



Baronsmead VCT 3 plc

Interim Report

For the six months ended 30 June 2002

2002



Investment Objective

Baronsmead VCT 3 is a tax efficient listed company which aims to achieve long-term capital growth and generate tax free dividends for private investors.

Investment Policy

To establish a diverse portfolio of more than 30 investments comprising:

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

- Net asset value per share increased to 95.02 pence
- Interim dividend increased by 0.40 pence to 1.40 pence per share
- Six new investments made increasing the portfolio to fifteen
- Favourable comparison with the FTSE All-Share Index over the same period

Performance summary

	30 June 2002	31 December 2001	% change
Ordinary Shares – Capital Values			
Net asset value per share	95.02p	93.85p	1.2
Share price (mid market)	88.00p	88.00p	–
Discount	(7.4)%	(6.2)%	–
Total assets	£31.7m	£31.1m	1.9
	Six months ended 30 June 2002	Period ended 30 June 2001	% change
Revenue and dividends			
Earnings per ordinary share (note 1)	1.66p	1.23p	35.0
Dividends per ordinary share (note 2)	1.40p	1.00p	40.0

Notes:

1. Based on a weighted average of 33.3 million shares in issue.
2. Based on the number of shares ranking for dividend of 33.4 million.

My anticipation of a bumpy economic ride has proved to be the case since I last wrote to shareholders in March 2002. The Stock Markets have signalled worsening conditions since then amid concerns about US reporting standards and weakness in consumer and business spending. The deflationary effect of lower share prices should not be under-estimated and now lower interest rates look to be a possibility.

Against this backcloth, the performance of your Company is proving to be resilient. The 15 equity investments are making sound progress overall and the remaining part of the portfolio is held in fixed rate securities and cash prior to investment.

Performance review | During the six months to 30 June 2002 the net asset value per share has increased by 1.2 per cent from 93.9p to 95.0p per share. This compares favourably with the FTSE All-Share, which has fallen 19.5 per cent over the same period. The FTSE All-Share is the most widely drawn indicator of UK equity markets and has been adopted as a comparison by the Board. The comparable FTSE SmallCap Ex Investment Companies Index fell 10.8 per cent and the FTSE AIM Index by 15.3 per cent.

The Board has declared an interim dividend of 1.4p per share (1.0p in 2001) which will be paid on 30 September 2002 to shareholders on the register at close of business on 23 August 2002.

Investment portfolio | Six new investments were made in the period, predominantly in the business services and information technology sectors. We are therefore making good progress towards building a diversified portfolio of more than 30 companies. 65 per cent by value of the invested portfolio is in unquoted companies with 35 per cent in companies traded on AiM. 70 per cent is invested in established and profitable companies and the balance in earlier stage investments. Investments made during the period are:

- **AIMS Group – provider of environmental support services** | AIMS Group is based in Towcester and ensures its customers comply with legislation on air, water and fire safety, health, disability and asbestos. £1.0 million was invested as part of a £3 million shareholder reconstruction.
- **Fretwell Downing – international supplier of library management solutions** | Based in Sheffield this business provides software solutions to public, research and corporate libraries across the UK, the USA and Australia. Baronsmead VCT 3 provided £753,000 of the £3.2 million development capital.
- **Rarrigini & Rosso – provider of insurance products and developer of brokering IT solutions** | Based in Peterborough, R&R provide a range of insurance products (motor fleet, property and haulage) to an extensive network of insurance brokers. Through these broker relationships it has launched a new outsourced service providing all the IT needs of running the full front and back office support to the broker. £447,000 was invested as part of £5 million raised for the second round funding to develop this new IT service.
- **i-documentsystems group – provider of document management systems to local authorities** | i-documents is based in London and raised £1.2 million as a placing on AiM both to acquire The Planning Exchange and also provide working capital to fund the rollout of

its document and knowledge management solutions throughout Local Government. Baronsmead VCT 3 invested £400,000.

- **NeuTec Pharma – specialist in the development of genetically recombinant antibodies for the treatment of life-threatening infections** | NeuTec is based in Manchester and is developing a portfolio of antibody-based therapeutic products. These are designed to treat hospital-acquired infections, which are increasingly resistant to conventional antibiotics. Baronsmead VCT 3 invested £317,000 as part of a £10 million placing on AiM in February 2002.
- **VI Group – supplier of CAD/CAM software to the mould and die sector** | Baronsmead VCT 3 invested £500,000 of a £3.2 million placing on AiM. The financing round is being used to widen their software offering and strengthen their distribution channels internationally.

Meeting Shareholders' needs | One of the objectives of the Board is to continue to offer shareholders financial planning choices. In this regard we enclose with this interim report an offer for subscription, open to existing shareholders only, which enables shareholders to top up and invest in new VCT qualifying shares. In addition we offer a dividend reinvestment scheme which allows shareholders to reinvest dividends into new VCT qualifying shares. The scheme has currently attracted over 33 per cent of shareholders.

The Board and the Investment Managers, ISIS Capital, place considerable emphasis on regular and clear communication with shareholders. The biannual VCT News will be distributed to all Baronsmead VCT shareholders in the autumn and provides an update on recent investments and wider VCT issues. There is also the opportunity to attend one of the regular workshops held by ISIS Capital across the UK. These workshops describe the private equity process in more detail and provide a forum to answer your financial planning questions. The dates of the next workshops will be included in the newsletter.

The total return of your Company has held steady in falling markets and since launch amounts to a positive 4 per cent, which compares to the reduction in the FTSE All-Share total return of 22.5 per cent over the same period. This comparison is made before the VCT tax reliefs are taken into account, which increase the favourable differential still further.

Outlook | The portfolio is becoming well diversified by sector and stage of development. Our investments are in unquoted, AiM and fixed rate securities. An important common theme is that the businesses in which we invest are able both to scale up their operations easily as they grow and to reduce their costs quickly, if customer demand falls.

ISIS Capital is closely involved with the progress of the unquoted companies. There is also regular dialogue with AiM investee companies. We believe that as active major shareholders we can help businesses to weather tough trading conditions and prepare them to make the most of the next upswing.

Mark Cannon Brookes

Chairman

12 August 2002

Unaudited Statement of Total Return
(Incorporating the Revenue Account) of the Company

	Six months to 30 June 2002		
	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	–	491	491
Income	1,037	–	1,037
Investment management fee	(94)	(282)	(376)
Other expenses	(157)	–	(157)
Return on ordinary activities before tax	786	209	995
Tax on ordinary activities	(232)	91	(141)
Return attributable to equity shareholders	554	300	854
Dividend in respect of equity shares	(468)	–	(468)
Transfer to/(from) reserves	86	300	386
Return per ordinary share	1.66p	0.90p	2.56p

Notes

1. The unaudited interim results which cover the six months to 30 June 2002 have been drawn up in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts for the year ended 31 December 2001.
2. There were 33,400,146 ordinary shares in issue at 30 June 2002 (31 December 2001: 33,106,153). During the period 418,993 ordinary shares were issued and 125,000 ordinary shares were bought in by the Company for cancellation.
3. Earnings for the six months to 30 June 2002 should not be taken as a guide to the results for the full year and are based on a weighted average of 33,298,728 (31 December 2001: 30,748,766) ordinary shares in issue during the period.

Period from 22 November 2000 to 30 June 2001			Period from 22 November 2000 to 31 December 2001		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	(48)	(48)	–	(74)	(74)
640	–	640	1,504	–	1,504
(66)	(199)	(265)	(159)	(477)	(636)
(93)	–	(93)	(248)	–	(248)
481	(247)	234	1,097	(551)	546
(138)	65	(73)	(322)	155	(167)
343	(182)	161	775	(396)	379
(330)	–	(330)	(760)	–	(760)
13	(182)	(169)	15	(396)	(381)
1.23p	(0.66p)	0.57p	2.52p	(1.29p)	1.23p

- The income for the six months to 30 June 2002 comprises £14,000 (30 June 2001: nil) from franked income, £994,000 (30 June 2001: £170,000) from government securities and corporate bonds, £25,000 (30 June 2001: £470,000) from deposit income and £4,000 from other income (30 June 2001: nil).
- The interim dividend of 1.4 pence per ordinary share will be paid on 30 September 2002 to shareholders on the register on 23 August 2002.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the period to 31 December 2001, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2001 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- Copies of the Interim Report have been mailed to shareholders and are available from the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

Unaudited Balance Sheet

	As at 30 June 2002 £'000	As at 30 June 2001 £'000	As at 31 December 2001 £'000
Fixed assets			
Investments			
Quoted on the Alternative Investment Market	3,016	520	2,116
Unquoted investments	5,724	1,512	2,512
Listed fixed interest investments	20,104	8,248	26,261
	28,844	10,280	30,889
Net current assets	2,892	20,901	180
Total assets less current liabilities	31,736	31,181	31,069
Capital and reserves			
Called-up share capital	3,340	3,300	3,311
Share premium account	28,391	28,050	28,139
Other reserves			
Capital reserve – realised	(716)	(134)	(362)
– unrealised	620	(48)	(34)
Revenue reserve	101	13	15
Equity shareholders' funds	31,736	31,181	31,069
Net asset value per share	95.02p	94.49p	93.85p
Number of shares in issue at balance sheet date	33,400,146	32,999,999	33,106,153

Summarised Unaudited Statement of Cash Flows

	Six months to 30 June 2002 £'000	Period from 22 November 2000 to 30 June 2001 £'000	Period from 22 November 2000 to 31 December 2001 £'000
Net cash inflow/(outflow) from operating activities	405	(89)	251
Capital expenditure and financial investment	2,536	(10,328)	(30,963)
Equity dividends paid	(430)	–	(330)
Net cash inflow/(outflow) before financing	2,511	(10,417)	(31,042)
Financing	367	32,069	31,450
Increase in cash	2,878	21,652	408
Reconciliation of net cash flow to movement in net cash			
Increase in cash	2,878	21,652	408
Net cash at 31 December/22 November	408	–	–
Net cash at 30 June/31 December	3,286	21,652	408
Reconciliation of net revenue before taxation to net cash flow from operating activities			
Net return before taxation	786	481	1,097
Investment management fee charged to capital	(282)	(199)	(477)
Increase in debtors	(87)	(610)	(616)
(Decrease)/increase in creditors	(12)	239	247
Net cash flow from operating activities	405	(89)	251

Investment Portfolio

Company	Book Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities
Unquoted			
(at Directors' valuation)			
Thomas Sanderson	667	1,382	4.4
AIMS Group	1,000	1,000	3.1
BodyCare International	1,000	1,000	3.1
Fretwell Downing	753	753	2.4
Vectura	706	706	2.2
Rarrigini & Rosso	447	447	1.4
Kidsunlimited	400	436	1.4
Total unquoted	4,973	5,724	18.0
Quoted on AiM			
(at market value)			
Murgitroyd Group	500	586	1.9
Stagecoach Theatre Arts	418	574	1.8
Fitzhardinge	470	517	1.6
i-documentsystems	400	417	1.3
NeuTec Pharma	317	317	1.0
VI Group	300	300	0.9
Blooms of Bressingham	320	193	0.6
Capcon Holdings	137	112	0.4
Total AiM	2,862	3,016	9.5
Fixed interest securities	20,389	20,104	63.4
Total investments	28,224	28,844	90.9
Net current assets		2,892	9.1
Total assets less current liabilities		31,736	100.0

The unquoted investments are valued in accordance with the British Venture Capital Association (BVCA) guidelines and the Investment Trust Statement of Recommended Practice (SORP).

Company

Thomas Sanderson (Investment made March 2001)

Thomas Sanderson is the UK market leader for the fabrication and supply of pleated conservatory blinds. In March 2001 £6 million of institutional equity was raised to finance a management buy-out/buy-in.

AIMS Group (Investment made February 2002)

AIMS Group specialises in the provision of environmental health and safety support services for the “indoor” environment. In February 2002, £3 million of institutional equity was raised as part of a shareholder restructuring.

BodyCare International (Investment made November 2001)

BodyCare operates “The Tanning Shop” chain of indoor tanning salons. It is the number one operator in the UK through 44 retail outlets and 56 franchise operations together with the wholesale distribution of tanning equipment and related beauty products.

Fretwell Downing (Investment made April 2002)

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

Vectura (Investments made April 2001 and March 2002)

Vectura is a drug delivery company specialising in particle science for solving pulmonary treatments. It raised a £10.5 million institutional equity facility in April 2001 to accelerate the development of its delivery platforms.

Murgitroyd Group (Investment made November 2001)

Murgitroyd Group provides a range of Intellectual Property Services relating to patents and trademarks through a network of attorneys based in the UK and Europe. It joined AiM in November 2001 and raised £3 million of institutional equity to extend its expansion of European markets.

Stagecoach Theatre Arts (Investment made December 2001)

Stagecoach Theatre Arts operates a network of performing arts schools for young people aged between 4 and 16. It floated on AiM in December 2001 and raised £2.5 million before expenses to continue the expansion of Stagecoach schools in both the UK and overseas.

Fitzhardinge (Investment made July 2001)

Fitzhardinge provides property consultancy services and solutions to the real estate market throughout the UK and internationally. Fitzhardinge plc acquired the holding company of Milner Consultancies Limited and floated on AiM in August 2001.

Rarrigini & Rosso (Investment made April 2002)

Rarrigini & Rosso principally provides a range of commercial insurance schemes through an extensive network of insurance brokers. Through these broker relationships it has launched a new outsourced IT service providing all the IT needs of running the full front and back office support to the broker. £5 million was raised in the second round of funding.

Kidsunlimited (Investment made June 2001)

Kidsunlimited, based in Wilmslow, manages 32 daycare nursery centres for children under five years old. In June 2001 £4.95 million was raised to buy out an existing minority shareholder and as development capital to fund the plan to double the number of day centres.

Introduction | We have been instructed by the Company to review the financial information for the six months ended 30 June 2002 which comprises a summarised statement of total return, summarised balance sheet, summarised cash flow statement and associated notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities | The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed | We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion | On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

PKF
Registered Auditor
London, UK
12 August 2002

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for this purpose. Mandates can be obtained from the Company's registrar, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

Share Prices

The Company's ordinary shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* under "Investment Companies".

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendments this should be notified to the Company's registrar, Northern Registrars Limited, under the signature of the registered holder.

Calendar

30 August 2002	Shareholders on the share register at this date will be eligible to receive the interim dividend
16 September 2002	Date by which applications to participate in Dividend Reinvestment Scheme need to be received by the Registrars
30 September 2002	Interim dividend is paid
September 2002	VCT newsletter sent to shareholders
February 2003	Results for period to 31 December 2002 announced and annual report and review sent to shareholders
28 March 2003	Second Annual General Meeting

Shareholder Enquiries

Call Michael Probin, Investor Relations Manager for Baronsmead VCT 3, on 0207 506 1651* or e-mail to michael.probin@isiscapital.co.uk

*Telephone calls may be recorded.

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

Directors

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

Secretary

Friends Ivory & Sime plc
One Charlotte Square
Edinburgh EH2 4DZ

**Registered Office and
Investment Managers**

ISIS Capital plc
100 Wood Street
London EC2V 7AN

VCT Status Adviser

PricewaterhouseCoopers
1 London Bridge
London SE1 9QL

Fixed Rate Securities Manager

Cazenove Fund Management Limited
12 Moorgate
London EC2R 6DA

Financial Adviser

Noble & Company Limited
76 George Street
Edinburgh EH2 3BY

Registrars and Transfer Office

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 600900

Bankers

JP Morgan Chase Bank
125 London Wall
London EC2Y 5AJ

Stockbrokers

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

Auditors

PKF
New Garden House
Hatton Garden
London EC1N 8AJ

Solicitors

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

