

# BARONSMEAD

Baronsmead VCT 3 plc

## 2010

Half-yearly report  
for the six months ended  
30 June 2010



# Investment Objective

Baronsmead VCT 3 is a tax efficient listed company which aims to achieve long-term investment returns for private investors.

## Investment policy

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

## Dividend policy

The Board of Baronsmead VCT 3 has the objective 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 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 (including the declared interim dividend of 3.0p) has been 5.4p per ordinary share (equivalent to a pre-tax return of 8.0p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs, their returns would have been even higher.

## Secondary market in the shares of Baronsmead VCT 3

The existing shares of the Company are listed on the London Stock Exchange and can be bought and sold using a stockbroker in the same way as shares of any other listed company.

Qualifying investors\* who invest in the existing shares of the Company can benefit from:

- Tax free dividends
- Realised gains not subject to capital gains tax (although any realised losses are not allowable)
- No minimum holding period
- No need to include VCT dividends in annual tax returns

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 a capital gain in respect of new shares acquired prior to 6 April 2004.

\* UK income tax payers, aged 18 or over, who acquire no more than £200,000 worth of VCT shares in a tax year.

[www.baronsmeadvct3.co.uk](http://www.baronsmeadvct3.co.uk)

# Financial Headlines

## 3.0p

Interim dividend of 3.0p per share (unchanged from prior year) payable on 15 September 2010 to shareholders on the register at 20 August 2010.

## + 3.8%

NAV per share increased by 3.8 per cent over the six month period to 30 June 2010 from 97.50p to 101.24p before payment of the 3.0p interim dividend.

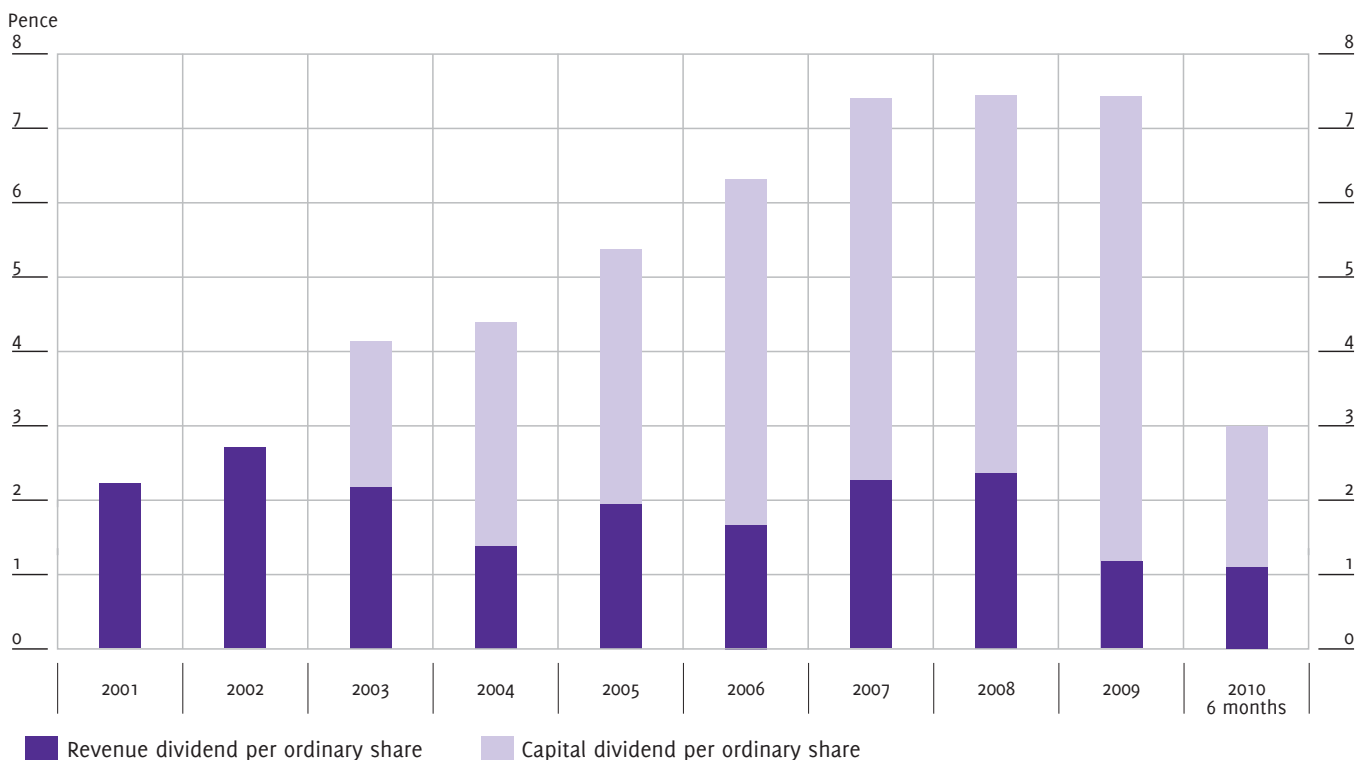
## + 166.1%

NAV total return to ordinary shareholders for every 100p invested since launch.

## 8.4%

Dividend yield of 8.4 per cent tax free to qualifying shareholders (gross equivalent yield for a higher rate taxpayer is 12.5 per cent). This rolling twelve month yield is based on the 3.0p interim dividend payable in September 2010 plus the 4.5p dividend paid in December 2009 divided by the mid ordinary share price of 89.0p at 30 June 2010.

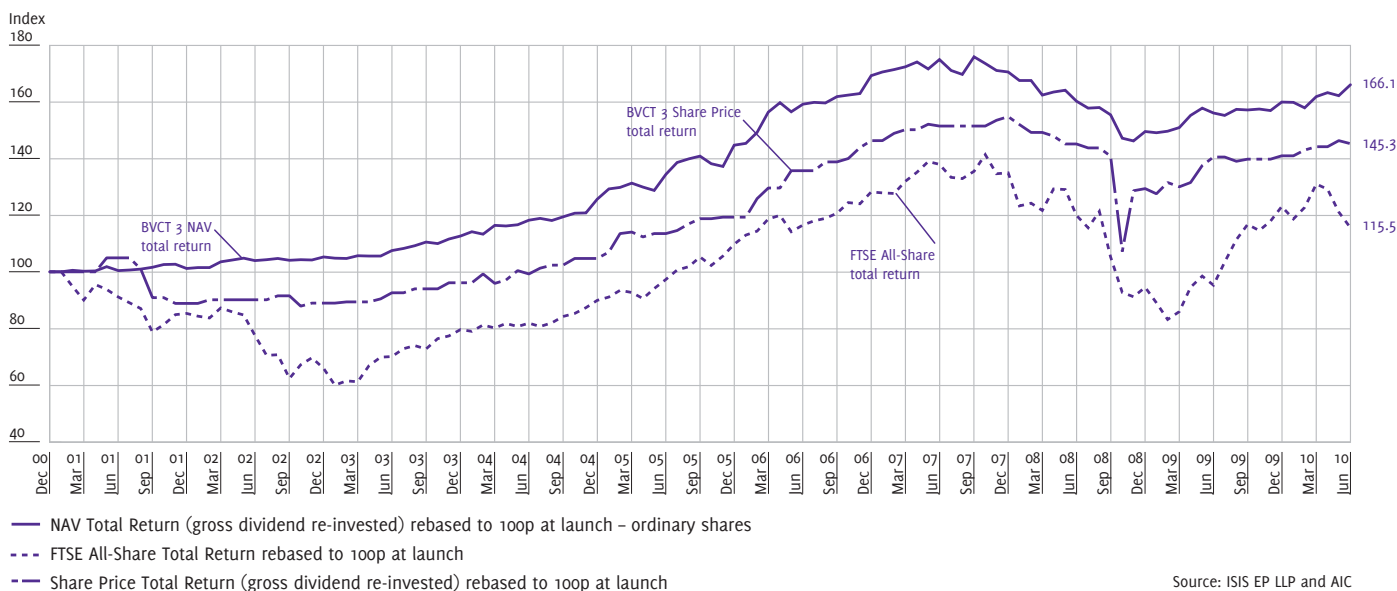
Dividend history since launch



# Summary Since Launch

## Baronsmead VCT 3 plc

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



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.

## Performance Summary to 30 June 2010

Total return and share price*	1 year %	3 year %	5 year %	Since launch %
Net asset value†	6.4	(5.1)	23.6	66.1
Share price†	3.5	(3.9)	28.2	45.3
FTSE All-share	21.1	(16.2)	18.7	15.5

\* Source: ISIS EP LLP and AIC.

† These returns for Baronsmead VCT 3 ignore up front tax reliefs and the impact of receiving dividends tax free.

## 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	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid* p	Net annual yield‡ %	Gross yield† %
2001 (January)	100.0	20.0	80.0	51.3	6.8	10.1
2005 (March) – C Share	100.0	40.0	60.0	22.4	7.0	10.4
2010 (March)	103.1	30.9	72.2	3.0	– <sup>^</sup>	– <sup>^</sup>

Note – 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.

\* Includes proposed interim dividend of 3.0p to be paid on 15 September 2010.

‡ Net annual yield represents the cumulative dividends paid expressed as an annualised percentage of the net cash invested.

† The gross equivalent yield if the dividends had been subject to higher rate tax (32.5 per cent on dividend income at 30 June 2010). As from the tax year 2010/11, a new additional rate of tax on dividend income of 42.5 per cent came into force for those who earned more than £150,000. For those Shareholders who would otherwise pay this higher rate of tax on dividends, the future gross equivalent yield will be higher than the figures shown.

Dividends paid to C shareholders post conversion have been adjusted by the conversion ratio (0.85642528).

<sup>^</sup> The table above excludes returns for shareholders who subscribed in the Joint Offer with Baronsmead VCT 4 plc as those returns are not yet meaningful.

# Chairman's Statement

I am very pleased to present my first report since becoming Chairman after the 9th Annual General Meeting held in May 2010 on the retirement of Mark Cannon Brookes. On behalf of the Board and shareholders, I would like to pay public tribute to Mark for his excellent work as Chairman from the formation of Baronsmead VCT 3 in 2001.

The 3.8 per cent growth in Net Asset Value ("NAV") per share continues the positive trend since the November 2008 low point and comes at a time when operating profits for many of our portfolio companies are increasing. The 3p interim dividend maintains the level paid at this stage for each of the last three years.

Our joint offer with Baronsmead VCT 4 closed on 17 March 2010 fully subscribed, raising £8m gross proceeds for Baronsmead VCT 3 from over 900 subscribers. We are delighted to welcome circa 200 new shareholders.

## Results

In the six months to 30 June 2010, the NAV per share increased by 3.8 per cent from 97.50p to 101.24p before payment (due on 15 September 2010) of a 3p per share interim dividend. This dividend arises both from the capital profits realised in the period and net revenues of 1.2p per share. The increase in NAV per share is primarily due to the 9 per cent increase in the value of the unquoted portfolio. In comparison the FTSE All-Share Index decreased 7.9 per cent over the same period.

At the period end, over 70 per cent of the ordinary capital raised (net of launch costs) prior to 31 December 2007 was invested in VCT qualifying investments and the five other VCT qualifying tests had also all been met.

## Long term performance

The interim dividend will take the cumulative dividends paid (tax free for qualifying shareholders) for founder shareholders in 2001 to 51.3p per share and represents a very rewarding level of cash returned on their original £1 investment. This period included two major Stock Market downturns in 2003 and 2008.

Shareholders from the first two prospectus offers in 2001 and 2005/06 have to date achieved positive absolute total returns. The comparable returns for the FTSE All-Share Index over differing time periods are set out on page 2. In addition, comparable returns with other VCTs can be seen on the website of the Association of Investment Companies ("AIC") who publish monthly data, [www.theaic.co.uk](http://www.theaic.co.uk).

The benefit of VCT tax reliefs on the dividends noted above is set out in the table titled 'Cash returned to shareholders' in terms of annual net and gross yields, including the assumptions made in these computations. Over the long term, the benefit of the tax free dividends can be very significant: in order for a higher rate tax payer since inception to receive the same income from taxable dividends as from Baronsmead VCT 3, they would have needed to have received an additional 25p per share in dividends before tax. In addition, this tax relief will be of significantly increased value to those shareholders whose income exceeds £150,000 p.a. from the 2010/11 tax year as there is a new dividend tax rate of 42.5 per cent (up from 32.5 per cent).

## Portfolio review

Following new investment in five companies and the sale of four investments plus one AIM write off, the total portfolio comprises sixty-four companies. The portfolio by value was invested 47 per cent in unquoted companies, 19 per cent in AIM and Listed investees, 2 per cent in Wood Street Microcap Investment Fund and the balance of 32 per cent remained in cash or government securities. The largest unquoted investment, Nexus Vehicle Holdings Limited, and the largest AIM investment, IDOX plc, represented 6.4 and 2.0 per cent of Net Asset Value respectively.

Portfolio companies are reviewed quarterly in terms of their financial health and in the last three quarters, the number of companies exhibiting steady or better trading progress has improved to 94 per cent of the portfolio.

The Manager had anticipated the economic downturn and selects investments that have less exposure to the business cycle and have distinctive growth strategies that are intended to be less reliant on general economic conditions. These selection criteria have shown early success as can be seen by the relatively robust unquoted company valuations throughout the recessionary period and several profitable exits. A number of AIM companies have also been acquired by trade buyers from the portfolio signalling good value within their sectors.

The Manager is fully aware of the likelihood of public sector spending cuts and associated risks. Some of the portfolio companies do have exposure to the public sector; however, the portfolio as a whole has limited exposure to discretionary public spending which may be the most vulnerable area.

## Unquoted portfolio

On average, the value of the current portfolio of unquoted investments is 27 per cent higher than original cost. Seventeen companies are valued at or higher than cost whilst three are valued below cost. These period end figures exclude two unquoted company realisations, namely Active Assistance in March 2010 for 2.8 times cost and Occam DM Ltd at 1.5 times cost in May 2010.

# Chairman's Statement

The sale of Active Assistance was an excellent result after first investment in March 2008. Based in Sevenoaks, the business provides a national live-in care service for adults and children with spinal cord injuries and neurological conditions. The sale involved a merger with another health care business, First Call Care Services Limited, to create a national provider of both live-in and live-out care to individuals with complex long term conditions.

Occam DM Ltd was the longest standing unquoted investment in the portfolio since first investing in July 2004. Occam DM Ltd is a leading provider of marketing management software and direct marketing solutions with a blue chip client base in both the public and private sectors. Occam DM Ltd was sold to St Ives Group in May 2010 realising 1.5 times cost. At 31 December 2009, it had been valued at 25 per cent of cost, which illustrates both the caution applied when valuing unquoted investments until proven and how the business was transformed.

The price earnings multiples used in calculating unquoted valuations have changed little recently and so the increase in value has generally come from good profit growth. Several have shown sales growth by taking market share through innovation, particularly in establishing new and cost effective channels to market and servicing customers.

For instance Mark Burchfield, Managing Director of CableCom Networking Holdings Limited in which the Baronsmead VCTs invested in May 2007 presented its story at the ninth AGM held in May 2010. CableCom's tag line is 'Always Connected' as the market leading provider of Student Accommodation Internet Services. Students have benefitted from the widest range of student specific IT services, some of the fastest UK broadband speeds and improvement in the 'student experience'. Annual turnover has almost doubled over the last three years.

## AIM-traded portfolio and Wood Street Microcap Investment Fund

These share portfolios were down 5.4 per cent and 2.2 per cent over the six months under review as the UK quoted markets lost some of their earlier recovery due to concerns about government deficits and economic growth.

Interest from trade buyers again highlighted value in the AIM portfolio including a bid possibility for WIN plc where further investment had been made in 2009. Realised profits totalled £168,000 from the AIM portfolio. The main success came from disposing of some 50 per cent of the shares held in Advanced Computer Software plc at 2.1 times cost at the time of flotation in July 2008.

Our holding in the Wood Street Microcap Investment Fund is now valued at £1 million across nineteen non-qualifying investments.

## New investment

Unquoted investment totalled £3.5 million in the six months under review comprising investment in Surgi C Limited, Inspired Thinking Group Limited and Getting Personal Limited plus two further round financings into Independent Living Services Limited and Nexus Vehicle Holdings Limited.

- Surgi C Limited, the UK's leading independent distributor of spinal implants is based in Birmingham. The business has grown strongly as a result of an increasing product portfolio and the high levels of education and support it provides to spinal surgeons. [www.surgi-c.com](http://www.surgi-c.com)
- Birmingham based Inspired Thinking Group Limited (ITG) provides services that help large marketing departments operate more efficiently, including improved procurement of artwork and print management. The new funding was used to acquire Total Marketing Service, a provider of workflow management systems to marketing departments.
- Getting Personal Limited is a leading online retailer, based in Manchester, which sells personalised and unique gifts. The business was established in November 2005 with just one product, a personalised calendar. [www.GettingPersonal.co.uk](http://www.GettingPersonal.co.uk) now sells over 4,000 items ranging from personalised cards, notebooks, mugs and chocolate to non-personalised items for general gifting.
- Existing portfolio company Nexus Vehicle Holdings Limited, a leading provider of vehicle rental, used further funding to acquire Adapted Vehicle Hire, which is a niche rental business providing adapted vehicles for the disabled driver market.
- Two further small investments were made in portfolio company Independent Living Services Limited, an acute domiciliary care provider based in Scotland, firstly to fund a small acquisition and secondly to repurchase shares.

The volume of qualifying AIM opportunities also increased from the depressed levels of 2009. Some £481k was invested in qualifying holdings and £460k in non-qualifying shareholdings. Three investments in the latter category were market purchases in support of the strategy to take more influential stakes by the combined Baronsmead VCTs in a smaller number of AIM investments, where a likely exit strategy to a trade buyer can be envisaged.

After the period end, £3.5 million was invested by the five Baronsmead VCTs in Netcall plc of which Baronsmead VCT 3 provided £687,000. Netcall plc, based in St Ives provides software and communication solutions into the call centre market, mainly under the Queuebuster label. The fund-raising is primarily for the acquisition of Telephonetics plc, which specialises in speech recognition software.

# Chairman's Statement

## Investment and tax planning

On 18 January 2010 the Company issued a Joint Offer for Subscription with Baronsmead VCT 4 to raise £16m in aggregate. This Offer became fully subscribed and closed on 17 March 2010 with over 70 per cent of the funds raised having been invested by the existing shareholders of the Baronsmead VCTs.

Having raised £7.56m net of costs under the Offer, the Company has sufficient cash resources to fund all of its operations for at least the next 12 months. As a result, the Directors do not intend, at this stage, to raise further funds through issuing new shares in the current tax year. As many of the Company's shareholders are also shareholders in the other Baronsmead VCTs they will be informed of any offers that those VCTs may make available to either their existing shareholders or more widely during the course of the current tax year.

The Company operates a share policy of buying shares in to Treasury in accordance with the resolutions passed by the shareholders from time to time. During the six months to 30 June 2010, 910,000 shares were bought back into Treasury. As a result, as at 30 June 2010 the Company held 6,377,317 Treasury shares which were bought back at an average discount of approximately 9.2 per cent to NAV. Recent interest in the Company's existing shares may result in the Company issuing shares out of Treasury in order to rectify imbalances in the demand and supply of shares that occur from time to time. In accordance with shareholders' authorities, when re-issued, Treasury shares may be sold at a discount to NAV provided it is narrower than when they were acquired. Amongst other things, depending on the number of shares available at the time, the Company may re-issue Treasury shares to ensure there are sufficient shares available for the Company's Dividend Reinvestment Plan.

## Annual reporting and Company Secretary

For the second time in three years, the 2009 Annual Report & Accounts for Baronsmead VCT 3 won the AIC's best report for the VCT sector. 'The Judges found this report and accounts interesting and informative, with clear objectives and a straightforward statement from the Chairman. Details of new and underlying holdings were viewed positively as was the addition of investor case studies.'

Following the split in 2005 from its former parent F&C Asset Management plc, ISIS EP LLP later assumed responsibility for the provision of Company Secretarial services. With effect from 1 March 2010 ISIS has engaged Capita Sinclair Henderson Limited ("CSH") to provide this service on its behalf, although ISIS continues to remain legally responsible and is the named Company Secretary. CSH has a long history of providing such services to investment companies both under the current owners Capita Group plc and previously as Sinclair Henderson Limited.

## Recent HM Revenue & Customs/ HM Treasury announcements

The Manager, in conjunction with our trade association, the AIC and other VCT Managers, has worked hard over many years to inform HMRC and HM Treasury of the positive economic impact from unquoted private equity backed companies.

The resulting AIC report "Supporting enterprise and growth: the role of Venture Capital Trusts" published in March 2010 is based on evidence submitted by fifteen VCT Managers and has helped the Government understand the economic return to the state, generated from the investment made in VCTs through providing tax relief. Most notably, it states "of the 303 investee companies who provided data, the net employment impact since VCT investment has been a 48 per cent increase in the total workforce to over 25,402 employees." The percentage increase in employment was slightly higher for the twenty-four companies from within the Baronsmead portfolios that were included in the survey.

The changes in VCT legislation commented on in the 22 June 2010 Budget had in fact been announced a year earlier but will only probably be enacted for the fiscal year starting on 6 April 2011.

## Outlook

The unquoted portfolio is demonstrating good resilience during the current period of economic uncertainty that will take time to dissipate as the overhang of government debt is digested and hopefully suitably reduced. Entrepreneurial companies such as those backed by Baronsmead VCT 3 are seen by most commentators to be an important way to assist the process of economic rejuvenation. These companies have a good record of creating jobs often through considerable innovation and 'doing it differently'.

We have the funds to invest in such situations. There is also a solid platform within our portfolio companies for further growth and so there are more grounds for optimism than there have been over the last few years.

**Anthony Townsend**

Chairman

12 August 2010

# Table of Investments and Realisations

## Investments in the six months to 30 June 2010

Number	Company	Location	Nature of business	Activity	Book cost £'000
<b>Unquoted investments</b>					
<i>New</i>					
1	Getting Personal Limited	Manchester	Consumer Markets	On-line retail of personalised gifts	988
2	Inspired Thinking Group Limited	Birmingham	Business Services	Marketing services & work flow systems	796
3	Surgi C Limited	Birmingham	Healthcare & Education	Distribution of spinal implants	1,102
<i>Follow on</i>					
1	Independent Living Services Limited	Alloa	Healthcare & Education	Care at home services	122
2	Nexus Vehicle Holdings Limited	Pudsey	Business Services	Vehicle rental provider to corporates	500
<i>Paper consideration</i>					
1	Crew Clothing Company Limited*	London	Consumer Markets	Branded clothing retailer	51
2	Independent Living Services Limited*	Alloa	Healthcare & Education	Care at home services	150
<b>Total Unquoted investments</b>					<b>3,709</b>
<b>AIM-traded &amp; listed investments</b>					
<i>New</i>					
1	Bglobal plc	Darwen	Business Services	Smart metering	176
2	Strategic Thought Group plc	Maidenhead	IT & Media	Risk management software	35
<i>Follow on</i>					
1	Electric Word plc	London	IT & Media	Business to business publisher	31
2	Green Compliance plc	Cirencester	Business Services	Blue collar compliance	156
3	Jelf Group plc	Bristol	Financial Services	Financial solutions consultancy	210
4	Proactis Holdings plc	Wetherby	IT & Media	Procurement software	219
5	Tasty plc	London	Consumer Markets	Restaurant operator	114
<b>Total AIM-traded &amp; listed investments</b>					<b>941</b>
<b>Collective investment vehicles</b>					
<i>Follow on</i>					
1	Wood Street Microcap Investment Fund				500
<b>Total Collective investment vehicles</b>					<b>500</b>
<b>Total investments in the period</b>					<b>5,150</b>

\* Paper consideration from rolled up interest reinvested.

## Realisations in the six months to 30 June 2010

Number	Company		First investment date	31 December 2009 valuation £'000	Realised profit/(loss) this period £'000	Overall multiple return*
<b>Unquoted realisations</b>						
1	Active Assistance	Trade sale	Mar 08	1,155	414	2.8
2	Occam DM Ltd	Trade sale	Jul 04	121	340	1.5
<b>Total Unquoted realisations</b>				<b>1,276</b>	<b>754</b>	
<b>AIM-traded &amp; listed realisations</b>						
1	Character Group plc	Trade sale	Feb 08	88	44	0.9
2	INVU plc	Trade sale	May 07	1	0	0.0
3	Inverness Medical Inc.	Part sale	Aug 09	28	0	1.3
4	Advanced Computer Software plc	Part sale	Jul 08	540	13	2.1
				657	57	
<b>Written off</b>						
1	Payzone plc		May 03	1	(1)	-
				1	(1)	
<b>Total AIM-traded &amp; listed realisations</b>				<b>658</b>	<b>56†</b>	
<b>Total realisations in the period</b>				<b>1,934</b>	<b>810</b>	

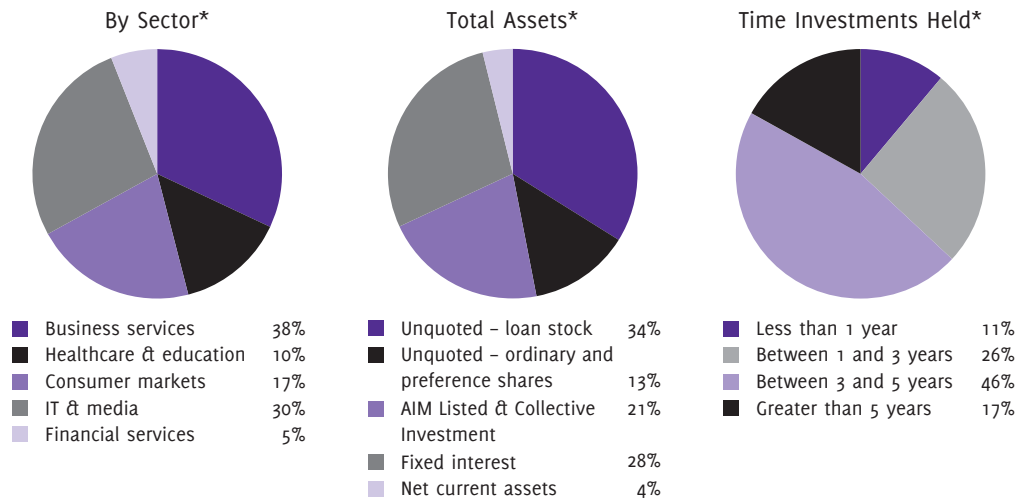
\* Includes interest/dividends received, loan note redemptions and partial realisations accounted for in prior periods.

† Proceeds of £5,000 were also received in respect of an investment, Interactive Prospect Targeting plc, which had been written off in a prior period. In addition, a loss of £9,000 was realised during the period on the redemption on 7 June 2010 of a UK Treasury Gilt which had paid a rate of interest of 4.75 per cent.



# Investment Portfolio

## Investment Classification at 30 June 2010



\* at 30 June 2010 valuation

Company	Nature of business	Book cost £'000	31 December 2009 valuation £'000†	30 June 2010 valuation £'000	% of Net Assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by all funds*
<b>Unquoted</b>							
Nexus Vehicle Holdings Limited	Business Services	2,367	2,511	3,975	6.4	12.6	57.4
Reed & Mackay Limited	Business Services	1,211	3,145	3,697	6.0	9.5	40.0
Crew Clothing Company Limited	Consumer Markets	984	1,300	1,962	3.2	5.7	24.1
Quantix Limited	IT & Media	1,194	1,862	1,886	3.0	11.4	48.0
CableCom Networking Holdings Limited	IT & Media	1,381	1,848	1,854	3.0	10.6	48.0
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	1,777	1,777	2.9	10.5	44.0
CSC (World) Limited	IT & Media	1,606	1,250	1,687	2.7	8.8	40.0
Carnell Contractors	Business Services	1,499	2,639	1,663	2.7	8.3	37.5
Independent Living Services Limited	Healthcare & Education	1,073	1,566	1,637	2.6	16.2	68.1
Kafevend Holdings Limited	Consumer Markets	1,252	1,445	1,583	2.5	15.8	66.5
Credit Solutions Limited	Financial Services	1,032	1,127	1,128	1.8	8.9	35.0
MLS Limited	IT & Media	781	1,138	1,126	1.8	5.3	22.5
Surgi C Limited	Healthcare & Education	1,102	-	1,102	1.8	9.8	42.5
Playforce Holdings Limited	Business Services	1,033	1,106	1,039	1.7	9.7	44.0
Getting Personal Limited	Consumer Markets	988	-	988	1.6	8.3	37.5
Inspired Thinking Group Limited	Business Services	796	-	796	1.3	5.0	22.5
Empire World Trade Limited	Business Services	1,297	658	707	1.1	‡	‡
TVC Group Limited	IT & Media	1,233	341	601	1.0	13.0	59.3
Xention Discovery	Healthcare & Education	893	183	160	0.2	3.3	5.6
Kidsunlimited Group Limited	Business Services	113	113	113	0.2	0.0	0.0
<b>Total Unquoted</b>		<b>23,258</b>	<b>24,009</b>	<b>29,481</b>	<b>47.5</b>		
<b>AIM</b>							
IDOX plc	IT & Media	1,038	1,136	1,220	2.0	3.3	9.7
Green Compliance plc	Business Services	406	500	750	1.2	2.6	14.4
Murgitroyd plc	Business Services	319	712	659	1.1	3.1	6.2
WIN plc	IT & Media	413	374	608	1.0	4.3	19.0
Advanced Computer Software plc	IT & Media	263	1,081	564	0.9	0.4	2.2
Brulines Group plc	Business Services	646	715	564	0.9	1.8	9.6
Proactis Holdings plc	IT & Media	619	307	478	0.8	5.4	26.5
Jelf Group plc	Financial Services	761	235	463	0.7	1.4	6.3
Begbies Traynor Group plc	Financial Services	231	607	328	0.5	0.6	2.5
Interquest Group plc	Business Services	310	259	304	0.5	1.8	7.2
Mount Engineering plc	Business Services	385	275	302	0.5	2.3	13.4
Electric Word plc	IT & Media	267	247	293	0.5	3.1	22.3
Tasty plc	Consumer Markets	470	161	291	0.5	2.5	17.1
Kiotech International plc	Healthcare & Education	275	298	275	0.4	2.2	15.8
Ffastfill plc	IT & Media	251	297	260	0.4	0.9	6.5
Vero Software plc	IT & Media	300	181	237	0.4	3.7	14.3
Craneware plc	IT & Media	71	184	223	0.3	0.2	1.1
Dods (Group) plc	IT & Media	541	158	216	0.3	1.4	4.4
IS Pharma plc	Healthcare & Education	246	239	198	0.3	1.0	5.9
Adventis Group plc	Business Services	361	267	193	0.3	3.1	20.7

† The total investment valuation at 31 December 2009 per the table above does not agree to the audited accounts due to purchases and sales since that date.

\* All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 3.

‡ Following a restructuring, the effective ownership percentage is dependent on final exit proceeds.

# Investment Portfolio

Company	Nature of business	Book cost £'000	31 December 2009 valuation £'000†	30 June 2010 valuation £'000	% of Net Assets	% of Equity held by Baronsmead VCT 3 plc	% of Equity held by all funds*
<b>AIM (continued)</b>							
Stagecoach Theatre Arts plc	Consumer Markets	419	194	189	0.3	4.5	9.1
EG Solutions plc	IT & Media	375	101	172	0.3	3.1	14.2
Sanderson Group plc	IT & Media	387	132	170	0.3	1.8	6.9
Quadnetics Group plc	Business Services	296	162	161	0.3	0.6	2.1
Bglobal plc	Business Services	176	-	158	0.3	0.5	2.7
Driver Group plc	Business Services	438	294	156	0.2	2.3	10.4
Praesepe plc	Consumer Markets	525	185	155	0.2	0.7	3.8
Plastics Capital plc	Business Services	473	184	142	0.2	1.8	10.0
Autoclenz Holdings plc	Business Services	400	122	122	0.2	3.1	12.3
Cohort plc	Business Services	179	138	118	0.2	0.3	1.4
Real Good Food Company (The) plc	Consumer Markets	540	17	114	0.2	0.6	2.3
Prologic plc	IT & Media	310	124	103	0.2	4.1	15.0
Brainjuicer Group plc	IT & Media	50	59	73	0.1	0.4	1.9
Colliers CRE plc	Financial Services	470	78	61	0.1	0.3	0.8
Marwyn Value Investors plc	Financial Services	64	62	60	0.1	1.5	6.9
STM Group plc	Financial Services	140	58	49	0.1	0.5	3.8
Clarity Commerce Solutions plc	IT & Media	50	40	46	0.1	0.3	6.2
Tangent Communications plc	Business Services	180	73	45	0.1	0.8	4.7
Strategic Thought Group plc	IT & Media	35	-	35	0.1	0.4	2.1
Zoo Digital Group plc	IT & Media	584	15	30	0.0	0.3	0.9
Mission Marketing Group (The) plc	IT & Media	190	35	14	0.0	0.2	0.7
<b>Total AIM</b>		<b>14,454</b>	<b>10,306</b>	<b>10,599</b>	<b>17.1</b>		
<b>Listed</b>							
Vectura Group plc	Healthcare & Education	771	1,208	720	1.2	0.5	1.3
Chime Communications plc	IT & Media	369	372	302	0.5	0.2	1.5
<b>Total Listed</b>		<b>1,140</b>	<b>1,580</b>	<b>1,022</b>	<b>1.7</b>		
<b>New York Stock Exchange</b>							
Inverness Medical Inc.	Healthcare & Education	157	224	136	0.2	0.0	0.1
<b>Total New York Stock Exchange</b>		<b>157</b>	<b>224</b>	<b>136</b>	<b>0.2</b>		
<b>Interest bearing securities</b>							
UK T-Bill 06/09/10		5,995	-	5,995	9.7		
UK T-Bill 05/07/10		4,498	-	4,498	7.3		
BlackRock Cash Market OEIC		5,700	5,700	5,700	9.2		
JP Morgan Europe OEIC		1,200	-	1,200	1.9		
<b>Total interest bearing securities</b>		<b>17,393</b>	<b>5,700</b>	<b>17,393</b>	<b>28.1</b>		
<b>Collective investment vehicles</b>							
Wood Street Microcap Investment Fund		1,025	526	1,005	1.6		
<b>Total collective investment vehicles</b>		<b>1,025</b>	<b>526</b>	<b>1,005</b>	<b>1.6</b>		
<b>Total investments</b>		<b>57,427</b>	<b>42,345</b>	<b>59,636</b>	<b>96.2</b>		
<b>Net current assets</b>				<b>2,365</b>	<b>3.8</b>		
<b>Net assets</b>				<b>62,001</b>	<b>100.0</b>		

† The total investment valuation at 31 December 2009 per the table above does not agree to the audited accounts due to purchases and sales since that date.

\* All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 3.

AIM, Listed and NYSE Portfolio Concentration Analysis at 30 June 2010			
Investment ranking by valuation	Book cost £'000	Valuation £'000	% of Quoted Portfolio
Top Ten	5,467	6,354	54.0
11-20	3,239	2,703	23.0
21-30	3,696	1,694	14.4
30+	3,349	1,006	8.6
<b>Total</b>	<b>15,751</b>	<b>11,757</b>	<b>100.0</b>

# Independent Review Report to Baronsmead VCT 3 plc

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet and Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

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

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

## Our responsibility

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

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board and the DTR of the UK FSA.

Simon Pashby  
for and on behalf of  
KPMG Audit Plc  
Chartered Accountants  
Edinburgh  
12 August 2010

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

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with the Statement 'Half-yearly financial reports' issued by the UK Accounting Standards Board;
- the Chairman's Statement (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
- the Statement of Principal Risks and Uncertainties on page 12 is a fair review of the information required by DTR 4.2.7R being a description of the principal risks and uncertainties for the remaining six months of the year; and
- the financial statements include a fair review of the information required by DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board,  
Anthony Townsend  
Chairman  
12 August 2010

# Unaudited Income Statement

For the six months to 30 June 2010

	Six months to 30 June 2010			Six months to 30 June 2009			Year to 31 December 2009*		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	-	1,019	1,019	-	2,438	2,438	-	2,434	2,434
Realised gains/(losses) on investments	-	806	806	-	(15)	(15)	-	1,350	1,350
Income	1,287	-	1,287	678	-	678	1,513	-	1,513
VAT	-	-	-	(2)	(6)	(8)	(2)	(6)	(8)
Investment management fee	(182)	(547)	(729)	(170)	(510)	(680)	(339)	(1,016)	(1,355)
Other expenses	(181)	-	(181)	(166)	-	(166)	(347)	-	(347)
<b>Profit on ordinary activities before taxation</b>	<b>924</b>	<b>1,278</b>	<b>2,202</b>	<b>340</b>	<b>1,907</b>	<b>2,247</b>	<b>825</b>	<b>2,762</b>	<b>3,587</b>
Taxation on ordinary activities	(224)	224	-	(54)	54	-	(167)	167	-
<b>Profit on ordinary activities after taxation</b>	<b>700</b>	<b>1,502</b>	<b>2,202</b>	<b>286</b>	<b>1,961</b>	<b>2,247</b>	<b>658</b>	<b>2,929</b>	<b>3,587</b>
<b>Return per share:</b>									
Basic	1.19p	2.55p	3.74p	0.53p	3.65p	4.18p	1.22p	5.41p	6.63p

\* These figures are audited.

# Unaudited Reconciliation of Movement in Shareholders' Funds

For the six months to 30 June 2010

	Six months to 30 June 2010 £'000	Six months to 30 June 2009 £'000	Year to 31 December 2009 £'000*
<b>Opening shareholders' funds</b>	<b>52,878</b>	55,136	55,136
Profit for the period	2,202	2,247	3,587
Increase in share capital in issue	8,165	1,524	1,524
Purchase of shares for treasury	(801)	(816)	(821)
Dividends paid	-	(2,415) <sup>†</sup>	(6,483) <sup>‡</sup>
Expenses of share issue	(443)	(80)	(65)
<b>Closing shareholders' funds</b>	<b>62,001</b>	55,596	52,878

\* These figures are audited.

<sup>†</sup> Includes payment of 2008 final dividend.

<sup>‡</sup> Includes payment of 2008 final dividend and 2009 first and second interim dividends.

## Notes

- The unaudited interim results which cover the six months to 30 June 2010 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the period to 31 December 2009.
- Return per share is based on a weighted average of 58,829,168 ordinary shares in issue (30 June 2009 – 53,697,653, 31 December 2009 – 54,121,721).
- Earnings for the first six months to 30 June 2010 should not be taken as a guide to the results of the full financial year.
- During the six months to 30 June 2010 the Company issued, pursuant to the offer for subscription, 5,601,586 ordinary shares at an offer price of 102.5p per share and 2,318,712 ordinary shares at an offer price of 104.5p which raised £8,165,000, before costs. During this period the Company purchased 910,000 ordinary shares to be held in Treasury at a cost of £801,000. At 30 June 2010 the Company holds 6,377,317 ordinary shares in Treasury. Excluding Treasury shares, there were 61,242,534 ordinary shares in issue at 30 June 2010 (30 June 2009 – 54,232,236, 31 December 2009 – 54,232,236).
- The interim dividend of 3.0 pence per ordinary share (1.1 pence revenue and 1.9 pence capital) will be paid on 15 September 2010 to shareholders on the register on 20 August 2010. The ex-dividend date is 18 August 2010.
- The financial information contained in this Half-yearly Financial Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The information for the year to 31 December 2009 has been extracted from the latest published audited financial statements. The audited financial statements for the year to 31 December 2009, which were unqualified, have been filed with the Registrar of Companies. No statutory accounts in respect of any period after 31 December 2009 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- Copies of the Half-yearly Financial Report have been mailed to shareholders and are available from the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

# Unaudited Balance Sheet

As at 30 June 2010

	As at 30 June 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000*
<b>Fixed assets</b>			
Unquoted investments	29,481	28,021	25,285
Traded on AIM	10,599	10,866	10,394
Listed on FTSE SmallCap	1,022	1,087	1,580
Traded on NYSE	136	-	224
Collective Investment Vehicle	1,005	516	526
Interest bearing securities	17,393	12,864	12,956
	59,636	53,354	50,965
<b>Current assets</b>			
Debtors	254	236	349
Cash at bank and on deposit	2,613	2,490	2,033
	2,867	2,726	2,382
<b>Creditors (amounts falling due within one year)</b>	(502)	(484)	(439)
<b>Net current assets</b>	2,365	2,242	1,943
<b>Total assets less current liabilities</b>	62,001	55,596	52,908
<b>Creditors (amounts falling due after one year)</b>	-	-	(30)
<b>Net assets</b>	62,001	55,596	52,878
<b>Capital and reserves</b>			
Called-up share capital	6,762	5,970	5,970
Share premium account	15,010	8,065	8,080
Capital redemption reserve	10,862	10,862	10,862
Revaluation reserve	2,209	1,630	1,393
Capital reserve	26,156	28,800	26,271
Revenue reserve	1,002	269	302
<b>Equity shareholders' funds</b>	62,001	55,596	52,878

\* These figures are audited.

	As at 30 June 2010	As at 30 June 2009	As at 31 December 2009*
<b>Net asset value per share</b>	101.24p	102.51p	97.50p
Number of ordinary shares in issue	61,242,534	54,232,236	54,232,236
<b>Treasury net asset value per share</b>	100.08p	101.49p	96.47p
Number of ordinary shares in issue	61,242,534	54,232,236	54,232,236
Number of ordinary shares held in Treasury	6,377,317	5,467,317	5,467,317
Number of listed ordinary shares	67,619,851	59,699,553	59,699,553

\* These figures are audited.

# Unaudited Statement of Cash Flows

For the six months to 30 June 2010

	Six months to 30 June 2010 £'000	Six months to 30 June 2009 £'000	Year to 31 December 2009 £'000*
Net cash inflow from operating activities	499	1,123	955
Capital expenditure and financial investment	(6,846)	1,423	5,195
Equity dividends paid	-	(2,415)	(6,483)
Net cash (outflow)/inflow before financing	(6,347)	131	(333)
Net cash inflow from financing	6,927	627	634
Increase in cash	580	758	301
<b>Reconciliation of net cash inflow to movement in net cash</b>			
Increase in cash	580	758	301
Opening net cash	2,033	1,732	1,732
Net cash at end of period	2,613	2,490	2,033
<b>Reconciliation of operating profit before taxation to net cash flow from operating activities</b>			
Profit on ordinary activities before taxation	2,202	2,247	3,587
Unrealised gains on investments	(1,019)	(2,438)	(2,434)
Realised (gains)/losses on investments	(806)	15	(1,350)
Changes in working capital and other non-cash items	122	1,299	1,152
Net cash inflow from operating activities	499	1,123	955

\* These figures are audited.

## Principal Risks and Uncertainties

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the way in which they are managed, are described in more detail under the heading Principal risks, risk management and regulatory environment within the Business Review and Notes in the Company's Annual Report and Accounts for the year to 31 December 2009. The Company's principal risks and uncertainties have not changed materially since the date of that report.

## Related Parties

ISIS EP LLP ('the Manager') manages the investments of the Company. The Manager also provides or procures the provision of secretarial, accounting, administrative and custodian services to the Company. Under the management agreement, the Manager receives a fee of 2.5 per cent per annum of the net assets of the Company. This is described in more detail under the heading Management within the Report of the Directors in the Company's Annual Report and Accounts for the year to 31 December 2009. During the period the Company has incurred management fees of £729,000 and secretarial and accounting fees of £53,000 payable to the Manager.

## Going Concern

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. In arriving at this conclusion the Directors have considered the liquidity of the Company and its ability to meet obligations as they fall due for a period of at least twelve months from the date that these financial statements were approved. As at 30 June 2010 the Company held cash balances, investments in UK Gilts and Money Market Funds with a combined value of £20,006,000. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the share buyback programme and dividend policy. The Company has no external loan finance in place and is therefore not exposed to any gearing covenants.

# Shareholder Information and Contact Details

## 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-uk.computershare.com/investor](http://www-uk.computershare.com/investor)

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website [www-uk.computershare.com](http://www-uk.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.investorcentre.co.uk](http://www.investorcentre.co.uk) for further information.

## Shareholder Helpline

# BARONSMEAD

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

The Shareholder Helpline is available on UK business days between Monday and Friday, 8.30 am to 5 pm. The helpline contains automated self-service functionality which is available 24 hours a day, 7 days a week. Using your Shareholder Reference Number which is available on your share certificate or dividend tax voucher, our self-service functionality will enable you achieve 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](mailto:web.queries@computershare.co.uk)

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

ISIS EP LLP (the Investment Manager) at [www.isisep.com](http://www.isisep.com)

e-mail: [michael.probin@isisep.com](mailto:michael.probin@isisep.com); [margaret.barff@isisep.com](mailto:margaret.barff@isisep.com)

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

The Baronsmead website ([www.baronsmeadvcts.co.uk](http://www.baronsmeadvcts.co.uk)) links to helpful sites, contains details of the team and some case studies of investments.



## 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 in the shares of Baronsmead VCT 3 plc are:

Matrix Corporate Capital (the Company's Broker)	020 3206 7000
Singer Capital Markets	020 3205 7500
Winterflood	020 3400 0251

## Financial Calendar

November 2010	Quarterly fact sheet to 30 September 2010
February 2011	Results for year to 31 December 2010 announced and annual report and accounts sent to shareholders
May 2011	Annual General Meeting

# Corporate Information

## Directors

Anthony Townsend (Chairman)‡  
Andrew Karney†  
Gillian Nott OBE\*  
Robert Owen

## Secretary

ISIS EP LLP

## Registered Office

100 Wood Street  
London EC2V 7AN

## Investment Manager

ISIS EP LLP  
100 Wood Street  
London EC2V 7AN

## Investor Relations

Michael Probin  
020 7506 5796

## Registered Number

04115341

\* Chairman of the Audit Committee

‡ Chairman of the Nomination Committee and  
Remuneration and Management Engagement Committee

† Senior Independent Director

## Registrars and Transfer Office

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Tel: 0870 703 0137

## Brokers

Matrix Corporate Capital LLP  
One Vine Street  
London W1J 0AH

## Auditors

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

## Solicitors

Norton Rose  
3 More London Riverside  
London SE1 2AQ

## VCT Status Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Website

[www.baronsmeadvct3.co.uk](http://www.baronsmeadvct3.co.uk)

## Additional Information

The information provided in this report has been produced in order 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.