BARONSMEAD

Baronsmead VCT 3 plc

2010

Annual report & accounts
for the year ended
31 December 2010

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 Report of the Directors on pages 18 to 20.

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 5.6p per ordinary share (equivalent to a pre-tax return of 7.4p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs, their returns would have been higher.

Contents

Secondary market in the shares of Baronsmead VCT 3

The existing shares of the Company are listed on the London Stock Exchange and can be bought and sold using a stockbroker in the same way as shares of any other listed company.

Qualifying investors* who invest in the existing shares of the Company can benefit from:

- Tax free dividends
- Realised gains not subject to capital gains tax (although any realised losses are not allowable)
- No minimum holding period
- No need to include VCT dividends in annual tax returns

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 a capital gain in respect of new shares acquired prior to 6 April 2004.

* UK income tax payers, aged 18 or over, who acquire no more than £200,000 worth of VCT shares in a tax year.

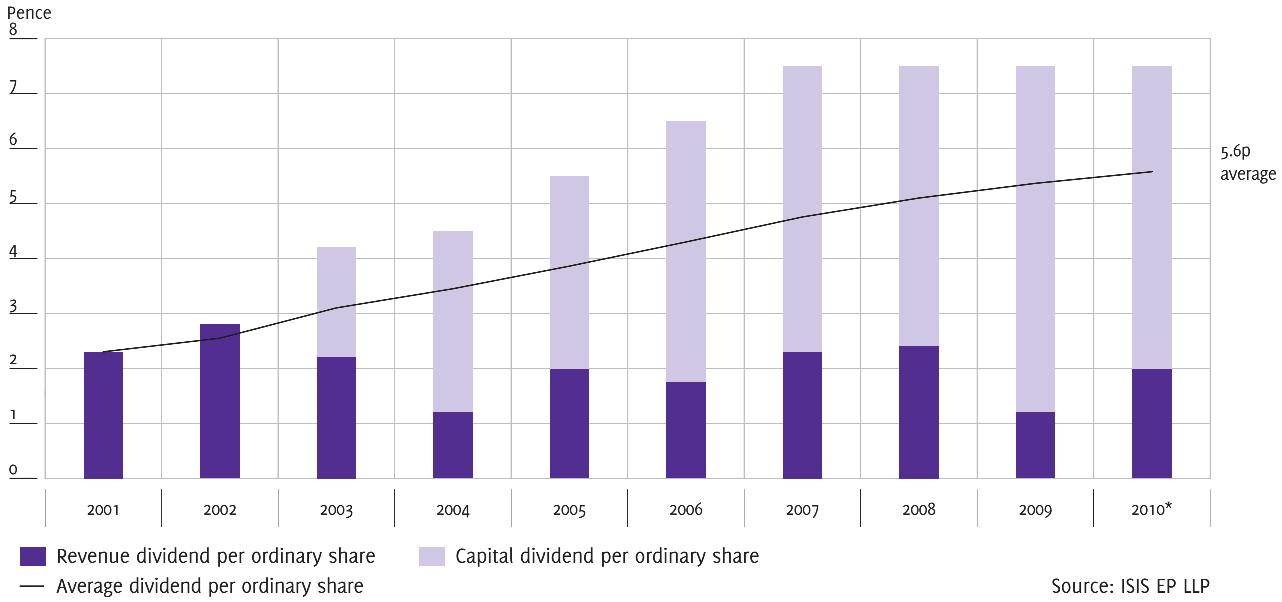
www.baronsmeadvct3.co.uk

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

Financial Headlines

12.4%	Net asset value ("NAV") per ordinary share increased 12.4 per cent to 109.60p before deduction of dividends.
7.5p	Dividends for the year total 7.5p per share comprising the interim dividend of 3.0p and the proposed final dividend of 4.5p, tax free for qualifying shareholders.
55.8p	Cumulative tax free dividends total 55.8p per share for founder shareholders over the last ten years, equivalent to an annual average dividend of 5.6p per share.
180.2p	NAV total return to ordinary shareholders for every 100p invested since launch in January 2001, prior to tax relief.
8.0%	Dividend yield. Based on the 7.5p dividends paid and proposed in the year and the mid share price of 94.25p at year end, qualifying shareholders have received a tax free cash return of 8.0 per cent, ignoring up front tax relief.

Dividend history since launch



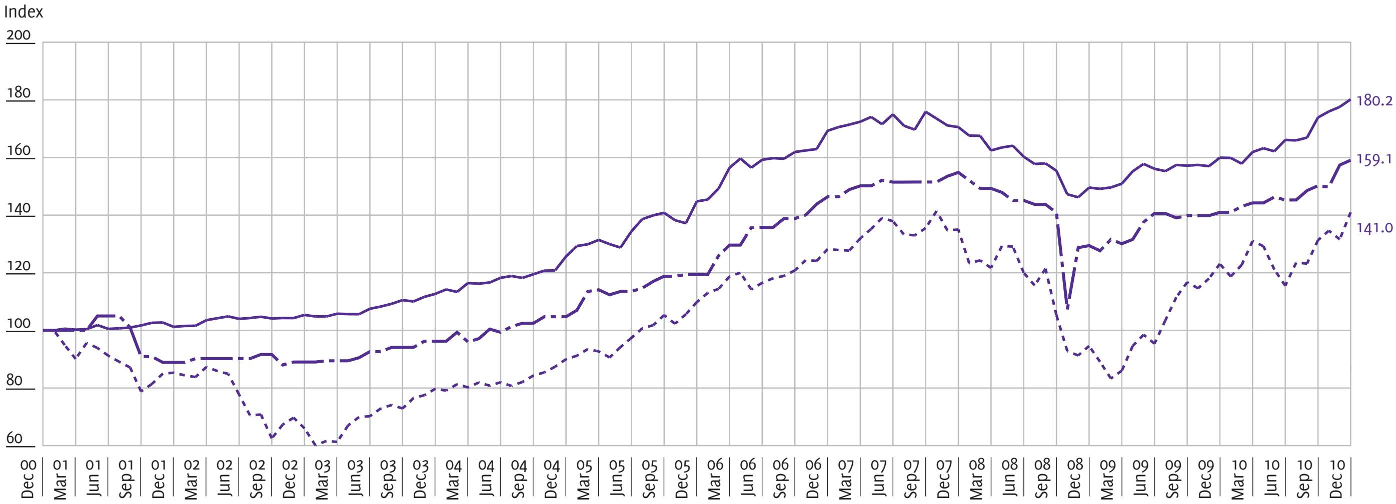
Source: ISIS EP LLP

* Includes proposed final dividend of 4.5p.

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



NAV Total Return (gross dividends re-invested) rebased to 100p at launch – ordinary shares
Share Price Total Return (gross dividends re-invested) rebased to 100p at launch – ordinary shares
FTSE All-Share Index Total Return rebased to 100p at launch

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 2010

Total return*	1 year %	3 years %	5 years %	Since launch %
Net asset value†	+12.7	+5.7	+24.5	+80.2
Share price†	+13.0	+2.9	+33.5	+59.1
FTSE All-Share	+14.5	+4.4	+28.4	+41.0

* 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* p	FTSE All-Share total return p	Total expense ratio† %
2001	31.1	93.85	88.00	101.21	85.14	2.9
2002	32.1	94.85	85.50	105.35	65.83	3.3
2003	33.0	97.15	90.00	112.65	79.56	3.1
2004	35.1	106.38	92.50	125.64	89.77	3.5
2005	56.2	117.31	100.50	144.77	109.56	3.5
2006	66.5	130.77	116.50	169.27	127.91	3.4
2007	65.2	120.44	111.50	170.56	134.71	3.4
2008	55.1	102.72	90.50	149.56	94.61	3.0
2009	52.9	97.50	86.25	159.89	123.11	3.1
2010	64.6	106.60	94.25	180.19	140.97	3.0

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

Summary Since Launch

Dividends Paid Since Launch

Year ended 31 December	Ordinary share Revenue dividend p	Capital dividend p	**Total annual dividend p**	Cumulative dividends p	Average total annual dividend p
2001	2.30	–	**2.30**	2.30	2.30
2002	2.80	–	**2.80**	5.10	2.55
2003	2.20	2.00	**4.20**	9.30	3.10
2004	1.20	3.30	**4.50**	13.80	3.45
2005	2.00	3.50	**5.50**	19.30	3.86
2006	1.75	4.75	**6.50**	25.80	4.30
2007	2.30	5.20	**7.50**	33.30	4.76
2008	2.40	5.10	**7.50**	40.80	5.10
2009	1.20	6.30	**7.50**	48.30	5.37
2010*	2.00	5.50	**7.50**	55.80	5.58

* Includes proposed final dividend of 4.5p.

Cash Returned to Shareholders

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

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid* p	Net annual yield‡ %	Gross yield† %
2001	100.0	20.0	80.0	55.8	7.0	9.4
2005 – C shares	100.0	40.0	60.0	26.3	7.5	10.0
2010	103.1	30.9	72.2	7.5	–^	–^

Note – The total return could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.
* Includes proposed final dividend of 4.5p to be paid on 8 April 2011.
‡ Net annual yield represents the cumulative dividends paid expressed as an annualised percentage of the net cash invested.
† The gross equivalent yield if the dividends had been subject to higher rate tax (32.5 per cent on dividend income at 31 December 2010). As from the tax year 2010/11, a new additional rate of tax on dividend income of 42.5 per cent came into force for those who earned more than £150,000. For those Shareholders who would otherwise pay this higher rate of tax on dividends, the future gross equivalent yield will be higher than the figures shown. Dividends paid to C shareholders post conversion have been adjusted by the conversion ratio (0.85642528).
^ The table above excludes returns for shareholders who subscribed in the Joint Offer with Baronsmead VCT 4 plc as those returns are not yet meaningful.

Chairman's Statement

This Chairman's Statement forms part of the Report of the Directors.

Anthony Townsend
Chairman

I am pleased to report an increase in Net Asset Value per share of 12.4 per cent for the year to 31 December 2010, as a result of increased valuations of our investments following improved trading results within the portfolio companies. The total 7.5p per share dividend paid in the last three years has been sustained.

Baronsmead VCT 3 was launched ten years ago in January 2001. Despite experiencing two major stock market downturns in this decade, the Company has generated a strong, absolute and relative investment return. Dividend payments (including the proposed final dividend of 4.5p) totalling 55.8p per share have been tax free for qualifying private investors.

INVESTMENT PERFORMANCE

In the year to 31 December 2010, the Net Asset Value ("NAV") per share increased 12.4 per cent from 97.50p to 109.60p before payment of dividends. The position can be summarised as follows:

	Pence per share
NAV as at 1 January 2010	97.50
Valuation uplift	12.10
	109.60
Interim dividend paid on 15 September 2010	(3.00)
Proposed final dividend payable on 8 April 2011	(4.50)
NAV as at 31 December 2010	**102.10**

The 12.4 per cent growth in NAV per share over the year is due to an uplift in the valuation of the unquoted investments as a result of strong trading performances at several companies in the portfolio as well as an increase in the value of the AIM-traded and listed portfolio in the second half of the financial year.

During the year, the Company realised profits from the sale of a number of unquoted and AIM-traded investments, including Active Assistance, Advanced Computer Software, Credit Solutions and WIN. These profitable realisations underpin the ability of the Company to continue to pay dividends in accordance with its dividend policy. The proposed final dividend of 4.5p per share will take total dividends to 7.5p per share for the year.

The Board is aware of shareholders' previously expressed preference to receive income while also achieving capital growth. The increase in NAV per share to 102.10p following payment of the proposed dividend is a positive step in this direction and above the 100p subscription price for founder shareholders.

All of the VCT qualifying tests have been met throughout the year.

THE LAST TEN YEARS

Since the launch of the Company in January 2001, Baronsmead VCT 3 has raised £71m (after expenses). The Company's net asset value as at 31 December 2010 was £64.6 million, having paid dividends of approximately £25.4 million and bought back shares at a cost of £9.4 million. The Company has had three major fundraisings as well as a number of smaller non-prospectus offers during the past ten years.

A little over 2,000 shareholders invested £31 million (after costs) in the first quarter of 2001. The first of the major downturns in stock markets that have occurred during the past ten years happened almost immediately after the launch, as the FTSE All-Share Index fell by approximately 50 per cent by March 2003. However shareholders in Baronsmead VCT 3 experienced positive year on year investment returns until 2008 when the second major stock market downturn occurred. This did have an impact on Baronsmead VCT 3 and in the 2008 year there was a negative return. This has now been more than made up by the positive investment returns in 2009 and more particularly 2010. The chart at the top of page 2 shows how the total return achieved by Baronsmead VCT 3 has, from the outset, out-performed the FTSE All-Share index and been less volatile.

Shareholders subscribed £23 million after costs in winter 2005/6 and a further £7.7 million in spring 2010. The investment returns for those who invested in these fundraisings have also been positive with annual dividends of 7.5p per ordinary share since the 2007 financial year being a particular feature.

Dividends totalling 55.8p per share have been paid to founder shareholders. This represents an average annual dividend of 5.6p per share since launch in January 2001 when founder shareholders subscribed £1 per share (prior to taking account of any initial income tax relief or capital gains deferral relief on subscription).

Chairman's Statement

The returns to shareholders are significantly enhanced by the range of VCT tax reliefs available to qualifying investors. The tax free nature of VCT dividends is of particular benefit for qualifying shareholders as they do not have to pay income tax on the dividends they receive, or declare them in a tax return. As a result, qualifying shareholders in Baronsmead VCT 3, who are higher or additional rate tax payers do not have to pay income tax equivalent to 25 per cent and 36.1 per cent respectively on the cash dividend they receive from the Company. To generate the same after-tax dividends, it would be necessary for the dividend received from a non-VCT investment to be 33.3 per cent or 56.5 per cent higher, respectively.

Depending on when investors subscribed for new shares, qualifying shareholders would have been able to reclaim 20 per cent, 30 per cent or 40 per cent of the amount invested. If the initial tax relief on the amounts subscribed is taken into account, the extra yield required from a non-VCT investment to deliver the same after-tax returns is substantial.

PORTFOLIO

The portfolio, consisting of 63 companies, has shown a strong valuation increase over the last twelve months. The direction of travel of these companies is recorded every quarter so that the overall health of the portfolio can be monitored. At the year-end, 89 per cent of companies in the portfolio are progressing steadily or better. The level of investee company borrowings has fallen generally and profit margins have been maintained.

48 per cent of the £64.6 million of net assets at 31 December 2010 were invested in unquoted companies, 25 per cent in AIM-traded and other listed shares and the balance of 27 per cent remained in liquid assets or government securities. The largest unquoted investment at that date, Reed & Mackay, and the largest AIM investment, IDOX plc, represented 7 and 2 per cent of net asset value respectively.

The performance of the unquoted portfolio has been robust and its underlying valuation has increased during the year by 19 per cent. On average, the current portfolio of unquoted investments is valued at 38 per cent higher than cost. This is a reflection of the quality of the portfolio, active management by the Manager, ISIS Equity Partners and the effectiveness of their close co-operation with investee companies.

The share prices of the AIM-traded and other listed investments in the portfolio have improved 9 per cent over the last twelve months, although it was not until August 2010 that market sentiment really began to recognise the value implicit in many profitable AIM-traded companies. Eight AIM-traded investees have been sold including three outright to acquirers, which confirms 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-traded investments, where a likely exit strategy to a trade buyer can be envisaged.

SHAREHOLDER MATTERS

Shareholders can reinvest their dividends by purchasing existing shares through the Dividend Reinvestment Plan ("DRIP"). Shareholders who increase their holdings via the DRIP will be buying into a well-diversified portfolio of mainly established and profitable unquoted and AIM-traded companies. Currently, shareholders holding approximately 13 per cent of the Company's shares participate in the DRIP. The DRIP may be appropriate for those subscribers who are investing primarily for capital growth.

During the twelve months to 31 December 2010, 286,018 shares were acquired by participants of the DRIP. These shares were acquired through the stock market and the price paid for these shares represented a discount of approximately 10 per cent of the prevailing NAV at the time. In addition, third party purchasers acquired 647,051 shares through conventional stock market activity.

The Company has consistently maintained its policy of buying back shares and will continue to do so if, in the opinion of the Board, a repurchase of shares is in the interests of the shareholders as a whole. Historically, the repurchase price has represented an approximate discount to NAV of 10 per cent. Shareholders are asked annually to give their authority to the Directors to acquire up to 14.99 per cent of the Company's shares. During the twelve months to 31 December 2010, the Company bought back 1.51 million shares to be held in treasury representing 2.5 per cent of the share capital at the start of the year.

The Manager works closely with the Company's broker, Matrix Corporate Capital, to put into effect the Company's share buy-back policy, provide shares for the DRIP and maintain a narrow difference between the buy and sell price of the Company's shares. This difference, known as "the spread", has averaged approximately 1.5p per share since Matrix' appointment in August 2009.

Chairman's Statement

BOARD SUCCESSION

As discussed in the Interim Report Mark Cannon Brookes, the first Chairman of the Company retired at the Annual General Meeting in May 2010. The Board would like to thank Mark for his excellent work as Chairman since formation of Baronsmead VCT 3 in 2001.

The definition of 'independence' in the context of a director of a venture capital trust was amended as from 28 September 2010 to bring it into line with other listed investment companies. This made it necessary for Robert Owen to resign from the Board after becoming Chairman of Baronsmead VCT 4 plc. Robert joined as a Director on the formation of the Company in 2001 and the Board thanks him for his very valuable contribution since then.

After a formal process using independent recruitment specialists, Ian Orrock was appointed a Director by the Board on October 2010. Ian has considerable relevant experience having founded, developed and sold a number of businesses throughout his career, particularly focusing on the international technology and telecoms sectors, and has also worked at board level in a number of global organisations. Finally he has served on the boards of two Investment Trusts, which specialised in investing in smaller companies. He will of course be proposed for election by shareholders at the Annual General Meeting.

ANNUAL GENERAL MEETING

I look forward to meeting as many shareholders as possible at our 10th Annual General Meeting to be held on Wednesday 6 April 2011 at the London Stock Exchange, 10 Paternoster Square near St Paul's Cathedral. The AGM is at 11:00 a.m. followed by presentations from the Manager and an investee company. After a light lunch, a shareholder workshop is being held and is expected to finish by about 2:00 p.m.

OUTLOOK

Whilst profits in the portfolio companies continue to grow, the outlook for the economy as a whole remains uncertain, particularly since it is not yet clear what the impact of the recent public sector cuts and weaker consumer spending will be. However, ISIS Equity Partners believe that the uncertain economic climate will generate specific sector opportunities which they hope the Company can capitalise on.

Many of the portfolio companies have improved their market positions and operating efficiency over the last year and both the Board and the Manager share the belief that these ambitious companies can continue to grow. We also believe that if the Government succeeds in creating a more business friendly and less restrictively regulated environment, it is the sort of companies in our portfolio and their like that will drive the growth that the UK economy desperately needs.

Anthony Townsend
Chairman
17 February 2011

Manager's Review

Sheenagh Egan

Andrew Garside

Michael Probin

Trading across the unquoted and AIM-traded companies in the portfolio has markedly improved in the last year. During the year under review, more stable trading conditions were evident in a number of sectors and new investments were completed in three unquoted and seven AIM-traded companies.

PORTFOLIO REVIEW

The total portfolio comprised 63 investee companies at the year end after 11 full realisations and one write off. All new and further round financings, as well as realisations, are scheduled below. Cash proceeds from all realisations totalled £6.3 million and net capital profits realised in the period were £1.8 million.

Unquoted investment totalled £3.6 million in the year under review, including further round financings into two existing portfolio companies. The new unquoted investments were in the following companies:

- Surgi C, the UK's leading independent distributor of spinal implants, which is based in Birmingham. The business has developed its strong market position as a result of the high levels of education and technical support it provides to spinal surgeons on its broad range of products. *www.surgi-c.com*.
- Inspired Thinking Group also Birmingham based, which provides services that help large marketing departments to operate more efficiently, including improved procurement of artwork and print management. The new funding was used to acquire Total Marketing Service, a provider of workflow management systems to marketing departments. *www.inspiredthinkinggroup.com*.
- Getting Personal, which is a leading online retailer, based in Manchester, that sells personalised and unique gifts. The business was established in November 2005 with just one product, a personalised calendar. *www.GettingPersonal.co.uk* now sells over 4,000 items ranging from personalised cards, notebooks, mugs and chocolate to non-personalised items for general gifting.

The further round financings were made into the following companies:

- Nexus Vehicle Holdings, which is a leading provider of vehicle rental services to the UK corporate market and it is a pioneer of paperless rental trading through its web based IRIS procurement system. It acquired Adapted Vehicle Hire, which is a niche rental business providing adapted vehicles for the disabled driver market. *www.nexusrental.com*
- Independent Living Services which is an acute domiciliary care provider based in Scotland. Two small investments were made firstly to fund a small acquisition and secondly to repurchase shares. *www.ilsscotland.com*.

The volume of qualifying AIM-traded opportunities also increased from the depressed levels of 2009. In all £1.8 million was invested into seven AIM-traded companies and another £1.8 million as additional capital for seven existing investments.

Manager's Review

Wood Street Microcap Investment Fund ("WSM") was established by ISIS in May 2009 to provide flexibility for the Baronsmead VCTs to invest in predominantly larger and more liquid non VCT qualifying AIM-traded and Small Cap opportunities. At 31 December 2010, the market value of the holding in WSM had increased by 20 per cent to £2.1 million, representing 3.3 per cent of NAV, and was spread across 27 smaller quoted companies. ISIS receives no additional fee for managing this fund.

It is pleasing to see the improvement in trading performance across the majority of the portfolio companies, some of which have exhilarating stories as they have grown their profits and work-forces through the recession. Often this growth has come from business models which have proved robust despite the slow recovery of the UK economy, and from companies which are able to deliver real value to their customers.

The exposure to the UK public sector is relatively light but the only new provision made is in the investment made in Carnell Contractors, which provides motorway maintenance and technical services to many of the Highway Agencies, where net revenues have fallen sharply.

Case studies

Four case studies are highlighted within the portfolio on pages 15 and 16 in this Annual Report.

- Reed & Mackay is featured for the third year due to its sustained growth providing a superior travel management service to its business customers.
- Nexus Vehicle Holdings is growing both organically and by acquisition.
- Crew Clothing Company continues to grow its networks of shops, creating jobs as well as experiencing fast growth from its direct mail/website retailing
- CableCom, an internet access solutions provider, has achieved growth in both core and related markets through product innovation.

The combined growth in value of these four investments in the last twelve months is £5.2 million, an increase of 59 per cent since 31 December 2009.

Active portfolio management

The sale of three unquoted investments in Active Assistance, Occam and Credit Solutions returned £3.90 million, being 1.8 times the original cost. The sale of Occam and Active Assistance were reported in the last interim statement.

In November 2010, the unquoted investment in Credit Solutions was successfully sold to arvato, a global business outsourcing partner. Sale proceeds were 1.8 times the original cost of £4 million invested by the four generalist Baronsmead VCTs in June 2005. Credit Solutions is ranked as one of the top 10 debt collection agencies providing a range of integrated telephone and field based collection and management services on accounts ranging from early arrears to later stage debt recovery.

The investment strategy with regard to AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs. For example, the original shareholding of 5 per cent in WIN, a provider of mobile data solutions, had been subscribed in 2004 and grew to over 19 per cent by August 2009 through a series of market purchases. The average price paid for the total shareholding was 85p and the sale price in August 2010 was 150p. ISIS believes that the concentration of WIN's shareholder base enabled its board to improve on the opening offer received for the business.

The sale of WIN is an example of how trade purchasers perceive good value in a number of the portfolio companies and, in all, three trade sales have been achieved from the AIM portfolio over the last twelve months. Investor sentiment towards the AIM market has also improved in recent months but ISIS believes there is still scope for the gap between the price earnings ratings of smaller qualifying AIM-traded companies and that of larger quoted companies to be reduced. The shares in Advanced Computer Software were also sold through a series of market trades realising an overall profit of £553,000 (2.1 times cost).

Following the period end an unquoted investment of £1.6m was completed in Valldata, a leading provider of outsourced donation processing and fulfilment services for the UK not-for-profit market based in Wiltshire.

OUTLOOK

The focus of both the unquoted and AIM-traded portfolio companies has moved from cautious management in 2008/09 to actively pursuing and taking advantage of emerging opportunities. This is evidenced by increased profits, stronger balance sheets and higher valuations in a number of cases. Hopefully further improvements in the economic environment will assist these companies to continue to grow and be important job creators for the UK.

It will be the continued innovation and drive of these companies aided by the encouragement and experience of ISIS as active investors that can help generate shareholder value.

ISIS EP LLP
Investment Managers
17 February 2011

Table of Investments and Realisations

New investments in the year to 31 December 2010

Company	Location	Sector	Activity	Investment cost £'000
Unquoted investments				
New				
Surgi C Ltd	Birmingham	Healthcare & Education	Distribution of spinal implants	1,102
Getting Personal Ltd	Manchester	Consumer markets	On-line retail of personalised gifts	988
Inspired Thinking Group Ltd	Birmingham	Business Services	Marketing services & work flow systems	796
Follow on				
Nexus Vehicle Holdings Ltd	Pudsey	Business Services	Vehicle rental provider to corporates	499
Independent Living Services Ltd	Alloa	Healthcare & Education	Care at home services	211
Paper consideration				
Independent Living Services Ltd*	Alloa	Healthcare & Education	Care at home services	150
Crew Clothing Company Ltd*	London	Consumer markets	Branded clothing retailer	51
Total unquoted investments				**3,797**
AIM-traded & listed investments				
New				
Netcall plc	St Ives	IT & Media	Communications software	789
Accumuli plc	Salford	IT & Media	Managed IT security	333
Tristel plc	Newmarket	Healthcare & Education	Infection control	217
Bglobal plc	Darwen	Business Services	Smart metering	176
Brady plc	Cambridge	IT & Media	Commodities trading software	176
Hangar8 plc	Oxford	Business Services	Business jet management	44
Strategic Thought Group plc	Maidenhead	IT & Media	Risk management software	35
Follow on				
Green Compliance plc	Cirencester	Business Services	Small business compliance	531
Electric Word plc	London	IT & Media	Business to business publisher	380
IS Pharma plc	Chester	Healthcare & Education	Specialist hospital medicines group	278
Proactis Holdings plc	Wetherby	IT & Media	Procurement Software	219
Jelf Group plc	Bristol	Financial Services	Financial solutions consultancy	210
Tasty plc	London	Consumer Markets	Restaurant operator	114
Tangent Communications plc	London	Business Services	Digital direct marketing	88
Total AIM-traded & listed investments				**3,590**
Collective investment vehicles				
Follow on				
Wood Street Microcap Investment Fund				1,300
Total collective investment vehicle				**1,300**
Total investments in period				**8,687**

* Paper consideration from rolled up interest.

Realisations in the year to 31 December 2010

Company		First investment date	31 December 2009 valuation £'000	Realised profit/(loss) this period £'000	Overall multiple return*
Unquoted realisations					
Active Assistance	Trade sale	Mar 08	1,155	414	2.8
Credit Solutions	Trade sale	May 05	1,127	167	1.8
Occam DM Ltd	Trade sale	Jul 04	121	422	1.7
Total unquoted realisations			**2,403**	**1,003**	
AIM-traded & listed realisations					
Advanced Computer Software plc	Full Market Sale	Jul 08	1,081	(3)	2.1
Alere Inc	Part Sale	Aug 09	28	–	1.3
Brainjuicer Group plc	Full Market Sale	Nov 06	59	26	1.7
Character Group plc	Full Market Sale	Feb 08	88	44	0.9
INVU plc	Full Market Sale	May 07	1	(1)	0.0
Mission Marketing Group (The) plc	Full Market Sale	Dec 07	35	(22)	0.1
Mount Engineering plc	Full Trade Sale	Jun 07	275	176	1.2
Vero Software	Full Trade Sale	Apr 02	181	63	0.8
WIN plc	Full Trade Sale	Oct 04	374	302	1.6
			2,122	**585**	
Written off					
Payzone plc		May 03	1	(1)	–
			1	**(1)**	
Total AIM-traded & listed realisations			**2,123**	**584**	
Total realisations			**4,526**	**1,587†**	

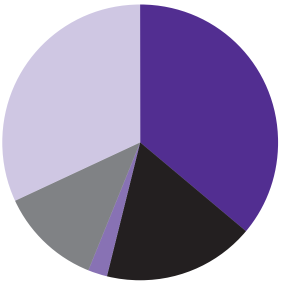
* Includes interest/dividends received, loan note redemptions and partial realisations accounted for in prior periods.

† Proceeds of £173,000 were received in respect of an investment, Scriptswitch which had been sold in a prior period and proceeds of £6,000 were received in respect of an investment, Interactive Prospect Targeting plc, which had been written off in a prior period. In addition, a loss of £9,000 was realised during the year on the redemption on 7 June 2010 of a UK Treasury Gilt which had paid a rate of interest of 4.75 per cent.

Investment Portfolio

Investment Classification at 31 December 2010

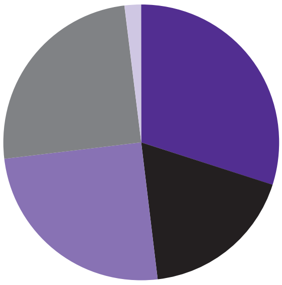
By Sector*



Business Services	36%
Consumer Markets	18%
Financial Services	2%
Healthcare & Education	12%
IT & Media	32%

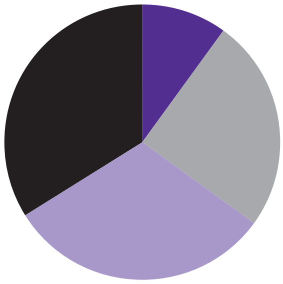
* at 31 December 2010 valuation

Total Assets*



Unquoted – loan stock	30%
Unquoted – ordinary and preference shares	18%
AIM, Listed & Collective Investments	25%
Interest bearing securities	25%
Net current assets	2%

Time Investments Held*



Less than 1 year	10%
Between 1 and 3 years	25%
Between 3 and 5 years	31%
Greater than 5 years	34%

Company	Sector	Book cost £'000	31 December 2009 Valuation £'000†	31 December 2010 Valuation £'000	% of net assets	% of total held by Baronsmead VCT 3 plc	% of Equity held by all funds*
Unquoted							
Reed & Mackay Ltd	Business Services	1,211	3,145	4,779	7.4	9.5	40.0
Nexus Vehicle Holdings Limited	Business Services	2,368	2,511	4,182	6.5	12.6	57.4
Crew Clothing Company Ltd	Consumer Markets	984	1,300	2,569	4.0	5.7	24.1
CableCom Networking Holdings Ltd	IT & Media	1,381	1,848	2,490	3.9	10.6	48.0
Kafevend Holdings Ltd	Consumer Markets	1,252	1,445	2,032	3.1	15.8	66.5
Quantix Limited	IT & Media	1,194	1,862	2,025	3.1	11.4	48.0
Independent Living Services Ltd	Healthcare & Education	1,161	1,566	1,849	2.9	16.2	68.1
Fisher Outdoor Leisure Holdings Ltd	Consumer Markets	1,423	1,777	1,777	2.7	10.5	44.0
CSC (World) Ltd	IT & Media	1,606	1,250	1,687	2.6	8.8	40.0
MLS Ltd	IT & Media	781	1,138	1,161	1.8	5.3	22.5
Playforce Holdings Limited	Business Services	1,033	1,106	1,023	1.6	9.7	44.0
Getting Personal Limited	Consumer Markets	988	–	1,013	1.6	8.3	37.5
Inspired Thinking Group Ltd	Business Services	796	–	976	1.5	5.0	22.5
Surgi C Ltd	Healthcare & Education	1,102	–	919	1.4	9.8	44.7
Empire World Trade Limited	Business Services	1,297	658	869	1.3	‡	‡
TVC Group Limited	IT & Media	1,233	341	774	1.2	13.0	59.3
Carnell Contractors Ltd	Business Services	1,499	2,639	337	0.5	8.3	37.5
Xention Pharma Ltd	Healthcare & Education	893	183	104	0.2	2.2	3.0
Kidsunlimited Group Ltd	Business Services	113	113	113	0.2	0.0	0.0
Provesica Ltd	Healthcare & Education	–	–	56	0.1	1.0	1.6^
Total unquoted		**22,315**	**22,882**	**30,735**	**47.5**		
AIM							
IDOX plc	IT & Media	1,038	1,136	1,525	2.4	3.3	9.7
Green Compliance plc	Business Services	781	500	938	1.5	3.4	17.0
Murgitroyd Group plc	Business Services	319	712	751	1.2	3.1	6.2
Electric Word plc	IT & Media	616	247	702	1.1	5.2	28.8
Jelf Group plc	Financial Services	761	235	670	1.0	1.4	6.3
Proactis Holdings plc	IT & Media	619	307	614	1.0	5.4	26.5
Brulines Group	Business Services	646	715	544	0.8	1.8	9.6
IS Pharma plc	Healthcare & Education	524	239	540	0.8	1.3	7.1
Netcall plc	IT & Media	789	–	508	0.8	3.6	18.2
Accumuli plc	IT & Media	333	–	409	0.6	4.7	26.6
InterQuest Group plc	Business Services	310	259	360	0.6	1.8	7.3
EG Solutions plc	IT & Media	375	101	357	0.6	3.1	14.2
Begbies Traynor Group plc	Financial Services	231	607	347	0.5	0.6	2.5

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

† The total investment valuation at 31 December 2009 per the table above does not agree to the audited accounts at 31 December 2009 due to purchases and sales since that date.

‡ Following a restructuring, the effective ownership percentage is dependent on final exit proceeds.

^ Provesica Ltd shares received after a company restructure by Xention.

Investment Portfolio

Company	Sector	Book cost £'000	31 December 2009 Valuation £'000†	31 December 2010 Valuation £'000	% of net assets	% of total held by Baronsmead VCT 3 plc	% of Equity held by all funds*
AIM (continued)							
Kiotech International plc	Healthcare & Education	275	298	339	0.5	2.2	15.8
Craneware plc	IT & Media	71	184	335	0.5	0.2	1.1
Tasty plc	Consumer Markets	469	161	316	0.5	2.5	17.1
FFastFill plc	IT & Media	251	297	316	0.5	0.9	6.5
Plastics Capital plc	Business Services	473	184	307	0.5	1.7	9.8
Tristel plc	Healthcare & Education	217	–	232	0.4	1.0	5.4
Sanderson Group plc	IT & Media	387	132	209	0.3	1.8	6.9
Brady plc	IT & Media	176	–	199	0.3	0.6	3.1
Quadnetics Group plc	Business Services	296	162	192	0.3	0.6	2.1
Prologic plc	IT & Media	310	124	186	0.3	4.1	15.0
Stagecoach Theatre Arts plc	Consumer Markets	419	194	180	0.3	4.5	9.1
Bglobal plc	Business Services	176	–	172	0.3	0.5	2.7
Praesepe plc	Consumer Markets	525	185	167	0.3	0.6	3.6
Tangent Communications plc	Business Services	268	73	158	0.2	2.0	10.3
Dods Group plc	IT & Media	541	158	142	0.2	1.4	4.4
Driver Group plc	Business Services	438	294	138	0.2	2.3	10.4
Autoclenz Holdings plc	Business Services	400	122	115	0.2	3.1	12.3
Real Good Food Company (The) plc	Consumer Markets	540	17	92	0.1	0.6	2.3
Adventis Group plc	IT & Media	361	267	89	0.1	3.1	20.7
Cohort plc	Business Services	179	138	84	0.1	0.3	1.4
Colliers CRE plc	Financial Services	470	78	76	0.1	0.3	0.8
STM Group plc	Financial Services	140	58	47	0.1	0.5	3.8
Hangar8 plc	Business Services	44	–	44	0.1	0.5	2.6
Strategic Thought Group plc	IT & Media	35	–	44	0.1	0.4	2.1
Clarity Commerce Solutions plc	IT & Media	50	40	43	0.1	0.3	6.0
Zoo Digital Group plc	IT & Media	584	15	36	0.1	0.3	0.9
Total AIM		**15,437**	**8,239**	**12,522**	**19.4**		
Listed							
Vectura Group plc	Healthcare & Education	771	1,208	1,120	1.7	0.5	1.3
Chime Communications plc	IT & Media	369	372	386	0.6	0.2	1.5
Marwyn Value Investors plc	Financial Services	64	62	55	0.1	1.3	6.0
Total listed		**1,204**	**1,642**	**1,561**	**2.4**		
New York Stock Exchange							
Alere Inc	Healthcare & Education	157	224	179	0.3	0.0	0.0
Total New York Stock Exchange		**157**	**224**	**179**	**0.3**		
Interest bearing securities							
UK T-Bill 10/01/11		6,888	–	6,888	10.7		
BlackRock Cash Market OEIC		5,700	5,700	5,700	8.8		
UK T-Bill 17/01/11		2,499	–	2,499	3.9		
JPMorgan Europe OEIC		1,200	–	1,200	1.9		
Total interest bearing securities		**16,287**	**5,700**	**16,287**	**25.2**		
Collective investment vehicles							
Wood Street Microcap Investment Fund		1,825	526	2,123	3.3	27.3	100#
Total collective investment vehicles		**1,825**	**526**	**2,123**	**3.3**		
Total investments		**57,225**		**63,407**	**98.1**		
Net current liabilities				**1,236**	**1.9**		
Net assets				**64,643**	**100.0**		

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

† The total investment valuation at 31 December 2009 per the table above does not agree to the audited accounts at 31 December 2009 due to purchases and sales since that date.

Fund managed by FPPE LLP.

AIM, Listed & NYSE Portfolio Concentration Analysis at 31 December 2010

Investment ranking by valuation	Book cost £'000	Valuation £'000	% of Quoted portfolio
Top Ten	6,864	7,910	55.6
11–20	3,158	3,472	24.3
21–30	2,931	1,875	13.1
30+	3,846	1,005	7.0
Total	**16,799**	**14,262**	**100.0**

Ten Largest Investments

The top ten investments by current value at 31 December 2010 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information published on Companies House, which has been audited by the auditors of the investee companies.

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:	40.00%

Baronsmead VCT 3 only

Cost:	£1,211,000
Valuation:	£4,779,000
Valuation basis:	Earnings Multiple
% of equity held:	9.49%

Year ended 31 March	**2010**	2009
	£ million	£ million
Sales	**16.0**	16.0
EBITA	**3.5**	2.7
Profit before tax	**2.4**	1.6
Net Assets	**3.9**	2.3
No. of Employees	**218**	221

www.reedmac.com

(Source: Reed & Mackay Holdings Limited, Report and Financial Statements 2010)

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 NEXUS VEHICLE HOLDINGS LIMITED Leeds

Vehicle rental supplier

All ISIS EP LLP managed funds

First Investment:	February 2008
Total Cost:	£9,500,000
Total equity held:	57.38%

Baronsmead VCT 3 only

Cost:	£2,368,000
Valuation:	£4,182,000
Valuation basis:	Earnings Multiple
% of equity held:	12.62%

Year ended 30 September	**2009**	2008*
	£ million	£ million
Sales	**19.4**	6.9
EBITA	**2.2**	0.4
Loss before tax	**(0.1)**	(0.5)
Net Assets	**0.3**	0.2
No. of Employees	**32**	22

www.nexusrental.co.uk

(Source: Nexus Vehicle Holdings Limited, Financial Statements 2009)

*Accounts for a 9 month period.

Nexus is a supplier 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.

3 CREW CLOTHING HOLDINGS LIMITED London

Multi-channel clothing retailer

All ISIS EP LLP managed funds

First Investment:	November 2006
Total Cost:	£3,935,000
Total equity held:	24.08%

Baronsmead VCT 3 only

Cost:	£984,000
Valuation:	£2,569,000
Valuation basis:	Earnings Multiple
% of equity held:	5.72%

Year ended 25 October	**2009**	2008
	£ million	£ million
Sales	**29.3**	22.0
EBITA	**0.8**	1.4
Profit before tax	**0.2**	0.8
Net Assets	**2.3**	2.3
No. of Employees	**273**	209

www.crewclothing.co.uk

(Source: Crew Clothing Holdings Limited, Consolidated Financial Statements 2009)

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.

4 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:	£2,490,000
Valuation basis:	Earnings Multiple
% of equity held:	10.56%

Year ended 30 September	**2010**	2009
	£ million	£ million
Sales	**8.2**	8.1
EBITA	**0.9**	0.9
Loss before tax	**(0.5)**	(0.4)
Net Assets	**0.5**	0.9
No. of Employees	**52**	40

www.cablecomnetworking.co.uk

(Source: CableCom Networking Holdings Limited, Audited Annual Report and Accounts 2010)

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.

5 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:	£2,032,000
Valuation basis:	Earnings Multiple
% of equity held:	15.79%

Year ended 30 September	**2009**	2008
	£ million	£ million
Sales	**14.7**	16.1
EBITA	**1.0**	1.1
Profit before tax	**1.0**	1.2
Net Assets	**3.5**	2.7
No. of Employees	**98**	107

www.kafevending.co.uk

(Source: Kafévend Group Limited, audited Annual Report and Accounts 2009)

Kafévend 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.

Note: EBITA represents earnings before interest, tax and amortisation.
Profit before tax represents earnings before tax, after interest, amortisation and depreciation.

6 QUANTIX LIMITED 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:	£2,025,000
Valuation basis:	Earnings Multiple
% of equity held:	11.40%

Year ended 30 September	2009	2008
	£ million	£ million
Sales	8.6	8.3
EBITA	1.6	1.2
Profit/(Loss) before tax	0.2	(0.3)
Net Assets	0.7	0.7
No. of Employees	46	42

www.quantix-uk.com

(Source: Newincco 635 Limited, audited Annual Report and Accounts 2009)

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.

7 ILS GROUP LIMITED Alloa

Acute domiciliary care

All ISIS EP LLP managed funds

First Investment:	September 2005
Total Cost:	£4,679,000
Total equity held:	68.12%

Baronsmead VCT 3 only

Cost:	£1,161,000
Valuation:	£1,849,000
Valuation basis:	Earnings Multiple
% of equity held:	16.18%

Year ended 30 September	2009	2008
	£ million	£ million
Sales	16.5	12.7
EBITA	1.8	1.8
Profit before tax	0.1	0.6
Net Assets	0.9	0.9
No. of Employees	1,133	838

www.ilsscotland.com

(Source: ILS Group Limited, Directors Report and Financial Statements 2009)

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 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	2010	2009
	£ million	£ million
Sales	26.5	22.2
EBITA	2.3	1.8
Profit before tax	0.7	0.1
Net Assets	1.4	1.0
No. of Employees	96	83

www.fisheroutdoor.co.uk

(Source: Fisher Outdoor Leisure Holdings Limited, Directors Report and Financial Statements 2010)

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.

9 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:	£1,687,000
Valuation basis:	Earnings Multiple
% of equity held:	8.81%

Year ended 31 March	2010	2009
	£ million	£ million
Sales	6.4	6.6
EBITA	1.9	1.9
Loss before tax	(0.8)	(1.0)
Net (Liabilities)/Assets	(0.6)	0.3
No. of Employees	55	51

www.cscworld.com

(Source: Cobco 867 Limited, Directors Report and Consolidated Financial Statements 2010)

CSC World Limited (CSC) is the UK market leading structural engineering software company based in Leeds. The Company supplies engineering calculation software, building design software and analysis packages including TEDDS, Fastrak and Orion to corporate businesses worldwide, with a substantial presence in South East Asia.

10 IDOX PLC London

Local Authority IT Provider

All ISIS EP LLP managed funds

First Investment:	June 2006
Total Cost:	£3,014,800
Total equity held:	9.74%

Baronsmead VCT 3 only

Cost:	£1,038,000
Valuation:	£1,525,000
Valuation basis:	Bid price
% of equity held:	3.26%

Year ended 31 October	2010	2009
	£ million	£ million
Sales	31.3	32.2
EBITA	7.5	6.6
Profit before tax	4.9	4.5
Net Assets	31.0	28.2
No. of Employees	332	304

www.idoxgroup.com

(Source: IDOX plc Annual Report and Accounts 2010)

IDOX provides software and IT Services to the UK local government market. The group has a dominant market position in Planning Department Systems and a growing penetration of other local government functions.

Creating Shareholder Value

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

Access to an attractive, diverse portfolio

Baronsmead VCT 3 plc gives shareholders access to a diverse portfolio of growth businesses, both unquoted private equity and AIM-traded companies.

Each business has already demonstrated profitable success from its business model before investment to provide a degree of stability and foundation from which to build. Each business is led by entrepreneurial management teams that are aspiring to achieve above average growth from attractive and differentiated market positions.

The Manager's approach to investing

The Manager, ISIS, aspires to select the best opportunities and has a distinctive selection criteria based on;

- Businesses that demonstrate elements of market leadership in their niche
- Management teams that can develop and deliver profitable and sustained growth
- The Company being able to be an attractive asset appealing to a range of buyers at the appropriate time to exit

In order to ensure there is a strong pipeline of opportunities, ISIS invests in sector knowledge and networks. It then undertakes significant pro-active marketing to interesting unquoted targets in preferred sectors. This is building a database of businesses that are keen to maintain a relationship with ISIS ahead of possible investment opportunities.

ISIS as an influential shareholder

For unquoted private equity investments, ISIS is an involved shareholder and representatives of the Manager join the investee Board. The role of ISIS is to ensure that strategy is clear, the business plan is 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 investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs.

This year we have focused on four companies from the unquoted portfolio, which have demonstrated strong performance during the recent period of economic uncertainty and now, with the help of ISIS have emerged with a strong appetite and ability to deliver growth both through acquisition and organically.

Creating Shareholder Value

REED & MACKAY

''Strong organic growth''

Reed & Mackay was founded in 1962 as a City-based travel agency. During the late 90's, the Company decided that technology was critical and by 2002 the business had developed a proprietary in-house IT capability that was more advanced than that available to its competitors. This positioned the Company as a strategic partner to leading multi-national clients such as law firms and insurance companies and gave it a sound platform for growth.

In November 2005, the Baronsmead family, through the Manager, ISIS, invested £4.9m to fuel growth enabling the founders to realise a return and new members of the management team to participate in the equity of the business.

"I immediately had a good impression of ISIS. They were interested in our business and asked all the right questions. We looked forward to changing from a family business to a professional business with family values"

– Richard Boardman, CEO

Since the investment, ISIS has worked with the business to strengthen the senior management team, and further develop the technology which supports the consultants enabling Reed & Mackay to deliver outstanding customer service.

The business prides itself on exceptional services. It contacted executive clients in Mumbai hotels during the terrorist attacks before their security companies did, and during the Icelandic volcano ash cloud crisis the travel consultants worked 24 hours a day to ensure customers could be repatriated as quickly and effectively as possible.

The business has continued to achieve strong organic growth throughout the recession.

www.reedmac.com

NEXUS VEHICLE HOLDINGS

''Growth by acquisition''

Nexus is an innovative provider of vehicle rental to corporate users and the public sector. At the heart of Nexus is a web based procurement system called IRIS that is fully integrated into both customers and suppliers. IRIS automates traditional back office functions to save time and money whilst also offering wide capability of supply choices.

In March 2008, the Baronsmead VCTs invested in the £11m management buyout/management buy in led by highly experienced industry veteran Neil McCrossan who had previously been a VP at National Car Rental.

Seven months later, with support from ISIS, Nexus acquired the Vehicle Rental Management division of a larger fleet management business with a second investment from the Baronsmead VCTs. During the period under review the Baronsmead VCTs have provided a third investment to support the growth of Nexus, the acquisition of Adapted Vehicle Hire Limited, which specialises in renting adapted cars and vans throughout the UK to drivers with disabilities.

On the acquisitions, the Chairman of Nexus reflected,

"In one move Nexus burst through the glass ceiling. It meant more revenue, more big clients but with no more overheads. It proved the scalability of Nexus way beyond our expectations".

Sales are now four times the level they reached in 2007, the year before the MBO.

Nexus demonstrates the ability of the Manager to back ambitious management teams with a well thought out strategy to grow value by selected acquisitions, supported by further investment from the Baronsmead VCTs.

www.nexusrental.co.uk

Creating Shareholder Value

CREW CLOTHING COMPANY

''Sector knowledge and experience''

Crew Clothing Co has its heritage in its south-coast roots, having been founded by Alastair Parker-Swift as a single retail site in Salcombe in 1993. The brand has since evolved into the fast growing premium active and casual wear sectors but has retained its unique heritage and position as the quintessentially English brand for customers who enjoy an active and outdoor social lifestyle.

The Baronsmead VCTs initially acquired a 25 per cent stake in the company in a £7.75 million fund raising in November 2006. The Manager has a successful track record of backing consumer businesses which brought about the initial contact with Crew Clothing Co.

Since investment Crew has grown significantly. With the support of ISIS, the business has grown from 34 to over 60 stores across the UK and it now has over 400 employees. Particular success has been gained from direct sales through catalogues and web with currently over 3.2 million catalogues mailed to customers every year.

The CEO Octavia Morley commented,

"We are looking forward to continuing our strong growth with our partners at ISIS by developing the Crew brand to reach new customers both by opening stores across the UK and through our catalogue and online channels".

The depth of retail sector experience within the Manager helped both the investment decision and the subsequent development of Crew.

www.crewclothing.co.uk

CABLECOM

''Growth through innovation''

CableCom supplies IT and communication managed services to the UK student accommodation and key worker sectors. CableCom has over time developed its offering to include the proactive management of a range of communications including broadband, telephony and TV to many of the leading providers of student accommodation and universities.

The Company was founded in 1988, initially as a cabling and IT infrastructure business. Since 2004 the Company has grown steadily and profitably via winning contracts with a number of large blue chip customers and gaining accreditation for the implementation of the latest data network technologies.

The Baronsmead VCT's invested £5.6m in the management buy out in May 2007. Growth has continued to be a feature for the business since then despite the economic downturn.

Discussing the impact of the investment in May 2007, Managing Director Mark Burchfield commented,

"In that first stage we were too inwardly focussed and not spending enough time thinking about the end game. What ISIS gave us, even more valuable to us than the funding, was experience and a sense of perspective".

The accommodation providers, both at universities and private sector landlords, recognise the importance of the student experience. IT is a key requirement for the student demographic and this was particularly demonstrated with the demand for services such as Facebook and YouTube which significantly increased from the summer 2007.

Looking forward, as well as strengthening its presence in the student accommodation market CableCom has recently moved into the high end residential sector, and won a significant new contract to deliver voice, broadband and TV services at Media City, the accommodation being built around the BBC's new northern base in Salford.

www.cablecomnetworking.co.uk

Board of Directors

as at 31 December 2010

Anthony Townsend (Chairman)

(Date of appointment 4 August 2009)
(age 63) 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 Miton Worldwide Growth 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.

Andrew Karney
(Senior Independent Director)
(Date of appointment 10 January 2001)
(age 68) 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 OBE
(Audit and Risk Committee Chairman)
(Date of appointment 10 January 2001)
(age 65) has in-depth experience of private investors as chief executive of ProShare (1994–1999). Previously she was responsible for the private equity portfolio at BP and has been on the board of the FSA. She is currently a non-executive director of BlackRock Smaller Companies Trust plc and Martin Currie Portfolio Investment Trust plc and is chairman of Witan Pacific Investment Trust plc. She has also been on the board of Liverpool Victoria Friendly Society since May 2005, and is a deputy chairman of the Association of Investment Companies. Gill is a non-executive director of Baronsmead VCT 2 and Baronsmead VCT 5.

Ian Orrock
(Date of appointment 21 October 2010)
(age 64) Ian has wide experience having founded, developed and sold a number of businesses particularly focusing on the international technology and telecoms sectors, and has also worked at board level in global organisations. He is currently a non-executive director of Henderson Private Equity Investment Trust Plc and is a director of a number of private 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 tenth Report and audited financial statements of the Company for the year ended 31 December 2010.

Ordinary shares	£'000
Profit on ordinary activities after taxation	7,235
Interim dividend of 3.0p per ordinary share paid on 15 September 2010	(1,837)
Final dividend of 4.5p per ordinary share paid on 8 April 2011	(2,729)
Total dividends for the year	**(4,566)**

Subject to approval at the forthcoming Annual General Meeting the final proposed dividend of 4.5p per ordinary share will be paid on 8 April 2011 to shareholders recorded on the register on 11 March 2011.

Principal Activity and Status

The Company is registered as a Public Limited Company (Registration number 04115341). The Directors have managed and intend to continue to manage the Company's affairs in such a manner so as to comply with Section 274 of the Income Tax Act 2007 which grants approval as a VCT. A review of the Company's business during the period is contained in the Chairman's Statement and Manager's Review.

Business Review

The Business Review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006 and best practice.

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

Strategy for achieving objectives

Baronsmead VCT 3 plc is a tax efficient company listed on The London Stock Exchange's main market 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 stocks, convertible securities, and fixed-interest securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AIM investments are primarily held in ordinary shares. Pending investment in unquoted and AIM-traded securities, cash is primarily held in an interest bearing money market open ended investment company (OEIC), UK gilts and Treasury Bills.

UK companies

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

VCT regulation

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

Asset mix

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

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities. 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 it invests alongside the other Baronsmead VCTs. Currently ISIS EP LLP ('the Manager') and its executive members are mandated to invest in unquoteds alongside the Company on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's Articles permit borrowing to give a degree of investment flexibility. The Company's policy is to use borrowing for short term liquidity purposes only. The Company's borrowings are restricted to 25 per cent of the value of the gross assets of that company. The Company currently has no borrowings.

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, administrative, accounting and custodian services to the Company.

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

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

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 – an inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders. Therefore the Company's investment strategy is periodically reviewed by the Board which considers at each meeting the performance of the investment portfolio.
- Regulatory – the Company is required to comply with the Companies Act 2006, 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. General changes in legislation, regulations or government policy could significantly influence the decisions of investors or impact upon the markets in which the Company invests.
- Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.
- Operational – failure of the Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- Financial – the Board has identified the Company's principal financial risks which are set out in the notes to the Financial Statements on pages 44 to 45. 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 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 of the Manager is vital to the success of the Company. Appropriate incentives are in place to ensure retention of such personnel.

Report of the Directors

The Board seeks to mitigate the internal risks by setting policy, regular review 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 FRC's Revised Guidance for Directors on the Combined Code. Details of the Company's internal controls are contained in the Corporate Governance section on page 27.

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 Index Total Return. 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 other generalist venture capital trusts. A review of the Company's performance during the financial period, 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 on pages 1 to 3 of the report.

Issue and Buy-Back of Shares

During the period the Company issued 7,920,298 ordinary shares.

During the period the Company bought back 1,510,000 ordinary shares with a nominal value of 10p to be held in Treasury, representing 2.2 per cent of the issued share capital at an aggregate cost of £1,350,100. These 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. The Company holds 6,977,317 ordinary shares in Treasury representing 10.3 per cent of the issued share capital as at 16 February 2011.

Directors

Biographies of the Directors are shown on page 17. On 21 October 2010 Mr I Orrock 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.

Mr M Cannon Brookes retired as a Director on 18 May 2010 at the cessation of the Annual General Meeting. Mr R Owen resigned as director on 28 September 2010 in order to ensure that Baronsmead VCT 4 plc, the board of which Mr Owen chairs, does not breach the revised listing rule relating to the independence of directors. The Board would like to thank Mr Cannon Brookes and Mr Owen for their valuable contributions during their appointments.

As explained in more detail under Corporate Governance on pages 25 to 27 and in accordance with the provisions of the AIC Code of Corporate Governance, the Board has agreed that Directors who have held office for more than nine years will retire annually. Accordingly, as Mr A Karney and Mrs G Nott have held office for a period of more than nine years, they will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for reelection. Mrs G Nott who is a director of Baronsmead VCT 2 plc and Baronsmead VCT 5 plc is also required to seek annual re-election under the terms of the UKLA's Listing Rules.

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

The interests of the Directors in the shares of the Company, at the beginning and at the end of the year, or date of appointment, if later, were as follows:

Ordinary Shares	31 December 2010	31 December 2009
	Ordinary 10p shares	Ordinary 10p shares
Anthony Townsend	7,609	–
Andrew Karney	82,709	82,709
Gillian Nott	55,900	25,461
Ian Orrock*	–	–
Total shares held	146,218	108,170

* Appointed on 21 October 2010

There have been no changes in the holdings of the Directors between 31 December 2010 and 16 February 2011.

No Director has a service contract with the Company.

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

Report of the Directors

Companies Act 2006 Disclosure

In accordance with Schedule 7 of the Large and Medium Size Companies and Groups (Accounts and Reports) 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;
- 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.

Directors' Professional Development

When a new Director is appointed he or she is offered an induction programme that is arranged with the Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in industry seminars.

Directors' Indemnity

Directors and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgement is given in their favour by the Court. Save for such indemnity provisions in the Company's Articles of Association and in the Directors' letters of appointment, there are no qualifying third party indemnity provisions.

Conflicts of Interest

The Directors have declared any conflicts or potential conflict of interest to the Board of Directors which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is reviewed quarterly by the Board and when changes are notified. The Directors advise the Company Secretary and Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in discussions which relate to any of their conflicts.

Whistleblowing

The Board has considered the Combined Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns within their respective organisations 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 within their respective organisations.

Management

ISIS EP LLP manages the investments for the Company. The liquid assets within the portfolio (being cash, interest bearing securities, gilts and other assets, which are not categorised as venture capital investments for the purpose of the FSA's rules) have been managed by FPPE LLP. This is a limited liability partnership, which is authorised and regulated by the FSA and which has the same controlling members as the Manager. The Manager has continued to act as the manager of the Company and as the investment manager of the Company's illiquid assets (being all AIM-traded and other venture capital investments).

The Manager also provides or procures the provision of accounting, 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 of the Company. If the management agreement is terminated, the Manager is only entitled to the management fees paid to it and any interest due on unpaid fees.

In addition, the Manager receives an annual secretarial and accounting fee that was initially fixed at £33,816 in 2006 and is revised annually to reflect the movement in RPI, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. The annual secretarial and accounting fee is capped at £102,212 per annum and the cap is revised annually to reflect the movement in RPI.

Report of the Directors

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. The Board believes that the knowledge and experience accumulated by the Manager in the period since the launch of the first Baronsmead VCT in 1995 is reflected in processes which are designed to find, manage and realise good quality growth businesses.

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 2010 forty-two executives of the Manager had invested a total of approximately £141,000 in the ordinary shares of twenty-two 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 twenty-two companies totals approximately £24.5 million. As at 31 December 2010, five of the investments in the Scheme have been sold realising total proceeds of £8.7 million for Baronsmead VCT 3 and £0.7 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 5.00 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 2010.

ISIS Equity Partners – Advisory Fees

During the year to 31 December 2010, ISIS EP LLP received net income of £92,750 (2009: £nil) in connection with advisory fees and incurred abort fees of £13,286 (2009: £1,945) with respect to investments attributable to Baronsmead VCT 3.

VCT Status Adviser

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

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. At 31 December 2010, there were no outstanding supplier invoices (2009: none).

Environment

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

Substantial Interests

At 16 February 2011 the Company was not aware of any beneficial interest exceeding 3 per cent of the total voting rights of the Company.

Going Concern

After making enquires, 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 2010 the Company held cash balances & investments in interest bearing securities and Money Market Funds with a combined value of £17,555,000. 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 buy-back programme and dividend policy. The Company has no external loan finance in place and therefore is not exposed to any gearing covenants.

Report of the Directors

Annual General Meeting

A notice for the Annual General Meeting of the Company to be held at 11am on Wednesday, 6 April 2011 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 46 and 47. The following notes provide an explanation of Resolutions 8 to 13, which together with the other ordinary business, will be proposed at the meeting. Resolutions 1 to 8 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent of the votes cast at the meeting and Resolutions 9 to 13 will be proposed as special resolutions requiring the approval of 75 per cent of the votes cast at the meeting. The Board considers that the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Board will be voting in favour of the resolutions and unanimously recommend that you do so as well.

Auditors

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

Authority to Allot Shares and Disapplication of Pre-Emption Rights

Resolution 8 will authorise the Directors to allot shares in the Company which have an aggregate nominal value of up to £2,021,215. As the nominal value of the Company's existing ordinary shares is 10 pence per share, this would permit the Directors to allot up to 20,212,150 ordinary shares which represents up to 33.33 per cent of the Company's existing issued share capital (excluding Treasury Shares) as at 16 February 2011. This authority will also permit the Directors to grant rights to subscribe for or convert any security into the Company's shares, but subject to the same overall limit. This authority will last for five years from the date the resolution is passed.

Resolution 9 will authorise the Directors to allot ordinary shares for cash under the authority granted by Resolution 8 without having to offer them to the Company's existing shareholders on a pre-emptive basis. The circumstances in which the Directors may do this are limited to the following:

(i) the allotment of up to 20,212,150 shares (which, as noted above, represents 33.33 per cent of the Company's existing issued share capital (excluding Treasury Shares) as at 16 February 2011) where the Company undertakes one or more offers for subscription;

(ii) the allotment of shares having an aggregate nominal value equal to 10 per cent of the Company's issued share capital (including Treasury Shares) at the date of allotment where the shares are used to satisfy demand under the Company's dividend reinvestment scheme; and

(iii) the allotment of shares having an aggregate nominal value equal to 10 per cent of the Company's issued share capital (including Treasury Shares) at the date of allotment to meet demand from investors for the Company's shares where a general offer for subscription is not proposed.

Shares allotted in the circumstances described in (ii) and (iii) above may be issued at a discount to the net asset value of the Company's existing issued shares.

Resolution 9 is conditional on Resolution 8 being passed and the power granted by Resolution 9 will only last for 15 months from the date the resolution is passed or, if earlier, it will expire at the conclusion of the Annual General Meeting in 2012.

The Directors will only exercise the authorities granted to them by the passing of Resolution 8 and, if applicable, Resolution 9, if, in their opinion, it would be in the best interests of shareholders as a whole. The issue proceeds from the allotment of any shares will be available for investment in line with the Company's published investment policy and may be used to repurchase the Company's ordinary shares under the buy-back authority referred to below.

Treasury Shares

The Company currently holds 6,977,317 ordinary shares in Treasury representing approximately 10.3 per cent of the Company's issued ordinary shares. If Resolution 9 is passed, the Board will consider itself permitted by shareholders to re-issue ordinary shares out of Treasury through a dividend reinvestment scheme or 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 never 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. The resolution will also allow the Company to issue shares out of Treasury without pre-emption rights applying.

Currently there is 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 these shares are subsequently sold no capital gains tax is payable by qualifying shareholders.

Report of the Directors

Directors' Authority to Purchase Shares

The current authority of the Company to make market 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 (or the expiry of 15 months after the passing of the resolution, if earlier). 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. 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.

Notice of General Meeting

The Board believes that it is in the best interests of shareholders of the Company to have the ability to call meetings on 14 days' clear notice should a matter require urgency. The Board is therefore proposing Resolution 11 to approve the reduction in the minimum notice period from 21 clear days to 14 clear days for all general meetings other than annual general meetings. The Directors do not intend to use less than 21 clear days notice unless immediate action is required.

Cancellation of Share Premium and Capital Redemption Reserves

One of the main principles of company law is that the capital of a company should be maintained and, therefore, a company with share capital must obtain proper consideration for the shares that it issues and must not return funds which have been subscribed for shares except in certain prescribed ways. The principle of maintenance of capital underlies various provisions of the Companies Act 2006. For example, a company may only make distributions to its members out of distributable profits and a company may only buy back its own shares in limited circumstances.

A company can, however, reduce its share capital in circumstances where creditors will not be adversely affected, provided that the company complies with certain procedural requirements. A company may reduce its capital by special resolution and subject to confirmation by the court. A special reserve will then be created from the sums set free from such a cancellation which can be regarded as a distributable reserve.

The Company has completed previous cancellations of its share premium and the special reserve created by such cancellation has assisted the Company in buying back shares, writing off losses and enhancing the ability to make distributions.

Buy-backs can result in the creation of capital redemption reserves and the issue of new shares (in particular in connection with the Offer) will create further share premium. The Board, therefore, considers it appropriate to obtain approval of shareholders at the Annual General Meeting to cancel further share premium and capital redemption reserves (subject to court sanction) to create further distributable reserves to fund buy-backs and distributions, to set off or write off losses and for other corporate purposes of the Company.

Resolution 12 to be proposed at the Annual General Meeting will authorise the cancellation of the amount standing to the credit of the share premium account of the Company at the date an order confirming such cancellation is made.

Resolution 13 to be proposed at the Annual General Meeting will authorise the cancellation of the amount standing to the credit of the capital redemption reserve of the Company at the date an order confirming such cancellation is made.

By Order of the Board,
ISIS EP LLP
Secretary
100 Wood Street
London EC2V 7AN

17 February 2011

Corporate Governance

This Corporate Governance Statement forms part of the Report of the Directors.

Corporate Governance Codes

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'). A copy of the AIC Code can be found at www.theaic.co.uk. 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 June 2008 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. A copy of the Combined Code can be found at *www.frc.org.uk*.

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 period 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.

Directors

In view of the requirement in the Articles of Association that all Directors be subject to retirement 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, of which Mr Townsend is Chairman, consists solely of non-executive Directors and Mr Karney is Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. As explained earlier, Mrs Nott is a director of Baronsmead VCT 5 plc and Baronsmead VCT 2 plc, both of which are managed by ISIS EP LLP. The Board does not consider that a Director's tenure reduces their ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge. 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.

Division of Responsibilities

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, approval of valuations, 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 about 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.

Committees

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

The Audit and Risk Committee, chaired by Mrs Nott, comprises the full Board and operates within clearly defined terms of reference. The duties of the Audit and Risk 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.

Corporate Governance

The Management Engagement and Remuneration Committee, chaired by Mr Townsend, comprises the full Board and reviews the appropriateness of the Manager's appointment together with the terms and conditions thereof on a regular basis. The recommendations of the AIC Code under Principle 5 state that the Chairman may be a member of, but not chair, the Management Engagement and Remuneration Committee. The Board, having considered the recommendations, believe that Mr Townsend remains the most suitable Director to chair the committee. When considering the chairmanship of the committee, the Board took account of factors including the size of the Board and the remit of the committee; which extends to the consideration of non-executive remuneration only. Matters relating to the remuneration of the Chairman are considered by the committee in the absence of the Chairman and under the leadership of the Senior Independent Director.

The Nomination Committee, chaired by Mr Townsend, 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 period, the Nomination Committee met to consider the appointment of a new Director to replace Mr Owen. An independent recruitment consultant was engaged to identify potential candidates and, following a series of interviews, the Nomination Committee recommended the appointment of Mr Orrock to the Board.

Principle 7 of the AIC Code recommends that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. It is the Board's policy to evaluate the performance of the Board, committees and individual Directors annually through an assessment process, led by the Chairman, with the performance of the Chairman being evaluated by the other Directors under the leadership of the Senior Independent Director. However, during 2010 a number of changes were made to the composition and chairmanship of the Board and the Directors believe that it would be more appropriate, following these changes, for an evaluation to take place when a suitable amount of time has elapsed.

The Valuation Committee, chaired by Mr Townsend, comprises the full Board and meets quarterly to consider in detail the valuations of the unquoted investments in the Company's portfolio.

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 table below sets out the number of Board and Committee meetings held during the year to 31 December 2010 and the number of meetings attended by each Director.

	Board of Directors (7 meetings held)		Audit & Risk Committee (2 meetings held)		Management Engagement and Remuneration Committee (1 meeting held)		Nomination Committee (2 meetings held)		Valuation Committee (4 meetings held)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mark Cannon Brookes*	4	3	1	1	1	1	1	1	2	2
Andrew Karney	7	6	2	2	1	1	2	2	4	3
Gillian Nott	7	6	2	2	1	1	2	2	4	4
Ian Orrock+	1	1	–	–	–	–	–	–	–	–
Robert Owen^	5	5	2	2	1	1	1	1	3	3
Anthony Townsend	7	6	2	2	1	1	2	2	4	4

* Retired on 18 May 2010
^ Resigned on 28 September 2010
+ Appointed on 21 October 2010

Corporate Governance

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 forthcoming Annual General Meeting on 6 April 2011 can be found in the Notice of Meeting on pages 46 and 47. Shareholders seeking to communicate with the Board can do so by contacting the Investor Relations Manager in the first instance.

Internal Controls

The Board is responsible for the Company's system of internal controls 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. The process adopted is one whereby the Board identifies all of the risks to which the Company is exposed including, among others, market risk, investment risk, operational and regulatory risks which are recorded on a risk register. The controls employed to mitigate these risks are identified and the residual risks are rated taking into account the impact of the mitigating factors.

This register is updated at least twice a year and reports are produced to the board highlighting any material changes in the nature of each risk and where necessary corrective action taken. A formal annual review of the risks and related controls is carried out by the Audit and Risk Committee.

These procedures are designed to manage, rather than eliminate, risk 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 a benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the previous Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function and 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.

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) 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 Audit 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'.

Board of Directors and their Fees

The Board which is profiled on page 17 consists solely of non-executive Directors and is considered to be entirely independent. The Board considers at least annually the level of the Board's fees, in accordance with the AIC Code of Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

During the year, the Management Engagement and Remuneration Committee met to consider the level of Directors' fees and concluded that, taking into account the increased workload that non-executive directors were being asked to undertake as a result of the enhanced Corporate Governance environment, it was appropriate to increase the Directors' fees, to £15,500 pa and the Chairman's fee to £23,500 pa with effect from 1 January 2010.

The Management Engagement and Remuneration Committee comprises all the Directors of the Company. The Company has no executive Directors, but the Management Engagement and Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 31 December 2011 and subsequent years.

Directors' service contracts

Director	Date of original appointment	Due date for Re-election/ election
Mark Cannon Brookes	10 January 2001	N/A
Andrew Karney	10 January 2001	AGM 2011
Gillian Nott	10 January 2001	AGM 2011
Ian Orrock	21 October 2010	AGM 2011
Robert Owen	10 January 2001	N/A
Anthony Townsend	4 August 2009	AGM 2012

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

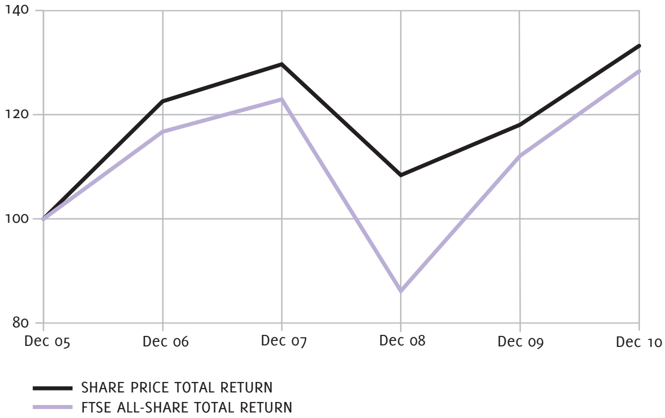
The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. In accordance with the 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 management agreement, as referred to in the 'Report of the Directors'. The graph below compares, for the five years ended 31 December 2010, 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 kind 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 widely understood 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 Manager's Review.

Directors' Remuneration Report

Share Price and the FTSE All-Share Total Returns Index 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 2010 £	Fees 2009 £
Mark Cannon Brookes+	8,978	21,000
Andrew Karney	15,500	14,000
Gillian Nott	15,500	14,000
Ian Orrock*	3,001	–
Robert Owen#	11,506	14,000
Anthony Townsend^	20,145	5,725
Total	**74,630**	**68,725**

+ Retired on 18 May 2010
^ Appointed Chairman on 18 May 2010
# Resigned on 28 September 2010
* Appointed on 21 October 2010

On behalf of the Board,
Anthony Townsend
Chairman

17 February 2011

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 ("UK GAAP") 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 adequate 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 Statement 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, www.baronsmeadvct3.co.uk. Visitors to the website should be aware that 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 Report of the Directors 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,
Anthony Townsend
Chairman

17 February 2011

Independent Auditors’ Report

Independent Auditors’ Report to the members of Baronsmead VCT 3 plc

We have audited the financial statements of Baronsmead VCT 3 plc for the year ended 31 December 2010 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 Statement of Directors’ Responsibilities set out on page 30, 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/private.cfm.

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 2010 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 Report of the Directors 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 22, in relation to going concern;
- 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; and
- certain elements of the report to Shareholders by the Board on Directors remuneration.

Simon Pashby (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Registered Auditor
Edinburgh
17 February 2011

Income Statement

For the year ended 31 December 2010

	Notes	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Unrealised gains on investments	9	–	4,951	4,951	–	2,434	2,434
Realised gains on investments	9	–	1,757	1,757	–	1,350	1,350
Income	2	2,407	–	2,407	1,513	–	1,513
VAT	3	–	–	–	(2)	(6)	(8)
Investment management fee	4	(380)	(1,140)	(1,520)	(339)	(1,016)	(1,355)
Other expenses	5	(360)	–	(360)	(347)	–	(347)
Profit on ordinary activities before taxation		1,667	5,568	7,235	825	2,762	3,587
Taxation on ordinary activities	6	(412)	412	–	(167)	167	–
Profit on ordinary activities after taxation		1,255	5,980	7,235	658	2,929	3,587
Return per ordinary share:							
Basic	8	2.09p	9.98p	12.07p	1.22p	5.41p	6.63p

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.

There are no recognised gains and losses other than those disclosed in the Income Statement therefore a separate statement of total recognised gains and losses has not been prepared.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Opening shareholders' funds		52,878	55,136
Profit for the year		7,235	3,587
Increase in share capital in issue		8,165	1,524
Purchase of shares for Treasury	13, 14	(1,357)	(821)
Dividends paid	7	(1,837)	(6,483)*
Expenses of share issue	14	(441)	(65)
Closing shareholders' funds		64,643	52,878

* Includes payment of 2008 final dividend.

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments	9	**63,407**	50,965
Current assets			
Debtors	10	**461**	349
Cash at bank and on deposit		**1,268**	2,033
		1,729	2,382
Creditors (amounts falling due within one year)	11	**(493)**	(439)
Net current assets		**1,236**	1,943
Total assets less current liabilities		**64,643**	52,908
Creditors (amounts falling due after one year)	12	**–**	(30)
Net assets		**64,643**	52,878
Capital and reserves			
Called-up share capital	13	**6,762**	5,970
Share premium account	14	**15,012**	8,080
Capital redemption reserve	14	**10,862**	10,862
Revaluation reserve	14	**6,182**	1,393
Capital reserve	14	**24,941**	26,271
Revenue reserve	14	**884**	302
Equity shareholders' funds	15	**64,643**	52,878
Net asset value per share			
– Basic	15	**106.60p**	97.50p
– Treasury	15	**105.32p**	96.47p

The financial statements on pages 32 to 34 were approved by the Board of Directors on 17 February 2011 and were signed on its behalf by:

Anthony Townsend (Chairman)

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

Cash Flow Statement

For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Investment income received		2,099	1,302
VAT income received		–	1,296
Interest received		5	144
Investment management fees		(1,446)	(1,371)
Other cash payments		(426)	(416)
Net cash inflow from operating activities	17	232	955
Capital expenditure and financial investment			
Purchases of investments		(76,980)	(39,388)
Disposals of investments		71,447	44,583
Net cash (outflow)/inflow from capital expenditure and financial investment		(5,533)	5,195
Dividends			
Equity dividends paid		(1,837)	(6,483)
Net cash outflow before financing		(7,138)	(333)
Financing			
Issue of shares		8,165	1,524
Buy-back of ordinary shares		(1,357)	(821)
Expenses relating to issue of shares		(435)	(69)
Net cash inflow from financing		6,373	634
(Decrease)/increase in cash		(765)	301
Reconciliation of net cash flow to movement in net cash			
(Decrease)/increase in cash		(765)	301
Opening cash position		2,033	1,732
Closing cash position	16	1,268	2,033

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 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 traded.

In respect of unquoted investments, these are fair valued by the Directors using methodology which is consistent with the International Private Equity and Venture Capital Valuation ("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 or a redemption premium to be paid on redemption, the interest and redemption premium 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 per cent 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

	2010 £'000	2009 £'000
Income from investments†		
UK franked	**195**	198
UK unfranked	**1,872**	1,005
Redemption premium on repayment of Loan Notes	**335**	168
	2,402	1,371
Other income‡		
Interest	**5**	142
Total income	**2,407**	1,513
Total income comprises:		
Dividends	**195**	198
Interest	**2,212**	1,315
	2,407	1,513
Income from investments:		
Listed and AIM securities	**234**	456
Unquoted securities	**2,168**	915
	2,402	1,371

† 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. During the year ended 31 December 2008, £1,304,000 for VAT recovery was recognised in the income statement. However only £1,296,000 was eventually received during the year ended 31 December 2009 and the difference was charged in the income statement in that year. The Company does not foresee any further future repayment of VAT.

Notes to the Accounts

4. Investment management fee

	2010 £'000	2009 £'000
Investment management fee	1,520	1,355
Performance fee	–	–
	1,520	1,355

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 twelve 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 5 per cent of shareholders' funds at the end of the period. No performance fee is payable for the year ended 31 December 2010 (2009: £Nil). Performance fees are chargeable 100 per cent to capital.

In addition, the Manager receives an annual secretarial and accounting fee that was initially fixed at £33,816 in 2006 and is revised annually to reflect the movement in RPI, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. The annual fee was initially capped at £102,212 per annum and is also revised annually to reflect the movement in RPI. It is chargeable 100 per cent to revenue.

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

5. Other expenses

	2010 £'000	2009 £'000
Directors' fees	74	69
Secretarial and accounting fees	109	96
Remuneration of the auditors and their associates:		
– audit	16	21
– other services supplied pursuant to legislation (interim review)	5	5
– other services supplied relating to taxation	5	6
Trail Commission	(17)	(2)
Other	168	152
	360	347

The Chairman received £23,500 per annum (2009: £21,000). Each of the other Directors received £15,500 per annum (2009: £14,000).

Charges for other services provided by the auditors in the year ended 31 December 2010 were in relation to the interim review and tax compliance work. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained. The Directors consider the auditors were best placed to provide these services.

Notes to the Accounts

6. Tax on ordinary activities
6a. Analysis of charge for the year

	2010 £'000	2009 £'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:

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Profit on ordinary activities before tax	1,667	5,568	7,235	825	2,762	3,587
Corporation tax at rate of 28% (2009: 28%)	467	1,559	2,026	231	773	1,004
Effect of:						
Non-taxable dividend income	(55)	–	(55)	(55)	–	(55)
Non-taxable investment gains	–	(1,878)	(1,878)	–	(1,059)	(1,059)
Marginal tax relief	–	–	–	(9)	9	–
Losses (utilised)/carried forward	–	(93)	(93)	–	110	110
Tax charge for the period (note 6a)	412	(412)	–	167	(167)	–

At 31 December 2010 the Company had surplus management expenses of £1,498,000 (2009: £1,830,000) 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

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 31 December 2008						
– Final dividend of 4.5p per ordinary share paid on 20 March 2009	–	–	–	537	1,879	2,416
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 2010	–	–	–	380	2,060	2,440
For the year ended 31 December 2010:						
– Interim dividend of 3.0p per ordinary share paid on 15 September 2010	673	1,164	1,837	–	–	–
	673	1,164	1,837	1,188	5,295	6,483

Notes to the Accounts

8. Returns per share

The 12.07p return per ordinary share (2009: 6.63p) is based on the net profit from ordinary activities after tax of £7,235,000 (2009: £3,587,000) and on 59,933,988 ordinary shares (2009: 54,121,721 ordinary shares), being the weighted average number of shares in circulation 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 whose prices are quoted 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.

	2010 £'000	2009 £'000
Level 1		
Interest bearing securities	16,287	12,956
Investments traded on AIM	12,522	10,394
Investment traded on NYSE	179	224
Investments listed on LSE	1,561	1,580
	30,549	25,154
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	2,123	526
Level 3		
Unquoted investments	30,735	25,285
	63,407	50,965

	2010 £'000	2009 £'000
Equity shares	18,170	18,582
Loan notes	28,790	19,226
Preference shares	160	201
Interest bearing securities	16,287	12,956
	63,407	50,965

Notes to the Accounts

9. Investments

	Level 1				Level 2	Level 3	
	Interest bearing securities £'000	Traded on AIM £'000	Traded on NYSE £'000	Listed on LSE £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	12,940	14,042	180	1,140	525	20,745	49,572
Opening unrealised appreciation/(depreciation)	16	(3,648)	44	440	1	4,540	1,393
Opening valuation	12,956	10,394	224	1,580	526	25,285	50,965
Movements in the year:							
Purchases at cost	68,495	3,590	–	–	1,300	3,796	77,181
Sales – proceeds	(65,155)	(2,685)	(29)	–	–	(3,578)	(71,447)
– realised (losses)/gains on sales	(9)	590	–	–	–	1,176	1,757
Transfer between two categories	–	(64)	–	64	–	–	–
Unrealised gains/(losses) realised during the year	16	(36)	6	–	–	176	162
Increase/(decrease) in unrealised appreciation	(16)	733	(22)	(83)	297	3,880	4,789
	16,287	**12,522**	**179**	**1,561**	**2,123**	**30,735**	**63,407**
Closing book cost	16,287	15,437	157	1,204	1,825	22,315	57,225
Closing unrealised appreciation/(depreciation)	–	(2,915)	22	357	298	8,420	6,182
	16,287	**12,522**	**179**	**1,561**	**2,123**	**30,735**	**63,407**

During the year the Company incurred brokerage costs on purchases of £1,600 (2009: £1,700) and brokerage costs on sales of £4,000 (2009: £2,800) 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 32.

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 £2.9 million or 9.5 per cent lower. Using the upside alternative the value would be increased by £2.3 million or 7.5 per cent.

10. Debtors

	2010 £'000	2009 £'000
Prepayments and accrued income	**447**	349
Other debtors	**14**	–
	461	349

11. Creditors (amounts falling due within one year)

	2010 £'000	2009 £'000
Management, secretarial and accounting fees due to the Manager	**435**	357
Trail commission payable	**–**	29
Other creditors	**58**	53
	493	439

Notes to the Accounts

12. Creditors (amounts falling due after one year)

	2010 £'000	2009 £'000
Trail commission payable	–	30

13. Called-up share capital

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and at the Company's last Annual General Meeting, the Company's Articles of Association were amended to reflect this. Whilst the Company no longer has authorised share capital, the Directors will still be limited as to the number of shares they can at any time allot as the Companies Act 2006 requires that Directors seek authority from the shareholders for the allotment of new shares.

Allotted, called-up and fully paid:

Ordinary Shares	
59,699,553 ordinary shares of 10p each listed at 31 December 2009	5,970
7,920,298 ordinary shares of 10p issued and allotted during the year	792
67,619,851 ordinary shares of 10p each listed at 31 December 2010	6,762
5,467,317 ordinary shares of 10p each held in treasury at 31 December 2009	(547)
1,510,000 ordinary shares of 10p each repurchased during the year and held in treasury	(151)
6,977,317 ordinary shares of 10p each held in treasury at 31 December 2010	(698)
60,642,534 ordinary shares of 10p each in circulation at 31 December 2010	6,064

As at 16 February 2011 the Company's issued share capital was 67,619,851 ordinary shares of 10 pence each, of which 6,977,317 were held in treasury. The number of shares in circulation was 60,642,534 ordinary shares carrying one vote each.

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 18 and 19.

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. 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

	Share premium £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Capital reserve £'000	Revenue reserve £'000
At 31 December 2009	8,080	10,862	1,393	26,271	302
Premium on issue of ordinary shares	7,373	–	–	–	–
Expenses of share issue and buybacks	(441)	–	–	(6)	–
Shares bought back	–	–	–	(1,351)	–
Transfer of prior years' revaluation to capital reserve	–	–	(162)	162	–
Realised gain on disposal of investments	–	–	–	1,757	–
Net increase in value of investments	–	–	4,951	–	–
Management fee capitalised	–	–	–	(1,140)	–
Revenue return on ordinary activities after tax	–	–	–	–	1,255
Dividends recognised in the period	–	–	–	(1,164)	(673)
Taxation	–	–	–	412	–
At 31 December 2010	**15,012**	**10,862**	**6,182**	**24,941**	**884**

At 31 December 2010, reserves distributable by way of dividend amounted to £23,587,000 (2009: £23,426,000), comprising the capital reserve and revenue reserve less the net unrealised loss on those investments whose prices are quoted in an active market and deemed readily realisable.

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	
	2010 number	2009 number	**2010 pence**	2009 pence	**2010 £'000**	2009 £'000
Ordinary shares (basic)	**60,642,534**	54,232,236	**106.60**	97.50	**64,643**	52,878
Ordinary shares (treasury)	**67,619,851**	59,699,553	**105.32**	96.47	**71,219**	57,593

Basic net asset value per share is based on net assets at the year end, and on 60,642,534 (2009: 54,232,236) ordinary shares, being the respective number of shares in circulation at the year end.

The treasury net asset value per share as at 31 December 2010 included ordinary shares held in treasury valued at the mid share price of 94.25p at 31 December 2010 (31 December 2009: 86.25p).

16. Analysis of changes in cash

	2010 £'000	2009 £'000
Beginning of year	**2,033**	1,732
Net cash (outflow)/inflow	**(765)**	301
As at 31 December 2010	**1,268**	2,033

Notes to the Accounts

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

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	7,235	3,587
Profit on realisation of investments	(1,757)	(1,350)
Unrealised gains on investments	(4,951)	(2,434)
Interest reinvested	(201)	–
(Increase)/decrease in debtors	(117)	1,234
Increase/(decrease) in creditors	23	(82)
Net cash inflow from operating activities	232	955

18. Contingencies, guarantees and financial commitments

At 31 December 2010 there were no contingent liabilities, guarantees or financial commitments of the Company.

19. Significant interests

There are 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 Company 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 18 and 19, 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.

25 per cent (2009: 25 per cent) of the Company's investments are listed on the London Stock Exchange, traded on AIM, NYSE or invested through Wood Street Microcap Fund. A 5 per cent increase in stock prices as at 31 December 2010 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £819,000 (2009: £636,000); 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 (2009: 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 2010 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,537,000 (2009: £1,264,000); 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.

22. Interest rate risk

At 31 December 2010 £9,387,000 (2009: £7,256,000) 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 2010 £17,611,000 (2009: £19,226,000) fixed rate loan notes were held by the Company. The weighted average effective interest rate for the loan note securities is 8.48 per cent as at 31 December 2010 (2009: 8.28 per cent). 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:

	2010			2009		
	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	9,387	0.5	12	7,256	0.7	21

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 which 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 2010 (2009: 0.5 per cent).

	2010 £'000	2009 £'000
Floating rate		
OEIC	6,900	5,700
Cash on deposit	1,268	2,033

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:

	2010 £'000	2009 £'000
Investments in fixed interest instruments	9,387	7,256
Investments in floating rate instruments	6,900	5,700
Cash and cash equivalents	1,268	2,033
Interest, dividends and other receivables	461	349
	18,016	15,338

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 and JPMorgan Chase ("JPM"). 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. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

Credit risk on fixed interest investments in unlisted companies is managed as part of the Company's main investment management procedures.

All the assets of the Company which are traded on a recognised exchange are held by 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 26 and 27.

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 2010 or 31 December 2009. No individual investment exceeded 8.8 per cent of the net assets attributable to the Company's shareholders at 31 December 2010 (2009: 10.7 per cent).

24. Liquidity risk

The Company's financial instruments include investments in unquoted companies which are not traded in an organised public market as well as AIM-traded equity investments both of 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 19. 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 interest bearing securities to pay accounts payable and accrued expenses. At 31 December 2010 these investments were valued at £17,555,000 (2009: £14,989,000).

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 and 5, 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 19, 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 tenth Annual General Meeting of Baronsmead VCT 3 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS on Wednesday, 6 April 2011 at 11:00 am for the following purposes:

Ordinary Business

1. That the Report and Accounts for the year to 31 December 2010 be received.
2. To declare a final dividend of 4.5p per ordinary share.
3. That the Directors' Remuneration Report for the year to 31 December 2010 be approved.
4. That Andrew Karney be re-elected as a Director.
5. That Gill Nott be re-elected as a Director.
6. That Ian Orrock 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 Resolution

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 £2,021,215, during the period commencing on the passing of this resolution and expiring 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), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry.

Special Resolutions

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

   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, or by way of a sale of treasury shares, as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities up to an aggregate nominal amount of £2,021,215 pursuant to one or more offers for subscription;

(b) the allotment of equity securities up to an aggregate nominal amount representing 10 per cent of the issued share capital (including treasury shares) from time to time which may be at a discount to NAV, pursuant to any dividend reinvestment scheme operated by the Company; and

(c) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) and (b) above) up to an aggregate nominal amount representing 10 per cent of the issued share capital (including treasury shares) from time to time which may be at a discount to NAV,

and in each case where such proceeds of issue may be used, to purchase shares in the Company, and the power conferred by this resolution shall expire on the date falling 15 months after the date of passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2012, 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.

Notice of Annual General Meeting

10. THAT, the Company be and hereby is empowered to make market purchases within the meaning of Section 693(4) of the Companies Act 2006 of ordinary shares of 10p each in the capital of the Company (''Ordinary Shares'') provided that:

    (a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 9,090,315 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 (excluding expenses) which may be paid for an Ordinary Share is the nominal value thereof of 10 pence;

    (c) the maximum price (excluding expenses) which may be paid for an Ordinary Share is an amount equal to the higher of (i) an amount equal to 105 per cent of the average of the middle market quotation for an Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary 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 the date falling 15 months after the date of the passing of this resolution or, if earlier, the conclusion of the Annual General Meeting to be held in 2012 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 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.

12. THAT the amount standing to the credit of the share premium account of the Company, at the date an order is made confirming such cancellation by the court, be and hereby is cancelled.

13. THAT the amount standing to the credit of the capital redemption reserve of the Company, at the date an order is made confirming such cancellation by the court, be and hereby is cancelled.

By Order of the Board

ISIS EP LLP
Company Secretary
Baronsmead VCT 3 plc
100 Wood Street
London EC2V 7AN
17 February 2011

Notice of Annual General 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 at 11:00 am on 4 April 2011 (or in the event of any adjournment, 48 hours before the time of the adjourned meeting). 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 6ZZ 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. A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company. On a vote on a resolution on a show of hands, each authorised person has the same voting rights as the corporation would be entitled to. On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same share:

   (a) If they purport to exercise the power in the same way as each other, the power is treated as exercised in that way; or

   (b) If they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.
7. 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.
8. 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.
9. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should the member subsequently decide to do so. A member can only appoint a proxy using the procedures set out in these notes and the notes to the proxy card. The termination of the authority of a person to act as a proxy must be notified to the Company in writing. Amended instructions must be received by Computershare Investor Services PLC by the deadline for receipt of proxies.

   Should a member wish to appoint a proxy electronically, such proxy appointment must be registered electronically at www.eproxyappointment.com, 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 to take the poll. To vote electronically, you will be asked to provide the Control Number, Shareholder Reference Number (SRN) and PIN, details of which are contained in the personalised proxy card enclosed. This is the only acceptable means by which proxy instructions may be submitted electronically.
10. 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 5 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.

11 As at 16 February 2011 the Company's issued share capital consists of 67,619,851 Ordinary Shares of which 6,977,317 are held in Treasury. The total number of voting rights in the Company is 60,642,534.

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.
13. Any electronic address provided either in this Notice or in any related documents (including the form of proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

Notice of Annual General Meeting

14. 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.

15. 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 six 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.

Shareholder Information and Contact Details

Shareholder communication

BARONSMEAD

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

Electronic communication was introduced following new legislation in the 2006 Companies Act and the Baronsmead VCT 3's website is *www.baronsmeadvct3.co.uk*.

Computershare

The Registrar for Baronsmead VCT 3 is Computershare Investors Services PLC. To change the details held by Computershare in respect of your shareholding, including change of address, bank account details, joining the DRIP, please contact them as follows:

Baronsmead shareholder helpline: 0870 703 0137
(calls charged at geographical and national rates)

The Baronsmead shareholder helpline is available on UK business days between Monday and Friday, 8.30a.m. to 5p.m. If you wish to speak to someone please press '0'. The automated self-service system is available 24 hours a day, 7 days a week. You will need your Shareholder Reference Number (SRN), which for security reasons you should always keep confidential and is available on your share certificate and dividend tax voucher, in order to:

- 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

Managing online your own shareholding via the Investor Centre: *www.investorcentre.co.uk*

Computershare's secure website, Investor Centre, enables shareholders to manage their shareholding online. Using your SRN you will be able to do the following:

- **Holding Enquiry** – view balances, values, history, payments and reinvestments
- **Payments Enquiry** – view your dividends and other payment types
- **Address Change** – change your registered address
- **Bank Details Update** – choose to receive your dividend payments directly into your bank account instead of by cheque
- **e-Comms sign-up** – choose to receive email notification when your shareholder communications become available instead of paper communications
- **Outstanding Payments** – reissue payments using our online replacement service
- **Downloadable Forms** – including dividend mandates, stock transfer, dividend reinvestment and change of address forms
- **By email** – *web.queries@computershare.co.uk*

ISIS EQUITY PARTNERS

The Manager for Baronsmead VCT 3 plc is **ISIS EP LLP**.

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

By email: *michael.probin@isisep.com* ; *margaret.barff@isisep.com*

By telephone: Michael Probin 020 7506 5796; Margaret Barff 020 7506 5630.

Internet: *www.isisep.com*

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*

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. As buying and selling existing shares in VCTs is complex, Shareholders should seek to trade shares on a "best execution" basis if appropriate.

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

6 April 2011	Annual General Meeting
August 2011	Announcement of interim results and posting of half-yearly report
February 2012	Announcement of final results for year to 31 December 2011

Breakdown of Shareholdings

The shareholdings as at 31 December 2010 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 – 2000	181	5.47	218,742	0.32
2001 – 5000	843	25.48	3,102,195	4.59
5001 – 10000	807	24.40	6,093,626	9.01
10001 – 25000	869	26.27	14,455,451	21.38
25001 – 50000	390	11.79	13,784,351	20.39
50001 – 100000	155	4.69	10,835,691	16.02
Over 100000	63	1.90	19,129,795	28.29
Total	**3,308**	**100.00**	**67,619,851**	**100.00**

Additional Information

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

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

Corporate Information

Directors
Anthony Townsend (Chairman)‡^
Andrew Karney†
Gillian Nott OBE*
Ian Orrock

Secretary
ISIS EP LLP

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 and Risk Committee
‡ Chairman of the Nomination Committee
^ Chairman of the Management Engagement and Remuneration 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 0AM

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 for 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 telephone numbers provided on page 50.

ISIS
EQUITY PARTNERS
Investment Manager
T 020 7506 5600
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