

Baronsmead VCT 3 plc

Investing in growth businesses generating tax-free dividends

2008

Half-yearly report for the
six months ended
30 June 2008



Managed by ISIS EP LLP

ISIS / Baronsmead
EQUITY PARTNERS VCT 3

Investment Objective

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

Investment Policy

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

Dividend policy

The Board wishes to maintain a minimum annual dividend level of around 4.5p per ordinary share if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year. Since the Company's launch the average annual tax-free dividend paid to shareholders (including the declared interim dividend of 3p) has been 4.84p per ordinary share (equivalent to a pre-tax return of 7.17p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs of 20 per cent, their returns would have been even higher.

Secondary market in the shares of Baronsmead VCT 3

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

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

www.baronsmeadvct3.co.uk

Financial Highlights

For the six months to 30 June 2008

-6%

NAV per ordinary share over the six month period decreased by 6% from 120.44p to 113.19p.

3p

Interim dividend per share payable on 26 September 2008.

+60%

NAV total return to ordinary shareholders since launch in 2001, equates to an annualised total return of 6.6% which is equivalent to 9.8% for higher rate taxpayers.

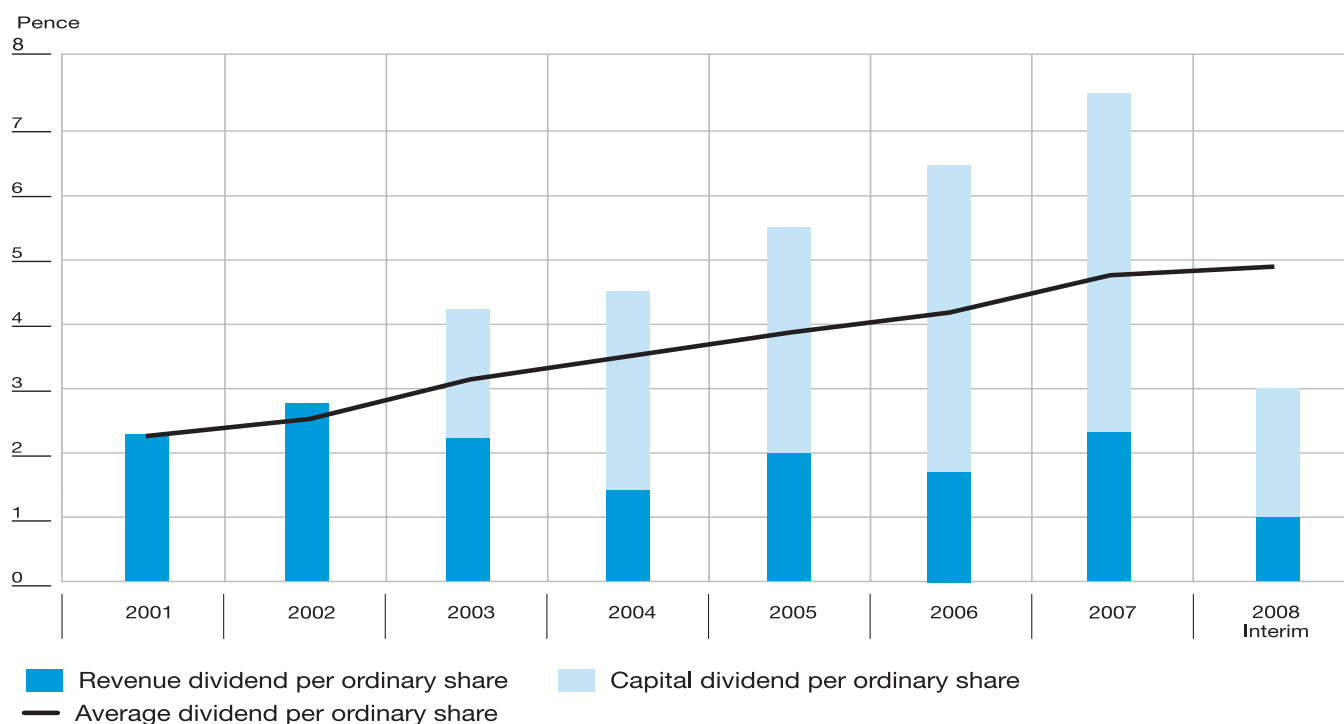
£4.5m

Profits realised from the sale of three unquoted investments.

£1.12m

Subscribed by 121 existing shareholders in Q1 2008 with top up offer closed oversubscribed.

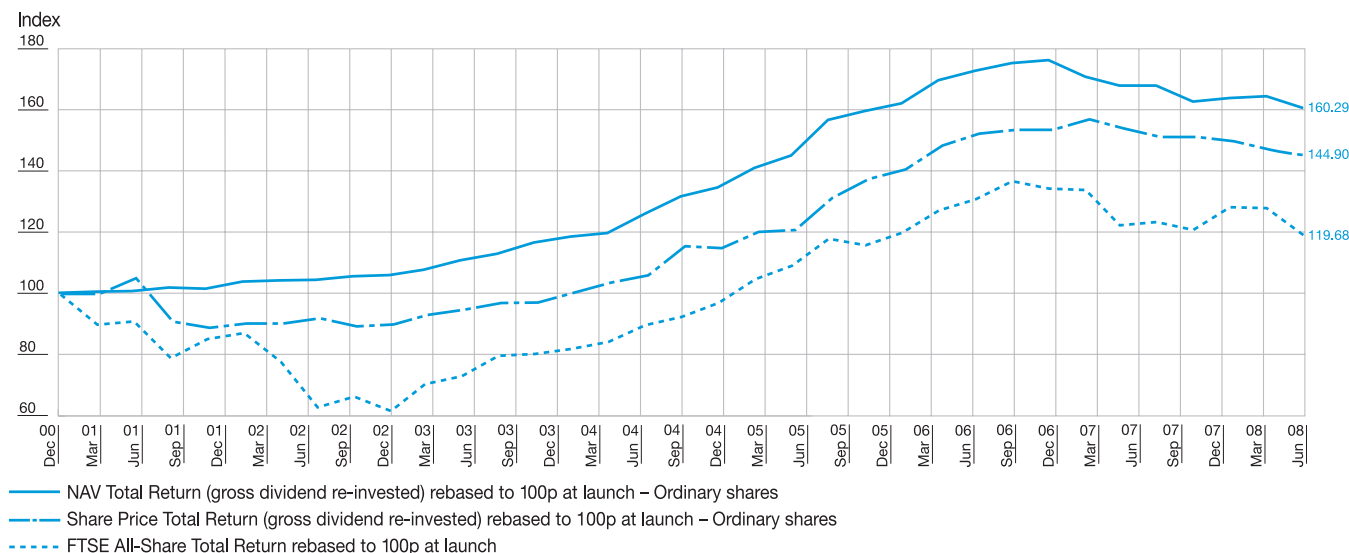
Dividend history since launch



Financial Highlights

Baronsmead VCT 3 plc

Net asset value, NAV total return and share price total return



Performance Summary to 30 June 2008

Total return	6 month %	1 year %	3 year %	5 Year %	Since launch%
Net asset value	(6.0)	(8.4)	+19.3	+49.1	+60.3
Share price	(6.3)	(4.2)	+27.8	+56.4	+44.9
FTSE All-share	(11.2)	(13.0)	+23.2	+71.0	+20.0

Cash Returned to Shareholders

The Board is also aware that shareholders are concerned that the original capital subscribed into Baronsmead VCT 3 has been maintained. 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	20.0	80.0	36.3	6.1	9.0
2005	100	40.0	60.0	9.6	6.4	9.5

Note: The cash returns could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.

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

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

Chairman's Statement

In increasingly depressed economic conditions, the highlight has been the sale of three unquoted investments at premium prices during the six months to 30 June 2008. These realisations yielded more than four times their aggregate cost and have made a healthy addition to the reserves from which future dividends can be paid. In addition during the period under review, the Manager has also been able to take advantage of lower pricing for new investments and achieved a good level of investment.

The rating of UK smaller companies has fallen significantly since summer 2007 and is particularly noticeable in our AIM investees, which represent 24 per cent of the overall portfolio at the period end. The value of the unquoted portfolio has been less affected and their overall trading results have helped underpin valuations.

We have flatter expectations for the next year or so but plan to anticipate and benefit from the up swing when it comes.

Results

In the six months to 30 June 2008, the Net Asset Value (NAV) per ordinary share decreased by 6 per cent from 120.44p to 113.19p before payment (due on 26 September 2008) of a 3p per share interim dividend. This dividend comprises 1.6p per share of distributed capital profits and 1.4p per share of net revenue. The capital dividend is largely attributable to a series of profitable realisations from investments in SLR, Kidsunlimited and Hawksmere being sold in total at more than four times their cost. The first two companies were highlighted in the last annual report as examples of 'How ISIS realises value for the shareholders of Baronsmead VCT 3'.

Baronsmead VCT 3 continued to meet the six VCT operational tests during the period. At the period end, 83 per cent of the ordinary capital raised (net of launch costs) prior to 31 December 2005 was invested in VCT qualifying investments.

The decrease in Net Assets of 6 per cent is spread fairly evenly by amount across the unquoted and AiM portions of the portfolio. The comparable fall for the FTSE All-Share Index was 11.2 per cent.

Long Term Performance

The standard measurements for monitoring investment performance are based either on the net asset value (NAV) plus dividends paid (known as "NAV total return") or the movement in share price plus dividends paid (known as "share price total return"). The latter is particularly relevant to investors who buy in the secondary market.

Other measures include dividend yield and cash returned to shareholders. All of these measures are normally stated before the inclusion of VCT tax reliefs. These reliefs were designed to redress both the VCT constraints as well as the higher risks that relate to smaller unquoted and AiM-traded companies.

NAV total return to shareholders since launch in January 2001

amounts to 60 per cent which represents an annual compound growth rate of 7 per cent and is stated net of all running costs.

Share price total return in the last five years was 56 per cent, which represents an annualised tax-free return of 9 per cent. These results compare favourably with other VCTs and fuller comparisons have recently been facilitated by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk. The comparable performance of the FTSE All-Share total return over five years was an increase of 71 per cent.

Dividends and yield. By 30 June 2008, (and including the declared interim dividend), dividends totalling 36.3p have been paid to founder shareholders since launch in January 2001. Based on the mid share price at the period end of 104.5p and last years dividend payment of 7.5p the yield is 7.2 per cent which equates to 10.6 per cent to the higher rate tax payer. The Board aims to sustain minimum annual dividends of around 4.5p per share if possible.

Cash returned to shareholders arises from dividends paid and the initial income tax relief that qualifying shareholders can retain beyond the initial holding period. To date, subscribers in 2001 will have received 36.3p of dividends plus up to 20p initial income tax relief. C share subscribers in 2005/6 will have received 9.6p of dividends and up to 40p income tax relief for every £1 subscribed (provided these shares are retained for more than three years).

Portfolio Review

The total portfolio grew to 78 companies after 13 new investments and seven realisations. The new investments set out below totalled £6.5 million in unquoted investments and £1.1 million into AiM-traded investees. For the first time a significant amount, (£2.05 million in seven investees), has been allocated to non-qualifying investments with good prospects of growth. Three investee companies received additional funding.

Chairman's Statement

Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments				
Active Assistance	Sevenoaks	Healthcare	Specialist live in care	679
Carnell Contractors	Penkridge, Staffs	Business Services	Highway agency services	1,499
CSC (World) †	Pudsey, Leeds	IT	3D structural steel software	1,606
Kidsunlimited †	Wilmslow	Business Services	Children's day nurseries	113
Nexus	Leeds	Business Services	Car rental services	1,368
Occam *	Chilcompton, Radstock	Business Services	Data Services	3
Playforce	Holt, Wiltshire	Business Services	Playground equipment	1,033
Xention *	Cambridge	Healthcare	Drug discovery	152
Total Unquoted Investments				6,453
AiM-traded investments				
Character Group †	New Malden	Media	Toy design and distribution	144
Debts.co.uk	Chesterfield	Consumer	Debt management	262
Electric Word †	London	Media	B2B publishing	17
Essentially Group *	Jersey	Media	Sports marketing	240
Independent Media Distribution †	London	IT	Digital media distribution	15
IS Pharma	Chester	Healthcare	Specialist pharmaceuticals	246
Silverdell †	Barking	Business Services	Asbestos specialists	14
STM †	Gibraltar	Business Services	Off shore Trust administration	140
Total AiM-traded investments				1,078
Total investments				7,531

* Further round of financing

† Non-qualifying investments totalled £2.05 million during the period

The Board reviews the relative health of portfolio companies quarterly, in terms of profitability as well as other non-financial benchmarks. At the period-end, 81 per cent of the portfolio companies were reporting better or steady progress.

The unquoted portfolio had some successful realisations as well as strong trading, especially at Scriptswitch who presented their growth story to our seventh AGM. This was balanced by downgrades arising from market reductions in price earnings ratios or because of missed business plans. Consumer related businesses were most affected and a full provision was made against the investment in The Art Group. This provision equates to a diminution per share of 2.4p. Following a sharp decline in sales during April and May 2008, this business was sold for a nominal sum after the period end.

The AiM and Listed part of the portfolio was down 16 per cent predominantly as a result of lower market prices rather than lower trading profits. Share prices in smaller quoted companies fell as investors turned to larger and more liquid stocks. Begbies and IDOX made good progress which can be contrasted with the negative trading statements of Claimar and Proactis. Two AiM holdings were sold at a loss as were two full-listed, Oxford Biomedica and Ardana. The latter was placed in administration and written off.

The cash realisations set out on the opposite page show some strong outcomes from selling unquoted investments resulting in

total sale proceeds (including income and dividends) being 4.1 times the original cost.

- The investment in SLR was sold to 3i in a secondary buy-out valuing the company in the region of £100 million and six times cost. SLR is an international environmental consultancy with offices in the UK, US and Canada. It has particular strengths in the energy sector, the private sector waste management industry and working for many of the major commercial developers. Since investment in September 2004, the business has delivered substantial organic and acquisitive growth in the UK and North America, opening new offices and expanding its range of services. As a result, employee numbers in SLR increased from 168 in 2004 to 650 at May 2008.
- kidsunlimited was sold to a financial buyer at an enterprise value of £45 million representing 4.7 times the cost and realised profits of £1.4 million. Since first investment in 2001, kidsunlimited has successfully rolled out new nurseries to 50 locations with over 4,500 registered places offering premium care in purpose built or designed settings, including gardening club, "Soccer Tots" and baby yoga. The business which was transitioned from its founders to a professional management team operates a scalable nursery model in a changing marketplace and has become 'the stand out asset' in the sector.

Chairman's Statement

Six months to 30 June 2008

Realisations		First investment date	Cost £'000	Proceeds £'000	Multiple return
SLR	Secondary buy-out	September 2002	290	2,485	6.0*
Kidsunlimited	Secondary buy-out	June 2001	481	1,921	4.7*
Hawksmere	Trade sale	December 2003	766	1,698	2.5*
Oxford Biomedica	Market sale	April 2003	250	65	0.3
Cantono	Market sale	April 2005	375	19	0.1
Capcon	Market sale	October 2001	137	6	0.1
Ardana	Write off	August 2003	619	0	0.0
			2,918	6,194	

* Includes interest received and some earlier loan note redemptions

In addition, deferred proceeds of £115,000 were received on the sale of the earlier unquoted investments; Boldon James, RLA Media and Oxxon Pharmaccines Ltd.

- Hawksmere, an investment made in December 2003, had experienced difficult trading but had returned to profitability prior to its sale. A new Managing Director and Finance Director joined in summer of 2005 and led the trading recovery. The investment was fully provided for as late as June 2006 and valued at nil. The sale of the company in January 2008 resulted in sales proceeds of 2.5 times the original cost of £766,000.

Issue of New Shares

The top up offer in February 2008 resulted in applications from 121 existing shareholders totalling £1.12 million. When combined with the top ups in September 2007, the maximum possible without issuing a full prospectus, of £3.6 million was raised from ordinary and C shareholders.

Buy backs totalled 955,000 ordinary shares which were bought back into Treasury.

The current market conditions for new investment are more attractive in terms of pricing than for some years and as a consequence the Board is minded to ensure there is sufficient available capital within Baronsmead VCT 3 to exploit the opportunity. Currently, the intention is that there will be a new share offer available to shareholders later in the current financial year ending 5 April 2009 and this will be communicated more clearly to shareholders once the Board has agreed the detailed plan.

VAT Position

Shareholders may be aware of a recent European Court ruling that management fees on investment trusts should be exempt

from VAT following a test case brought by the Association of Investment Companies (AIC) and others. Subsequently, HMRC agreed that this ruling should also apply to VCTs from 1 October 2008 and has recently announced it will accept applications to reclaim at least some of the VAT charged in the last few years. The company will work with the Manager to quantify and recover the applicable back VAT from HMRC. There should certainly be some benefit to the company but the amount and timing remain uncertain. Hence there is no recognition in these financial statements for any such receipt.

Outlook

In recent years we have benefited from a succession of profitable unquoted realisations. These will be harder to achieve currently but the Manager believes that the present state of the economic cycle will offer opportunities to exploit as funds available to invest in growth companies become scarcer. We plan to have sufficient cash resources to complete new investments at more attractive levels which should generate good investment returns in the medium term.

There are clearly difficult times ahead but we hope to benefit when the market upswing occurs. However, the Manager has experience in tackling difficult market conditions and this should be of help to the performance of the portfolio in the longer term.

Mark Cannon Brookes

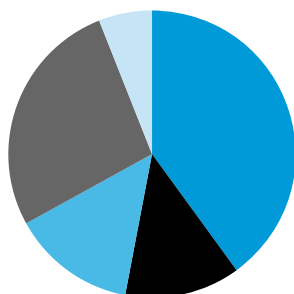
Chairman

12 August 2008

Investment Portfolio

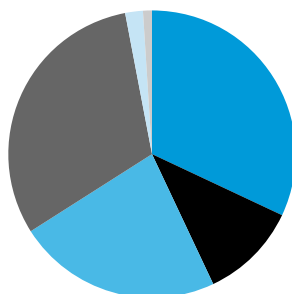
Investment Classification at 30 June 2008

By Sector



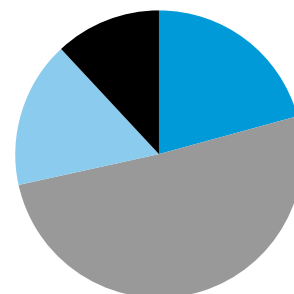
■ Business services	40%
■ Consumer markets	13%
■ Healthcare	14%
■ IT support services	27%
■ Media	6%

Total Assets



■ Unquoted – loan stock	32%
■ Unquoted – ordinary and preference shares	11%
■ AiM	23%
■ Fixed interest	31%
■ Net current assets	2%
■ Listed	1%

Time Investments Held



■ Less than 1 year	21%
■ Between 1 and 3 years	51%
■ Between 3 and 5 years	16%
■ Greater than 5 years	12%

Company	Nature of business	Book cost £'000	Valuation £'000	% of Total assets less current liabilities
Unquoted				
Reed & Mackay	Business Services	1,211	2,539	4.15
Independent Living Services	Healthcare	801	2,223	3.63
Scriptswitch	IT Support Services	1,167	2,080	3.40
CSC (World) Limited	IT Support Services	1,606	1,606	2.62
CableCom Networking Holdings Ltd	IT Support Services	1,381	1,606	2.62
Kafevend Holdings Ltd	Consumer	1,247	1,547	2.53
Credit Solutions	Business Services	1,031	1,534	2.51
Carnell Contractors	Business Services	1,499	1,499	2.45
Fisher Outdoor Leisure Holdings Ltd	Consumer	1,423	1,461	2.39
Nexus Vehicle Holdings Ltd	Business Services	1,368	1,368	2.23
Quantix Limited	IT Support Services	1,194	1,341	2.19
Crew Clothing Company Ltd	Consumer	933	1,288	2.10
Empire World Trade Limited	Business Services	1,297	1,086	1.77
Playforce Holdings Limited	Business Services	1,033	1,033	1.69
MLS	IT Support Services	781	913	1.49
Xention Discovery	Healthcare	802	825	1.35
Occam DM Ltd	Business Services	465	800	1.31
Active Assistance	Healthcare	679	679	1.11
Green Issues	Media	498	604	0.98
Kidsunlimited Group	Business Services	113	113	0.18
The Art Group	Media	1,281	0	0.00
Total unquoted		21,810	26,145	42.70
FTSE SmallCap				
Vectura Group plc	Healthcare	771	720	1.18
Total FTSE SmallCap		771	720	1.18

Company	Nature of business	Book cost £'000	Valuation £'000	% of Total assets less current liabilities
AiM				
Jelf Group plc	Business Services	551	1,503	2.45
IDOX plc	IT Support Services	920	1,320	2.16
Begbies Traynor Group plc	Business Services	283	1,119	1.83
Murgitroyd Group plc	Business Services	319	751	1.23
Concateno plc	Healthcare	397	582	0.95
Driver Group plc	Business Services	438	510	0.83
Plastics Capital plc	Business Services	473	425	0.69
Mount Engineering plc	Business Services	385	407	0.66
Brulines Holdings plc	Business Services	348	399	0.65
Essentially Group Ltd	Media	495	397	0.65
InterQuest Group plc	Business Services	310	338	0.55
Craneware plc	IT Support Services	179	286	0.47
Stagecoach Theatre Arts plc	Consumer	419	284	0.46
Huveaux plc	Media	541	274	0.45
Sanderson Group plc	IT Support Services	387	271	0.44
Kiotech International plc	Healthcare	200	267	0.44
Appian Technology plc	IT Support Services	302	262	0.43
Prologic plc	IT Support Services	310	248	0.41
IS Pharma plc	Healthcare	246	242	0.40
Research Now plc	Media	263	241	0.39
Proactis Holdings plc	IT Support Services	400	233	0.38
Cohort plc	Business Services	179	220	0.36
Adventis Group plc	Media	281	197	0.32
EBTM plc	Consumer	244	193	0.32
Debts.co.uk plc	Consumer	262	193	0.31
Colliers CRE plc	Business Services	470	188	0.31
Vero Software plc	IT Support Services	300	181	0.30
WIN plc	IT Support Services	263	180	0.29
Ffastfill plc	IT Support Services	130	154	0.25
STM Group plc	Business Services	140	151	0.25
Autoclenz Holdings plc	Consumer	400	150	0.25
Quadnetics Group plc	Business Services	296	145	0.23
Air Music & Media Group plc	Media	575	143	0.22
EG Solutions plc	IT Support Services	375	132	0.21
Mission Marketing Group (The) plc	Media	190	120	0.20
Character Group plc	Media	143	120	0.20
Tasty plc	Consumer	240	117	0.19
Xpertise Group plc	Business Services	296	102	0.17
Tangent Communications plc	Business Services	180	100	0.16
Optimisa plc	Media	298	96	0.16
Claimar Care Group plc	Healthcare	569	90	0.15
Brainjuicer Group plc	Media	50	60	0.10
Business Direct Group plc	Business Services	665	59	0.10
FishWorks plc	Consumer	174	58	0.09
IPT Holdings plc	Media	138	57	0.09
Real Good Food Company (The) plc	Consumer	540	38	0.06
INVU plc	IT Support Services	35	34	0.06
Universe Group plc	IT Support Services	158	32	0.05
Payzone plc	Business Services	88	22	0.04
Electric Word plc	Media	17	16	0.03
Independent Media Distribution plc	IT Support Services	15	13	0.02
MKM Group plc	Business Services	284	13	0.02
Zoo Digital Group plc	IT Support Services	584	8	0.01
Silverdell plc	Business Services	14	7	0.01
Loanmakers (Holdings) plc	Consumer	169	6	0.01
Micap plc	Healthcare	325	4	0.01
Total AiM		17,253	13,758	22.47
Interest bearing securities				
UK Treasury 4.75% 07/06/10		493	496	0.81
BlackRock Institutional Liquidity Fund		6,250	6,250	10.21
JP Morgan Liquidity Fund		6,220	6,220	10.16
F & C Money Market Oeic		6,162	6,162	10.06
Total interest bearing securities		19,125	19,128	31.24
Total investments		58,959	59,751	97.59
Net current assets			1,475	2.41
Total assets less current liabilities			61,226	100.0

Independent Review Report to Baronsmead VCT 3 plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet and Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Edinburgh
12 August 2008

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with the Statement 'Half-yearly financial reports' issued by the UK Accounting Standards Board;
- the Chairman's Statement (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
- the Statement of Principal Risks and Uncertainties on page 13 is a fair review of the information required by DTR 4.2. 7R; and
- the financial statements include a fair review of the information required by DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board,
M Cannon Brookes
Chairman
12 August 2008

Unaudited Income Statement

For the Six Months to 30 June 2008

	Ordinary Shares		
	Revenue £'000	Capital £'000	Total £'000
Unrealised (losses) on investments	–	(7,785)	(7,785)
Realised gains on investments	–	3,393	3,393
Income	1,400	–	1,400
Investment management fee	(227)	(679)	(906)
Other expenses	(153)	–	(153)
Profit/(loss) on ordinary activities before taxation	1,020	(5,071)	(4,051)
Taxation on ordinary activities	(238)	238	–
Profit/(loss) on ordinary activities after taxation	782	(4,833)	(4,051)
Return per ordinary share:			
Basic (p)	1.44	(8.89)	(7.45)

Unaudited Reconciliation of Movement in Shareholders' Funds

For the Six Months ended 30 June 2008

	2008 Ordinary Shares £'000
Opening shareholders' funds	65,221
(Loss) for the period	(4,051)
Purchase of shares for Treasury	(1,011)
Expenses of share issue and conversion of share premium	(51)
Increase in share capital in issue	1,118
Dividends paid	–
Closing shareholders' funds	61,226

Notes

1. The unaudited interim results which cover the six months to 30 June 2008 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the period ended 31 December 2007.
2. Return per share is based on a weighted average of 54,385,064 ordinary shares in issue (31 December 2007 – 53,048,861 ordinary shares).
3. Earnings for the first six months to 30 June 2008 should not be taken as a guide to the results of the full financial year.
4. During the six months ended 30 June 2008 the Company issued 894,398 ordinary shares pursuant to the offer for subscription at an offer price of 125p per share which raised £1.1 million, before costs. During this period the Company purchased 955,000 ordinary shares to be held in Treasury at a cost of £1,011,490. At 30 June 2008 the Company holds 4,135,000 ordinary shares in Treasury. Excluding Treasury shares, there were 54,091,997 ordinary shares in issue at 30 June 2008 (31 December 2007 – 32,253,521 ordinary shares and 25,570,331 C shares, 30 June 2007 – 31,912,392 ordinary shares and 23,999,772 C shares).

Unaudited Income Statement

For the Six Months to 30 June 2007

	Ordinary Shares			C Shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	1,110	1,110	–	1,888	1,888	–	2,998	2,998
Realised gains on investments	–	324	324	–	302	302	–	626	626
Income	663	–	663	494	–	494	1,157	–	1,157
Investment management fee	(155)	(466)	(621)	(75)	(415)	(490)	(230)	(881)	(1,111)
Other expenses	(122)	–	(122)	(81)	–	(81)	(203)	–	(203)
Profit on ordinary activities before taxation	386	968	1,354	338	1,775	2,113	724	2,743	3,467
Taxation on ordinary activities	(72)	72	–	(85)	85	–	(157)	157	–
Profit on ordinary activities after taxation	314	1,040	1,354	253	1,860	2,113	567	2,900	3,467
Return per ordinary share/C share:									
Basic	0.97p	3.23p	4.20p	1.05p	7.75p	8.80p	1.01p	5.16p	6.17p

Unaudited Reconciliation of Movement in Shareholders' Funds

For the Six Months ended 30 June 2007

	2007 Ordinary Shares £'000	2007 C Shares £'000	2007 Total £'000
Opening shareholders' funds	42,321	24,227	66,548
Profit for the period	1,354	2,113	3,467
Purchase of shares for Treasury	(524)	–	(524)
Dividends paid	(1,295)	(480)	(1,775)
Closing shareholders' funds	41,856	25,860	67,716

Notes

- The interim dividend of 3 pence per ordinary share (1.4 pence revenue and 1.6 pence capital) will be paid on 26 September 2008 to shareholders on the register on 22 August 2008.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the year to 31 December 2007, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2007 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.

Income Statement

For the Year to 31 December 2007

	Ordinary Shares			C Shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised (loss)/gain on investments	–	(400)	(400)	–	1,493	1,493	–	1,093	1,093
Realised gain on investments	–	564	564	–	309	309	–	873	873
Income	1,548	–	1,548	1,021	–	1,021	2,569	–	2,569
Investment management fee	(304)	(912)	(1,216)	(153)	(459)	(612)	(457)	(1,371)	(1,828)
Other expenses	(234)	–	(234)	(247)	–	(247)	(481)	–	(481)
Profit/(loss) on ordinary activities before taxation	1,010	(748)	262	621	1,343	1,964	1,631	595	2,226
Tax on ordinary activities	(197)	237	40	(174)	134	(40)	(371)	371	–
Profit/(loss) on ordinary activities after taxation	813	(511)	302	447	1,477	1,924	1,260	966	2,226
Return per ordinary share/C share:									
Basic	2.53p	(1.59)p	0.94p	1.83p	6.05p	7.88p	–	–	–

Reconciliation of Movement in Shareholders' Funds

For the Year ended 31 December 2007

	2007 Ordinary Shares £'000	2007 C Shares £'000	2007 Total £'000
Opening shareholders' funds	42,321	24,227	66,548
Profit for the year	302	1,924	2,226
Increase in share capital	680	1,696	2,376
Purchase of shares for Treasury or cancellation	(759)	–	(759)
Dividends paid	(3,698)	(1,472)	(5,170)
Closing shareholders' funds	38,846	26,375	65,221

Unaudited Balance Sheet

	As at 30 June 2008	As at 30 June 2007			As at 31 December 2007 †		
	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets							
Unquoted investments	26,145	18,819	9,124	27,943	17,934	9,692	27,626
Traded on AiM	13,758	14,437	4,333	18,770	10,369	4,627	14,996
Quoted on FTSE SmallCap	720	562	–	562	1,160	–	1,160
Interest bearing securities	19,128	6,920	11,463	18,383	5,587	10,750	16,337
	59,751	40,738	24,920	65,658	35,050	25,069	60,119
Current assets							
Debtors	539	510	298	808	943	405	1,348
Cash at bank and on deposit	1,556	1,288	1,305	2,593	3,231	1,340	4,571
	2,095	1,798	1,603	3,401	4,174	1,745	5,919
Creditors: amounts falling due within one year	(620)	(680)	(663)	(1,343)	(378)	(439)	(817)
Net current assets/(liabilities)	1,475	1,118	940	2,058	3,796	1,306	5,102
Net assets	61,226	41,856	25,860	67,716	38,846	26,375	65,221
Capital and reserves							
Called-up share capital	5,823	3,509	12,000	15,509	3,543	12,785	16,328
Share premium account	6,768	4,253	–	4,253	4,879	911	5,790
Capital redemption reserve	10,862	247	–	247	267	–	267
Revaluation reserve	791	8,654	3,007	11,661	5,954	2,622	8,576
Profit and loss account	36,982	25,193	10,853	36,046	24,203	10,057	34,260
Equity shareholders' funds	61,226	41,856	25,860	67,716	38,846	26,375	65,221

	As at 30 June 2008	As at 30 June 2007		As at 31 December 2007 †	
	Ordinary Shares	Ordinary Shares	C Shares	Ordinary Shares	C Shares
Net asset value per share	113.19p	131.16p	107.75p	120.44p	103.15p
Number of ordinary shares in issue	54,091,997	31,912,392	–	32,253,521	–
Number of C shares in issue	–	–	23,999,772	–	25,570,331
Treasury net asset value per share ‡	112.57p	129.83p	–	119.64p	–
Number of ordinary shares in issue	54,091,997	31,912,392	–	32,253,521	–
Number of ordinary shares held in Treasury	4,135,000	3,180,000	–	3,180,000	–
Number of listed ordinary shares	58,226,997	35,092,392	–	35,433,521	–

† At the AGM held on 19 March 2008, shareholders renewed the existing authority to disapply pre-emption rights in relation to the allotment or sale from Treasury of up to 10 per cent of the listed share capital. The Board is now mandated to sell Treasury shares at a discount to the prevailing NAV. Treasury shares will be valued at the lower of the prevailing NAV or middle market price.

‡ These figures are audited.

Summarised Unaudited Statement of Cash Flows

	Six months to 30 June 2008	Six months to 30 June 2007			Year to 31 December 2007 ‡		
	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Net cash (outflow)/inflow from operating activities	452	(1,181)	(193)	(1,374)	(1,308)	(144)	(1,452)
Taxation	–	–	–	–	–	–	–
Capital expenditure and financial investment	(3,528)	2,833	897	3,730	7,065	179	7,244
Equity dividends paid	5	(1,295)	(480)	(1,775)	(3,698)	(1,472)	(5,170)
Net cash inflow/(outflow) before financing	(3,071)	357	224	581	2,059	(1,437)	622
Net cash (outflow)/inflow from financing	56	(320)	–	(320)	(79)	1,696	1,617
Increase/(decrease) in cash	(3,015)	37	224	261	1,980	259	2,239
Reconciliation of net cash flow to movement in cash							
Increase/(decrease) in cash	(3,015)	37	224	261	1,980	259	2,239
Opening net cash	4,571	1,251	1,081	2,332	1,251	1,081	2,332
Net cash at 30 June/31 December	1,556	1,288	1,305	2,593	3,231	1,340	4,571
Reconciliation of operating profit before taxation to net cash flow from operating activities							
(Loss)/profit on ordinary activities before taxation	(4,051)	1,354	2,113	3,467	262	1,964	2,226
Unrealised (gains)/losses on investments	7,785	(1,110)	(1,888)	(2,998)	400	(1,493)	(1,093)
Profit on realisation of investments	(3,393)	(324)	(302)	(626)	(564)	(309)	(873)
Changes in working capital and other non-cash items	111	(1,101)	(116)	(1,217)	(1,406)	(306)	(1,712)
Net cash (outflow)/inflow from operating activities	452	(1,181)	(193)	(1,374)	(1,308)	(144)	(1,452)

‡ These figures are audited.

Principal Risks and Uncertainties

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the way in which they are managed, are described in more detail under the heading Principal risks, risk management and regulatory environment within the Business Review in the Company's Annual Report and Accounts for the year ended 31 December 2007. The Company's principal risks and uncertainties have not changed materially since the date of that report.

Related Parties

ISIS EP LLP ('the Manager') manages the investments of the Company. The Manager also provides or procures the provision of secretarial, administrative and custodian services to the Company. Under the management agreement, the Manager receives a fee of 2.5 per cent per annum of the net assets of the Company. This is described in more detail under the heading Management within the Report of the Directors in the Company's Annual Report and Accounts for the year ended 31 December 2007. During the period the Company has incurred management fees of £906,000 and secretarial fees of £63,000 payable to the Manager.

Shareholder Information

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, queries regarding share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

www.computershare.com/investor or write to Computershare's address overleaf.

Shareholder Helpline

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

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

Automated Functions

- confirm the latest share price
- confirm your current share holding balance
- confirm dividend payment history
- order a Change of Address, Dividend Bank Mandate or Stock Transfer Form

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

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

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



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

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

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

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



The ISIS/Baronsmead website contains details of the team and some case studies of investments.

Share Price

The Company's ordinary 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 ordinary shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker. The market makers for Baronsmead VCT plc are:

- Landsbanki Securities (020 7426 9000)
- UBS Investment Bank (020 7567 8000)
- Winterfloods (020 7621 0004)

Financial Calendar

November 2008	Quarterly fact sheet to 30 September 2008
February 2009	Results for year to 31 December 2008 announced and annual report and accounts sent to shareholders
March 2009	Annual General Meeting

Corporate Information

Directors

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

Registered Office and Investment Manager

ISIS EP LLP
100 Wood Street
London EC2V 7AN

Registrars and Transfer Office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 7ZZ
Shareholder helpline: 0870 703 0137

Registered Number

04115341

*Chairman of the Audit Committee

†Senior Independent Director

Auditors

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

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Stockbrokers

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Beaufort House
15 St Botolph Street
London EC3A 7QR

Solicitors

Norton Rose
3 More London Riverside
London SE1 2AQ

Additional Information

The information provided in this report has been produced 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 Financial Services Authority. 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.