,000,000 C shares of 50p each	**13,500**
	21,500
Allotted, called-up and fully paid:	
Ordinary Shares	
58,226,997 ordinary shares of 10p each at 31 December 2008	**5,822**
1,472,556 ordinary shares of 10p issued during the year	**148**
59,699,553 ordinary shares of 10p each listed at 31 December 2009	**5,970**
4,552,151 ordinary shares of 10p each held in treasury at the start of the year	**(455)**
915,166 ordinary shares of 10p each repurchased during the period and held in treasury	**(92)**
5,467,317 ordinary shares of 10p each held in treasury at 31 December 2009	**(547)**
54,232,236 ordinary shares of 10p each in issue at 31 December 2009	**5,423**

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objectives, both of which are detailed in the Report of the Directors on pages 17 and 18.

Treasury shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 and allowed the Company to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Up to ten per cent of each class of a Company's shares may be held in this way. Shareholders have previously approved a resolution permitting the company to issue shares from treasury at a discount to the prevailing NAV if the Board considers it in the best interests of the Company to do so. However, treasury shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. 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. Such issues would be captured under the terms of the Prospectus Directive and subject to the annual cap of 2.5 million Euros on funds raised before requiring a full prospectus, although they would not be considered by HM Revenue & Customs to be new shares entitling the purchaser to initial income tax relief, and therefore shares are unlikely to be issued from treasury in the same year as a ''top up'' offer for subscription.

The Company does not have any externally imposed capital requirements.

Where shares are bought back but not cancelled the share capital remains unchanged. The NAV is calculated by using the number of shares in issue less those bought back and held in treasury.

Notes to the Accounts

14. Reserves

	Ordinary Shares				
	Share premium £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 December 2008	**6,768**	**10,862**	**(1,765)**	**32,617**	**832**
Premium on issue of ordinary shares	1,377	–	–	–	–
Expenses of share issue and buybacks	(65)	–	–	(4)	–
Shares bought back	–	–	–	(817)	–
Transfer of prior years' revaluation to capital reserve	–	–	724	(724)	–
Realised gain on disposal of investments	–	–	–	1,350	–
Net increase in value of investments	–	–	2,434	–	–
Management fee capitalised	–	–	–	(1,016)	–
Revenue return on ordinary activities after tax	–	–	–	–	658
VAT recognised in capital	–	–	–	(6)	–
Dividends recognised in the period	–	–	–	(5,296)	(1,188)
Taxation	–	–	–	167	–
	8,080	**10,862**	**1,393**	**26,271**	**302**

At 31 December 2009, reserves distributable by way of dividend amounted to £23,426,000 (2008: £33,449,000), comprising the capital reserve and revenue reserve less the net unrealised loss on the AIM and Listed portfolio.

15. Net asset value per share

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

	Number of shares		Net asset value per share attributable		Net asset value attributable	
	2009 number	2008 number	**2009 pence**	2008 pence	**2009 £'000**	2008 £'000
Ordinary shares (basic)	**54,232,236**	53,674,846	**97.50**	102.72	**52,878**	55,136
Ordinary shares (treasury)	**59,699,553**	58,226,997	**96.47**	101.77	**57,593**	59,256

Basic net asset value per share is based on net assets at the year end, and on 54,232,236 (2008: 53,674,846) ordinary shares, being the respective number of shares in issue at the year end.

The Treasury net asset value per share as at 31 December 2009 included ordinary shares held in treasury valued at the mid share price of 86.25p at 31 December 2009.

Notes to the Accounts

16. Analysis of changes in cash

	2009 Total £'000	2008 Total £'000
Beginning of year	1,732	4,571
Net cash inflow/(outflow)	301	(2,839)
As at 31 December 2009	2,033	1,732

17. Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

	2009 Total £'000	2008 Total £'000
Profit/(loss) on ordinary activities before taxation	3,587	(8,125)
(Profit)/loss on realisation of investments	(1,350)	808
Unrealised (gains)/losses on investments	(2,434)	8,894
(Increase)/decrease in debtors	1,234	(533)
(Decrease) in creditors	(82)	(93)
Net cash inflow from operating activities	955	951

18. Contingencies, guarantees and financial commitments

At 31 December 2009 there were no contingent liabilities, guarantees or financial commitments of the Company.

An amount of £0.2 million is being held in Escrow by Wells Fargo Bank International on behalf of the Company in relation to a provision for various warranty claims arising from the sale of ScriptSwitch on 30 October 2009. In accordance with Financial Reporting Standard 12 'Provisions, contingent liabilities and contingent assets' as it is not virtually certain that this amount will be receivable in full no asset has been recognised in the financial statements, however, the Manager is confident that an amount will be receivable in 2010.

19. Significant interests

There were no interests of 20 per cent or more of any class of share capital.

Further information on the significant interests is disclosed on pages 10 and 11.

20. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of UK growth businesses, whether unquoted or traded on AIM.

Fixed asset investments (see note 9) are valued at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are fair valued by the Directors (using rules consistent with the International Private Equity and Venture Capital Valuation Guidelines). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet.

The Company's investing activities expose it to various types of risk that are associated with financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Fund are discussed in notes 21 to 24.

Notes to the Accounts

21. Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and price risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined in note 20. The management of market risk is part of the investment management process and is typical of private equity investment. The portfolio is managed in accordance with policies and procedures in place as described in more detail in the Report of the Directors on pages 17 to 23, with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AIM listed companies, by their nature, involve a higher degree of risk than investments in the main market. Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out on pages 10 and 11. An analysis of investments between debt and equity instruments is disclosed in note 9.

23 per cent (2008: 18 per cent) of the Company's investments are listed on the London Stock Exchange or traded on AIM. A 5 per cent increase in stock prices as at 31 December 2009 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £610,000 (2008: £497,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

48 per cent (2008: 50 per cent) of the Company's investments are in unquoted companies held at fair value. Valuation methodology includes the application of earning multiples derived from either listed companies with similar characteristics or recent comparable transactions. Therefore the value of the unquoted element of the portfolio may also be indirectly affected by price movements on the listed exchanges. A 5 per cent increase in the valuations of unquoted investments at 31 December 2009 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,264,000 (2008: £1,391,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

Notes to the Accounts

22. Interest rate risk

At 31 December 2009 £7,256,000 (2008: £14,203,000) fixed rate securities were held by the Company. As a result, the Company is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

At 31 December 2009 £19,226,000 (2008: £19,776,000) fixed rate loan notes were held by the Company. The weighted average effective interest rate for the loan note securities is 8.28% as at 31 December 2009 (2008: 8.83%). Due to complexity of the instruments and uncertainty surrounding timing of redemption the weighted average time for which the rate is fixed has not been calculated.

The table below summarises weighted average effective interest rates for the fixed interest-bearing financial instruments:

Fixed rate	2009			2008		
	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed rate						
Fixed interest securities	**7,256**	**0.7**	**21**	14,203	3.1	165

Floating rate

When the Company retains cash balances, the majority of cash is ordinarily held on interest bearing deposit accounts and, where appropriate, within an interest bearing money market open ended investment company (OEIC). The benchmark rate with determines the interest payments received on interest bearing cash balances is the bank base rate which was 0.5 per cent as at 31 December 2009 (2008: 2.00 per cent).

	2009 Total £'000	2008 Total £'000
Floating rate		
OEIC	**5,700**	–
Cash on deposit	**2,033**	1,732

Notes to the Accounts

23. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts (value) of financial assets best represents the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2009 Total £'000	2008 Total £'000
Investments in fixed interest instruments	**7,256**	14,203
Investments in floating rate instruments	**5,700**	–
Cash and cash equivalents	**2,033**	1,732
Loan stock repayment receivable	**–**	421
Interest, dividends and other receivables	**349**	1,579
	15,338	17,935

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock.

Credit risk arising on floating rate instruments is mitigated by investing in money market open ended investment companies managed by Blackrock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed in note 21.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used.

All the assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase (JPM), the Company's custodian. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Corporate Governance section on pages 20 to 22.

Substantially all of the cash held by the Company is held by JPM. The Board monitors the Company's risk by reviewing regularly JPM's internal control reports as previously described. Should the credit quality or the financial position of JPM deteriorate significantly the Investment Manager will seek to move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 31 December 2009 or 31 December 2008. No individual investment exceeded 5.9 per cent of the net assets attributable to the Company's shareholders at 31 December 2009 (2008: 5.1 per cent).

Notes to the Accounts

24. Liquidity risk

The Company's financial instruments include investments in unlisted and AIM traded equity investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures in place as described in the Report of the Directors on page 18. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 December 2009 these investments were valued at £14,989,000 (2008: £15,935,000).

25. Related parties

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 4, 5 and 11, and fees paid to the Directors as disclosed in note 5. In addition, the Manager operates a Co-Investment Scheme, detailed in the Report of the Directors on page 22, whereby employees of the Manager are entitled to participate in certain unquoted investments alongside the Company.

Notice of Annual General Meeting

Notice is hereby given that the ninth Annual General Meeting of Baronsmead VCT 3 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS on 18 May 2010 at 10.30 am for the following purposes:

ORDINARY BUSINESS

1. That the Report and Accounts for the year to 31 December 2009 be received.

2. That the Directors' Remuneration Report for the year to 31 December 2009 be approved.

3. That Gill Nott be re-elected as a Director.

4. That Robert Owen be re-elected as a Director.

5. That Andrew Karney be re-elected as a Director.

6. That Anthony Townsend be 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

Ordinary Resolutions

8. THAT, in substitution for all subsisting authorities to the extent unused, the Directors of the Company (the ''Directors'') be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the ''Act''), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares of the Company up to an aggregate nominal amount of £1,880,000, provided that this authority shall expire on the fifth anniversary of the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting), save that the Company may, prior to such expiry, make offers or agreements which would or might require shares to be allotted or such rights to be granted after such expiry and the Directors may allot shares or grant such rights (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

9. THAT, subject to the passing of resolution 8 set out in the notice of this meeting:

   the Directors of the Company (the ''Directors'') be and are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the ''Act''), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for or to convert any security into shares of the Company, for cash pursuant to the authority conferred by resolution 8 set out in the notice of this meeting, and to sell equity securities held by the Company as treasury shares for cash, as if section 561(1) of the Act did not apply to any such allotment and sales of equity securities, provided that this power shall be limited to:

   (a) the allotment of equity securities up to an aggregate nominal amount of £600,000 provided that the maximum number of equity securities which may be allotted pursuant to this sub-paragraph (a) shall be 6,000,000 ordinary shares, pursuant to a dividend reinvestment scheme operated by the Company; and

   (b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of £1,280,000 provided that the maximum number of equity securities which may be allotted pursuant to this sub-paragraph (b) shall be 12,800,000 ordinary shares, and where such proceeds of issue may be used, in whole or part, to purchase ordinary shares,

   and the power conferred by this resolution shall expire on the date falling 15 months after the date of passing this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2011, 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 the Directors shall be entitled to allot equity securities pursuant to any such offers or agreements as if the power conferred by this resolution had not expired.

10. THAT, in substitution for the Company's existing authority to make market purchases, the Company be and is hereby authorised pursuant to and in accordance with section 701 of the Companies Act 2006 (the ''Act'') to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10p each in the capital of the company (''Ordinary Shares'') on such terms and in such manner as the Directors of the Company shall from time to time determine, provided that:

Notice of Annual General Meeting

(a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 10,050,000 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 the higher of (i) 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 on the day on which such Ordinary Share is to be purchased; and (ii) the amount stipulated by Article 5 (1) of the Buyback and Stabilisation Regulation 2003;

(d) the authority conferred by this Resolution shall expire on 18 August 2011 or, if earlier, at the conclusion of the annual general meeting to be held in 2011 unless such authority is renewed prior to such time; and

(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:

(a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(b) the Articles of Association contained in the document produced to the meeting and initialled by the Chairman for the purposes of identification be 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

B Lawson
Company Secretary
Baronsmead VCT 3 plc
100 Wood Street
London EC2V 7AN
18 February 2010

Notes to the Notice of Meeting

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. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
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 17 February 2010 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consists of 59,699,553 Ordinary Shares, carrying one vote each. Excluding those Ordinary Shares held in treasury, the total voting rights in the Company as at 17 February 2010 are 54,232,236 Ordinary Shares.
11. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

    In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the Issuer's agent (10 RA19) by the latest time for receipt of proxy appointments specified in note 6 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuers agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

    CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

    The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.
12. A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.baronsmeadvct3.co.uk.

Notes to the Notice of Meeting

13. Section 319A of the Companies Act 2006 requires the directors to answer any question raised at the AGM which, relates to the business of the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.

    Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the annual general meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses, Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

    By attending the meeting, members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the Company's shares made at the meeting.

14. Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

    (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or

    (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

    A resolution may properly be moved or a matter may properly be included in the business unless:

    (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise);

    (b) it is defamatory of any person; or

    (c) it is frivolous or vexatious.

    Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 5 April 2010, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

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 fully came into force up to and on 1 October 2009 and to make certain clarifying and conforming changes.

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. 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.

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 May 2010 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.

References to article numbers are those used in the New Articles (except where reference is made to a provision which has been deleted).

1 The Company's objects

The provisions regulating the operations of the Company were until 1 October 2009 set out in the Company's memorandum and articles of association.

The CA 2006 significantly reduces the constitutional significance of a company's memorandum. The CA 2006 provides that the memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the CA 2006 the majority of the previous provisions of the memorandum, most notably the objects clause, are deemed to be part of the company's articles of association with effect from 1 October 2009.

Further the CA 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause (together with all other provisions of its memorandum which, by virtue of the CA 2006, are treated as forming part of the Company's articles of association as of 1 October 2009). This will be achieved by the adoption of New Articles which contain no such provisions other than a statement regarding the limited liability of shareholders.

2 Change of name (Article 3)

Under the CA 1985, a company could only change its name by special resolution. Under the CA 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

3 Authorised share capital and unissued shares (Former Article 5)

The CA 2006 removes the concept of authorised share capital. As with the objects clause (see paragraph 1 above), the statement of authorised share capital previously contained in a company's memorandum of association is deemed with effect from 1 October 2009 to be a provision of the company's articles of association (and takes effect as setting out the maximum number of shares that may be allotted by the company). The adoption of the New Articles will have the effect of removing this provision.

Directors will still be limited as to the number of shares they can at any time allot because an allotment authority continues to be required under the CA 2006, save in respect of employee share schemes.

4 Suspension of and reasons for refusal of registration of share transfers (Former Article 37)

The Current Articles permit the directors to suspend the registration of transfers for up to 30 days in any year, reflecting a provision of the CA 1985. Under the CA 2006 share transfers must be registered as soon as practicable. Accordingly, the provision which allowed the Company to suspend the registration of transfers has been removed in the New Articles. In addition the Current Articles are being updated in line with the CA 2006 so that the Directors must give reasons for any refusal to register a transfer of shares as soon as reasonably practicable and provide such further information as the transferee may reasonably request.

5 Adjournments for lack of quorum (Article 57)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles reflect this requirement.

6 Chairman's casting vote (Former Article 73)

The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the CA 2006.

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

7 Voting by proxies on a show of hands (Article 75)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes and contain a provision clarifying how the provision of the CA 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

8 Validity of votes by proxies and corporate representatives (Article 79)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, proxies have an obligation to vote in accordance with the instructions given to them by the member appointing them. The New Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with these instructions.

9 Timing for submission of proxy appointments (Article 77)

Article 77 has been amended to permit the directors to specify, in a notice of meeting, that in determining the time for delivery of proxy appointments, no account shall be taken of non-working days. This brings the provisions relating to timing for proxy appointments into line with the provisions of Article 150 regarding determining which persons may attend and vote at a general meeting.

10 Directors' interests (Articles 123-130)

The articles dealing with directors' conflicts of interest have been amended and updated in line with market practice. Under the New Articles certain conflicts of interest do not need to be authorised, for example an interest as a director of a group company. Generally the nature and extent of any conflict of interest must be disclosed before it can be authorised or before it is permitted without being authorised but the New Articles provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary. The New Articles also allow the board to exercise voting rights in group companies without restriction e.g. so as to appoint a director to the board of a group company without this counting as a conflict requiring authorisation.

11 Directors' indemnities and loans to fund expenditure (Article 165)

The CA 2006 has in some areas widened the scope of powers of a company to indemnify directors 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.

Shareholder Information and Contact Details

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 VCT 3 website is available at **www.baronsmeadvct3.co.uk.**

Shareholder Helpline

Tel: 0870 703 0137 (Calls charged at geographical and national rates).

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 comparative performance data of Baronsmead VCT and other generalist VCTs please visit the AIC performance statistics page at www.theaic.co.uk/statistics-publications

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; margaret.barff@isisep.com

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

The Baronsmead website (www.baronsmeadvct3.co.uk) links to helpful sites, contains details of the team and some case studies of investments.

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:

Matrix Corporate Capital LLP	020 3206 7000
Singer Capital Markets Limited	020 3205 7500
Winterflood Securities Limited	020 3400 0251

Financial Calendar

18 May 2010	Annual General Meeting
August 2010	Announcement of interim results and posting of report
February 2011	Announcement of final results for year to 31 December 2010

The shareholdings as at 31 December 2009 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	96	3.32	76,036	0.13
2,001–5,000	747	25.85	2,876,247	4.82
5,001–10,000	725	25.09	5,645,804	9.46
10,001–25,000	763	26.40	12,787,593	21.42
25,001–50,000	373	12.91	13,413,388	22.47
50,001–100,000	131	4.53	9,425,173	15.79
Over 100,000	55	1.90	15,475,312	25.92
Total	2,890	100.00	59,699,553	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.

Notes

Notes

Corporate Information

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

Secretary
Barry Lawson

Registered Office
100 Wood Street
London EC2V 7AN

Investment Manager
ISIS EP LLP
100 Wood Street
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
Bridgwater Road
Bristol BS99 6ZZ
Tel: 0870 703 0137

Brokers
Matrix Corporate Capital LLP
One Vine Street
London W1J 0AH

Auditors
KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors
Norton Rose LLP
3 More London Riverside
London SE1 2AQ

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

Website
www.baronsmeadvct3.co.uk

Warning to Shareholders
Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based ''brokers'' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company Registrar, Computershare, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment ''advice''.

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company or the Registrar at the numbers provided above.

MLG Edinburgh 4445

ISIS EQUITY PARTNERS
Investment Manager
T 020 7506 5600
www.isisep.com

100 Wood Street London EC2V 7AN T 020 7506 5600 F 020 7506 5665 www.baronsmeadvct3.co.uk