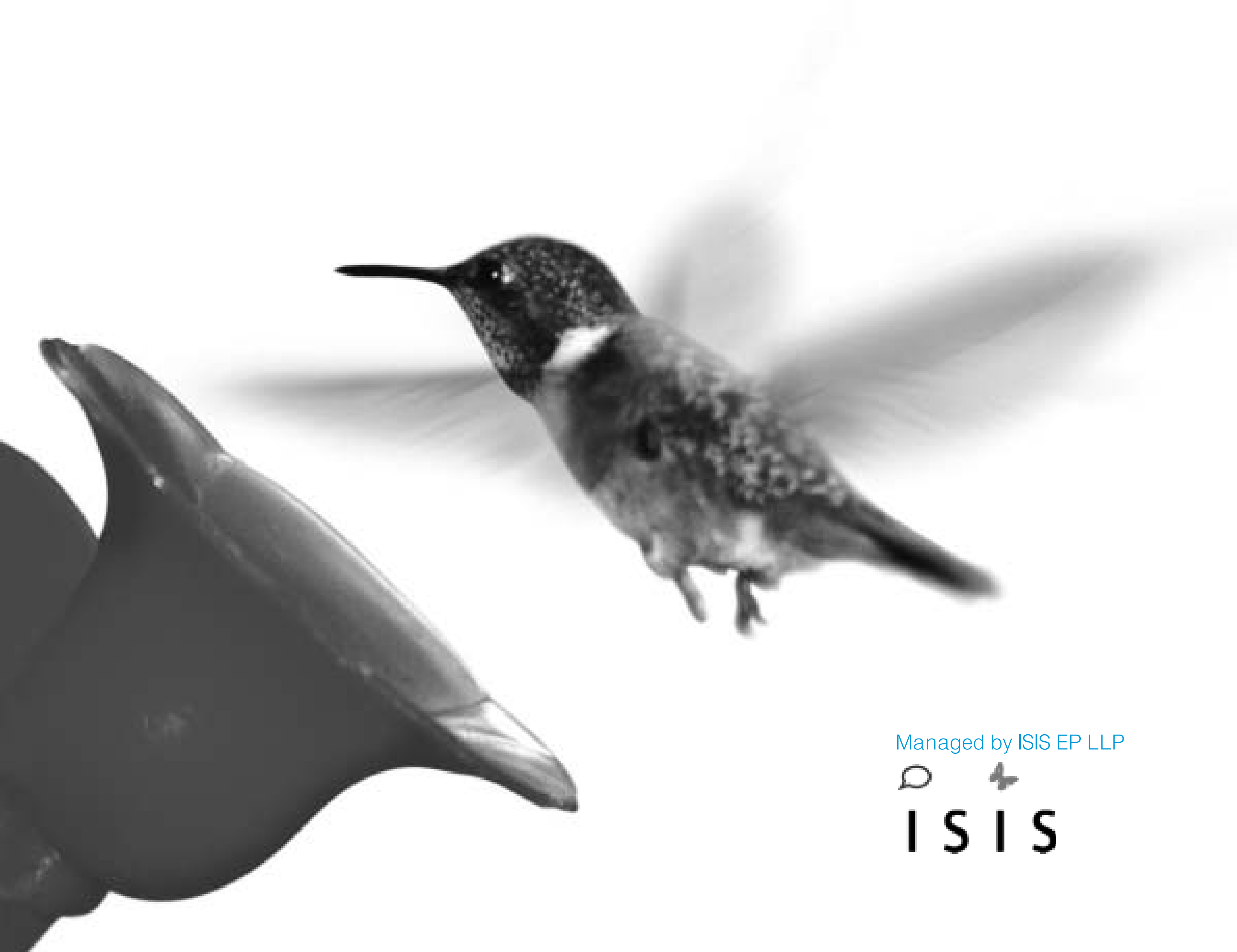
Baronsmead VCT plc

Investing in Growth Businesses generating tax-free dividends

2007

Annual report & accounts for the year ended 30 September 2007



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ISIS

Investment Objective

Baronsmead VCT 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.

Further details on investment policy and risk management are contained in the Directors' Report on pages 15 and 16.

Dividend policy

The Board wishes to maintain a minimum dividend level of around 5.5p 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 launch the average annual tax-free dividend paid to shareholders has been 7.2p per ordinary share (equivalent to a pre-tax return of 10.7p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs of 20% or 40%, their returns would have been even higher.

Secondary market in the shares of Baronsmead VCT

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.

Contents

If you have sold or otherwise transferred all of your ordinary shares in Baronsmead VCT 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 Highlights

+9.0%

NAV per ordinary share increased to 106.85p before deduction of dividends. After payment of dividends totalling 12.5p per share in the year to 30 September 2007, the NAV was 94.35p.

+117%

Ordinary share price total return over the five years to 30 September 2007, equivalent to an annualised return of 16.8%.

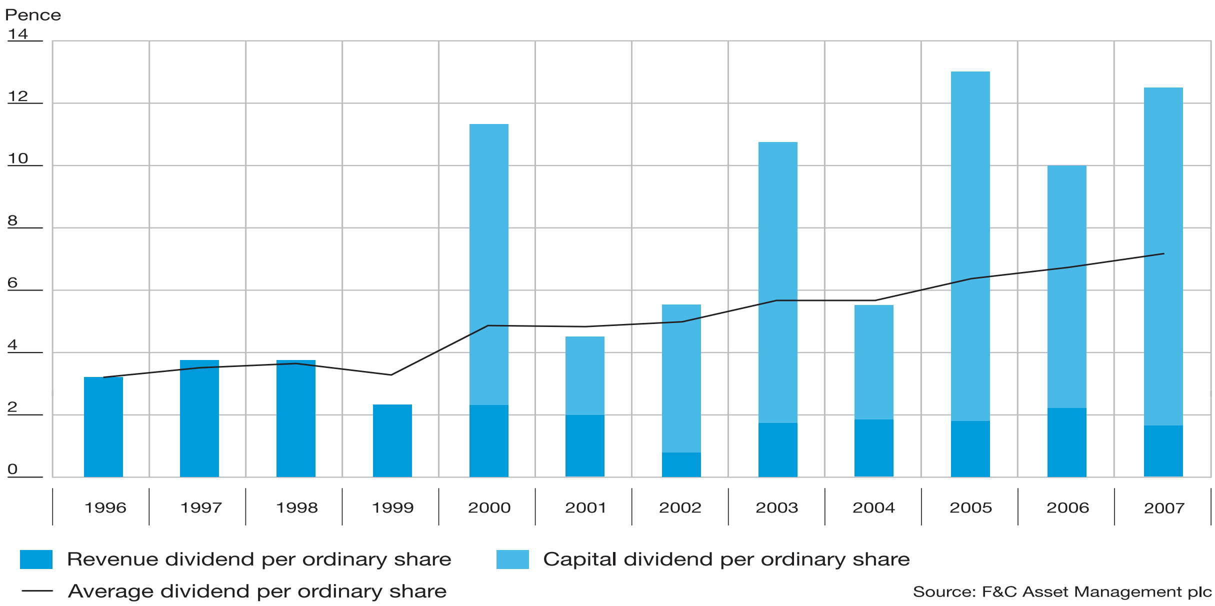
7.2p

Average annual tax-free dividend is now 7.2p per ordinary share since launch (equivalent to a pre-tax return of 10.7p per share for a higher rate taxpayer).

+128%

NAV total return to ordinary shareholders since launch in 1995, equivalent to an annualised total return of 7.2% before 20% income tax relief (on subscription, at launch) equivalent to 9% for a higher rate taxpayer.

Dividend history since launch

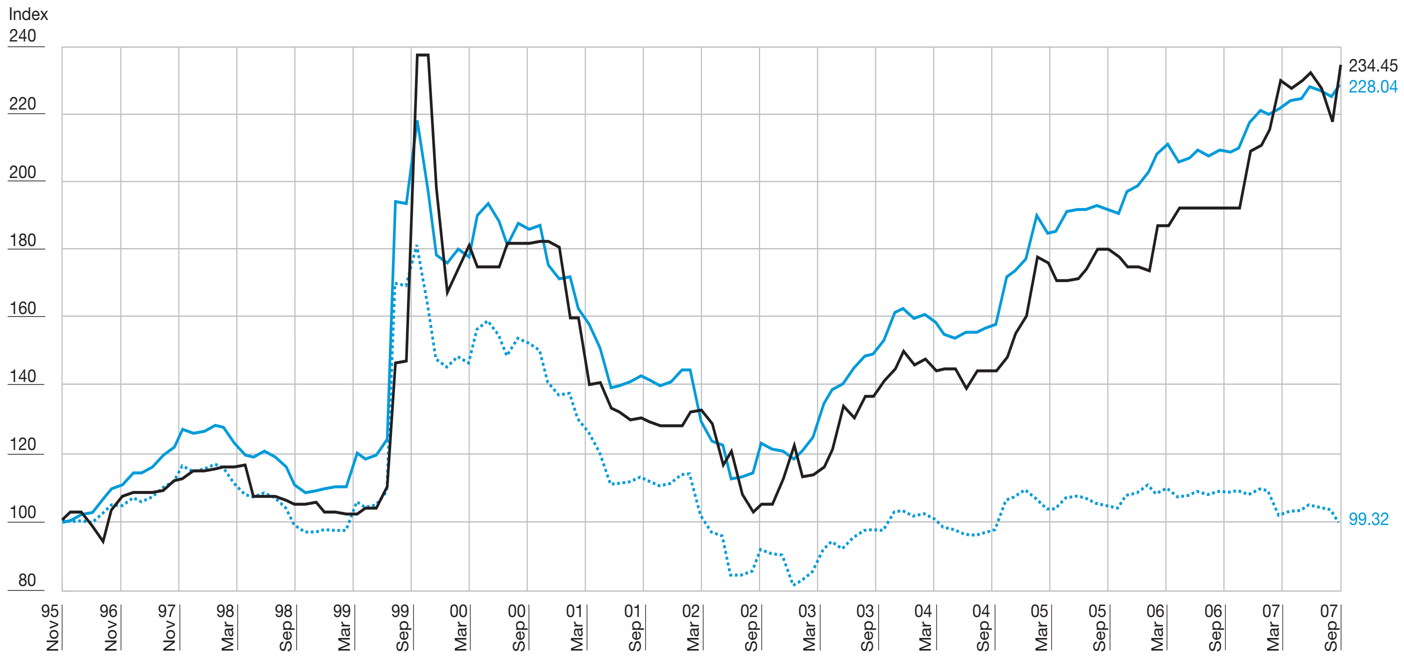


Source: F&C Asset Management plc

Summary Since Launch

Baronsmead VCT plc

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



NAV Total Return (gross dividend re-invested) rebased to 100p at launch – ordinary shares

NAV rebased to 100p at launch – ordinary shares

Share Price Total Return rebased to 100p at launch

Source: F&C Asset Management plc

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 NAV of the Company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

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	Net asset value total return %	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual* yield %	Gross† yield %
1995 (Nov)	128.0	100	20.0	80.0	86.05	9.0	13.4
1997 (April)	105.7	104	20.8	83.2	81.23	9.3	13.8
2003 (April) – C share	60.0	100	20.0	80.0	38.50	10.9	16.2
2005 (March) – C share	25.9	100	40.0	60.0	11.80	7.9	11.7

Note 1 – 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.

*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 (40% income tax).

Summary Since Launch

Performance Record

Year ended 31 August	Total net assets £m	Ordinary Share: Net asset value p	Share price (mid) p	Net asset value total return* %	FTSE All-Share total return %	Combined total expense ratio† %
1996	8.5	94.31	90.00	102.67	114.72	2.9
1997	20.7	101.03	95.00	114.22	141.20	2.9
1998	22.5	105.00	98.00	123.00	155.31	3.1
1999	22.2	100.07	84.00	120.07	191.79	3.0
2000	33.9	147.70	145.00	189.77	214.04	3.3
2001	27.0	113.75	105.00	151.01	177.08	3.5
At 30 September						
2002	18.7	79.68	80.50	112.79	127.04	3.5
2003	31.3	90.13	80.00	145.20	148.26	2.9
2004	34.8	90.84	83.00	155.26	171.59	3.0
2005 (restated)	61.7	102.61	90.50	192.79	214.24	3.0
2006	63.0	103.01	91.50	209.12	245.68	3.0
2007	**60.1**	**94.35**	**93.50**	**228.04**	**275.63**	**3.2**

* Source: F&C Asset Management plc based on bid prices.
† As a percentage of average total shareholders' funds (excluding performance fee).

Dividends Paid Since Launch

Year ended	Ordinary Share: Revenue dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends p	Average total annual dividend p
1996	3.20	–	3.20	3.20	3.20
1997	3.75	–	3.75	6.95	3.48
1998	3.75	–	3.75	10.70	3.57
1999	2.30	–	2.30	13.00	3.25
2000	2.30	9.00	11.30	24.30	4.86
2001	2.00	2.50	4.50	28.80	4.80
2002	0.80	4.75	5.55	34.35	4.91
2003	1.70	9.00	10.70	45.05	5.63
2004	1.90	3.60	5.50	50.55	5.62
2005	1.85	11.15	13.00	63.55	6.36
2006	2.20	7.80	10.00	73.55	6.69
2007	**1.60**	**10.90**	**12.50**	**86.05**	**7.17**

Chairman's Statement

Gillian Nott Chairman

In an increasingly volatile economic climate, the 9.2% total return for the year demonstrates the importance of diversity in the portfolio. The unquoted companies generally progressed well while the AiM portfolio was marginally down.

The share price total return for the five years to 30 September 2007 is 117.1%, which demonstrates the strong cumulative performance over this period. This measure has been boosted in the last year by the improvement in share price as the shares moved closer to the Net Asset Value (NAV) per ordinary share. This year's dividends paid to ordinary and C shareholders of 12.5p and 8.1p respectively (the latter converted in April 2007) illustrated the income attractions of holding shares in Baronsmead VCT.

Results

In the year to 30 September 2007, the NAV per ordinary share increased by 9.0% from 98.01p to 106.85p before dividends. Two interim dividends of 7.5p and 5p per ordinary share were paid in March and September 2007.

The C share capital raised in early 2005 was converted into ordinary shares in April 2007 with 11,286 new ordinary shares being issued for every 10,000 C shares held. An interim dividend of 2.5p per C share was paid in March 2007. Since launch of the C shares in March 2005, the NAV total return to 30 September 2007 is 25.9%.

The performance over the last year has continued the progress of the last five years. The Manager is incentivised to grow the value of the portfolio. The performance fee was originally set at 20% of the excess return over the hurdle rate of base rate plus 2% per annum. Due to the introduction of the Co-investment Scheme this rate will gradually reduce to 10% by 30 September 2009. During the financial year the hurdle rate has been exceeded and a performance fee of £446,000 is payable. Further information can be found in the Report of the Directors on page 19.

The first interim dividend for the year to 30 September 2008 of 4p per ordinary share was declared and subsequently paid on 19 October 2007.

Long Term Performance

The NAV total return of 128.0% represents an annual compound growth rate of 7.2% since inception in 1995, net of all running costs. These returns are stated before the inclusion of VCT tax reliefs, which were designed to redress both the VCT constraints as well as the higher risk that pertains to smaller unquoted and AiM-traded companies. If the original 20% subscription relief is taken into account the subsequent return is 185% and the annual compound growth rate increases to 9%.

Historically, total returns have been reported as growth in NAV Total Return, which has been the more appropriate measure for subscribers. However, there is the need to demonstrate to new purchasing shareholders in the secondary market what the total return has been in relation to the change in share price. The Share Price Total Return in the last five years has been 117.1% as the investment returns have improved since their low point in September 2002, as the graph on page 2 illustrates. The closing of the discount of share price to NAV since January 2007 has also contributed to this higher level of return for shareholders.

For the second consecutive year, Baronsmead VCT has been short listed for the Investment Week awards based on its recent total return performance. Its results compare favourably with other VCTs and in this short listing also are compared with Private Equity investment trusts. The latter are not restricted by VCT legislation in the way that limits the range of investments available to Baronsmead VCT. Standard comparisons of VCT performance have recently been facilitated by the Association of Investment Companies (AIC) who published monthly data on their website, www.theaic.co.uk.

By the year end dividends totalling 86.05p per share had been paid to founder shareholders (increased to 90.05p per share at 19 October 2007) with 59p coming from net realised profits on the sale of investments. The overall dividend currently averages 7.2p per share per annum and for the higher rate taxpayer, the gross equivalent pay out represents 10.7p. The dividend yield at this average level is over 8% tax-free for UK private investors while the share price is around 90p at the time of writing this report.

The Portfolio

The portfolio increased to 73 investments with 15 new investments made and 9 investments fully realised during the year. New investments totalled £7.6 million across 4 new unquoted and 11 AiM-traded investees. The split by value is 64:36 between unquoted and AiM investments and the largest investments in each category are 4.1% and 2.2% of NAV respectively.

Six VCT tests relating to the running of Baronsmead VCT have to be, and were, met for each day of the year to 30 September 2007. At the year end, approximately 73% of the capital raised (net of launch costs) prior to 30 September 2005 was invested in VCT qualifying investments.

The 'direction of travel' or relative health of portfolio companies is measured quarterly in terms of profitability as well as other non-financial benchmarks. At the year end 85% of the portfolio companies were reporting higher or steady profits. The top ten investments set out on pages 10 and 11 give more detail and four of these high-growth companies are summarised on pages 12 and 13 of this report to illustrate the nature of the companies and the role played by the Manager in their progress.

The Manager's report also comments specifically on the strong performance of the unquoted portfolio as well as the ups and downs from the AiM-traded investees. This latter portion of the portfolio was down some 1% over the year and in part reflects the lack of appetite for smaller AiM companies. The collapse of Inter Link Foods and the profit warnings by Debtmatters and eg Solutions accounted for a loss of £2 million in valuation.

The sale of investments totalled £7.6 million realising net profit of some £4.7 million and a multiple on cost of 2.7 times. Since the year end, Boldon James has been sold to a trade buyer at a 3.1 times the original cost of £687,000 and realising a profit of £1.1 million.

Ability to acquire further Shares in Baronsmead VCT

The track record of share price total returns and the availability of ISA style tax reliefs illustrate some of the merits for UK private investors of acquiring existing shares in Baronsmead VCT. The Manager sent a guide to all shareholders in September 2007 titled 'How to acquire additional shares in the generalist Baronsmead VCTs', which provides more information about either purchasing or subscribing for more shares and how the different VCT tax reliefs apply.

Following revisions to VCT legislation in the Finance Acts 2006 and 2007 the detailed way in which new share capital can be deployed has now become clearer. As a consequence the Board has decided to offer shareholders the ability to subscribe for new 'top up' shares through an offer for subscription up to €2.5 million (equivalent to £1.7 million at 30 September 2007). This is in accordance with the Prospectus Directive issued in July 2005. Any offer over €2.5 million requires the publication of a full prospectus, the cost of which makes top ups too costly. The offer document will be sent at the same time as the final and interim statutory reports are sent to all shareholders.

Shareholders are invited to subscribe for New Shares in the knowledge that the next time shareholders will be asked to confirm that the Company should continue as a Venture Capital Trust will be in 2012 (extended to 2013 subject to shareholder approval at the December 2007 AGM). Income tax relief of 30% can be claimed on the subscription cost and retained as long as shareholders hold these shares for five years or more. If more subscription monies are received than the upper limit of €2.5 million, subscription levels will be scaled back accordingly.

During the year, the share buy back facility has not been used. The supply of shares from sellers has been taken up by the new Dividend Reinvestment Plan (DRIP) totalling 698,705 shares as well as third party purchasers. Presently, the DRIP has been taken up by 11.5% of shareholders.

Investment policy

The revisions to the Listing Rules for fully listed investment companies were enacted earlier in 2007 and require that the investment policy makes a statement regarding asset mix, the spread of risk and maximum exposures for any statutory reports issued after 28 September 2007, this is detailed in the Business Review section of the Report of the Directors.

The Board has reviewed the investment policy that has been in place since 1995, primarily to ensure clarity for both existing and potential shareholders. The restated policy is intended to enable shareholders to understand the investment opportunity and in particular how risk is spread.

Annual General Meeting

I look forward to welcoming as many shareholders as possible to the AGM on 10 December 2007 at 11.30 a.m. at the London Stock Exchange, 10 Paternoster Square. There will be a number of presentations, including the story of Crew Clothing, a premium brand retailer. These will be followed by a light buffet lunch and shareholder workshop finishing by 3.00 p.m.

Outlook

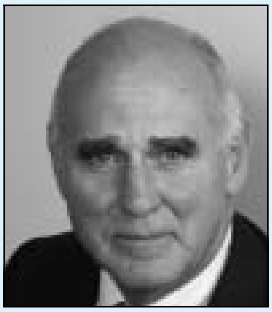
The UK economy is currently experiencing higher uncertainty prompted by the credit crunch on both sides of the Atlantic. To counter any potential fall off in the number of investment opportunities arising through the normal channels of intermediaries, the Manager has invested in direct origination to sustain the level of new investment. This may, as a result of the uncertainties in the market, be at better pricing than for some time. There is also a good spread of risk across the existing portfolio, which currently has strong momentum in the unquoted portion of the portfolio. This resilience is also evident in the trading of many of the AiM investees, but there is greater susceptibility to lower market pricing for smaller and more illiquid companies.

During the new financial year ending 30 September 2008, those C shareholders who subscribed for C shares in February to April 2005 will come to the end of their three year holding period after which their initial 40% income tax reclaim can be retained for good. We are aware from the 2006 shareholder survey that a small minority have indicated that they might sell their shares. However based on this survey and prior experience, we are optimistic that the existing policies regarding the DRIP, consistent tax-free dividend yields and the track record of Baronsmead VCT over 12 years, should result in a narrow, perhaps non existent, discount of the share price to NAV.

Gillian Nott
Chairman

9 November 2007

Manager's Review



David Thorp
Investment Manager

Andrew Garside
Investment Manager

Prem Mohan Raj
Chief Financial Officer Funds

Rhonda Nicoll
Company Secretary

New Investment

The total portfolio grew to 73 companies after fifteen new investments, net of nine realisations. The new investment set out below totalled £7.6 million including four sizeable unquoted investments and eleven smaller AiM subscriptions averaging £207,000.

Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments				
CableCom Networking	Somerset	IT	Provider of network solutions	1,381
Crew Clothing	London	Consumer	Active lifestyle retailer	933
Independent Living Services*	Alloa	Healthcare	Domiciliary care	176
Occam*	Bath	Business services	Integrated data services	34
Quantix	Nottingham	IT	Database services	1,194
Scriptswitch	Coventry	Healthcare	Prescription software	1,167
Xention Discovery*	Cambridge	Healthcare	Drug discovery	116
Total Unquoted Investments				**5,001**
AiM-traded investments				
Brainjuicer Group	London	Media	Marketing research	50
Brulines Holdings	Stockton-on-Tees	Business Services	Pub management services	290
Business Direct*	Rugby	Business Services	Secure remote lockers	122
Claimar Care Group*	Birmingham	Healthcare	Domiciliary care	219
Concateno	London	Healthcare	Drugs testing	325
Craneware	Livingston	IT	Software for US healthcare	179
EBTM	Nottingham	Consumer	Online fashion retailer	244
Essentially Group	Jersey	Media	Sports marketing	255
Ffastfill	London	IT	Trading platform software provider	130
INVU	Northampton	IT	Document management software	35
Kiotech International	Surrey	Healthcare	Animal feed additives	200
Mount Engineering	York	Business Services	Thread adaptors & valves	385
Tangent Communications	London	Business Services	Customised direct marketing	180
Tasty*	London	Consumer	Restaurant operator	26
Total AiM-traded Investments				**2,640**
Total Investments				**7,641**

*Further round of financing

There was strong value growth across the unquoted portfolio, which increased in value by 33% over the 12 month period. Organic growth was particularly evident in Crucible Group (credit management), kidsunlimited (children daycare centres) and Kafévend (hot drinks vending for small companies). ILS (domiciliary care) and SLR (UK and American environmental consultancy) achieved their growth with a combination of acquisitions and favourable existing trading. The recovery at Hawksmere (financial training) was maintained whilst new investments at Fisher (cycle accessories distribution) and EWT (deciduous fruit importers) continued on plan. There was a full provision at Country Artists (resin collectibles) and The Art Group (publisher of art content) was down valued as it failed to meet its business plan.

The main unquoted realisations were reported at the interim stage and demonstrate how private equity disciplines focus on growth and generating value.

Good diversity was achieved in the year under review for AiM investing and so far the eleven new investments have met expectations.

Realisations of £2.9 million representing 2.1 times the original cost from 5 AiM companies reflect the high level of bid activity in winter 2006/07 and the strategic value developed by three of them. The entire shareholding in Worthington Nicholls was sold through the market and this proved to be well timed.

Nevertheless, over the 12 month period, the performance of the AiM portfolio was disappointing in keeping with the AiM market as a whole which saw gains made in late 2006 and early 2007 reverse in recent months. Overall there was a 1% fall in value, primarily due to the collapse of Inter Link Foods and the profits warning by Debtmatters having major mark downs due to an adverse change in competitive conditions. In previous years, the cost of the original investments had been largely recovered by part sales through the market.

Investor Relations

The introduction of the DRIP was taken up by almost 1 in 8 shareholders with a higher percentage of C shareholders using this facility upon conversion in April 2007. There were fewer sellers of ordinary shares so that from January 2007 onwards, the discount closed from about 10% to almost zero and has remained at close to this level.

The Company Law Reform Bill became law in November 2006 and the Government's intention is to accelerate the use of electronic communication with shareholders who can elect to receive future statutory reports and other documentation by hard copy or email. A resolution is being put to shareholders at the forthcoming AGM to permit communicating electronically with our shareholders. If this resolution is passed, the Board will be in contact with shareholders at the beginning of 2008 to implement these revisions, working closely with the Company's registrars.

Outlook

In the event of less settled markets, the ability for investee companies to be disconnected from macro influences is important. We already have a number of examples where the level of under penetration in growth niche markets still enables plans to be delivered despite reduced consumer spending. Regulatory pressures and the need for major enterprises to outsource non-core activities are other drivers of growth in uncertain times.

Investment returns have shown consistency in recent years and so the challenge for ISIS is to sustain this whatever difficulties may be evident on the wider stage. The unquoted portfolio is showing good stability as too are most of the AiM stocks. The underlying operating performance of most of the AiM investee companies are stable and the fluctuation in share price may reflect the illiquid nature of these stocks. This can work both ways and we shall endeavour to exploit such pricing differentials over the next year.

The liquidity of the secondary market for shares in Baronsmead VCT has made progress in the last year. We will continue to communicate to the wider market the benefit of buying high yield VCT shares in the secondary market.

David Thorp

Investment Manager

ISIS EP LLP

9 November 2007

Realisations Year to 30 September 2007		First Investment Date	Cost £'000	Proceeds £'000	Multiple Return
Americana	Sale to financial buyer	August 2003	341	1,058	8.0*†
Domantis	Trade sale	April 2004	350	1,296	3.7
Martin Audio	Trade sale	August 2003	653	2,053	3.5*
Worthington Nicholls	Full sale	June 2006	525	1,456	2.8
Talarius	Trade sale	May 2005	250	700	2.8
IPT Holdings	Part sale	November 2004	100	198	2.0
Ovum	Trade sale	March 2006	250	395	1.6
Polaron	Trade sale	March 2004	222	141	0.6
Colliers CRE	Sale of rights	September 2001	–	66	–
Totals			**2,691**	**7,363**	

* Includes interest received

† Multiple return includes realisations made in December 2004 and November 2005 accounted for in prior periods.

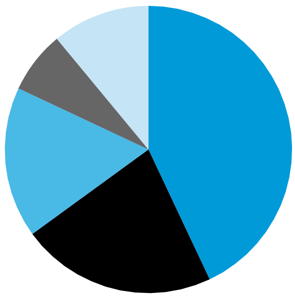
Note: Early loan redemption by SLR was £166,000. In addition, deferred proceeds of £26,000 were received on unquoted investments realised in prior periods.

The following investments were written off during the year: Country Artists £413,000, Inter Link Foods £336,000.

Investment Portfolio

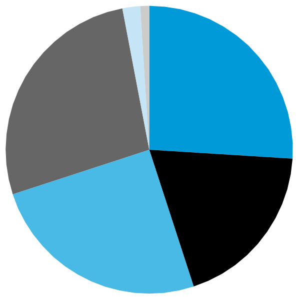
Investment Classification at 30 September 2007

By Sector



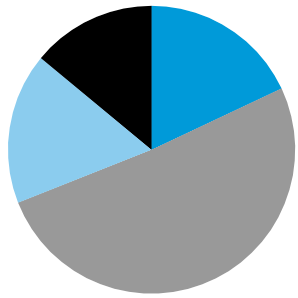
Business services	**43%**
Consumer markets	**22%**
IT support services	**17%**
Media	**7%**
Healthcare	**11%**

Total Assets



Unquoted – loan stock	**26%**
Unquoted – ordinary and preference shares	**19%**
AiM	**25%**
Fixed interest	**27%**
Net current assets	**2%**
Listed	**1%**

Time Investments Held



Less than 1 year	**18%**
Between 1 and 3 years	**51%**
Between 3 and 5 years	**17%**
Greater than 5 years	**14%**

Company	Nature of business	Book cost £'000	Valuation £'000	% of Total assets less current liabilities	% of Equity held by Baronsmead VCT plc	% of Equity held by other funds*
Unquoted						
Fisher Outdoor Leisure	Consumer markets	1,423	2,458	4.1	10.5	33.6
Independent Living Services	Healthcare	801	2,318	3.9	14.4	43.0
Kafévend	Consumer markets	1,247	2,179	3.6	15.4	49.6
Reed & Mackay	Business services	1,211	2,125	3.5	9.5	30.5
Empire World Trade	Consumer markets	1,297	2,118	3.5	7.1	22.9
Boldon James	IT support services	562	1,669	2.8	9.0	29.0
The Crucible Group	Business services	903	1,546	2.6	7.5	27.5
CableCom	IT support services	1,381	1,381	2.3	10.6	30.8
kidsunlimited	Business services	481	1,356	2.3	4.0	45.9
Crew Clothing	Consumer markets	933	1,281	2.1	5.9	19.1
SLR Holdings	Business services	236	1,221	2.0	2.1	23.6
Quantix Holdings	IT support services	1,194	1,194	2.0	11.4	36.6
Scriptswitch	IT support services	1,167	1,167	1.9	7.2	25.4
The Art Group	Media	985	1,034	1.7	5.4	19.6
Hawksmere	Business services	589	995	1.7	9.6	35.4
RLA Group	Media	441	817	1.4	5.7	43.3
MLS	IT support services	780	769	1.3	5.3	17.2
Green Issues	Media	496	685	1.1	9.5	30.5
Occam	Business services	375	527	0.9	4.8	53.0
Xention Discovery	Healthcare	213	213	0.3	1.0	3.9
Greatfleet (previously Longbridge International)	Business services	200	200	0.3	0.0	0.0
Total unquoted		**16,915**	**27,253**	**45.3**		
FTSE SmallCap						
Vectura Group	Healthcare	386	580	1.0	0.3	1.1
Total FTSE SmallCap		**386**	**580**	**1.0**		
PLUS Market						
Chemistry Communications	Business services	500	65	0.1	3.1	3.1
Total PLUS Market		**500**	**65**	**0.1**		

Company	Nature of business	Book cost £'000	Valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT plc	% of Equity held by other funds*
AiM						
Staffline Recruitment	Business services	249	1,323	2.2	4.5	4.5
Jelf Group	Business services	482	1,321	2.2	2.2	7.9
Begbies Traynor Group	Business services	248	973	1.6	0.8	2.7
Claimar Care Group	Healthcare	569	958	1.6	2.3	9.2
Fountains	Business services	650	690	1.1	4.0	–
Driver Group	Business services	438	600	1.0	2.4	8.7
InterQuest Group	Business services	310	591	1.0	1.9	5.6
Proactis Holdings	IT support services	400	530	0.9	3.1	12.3
Concateno	Healthcare	325	528	0.9	0.6	2.7
Colliers CRE	Business services	470	503	0.9	0.9	1.8
Adventis Group	Media	228	452	0.9	1.9	6.6
Computerland UK	Business services	240	447	0.7	2.1	–
Mount Engineering	Business services	385	363	0.6	2.3	10.6
Sanderson Group	IT Support services	339	332	0.5	1.6	5.5
Top Ten	Consumer markets	759	327	0.5	2.0	2.0
Brulines Holdings	Business services	290	314	0.5	1.0	4.1
Autoclenz Holdings	Consumer markets	400	310	0.5	3.1	9.2
Interactive Prospect Targeting	Media	121	298	0.5	0.4	1.7
Prologic	IT support services	272	290	0.5	3.6	11.4
Quadnetics Group	Business services	222	289	0.5	0.5	1.8
Vero Software (formerly VI Group)	IT support services	550	256	0.4	4.3	9.9
Essentially Group	Media	255	247	0.4	1.5	8.9
EBTM	Consumer markets	244	232	0.4	2.1	9.8
Appian Technology	IT support services	250	226	0.4	2.7	8.0
WIN	IT support services	230	220	0.4	1.1	3.8
Kiotech International	Healthcare	200	217	0.4	2.7	10.6
Conder Enviromental	Business services	607	212	0.4	7.4	7.4
Craneware	IT support services	179	212	0.3	0.6	2.6
ATA Group	Business services	374	195	0.3	4.7	4.6
Tangent Communications	Business services	180	177	0.3	0.9	4.0
Debtmatters Group	Consumer markets	158	158	0.3	0.9	2.8
eg Solutions	IT support services	375	154	0.3	3.1	11.1
Ffastfill	IT support services	130	144	0.2	0.5	2.4
The Real Good Food Company	Consumer markets	500	133	0.2	0.6	1.7
Business Direct Group	Business services	388	126	0.2	2.2	8.6
Cardpoint	Business services	68	123	0.2	0.1	0.4
Brainjuicer Group	Media	50	82	0.1	0.4	1.5
Tasty	Consumer markets	65	72	0.1	0.2	1.1
AorTech	Healthcare	224	55	0.1	0.3	0.3
MKM Group	Consumer markets	231	52	0.1	0.7	2.5
Universe Group	IT support services	122	36	0.1	0.4	1.7
Charterhouse Communications	Media	475	35	0.1	0.7	0.5
Landround	Business services	196	35	0.1	1.7	1.7
INVU	IT support services	35	32	0.1	0.1	1.7
Cantono (formerly Hamsard Group)	IT support services	375	31	0.1	0.1	0.4
Highams Systems Services	IT support services	306	30	–	1.4	0.7
Fishworks	Business services	128	29	–	0.5	1.6
Zoo Digital Group	IT support services	350	12	–	0.5	1.6
Capcon Holdings	Business services	137	10	–	1.7	3.4
Micap	Healthcare	250	6	–	0.3	0.9
Total AiM		**15,029**	**14,988**	**24.9**		
Interest bearing securities						
UK Treasury 5.0% 07/03/08		8,598	8,608	14.3		
Money Market OEIC		7,604	7,604	12.7		
Total interest bearing securities		**16,202**	**16,212**	**27.0**		
Total investments		**49,032**	**59,098**	**98.3**		
Net current assets			**992**	**1.7**		
Total assets less current liabilities			**60,090**	**100.0**		

A provision of £11,000 has been made against unquoted investments as at 30 September 2007 (30 September 2006 – £843,000).
*Other Funds managed by the same Investment Manager, ISIS EP LLP.

Ten Largest Investments

The top ten investments by current value at 30 September 2007 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information, which has been audited by the auditors of the investee companies.

FISHER OUTDOOR HOLDINGS LIMITED St. Albans

Supplying the biking industry

First Investment: June 2006
Cost: £1,423,387
Valuation: £2,458,018
Valuation Basis: Discounted price earnings
Percentage of equity held: 10.5%

Fisher Outdoor Holdings Limited has grown to be the strongest name in the supply of cycle accessories and components to the UK cycle trade. £5.6 million was invested to fund the Management buyout in June 2006. Fisher employs 80 staff distributing key branded and own label products.

Year ended 31 January	2007	2006
	£ million	£ million
Sales	18.1	15.4
Profit before tax	2.5	2.0
Retained profit	2.1	1.4
Net assets	7.7	5.3

www.fisheroutdoor.co.uk

INDEPENDENT LIVING SERVICES LIMITED Alloa

Flexible, responsive and accountable domiciliary care

First Investment: September 2005
Cost: £800,539
Valuation: £2,317,517
Valuation Basis: Discounted price earnings
Percentage of equity held: 14.4%

Independent Living Services Limited (ILS) is one of the leading providers of acute domiciliary care to its local authority customers, mainly based in east Scotland.

ISIS first invested in ILS in September 2005 and, in November 2006, supported its first acquisition, giving the enlarged group a strong presence in the west of Scotland.

Year ended 30 September	2006	2005
	£ million	£ million
Sales	6.8	6.3
Profit before tax	0.9	0.7
Retained profit	0.7	0.4
Net assets	2.0	1.2

www.ilsscotland.com

KAFÉVEND GROUP LIMITED Crawley

Into SME hot drinks vending

First Investment: October 2005
Cost: £1,246,565
Valuation: £2,179,340
Valuation Basis: Discounted price earnings
Percentage of equity held: 15.4%

Kafévend Group Limited is a leading drinks vending machine service provider to the SME market. £5 million was invested in October 2005 to fund a management buyout.

Kafévend employs over 70 people and operates from five sites across the UK.

Year ended 30 September	2006	2005
	£ million	£ million
Sales	12.1	10.8
Profit before tax	0.3	1.7
Retained profit/(loss)	0.2	(9.9)
Net assets	1.5	1.3

www.kafevend.co.uk

REED & MACKAY LIMITED London

Taking customers around the world

First Investment: November 2005
Cost: £1,211,412
Valuation: £2,124,754
Valuation Basis: Discounted price earnings
Percentage of equity held: 9.5%

Reed & Mackay Limited is a provider of business travel management services to professional services firms and corporates. £5.0 million was raised in November 2005 to fund a replacement capital deal.

Year ended 31 March	2006	2005
	£ million	£ million
Sales	9.4	8.9
Profit before tax	2.6	2.6
Retained profit	2.0	1.6
Net assets	8.2	6.4

www.reedmac.com

EMPIRE WORLD TRADE LIMITED Spalding

Keeping the UK eating an apple a day

First Investment: August 2006
Cost: £1,296,668
Valuation: £2,118,378
Valuation Basis: Discounted price earnings
Percentage of equity held: 7.1%

Empire World Trade Limited imports top-quality deciduous fruit, primarily apples and pears, and has achieved leadership in terms of quality and service. In August 2006, £5.2 million was invested to effect a management buyout. Empire sources and supplies fresh produce to major supermarkets like Tesco and Marks & Spencer.

Year ended 30 April	2006	2005
	£ million	£ million
Sales	83.7	76.2
Profit before tax	2.8	1.8
Retained (loss)/profit	1.9	1.2
Net assets	2.9	3.3

www.empireworldtrade.com

BOLDON JAMES LIMITED Crewe

Spreading into commercial applications

First Investment: June 2005
Cost: £561,906
Valuation: £1,668,534
Valuation Basis: Sale value
Percentage of equity held: 9.0% (sold after year end)

Boldon James Limited is a provider of secure messaging and connectivity software solutions. Boldon James' products are primarily supplied into the defence and intelligence sectors via global system integrators such as EDS and Fujitsu.

Year ended 31 December	2006 £ million	2005 £ million
Sales	6.6	5.8
Profit before tax	1.4	1.3
Retained profit	1.4	1.3
Net assets	2.2	0.8

boldonjames

www.boldonjames.com

THE CRUCIBLE GROUP LIMITED Carshalton

Integration of the group activities

First Investment: May 2005
Cost: £902,616
Valuation: £1,545,870
Valuation Basis: Discounted price earnings
Percentage of equity held: 7.5%

The Crucible Group Limited is a credit management and debt collection business working on behalf of financial services and other commercial customers. In May 2005 £4 million was raised for a management buy-out.

The Crucible Group collects debts for credit card companies like Barclays, MBNA and Egg as well as utility companies such as Vodafone, Tiscali and NTL.

Year ended 30 September	2006 £ million	2005 £ million
Sales	8.0	7.3
Profit before tax	0.8	0.8
Retained profit	0.7	0.7
Net assets	2.8	2.1

CREDIT SOLUTIONS

www.cruciblesolutions.co.uk

CABLECOM NETWORKING HOLDINGS LIMITED Clevedon

Internet access solutions

First Investment: May 2007
Cost: £1,381,166
Valuation: £1,381,166
Valuation Basis: Cost
Percentage of equity held: 10.6%

Cablecom Network Holdings Limited is a provider of networking solutions to corporate clients and since 2003 has evolved into providing IT and communication managed services to high density multi-tenanted accommodation in the student and key worker sectors. In May 2007, £11.5 million was raised for a management buy-out.

Year ended 30 September	2006 £ million	2005 £ million
Sales	4.3	3.1
Profit before tax	1.0	0.6
Retained profit	0.5	0.5
Net assets	1.2	0.6

CableCom Access Technologies

www.cablecomnetworking.co.uk

kidsunlimited Wilmslow

Sales and profits growth

First Investment: June 2001
Cost: £480,808
Valuation: £1,356,280
Valuation Basis: Discounted price earnings
Percentage of equity held: 4.0%

kidsunlimited is a major UK provider of day care facilities for children under five years old. The company operates a combination of owned nurseries and those located within the workplace. It raised £4.95 million to fund expansion and a share reorganisation.

Since investment in 2001, the number of places for children has grown from 2,077 to 4,692 across 50 sites.

Year ended 30 April	2006 £ million	2005 £ million
Sales	23.6	20.8
Loss before tax	(2.0)	(2.0)
Retained loss	(2.0)	(2.0)
Net liabilities	(7.5)	(5.6)

kidsunlimited®

www.kidsunlimited.co.uk

STAFFLINE RECRUITMENT GROUP PLC Nottingham

AiM flotation and beyond

First investment: July 2000
Cost: £248,691
Valuation: £1,323,133
Valuation Basis: Bid price
Percentage of equity held: 4.5%

Staffline Recruitment Group Plc is a leading provider of recruitment and outsourced human resources services to industry from 16 branches and 63 'onsite' locations. £5.8 million was raised to fund a management buy in 2000 and floated on AiM in 2004.

Year ended 31 December	2006 £ million	2005 £ million
Sales	84.1	61.5
Profit before tax	3.4	2.5
Retained profit	1.9	1.5
Net assets	20.0	18.0

staffline recruitment

www.staffline.co.uk

Creating Shareholder Value

HOW ISIS REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT PLC

Baronsmead VCT plc invests primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM, run by entrepreneurial managers. It is the growth aspirations of these companies and their track record that make them above average and out of the ordinary.

The following four examples show how this approach has led to an increase in the investment value. The ISIS selection criteria include:

- Ability to become a market leader in their chosen niche
- Management teams who can deliver profitable and sustained growth
- Company can become a premium asset attractive to multiple bidders on exit

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

For the unquoted investments the ISIS team participates actively at Board level in the major decisions setting the business plan and development of the management team. 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.

kidsunlimited, Wilmslow

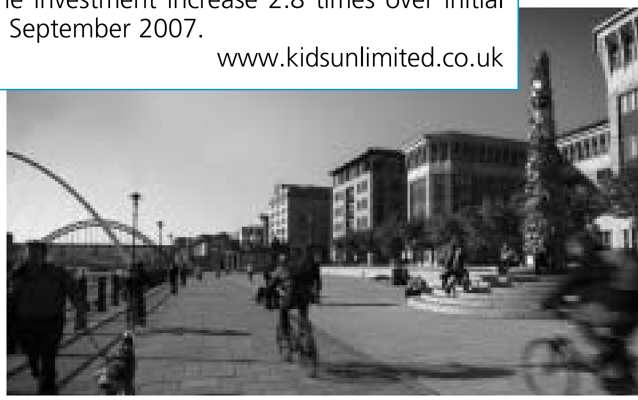
kidsunlimited has earned a reputation as leaders in top quality, progressive childcare. For over twenty years now ''we've been giving young children boundless opportunities to learn through imagination, creativity and play, while offering parents peace of mind that comes from knowing their children couldn't be better cared for.''

kidsunlimited is a provider of day care facilities to children up to the age of five years old operating more than 50 sites through a combination of owned nurseries and those located within the workplace.

Since first investment in June 2001, the UK market for daycare has changed markedly following rapid capacity growth, heightened regulation and government supply and demand initiatives, including the introduction of childcare vouchers. This has required the management team working in conjunction with ISIS to continually adapt the strategy of the business. Unbowed by such influences, turnover has grown almost three fold in the six years to 30 April 2007. The growth has seen the value of the investment increase 2.8 times over initial cost by 30 September 2007.

www.kidsunlimited.co.uk

Development of the management team



Building the right strategy

JELF GROUP PLC, Yate

www.jelfgroup.co.uk

The Jelf Group is one of the leading corporate consultancies in the South of England and Wales with offices across those regions. As a full service consultancy, businesses are advised across a range of services including insurance, healthcare, employee benefits, commercial finance and wealth management.

The Group has undertaken a series of acquisitions and embraced a new regulatory environment in which the FSA oversees the general insurance, healthcare and mortgage markets. In the three years to 30 September 2006, annual turnover has grown from £8.5 million to £25.1 million.

Since first investment by ISIS in October 2004 on the AiM flotation and subsequently again in February 2006, the combination of organic and acquisition growth has increased the share price of the investment to 2.7 times the combined cost. On float, ISIS held the largest institutional shareholding of 13.8%.

Jelf Group plc

FISHER OUTDOOR LEISURE, St. Albans

With origins dating back to 1934, Fisher Outdoor Leisure has grown with 3 generations of the Fisher family to become one of the leading distributors of bicycle parts and accessories to the UK's independent bike dealers, retail chains and on-line retailers.

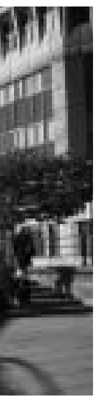
Fisher's product range consists mainly of branded products, covering most categories of the cycle parts and accessories market. Products are sourced from suppliers all over the world and over 30 brands are distributed by Fisher under exclusive distribution contracts.

In 2006 ISIS backed the former Commercial Director, Richard Allmark in a management buy out. ISIS introduced an experienced chairman to the business with highly relevant commercial experience and assisted Richard with recruitment of a Finance Director and Sales Director. With these new skills and experience the business is well placed to capitalise upon the growing level of consumer interest and government support for cycling as a healthy and 'green' mode of transport.

Based on the level of current profitable trading, the investment has been revalued to 1.7 times cost.

www.fisheroutdoor.co.uk

Exploiting the market opportunity



SLR HOLDINGS, Aylesbury

SLR Holdings Limited is a multi-disciplinary environmental consultancy which has achieved rapid growth over the last 12 years including organic growth of over 20% per annum in the five years to the end of 2006.

The company provides high quality environmental services to private and public sector clients throughout the UK and overseas. The company continues to expand and, following the acquisition of SEACOR in Canada in September 2007, now employs 600 staff based in 15 offices in the UK and 24 in North America.

Since the investment by ISIS in September 2004, the business has scaled considerably and at 30 September 2007, the value of the initial investment is 3.9 times the cost. This computation includes the 90% redemption of the investment cost in September 2006 comprising the ISIS loan stock and interest and a sizeable unscheduled dividend.

ISIS was attracted to the business by the strong management team, the broad range of technical skills and the growing levels of demand for technical assistance in sectors that were increasingly in the public eye, and facing high levels of scrutiny from government and regulators.

www.slrconsulting.co.uk

Board of Directors

as at 30 September 2007

Gillian Nott (Chairman)

(Date of Appointment 27 July 1995)
(age 62) has led the Board and helped pioneer the investor relations activities with the shareholders of Baronsmead VCT. Gill has in-depth experience of private investors as chief executive of ProShare (1994-99). Previously she was responsible for the private equity portfolio at BP and is a non-executive director of investment trusts at Merrill Lynch and Martin Currie and is chairman of Witan Pacific Investment Trust plc. Gill is a non executive Director of Baronsmead VCT 2 plc and Baronsmead VCT 3 plc and is deputy chairman to the AIC. She was previously a board member of the FSA.

Andrew Crossley
(Date of Appointment 19 March 1999)
(age 44) has extensive experience of portfolio management and the valuation of smaller quoted companies, which is particularly relevant for the valuation of unquoted and AiM investees within Baronsmead VCT. Andy has managed the smaller company investment trust, INVESCO English and International Investment Trust plc at INVESCO Perpetual since 1991 and more recently manages INVESCO Perpetual AiM VCT plc and he also sits on the AiM Advisory Committee.

Godfrey Jillings
(Date of Appointment 27 July 1995)
(age 67) is a non-executive director/chairman of several fast growth unquoted companies, including Gladedale Holdings (deputy chairman). Gladedale Holdings is in the top 10 national housebuilding groups and one of Britain's most profitable private companies. He held a range of senior executive appointments at Natwest including responsibility for their retail stockbroking, unit trust and PEP operations. He was CEO of FIMBRA, the regulatory body for IFAs and a Deputy CEO of its successor PIA (1990-1994). He was deputy chairman of DBS plc (1996-2002), the leading IFA network prior to its take-over and is also a director of Baronsmead VCT 2 plc.

Peter Lawrence
(Date of Appointment 30 November 1999)
(age 59) is chairman of ECO Animal Health Group plc, which is traded on AiM. Peter set up this company in 1972, which has experienced considerable growth and made several acquisitions and disposals since then. As a director of Higher Nature and Kiotech International, both VCT backed companies, he has an in-depth understanding of the typical operational and strategic issues facing the type of investees within the portfolio of Baronsmead VCT. In 2003 he became 'entrepreneur of the year' selected from over 700 AiM companies. He is also chairman of Baronsmead AIM VCT plc and a director of Noble AIM VCT plc.

As a fully listed Company, Baronsmead VCT is required to comply with the Combined Code relating to its 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 and continuing obligations of the London Stock Exchange 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 submit the Twelfth Report and Accounts of the Company for the year ended 30 September 2007.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	6,087
Interim capital dividend of 7.50p per ordinary share paid on 30 March 2007	(2,902)
Interim capital dividend of 2.50p per C share paid on 30 March 2007	(554)
Second interim capital dividend of 3.40p per ordinary share paid on 28 September 2007	(2,165)
Second interim revenue dividend of 1.60p per ordinary share paid on 28 September 2007	(1,019)
	(553)

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. 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 and it has received full approval as a Venture Capital Trust from the Inland Revenue for the year to 30 September 2006. A review of the Company's business during the period is contained in the Chairman's Statement and Manager's Review.

Business Review

The purpose of this review is to provide shareholders with a snapshot 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 plc is a tax efficient company listed on The London Stock Exchange.

Investment Objective

The investment objective of the Company is to achieve long-term capital growth and generate tax-free dividends and capital distributions for private investors.

Investment Policy

The Company's 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) and UK gilts.

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 HMRC. Amongst other conditions, the Company may not invest more than 15% of its investments in a single company and must have at least 70% by value of its investments throughout the period in shares or securities comprised in Qualifying Holdings, of which 30% by value must be ordinary shares which carry no preferential rights. In addition, it must have at least 10% 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% 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% 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 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.

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. As such, at the time of initial investment, the combined investment can currently total up to a maximum of £6.5 million for unquoted and £4.4 million for AiM investees. Currently 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.

Report of the Directors

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.

Management

The Board has delegated the management of the investment portfolio to ISIS EP LLP ('the Manager'). The Manager also provides or procures the provision of company secretarial, administrative and custodian services to the Company.

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

The Manager's Review on pages 6 and 7 provides a review of the investment portfolio and of market conditions during the year.

Principal risks, risk management and regulatory environment

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

- Economic risk – events such as an economic recession and movement in interest rates could affect smaller companies valuations.
- Loss of approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.
- Investment and strategic – inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders.
- Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.
- Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.
- Operational – failure of the Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.
- Market Risk – Investment in AiM-traded, PLUS-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.
- Liquidity Risk – The Company's investments may be difficult to realise. That 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.

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 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 17 to 19.

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the twin objectives of achieving long term capital growth and generating tax-free dividends.

Performance, measured by dividends paid to shareholders and the change in NAV per share, is also measured against the FTSE All-Share Total Return Index. This index, as the widest measure of UK quoted equities, has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of seven other generalist venture capital trusts. A review of the Company's performance during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's statement on pages 4 and 5.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted in pages 1 to 3 of the report.

Issue and Buy-Back of Shares

In accordance with the terms set out in the C share prospectus dated 4 February 2005 and the Company's Articles of Association, the conversion ratio of C shares into ordinary shares was 1.1286715 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 March 2007 (108.78 pence per share) and dividing it by the net asset value of the assets of the existing ordinary shareholders at 31 March 2007 (96.38 pence per share).

On 23 April 2007, the conversion of the C shares into ordinary shares resulted in 24,996,600 ordinary shares being issued.

Report of the Directors

During the year no ordinary shares were bought back by the Company. The Company currently holds 1,930,000 ordinary shares in Treasury representing 3.0% of the issued share capital at 9 November 2007. 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.

Directors

Biographies of the Directors are shown on page 14.

As explained in more detail under Corporate Governance, the Board has agreed that Directors who have served on the Board for more than nine years will retire annually. Accordingly, Mrs G Nott and Mr G Jillings, who have held office for a period of more than nine years will retire by rotation at the Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with Listing Rule (LR) 15.2.13, the Company should have no more than one Director who is also a Director of another company managed by ISIS EP LLP. Transitional provisions are in place for Venture Capital Trusts and the Company must comply with LR 15.2.13 by 28 September 2010. Notwithstanding this, the Board has decided that Mrs G Nott who is a director of Baronsmead VCT 2 plc and Baronsmead VCT 3 plc, Mr G Jillings who is a director of Baronsmead VCT 2 plc and Mr Peter Lawrence who is Chairman of Baronsmead AIM VCT plc will seek annual re-election. As explained above, both Mrs G Nott and Mr G Jillings already seek annual re-election under the Combined Code and accordingly Mr P Lawrence will retire by rotation at the Annual General Meeting of the Company and, being eligible, will offer himself for re-election.

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

The Directors who held office during the year, and their beneficial interests in the ordinary shares of the Company, were:

	30 September 2007	30 September 2006	
	Ordinary 10p shares	Ordinary 10p shares	C 50p shares
Gillian Nott	**75,903**	73,903	–
Andrew Crossley[1]	**24,011**	10,846	10,595
Godfrey Jillings[2]	**80,679**	80,679	–
Peter Lawrence	**236,214**	256,114	–
Total shares held	**416,807**	421,542	10,595

[1]Chairman of the Audit Committee
[2]Senior Independent Director

There have been no changes in the holdings of the Directors between 30 September 2007 and 9 November 2007.

No Director has a service contract with the Company.

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.

Corporate Governance

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 May 2007 **('AIC Code')** by reference to the AIC Corporate Governance Guide for Investment Companies **('AIC Guide')**. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 **('the Combined Code')**, as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

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

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

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

The Board consists solely of non-executive Directors of which Mrs G Nott is Chairman and Mr G Jillings is the Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager. New Directors receive an induction from the Manager on joining the Board, and all Directors receive other relevant training as necessary.

As explained earlier, Mrs G Nott is a Director of Baronsmead VCT 2 plc and Baronsmead VCT 3 plc. Mr G Jillings is also a Director of Baronsmead VCT 2 plc and Mr P Lawrence is

Report of the Directors

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

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

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

The Audit Committee, chaired by Mr A Crossley, operates within clearly defined terms of reference and comprises the full Board. The duties of the Audit Committee include reviewing the Annual and Interim Accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non-audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly.

The Management Engagement and Remuneration Committee comprises the full Board and reviews the appropriateness of the Manager's appointment (including key executives thereof) together with the terms and conditions thereof on a regular basis.

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

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

The following table sets out the number of Board and Committee meetings held for the period to 9 November 2007 and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement and Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gillian Nott (Chairman)	6	6	2	2	1	1	1	1
Andrew Crossley*	6	6	2	2	1	1	1	1
Godfrey Jillings**	6	6	2	2	1	1	1	1
Peter Lawrence	6	6	2	2	1	1	1	1

*Chairman of the Audit Committee
**Senior Independent Director

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

After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Whistleblowing

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

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 10 December 2007 can be found in the Notice of Meeting on pages 38 and 39.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued

Report of the Directors

by the Financial Reporting Council in October 2005. The process is based principally on the Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of internal control reports issued by the Manager and other service providers.

Such review procedures have been in place throughout the financial year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate the risk of failure to meet business objectives and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to the benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Manager adheres to the 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. The Board has decided that the systems and procedures employed by the Manager, including the internal audit function within F&C Asset Management plc and the review of its AAF 01/06 Report by a firm of external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Management

ISIS EP LLP ('the Manager') manages the investments for the Company. From 1 January 2007, the liquid assets within the portfolio (being cash, 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 was a new limited 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 personnel involved in providing management and investment management services to the Company has not changed as a result of the implementation of these arrangements.

The Manager will also provide or procure the provision of 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% per annum of the net assets of the Company. In addition, the Manager receives an annual secretarial fee of £80,000 (linked to the movement in RPI), subject to annual review. Annual running costs are capped at 3.5% of the average net assets of the Company during the period (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

It is the Board's opinion that the continuing appointment of ISIS EP LLP on the terms agreed is in the best interests of shareholders as a whole.

Co-investment Scheme

The Co-investment Scheme requires that executive members of the Manager invest their own personal capital into 5% of the ordinary shares of each and every unquoted investment except those life science transactions where ISIS EP LLP is not the lead investor. From 1 April 2007, the rate increased to 12%. By 30 September 2007, a total of £251,740 had been invested in ordinary shares of 13 unquoted investments by 31 executives.

Shares held under the Scheme cannot be sold unless and until each investment held by the four Baronsmead VCTs is sold contemporaneously. Gains for the executives will only be achieved if the Baronsmead VCTs make gains from the underlying investment. If the executive leaves before the sale of the investment, they may miss out on much of the potential value inherent in their Co-investment shares. The Scheme is intended to help attract, recruit, retain and incentivise executive members of the Manager.

Procedures are in place whereby the Board receives regular updates from the Manager regarding participants in the Co-investment Scheme and the amounts committed by ISIS EP LLP to each new unquoted investment. The Board also reviews the Co-investment Scheme arrangements at each quarterly valuation meeting. An open dialogue is maintained between the Board and the Manager regarding the operation of the Scheme.

Performance Incentive

A performance fee will not be payable to the Manager until the total return on shareholders' funds exceeds an annual threshold of base rate plus 2% calculated on a compound basis. To the extent that the total return exceeds the threshold of base rate plus 2% on shareholders' funds compounded over the relevant period then a performance fee (plus VAT) will be paid to the Manager of 20% of such excess to 31 March 2007, 16.66% to 31 March 2008, 13.33% to 31 March 2009 and 10% thereafter. The amount of any performance fee which is paid in an accounting period shall be capped at 5% of shareholders' funds for that period.

A performance fee was paid for the twelve months to 30 September 2007 and is detailed in note 3 of the accounts.

Report of the Directors

ISIS Equity Partners – Arrangement Fees

During the year to 30 September 2007, ISIS EP LLP received net income of £72,340 (2006: £166,836) in connection with arrangement fees (net of abort costs) in investee companies.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP ('PwC') 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.

The Company did not have any trade creditors at the year end.

Environment

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

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 Annual General Meeting.

Substantial Interests

At 9 November 2007 the Company was not aware of any beneficial interest exceeding 3% of the issued ordinary share capital.

Redesignation of unissued C shares

Resolution 7 sub-divides and redesignates all the C shares of 50p each in the authorised but unissued share capital of the Company as ordinary shares of 10p. Upon the passing of this resolution the Company's authorised issued and unissued share capital will only comprise ordinary shares of 10p each.

Directors' Authority to Allot Shares, to Disapply Pre-emption Rights and to re-issue Treasury Shares

The authority proposed under Resolution 8 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the best interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in part, to purchase ordinary shares in the market. Resolution 8 renews the Directors' authority to allot ordinary shares. This would enable the Directors, until 9 December 2012, to allot up to 6,368,700 ordinary shares (representing approximately 10% of the Company's share capital as at 9 November 2007).

Resolution 9 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution, or if earlier, the conclusion of the next Annual General Meeting of the Company, to issue new ordinary shares and/or re-issue shares out of Treasury for cash without pre-emption rights applying by way of an offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 6,368,700 ordinary shares (representing approximately 10% of the Company's issued share capital as at 9 November 2007). This power will be exercised only if, in the opinion of Directors, it would be in the best interests of shareholders, as a whole.

Treasury Shares

The Company currently holds 1,930,000 ordinary shares in Treasury. If Resolution 9 is passed, the Board will consider itself permitted by shareholders to re-issue ordinary shares out of Treasury at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interests of the Company to do so. However, ordinary shares will 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.

Landsbanki Securities Limited (formerly Teather & Greenwood), the Company's brokers, currently provide a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing Treasury shares when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from Treasury will not attract the 30% initial income tax relief, all further dividends will be tax-free and if these shares are subsequently sold no capital gains tax will be payable by qualifying shareholders.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99% 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, 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 rule of the UK Listing Authority in force as at the date of purchase. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Report of the Directors

New Articles of Association

Electronic communications with Shareholders

The authority proposed under Resolution 11 relates to the approval of a general power to allow the Company to provide shareholders with notices, documents and information in electronic form (such as by email or fax) and by means of publication on a website in accordance with the Companies Act 2006 (the '2006 Act'). This resolution also seeks approval for the existing Articles of Association of the Company to be updated with corresponding electronic communication provisions and certain other amendments reflecting the provisions of the 2006 Act which have now come into force. The proposed amendments to the Articles of Association principally update the definitions used in the Articles to reflect the definitions used in the 2006 Act and also amend the provisions relating to the use and delivery of forms of proxy, the publication of the Company's financial information and the despatch of notices to shareholders, in each case to reflect the provisions concerning electronic communications contained in the 2006 Act.

As well as the amendments relating to the use of electronic communications, the new Articles of Association include provisions which reflect the requirements of the 2006 Act principally relating to: the shortening of notice periods for extraordinary general meetings at which it is proposed to pass a special resolution from 21 clear days to 14 clear days; the removal of the provisions which permit shareholders to pass resolutions in writing; the inclusion of a new right to appoint multiple proxies and for proxies to have the right to speak at general meetings and vote on a show of hands as well as on a poll; and the ability of the Company to ignore week-ends and bank holidays when calculating the 48 hour deadline before a general meeting by which proxies must be received.

In addition, the proposed new Articles of Association include provisions relating to the indemnification of directors which take advantage of developments in company law. These proposed amendments would, subject to the 2006 Act, entitle the Directors to be indemnified for the costs and losses incurred by them in defending and facing liability in civil, criminal and regulatory proceedings and would also permit the Company to provide funding to a Director to enable him to meet any expenditure incurred or to be incurred by him in defending any criminal or civil proceedings.

The Articles of Association are also being updated to remove the provisions relating to the C shares which converted into ordinary shares on 23 April 2007.

Shareholders should note that the terms of the new Articles of Association with all the proposed changes highlighted are available for inspection at the offices of ISIS EP LLP, 100 Wood Street, London until the close of the Annual General Meeting on 10 December 2007.

The Company will write to shareholders in due course to request individual consent to receive communications in electronic form or by means of publication on a website. Those shareholders that either expressly agree to such form of communication or fail to respond within a specified period (in which case they will be deemed to have given their consent) may be supplied notice, documents and other information (such as annual reports) by the Company electronically, including by means of publication on a website. Any shareholder that expressly disagrees to receiving communications electronically will continue to receive communications from the Company in hard copy form. In any event, even if a shareholder consents (or is deemed to have consented) to receive electronic communications that shareholder will remain entitled, at any time, to request hard copy of any publication that the Company has provided by email or by publication on a website.

Extension to the life of the Company

One of the main changes brought about by the Finance Act 2006 is that the holding period for investments moves from 3 years to 5 years from 6 April 2006. This means that in order for initial income tax relief not to be withdrawn, shareholders must hold their shares for 5 years from the date of investment. Resolution 12, which would extend the life of the Company to beyond the AGM in 2013, will permit new shares to be issued in the next financial year.

By Order of the Board,

Rhonda Nicoll

for F&C Asset Management plc
Secretary

80 George Street
Edinburgh EH2 3BU

9 November 2007

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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 to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' Report'.

Directors' Fees

The Board 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 revised Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

The Board concluded following the review of the level of Directors' fees for the forthcoming year that the Chairman's and Directors' fees should remain the same.

The Remuneration Committee is Gillian Nott (Chairman), Andrew Crossley, Godfrey Jillings and Peter Lawrence. As the Company has no executive Directors, the Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Investment 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 ended 30 September 2008 and subsequent years.

The fees for the Non-Executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £75,000 per annum. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

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

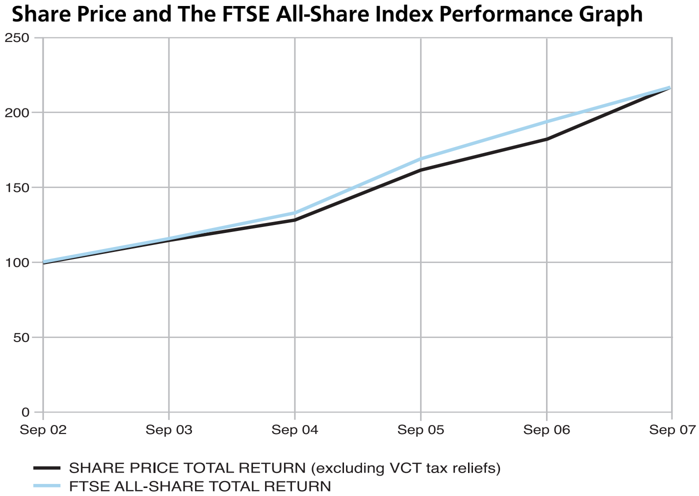
Director	Date of Original appointment	Due date for Re-election
Gillian Nott	27/07/1995	AGM 2007
Andrew Crossley	19/03/1999	AGM 2008
Godfrey Jillings	27/07/1995	AGM 2007
Peter Lawrence	30/11/1999	AGM 2007

The terms of Directors' appointments now 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 Investment Manager through the investment management agreement, as referred to in the 'Report of the Directors'. The graph below compares for the five financial years ending 30 September 2007, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a widely understood broad equity market index against which investors can measure the relative performance of the fund. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price and The FTSE All-Share 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 2007 £	Fees 2006 £
Gillian Nott	**21,000**	21,000
Andrew Crossley†	**14,000**	14,000
Godfrey Jillings	**14,000**	14,000
Peter Lawrence‡	**14,000**	14,000
Total	**63,000**	63,000

† Fees paid to INVESCO Asset Management Ltd
‡ Fees paid to ECO Animal Health Group plc

On behalf of the Board,

Gillian Nott
Chairman
9 November 2007

Statement of Directors' Responsibilities

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

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

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

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

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

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

Independent Auditors' report to the members of Baronsmead VCT plc

We have audited the financial statements of Baronsmead VCT plc for the year ended 30 September 2007 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' Report (including the Business Review) is consistent with the financial statements. The information given in the Directors' Report (including the Business Review) includes that specific information presented in the Manager's Review, Chairman's Statement, Financial Highlights and Summary Since Launch that is cross referenced from the Business Review. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
9 November 2007

Income Statement

For the Year ended 30 September 2007

	Notes	Ordinary shares Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	8	–	5,036	5,036
Realised gains on investments	8	–	1,250	1,250
Income	2	2,204	–	2,204
Investment management fee	3	(369)	(1,551)	(1,920)
Other expenses	4	(483)	–	(483)
Profit on ordinary activities before taxation		1,352	4,735	6,087
Taxation on ordinary activities	5	(293)	293	–
Profit on ordinary activities after taxation		1,059	5,028	6,087
Return per ordinary share				
Basic	7	2.07p	9.81p	11.88p

The 'Total' column of this statement is the profit and loss account of the Company.
All revenue and capital items in this statement derive from continuing operations.
No operations were acquired or discontinued in the year.

Reconciliation of Movements in Shareholders' Funds

For the Year ended 30 September 2007

	Notes	2007 Ordinary shares £'000	2007 C shares £'000	2007 Total £'000
Opening shareholders' funds		39,857	23,173	63,030
Conversion of C Shares		24,092	(24,092)	–
Profit for the year		4,171	1,916	6,087
Expenses of share issue and conversion of share premium		(10)	–	(10)
Dividends paid	6	(8,020)	(997)	(9,017)
Closing shareholders' funds		60,090	–	60,090

The accompanying notes are an integral part of these statements.

Income Statement

For the Year ended 30 September 2006

		Ordinary shares			C shares*			Total		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments		–	2,485	2,485	–	2,238	2,238	–	4,723	4,723
Realised gains on investments		–	487	487	–	84	84	–	571	571
Income	2	1,387	–	1,387	972	–	972	2,359	–	2,359
Investment management fee	3	(236)	(707)	(943)	(133)	(743)	(876)	(369)	(1,450)	(1,819)
Other expenses	4	(220)	–	(220)	(159)	–	(159)	(379)	–	(379)
Profit on ordinary activities before taxation		931	2,265	3,196	680	1,579	2,259	1,611	3,844	5,455
Taxation on ordinary activities	5	(191)	191	–	(199)	199	–	(390)	390	–
Profit on ordinary activities after taxation		740	2,456	3,196	481	1,778	2,259	1,221	4,234	5,455
Return per ordinary share/C share:										
Basic	7	1.89p	6.27p	8.16p	2.18p	8.04p	10.22p	–	–	–

***The C Shares were converted to Ordinary Shares on 23 April 2007.**

Reconciliation of Movements in Shareholders' Funds

For the Year ended 30 September 2006

	Notes	2006 Ordinary shares £'000	2006 C shares £'000	2006 Total £'000
Opening shareholders' funds		40,366	21,291	61,657
Profit for the year		3,196	2,259	5,455
Increase in share capital		597	130	727
Purchase of shares		(1,148)	–	(1,148)
Dividends paid	6	(3,154)	(507)	(3,661)
Closing shareholders' funds		39,857	23,173	63,030

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 30 September 2007

	Notes	2007 Ordinary Shares £'000	2006 Ordinary Shares £'000	2006 C Shares* £'000	2006 Total £'000
Fixed assets					
Investments	8	**59,098**	35,673	22,235	57,908
Current assets					
Debtors	9	**628**	217	135	352
Cash at bank and on deposit		**1,360**	4,482	1,375	5,857
		1,988	4,699	1,510	6,209
Creditors (amounts falling due within one year)	10	**(930)**	(507)	(572)	(1,079)
Net current assets		**1,058**	4,192	938	5,130
Total assets less current liabilities		**60,156**	39,865	23,173	63,038
Provision for liabilities and charges	11	**(66)**	(8)	–	(8)
Net assets		**60,090**	39,857	23,173	63,030
Capital and reserves					
Called-up share capital	12	**6,562**	4,062	11,074	15,136
Share premium account	13	**12,700**	12,710	–	12,710
Capital redemption reserve	13	**13,328**	4,754	–	4,754
Revaluation reserve	13	**10,066**	5,336	2,474	7,810
Profit and loss account	13	**17,434**	12,995	9,625	22,620
Equity shareholders' funds	14	**60,090**	39,857	23,173	63,030
Net asset value per share					
– Basic	14	**94.35p**	103.01p	104.63p	–
– Treasury	14	**94.33p**	103.01p	–	–

***The C Shares were converted to Ordinary Shares on 23 April 2007.**

The financial statements on pages 25 to 37 were approved by the Board of Directors on 9 November 2007 and were signed on its behalf by:

GILLIAN NOTT (Chairman)

ANDREW CROSSLEY (Director)

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

Cash Flow Statement

For the year ended 30 September 2007

	Notes	2007 Ordinary Shares £'000	2006 Ordinary Shares £'000	2006 C Shares* £'000	2006 Total £'000
Operating activities					
Investment income received		**1,783**	1,305	1,052	2,357
Deposit interest received		**142**	68	57	125
Investment management fees		**(1,816)**	(941)	(518)	(1,459)
Other cash payments		**(452)**	(224)	(119)	(343)
Net cash (outflow)/inflow from operating activities	16	**(343)**	208	472	680
Taxation					
Tax paid		**–**	–	(6)	(6)
Net cash outflow from taxation		**–**	–	(6)	(6)
Capital expenditure and financial investment					
Purchases of investments		**(26,983)**	(4,139)	(14,363)	(18,502)
Disposals of investments		**31,856**	9,740	13,848	23,588
Net cash inflow/(outflow) from capital expenditure and financial investment		**4,873**	5,601	(515)	5,086
Dividends					
Equity dividends paid		**(9,017)**	(3,154)	(507)	(3,661)
Net cash (outflow)/inflow before financing		**(4,487)**	2,655	(556)	2,099
Financing					
Issue of shares		**–**	606	144	750
Buy-back of ordinary shares		**–**	(1,148)	–	(1,148)
Expenses of share issue and conversion of C share premium		**(10)**	(9)	(14)	(23)
Net cash (outflow)/inflow from financing		**(10)**	(551)	130	(421)
(Decrease)/increase in cash		**(4,497)**	2,104	(426)	1,678
Reconciliation of net cash flow to movement in net cash					
(Decrease)/increase in cash in the year		**(4,497)**	2,104	(426)	1,678
Net cash at 1 October 2006		**5,857**	2,378	1,801	4,179
Net cash at 30 September 2007	15	**1,360**	4,482	1,375	5,857

***The C shares were converted to Ordinary Shares on 23 April 2007.**

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 on the assumption that the Company maintains VCT status.

The Company is no longer an investment Company as defined by Section 266 of the Companies Act 1985, as investment Company status was revoked on 19 May 2000 in order to permit the distribution of capital profits.

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice (''SORP'') for investment trusts issued by the Association of Investment Companies (''AIC'') in January 2003, revised December 2005, is consistent with the requirements of UK GAAP, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

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. The Net Revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 Income Tax Act 2007.

(b) Valuation of investments

Purchases or sales are recognised at the date of transaction.

Investments 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 in accordance with the following rules, which are consistent with the British Venture Capital Association (BVCA) guidelines:

1. Investments are to be held at cost for a limited period only and not necessarily for a full 12 month period. The Company values new investments on a price earnings basis when audited financial statements are available within the first 12 months of the investment being made.

2. Investments outwith the initial limited holding period are valued using a price earnings ratio (at a significant discount to an appropriate stock market prospective price earnings ratio) in the absence of overriding factors. Where such factors apply, alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a net asset basis.

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

(c) Income

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

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

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

(d) Expenses

All expenses are recorded on an accruals basis.

Prior to the conversion of C shares into ordinary shares and the calculation date of 31 March 2007, expenses attributable to the ordinary shares and C shares were allocated in proportion to their respective net assets.

(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.

Notes to the Accounts

2. Income

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Income from investments				
UK franked	**371**	307	9	316
UK unfranked	**1,691**	1,012	906	1,918
	2,062	1,319	915	2,234
Other income				
Deposit interest	**142**	68	57	125
Total income	**2,204**	1,387	972	2,359
Total income comprises:				
Dividends	**371**	307	9	316
Interest	**1,833**	1,080	963	2,043
	2,204	1,387	972	2,359
Income from investments:				
Listed and AiM securities	**1,136**	782	757	1,539
Unlisted securities	**926**	537	158	695
	2,062	1,319	915	2,234

3. Investment management fee

	2007 Total £'000	2006 Total £'000
Investment management fee (including irrecoverable VAT)	**1,474**	1,474
Performance fee (including irrecoverable VAT)	**446**	345
	1,920	1,819

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

The management agreement may be terminated by either party giving 12 months' notice of termination. The Manager, ISIS EP LLP, receives a fee of 2% per annum (plus VAT) of the net assets of the Company, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee if at the end of any calculation period, the total return on shareholders' funds, calculated on a compound basis, exceeds the threshold of UK base rate plus 2% on shareholders' funds. The Manager is entitled to 20% of the excess to 31 March 2007 and will be entitled to 16.66% to 31 March 2008, 13.33% to 31 March 2009 and 10% thereafter. The amount of any performance fee will be capped at 5% of shareholders' funds at the end of the period. To take account of the proceeds from the 'C' share offer which was held initially in cash and fixed interest securities, an annual threshold of 2% for the period to 30 September 2006 applied to the C shareholders funds' after which the existing arrangements described previously applied. A performance fee is payable for the year ended 30 September 2007 and is detailed above. It is chargeable 100% to capital.

ISIS EP LLP receives an annual secretarial fee (plus VAT) of £80,000 adjusted annually for movements in the UK retail price index. It is chargeable 100% to revenue.

Amounts payable to the Manager at the year end are disclosed in note 10.

Notes to the Accounts

4. Other expenses

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Directors' fees	**63**	41	22	63
Remuneration of the auditors and their associates:				
– audit	**16**	11	5	16
– other services supplied pursuant to legislation (interim review)	**5**	3	2	5
– other services supplied relating to taxation	**5**	3	2	5
Trail Commission	**106**	–	31	31
Other	**288**	162	97	259
	483	220	159	379

The Chairman receives £21,000 (2006: £21,000) per annum. Each of the other Directors receives £14,000 (2006: £14,000) per annum. Mr A Crossley's fees are paid to INVESCO Asset Management Ltd and Mr P Lawrence's fees are paid to ECO Animal Health Group plc.

Charges for other services provided by the auditors in the year ended 30 September 2007 were in relation to the interim review and tax compliance work. The Directors consider the auditors were best placed to provide these services. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

Included in other expenses for the year to 30 September 2007 are secretarial fees of £85,000 (2006: £83,000).

5. Tax on ordinary activities

5a. Analysis of charge for the year

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
UK corporation tax	**–**	–	–	–

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

5b. 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 an investment company (30%). The differences are explained below:

	2007			2006		
	Revenue £'000	**Capital £'000**	**Total £'000**	Ordinary Shares £'000	C Shares £'000	Total £'000
Corporation tax at standard rate of 30%	**405**	**1,421**	**1,826**	959	678	1,637
Effect of:						
Non-taxable dividend income	**(112)**	**–**	**(112)**	(92)	(3)	(95)
Non-taxable realisation gains	**–**	**(1,886)**	**(1,886)**	(892)	(697)	(1,589)
Losses carried forward	**–**	**172**	**172**	25	22	47
Tax charge for the period (note 5a)	**293**	**(293)**	**–**	–	–	–

At 30 September 2007 the Company had surplus management expenses of £727,000 (2006: £156,000) 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.

Notes to the Accounts

6. Dividends

	2007	2006		
	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Amounts recognised as distributions to equity holders in the year				
– final dividend for the year ended 30 September 2005 of 3.0p per ordinary share	**–**	1,180	–	1,180
– final dividend for the year ended 30 September 2005 of 1.5p per C share	**–**	–	330	330
– interim dividend for the year ended 30 September 2006 of 5.0p per ordinary share	**–**	1,974	–	1,974
– interim dividend for the year ended 30 September 2006 of 0.8p per C share	**–**	–	177	177
– final dividend for the year ended 30 September 2006 of 5.0p per ordinary share	**1,934**	–	–	–
– final dividend for the year ended 30 September 2006 of 2.0p per C share	**443**	–	–	–
– first interim dividend for the year ended 30 September 2007 of 7.5p per ordinary share	**2,902**	–	–	–
– first interim dividend for the year ended 30 September 2007 of 2.5p per C share	**554**	–	–	–
– second interim dividend for the year ended 30 September 2007 of 5.0p per ordinary share	**3,184**	–	–	–
	9,017	3,154	507	3,661
Proposed distributions to equity holders at the year end				
– final dividend for the year ended 30 September 2006 of 5.0p per ordinary share	**–**	1,934	–	1,934
– final dividend for the year ended 30 September 2006 of 2.0p per C share	**–**	–	443	443
	–	1,934	443	2,377

7. Returns per share

The 11.88p return per ordinary share (2006: 8.16p return per ordinary share, 10.22p return per C share) is based on the net profit from ordinary activities after tax of £6,087,000 (2006: £3,196,000 ordinary shares and £2,259,000 C shares) and on 51,223,055 ordinary shares (2006: 39,181,577 ordinary shares, 22,103,789 C shares), being the weighted average number of shares in issue during the year.

Notes to the Accounts

8. Investments

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Interest bearing securities	**16,212**	9,592	11,764	21,356
Investment traded on AiM	**14,988**	12,553	3,656	16,209
Investments traded on PLUS	**65**	125	–	125
Investments listed on FTSE SmallCap	**580**	–	–	–
Unquoted investments	**27,253**	13,403	6,815	20,218
	59,098	35,673	22,235	57,908
Equity shares	**26,697**	19,272	5,355	24,627
Preference shares	**353**	303	49	352
Fixed income securities	**32,048**	16,098	16,831	32,929
	59,098	35,673	22,235	57,908

	Listed on FTSE SmallCap £'000	Interest bearing securities £'000	Traded on AiM £'000	Traded on PLUS £'000	Unquoted £'000	Total £'000
Opening book cost – ordinary shares	–	9,565	11,876	500	8,396	30,337
Opening unrealised appreciation/(depreciation)						
– ordinary shares	–	27	677	(375)	5,007	5,336
Opening book cost – C shares	–	11,806	2,562	–	5,393	19,761
Opening unrealised (depreciation)/appreciation – C shares	–	(42)	1,094	–	1,422	2,474
Opening valuation	–	21,356	16,209	125	20,218	57,908
Movements in the year:						
Purchases at cost	–	19,119	2,640	–	5,001	26,760
Sales – proceeds	–	(24,301)	(2,956)	–	(4,599)	(31,856)
– realised gains on sales	–	28	219	–	1,003	1,250
Reclassification of investments	386	–	(386)	–	–	–
Unrealised (losses)/gains realised during the year	–	(15)	1,074	–	1,721	2,780
Increase/(decrease) in unrealised appreciation	194	25	(1,812)	(60)	3,909	2,256
Closing valuation	**580**	**16,212**	**14,988**	**65**	**27,253**	**59,098**
Closing book cost	386	16,202	15,029	500	16,915	49,032
Closing unrealised appreciation/(depreciation)	194	10	(41)	(435)	10,338	10,066
	580	**16,212**	**14,988**	**65**	**27,253**	**59,098**

	2007 £'000	2006 £'000
Increase in unrealised appreciation	**5,036**	4,723
	5,036	4,723

During the course of the year the Company incurred brokerage costs on purchases of £nil (2006: £1,000) and brokerage costs on sales of £5,000 (2006: £3,000). An analysis of the material sales during the period is disclosed in the Manager's Review on page 7.

Notes to the Accounts

9. Debtors

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Prepayments and accrued income	**628**	217	135	352
	628	217	135	352

10. Creditors (amounts falling due within one year)

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Management, performance and secretarial fees due to the managers	**832**	254	493	747
Amounts due to brokers	**–**	196	28	224
Other creditors	**98**	57	51	108
	930	507	572	1,079

11. Provision for liabilities and charges

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Trail commission payable	**66**	8	–	8

12. Called-up share capital

	£'000
Authorised:	
241,237,875 ordinary shares of 10p each	24,124
4,852,425 C shares of 50p each	2,426
	26,550
Allotted, called-up and fully paid:	
Ordinary Shares	
40,620,513 ordinary shares of 10p each listed at 30 September 2006	4,062
24,996,600 ordinary shares of 10p issued during the year	2,500
65,617,113 ordinary shares of 10p each listed at 30 September 2007	**6,562**
1,930,000 ordinary shares of 10p each held in treasury at the start of the year	(193)
63,687,113 ordinary shares of 10p each in issue at 30 September 2007	**6,369**
C Shares	
22,147,575 C shares of 50p each at 30 September 2006	11,074
22,147,575 C shares of 50p each converted into ordinary shares on 23 April 2007	(11,074)
Nil C shares of 50p each issued and listed at 30 September 2007	–

Notes to the Accounts

12. Called-up share capital (continued)

In accordance with the terms set out in the C share prospectus dated 4 February 2005, the conversion ratio of C shares into ordinary shares was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 March 2007 (108.78 pence per share) and dividing by the net asset value of the assets of the existing ordinary shareholders at 31 March 2007 (96.38 pence per share). Based on this calculation the conversion ratio was 1·1286715.

On 23 April 2007, the conversion of the C shares into ordinary shares resulted in 24,996,600 ordinary shares being issued.

All deferred shares which arose, as part of the conversion process, have been cancelled by the Company. No value was attributable to these shares.

13. Reserves

	Share premium account* £'000	Capital redemption reserve* £'000	Revaluation reserve* £'000	Profit and loss account £'000
At 30 September 2006 – ordinary shares	12,710	4,754	5,336	12,995
At 30 September 2006 – C shares	–	–	2,474	9,625
	12,710	4,754	7,810	22,620
Conversion of C shares	–	8,574	–	–
Expenses of share issue and conversion of share premium	(10)	–	–	–
Transfer of prior years' revaluation to profit and loss account	–	–	(2,780)	2,780
Dividends paid	–	–	–	(9,017)
Net increase in value of investments	–	–	5,036	(5,036)
Retained profit for the year	–	–	–	6,087
	12,700	**13,328**	**10,066**	**17,434**

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the revaluation reserve. When an investment is sold any balance held on the revaluation reserve is transferred to the profit and loss account as a movement in reserves.

*These reserves are non-distributable.

14. 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	
	2007 number	2006 number	**2007 pence**	2006 pence	**2007 £'000**	2006 £'000
Ordinary shares (basic)	**63,687,113**	38,690,513	**94.35**	103.01	**60,090**	39,857
Ordinary shares (treasury)	**65,617,113**	40,620,513	**94.33**	103.01	**61,895**	41,843
C share (basic)	**–**	22,147,575	**–**	104.63	**–**	23,173

Basic net asset value per share is based on net assets at the year end, and on 63,687,113 (2006: 38,690,513) ordinary shares, being the respective number of shares in issue at the year end.

Treasury net asset value per share is based on net assets at the year end, inclusive of the 1,930,000 ordinary shares held in treasury valued at middle market price, and on 65,617,113 ordinary shares being the number of ordinary shares listed at the year end.

Notes to the Accounts

15. Analysis of changes in cash

	Ordinary Shares £'000
Beginning of year – ordinary shares	4,482
– C shares	1,375
Net cash outflow	(4,497)
As at 30 September 2007	**1,360**

16. Reconciliation of net revenue before taxation to net cash (outflow)/inflow from operating activities

	2007	2006		
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Profit on ordinary activities before taxation	**6,087**	3,196	2,259	5,455
Profit on realisation of investments	**(1,250)**	(487)	(84)	(571)
Unrealised gains on investments	**(5,036)**	(2,485)	(2,238)	(4,723)
(Increase)/decrease in debtors	**(276)**	(14)	142	128
Increase/(decrease) in creditors	**132**	(2)	393	391
Net cash (outflow)/inflow from operating activities	**(343)**	208	472	680

17. Contingencies, guarantees and financial commitments

At 30 September 2007 there were no contingencies, guarantees or financial commitments of the Company.

18. Significant interests

There are no interests of 20% or more of any class of share capital.

Further information on the significant interests is disclosed on pages 8 and 9.

19. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of established and profitable UK unquoted companies and companies raising new share capital on AiM.

Fixed asset investments held (see note 8) are valued at bid prices, cost or in accordance with the British Venture Capital Association guidelines and Generally Accepted Accounting Practice (see Note 1). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS 26.

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 overleaf.

Notes to the Accounts

20. Market price risk

Market risk embodies the potential for both losses 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.

The management of market price risk is part of the investment management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investment in unquoted stocks and AiM listed companies, by its nature, involve a higher degree of risk than investment in the main market. These investments may be more difficult to realise.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out on pages 8 and 9. All individual investments in debt and equity investments are disclosed separately.

21. Interest rate risk

Some of the Company's financial assets are interest bearing, some of which are at fixed rates and some at variable. 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.

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 5.75% as at 30 September 2007.

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

Fixed rate

	2007			2006		
	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
Ordinary Shares						
Fixed rate						
Fixed interest securities	**8,608**	**5.0**	**159**	7,145	4.4	278
C Shares						
Fixed rate						
Fixed interest securities	**–**	**–**	**–**	9,775	4.5	158

22. 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 monitored on an ongoing basis.

23. Liquidity risk

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

The Company's listed securities are considered to be readily realisable as they primarily comprise UK Government Stock.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Baronsmead VCT plc will be held at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS on 10 December 2007 at 11.30 am for the following purposes:

To consider and, if thought fit, pass the following Resolutions:

Ordinary Business

1. That the Report and Accounts for the year to 30 September 2007 be received.
2. That the Directors' Remuneration Report for the year to 30 September 2007 be approved.
3. That Mrs G Nott, who retires by rotation, be re-elected.
4. That Mr G Jillings, who retires by rotation, be re-elected.
5. That Mr P Lawrence, who retires by rotation, be re-elected.
6. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolutions

7. That each and every C share of 50p each in the authorised but unissued share capital of the Company be and they are hereby sub-divided and redesignated into five ordinary shares of 10p each in the authorised but unissued share capital of the Company.

8. That:
   (a) the Directors of the Company (the ''Directors'') be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the ''Act''), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £636,870 during the period commencing on the passing of this resolution and expiring on 9 December 2012 (unless previously revoked, varied 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 relevant securities to be allotted after such expiry; and

   (b) all previous authorities given to the Directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

9. That subject to the passing of resolution 8 set out in the notice of this meeting:
   (a) the Directors of the Company (the ''Directors'') be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the ''Act''), to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority given in accordance with section 80 of the Act pursuant to resolution 8 set out in the notice of this meeting as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:

      (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of ordinary shares of 10p each in the Company and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

      (ii) (otherwise than pursuant to sub-paragraphs (i) above) up to an aggregate nominal amount of £636,870 provided that the maximum number of ordinary shares of 10p each in the Company which may be allotted pursuant to this sub-paragraph (ii) shall be 6,368,700 ordinary shares;

   and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, 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 this resolution ''allot'' and ''allotment'' shall be construed in accordance with section 94(3A) of the Act; and

   (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

Notice of Annual General Meeting

10. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 10p each in the Company (''ordinary shares''), provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 9,546,690;

    (b) the minimum price which may be paid for each ordinary share is 10p;

    (c) the maximum price which may be paid for an ordinary share shall be equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

    (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

    (e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.

11. That:

    (a) the Company is hereby generally and unconditionally authorised, subject to and in accordance with the provisions of the Companies Act 2006 and the Articles of Association of the Company, to send or supply all types of notices, documents or information to members by means of electronic equipment for the processing (including digital compression), storage and transmission of data by wires, radio, optical technologies or any other electromagnetic means, including by making such notices, documents or information available on a website; and

    (b) that the new Articles of Association, a copy of which was presented to the meeting and signed by the Chairman for the purposes of identification, be hereby approved and adopted as the new Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association with effect from the end of this meeting.

12. That Article 164.1 of the new Articles of Association of the Company adopted pursuant to resolution 11(b) set out in the notice of this meeting or, in the event that the proposed new Articles of Association are not adopted pursuant to that resolution, Article 162.1 of the existing Articles of Association of the Company, be and is hereby amended by replacing the first sentence of that Article with the following sentence:

    ''The Board shall procure that at the annual general meeting of the Company in 2013, and every annual general meeting thereafter, an ordinary resolution will be proposed to the effect that the Company shall continue in being as a venture capital trust.''

By Order of the Board

Rhonda Nicoll
for F&C Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
9 November 2007

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company as at 11.30 a.m. on 6 December 2007, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that relevant time. Changes to entries on the register of members after 11.30 a.m. on 6 December 2007, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

To be valid, a Proxy Card must be lodged with the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB at least 48 hours before the meeting. A Proxy Card for use by shareholders is enclosed with this Report. Completion of the Proxy Card will not prevent a shareholder from attending the meeting and voting in person.
No Director has a contract of service with the Company.

Shareholder Information

Enquiries
Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, joining the DRIP queries re: share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

www.computershare.com/investor

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 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.

Shareholder Helpline
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 payment history
– order a Change of Address, Dividend Bank Mandate or Stock Transfer Form

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

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

Information on DRIP mechanism, share price movements, the share price discount and selling shares:

F&C Asset Management plc (Company Secretary)

www.baronsmeadvct.co.uk

e-mail: rhonda.nicoll@fandc.com

Tel: 0131 718 1074. Fax: 0131 225 2375.

Any other points, i.e. valuations of underlying companies, asset allocations, dividend policies and the investment process:

ISIS EP LLP (Investment Manager)

www.isisep.com

Contains details of the team and some case studies of historical investments.

e-mail: david.thorp@isisep.com; prem.mohan-raj@isisep.com; margaret.barff@isisep.com

Tel: David Thorp 020 7506 5631; Prem Mohan Raj 020 7506 5640;
Margaret Barff 020 7506 5630.

Shareholder communication

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

Electronic communication has been introduced following new legislation in the 2006 Companies Act and the website, www.baronsmeadvct.co.uk, is currently being developed.

Shareholder Information

Share Price

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

Trading Shares

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

- Landsbanki Securities (formerly Teather & Greenwood) (020 7426 9000)
- UBS Warburg (020 7567 8000)
- Winterfloods (020 7621 0004)

Please call the Company Secretary if you or your adviser have any questions about this process.

Financial Calendar

10 December 2007	Twelfth Annual General Meeting
May 2008	Announcement of interim results
May 2008	Posting of interim report
November 2008	Announcement of final results for year to 30 September 2008

There were 3,317 holders of Ordinary Shares as at 30 September 2007. Their shareholdings (including shares held in treasury) are analysed as follows:

	Ordinary Shares			
Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
Over 100,000	70	2.1	15,304,384	23.3
50,001–100,000	179	5.4	12,265,114	18.7
25,001–50,000	377	11.4	13,117,081	20.0
10,001–25,000	978	29.5	15,757,480	24.0
5,001–10,000	869	26.2	6,223,289	9.5
2,001–5,000	764	23.0	2,890,398	4.4
1–2,000	80	2.4	59,367	0.1
Total	3,317	100.0	65,617,113	100.0

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 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
Gillian Nott OBE
Andrew Crossley*
Godfrey Jillings†
Peter Lawrence

Secretary
F&C Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registered Office and Investment Manager
ISIS EP LLP
100 Wood Street
London EC2V 7AN

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

Registered Number
03035709

*Chairman of the Audit Committee
†Senior Independent Director

Registrars and Transfer Office
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 703 0137

Brokers
Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

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

Solicitors
Norton Rose
3 More London Riverside
London SE1 2AQ