

Baronsmead VCT 3 plc



2004

Interim report for the
six months ended
30 June 2004



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

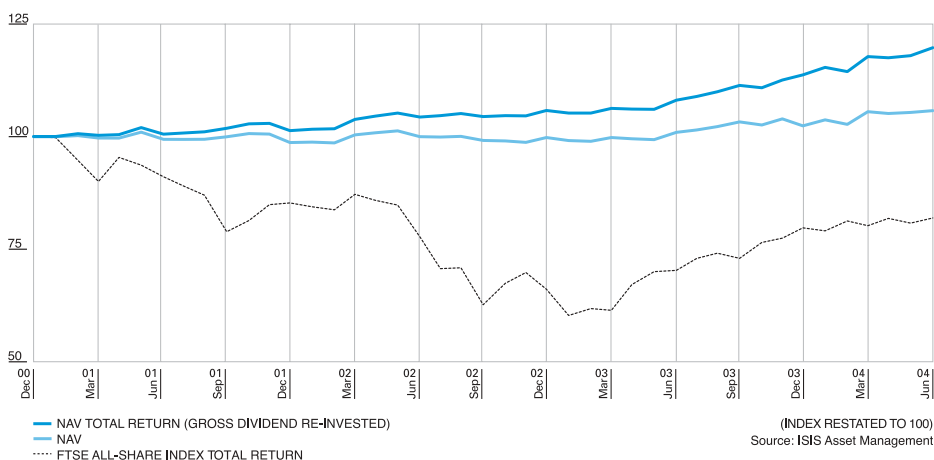
To establish a diverse portfolio of more than 30 investments comprising:

- Larger unquoted companies, typically as lead investor and alongside other institutional investors, which do not offer the same tax benefits to their shareholders as a VCT.
- Companies raising new share capital on the Alternative Investment Market.
- Technology-enabled companies.

Financial Highlights

- NAV per ordinary share increased by 4.9 per cent to 101.95p from 97.15p before deduction of interim dividends
- After interim dividends paid of 1.8p per ordinary share, NAV per ordinary share was 100.15p
- Total return of 18.3 per cent since launch in January 2001
- Nine new investments were made during the period taking the total equity portfolio to 41 companies

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



Performance summary

	30 June 2004	31 December 2003	% Change
Ordinary shares – capital values			
Net asset value per share	100.15p	97.15p	3.1
Share price (mid market)	89.50p	90.00p	(0.6)
Net asset value total return since launch	18.3%	12.7%	–
Discount	(10.6%)	(7.4%)	–
Total assets	£34.1m	£33.0m	3.3
	Six months ended 30 June 2004	Six months ended 30 June 2003	% Change
Revenue and dividends			
Earnings per ordinary share (note 1)	0.39p	1.16p	(66.4)
Revenue dividends per ordinary share (note 2)	0.30p	0.90p	(66.7)
Capital dividend per ordinary share (note 2)	1.50p	–	–

Notes:

1. Based on a weighted average of 34.0 million shares in issue.
2. Based on the number of shares ranking for dividend of 34.0 million.

Chairman's Statement

The overall portfolio of qualifying investments continues to make progress, increasing in value to 100.15p per share after an interim dividend of 1.8p per share. The portfolio increased to 41 in number.

Results | During the six months to 30 June 2004, the Net Asset Value (NAV) per share increased by 4.9 per cent to 101.95p per share before deducting dividends. Your Board has declared an interim dividend of 1.8p per share payable on 12 August 2004, comprising 0.3p from net revenue and 1.5p distribution of capital profits.

By combining the growth in NAV per share and assuming dividends have been reinvested, the total investment return since launch in January 2001 has grown by 18.3 per cent. Over the same period the FTSE All-Share fell by 18.2 per cent. The positive differential of 36.5 per cent increases further if the benefits from the available VCT tax reliefs are taken into account.

Portfolio progress | The increase in NAV is mainly due to the revaluation of a number of unquoted investments, under BVCA valuation guidelines. The largest gains have come from RLA Media, Martin Audio and Americana as reported within the Top Ten investments set out on the following page. Each has experienced strong profitable growth in their different market niches. Not all investments progress as anticipated and partial provisions have been made against BodyCare and Spaform. The initial trading at Spaform has been not as profitable as expected. Sales and profits growth has recovered at AssA and enabled the Board to write back the previous partial provision on this investment, which is now valued at cost.

Nine new investments at a cost of £3.6 million were made in the six months taking the portfolio to 41 investees. The early stage portfolio of Bioscience and IT companies increased to 11 in number with new investment Domantis and further rounds into Ardana and Vectura. As a measure of portfolio progress,

the latest year-end results of each investee are compared with previous performance to give an overall sense of 'direction of travel'. 35 of the 41 strong portfolio have reported better or steady results as at 30 June 2004.

During the period, shares in Huveaux and neuTec Pharma were sold at a profit of £166,434. Vectura, a biotech company, was our first unquoted company to be floated on AiM on 2 July 2004 at a price 15 per cent more than aggregate cost. It raised £20 million of additional capital. Baronsmead VCT 3 is subject to a lock-in period of six months on its shareholding. kidsunlimited exchanged contracts on 22 July 2004 to merger with Asquith Court. The combined group will become the largest UK day care centre business for children less than 5 years old.

The level of funds retained in the non-interest bearing account had fallen to £2 million by 30 June pending investment into further qualifying investments. The £7.8 million balance of the capital available for investment is held in a gilt and money market OEIC designed to earn interest at minimal capital risk.

Meeting shareholder needs | During the first six months of 2004, most shareholders had held their shares for more than the minimum holding period of three years. 620,000 shares were bought back and cancelled at an average discount of 10 per cent. 331,991 shares were issued to existing shareholders in a top up offer and 358,769 shares were issued within the dividend reinvestment scheme (DRIS).

Subsequently the revised VCT legislation came into force on 6 April 2004 and shareholders have been sent new details about the DRIS, which now benefits from the 40 per cent income tax relief available on new shares to be issued during the tax years 2004/05 and 2005/06.

Chairman's Statement

The Board has appointed Computershare as the Company's registrar, with effect from 2 July 2004.

Outlook | We continue to make progress building the portfolio and generating positive returns by way of dividend payments and increasing net asset values.

We expect to be fully invested in the next 6/12 months with more than 80 per cent of the portfolio invested in qualifying unquoted and

AiM traded companies. Based on this anticipated investment rate and favourable market conditions, the Board may consider a major fund raising in the second half of 2005.

Mark Cannon Brookes

Chairman

2 August 2004

Top ten investments at 30 June 2004

Company	Location	Date of first investment	Activity	Cost £'000	Valuation £'000
Martin Audio	High Wycombe	August 2003	Professional sound systems	786	1,431
RLA Media	Bournemouth	December 2002	Marketing agency	681	1,393
Huveaux *	London	March 2003	Publishing group	564	1,371
Americana	Manchester	August 2003	Branded fashion clothing	567	1,350
The Art Group	London	October 2003	Publisher of art content	1,281	1,281
Vectura	Chippenham	April 2001	Drug delivery	1,040	1,194
kidsunlimited	Manchester	June 2001	Day care centres	481	1,136
AssA	Washington	September 2003	Work place training	1,113	1,113
Brownsword	Altrincham	December 2002	Motor claims investigation	676	868
Fretwell-Downing	Sheffield	April 2002	IT library software	685	785

Investments in six months to 30 June 2004

Company	Location	Date of investment	Activity	Cost £'000	Valuation £'000
Country Artists	Stratford on Avon	June 2004	Giftware distributor	448	448
Spaform	Portsmouth	January 2004	Portable spa baths	867	390
Scott Tod *	Crickhowell	May 2004	Operators of independent ATM	421	385
Domantis	Cambridge	May 2004	Drug discovery	356	356
Prologic *	Manchester	June 2004	IT software for fashion retailers	310	310
MKM *	Altrincham	May 2004	Travel sales promotion	284	291
Polaron *	Watford	March 2004	Specialist engineering services	296	310
Quadnetics *	Nottingham	January 2004	CCTV electronic systems	296	285
Adventis *	London	June 2004	Advertising agency	281	281
AssA	Washington	September 2004	Work place training	139	139
Ardana	Cambridge	May 2004	Drug discovery	113	113
Vectura	Chippenham	June 2004	Drug delivery	100	100

*Traded on AiM

Unaudited Profit and Loss Account

For the Six Months to 30 June 2004

Six months to 30 June 2004

	Revenue £'000	Capital £'000	Total £'000
Profit on realisation of investments	–	–	–
Income	391	–	391
Investment management fee	(120)	(360)	(480)
Other expenses	(124)	–	(124)
Profit/(loss) on ordinary activities before taxation	147	(360)	(213)
Tax on ordinary activities	(14)	14	–
Profit/(loss) on ordinary activities after taxation	133	(346)	(213)
Dividends payable	(102)	(510)	(612)
Retained gain/(loss) transferred to/(from) reserves	31	(856)	(825)
Return per ordinary share	0.39p	(1.02p)	(0.63p)

Unaudited Statement of Total Recognised Gains

For the Six Months to 30 June 2004

Six months to 30 June 2004

	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) on ordinary activities after taxation	133	(346)	(213)
Unrealised profit/(loss) on revaluation of investments	–	1,763	1,763
Total recognised gain during the year	133	1,417	1,550
Total recognised gain per ordinary share	0.39p	4.16p	4.55p

Notes

- The unaudited interim results which cover the six months to 30 June 2004 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 2003.
- There were 34,033,170 ordinary shares in issue at 30 June 2004 (31 December 2003: 33,962,410; 30 June 2003: 33,909,332). During the period 690,760 ordinary shares were issued and 620,000 ordinary shares were bought in by the Company for cancellation.
- Earnings for the six months to 30 June 2004 should not be taken as a guide to the results for the full year and are based on a weighted average of 34,031,429 (31 December 2003: 33,895,164; 30 June 2003: 33,842,855) ordinary shares in issue during the period.
- Income for the six months to 30 June is derived from:

	2004 £'000	2003 £'000
Equity investments	82	50
Fixed interest investment	270	584
Deposit interest	39	111
	391	745

Six months to 30 June 2003

Revenue £'000	As restated Capital £'000	As restated Total £'000
–	881	881
745	–	745
(95)	(284)	(379)
(116)	–	(116)
534	597	1,131
(140)	92	(48)
394	689	1,083
(308)	–	(308)
86	689	775
1.16p	2.04p	3.20p

Year to 31 December 2003

Revenue £'000	Capital £'000	Total £'000
–	1,199	1,199
1,472	–	1,472
(193)	(581)	(774)
(241)	–	(241)
1,038	618	1,656
(268)	185	(83)
770	803	1,573
(747)	(679)	(1,426)
23	124	147
2.27p	2.37p	4.64p

and Losses

Six months to 30 June 2003

Revenue £'000	Capital £'000	Total £'000
394	689	1,083
–	(423)	(423)
394	266	660
1.16p	0.79p	1.95p

Year to 31 December 2003

Revenue £'000	Capital £'000	Total £'000
770	803	1,573
–	638	638
770	1,441	2,211
2.27p	4.25p	6.52p

- The interim dividend of 1.8 pence per ordinary share was paid on 12 August 2004 to shareholders on the register on 16 July 2004.
- 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 2003, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2003 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 2004 £'000	As at 30 June 2003 as restated £'000	As at 31 December 2003 £'000
Fixed assets			
Investments			
Quoted on the Alternative Investment Market	9,208	4,337	7,645
Unquoted investments	14,242	5,217	10,586
Listed fixed interest investments	7,772	11,281	5,715
	31,222	20,835	23,946
Net current assets	2,864	11,675	9,048
Net assets	34,086	32,510	32,994
Capital and reserves			
Called-up share capital	3,403	3,391	3,396
Share premium account	1,620	932	1,014
Capital redemption reserve	88	21	26
Revaluation reserve	2,901	(598)	1,057
Profit and loss account	26,074	28,764	27,501
Equity shareholders' funds	34,086	32,510	32,994
Net asset value per share:			
Ordinary	100.15p	95.87p	97.15p
Number of shares in issue at balance sheet date	34,033,170	33,909,332	33,962,410

Summarised Unaudited Statement of Cash Flows

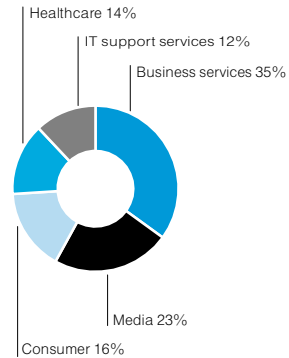
	Six months to 30 June 2004 £'000	Six months to 30 June 2003 £'000	Year to 31 December 2003 £'000
Net cash (outflow)/inflow from operating activities	(258)	493	504
Tax paid	–	–	(215)
Capital expenditure and financial investment	(130)	7,850	6,651
Equity dividends paid	(1,121)	(476)	(778)
Net cash (outflow)/inflow before financing	(1,509)	7,867	6,162
Financing	132	108	159
(Decrease)/increase in cash	(1,377)	7,975	6,321
Reconciliation of net cash flow to movement in net cash			
(Decrease)/increase in cash	(1,377)	7,975	6,321
Opening net cash	10,908	4,587	4,587
Net cash at end of period	9,531	12,562	10,908
Reconciliation of operating profit before taxation to net cash flow from operating activities			
(Loss)/profit on ordinary activities before taxation	(213)	1,131	1,656
Profit on realisation of investments	–	(881)	(1,199)
(Increase)/decrease in debtors	(102)	48	66
Increase/(decrease) in creditors	57	195	(19)
Net cash (outflow)/inflow from operating activities	(258)	493	504

Investment Portfolio

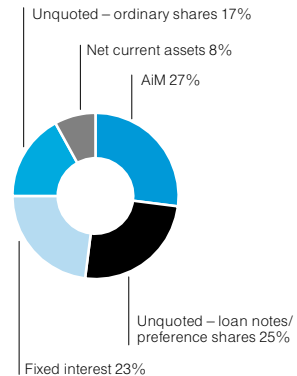
Company	Book Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities
Unquoted investments			
Martin Audio	786	1,431	4.2
RLA Media	681	1,393	4.1
Americana	567	1,350	4.0
The Art Group	1,281	1,281	3.8
Vectura *	1,040	1,194	3.5
kidsunlimited	481	1,136	3.3
AssA	1,113	1,113	3.3
Brownsword	676	868	2.5
Fretwell Downing	685	785	2.3
Hawksmere	766	766	2.2
Language Line	638	638	1.9
Ardana	563	563	1.7
Country Artists	448	448	1.3
Spaform	867	390	1.2
Domantis	356	356	1.0
Oxxon Pharmaccines	250	250	0.7
BodyCare International	1,000	167	0.5
Xention Discovery	113	113	0.3
Total unquoted	12,311	14,242	41.8
Quoted on AiM			
Huveaux	564	1,371	4.0
Air Music & Media Group	574	750	2.2
Zoo Digital	584	639	1.9
Fitzhardinge	470	578	1.7
The Real Good Food Company	540	554	1.6
Murgitroyd Group	501	546	1.6
i-documentsystems	600	533	1.6
Medal Entertainment & Media	371	529	1.5
Scott Tod	421	385	1.1
Stagecoach Theatre Arts	419	360	1.1
NeuTec Pharma	154	338	1.0
Prologic	310	310	0.9
Polaron	296	310	0.9
MKM	284	291	0.9
Quadnetics	296	285	0.8
Adventis	281	281	0.8
Micap	325	266	0.8
Cardpoint	92	224	0.7
VI Group	300	185	0.6
Universe Group	158	171	0.5
Blooms of Bressingham	320	138	0.4
Capcon Holdings	137	83	0.2
Xpertise	296	81	0.2
Total AiM	8,293	9,208	27.0
Fixed interest investments	7,738	7,772	22.8
Total investments	28,342	31,222	91.6
Net current assets		2,864	8.4
Total assets less current liabilities		34,086	100.00

The unquoted investments are valued in accordance with the British Venture Capital Association ('BVCA') guidelines and the Investment Trust Statement of Recommended Practice ('SORP').
*Vectura commenced trading on AiM on 2 July 2004.

Sector Analysis as at 30 June 2004



Market Analysis as at 30 June 2004



Independent Review Report to Baronsmead VCT 3 plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2004 which comprises a summarised profit and loss account, summarised statement of total recognised gains and losses, 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 2004.

PKF
Registered Auditor
London, UK

2 August 2004

Shareholder Information

Dividends

Interim dividends are ordinarily paid to shareholders in August. Final dividends are ordinarily paid to shareholders in April. 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, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Dividend Reinvestment Scheme

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

Share Price

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

Notification of 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 amendment this should be notified to the Company's registrar, Computershare Investor Services PLC, under the signature of the registered holder.

Financial Calendar

12 August 2004	Interim dividends paid
February 2005	Results for year to 31 December 2004 announced and annual report and accounts sent to shareholders
26 March 2005	Fourth Annual General Meeting

Shareholder Enquiries

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

Telephone: 020 7506 1651*

Fax: 020 7601 1787

e-mail: michael.probin@isisam.com

website: www.isisam.com/privateinvestors.asp (then click Venture Capital Trusts)

* Telephone calls may be recorded.

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

Corporate Information

Directors

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

Secretary

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Edinburgh EH2 3BU

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VCT Status Adviser

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Financial Adviser

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