Baronsmead VCT 3 plc

Investing in Growth Businesses generating tax-free dividends

2007

Summary report & accounts for the year ended 31 December 2007

Managed by ISIS EP LLP

Investment Objective

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

Investment Policy

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

Full details on the Company's published investment policy and risk management are contained in the Summary Directors' Report on pages 15 and 16.

Dividend policy

The Board wishes to maintain a minimum annual dividend level of around 4.5p per ordinary share if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year. Since the Company's launch the average annual tax-free dividend paid to shareholders has been 4.76p per ordinary share (equivalent to a pre-tax return of 7.05p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs of 20 per cent, their returns would have been even higher.

Secondary market in the shares of Baronsmead VCT 3

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

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

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

Financial Highlights

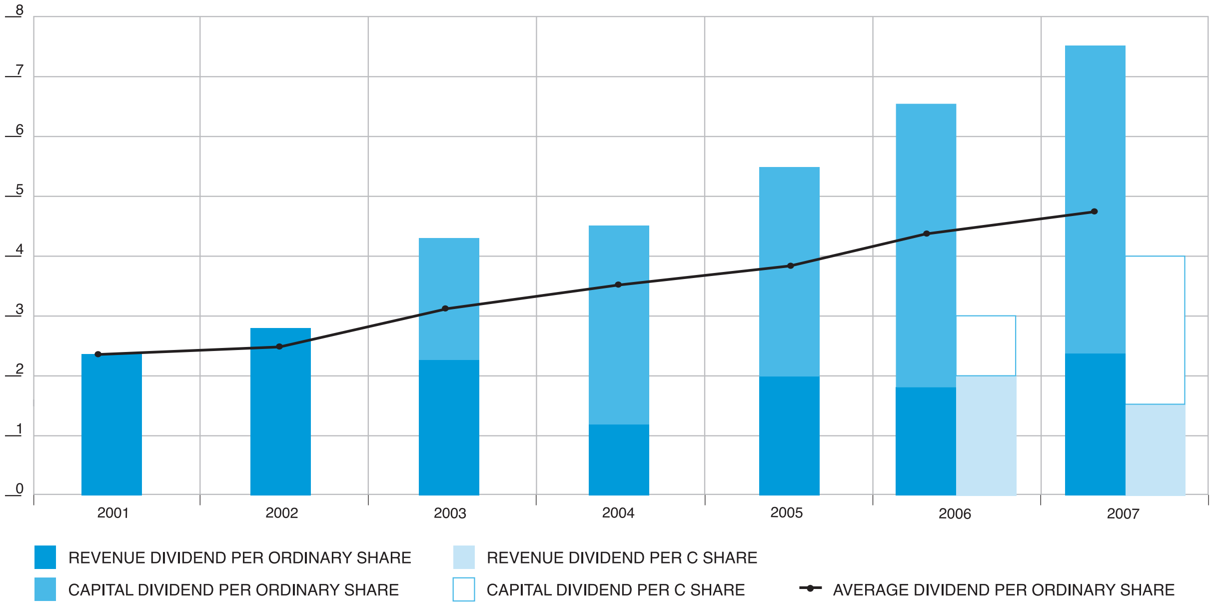
+0.9% **NAV per ordinary share** increased to 127.94p before deduction of dividends. After payment of dividends totalling 7.5p per ordinary share in the year to 31 December 2007, the NAV was 120.44p

+8.3% **NAV per C share** increased to 107.15p before deduction of dividends. After dividends totalling 4p in the year, the NAV was 103.15p

+71% **NAV total return** since launch in 2001

6.7% **Dividendyield**, tax-free to qualifying ordinary shareholders (gross equivalent yield for a higher rate taxpayer is 10 per cent) based on 7.5p dividends paid divided by the mid ordinary share price of 111.5p at the year end

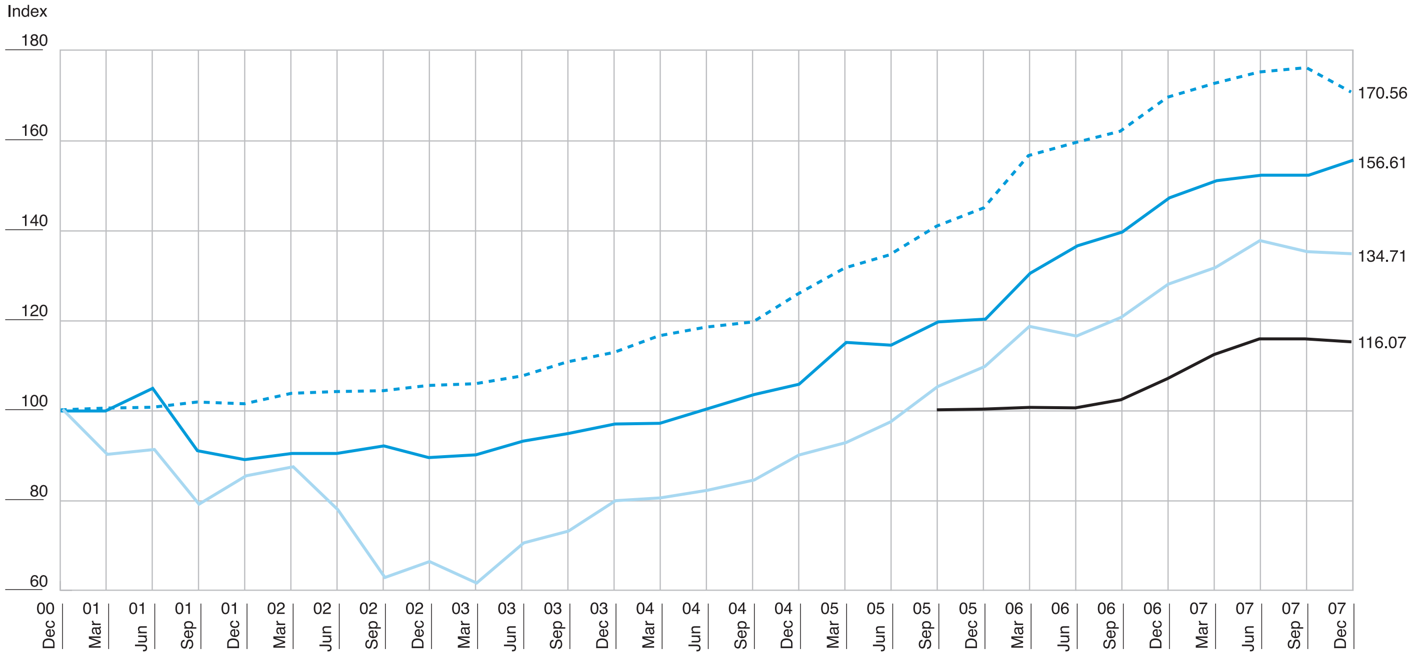
Dividend history since launch for Ordinary and C Shareholders



Seven Year Summary

Baronsmead VCT 3 plc

Net asset value total return and share price total return since launch against the FTSE All-Share Index total return



Indexed share price total return (gross dividend re-invested) rebased to 100p at launch – Ordinary shares
Indexed NAV Total Return (gross dividend re-invested) rebased to 100p at launch – Ordinary shares
Indexed NAV Total Return (gross dividend re-invested) rebased to 100p at launch – C shares
FTSE All-Share Total Return rebased to 100p at launch

Source: F&C Asset Management plc

Performance Record

		C Share			Ordinary Share				
Year ended 31 December	Total net assets £m	Net asset value p	Share price p	Net asset value total return* %	Net asset value p	Share price p	Net asset value total return* %	FTSE All-Share total return %	Combined total expense ratio† %
2001	31				93.85	88.0	101.21	85.14	2.9
2002	32				94.85	85.5	105.35	65.83	3.3
2003	33				97.15	90.0	112.65	79.56	3.1
2004	35				106.38	92.5	125.64	89.77	3.5
2005	56	95.13	100.0	100.14	117.31	100.5	144.77	109.56	3.5
2006	67	100.95	89.0	107.35	130.77	116.5	169.27	127.91	3.4
2007	**65**	**103.15**	**91.5**	**116.07**	**120.44**	**111.5**	**170.56**	**134.71**	**3.4**

* 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	C Share Revenue dividend p	C Share Capital dividend p	Ordinary Share Revenue dividend p	Ordinary Share Capital dividend p	Ordinary Share Total annual dividend p	Ordinary Share Cumulative dividends p	Ordinary Share Average total annual dividend p
2001			2.30	–	2.30	2.30	2.30
2002			2.80	–	2.80	5.10	2.55
2003			2.20	2.00	4.20	9.30	3.10
2004			1.20	3.30	4.50	13.80	3.45
2005			2.00	3.50	5.50	19.30	3.86
2006	2.00	1.00	1.75	4.75	6.50	25.80	4.30
2007	**1.55**	**2.45**	**2.30**	**5.20**	**7.50**	**33.30**	**4.76**

Cash Returned to Shareholders

The Board is also aware that shareholders are concerned that the original capital subscribed into Baronsmead VCT 3 has been maintained. The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross yield† %
2001	100	20.0	80.0	33.3	5.9	8.8
2005	100	40.0	60.0	7.0	5.8	8.6

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

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

†The gross equivalent yield if the dividends had been subject to higher rate taxation.

Chairman's Statement

Mark Cannon Brookes
Chairman

Baronsmead VCT 3 remained steady during 2007 with value growth from the unquoted portfolio offset by the fall in the AiM portion of the portfolio, particularly exacerbated by the sharp fall in UK economic confidence in the second half of 2007. Five profitable unquoted company exits demonstrated the ability of the private equity disciplines to generate significant uplifts in value.

With ordinary share dividends paid of 7.5p, the dividend yield grew to 6.7 per cent, which is tax-free to most ordinary shareholders. The hope is to sustain this across the enlarged ordinary share capital following the issue of approximately 22 million new ordinary shares in January 2008 on conversion of the C shares.

Results

In the year to 31 December 2007, the Net Asset Value (NAV) per ordinary share increased by 0.9 per cent from 126.77p to 127.94p before deduction of dividends. Two interim dividends were paid in September (3p) and December 2007 (4.5p) per ordinary share.

The C share capital raised in the five month period to 3 January 2006 was converted into ordinary shares on 28 January 2008 at a NAV of 103.15p which resulted in 8,564 new ordinary shares being issued for every 10,000 shares held. Two interim dividends of 2p each were paid in September and December 2007. Since their launch, the NAV total return for the C shares to 31 December 2007 is 16 per cent.

At 31 December 2007, the respective share pools held different portfolios of companies, hence the difference in the performance of the NAVs. Over the last two years, as a result of the ordinary share pool being fully invested, most of the unquoted investments were allocated to the C share pool and many of these have subsequently increased in value, such as Fisher Outdoor Leisure and Empire World Trade. Additionally, the newer AiM investments allocated to the C share pool have been less affected by the market down turn. This has impacted the respective returns during the course of the year.

Long Term Performance

The two standard measurements for monitoring investment performance are based either on the NAV plus dividends paid (known as ''NAV total return'') or the movement in share price plus dividends paid (known as ''share price total return''). The latter is particularly relevant to investors who buy in the secondary market. Other measures include dividend yield and cash returned to shareholders. These different measures of performance are described below and most are stated before the inclusion of VCT tax reliefs. These reliefs were designed to redress both the VCT constraints as well as the higher risks that relate to smaller unquoted and AiM-traded companies.

NAV total return to ordinary shareholders since launch in January 2001 amounts to 71 per cent which represents an annual compound growth rate of 8.0 per cent and is stated net of all running costs.

Share price total return in the last five years has been 75 per cent, which represents an annualised tax-free return of 12 per cent. This ranks Baronsmead VCT 3 as seventh out of 63 VCTs (source: Trustnet – 25 January 2008) over this period.

The results set out above compare favourably with other VCTs and fuller comparisons have recently been facilitated by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk.

Dividends and yield. By 31 December 2007 dividends totalling 33.3p had been paid to founder shareholders over the last seven years. Based on the mid share price of 111.5p at the period end, the dividend yield is currently 6.7 per cent tax-free for UK private investors. The Board's intention is to sustain this record in the medium term but its continuance will depend on the level of profitable realisations and cannot be guaranteed.

Cash returned to shareholders arises from dividends paid and the initial income tax relief that qualifying shareholders can retain beyond the initial holding period. For subscribers in 2001, they will have received 33.3p plus up to 20p initial income tax relief while subscribers for C shares have received 7p dividends and up to 40p income tax relief (as long as these shares are retained for more than three years). The bid price for the ordinary and C shares prior to conversion at 31 December 2007 were 110p and 90p respectively.

The Portfolio

The portfolio increased to 72 investments with fifteen new investments made and eleven investments fully realised during the period. New investments totalled £7.6 million across three new unquoted and twelve AiM-traded investees, much of which was invested from the C share pool as the ordinary share capital was relatively fully invested. The split by value of the portfolio is approximately 63:37 between unquoted and AiM/full list investments and the largest investments in each category are 3.5 per cent and 2.3 per cent of NAV.

Six VCT tests relating to the running of Baronsmead VCT 3 have to be, and were, met throughout the period to 31 December 2007. The most significant of these tests is the need to ensure at least 70 per cent by value of its investments is invested in VCT qualifying investments. At the period end, over 75 per cent of the share capital raised (net of launch costs) prior to 31 December 2005 was invested in such 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 period end 83 per cent of the portfolio companies were reporting higher or steady profits and few at this stage appear to be affected by the credit crunch. The analysis of the top ten investments set out on pages 10 and 11 gives more detail about key investments and four of these aspiring high-growth companies have been selected to illustrate the role played by the Manager in their progress and how value is added for investees (see summaries on pages 12 and 13).

The Manager's report also comments specifically on the strong performance of the unquoted portfolio as well as the down rating across the AiM portfolio. Investment sales totalled £12.6 million realising significant net profits of £7.3 million, which represents a creditable multiple on cost of 2.4 times.

Making Further Investments in Baronsmead VCT 3

The 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 3. 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 how to purchase or subscribe 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 become clearer and as a consequence the Board is able to increase the financial planning opportunities available to ordinary shareholders by offering them the ability to subscribe for new ''top up'' shares.

In August 2007 top-up offers of up to €2.5 million (approximately £1.7 million) were sent to ordinary and C shareholders. The offers closed on 24 September 2007. The C share offer was over-subscribed by 4.2 per cent and the ordinary share offer raised approximately £0.7 million, leaving the capacity to raise an additional €1.5 million. As a result, a top-up offer to raise up to €1.5 million has been sent to the enlarged group of ordinary shareholders on the share register as at the date of this report. Full terms and conditions of that offer are contained in the offer document.

In the year to 31 December 2007, the Dividend Reinvestment Plan (DRIP) acquired a total of 655,715 ordinary shares for 391 ordinary shareholders (some 22.5 per cent). This scheme is now available to shareholders who previously held C shares and allows shareholders to re-invest their dividends in existing ordinary shares via in the market. Shares acquired through the DRIP count towards an individual's annual limit for VCT investment and qualifying investors benefit from tax-free dividends and capital gains. However, no up-front income tax relief is available on shares acquired through the DRIP. The C shareholders were sent the DRIP brochure and application form following conversion of their C shares and these are generally available if shareholders contact the Registrar.

New Listing Regulation

Listed companies are now required to state their investment policy in full and this is set out in the Report of the Directors on pages 15 and 16 of this report. In this way existing and prospective shareholders can understand the investment opportunity which the Company offers and identify how risk spreading is achieved. The Board reviews the investment policy on a regular basis to ensure that it remains appropriate in the prevailing market conditions and a summary is set out on the inside front cover.

New Disclosure and Transparency rules were introduced earlier in 2007 and as a result interim management statements will now be produced following the 31 March and 30 September quarter ends. The two statutory reports and two quarterly fact sheets will continue to be published by Baronsmead VCT 3 and sent direct to shareholders either electronically or by post, or published on the Company's website, www.baronsmeadvct3.co.uk.

Annual General Meeting

We now have approximately 3,000 ordinary shareholders and our task as a Board is to ensure that we meet and understand your requirements. I look forward to welcoming as many shareholders as possible to the AGM on 19 March 2008 at 11 a.m. followed by a presentation by ScriptSwitch, a provider of prescription software for GPs, lunch and a shareholder workshop finishing by 2.30 p.m.

Outlook

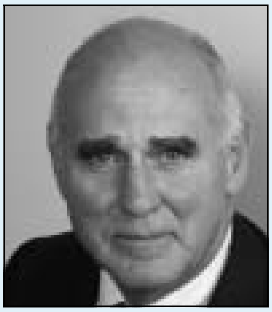
The UK stock market is currently anticipating more difficult economic conditions and further downgrades in the ratings of smaller quoted companies are possible. Unquoted companies are likely to be less affected but within both categories this may present more propitious buying opportunities for which Baronsmead VCT 3 has the necessary cash resources.

There appears to be resilience in the trading of many of the AiM investees, but in weaker markets the ratings of smaller and less liquid companies are bound to suffer. However the existing portfolio appears healthy enough to sustain performance from which the hope is to maintain the dividend record.

Mark Cannon Brookes
Chairman

28 January 2008

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 72 companies after fifteen new investments, net of eleven realisations. The new investments set out below totalled £7.6 million, including three sizeable unquoted investments and twelve smaller AiM subscriptions averaging £234,000. Further financings are within the total amount invested and were spread over eight other investees.

Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments				
CableCom Networking	Somerset	IT	Provider of network solutions	1,381
Occam*†	Bath	Business services	Integrated data services	42
Quantix	Nottingham	IT	Database services	1,194
ScriptSwitch	Coventry	IT	Prescription software	1,167
Total Unquoted Investments				**3,784**
AiM-traded investments				
Appian Technology*	Buckinghamshire	IT	Number plate recognition products	52
Brulines Holdings*†	Stockton-on-Tees	Business services	Pub management systems	57
Claimar Care*	Birmingham	Healthcare	Domiciliary care	219
Cohort†	Henley-on-Thames	Business services	Services to the defence industry	179
Concateno*†	London	Healthcare	Drugs testing	72
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
Fishworks*	Bath	Consumer	Fishmongers and fish restaurants	46
IDOX*	London	IT	Public sector software and services	320
INVU	Northampton	IT	Document management software	35
Mission Marketing Group	London	Media	Marketing services agency	190
Mount Engineering	York	Business services	Thread adaptors and valves	385
Optimisa	London	Media	Marketing services and strategic consultancy	298
Plastics Capital	London	Business services	Plastics products manufacturing	473
Research Now†	London	Media	Online market research	263
Tangent Communications	London	Business services	Customised promotional material	180
Tasty*	London	Consumer	Restaurant operator	200
Total AiM-traded Investments				**3,777**
Total Investments				**7,561**

*Further round of financing †Non-qualifying investments totalled £353,000 during the year.

There was strong value growth across the unquoted portfolio, which increased in value by 29 per cent over the period. Organic growth was particularly evident in Crucible Group (credit management), kidsunlimited (children's 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. Investments made in 2006 such as Fisher (cycle accessories distribution) and EWT (top fruit distributors) continued on plan as did the three unquoted investments made during 2007. There was a full write-off against the investments in Country Artists (resin collectibles) while the Art Group (publisher of art content) has been down-valued as it failed to meet its business plan.

Following the first half year of steady progress and profitable realisations, the share prices of the AiM portfolio fell sharply in the second half by 21 per cent overall, partly due to the announced changes to capital gains tax legislation.

Cash and gilts stayed at a healthy level, due in part to realisations and in part to the proceeds of the 2005/06 C share offer waiting to be invested. The intention will be to utilise these cash resources to fund new unquoted and AiM investments, which are anticipated to be better priced than previously. The level of new unquoted transactions was lower than expected in the year although two delayed investments were subsequently completed during January 2008.

Realisations in 2007

The sales of Domantis, Martin Audio and Americana were reported at the interim stage and since then Boldon James and RLA Media have been sold to QineteQ and Mission Marketing. Overall these five investments made between December 2002 and May 2005 showed exceptional growth. After netting out the write-off of Country Artists, the sales produced more than three times their cost and this multiple is higher still, at four times, if the earlier part sale of Americana is also taken into account.

Since the year end, in January 2008, Hawksmere has also been sold to Kaplan Financial Limited at 2.5 times the cost of investment in December 2003. This investment had been held at zero value until June 2006 but during the year under review increased in value by some £1.0 million as profitable trading returned and accelerated.

Realisations of £1.5 million, representing 1.5 times the original cost from five AiM companies, reflected the high level of bid activity and more buoyant ratings on AiM earlier in 2007. The total shareholding in Worthington Nicholls was sold through the market and, retrospectively, was well timed. This sale provided a realised profit of £744,000 for C shareholders. In addition, deferred proceeds of £35,000 were received on unquoted investments realised in prior periods.

Investor Relations

Shareholders who acquired shares through the C share offer in winter 2005/6 can permanently retain any VCT income tax relief that they may have claimed if these shares are held for 3 years or more from the date they were issued. Shareholders who acquired shares in the two top-up offers in autumn 2007 can permanently retain any VCT income tax relief that they may have claimed if those shares are held for 5 years from the date they were issued, following the revisions made in the 2006 Finance Act.

Shareholders are sent separate share certificates each time they make an investment, which will help identify which shares are acquired at different times. On conversion, those C shareholders who invested in the top-up offer will have received two ordinary share certificates to demarcate the shares acquired in winter 2005/06 and those acquired in autumn 2007. The annual statement sent to individual shareholders in May / June each year is intended to help in this regard, as well as identifying that all dividends have been paid.

Shareholders passed the resolution concerning electronic communications at the Annual General Meeting held on 17 April 2007. Following notification from the Registrars in August 2007, 935 shareholders elected to continue to receive paper copies of the Company’s shareholder communications and 265 shareholders wished to receive notification of the availability of the latest reports from the Company electronically. The 1,838 shareholders who did not respond are deemed to have given their consent to receive postal notification of the availability of the latest communications online. As a result, the Company will save printing and postal costs of approximately 2,000 fewer annual and interim reports.

Shareholders can obtain information about their shareholdings, and have the ability to change their registered details such as address and bank account details for dividend payments etc, by registering with Computershare’s Investor Service at the following web site: www.computershare.co.uk/investor. Once registered with Investor Centre, shareholders can also elect to receive electronic communications by ticking the box which selects ‘‘Electronic Shareholder Communications’’.

Outlook

An uncertain economic environment and stock markets that are trending downwards both provide a depressed backdrop for prospects in 2008. The counter balance to this general gloom is that the unquoted portfolio is currently exhibiting resilient trading, as are many within the AiM portion of the portfolio.

The investment mandate is long term so, where the Manager perceives such value, the intention is to wait until sentiment improves. In the meantime it is still possible for well-managed and well-positioned companies to become attractive take-over targets. It will be such profitable realisations that can fuel total returns for Baronsmead VCT 3 and provide the reserves for the continued payment of dividends.

Good buying opportunities should also become more evident.

Investment Manager

ISIS EP LLP

28 January 2008

Ordinary shares realisations Year to 31 December 2007		First Investment Date	Cost £’000	Proceeds £’000	Multiple Return
Unquoted					
Americana	Sale to financial buyer	August 2003	443	1,375	8.0*
Domantis	Trade sale	April 2004	601	2,491	4.1
RLA Group	Trade sale	April 2005	1,105	1,762	3.7*
Martin Audio	Trade sale	August 2003	786	2,668	3.5*
Boldon James	Trade sale	June 2005	562	1,668	3.1*
Country Artists	Liquidation	June 2004	448	–	0.1*
AiM					
Worthington Nicholls	Full sale	June 2006	27	86	3.2
Talarius	Trade sale	May 2005	250	700	2.8
IPT Holdings	Part sale	November 2004	114	226	2.0
Blooms of Bressingham	Trade sale	April 2001	320	291	0.9
Polaron	Trade sale	March 2004	296	188	0.6
Medal Entertainment & Media	Write off	August 2002	227	–	–

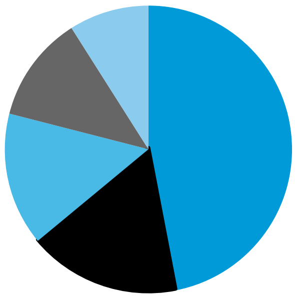
* includes interest received

Investment Portfolio

Investment Classification as at 31 December 2007

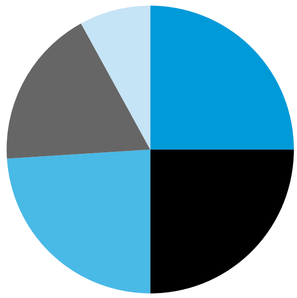
(Combined investments of both ordinary shares and C shares)

By Sector



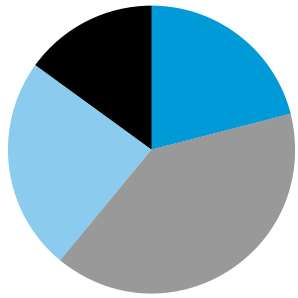
Business services	**44%**
IT support services	**20%**
Consumer	**15%**
Healthcare	**12%**
Media	**9%**

Total Assets



AiM/FTSE SmallCap	**25%**
Fixed interest	**25%**
Unquoted – loan stock	**24%**
Unquoted – ordinary and preference shares	**18%**
Net current assets	**8%**

Time Investments Held



Less than 1 year	**21%**
Between 1 and 3 years	**40%**
Between 3 and 5 years	**24%**
Greater than 5 years	**15%**

Company	Nature of business	Book cost Ordinary shares £'000	Book cost C shares £'000	Valuation Ordinary shares £'000	Valuation C shares £'000	**Total £'000**	% of Net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by other funds*
Unquoted									
Reed & Mackay	Business services	1,211	–	2,268	–	**2,268**	3.5	9.5	28.5
Independent Living Services	Healthcare	801	–	2,205	–	**2,205**	3.4	14.4	43.1
Kafévend	Consumer markets	1,247	–	2,161	–	**2,161**	3.3	15.4	46.3
Fisher Outdoor Leisure	Consumer markets	100	1,323	152	2,004	**2,156**	3.3	10.5	31.4
Empire World Trade	Business services	120	1,177	196	1,925	**2,121**	3.3	7.1	21.4
kidsunlimited	Business services	481	–	1,856	–	**1,856**	2.8	4.6	9.2
ScriptSwitch	IT support services	326	841	484	1,250	**1,734**	2.7	7.2	21.5
The Crucible Group	Business services	1,032	–	1,723	–	**1,723**	2.6	8.6	24.7
Hawksmere	Business services	766	–	1,680	–	**1,680**	2.6	10.5	27.1
SLR Holdings	Business services	290	–	1,592	–	**1,592**	2.4	2.6	6.7
Cablecom Networking	IT support services	385	996	385	996	**1,381**	2.1	10.6	31.7
Quantix Holdings	IT support services	261	933	298	1,063	**1,361**	2.1	11.4	34.2
The Art Group	Media	1,281	–	1,339	–	**1,339**	2.1	7.0	18.0
Crew Clothing	Consumer markets	59	873	81	1,188	**1,269**	1.9	5.9	17.8
MLS	IT support services	62	719	66	768	**834**	1.3	5.3	16.0
Xention Discovery	Healthcare	650	–	673	–	**673**	1.0	3.0	1.9
Occam	Business services	462	–	651	–	**651**	1.0	4.6	11.6
Green Issues	Media	98	399	124	498	**622**	1.0	9.5	28.5
Total unquoted		**9,632**	**7,261**	**17,934**	**9,692**	**27,626**	42.4		
FTSE SmallCap									
Vectura Group	Healthcare	771	–	860	–	**860**	1.3	0.5	0.9
Ardana	Healthcare	619	–	227	–	**227**	0.4	0.8	0.6
Oxford BioMedica	Healthcare	250	–	73	–	**73**	0.1	0.1	0.1
Total FTSE SmallCap		**1,640**	**–**	**1,160**	**–**	**1,160**	1.8		

Company	Nature of business	Book cost		Valuation					
		Ordinary shares £'000	C shares £'000	Ordinary shares £'000	C shares £'000	**Total £'000**	% of Net assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by other funds*
Quoted on AiM									
Jelf Group	Business services	551	–	1,503	–	**1,503**	2.3	2.5	7.6
IDOX	IT support services	920	–	1,080	–	**1,080**	1.7	2.8	4.8
Murgitroyd Group	Business services	319	–	1,054	–	**1,054**	1.6	3.2	3.2
Claimar Care	Healthcare	73	497	93	636	**729**	1.1	1.4	5.5
Begbies Traynor Group	Business services	283	–	708	–	**708**	1.1	0.9	2.6
Proactis Holdings	IT support services	29	371	42	544	**586**	0.9	3.0	12.1
Concateno	Healthcare	38	359	46	501	**547**	0.8	0.5	2.0
Driver Group	Business services	438	–	498	–	**498**	0.8	2.4	8.7
InterQuest Group	Business services	310	–	478	–	**478**	0.7	1.9	5.6
Plastics Capital	Business services	124	349	108	303	**411**	0.6	1.8	8.3
Huveaux	Media	541	–	400	–	**400**	0.6	1.4	3.0
Brulines Holdings	Business services	31	316	35	364	**399**	0.6	1.2	5.2
Adventis Group	Media	281	–	374	–	**374**	0.6	2.4	6.1
Mount Engineering	Business services	107	278	101	262	**363**	0.6	2.3	10.6
Sanderson Group	IT support services	387	–	348	–	**348**	0.5	1.8	5.3
Prologic	IT support services	310	–	331	–	**331**	0.5	4.1	10.9
Optimisa	Media	83	215	75	193	**268**	0.4	1.5	7.3
Research Now	Media	69	194	65	183	**248**	0.4	0.3	1.2
EBTM	Consumer markets	68	176	68	176	**244**	0.4	2.1	9.8
Colliers CRE	Business services	470	–	241	–	**241**	0.4	0.9	1.8
Quadnetics Group	Business services	296	–	240	–	**240**	0.4	0.7	1.6
Stagecoach Theatre Arts	Consumer markets	419	–	239	–	**239**	0.4	4.6	4.6
Business Direct Group	Business services	665	–	236	–	**236**	0.4	3.8	7.1
Kiotech International	Business services	12	188	14	220	**234**	0.4	2.7	10.6
Interactive Prospect Targeting	Business services	139	–	224	–	**224**	0.3	0.5	1.6
Essentially Group	Media	71	184	62	160	**222**	0.3	1.4	8.3
Vero Software (formerly VI Group)	IT support services	300	–	209	–	**209**	0.3	3.7	10.5
Autoclenz Holdings	Consumer markets	80	320	42	166	**208**	0.3	3.1	9.2
Craneware	IT support services	50	129	58	149	**207**	0.3	0.6	2.6
Cohort	Business services	47	132	52	146	**198**	0.3	0.3	1.7
Appian Technology	IT support services	56	246	36	160	**196**	0.3	2.8	8.5
Tasty	Consumer markets	52	188	43	152	**195**	0.3	0.8	4.0
WIN	IT support services	263	–	181	–	**181**	0.3	1.3	3.6
Tangent Communications	Business services	38	142	36	137	**173**	0.3	0.9	4.0
Mission Marketing Group	Media	190	–	159	–	**159**	0.2	0.4	1.1
Air Music & Media Group	Media	574	–	150	–	**150**	0.2	1.6	2.8
Xpertise Group	Business services	296	–	148	–	**148**	0.2	2.4	4.1
FfastFill	IT support services	36	94	34	87	**121**	0.2	0.5	2.4
Payzone (formerly Cardpoint)	Business services	88	–	103	–	**103**	0.2	0.1	0.1
Eg Solutions	IT support services	375	–	97	–	**97**	0.1	3.1	11.1
Real Good Food Company	Consumer markets	540	–	92	–	**92**	0.1	0.6	1.7
Fishworks	Consumer markets	174	–	70	–	**70**	0.1	1.0	3.1
Brainjuicer	Media	3	47	4	63	**67**	0.1	0.4	1.5
MKM Group	Business services	284	–	48	–	**48**	0.1	0.9	2.3
Universe Group	IT support services	158	–	42	–	**42**	0.1	0.6	1.5
Debtmatters Group	Consumer markets	169	–	40	–	**40**	0.1	0.8	2.4
INVU	IT support services	10	25	10	25	**35**	0.1	0.1	1.8
Cantono (formerly Hamsard Group)	IT support services	375	–	25	–	**25**	0.0	0.1	0.4
Zoo Digital Group	IT support services	584	–	15	–	**15**	0.0	0.4	0.7
Capcon Holdings	Business services	137	–	6	–	**6**	0.0	1.7	3.4
Micap	Healthcare	325	–	6	–	**6**	0.0	0.2	0.5
Total AiM		**12,238**	**4,450**	**10,369**	**4,627**	**14,996**	23.0		
Interest bearing securities									
UK Treasury 5.0% 07/03/08		562	7,622	563	7,636	**8,199**	12.5		
Money Market OEIC		5,024	3,114	5,024	3,114	**8,138**	12.5		
Total interest bearing securities		**5,586**	**10,736**	**5,587**	**10,750**	**16,337**	25.0		
Total investments		**29,096**	**22,447**	**35,050**	**25,069**	**60,119**	92.2		
Net current assets less creditors due after 1 year				**3,796**	**1,306**	**5,102**	7.8		
Net assets				**38,846**	**26,375**	**65,221**	100.0		

A provision of £nil has been made against unquoted investments as at 31 December 2007 (2006 – £574,000).
*Other Funds managed by the same Investment Manager, ISIS EP LLP.

Ten Largest Investments

The top ten investments by current value to 31 December 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.

REED & MACKAY LIMITED London

Taking customers around the world

First Investment: November 2005
Cost: £1,211,000
Valuation: £2,268,000
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	2007	2006
	£ million	£ million
Sales	10.8	9.4
Profit before tax	2.8	2.6
Retained profit	2.3	2.0
Net assets	3.4	8.2

www.reedmac.com

INDEPENDENT LIVING SERVICES LIMITED Alloa

Flexible, responsive and accountable domiciliary care

First Investment: September 2005
Cost: £801,000
Valuation: £2,205,000
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

SME hot drinks vending

First Investment: October 2005
Cost: £1,247,000
Valuation: £2,161,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 15.4%

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

Kafévend employs over 70 people and operates from seven 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

FISHER OUTDOOR HOLDINGS LIMITED St. Albans

Supplying the biking industry

First Investment: June 2006
Cost: £1,423,000
Valuation: £2,156,000
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 effect a 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

EMPIRE WORLD TRADE LIMITED Spalding

Keeping the UK eating an apple a day

First Investment: August 2006
Cost: £1,297,000
Valuation: £2,121,000
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	2007	2006
	£ million	£ million
Sales	95.3	83.7
Profit before tax	3.9	2.8
Retained profit	2.8	1.9
Net assets	5.1	2.9

www.empireworldtrade.com

kidsunlimited Wilmslow

Sales and profits growth

First Investment: June 2001
Cost: £481,000
Valuation: £1,856,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 4.6%

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 over 4,500 across 50 sites.

Year ended 30 April	2007	2006
	£ million	£ million
Sales	27.4	23.6
Loss before tax	(1.6)	(2.0)
Retained loss	(1.6)	(2.0)
Net liabilities	(9.1)	(7.5)

www.kidsunlimited.co.uk

ScriptSwitch Limited Coventry

Prescription software

First Investment: May 2007
Cost: £1,167,000
Valuation: £1,734,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 7.2%

ScriptSwitch Limited provides an innovative prescribing software product to Primary Care Trusts ('PCTs'), which is then employed by GPs in their surgeries. ScriptSwitch is a unique medicines management tool that enables PCTs to save millions of pounds from their drugs budgets.
In May 2007, ISIS completed the £9.9 million secondary buy-out of ScriptSwitch.

Year ended 30 June	2007	2006
	£ million	£ million
Sales	2.1	0.3
Profit/(loss) before tax	0.9	(0.4)
Retained profit/(loss)	0.7	(0.4)
Net assets/(liabilities)	0.4	(0.3)

www.scriptswitch.com

THE CRUCIBLE GROUP LIMITED Carshalton

Credit management services

First Investment: May 2005
Cost: £1,032,000
Valuation: £1,723,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 8.6%

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	2005
	£ million	£ 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

www.creditsolutions.co.uk

HAWKSMERE LIMITED London

Provider of professional training seminars and conferences

First Investment: December 2003
Cost: £766,000
Valuation: £1,680,000
Valuation Basis: Offer
Percentage of equity held: 10.5%

Hawksmere Limited is a leading provider of professional training seminars and conferences in subjects ranging from business law to PR and senior management development. Hawksmere also operates outsourced training contracts for a range of partners including Croner and the Royal Town Planning Institute.
In December 2003 £6 million was invested to fund a management buy-out. Hawksmere operates from an office in London and currently employs 40 staff.

Year ended 31 December	2006	2005
	£ million	£ million
Sales	8.0	8.0
Loss before tax	(1.0)	(1.5)
Retained loss	(1.0)	(1.5)
Net liabilities	(3.2)	(2.2)

www.hawksmere.co.uk

SLR HOLDINGS LIMITED Aylesbury

Environmental consultancy

First Investment: September 2004
Cost: £290,000
Valuation: £1,592,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 2.6%

SLR Holdings Limited 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.

Year ended 27 October	2006	2005
	£ million	£ million
Sales	23.8	18.4
Profit before tax	2.7	1.9
Retained profit	1.7	1.1
Net assets	9.7	10.4

www.slrconsulting.co.uk

Creating Shareholder Value

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

Baronsmead VCT 3 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 3.8 times over initial cost by 31 December 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 four years to 30 September 2007, annual turnover has grown from £8.5 million to £40.6 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%.

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 1.5 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 31 December 2007, the value of the initial investment is 4.1 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 31 December 2007

Mark Cannon Brookes (Chairman)

(age 68) is a director of Smith & Williamson Investment Management. The Smith and Williamson Group has £8 billion of investments under management. He is chairman of CG Asset Management Limited and is also a director of F&C UK Select Trust plc and a number of other companies, mostly overseas.

Andrew Karney
(age 65) was deputy chairman and a shareholder of Language Line Limited in which Baronsmead VCT 3, was an investor. He is chairman of Tiri an anti-corruption NGO. He was previously a director of The Guardian Media Group plc, Guardian News and Media Limited, Integrated Micro Products plc and a number of unquoted companies. He was a founder director of Cable London plc and an executive director of Logica plc.

Gillian Nott
(age 62) was until March 1999 chief executive of ProShare (UK) Limited. She was a director of the Financial Services Authority for 6 years to November 2004. Previously she was responsible for the private equity portfolio at BP and latterly has been a non-executive director of investment trusts at Merrill Lynch and Martin Currie and is chairman of Witan Pacific Investment Trust plc. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 2 plc and recently she was appointed deputy chairman to the AIC.

Robert Owen
(age 62) is a business consultant to developing companies and a director of Baronsmead VCT 4 plc. Previously he was a senior manager at Coutts and Co, responsible for the overall running of the venture capital investment portfolio.

As a fully listed company, Baronsmead VCT 3 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.

Summary Financial Statement

This Summary Financial Statement has been prepared voluntarily by the Directors in accordance with the relevant requirements of section 251 of the Companies Act 1985. It does not contain sufficient information to allow a full understanding of the results and state of affairs of the Company. For further information, the full Annual Financial Statements, the Auditor's Report on those financial statements and the Directors' Report should be consulted. A copy of the Annual Report, which may be obtained free of charge from the Company Secretary, will be delivered to the Registrar of Companies after the Annual General Meeting. Shareholders wishing to receive the full Annual Report in future years may opt to do so by sending signed, written notice to the Company Secretary. KPMG Audit Plc have reported on the Company's Annual Accounts and the auditable part of the Directors' Remuneration Report for the year ended 31 December 2007; this report was unqualified and contained no statement under section 237(2) and (3) of the Companies Act 1985.

Summary Directors' Report

Results and Dividends

The Directors submit the Seventh Report and Accounts of the Company for the year ended 31 December 2007.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	302
Interim capital dividend of 2.1p per ordinary share paid on 28 September 2007	(666)
Interim revenue dividend of 0.9p per ordinary share paid on 28 September 2007	(285)
Second interim capital dividend of 3.1p per ordinary share paid on 28 December 2007	(1,000)
Second interim revenue dividend of 1.4p per ordinary share paid on 28 December 2007	(452)

C Shares	£'000
Profit on ordinary activities after taxation	1,924
Interim capital dividend of 1.0p per C share paid on 28 September 2007	(240)
Interim revenue dividend of 1.0p per C share paid on 28 September 2007	(240)
Second interim capital dividend of 1.45p per C Share paid on 28 December 2007	(371)
Second interim revenue dividend of 0.55p per C share paid on 28 December 2007	(141)

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 as to comply with Section 274 of the Income Tax Act 2007 and the Company has received full approval as a Venture Capital Trust from HM Revenue & Customs for the year to 31 December 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 3 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 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 per cent of its investments in a single company and must

Summary Financial Statement

have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in Qualifying Holdings, of which 30 per cent by value must be ordinary shares which carry no preferential rights. In addition, it must have at least 10 per cent by value of its total investments in any Qualifying Company in ordinary shares which carry no preferential rights.

Asset mix

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

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities. The maximum 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 unquoted companies alongside the Company on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's Articles permit borrowing to give a degree of investment flexibility. The Company's policy is to use borrowing for short term liquidity purposes only.

No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an ordinary resolution.

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 this report.

Issue and Buy-Back of Shares

Ordinary shares

During the year the Company issued 541,129 ordinary shares and raised net proceeds of £680,000. The Company bought back 450,000 ordinary shares during the year at a cost of £526,000 to be held in Treasury, with a further 200,000 ordinary shares bought back for cancellation at a cost of £233,000. Shares held in Treasury will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The Company holds 3,180,000 ordinary shares in Treasury, representing 9.9 per cent of the Company's issued ordinary share capital as at 28 January 2008.

C shares

During the year the Company issued 1,570,559 C shares and raised net proceeds of £1,696,000. No C shares were bought back during the year.

Directors

Biographies of the Directors are shown on page 14.

Mrs G Nott and Mr R Owen, whose biographies appear on page 14 retire by rotation at the seventh Annual General Meeting of the Company and, being eligible, offers 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 plc and Mr R Owen who is a director of Baronsmead VCT 4 plc will seek annual re-election. Accordingly Mrs G Nott and Mr R Owen will retire by rotation at the Annual General Meeting of the Company and, being eligible, will offer themselves 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.

Summary Financial Statement

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

	31 December 2007		31 December 2006	
	Ordinary 10p shares	**C 50p shares**	Ordinary 10p shares	C 50p shares
Mark Cannon Brookes	**135,818**	**20,700**	123,144	20,700
Andrew Karney	**38,656**	**41,200**	35,049	41,200
Gillian Nott	**16,597**	**10,350**	16,597	10,350
Robert Owen	**10,709**	**–**	10,709	–
Total shares held	**201,780**	**72,250**	185,499	72,250

There have been no changes in the holdings of the Directors between 31 December 2007 and 28 January 2008. On 28 January 2008, the C share holdings of Mark Cannon Brookes, Andrew Karney and Gillian Nott converted into 17,728 ordinary shares, 35,284 ordinary shares and 8,864 ordinary shares respectively. This brings their total holdings to: Mark Cannon Brookes – 153,546 ordinary shares; Andrew Karney – 73,940 ordinary shares; Gillian Nott – 25,461 ordinary shares.

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

The full Corporate Governance Statement is set out in the Annual Report to 31 December 2007.

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 19 March 2008 can be found in the Notice of Meeting on pages 24 and 25.

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 also provides or procures 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 2.5 per cent per annum of the net assets relating to the ordinary shares and 2.0 per cent per annum of the net assets relating to the C shares. In addition, the Manager receives an annual administration fee subject to a maximum of £100,000 excluding VAT (adjusted for the movement in RPI). Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

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

Co-investment Scheme

The Co-investment Scheme requires that executive members of the Manager invest their own personal capital into five per cent 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 per cent. By 31 December 2007, a total of £251,740 had been invested in ordinary shares of 13 unquoted investments by 31 executives.

Shares 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 is payable to the Manager when the Total Return on net proceeds of the ordinary share offers exceeds 8 per cent per annum (simple) on net funds raised.

Summary Financial Statement

To take account of the proceeds from the 2005/6 'C' Share offer which were held initially in cash and fixed interest securities, an annual threshold of only 2 per cent for the period to 31 December 2007 (simple) applied to the funds raised under the C Share offer after which the existing arrangement described above will apply. The performance fee is capped at 4.99 per cent of both pools of assets.

To the extent that the Total Return exceeds these thresholds, a performance fee (plus VAT) will be paid to the Manager of 20 per cent of the excess to 31 March 2007, 16.66 per cent to 31 March 2008, 13.33 per cent to 31 March 2009, and 10 per cent thereafter.

No performance fee is payable for the year to 31 December 2007.

Post Balance Sheet Event

In accordance with the terms set out in the C share prospectus dated 14 September 2005 the C shares were due to convert into ordinary shares by reference to a date not later than 31 December 2007. The conversion ratio of C shares into ordinary shares was 0.85642528 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 December 2007 (103.15p per share) and dividing it by the net asset value of the assets of the existing ordinary shareholders at 31 December 2007 (120.44p per share).

On 28 January 2008, the conversion of the C shares into ordinary shares resulted in 21,899,078 ordinary shares being issued.

As a result of the C share conversion, the Company has assets of £65.2 million and the total number of ordinary shares in issue after conversion on 28 January 2008 was 54,152,599 (120.44p per ordinary share).

All shares will rank *pari passu* for future dividends paid by the Company.

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

Redesignation of unissued C shares

Resolution 6 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 7 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 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 7 renews the Directors' authority to allot ordinary shares. This would enable the Directors until 18 March 2013, to allot up to 5,415,250 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 28 January 2008).

Resolution 8 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 ordinary shares and/or re-issue shares out of Treasury for cash without pre-emption rights applying by way of offer to existing shareholders, or re-issuing shares out of Treasury up to a maximum of 5,415,250 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 28 January 2008). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders as a whole.

Treasury Shares

The Company currently holds 3,180,000 ordinary shares in Treasury. If Resolution 8 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 per cent initial income tax relief, all further dividends will be tax-free and if they are subsequently sold, no capital gains tax is payable by qualifying shareholders on these shares.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and Resolution 9 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 rules 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.

Summary Financial Statement

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 10, which would extend the life of the Company to beyond the AGM in 2014, will permit new shares to be issued on an ongoing basis.

Summary Directors' Remuneration Report

Policy on Directors' Fees

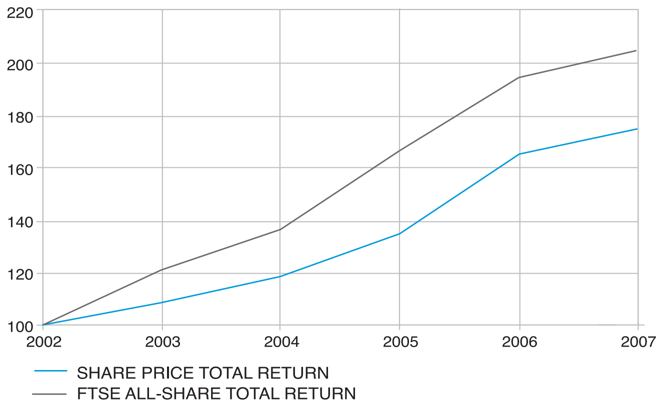
The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level 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 31 December 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 £100,000 per annum. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

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 following graph compares for the five financial years ending 31 December 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 comparable 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.

Ordinary Share Price and FTSE All-Share Index Total Return 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 £
Mark Cannon Brookes	**21,000**	21,000
Andrew Karney	**14,000**	14,000
Gillian Nott	**14,000**	14,000
Robert Owen	**14,000**	14,000
Total	**63,000**	63,000

On behalf of the Board,

Mark Cannon Brookes
Chairman
28 January 2008

Independent Auditors' Report

Independent Auditors' Statement to the Shareholders of Baronsmead VCT 3 plc

We have examined the summary financial statement which comprises the Summary Directors' Remuneration Report, Income Statement, Balance Sheet and Reconciliation of Movement in Shareholders' Funds set out on pages 19 and 21 to 23.

This statement is made solely to the Company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Summary Report and Accounts in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Report and Accounts with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Summary Report and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the Company's full annual financial statements describes the basis of our audit opinion on those financial statements and the Directors' Remuneration Report.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of Baronsmead VCT 3 plc for the period ended 31 December 2007 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
28 January 2008

Income Statement

For the Year ended 31 December 2007

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

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2007

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

Income Statement

For the Year ended 31 December 2006

	Ordinary shares			C shares			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gain on investments	–	6,884	6,884	–	1,509	1,509	–	8,393	8,393
Realised gain on investments	–	779	779	–	241	241	–	1,020	1,020
Income	1,170	–	1,170	950	–	950	2,120	–	2,120
Investment management fee	(309)	(2,077)	(2,386)	(139)	(775)	(914)	(448)	(2,852)	(3,300)
Other expenses	(230)	–	(230)	(139)	–	(139)	(369)	–	(369)
Profit on ordinary activities before taxation	631	5,586	6,217	672	975	1,647	1,303	6,561	7,864
Tax on ordinary activities	(65)	65	–	(199)	199	–	(264)	264	–
Profit on ordinary activities after taxation	566	5,651	6,217	473	1,174	1,647	1,039	6,825	7,864
Return per ordinary share/C share:									
Basic	1.73p	17.24p	18.97p	1.97p	4.90p	6.87p	–	–	–

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 December 2006

	2006 Ordinary shares £'000	2006 C shares £'000	2006 Total £'000
Opening shareholders' funds	39,226	17,022	56,248
Profit for the year	6,217	1,647	7,864
Increase in share capital	365	5,804	6,169
Cost of share premium conversion	–	(6)	(6)
Purchase of shares for Treasury	(1,504)	–	(1,504)
Dividends paid	(1,983)	(240)	(2,223)
Closing shareholders' funds	42,321	24,227	66,548

Balance Sheet

As at 31 December 2007

	2007			2006		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets						
Investments	**35,050**	**25,069**	**60,119**	42,387	23,349	65,736
Current assets						
Debtors	**943**	**405**	**1,348**	317	338	655
Cash at bank and on deposit	**3,231**	**1,340**	**4,571**	1,251	1,081	2,332
	4,174	**1,745**	**5,919**	1,568	1,419	2,987
Creditors (amounts falling due within one year)	**(378)**	**(354)**	**(732)**	(1,634)	(541)	(2,175)
Net current assets/(liabilities)	**3,796**	**1,391**	**5,187**	(66)	878	812
Total assets less current liabilities	**38,846**	**26,460**	**65,306**	42,321	24,227	66,548
Creditors (amounts falling due after one year)	**–**	**(85)**	**(85)**	–	–	–
Net assets	**38,846**	**26,375**	**65,221**	42,321	24,227	66,548
Capital and reserves						
Called-up share capital	**3,543**	**12,785**	**16,328**	3,509	12,000	15,509
Share premium account	**4,879**	**911**	**5,790**	4,253	–	4,253
Capital redemption reserve	**267**	**–**	**267**	247	–	247
Revaluation reserve	**5,954**	**2,622**	**8,576**	12,102	1,511	13,613
Profit and loss account	**24,203**	**10,057**	**34,260**	22,210	10,716	32,926
Equity shareholders' funds	**38,846**	**26,375**	**65,221**	42,321	24,227	66,548
Net asset value per share						
– Basic	**120.44p**	**103.15p**	**–**	130.77p	100.95p	–
– Treasury	**119.64p**	**–**	**–**	129.66p	–	–

The financial statements were approved by the Board of Directors on 28 January 2008 and were signed on its behalf by:

MARK CANNON BROOKES (Chairman)

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Baronsmead VCT 3 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS on 19 March 2008 at 11.00 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 31 December 2007 be received.

2. That the Directors' Remuneration Report for the year to 31 December 2007 be approved.

3. That Mrs G Nott, who retires by rotation, be re-elected as a Director.

4. That Mr R Owen, who retires by rotation, be re-elected as a Director.

5. That KPMG Audit Plc, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolution

6. 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.

7. 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 £541,525 during the period commencing on the passing of this resolution and expiring on 18 March 2013 (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

8. That subject to the passing of resolution 7 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 7 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-paragraph (i) above) up to an aggregate nominal amount of £541,525 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 5,415,250 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

9. 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 8,117,470;
   (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.

10. That Article 160.1 of the 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 2014, 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
28 January 2008

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 11.00 a.m. on 17 March 2008, 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 11.00 a.m. on 17 March 2008, 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.

Corporate Information

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

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

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

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

Registered Number
04115341

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

*Chairman of the Audit Committee
†Senior Independent Director

Financial Calendar

19 March 2008	Seventh Annual General Meeting
August 2008	Announcement of interim results
August 2008	Posting of interim report
February 2009	Announcement of final results for year to 31 December 2008

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.baronsmeadvct3.co.uk, is currently being developed.

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

Baronsmead VCT 3 plc is managed by ISIS EP LLP which is Authorised and regulated by the 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.

Summerhall Corporate 40295