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BARONSMEAD

Baronsmead VCT 3 plc

2014

Audited Annual Report and Accounts for the year ended
31 December 2014



About Baronsmead VCT 3

Our 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 businesses, whether unquoted or trade on AIM
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value

Further details on how this is achieved are contained in the 'Other Matters' section of the Strategic Report on pages 22 to 25

The full investment policy can be found on pages 57 and 58

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

Some examples of our Investments



Nexus Vehicle Holdings Ltd

Nexus enables corporate users to source all their vehicle rental needs from one source – a highly efficient and cost effective online based process. It offers fast access to a large range of rental fleets and enables customers to benefit from the buying scale of Nexus.



Netcall plc

Netcall is one of the UK's leading providers of customer engagement solutions. Some of the challenges their solutions can help overcome include customer contact across multiple channels, resource utilisation, improving customer satisfaction ratings, process automation, unifying communications effectively and maximising available budget.



Crew Clothing Holdings Ltd

Crew Clothing Co. is an English clothing brand with a wide range of active, outdoor and casual wear for men and women. Since it was founded in 1993, the brand has evolved into the fast growing premium active and casual wear sectors but retained its unique heritage and positioning.



Tasty plc

Tasty plc is a branded restaurant operator in the UK casual dining market. Its two core trading brands are DimT (pan Asian food) and Wildwood (pizza, pasta and grill).

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Directors' Report

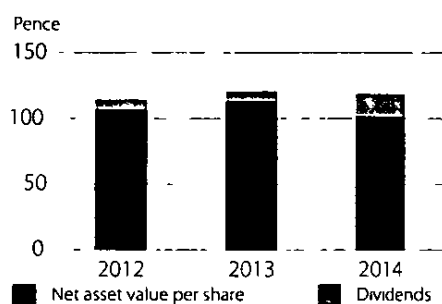
Overview of shareholder matters and corporate governance

P26

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

Strategic Report

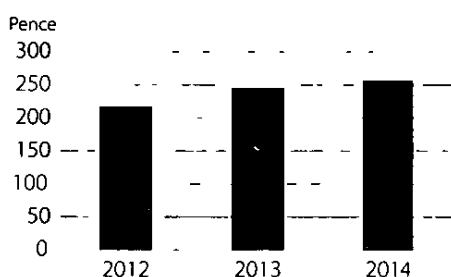
Financial Headlines



Net asset value per share

Net asset value ("NAV") per share increased 4.7 per cent to 118.72p in the year ended 31 December 2014, before deduction of dividends

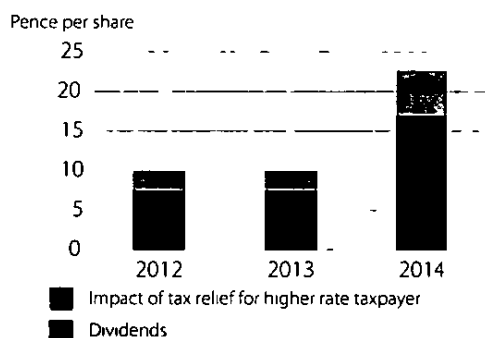
4.7%



NAV total return

NAV total return to shareholders for every 100.0p invested at launch in 2001

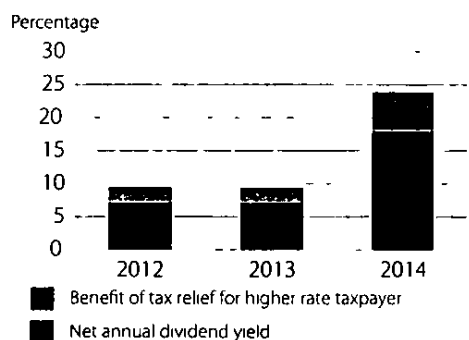
257.2p



Dividends in the year

Dividend totalled 17.0p for the year ended 31 December 2014

17.0p



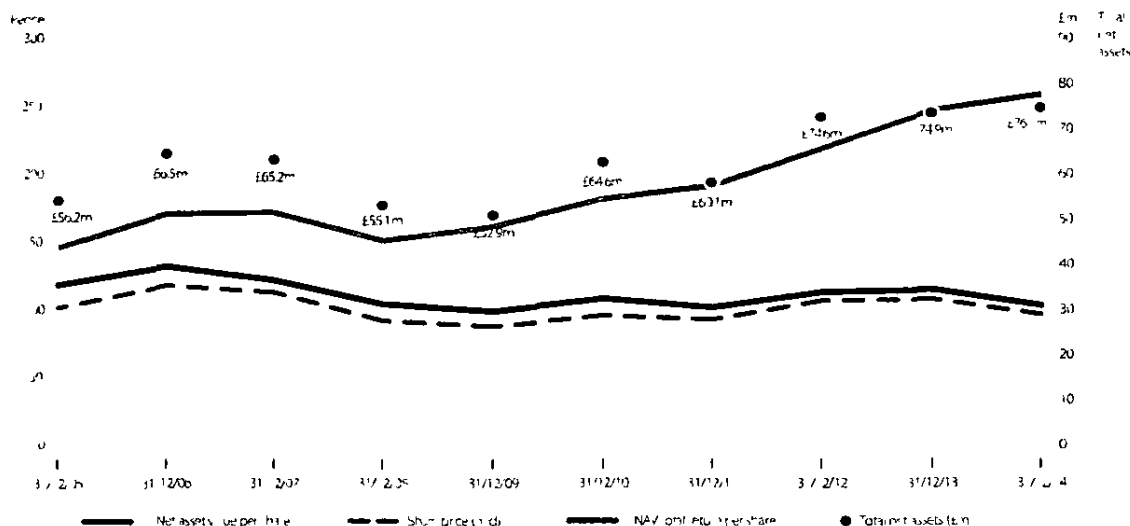
Annual dividend yield

Net annual dividend yield of 17.9 per cent and gross annual dividend yield of 23.9 per cent

17.9%

Performance Summary

NAV over the Last Ten Years

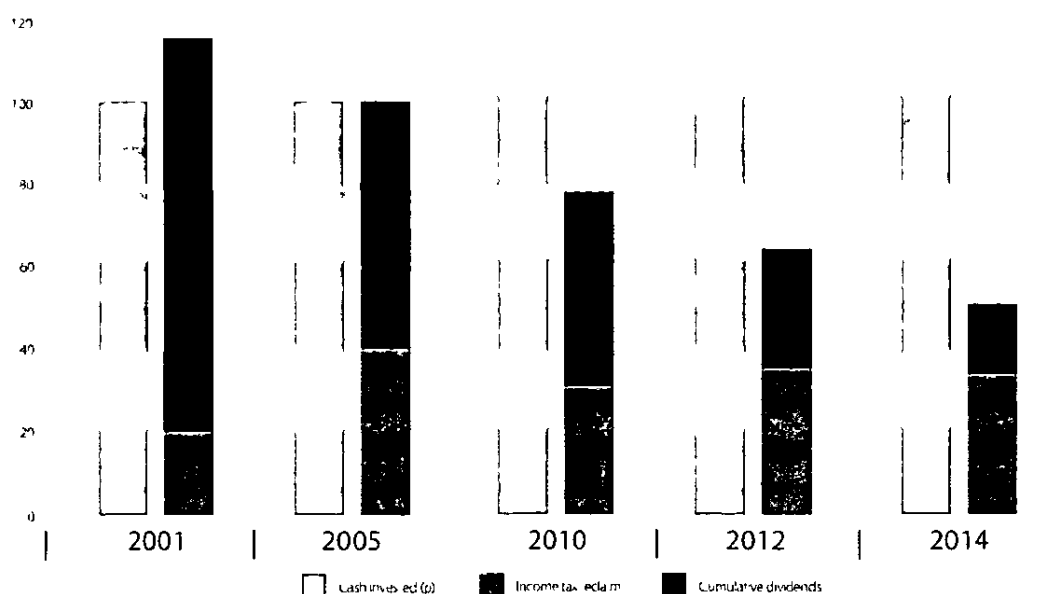


* Net asset value total return (gross dividends reinvested)

Source: Livingbridge VC LLP

Cash Returned to Shareholders by Date of Investment

The chart below shows the cash returned to shareholders based on the subscription price and the income tax reclaimed on subscription



Strategic Report

This Chairman's Statement forms part of the Strategic Report

Chairman's Statement



Anthony Townsend
Chairman

A series of profitable realisations enabled the Directors to pay dividends totalling 170p per share during the year, significantly higher than dividends of 75p per share paid in each of the previous seven financial years. Over the year to 31 December 2014 the Net Asset Value ("NAV") was modestly up, increasing by 532p per share to 11872p per share, before payment of dividends.

Results

The increase in the NAV and the dividends paid over the year can be summarised as follows

	p per ordinary share
NAV as at 1 January 2014	113.40
Valuation uplift (4.70 per cent)	5.32
NAV as at 31 December 2014 before dividends	118.72
Interim dividend paid on 7 March 2014	(8.00)
Second interim dividend paid on 19 September 2014	(4.50)
Third interim dividend paid on 19 December 2014	(4.50)
NAV as at 31 December 2014 after paying dividends	101.72

The value of the unquoted portfolio rose by 8.1 per cent over the year (including income received on the sale of investments) and, as I stated last year, many of the current investments are still relatively immature. The value of the quoted portfolio was up by 8.0 per cent over the

year, despite the re-emergence of volatility in quoted markets during the latter part of the year.

During the year the Company realised substantial profits from some of the older unquoted investments as well as a number of quoted investments. As a result of these strong results and to comply with VCT rules the Company paid a much higher dividend this year. Interim dividends of 80p in March 2014, 45p in September 2014 and a further 45p in December 2014 resulted in a total of 170p paid during the year. The 170p per share dividend equates to an annual yield of 17.9 per cent based on the 31 December 2014 mid price of 950p per share. For higher rate taxpayers this is the equivalent of 23.9 per cent. The level of future dividends will depend upon further profitable realisations which can vary from year to year. As a result, the level of dividends paid during the year to 31 December 2014 should be regarded as exceptional.

Long Term Investment Performance

The Company's investment and dividend policies are aimed at producing consistent returns over the long-term. The NAV total returns

4.7% increase in NAV per share before payment of dividends

Steady growth from quoted and unquoted investments

for each 100p invested in Baronsmead VCT 3 over five and ten years and since launch to 31 December 2014 were 160.8p, 204.7p and 257.2p respectively. Cumulative tax free dividends per share over five and ten years and since launch to 31 December 2014 have totalled 47.0p, 81.5p and 95.3p respectively.

The chart at the foot of page 4 shows the cash returned to investors in the original and subsequent fundraisings based on the subscription price and the income tax rebate available on subscription. The full record of performance is set out in the appendices on pages 59 and 60 of this annual report as well as on our website, www.baronsmeadvct3.co.uk

Portfolio

This has been the second successive year of strong portfolio realisations. In the year to 31 December 2014, the Company realised gross proceeds of approximately £18.1m (2013: £19.8m). There was a particular focus on generating proceeds from the quoted portfolio to crystallise some of the gains made over the last few years whilst market liquidity was available. Sales from the quoted portfolio totalled £7.1m (2013: £3.4m). Realisations in the year to 31 December 2014 equate to approximately 32 per cent of the value of the investment portfolio at the beginning of the year (2013: 33 per cent).

During the year under review, the Company invested approximately £6.2m in 10 new and 8 follow-on investments in existing portfolio companies. As a result, at the year end, there were sixty-six companies in the unquoted and quoted portfolios and exposure to another thirty-seven investments through the Company's investment in Wood Street Microcap. Realisations of the unquoted investments over the last two years in particular have had a significant impact on the portfolio mix as shown in the charts at the foot of page 11. The

proportion of the Company's assets in unquoted investments is considered to be at a cyclical low and over the medium term it is expected that this should rise as the growth in value of the newer unquoted investments occurs.

The Company raised £9.7 million net of expenses earlier in the year and realised approximately £18.1 million from the sale of investments. As a result, the Company did not seek to raise new funds in the 2014/15 tax year, preferring to continue investing from its cash resources.

The Company has a diverse investment portfolio in terms of the absolute number of companies in which it has an investment exposure, the business sectors in which investee companies operate, their geographical location, the length of time they have been held as investments and the type of assets the Company has invested in. Having a diverse portfolio helps to smooth returns year on year and reduces investment exposure to any one particular investee company, business sector and asset class. The charts on page 11 summarise some of these characteristics of the diversity of our portfolio.

The Manager's Review on pages 8 to 14 provides a commentary on new investment and some of the most significant realisations during the year which is summarised in the tables on pages 9 and 10. We continue to be very satisfied with the performance of the Manager. They have created a valuable portfolio of investments which has enabled us to pay good dividends in previous years and an exceptional dividend this year. Shareholders may have noticed that the Manager has changed its name from ISIS to Livingbridge, which explains the references to that name in this Annual Report.

Annual General Meeting

I look forward to meeting as many shareholders as possible at our fourteenth Annual General Meeting to be held on Thursday, 16 April 2015.

17.0p per share in total dividend payment for the year.

£6.2 million invested in 10 new companies and 8 follow on investments; £9.7 million raised from new and existing shareholders

NAV total return of 257.2p per 100p invested for founder shareholders

Strategic Report

at the Saddlers' Hall, 40 Gutter Lane, London, EC2V 6BR at 10 15am. As well as my own review of the year, there will be presentations from the Manager

Outlook

The improved prospects for the UK economy evident throughout most of 2014, abated somewhat in the last quarter of the year and have been replaced by a more uncertain outlook for 2015. Concerns over currency fluctuations, a lack of growth in Europe, China and the emerging economies, political instability in various regions and the prospects for the outcome of the forthcoming General Election have contributed to the volatility in quoted markets that has continued into the beginning of the current financial year.

The investment portfolio continues to evolve following recent sales and new investments. As our more recent unquoted investee companies are only now beginning to deploy our investment increases in the value of our investments are expected to be more modest in the short term. However, the Manager has begun to crystallise profits from the quoted portfolio and will, subject to market conditions, continue to do so as and when opportunities arise.

Anthony Townsend
Chairman

17 February 2015

Manager's Review



Andrew Garside
Head of Unquoted Investments



Ken Wotton
Head of Quoted Investments



Sheenagh Egan
Chief Operating Officer



Michael Probin
Investor Relations

The year has seen a second successive period of strong divestment, with a greater proportion than normal being realised from the quoted portfolio following good valuation uplifts over the last few years. The total level of new investment was somewhat lower than the prior year but five new unquoted and five new quoted investee companies have been added to the portfolio.

We have seen a solid performance from the unquoted and quoted portfolios which are both up 8% with Wood Street Microcap also up by 9%. This performance was achieved despite the volatility seen in the quoted markets during the last quarter of the year.

PORTFOLIO REVIEW

Overview

The net assets of £76.6 million were invested as follows:

Asset class	NAV (£m)	% of NAV	Number of investees	% return in the year
Unquoted	24.3	32	23	8
Quoted	24.9	33	43	8
Wood Street Microcap	7.7	10	37	9
Other Net Assets	19.7	25	-	-

During the year there were;

- 5 new and 4 follow on investments in unquoted companies totalling £5.0 million
- 12 unquoted realisations delivered proceeds totalling £11.0 million

Each quarter the direction of general trading and profitability of all investee companies is recorded so that the Board can monitor the overall health and trajectory of the portfolio. At 31 December 2014, 74 per cent of the 66 companies in the portfolio (excluding Wood Street Microcap) were progressing steadily or better.

The tables on the following pages show the breakdown of new investments and realisations over the course of the year and are followed by commentary on some of the key highlights in both the unquoted and quoted portfolios.

Strategic Report

Investments in the year

Company	Location	Sector	Activity	Book cost £'000
Unquoted investments				
<i>New</i>				
Kirona Ltd	Cheshire	TMT*	Provider of Field Force Automation software and services	955
IP Solutions Ltd	London	TMT*	Unified communications ('UC') provider	954
Upper Street Events Ltd	London	Consumer Markets	Consumer events owner and operator	953
Kingsbridge Ltd	Gloucestershire	Business Services	Independent insurance broker	952
CR7 Services Ltd	Kent	TMT*	Provider of payment services	949
<i>Follow on</i>				
Happy Days Consultancy Ltd	Cornwall	Healthcare & Education	Provider of nursery based childcare in the South West of England	219
Independent Community Care Management Ltd	Northamptonshire	Healthcare & Education	High acuity care for home based users	12
Nexus Vehicle Holdings Ltd	West Yorkshire	Business Services	Vehicle rental broker	7
Pho Holdings Ltd	London	Consumer Markets	Restaurant group specialising in Vietnamese street food	4
Total unquoted investments				5,005
AIM traded investments				
<i>New</i>				
Scholium Group plc	London	Consumer Markets	Rare books and collectibles dealer	450
Crawshaw Group plc	South Yorkshire	Consumer Markets	Value meat retailer	200
Synety Group plc	Leicestershire	TMT*	Cloud based telephony platform	113
Castleton Technology plc	Cambridgeshire	TMT*	Public sector IT managed services and software	68
Gresham House plc	London	TMT*	Investment Trust vehicle	56
<i>Follow on</i>				
Plastics Capital plc	London	Business Services	Specialist plastic products buy and build	131
Daily Internet plc	Greater Manchester	TMT*	SME Domain registration and hosting	115
One Media iP Group plc	Buckinghamshire	TMT*	Content acquisition and distribution	57
EG Solutions plc Loan note	Staffordshire	TMT*	Back office optimisation software	33
Total AIM traded investments				1,223[^]
Total investments in the year				6,228

* Technology, Media & Telecommunications ("TMT")

[^] Fulcrum Utility Services Ltd and Paragon Entertainment Ltd shares were received in exchange for Marwyn Value Investors Ltd shares following a Scheme of Arrangement

Realisations in the year

Company		First Investment date	Book cost £'000	Proceeds† £'000	Overall multiple return*
Unquoted realisations					
Nexus Vehicle Holdings Ltd	Redemption	Feb 08	2,130	3,082	1.4
Inspired Thinking Group Ltd	Full Trade sale	May 10	796	2,315	3.4
Quest Venture Partners Ltd	Dissolved**	Sep 11	1,000	1,000	1.0
Arcas Investments Ltd	Dissolved**	Sep 11	1,000	998	1.0
Riccal Investments Ltd	Dissolved**	Apr 12	1,000	997	1.0
HealthTech Innovation Partners Ltd	Dissolved**	Sep 11	1,000	996	1.0
CableCom Networking Holdings Ltd	Redemption	May 07	0	811	4.8
Playforce Holdings Ltd	Full Trade sale	Jan 08	1,196	375	0.5
Surgi C Ltd	Redemption	Apr 10	249	325	0.2
Kingsbridge Ltd	Redemption	Jan 14	53	96	1.8
Empire World Trade Ltd	Full Trade sale	Aug 06	1,297	25	0.0
Music Festivals plc Loan note	Write off	Jun 11	400	9	0.0
Total unquoted realisations			10,121	11,029	
AIM traded & listed realisations					
Vectura Group plc	Full market sale	Mar 02	771	2,271	2.9
Murgitroyd Group plc	Full market sale	Nov 01	319	1,525	4.8
Jelf Group plc	Market sale	Oct 04	210	737	3.5
Chime Communications plc	Full market sale	Nov 09	369	560	1.5
Sinclair IS Pharma plc	Full market sale	Mar 08	524	546	1.0
GB Group plc	Full market sale	Nov 11	150	543	3.6
Anpario plc	Market sale	Nov 06	69	284	4.1
Tristel plc	Full market sale	Nov 10	217	281	1.3
Cohort plc	Market sale	Oct 07	131	209	1.6
Bglobal plc	Write off	Jun 10	176	51	0.3
Inspired Energy plc	Market sale	Nov 11	13	49	3.9
Total AIM traded & listed realisations			2,949	7,056[^]	
Total realisations in the year			13,070	18,085[†]	

‡ Proceeds at time of realisation including redemption premium and interest

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

[^] Fulcrum Utility Services Ltd and Paragon Entertainment Ltd shares were received in exchange for Marwyn Value Investors Ltd shares following a Scheme of Arrangement

[†] Proceeds of £14,000 were also received in respect of Quantix Ltd and £27,000 in respect of Reed & Mackay Ltd, both of which had been sold in a prior period. Deferred consideration of £57,000 was also received in respect of CSC (World) Ltd and £156,000 accrued in respect of MLS Ltd

** Acquisition vehicle dissolved at cost during the year

Strategic Report

Unquoted Portfolio

The unquoted portfolio performance has increased steadily by around 8 per cent over the course of this year including capitalised interest and redemption premium income received on the sale of investments. This reflects the fact that many of the older investments where the Manager has been able to complete the planned investment strategy have been successfully divested. Hence, a greater portion of the current portfolio is skewed towards newer investments which are still in their development phase.

The unquoted portion of the portfolio is valued using a consistent process every three months which the Board oversees and approves. The majority of the value creation in unquoted investments comes from operational improvements (revenue and margin growth), rather than financial leverage.

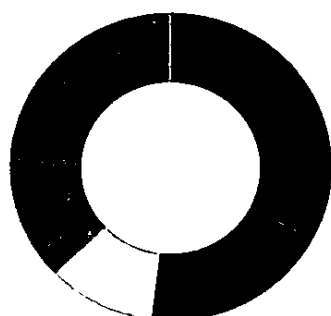
Unquoted Investment Activity

During the year, £5.0m was invested in 9 unquoted companies including 5 new additions to the portfolio. The new unquoted investments were,

- Kingsbridge is a top 100 independent insurance broker. It has a specialist business to business (B2B) advisory business focusing on the water industry, environmental risks and professional services. It also has a fast growing division called KPSol which provides business insurance services to contractors, freelancers and self-employed professionals in professions such as engineering and IT. The Livingbridge investment will support the growth of the KPSol division including new product development and management team development.
- CR7 Services has a UK operating division called Optomany. CR7 is led by an experienced team of executives who have achieved success before in the international field of card payment processing. Optomany has developed a new advanced payment processing platform for merchants accepting card payments which is new to the UK market. The investment by Livingbridge has enabled CR7 to make an acquisition of another company, 123 Send, which will form a second division for the group. 123 Send is a major UK provider of point of sale card terminals and services.

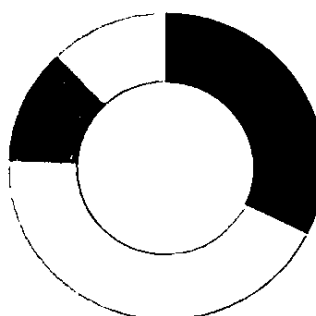
Investment Diversification at 31 December 2014

Sector
by value



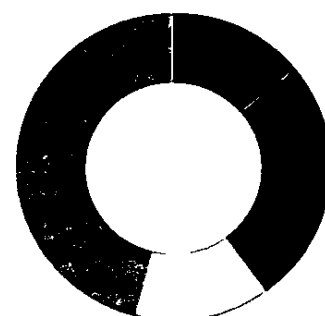
■ Business Services	33%
■ Consumer Markets	19%
□ Healthcare & Education	11%
■ Technology, Media & Telecommunications ("TMT")	37%

Total assets
by value



■ Unquoted – loan note	23%
■ Unquoted – equity	9%
□ AIM & collective investment vehicle	43%
■ Interest bearing securities	12%
□ Net current assets (principally cash)	13%

Time investments
held by value



■ Less than 1 year	14%
■ Between 1 and 3 years	26%
□ Between 3 and 5 years	14%
■ Greater than 5 years	46%

with an estate of 15,000 terminals placed in 11,000 merchants

- IP Solutions is a value added reseller of unified communications. There is a growing trend for companies to outsource their procurement of telecom services such as mobile, landlines or VOIP, broadband and video conference to a single supplier rather than having to manage multiple suppliers in increasingly technical areas. IP Solutions offers a cloud hosted solution combining best of breed partners for all these services and support to corporate users. Livingbridge will support future growth at the company in this developing market.
- Kirona supplies software that enables field-based operatives to work much more efficiently for their organisations. Field based workers via their mobile devices benefit from better scheduling, workflow management and completing admin on the move. Over 25,000 workers use Kirona applications in areas such as local government, social housing, healthcare and utilities. The business can continue to grow as more companies see the efficiency benefits from using Kirona solutions.
- Upper Street Events is one of the UK's leading owners and operators of consumer facing events with a wide range of events including the Knitting & Stitching Show, Gadget Show, Cycle Show, London Art Fair and the Country Living Shows. Livingbridge will support Upper Street to continue growing by launching new events and selected acquisitions to add to its strong established stable.

Unquoted Divestment Activity

Along with the dissolution of four acquisition vehicles there were three full realisations, four loan note redemptions and one write-off which yielded proceeds of approximately £11.0 million for Baronsmead VCT 3.

UPPER STREET EVENTS

Upper Street Events

- One of the leading operators of large consumer facing shows including The Knitting & Stitching Show and The London Art Fair
- 17 events with over 370,000 visitors
- Livingbridge clients invested £7.4m

inspired thinking group

Realisation - ITG

- Sales growth from £14m in 2010 to £43m in 2013
- Strong management team led secondary MBO to provide exit delivering 3.4x

Strategic Report

- The investment in Inspired Thinking Group ("ITG") has been realised via a secondary MBO supported by a larger private equity fund. ITG was originally backed in 2010 to fund an acquisition of a workflow software solution that the company was using extensively in its clients. ITG supplies the workflow software and related services to the marketing departments of consumer brands and high street retailers. During the investment period sales grew from £14m to £43m by 2013 and the exit delivered a return on cost of 3.4x.
- Livingbridge has completed a refinancing at vehicle rental business Nexus resulting in a successful partial realisation. Since Livingbridge invested in 2008, Nexus has grown profits strongly and the investment had grown in value. The business has taken on a sensible bank debt package that has enabled it to return a total of £12.3m to the Baronsmead family in early loan note repayment and associated yield (£3.1m for Baronsmead VCT 3). The equity investment is still retained and Livingbridge will continue to support the future growth of the business.
- Following a period of strong realisations, there have been two less successful exits to report. Playforce (playgrounds for schools) has been sold to a trade buyer recovering 0.5x times the original investment. Empire World Trade (importing and distribution of top fruit) has been sold to a larger trade buyer with nominal recovery. Additionally Surgi C (spinal surgical implants) has also been partially realised recovering 0.2x the original cost.

It is disappointing to have two poor realisations in one financial period. The last financial year to December 2013 was a strong year of exit results. If we aggregate the realisations over the last two financial years, the overall realisations generated £19.3m for this VCT at an average multiple of 2.3x cost.

During the year there were;

- 5 new and 4 follow on investments in quoted companies which totalled £1.2 million
- 11 quoted investments delivered proceeds of £7.1 million at 2.4x cost

Quoted Portfolio (AIM traded and other listed investments)

This has been another positive year with an uplift in the quoted portfolio of 8 per cent building on the very strong positive movements over the last two years. The performance of the quoted portfolio also reflects the changes introduced by the Livingbridge Quoted Investment Team since 2009. As outlined in last year's report a number of more significant holdings have now been built where the team has a closer, more influential relationship and can utilise some of the good practice from Private Equity experience and the results from this approach are starting to come through.

Whilst it is expected that work in the quoted arena will deliver future positive growth over the long term, the high annual growth rates achieved over the last three years have been helped by the fact we have emerged from a recession.

Quoted Investment Activity

The level of new quoted investment for Baronsmead VCT 3 of £1.2 million was made across five new and four follow on investments.

The level of new investment was relatively subdued compared to previous years as the focus of activity was directed towards realising profits from the quoted portfolio. Investment activity was mainly in two categories: relatively small new investments where the Manager is seeking to build a relationship with management and potentially add to the holding over time, and follow on investments into existing investee companies to support growth initiatives. Both types of investment reflect the Manager's progressive investment strategy for the quoted portfolio.

Quoted Divestment Activity

Proceeds from realisations during the year from the quoted portfolio totalled £7.1 million and delivered an aggregate return of 2.4x cost. Notably within this is the full realisation of Vectura Group (2.9x cost) which had been held by Baronsmead VCT 3 as both an unquoted and quoted investment, the full realisation of Murgitroyd Group (4.8x cost), the full realisation of Jelf Group (3.5x cost) and GB Group (at 3.6x cost) and the partial sale in the market of Anpario (4.1x cost).

The Investment Manager has pursued a deliberate policy of realising a higher than normal level of quoted investments to take advantage of strong pricing and improved liquidity during the course of 2014 which can often be a constraint when looking to divest stakes in smaller quoted companies

Wood Street

Wood Street Microcap Investment Fund ("Wood Street") was established by Livingbridge in May 2009 to provide flexibility for the Baronsmead VCTs to invest in larger and more liquid non VCT qualifying AIM and Small Cap opportunities. It represents another innovation introduced by the Livingbridge Quoted team to seek performance improvement. At 31 December 2014, Baronsmead VCT 3 had invested £3.5 million through Wood Street into a portfolio of 37 companies, now valued at £7.7 million. Wood Street generated a positive return of 9 per cent over the year.

Liquid assets (cash and near cash)

Baronsmead VCT 3 had cash and near cash resources of approximately £19.8 million at the year end. This higher than normal level reflects both the proceeds from the fund raising in early 2014 and proceeds from high levels of divestment in both the quoted and unquoted portfolios. This asset class is conservatively managed to take minimal or no capital risk, a strategy outlined in prospectuses that have been issued in the past.

OUTLOOK

Following a period of gradual recovery and improving confidence in the UK economy we believe there are more settled conditions for finding and growing good businesses. However, we remain cautious due to the potential impact of global events and the uncertainty likely to be caused by a UK general election in 2015 which may slow the recovery. We have already seen increased volatility in quoted markets either side of the year end and continue to monitor the external environment carefully although this may also provide opportunities for investment.

Livingbridge seeks to invest in businesses that have strong potential for growth but that are also resilient if conditions become more challenging. We work closely with these businesses to help them develop their strategy and operational infrastructure to prepare for such external challenges. Hence, we believe that Baronsmead VCT 3's diversified portfolio is well positioned to continue its progress in the current market.

Livingbridge VC LLP
Investment Manager

17 February 2015

Strategic Report

The top ten investments by current value at 31 December 2014 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.

Ten Largest Investments



1 Netcall plc Hemel Hempstead

Quoted
www.netcall.com

Netcall is one of the UK's leading providers of customer engagement solutions. They support organisations to deliver outstanding customer service and achieve a realistic return on their investment. Some of the challenges their solutions can help overcome include customer contact across multiple channels, resource utilisation, improving customer satisfaction ratings, process automation, unifying communications effectively and maximising available budget.

Currently over 750 organisations in the Public, Private and Healthcare markets use one or more of the Netcall solutions which include contact management, business process management, workforce optimisation and enterprise content management.

All funds managed by Livingbridge

First investment: July 2010
Total cost: £4,354,000
Total equity held: 18.00%

Baronsmead VCT 3 only
Cost: £869,000
Valuation: £3,318,000
Valuation basis: Bid Price
% of equity held: 3.62%

Year ended 30 June

	2014 £ million	2013 £ million
Sales	16.9	16.1
EBITA	4.9	3.9
Net Assets	20.2	16.9
No of Employees	146	141

(Source: Netcall plc, Annual Report and Accounts 30 June 2014)



2 IDOX Plc London

Quoted
www.idoxgroup.com

IDOX group is a leading software and information management solutions provider, providing local authorities with software and managed services. These deliver seamless integration and automation from consumer websites through to document storage. In the private sector, its engineering information management software combines McLaren and CTSpace, who are leaders in their markets.

The Baronsmead VCTs first invested in IDOX in 2002, approximately two years after the company floated on AIM. Over the last decade IDOX has shown strong growth through a combination of organic growth and acquisition, and is now seeking to diversify from its core local authority markets into the private sector to become a leading player in industries like oil, gas and pharmaceuticals.

All funds managed by Livingbridge

First investment: May 2002
Total cost: £1,641,000
Total equity held: 4.89%

Baronsmead VCT 3 only
Cost: £614,000
Valuation: £2,530,000
Valuation basis: Bid Price
% of equity held: 1.8%

Year ended 31 October

	2014 £ million	2013 £ million
Sales	60.7	57.3
EBITA	15.6	14.3
Net Assets	48.6	44.7
No of Employees	554	558

(Source: IDOX PLC Annual Report and Accounts 2014)



3 Nexus Vehicle Holdings Ltd Leeds

Unquoted
www.nexusrental.co.uk

Nexus enables corporate users to source all their vehicle rental needs from one source – a highly efficient and cost effective online based process. The service is provided using its proprietary system, IRIS, an advanced web based IT tool that is highly regarded in the industry. It offers fast access to a large range of rental fleets and enables customers to benefit from the buying scale of Nexus.

Vehicle rental in the UK represents a large market and Nexus is gaining market share through its innovative approach. Two acquisitions have also added to its growth.

All funds managed by Livingbridge

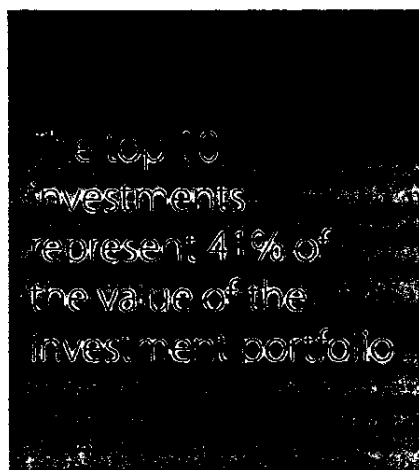
First investment: February 2008
Total cost: £1,013,000
Total equity held: 62.11%

Baronsmead VCT 3 only
Cost: £245,000
Valuation: £2,502,000
Valuation basis: Earnings Multiple
% of equity held: 13.67%

Year ended 30 September

	2013 £ million	2012 £ million
Sales	41.3	36.5
EBITA	2.6	3.3
Net Assets	1.5	1.8
No of Employees	130	113

(Source: Nexus Vehicle Holdings Ltd Report & Financial Statements 30 September 2013)



Netcall

- Customer engagement software to improve service and efficiency for consumer facing organisations
- Increased EBITDA by 65% over the past 3 years
- One in five NHS Acute Trusts use Netcall Appointment Management Solution

Nexus

- Leading IT solution IRIS helps corporates access rental
- Strong sales growth of 13% from 2012 to 2013
- Attracted new CEO with strong industry experience



4 Crew Clothing Holdings Ltd London

Unquoted
www.crewclothing.co.uk

Crew Clothing Co. is an English clothing brand with a wide range of active, outdoor and casual wear for men and women. Since it was founded in 1993, the brand has since evolved into the fast growing premium active and casual wear sectors, but retained its unique heritage and positioning. Today it is a well known, respected and aspirational clothing brand in the UK.

The business is a multi-channel retailer with its own significant retail estate, wholesale accounts and direct mail order channels. It is growing by expanding all these routes to market as the brand grows in presence.

All funds managed by Livingbridge
First investment: November 2006
Total cost: £5,833,000
Total equity held: 25.51%

Baronsmead VCT 3 only
Cost: £1,453,000
Valuation: £2,464,000
Valuation basis: Earnings Multiple
% of equity held: 6.08%

Year ended 28 October

	2013 £ million	2012 £ million
Sales	52.7	48.5
EBITDA	1.3	3.5
Net Assets	6.0	6.0
No of Employees	381	363

(Source: Crew Clothing Holdings Ltd, Report and Financial Statements 28 October 2013)



5 Accumuli plc Salford

Quoted
www.accumuli.com

Accumuli is a leading, rapidly growing, UK-based independent specialist in IT Security. Accumuli specialises in value-added solutions and services to help organisations secure their business against the ever-increasing threat landscape. Accumuli's solutions and services secure IT infrastructure, remove complexity of security management, provide real time security intelligence and reduce total cost of implementation and on-going management. Accumuli achieves this through a combination of Technology, Professional and Managed Services, underpinned by its highly experienced, highly skilled employees.

Accumuli's global customer base consists of companies of all sizes across an expanding range of industry sectors, including financial services, utilities, telecommunication, manufacturing and government.

All funds managed by Livingbridge
First investment: November 2010
Total cost: £2,707,000
Total equity held: 23.10%

Baronsmead VCT 3 only
Cost: £505,000
Valuation: £1,829,000
Valuation basis: Bid Price
% of equity held: 4.20%

Year ended 31 March

	2014 £ million	2013 £ million
Sales	16.6	14.1
EBITDA	2.6	2.0
Net Assets	15.1	14.6
No of Employees	73	55

(Source: Accumuli plc, Annual Report and Accounts 2014)

Strategic Report



6 Create Health Ltd London

Unquoted
www.createhealth.org

Create Health is a renowned fertility clinic specialising in Natural and Mild In Vitro Fertilisation (IVF) and In Vitro Maturation (IVM). Natural and Mild IVF uses lower levels of drugs making it cheaper, safer and healthier for the mother and baby.

Its leading edge fertility service has an international reputation through its research and development of advanced ultrasound techniques, IVM and the one stop fertility MOT. The investment will enable the business to expand nationally and internationally, making this type of choice available to more women.

All funds managed by Livingbridge

First investment: March 2013
Total cost: £4,750,000
Total equity held: 29.00%

Baronsmead VCT 3 only

Cost: £1,065,000
Valuation: £1,775,000
Valuation basis: Earnings Multiple
% of equity held: 5.74%

Year ended 31 March

	2014 £ million	2013 £ million
Sales	4.9	4.2
EBITA	#	#
Net Assets	3.3	2.3
No of Employees	58	#

(Source: Create Health Ltd Abbreviated Accounts 31 March 2014)
not disclosed



7 Luxury for Less Ltd Warwickshire

Unquoted
www.bathempire.com

Luxury for Less is an online bathroom products retailer. The company designs and sources its own product, supplying direct to consumers, predominantly via its website www.bathempire.com.

The company is constantly evolving its product sourcing capability as a foundation on which to establish its brand - aspirational product quality at affordable prices, trusted by tradesmen (through ease of installation). This coupled with best in class online customer engagement and experience, will ensure the company takes advantage of the continuing shift online in the sector.

All funds managed by Livingbridge

First investment: July 2013
Total cost: £8,458,000
Total equity held: 40.00%

Baronsmead VCT 3 only

Cost: 955,000
Valuation: £1,621,000
Valuation basis: Earnings Multiple
% of equity held: 3.96%

Year ended 31 December

	2013 £ million	2013 (March) £ million
Sales	9.6	#
EBITA	(1.1)	#
Net Assets	9.4	#
No of Employees	95	#

(Source: Annual Report and Financial Statement 31 December 2013)
9 month accounting period 31 March 2013 - 31 December 2013
No comparable information available



8 Tasty plc London

Quoted
www.dimt.co.uk

Tasty plc is a branded restaurant operator in the UK casual dining market. Tasty's two core trading brands are Dim T and Wildwood restaurants. Wildwood serves pizza, pasta and grills and offers customers a warm, homely and rustic feeling. It is the core growth brands with 17 units around the M25 and South East of England. Dim T serves pan Asian food with Dim Sum and offers customers a modern, ethnic and relaxed feel, trading from six units. It is primarily more London focused, positioned in high footfall areas. With both brands now established and the group having achieved critical mass, Tasty is now self-funding for its continued roll-out strategy. Tasty's highly regarded management team have prior experience of opening over 20 restaurants a year and have critical knowledge of the UK property market, which underpins this strategy.

All funds managed by Livingbridge

First investment: September 2006
Total cost: £3,223,000
Total equity held: 14.52%

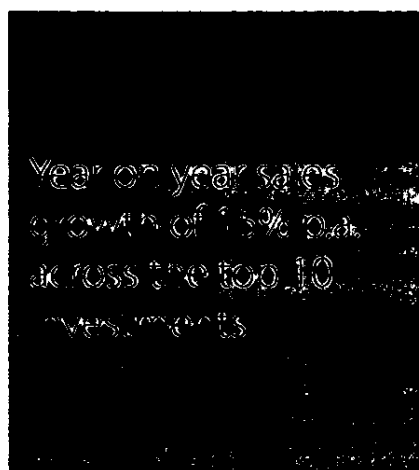
Baronsmead VCT 3 only

Cost: £594,000
Valuation: £1,500,000
Valuation basis: Bid Price
% of equity held: 2.53%

Year ended 29 December

	2013 £ million	2012 £ million
Sales	23.2	19.3
EBITA	1.9	1.6
Net Assets	17.4	12.3
No of Employees	506	453

(Source: Tasty Plc Report and Financial Statements 29 December 2013)



Tasty

- A branded restaurant operator in the UK casual dining market
- 37 branches trading under the "Wildwood" and "Dim T" brands
- Increased EBITDA ten-fold over five years



Create Health

- Internationally renowned fertility clinic in natural and mild IVF
- Launched new London flagship clinic in St Pauls in September 2014



Pho

9 Pho Holdings Ltd London

Unquoted
www.phocafe.co.uk

Pho is a fast casual restaurant chain serving Vietnamese food. Pho – a noodle soup – is the national dish of Vietnam. Pho also offer a selection of Vietnamese dishes, coffees, beers and fresh juices.

Pho was founded in 2005 and now operates from 13 sites in an array of channels. London High St sites (e.g. Soho, Clerkenwell), regional sites (e.g. Brighton, Leeds) and food courts in malls (e.g. Westfield).

All funds managed by Livingbridge

First investment: July 2012
Total cost: £4,415,000
Total equity held: 28.00%

Baronsmead VCT 3 only
Cost: £991,000
Valuation: £1,375,000
Valuation basis: Earnings Multiple
% of equity held: 5.54%

Year ended 23 February

	2014 £ million	2013 £ million
Sales	9.7	8.2
EBITDA	0.4	0.6
Net Assets	1.6	1.5
No of Employees	205	154

(Source: Directors' Report and Financial Statements 23 February 2014)



10 Independent Community Care Management Ltd Kettering

Unquoted
www.iccmcares.co.uk

Based in Kettering, ICCM supports adults and children with a range of conditions, including spinal cord injuries, acquired brain injuries and other degenerative disabilities such as multiple sclerosis, motor neurone disease and cerebral palsy. By building a nurse-led package to suit individual needs, ICCM gives clients freedom to live independent lives in the community.

The investment will ensure that ICCM can continue its excellent reputation in the East Midlands, whilst also building on existing relationships in other geographies. As part of the transaction, ICCM also acquired Excel at Care to ensure that industry leading training continues to be delivered to carers.

All funds managed by Livingbridge

First investment: October 2011
Total cost: £6,070,000
Total equity held: 70.00%

Baronsmead VCT 3 only
Cost: £1,358,000
Valuation: £1,344,000
Valuation basis: Earnings Multiple
% of equity held: 13.86%

Year ended 31 March

	2014 £ million	2013 £ million
Sales	9.8	8.4
EBITDA	0.3	0.2
Net Assets	0.8	0.5
No of Employees	441	390

(Source: ICCM Ltd Directors' report and financial statements 31 March 2014)

Strategic Report

Risk Matrix

Principal Risk	Context	Specific risks
Loss of approval as a Venture Capital Trust	The Company must comply with section 274 of the Income Tax Act 2007 which enables its investors to take advantage of tax relief on their investment and on future returns	Breach of any of the rules enabling the Company to hold VCT status could result in the loss of that status
Investment performance	The Company invests in small, mainly UK based companies, both unquoted and quoted. Smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals and hence tend to be riskier than larger businesses	Investment in poor quality companies with the resultant risk of a high level of failure in the portfolio
Regulatory & Compliance	The Company is authorised as a self managed Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive and is also subject to the Prospectus and Transparency Directives. It is required to comply with the Companies Act 2006, the UKLA Listing Rules	Failure of the Company to comply with any of its regulatory or legal obligations could result in the suspension of its listing by the UKLA and/or financial penalties and sanction by the regulator or a qualified audit report
Legislative	VCTs were established in 1995 to encourage private individuals to invest in early stage companies that are considered to be risky and therefore have limited funding options. In return the state provides these investors with tax reliefs which fall under the definition of state aid	A change in government policy regarding the funding of small companies or changes made to VCT regulations to comply with EU State Aid rules could result in a cessation of the tax reliefs for VCT investors or changes to the reliefs that make them less attractive to investors
Economic, political and external factors	Whilst the Company invests in predominantly UK businesses, it relies heavily on Europe as one of its largest trading partners. This together with the increase in globalisation means that economic unrest and shocks in other jurisdictions as well as in the UK, can impact on UK companies, particularly smaller ones that are more vulnerable to changes in trading conditions	Events such as economic recession, movement in interest or currency rates, civil unrest, war or political uncertainty or pandemics can adversely affect the trading environment for underlying investments and impact on their results and valuations
Operational	The Company relies on a number of third parties including the Investment Manager to provide it with the necessary services such as registrar, sponsor, custodian, receiving agent, lawyers and tax advisers	The risk of failure of the systems and controls of any of the Company's advisers leading to an inability to service shareholder needs adequately, to provide accurate reporting and accounting and to ensure adherence to all VCT legislation rules

The financial risks faced by the Company are covered within the notes to the Financial Statements on pages 54 to 56

Possible impact	Mitigation
The loss of VCT status would result in shareholders who have not held their shares for the designated holding period having to repay the income tax relief they had already obtained and future dividends and gains would be subject to income tax and capital gains tax	The Board maintains a safety margin on all VCT tests to ensure that breaches are very unlikely to be caused by unforeseen events or shocks. The Investment Manager monitors all of the VCT tests on an ongoing basis and the Board reviews the status of these tests on a quarterly basis. Specialist advisors audit the tests on a bi-annual basis and report to the audit committee on their findings.
Reduction in both the capital value of investors shareholdings and in the level of income distributed	The Company has a diverse portfolio where the cost of any one investment is typically less than 5% of NAV thereby limiting the impact of any one failed investment. The Board has appointed an Investment Manager that has a strong and consistent track record over a long period, invests in profitable companies in sectors in which it has specialised for the past sixteen years, undertakes extensive due diligence on all prospective investments, has an experienced value enhancement team who actively manage its investments and who take board seats and appoint experienced non executive Directors on all unquoted and significant quoted investments.
The Company's performance could be impacted severely by financial penalties and a loss of reputation resulting in the alienation of shareholders, a significant demand to buy back shares and an inability to attract future investment. The suspension of its shares would result in the loss of its VCT taxation status and most likely the ultimate liquidation of the Company.	The Board and the Investment Manager employ the services of leading regulatory lawyers, sponsors, auditors and other advisers to ensure the Company complies with all of its regulatory obligations. The Board has strong systems in place to ensure that the Company complies with all of its regulatory responsibilities. The Investment Manager has a strong compliance culture and employs dedicated compliance specialists within its team who support the Board in ensuring that the Company is compliant.
The Company might not be able to maintain its asset base leading to its gradual decline and potentially an inability to maintain either its buy back or dividend policies.	The Board and the Investment Manager engage on a regular basis with HMT and industry representative bodies to demonstrate the cost benefit of VCTs to the economy in terms of employment generation and taxation revenue. In addition the Board and the Investment Manager have considered the options available to the Company in the event of the loss of tax reliefs to ensure that it can continue to provide a strong investment proposition for its shareholders despite the loss of tax reliefs.
Reduction in the value of the Company's assets with a corresponding impact on its share price may result in the loss of investors through buybacks and may limit its ability to pay dividends.	The Company invests in a diversified portfolio of companies across a number of industry sectors which provides protection against shocks as the impact on individual sectors can vary depending upon the circumstances. In addition, the Manager uses a limited amount of bank gearing in its investments which enables its investments to continue trading through difficult economic conditions. The Company always maintains healthy cash balances so that it can support portfolio companies with further investment should the investment case support it. The Board reviews the make up and progress of the portfolio each quarter to ensure that it remains appropriately diversified and funded.
Errors in shareholders records or shareholdings, incorrect marketing literature, non compliance with listing rules, loss of assets, breach of legal duties and inability to provide accurate reporting and accounting all leading to reputational risk and the potential for litigation.	The Board has appointed an audit committee who, along with the external auditors, review the internal control (ISAE3402) and/or internal audit reports from all significant third party service providers, including the Investment Manager, on a biannual basis to ensure that they have strong systems and controls in place including Business Continuity Plans. The Board regularly reviews the performance of its service providers to ensure that they continue to have the necessary expertise and resources to provide a high class service and always where there has been any changes in key personnel or ownership.

Strategic Report

Business Model

Baronsmead VCT 3 has maintained the appointment of Livingbridge VC LLP as Investment Manager to help achieve the investment objective of the Company. The key elements of the investment strategy and its application are outlined below.

Access to an attractive, diverse portfolio

Baronsmead VCT 3 plc gives shareholders access to a diverse portfolio of growth businesses, both unquoted and AIM-traded companies.

Each business has already demonstrated profitable success from its business model before investment to provide a degree of stability and a foundation from which to build. Each business is led by an entrepreneurial management team that are aspiring to achieve above average growth from attractive and differentiated market positions.

The Manager's approach to investing

The Manager, Livingbridge, aspires to select the best opportunities and has a distinctive selection criteria based on,

- Businesses that demonstrate elements of market leadership in their niche
- Management teams that can develop and deliver profitable and sustained growth
- The Company being able to be an attractive asset appealing to a range of buyers at the appropriate time to exit

In order to ensure there is a strong pipeline of opportunities, Livingbridge invests in sector knowledge and networks. It then undertakes significant pro-active marketing to interesting unquoted targets in preferred sectors. This is building a database of businesses that are keen to maintain a relationship with Livingbridge ahead of possible investment opportunities.

Livingbridge as an influential shareholder

For unquoted investments, Livingbridge is an involved shareholder (on behalf of the Baronsmead family of VCTs) and representatives of the Manager join the investee board. The role of Livingbridge is to ensure that strategy is clear, the business plan is well thought through and the management resources are in place to deliver profitable growth. 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.

The investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs.

A more detailed explanation of how the business model is applied is provided in the Other Matters section of the Strategic Report on pages 22 to 25.

Other Matters

Applying the Business Model

The Company's investment objective and investment policy are set out on page 1. This section of the Strategic Report sets out the practical steps that the Board has taken in order to achieve the investment objective and adhere to the investment policy.

Appointment of the right Investment Manager

The Board has delegated the management of the investment portfolio to Livingbridge VC LLP ("Livingbridge" or the "Manager")

The Manager has adopted a 'top-down, sector-driven' approach to identifying and evaluating potential investment opportunities, by assessing a forward view of firstly the business environment, then the sector and finally the specific potential investment opportunity.

Based on its research, the Manager has selected a number of sectors that it believes will offer attractive growth prospects and investment opportunities. Diversification is also achieved by spreading investments across different asset classes and making investments for a variety of different periods.

The Manager's Review on pages 8 to 14 provides a review of the investment portfolio and of market conditions during the year, including the main trends and factors likely to affect the future development, performance and position of the business.

On 22 July 2014 the Company was registered as a Small UK registered Alternative investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD"). In preparation for this the investment management agreement between the Company and Livingbridge EP LLP (formerly ISIS EP LLP) dated 20 December 2006 was novated to Livingbridge VC LLP (previously named ISIS VC LLP), a Markets in Financial Instruments Directive ("MiFID") authorised company with the same controlling members as Livingbridge EP LLP. The terms of the agreement and the personnel involved in providing management and investment management services to the Company have not changed as a result of the implementation of these arrangements.

The Manager also provides or procures the provision of company secretarial, accounting, administrative and custodian services to the Company.

Investing in the right companies

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 bearing securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AIM-traded investments are primarily held in ordinary shares. Pending investment in VCT qualifying and non-VCT qualifying unquoted, AIM-traded and other quoted securities (which may be held directly or indirectly through collective investment vehicles), cash is primarily held in interest bearing accounts, money market open ended investment companies ("OEICs"), UK gilts and treasury bills.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees may have some trade overseas.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Amongst other conditions, the Company may not invest more than 15 per cent by value of its investments calculated in accordance with Section 278 of the ITA 2007 (as amended) ("VCT Value") in a single company or group of companies and must have at least 70 per cent of its investments by VCT Value throughout the period in shares and securities comprised of qualifying holdings. At least 70 per cent by VCT Value of qualifying holdings must be in "eligible shares", which are ordinary shares which have no preferential rights to assets on a winding up and no rights to be redeemed, but may have certain preferential rights to dividends. For funds raised before 6 April 2011, at least 30 per cent by VCT Value of qualifying holdings must be in "eligible shares" which are ordinary shares which do not carry any rights to be redeemed or preferential rights to dividends or to assets on a winding up. At least 10 per cent of each qualifying investment must be in "eligible shares".

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment to be classed as a VCT qualifying holding.

Strategic Report

The Company has retained PricewaterhouseCoopers LLP ("PwC") as its VCT Tax Status Advisers to advise it on compliance with VCT requirements. PwC reviews new investment opportunities, as appropriate, and reviews regularly the investment portfolio of the Company. PwC works closely with the Manager but reports directly to the Board.

Asset mix

The Company aims to be at least 90 per cent invested, directly or indirectly, in VCT qualifying and non-qualifying growth businesses subject always to the quality of investment opportunities and the timing of realisations. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments. Non-VCT qualifying investments held in unquoted, AIM-traded and other quoted companies may be held directly or indirectly through collective investment vehicles.

Borrowing powers

The Company's policy is to use borrowing for short term liquidity purposes only up to a maximum of 25 per cent of the Company's gross assets, as permitted by the Company's articles. The Company currently has no borrowings.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different qualifying industry sectors using a mixture of securities. Generally no more than £2.5 million, at cost, is invested in the same company. The maximum the Company will invest in a single company (including a collective investment vehicle) is 15 per cent of its investments by VCT Value. 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 with other Baronsmead VCTs

The Company aims to invest in larger more mature unquoted and AIM-traded companies and to achieve this it invests alongside the other Baronsmead VCTs.

Incentivising and remunerating the Manager

Performance and Key Performance Indicators ("KPIs")

The Board expects the Manager to deliver a performance which meets the objective of achieving long-term investment returns, including tax free dividends. 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 5 to 7.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on page 3 of the Report and Accounts.

The investment management agreement

Under the Investment management agreement, the Manager receives a fee of 2.5 per cent per annum of the net assets of the Company. In addition, the Manager receives an annual secretarial and accounting fee that was initially fixed at £33,816 in 2006, and is revised annually to reflect the movement in RPI, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. Annual running costs are capped at 3.5 per cent of the average net assets of the Company during the period (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

The management agreement may be terminated at any date by either party giving twelve months' notice of termination and if terminated, the Manager is only entitled to the management fees due to it and any interest due on unpaid fees.

Performance fees

A performance fee is payable to the Manager when the total return on net proceeds of the ordinary shares exceeds 8 per cent per annum (simple). To the extent that the total return exceeds the threshold, a performance fee (plus VAT) will be paid to the Manager of an amount equal 10 per cent of the excess. The performance fee payable in any one year is capped at 5 per cent of net assets.

No performance fee was paid in 2013 and there is no performance fee payable for the year ended 31 December 2014.

Management retention

The Co-investment Scheme (the "Scheme") was introduced in November 2004. Members of the Manager's investment team invest their own capital into a proportion of the ordinary shares of each and every unquoted investment made by the Baronsmead VCTs. The shares held by the members of the Scheme in any portfolio company can only be sold at the same time as the investment held by the Baronsmead VCTs is sold. In addition, any prior ranking financial instruments, such as loan stock, held by the Baronsmead VCTs have to be repaid in full together with the agreed priority annual return before any gain accrues to the ordinary shares. This ensures that the Baronsmead VCTs achieve a good priority return before profits accrue to the Scheme.

The Board is keen to ensure that the Manager continues to have one of the best investment teams in the VCT and private equity market place and considers the Scheme to be essential in order to attract, retain and incentivise the best talent. The Scheme is in line with current market practice in the private equity industry and the Board believes that it aligns the interests of the Manager with those of the Baronsmead VCTs since executives have to invest their own capital in every unquoted transaction and cannot decide selectively in which investments to participate. In addition the Co-investment only delivers a return after each VCT has realised a priority return built into the structure.

The executives participating in the Scheme subscribe jointly for a proportion (currently 12 per cent) of the ordinary shares available to the Baronsmead VCTs in each unquoted investment. The level of participation was increased from 5 per cent in 2007 when the Manager's performance fee was reduced from 20 per cent to its current level of 10 per cent.

Since the formation of the Scheme in 2004, 58 executives have invested a total of £869k in 43 companies. At 31 December 2014, 21 of these investments have been realised generating proceeds of £177m for the Baronsmead VCTs and £8.9m for the Scheme. For Baronsmead VCT 3 the average money multiple on these twenty-one realisations was 2.0 times cost. Had the Scheme Shares been held instead by the Baronsmead VCTs that money multiple would have been 2.1 times cost. Over the period of ten years (based upon the current number of shares in issue) this equates to approximately 2.6p per share.

The board regularly monitors the Scheme arrangements.

Advisory Fees

During the year ended 31 December 2014, the Manager received net income of £166,900 (2013: £174,000) in connection with advisory fees and incurred about fees of £13,301 (2013: £nil) with respect to investment attributable to Baronsmead VCT 3 plc.

Directors' fees of £200,000 (2013: £211,000) were received in relation to services provided to companies in the investment portfolio during the year.

Environmental, Human Rights, Employee, Social and Community Issues

The Company is required, by company law, to provide details of the environmental matters (including the impact of the Company's business on the environment), employee, human rights, social and community issues, including information about any policies it has in relation to these matters and effectiveness of these policies. The Company does not have any employees and as a result does not maintain specific policies in relation to these matters. Information that is relevant to these matters has been set out below.

Responsible Investment

The Company seeks to conduct its affairs responsibly and the Manager is encouraged to consider environmental, human rights, social and community issues, where appropriate, with regard to investment decisions.

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio.

Gender Diversity

The Board of Directors of the Company comprises one female and three male Directors. The Manager has an equal opportunity policy and currently employs 34 men and 24 women.

Strategic Report

Returns to Investors

Dividend policy

The Board of Baronsmead VCT 3 plc 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 it cannot be guaranteed.

Since 2007, the average annual tax free dividend paid to shareholders has been 8.7p per share (equivalent to a pre-tax return of 11.6p per share for a higher rate taxpayer). For shareholders who received up front tax reliefs, their returns will have been higher.

Shareholder choice

The Board wishes to provide shareholders with a number of choices that enable them to utilise their investment in Baronsmead VCT 3 in ways that best suit their personal investment and tax planning and in a way that treats all shareholders equally.

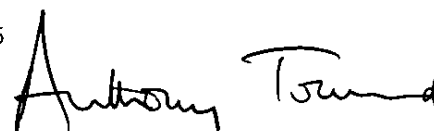
- **Fund raising** | From time to time the Company seeks to raise additional funds by issuing new shares at a premium to the latest published NAV to account for issue costs. The Company's offer for subscription launched in January 2014 to raise £10 million (£9.7 million after costs) was fully subscribed.
- **Dividend Reinvestment Plan** | The Company offers a Dividend Reinvestment Plan which enables shareholders to purchase additional shares through the market in lieu of cash dividends. Approximately 1,514,000 shares were bought in this way during the year ended 31 December 2014.
- **Buy back of shares** | From time to time the Company buys its own shares through the market in accordance with its share price discount policy. Subject to certain conditions, the Company seeks to maintain a mid-share price discount of approximately 5 per cent to NAV.

- **Secondary market** | The Company's shares are listed on the London Stock Exchange and can be bought using a stockbroker or authorised share dealing service in the same way as shares of any other listed company. Investors bought approximately 385,000 shares of the Company's existing shares in the year ended 31 December 2014.

On behalf of the Board

Anthony Townsend
Chairman

17 February 2015



Report of the Directors

Baronsmead VCT 3 plc
Audited Annual Report & Accounts
for the year ended 31 December 2014

The Chairman's Statement on pages 5 to 7, the Corporate Governance Statement on pages 29 to 35 and the Strategic Report on pages 3 to 25 forms part of the Report of the Directors

Board of Directors

As at 31 December 2014



Anthony Townsend	Chairman	
Appointed	4 August 2009	Next due for re-election 2016
Past experience	Anthony has over 40 years experience in financial services and in industry. He was previously a director of Rea Brothers Group plc, a non-executive director of Worldwide Healthcare Trust plc and was chairman of the Association of Investment Companies.	
Other appointments	He is chairman of British & American Investment Trust plc, F&C Global Smaller Companies plc, Finsbury Growth & Income Trust plc and Miton Worldwide Growth Investment Trust plc, and a non-executive director of Hansa Capital Ltd. He was recently appointed as Chairman of Gresham House Plc.	
Beneficial Shareholding	151,199 Ordinary Shares	



Andrew Karney	Senior Independent Director	
Appointed	10 January 2001	Next due for re-election 2015
Past experience	Andrew was deputy chairman and a shareholder of Language Line Ltd in which Baronsmead VCT 3, was an investor. He was formerly chairman of Integrity Action, an international integrity reform non-governmental organisation and was a director of The Guardian Media Group plc, Guardian News and Media Ltd, 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. He is also a chartered engineer.	
Other appointments	None	
Beneficial Shareholding	104,340 Ordinary Shares	



Gillian Nott		Audit and Risk Committee Chairman
Appointed	10 January 2001	Next due for re-election 2015
Past experience	Gillian has in-depth understanding of private investors as previous chief executive of ProShare (1994–1999). Previously she was responsible for the private equity portfolio at BP and has been on the board of the FSA, the predecessor to the Financial Conduct Authority. She was also a director of Liverpool Victoria Friendly Society from May 2005 to May 2011, deputy chairman of the Association of Investment Companies until January 2014, director of Martin Currie Global Portfolio Investment Trust plc from January 2003 to June 2014 and chairman of Witan Pacific Investment Trust plc from November 1999 to June 2014.	
Other appointments	She is currently a nonexecutive director of BlackRock Smaller Companies Trust plc, JP Morgan Russian Securities plc, Baronsmead VCT 2 plc and Baronsmead VCT 5 plc.	
Beneficial Shareholding	92,864 Ordinary Shares	



Ian Orrock	Non-Executive Director	
Appointed	21 October 2010	Next due for re-election 2015
Past experience	Ian has wide experience having founded, developed and sold a number of businesses particularly focusing on the international media, technology and telecoms sectors, and has worked at board level in quoted global organisations. He was also a non-executive director of Henderson Private Equity Investment Trust plc until June 2013.	
Other appointments	He is currently a non-executive director of a number of private companies.	
Beneficial Shareholding	24,431 Ordinary Shares	

Report of the Directors

The Directors of Baronsmead VCT 3 plc (Reg 04115341) present their Fourteenth Report and audited financial statements of the Company for the year ended 31 December 2014

Shares and Shareholders

Share capital

The Company issued an offer for subscription for new ordinary shares of the Company in January 2014. The offer was fully subscribed and 8,896,261 new ordinary shares (nominal value £889,626.10) were allotted on 14 March 2014 at a price of 112.40p per share, representing 10.5 per cent of the issued share capital following allotment. The terms of issue were set out in the prospectus dated 22 January 2014 and the offer price was set on 14 March 2014.

Prior to the sales from Treasury described below, the number of shares held in Treasury was 9,699,214 which was the maximum held during the year. On 19 September 2014, the Company sold 190,000 ordinary shares from Treasury at a price of 100.5p per share and 200,000 ordinary shares were sold from Treasury on 18 December 2014 at a price of 94.75p per share. No shares were bought back by the Company during the year.

As at the date of this report the Company's issued share capital was as follows:

Shares	Total	% of Shares in issue	Nominal Value
In issue	84,628,180	100.0	8,462,818.00
Held in treasury	9,309,214	11.0	930,921.40
In circulation	75,318,966	89.0	7,531,896.60

Shares will not be sold out of Treasury at a discount wider than the discount at which the shares were initially bought back by the Company.

Shareholders

Each 10p ordinary share entitles the holder to attend and vote at general meetings of the Company, to participate in the profits of the Company, to receive a copy of the Annual Report & Accounts and to a final distribution upon the winding up of the Company.

There are no restrictions on voting rights, no securities carry special rights and the Company is not aware of any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights. There are no agreements to which the Company is party that may affect its control following a takeover bid.

In addition to the powers provided to the Directors under UK company law and the Company's Articles of Association, at each Annual General Meeting ("AGM") the shareholders are asked to authorise certain powers in relation to the issuing and purchasing of the Company's own shares. Details of the powers granted at the 2014 AGM, all of which remain valid, can be found in the previous Annual Report & Accounts.

The Board is not, and has not been throughout the year, aware of any beneficial interests exceeding 3 per cent of the total voting rights.

Dividends

The Company paid the following dividends for the year ended 31 December 2014:

Dividends	£'000
First Interim dividend of 8.0p per ordinary share paid on 7 March 2014	5,283
Second Interim dividend of 4.5p per ordinary share paid on 19 September 2014	3,371
Third Interim dividend of 4.5p per ordinary share paid on 19 December 2014	3,381
Total dividends paid for the year	12,035

*the third interim dividend was paid in lieu of a final dividend

Annual General Meeting

The notice of the AGM of the Company to be held at 10.15 am on 16 April 2015 at the Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR has been sent to shareholders and is available on the Company's website.

Directors

Appointments

The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and the Companies Act 2006. Further details in relation to the appointed Directors and the governance arrangements of the Board can be found on page 26 and in the Corporate Governance Statement.

Directors are not compensated by the Company for loss of office in the event of a takeover bid.

Directors' Indemnity

Directors' and Officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court.

Save for such indemnity provisions in the Company's Articles of Association and in the Directors' letters of appointment, there are no qualifying third party indemnity provisions in force.

Conflicts of Interest

The Directors have declared any conflicts or potential conflicts of interest to the Board of Directors which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is reviewed quarterly by the Board, when changes are notified, and the Directors advise the Company Secretary and the Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in discussions which relate to any of their conflicts.

Responsibility for Accounts and Going Concern

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 Auditor is 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 Auditor is aware of that information.

After making enquires, 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 31 December 2014, the Company held cash balances and investments in UK Treasury Bills with a combined value of £19,817,000. 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 therefore is not exposed to any gearing or covenants.

The Directors have chosen to include its report on global greenhouse emissions in its Strategic Report under the section on environmental, human rights, employee, social and community issues.

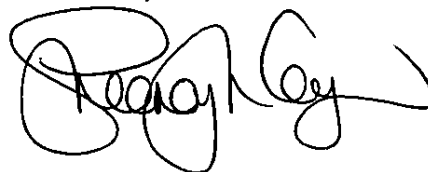
By Order of the Board

Livingbridge VC LLP

Secretary

100 Wood Street London EC2V 7AN

17 February 2015



Corporate Governance

This Corporate Governance statement forms part of the Report of the Directors

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in February 2013 ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") which is available at www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2012 UK Corporate Governance Code issued by the Financial Reporting Council ("FRC") ("the Corporate Governance Code"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. The FRC confirmed in January 2013 that they considered the updated AIC Guide to be appropriate and that investment companies may report against the AIC Code. The Corporate Governance Code is available on the FRC website www.frc.org.uk.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Corporate Governance Code) will provide better information on a comply or explain basis to shareholders.

The table on pages 29 to 33 provide an explanation of how the Company has complied with the AIC Code during the year and provide explanations where the Company has not complied. Since all the Directors are non-executive the provisions of the Corporate Governance Code in respect of the role of the chief executive and Directors' remuneration are not relevant to the Company. For the reasons set out in the AIC Guide, and in the preamble to the Corporate Governance Code, the Board considers that these provisions are not relevant to the Company, being an externally managed venture capital trust.

AIC	Code Principle	Evidence of compliance and/or explanation of departure from the Code
1	The Chairman should be independent.	The Board does not consider that Mr Townsend has any conflict of interest that compromises his independence and the Company's independent directors (excluding the Chairman) have determined that he remains an independent director. Mr Townsend's independence is regularly reviewed as part of the board evaluation process.
2	A majority of the board should be independent of the manager.	All of the Directors' appointments are non-executive and, having considered the performance and independence of each Director, the Board has determined that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect their judgement or impair their independence. As explained in the disclosure relating to AIC Code Provision 4, the Board does not believe that length of service has a bearing on independence and the nature of the company's business is such that an individual director's experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. However the board has as a matter of good practice adopted the AIC Code recommendation that directors who have served for more than nine years should seek annual re-election. Mrs Nott is a director of Baronsmead VCT 2 plc and Baronsmead VCT 5 plc, both of which are managed by Livingbridge VC LLP. The Board regularly considers the independence of its Directors and has concluded that, as Mrs Nott consistently provides the Manager with robust challenge and approaches her role in a way that satisfies her fellow directors that she continues to be independent in character and judgement, the existence of the aforementioned appointments does not impede her independence.

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	The Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years The Nomination Committee considers the proposed re-election of each director in turn, following the board evaluation process
4	The board should have a policy on tenure, which is disclosed in the annual report.	The Board does not believe that the tenure of a director on a wholly non-executive board has any direct bearing on their independence and, in common with many VCTs, the Board ensure that its membership includes longer-serving directors who provide a balance of knowledge and experience that is not present in the absence of executive directors. In addition, the average period for holding private equity investments is considerably longer than for other types of investment. As a result the Nomination Committee considers the composition of the Board regularly and has determined that a formal policy on tenure would not be appropriate
5	There should be full disclosure of information about the board.	The Board is profiled on page 26 and biographies are available on the Company's website. Details of the Board's committees are set out on page 34
6	The board should aim to have a balance of skills, experience, length of service and knowledge of the Company.	The profiles of each of the Directors is set out on page 26 and highlights their range of skills, experience, length of service and knowledge. The Board believes that diversity of experience and approach, including gender diversity, amongst board members is of great importance and the Board and its Nomination Committee give careful consideration to issues of board balance and diversity when considering the composition of the Board and making new appointments
7	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors	Each year the Chairman has individual performance review meetings with each of the Directors which centre around certain key themes, each designed to assess the strength of individual Directors, the Board and its Committees. The Directors also meet collectively to consider the output from the individual meetings. The performance of the Chairman is evaluated by the other Directors under the leadership of Mr Karney, the Company's Senior Independent Director, and includes a questionnaire designed specifically to assess the performance of the Chairman. The results of the evaluations are further considered in detail by the Nomination Committee. The last such evaluation was considered by the Nomination Committee in February 2014 and the Committee concluded that the Directors, the Board and its Committees remained effective. Whilst the most recent evaluation had not been completed during 2014, it would be completed and presented to the Nomination Committee ahead of the Company's forthcoming AGM
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent.	The Board's Remuneration Committee considers at least annually the level of the Board's fees, in accordance with the Remuneration Policy approved by shareholders at the 2014 AGM. Further details on the Directors' remuneration is contained in the Directors' Remuneration Report on pages 36 to 38

Corporate Governance

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
9	The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.	The Nomination Committee, which is comprised entirely of independent directors, is responsible for overseeing the recruitment of new directors. Potential candidates are identified through a combination of the appointment of a recruitment consultant and the Board's/Manager's knowledge of available individuals.
10	Directors should be offered relevant training and induction	New Directors are provided with an induction pack containing key information and governance documents relating to the Company when they are appointed. In addition, they are offered a tailored induction programme with the Manager which covers the investment portfolio and the Manager's approach to investment. Directors receive detailed updates on market and regulatory developments and are provided periodically with training to enhance and refresh their knowledge.
11	The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.	Principle 11 applies to the launch of new investment companies and is therefore not applicable to the Company.
12	Boards and managers should operate in a supportive, co-operative and open environment.	Formal board meetings provide important forums for the Directors and key members of the Manager's team to interact and for Directors to receive reports and provide challenge to the Manager, but interaction between the Board and the Manager is not restricted to these meetings. Between meetings, the Manager continuously updates the Board on developments and responds to queries and requests by Directors as they arise. Informal meetings take place regularly between the Directors and the Manager, and senior members of the Manager's team are also invited to the Board's annual strategy meeting.
13	The primary focus at regular board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues	At each quarterly meeting, the Board receives a report on the performance of the Company, its investments and the VCT sector (including competitors). The report also outlines compliance with the 70% Test and includes forecasts for future periods, highlighting investment opportunities, operational matters and regulatory developments that will/may impact upon the Manager's management of the investment portfolio. The Board has agreed with the Manager specific KPIs that enable both parties to monitor compliance with the agreed Investment Policy and Risk Management framework. Directors regularly seek additional information from the Manager to supplement these reports and formally review the performance measures and KPIs at their annual strategy meeting.
14	Boards should give sufficient attention to overall strategy	As mentioned above, the Board monitors performance against its agreed strategy on an ongoing basis and reviews its overall strategy, including the viability of the Company in its current form, at its annual strategy meeting.

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
15	The board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed fund).	The Management Engagement and Remuneration Committee reviews the overall performance of the Manager annually and considers both the appropriateness of the Manager's appointment and the contractual arrangements (including the structure and level of remuneration) with the Manager. The Board believe that the Manager's track record in the VCT sector remains outstanding and that its ability to continue to achieve strong results by adapting to an ever changing regulatory environment has been particularly impressive. As a result, the Board has concluded that the continuing appointment of Livingbridge VC LLP remains in the best interest of shareholders as a whole.
16	The board should agree policies with the manager covering key operational issues	Certain matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board. Under the terms of a management agreement, the Board has delegated the management of the investment portfolio to the Manager. The management agreement sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. The Manager also provides or procures the provision of company secretarial, accounting, administrative and custodian services to the Company. In the absence of explicit instructions from the Board, the Manager is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principal approach to corporate governance. The Board has considered the adequacy of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.
17	Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Company has stated its aim to seek a mid-share price discount to NAV of no more than 5 per cent but keeps the share price discount policy under continuous review. The performance of the Company's share price and the discount to NAV is monitored continuously and shares will be bought back depending on market conditions at the time and only where the Directors believe it to be in the best interests of all shareholders.
18	The board should monitor and evaluate other service providers.	The Board has established a framework for monitoring and evaluating the performance of its third party services providers and, on the Company's behalf, the Manager monitors the performance and systems and controls employed by the service providers. The Audit Committee receives service provider controls reports from the Manager and the Board considers if a provider should be replaced.

Corporate Governance

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
19	The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views for communicating the board's view to shareholders.	As a VCT, the Company's share register is made up almost entirely of retail shareholders and the Board, through the Manager, remains in constant engagement with wealth managers and brokers to inform their understanding of its investor base. Periodically the Board canvasses the views of its shareholders as a whole by issuing a shareholder questionnaire. The Company's Annual Report & Accounts provides the Board with an opportunity to report on the performance and outlook for the Company and to update shareholders on developments. At the AGM shareholders have an opportunity to receive more detailed presentations from the Manager on specific investments and it also provides a forum to speak directly to the Directors and members of the Manager's team. The Manager also runs a shareholder workshop on the same day as the AGM. The Directors welcome the views of shareholders and are happy to correspond directly with shareholders or make themselves available to meet shareholders. Shareholders seeking to communicate with the Board should contact the Manager in the first instance (see page 66 for contact details). The 2014 AGM was held on 14 April 2014 and the forthcoming AGM will be held on 16 April 2015. In both cases the Company has provided the 20 working days' notice, as required under the AIC Code.
20	The board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.	The Board takes responsibility for approving the content and timing of communications regarding major corporate issues. Communications usually take the form of stock exchange announcements, press releases and direct correspondence with shareholders and the Board seeks the advice and guidance of the Manager when drafting such communications.
21	The board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.	The Company's annual report is drafted to provide shareholders with sufficient information to understand the nature of their investment in the Company. The format and content of the annual report is updated each year in response to changes in best practice and to improve the quality of the information available to shareholders. Details of the Company's full portfolio, as at 31 December 2014 can be found on the Company's website and on page 61 and 62.

The Board's Committees

The Board has delegated certain responsibilities to its Audit & Risk, Management Engagement & Remuneration and Nomination Committees. Given the size and nature of the Board it is felt appropriate that all Directors are members of the Committees. The Board has established formal terms of reference for each of the Committees which are available from the Company Secretary upon request. An outline of the remit of each of the Committees and their activities during the year are set out in the below table.

Audit & Risk Committee

Chairman: Gillian Nott

Key responsibilities

- 1 Reviewing the content and integrity of the Annual and Half-Yearly Accounts,
- 2 Reviewing the Company's internal control and risk management systems,
- 3 Reviewing the remuneration and terms of appointment of the external auditor,
- 4 Ensuring auditor objectivity and independence is safeguarded in the provision of non-audit services, and
- 5 Providing a forum through which the auditor may report to the Board

Activity during the year

During the year the Committee's work included

- 1 A consideration of the significant issues in relation to the financial statements. Whilst the Committee did not identify any significant issues it paid particular attention to
 - a the valuation and existence of unquoted investments. The Manager and external auditor confirmed that the investment valuations had been performed consistently with prior years and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. The Directors had met quarterly to assess the estimates and judgements made by the Manager in the valuations for their appropriateness.
 - b Venture capital trust status: the conditions for maintaining the status as an approved venture capital trust had been met throughout the year. The position had also been reviewed by PwC in its capacity as adviser to the Company on taxation matters.
- 2 Recommending to the Board the Annual and Half-yearly Reports. In preparing the Annual Report & Accounts for the year ended 31 December 2014, the Manager and external auditor confirmed that they were not aware of any material misstatements. Having reviewed the reports received from both parties the Committee was satisfied that the key areas of risk and judgement had been addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.
- 3 Assessing the effectiveness of the current external audit process. The Committee's assessment was that KPMG had continued to carry out its duties in a diligent and professional manner, maintained a good knowledge of the VCT market and continued to provide a high level of service. In accordance with guidance issued by the Auditing Practices Board the audit partner is rotated every five years to ensure objectivity and independence is not impaired. The current audit partner has been in place for three year-ends. KPMG was appointed to the Company in 2003 and no tender for the audit of the Company has been undertaken since this date. As part of its review of the continuing appointment of the auditors, the Audit Committee regularly considers the need to put the audit out to tender. An explanation of how auditor objectivity and independence is safeguarded and details of the non-audit services provided can be found in note 2.6 to the financial statements.
- 4 Overseeing the operation of the Company's system of internal controls and reviewing its effectiveness. The Committee has established procedures which have been designed to identify and manage, rather than eliminate, risk. These procedures involve the maintenance of a risk register which records the risks to which the Company is exposed, including, among others, market, investment, operational and regulatory risks, and the controls employed to mitigate these risks. The residual risks are rated taking into account the impact of the mitigating factors. This register is updated when changes are identified and reviewed at each Committee meeting and where necessary, corrective action is taken. A formal annual review of the effectiveness of the risk management process is carried out by the Audit Committee.
- 5 Monitoring and evaluating appointed third party service providers.
- 6 Reviewing the need for an internal audit function. The Committee concluded that the systems and procedures employed by the Manager provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, was therefore not required.

Corporate Governance

Management Engagement & Remuneration Committee

Chairman: Anthony Townsend

Key responsibilities

- 1 Reviewing the appropriateness of the Manager's appointment (including key executives thereof) together with the terms and conditions of the appointment, and
- 2 Determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman and non-executive Directors,

Activity during the year.

During the year the Committee's work included

- 1 Reviewing the Manager's performance and considering their ongoing appointment. The review carried out by the Committee concluded that the knowledge and experience accumulated by the Manager in the period since the launch of the Company in 2000 is reflected in processes which continue to find, manage and realise good quality growth businesses. The Board's opinion remains that the continuing appointment of Livingbridge VC LLP on the terms agreed is in the best interest of shareholders as a whole.
- 2 Reviewing the remuneration paid to the Chairman and Directors, in accordance with the Remuneration Policy approved by shareholders at the 2014 AGM. Further information on the work of the Committee can be found in the Directors' Remuneration Report on page 36.

Nomination Committee

Chairman: Anthony Townsend

Key responsibilities

Key responsibilities

- 1 Considering the appointment of additional Directors as and when considered appropriate,
- 2 Considering the resolutions relating to annual re-election of directors, and
- 3 Considering the ongoing requirements of the Company and the need to have a balance of skills, experience, knowledge and diversity within the Board.

Activity during the year

- 1 Considering succession planning for directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the board in the future,
- 2 Reviewing the results of the board performance evaluation process particularly the items that related to the composition and independence of the board, and
- 3 Reviewing the time required from non-executive directors

The below table sets out the Directors' attendance at Board and Committee meetings held during the year ended 31 December 2014. In addition the Board established committees to approve financial statements, the payment of dividends and fundraising. The Directors also attended quarterly meetings to consider in detail the valuations of the unquoted investments in the portfolio.

	Board of Directors (4 meetings held)		Audit Committee (2 meetings held)		Management Engagement and Remuneration Committee (2 meetings held)		Nomination Committee (1 meeting held)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Anthony Townsend	4	4	2	2	2	2	1	1
Andrew Karney	4	4	2	2	2	2	1	1
Gillian Nott	4	4	2	2	2	2	1	1
Ian Orrock	4	4	2	2	2	2	1	1

Directors' Remuneration Report

Baronsmead VCT 3 plc
Audited Annual Report & Accounts
for the year ended 31 December 2014

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An Ordinary resolution for the approval of this report will be put to the members at the forthcoming AGM.

The law requires the Company's Auditor, KPMG LLP, to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the 'Independent Auditor's Report' on pages 40 and 41.

Annual Statement from the Chairman of the Remuneration Committee

The Board, which is profiled on page 26, consists solely of non-executive Directors and is considered to be entirely independent. The Board considers at least annually the level of the Board's fees, in accordance with the AIC Code.

During the year, the Management Engagement and Remuneration Committee reviewed the Directors' fees to ensure that these were in line with the industry and other VCTs within the Baronsmead family. Subsequent to this review it was concluded that it was appropriate to increase the Directors' fees to £22,000 per annum, the Chairman of the Audit and Risk Committee's fees to £24,000 per annum and the Chairman's fee to £29,500 for the year ended 31 December 2014. The Committee has further agreed that there will be no change for the fees for the year ended 31 December 2015.

In determining the remuneration of the directors the Board has had regard to the prevailing market conditions, including the increase in RPI since last year and the level of comparative fees paid by other VCTs of similar size. It also considered the time spent by directors in carrying out their duties and the performance of the VCT.

Directors spend a considerable amount of time preparing for Board meetings, the quarterly valuation meetings and in a number of other ad hoc meetings all in addition to the time taken up in the formal meetings of the Board. The Board's time is spent setting the strategy for the successful development of the company and then monitoring the performance of the company against the strategic objectives set. It sets the investment guidelines and monitors the investment manager's adherence to them. The Directors regularly review the portfolio of investments and determine the valuation

of the unquoted companies on a quarterly basis. The Board is also responsible for the overall risk management of the Company. Additionally the Board regularly reviews the investment performance of the Company and scrutinises closely the cost of running the Company to ensure that all costs are kept to an appropriate level. It also monitors carefully the working of the co-investment scheme.

In addition the Directors are responsible for deciding when it is appropriate for the company to raise new funds, and for the subsequent documentation that is needed for such fundraising.

The Board is keen to ensure that communications with shareholders are as clear as possible and spends time considering how to improve regular reporting to shareholders in all forms, from the website to the Annual Report, which you will see is in a new format this year.

VCTs are the subject of numerous complex regulations relating to the types of investment they can make and the overall financial structure of the VCT itself. With assistance from its professional advisers and the Manager, the Board spends much time monitoring compliance with these regulations to ensure that no breach is likely to occur which would result in the loss of tax relief for shareholders. This year an additional EU regulatory burden has been added in the form of the Alternative Investment Fund Manager Directive ("AIFMD") with which the VCT has had to comply. This is in addition to the normal compliance with the Companies Act and the Listing Rules. Under the AIFMD the Company has applied to the Financial Conduct Authority and has been accepted as a Small Registered AIFM. This required the Company to review and revise the investment management agreement with Livingbridge, and appoint a custodian for the unquoted shares.

Directors' Remuneration Policy

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 VCTs 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.

Directors' Remuneration Report

This policy was approved by the members at the 2014 AGM, and it is intended that this policy will continue for the year ending 31 December 2015 and subsequent years. In accordance with the regulations, an ordinary resolution to approve the Directors' Remuneration Policy will be put to shareholders at least once every three years.

The Directors are not eligible to receive pension entitlements, bonuses and no other benefits are provided. They are not entitled to participate in any long-term incentive plan or share option schemes. Fees are paid to the Directors on a monthly basis and are not performance related.

As the Directors do not have service contracts, the Company does not have a policy on termination payments. There is no notice period and no payments for loss of office were made during the year.

Shareholders' views in respect of Directors' remuneration are communicated at the Company's AGM and are taken into account in formulating the Directors remuneration policy. At the last AGM, 91.44 per cent of shareholders voted for the resolution approving the Directors Remuneration Report (8.56 per cent against) and 90.94 per cent voted for the resolution approving the Directors Remuneration Policy (9.06 per cent against), showing significant shareholder support.

Annual Remuneration Report

The Management Engagement and Remuneration Committee comprises all the Directors of the Company. The Chairman of the Committee is Mr Townsend. As the Company has no executive Directors, the Management Engagement and Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Investment Manager, and the level of the Board's fees, in accordance with the AIC Code of Corporate Governance.

The interests of the Directors in the shares of the Company, at the beginning and at the end of the year, or date of appointment, if later, were as follows:

	31 December 2014 Ordinary 10p shares	31 December 2013 Ordinary 10p shares
Anthony Townsend	151,199	44,439
Andrew Karney	104,340	86,548
Gillian Nott	92,864	57,278
Ian Orrock	24,431	15,535
Total shares held	372,834	203,800

There have been no changes in the holdings of the Directors between 31 December 2014 and 17 February 2015.

Director's Service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment. The terms of Director's appointments provide that Directors should retire and be subject to election at the first AGM after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. In accordance with the AIC Code, Directors who have served on the Board for more than nine years must offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon early termination of appointment. Below is a table which sets out each Director's date of appointment and due date for re-election/election.

Director	Date of original appointment	Due date for re-election
Anthony Townsend	4/08/09	2016
Andrew Karney	10/01/01	2015
Gillian Nott	10/01/01	2015
Ian Orrock	21/10/10	2015

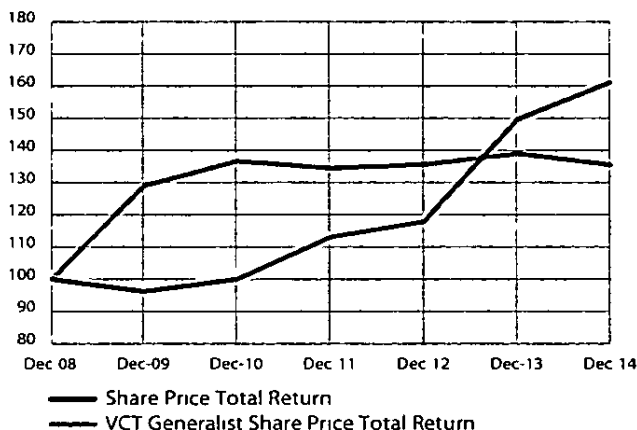
Company performance

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 Manager through the management agreement, as referred to in the 'Report of the Directors'. The graph below compares, for the six years ended 31 December 2014, the percentage change over each year in the share price total return (assuming all dividends are reinvested) to shareholders compared to the share price total return of approximately 60 generalist VCTs (source AIC), which the Board considers to be the most appropriate benchmark for investment performance measurement purposes. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Relative Importance of Spend on Pay

	2014 £	2013 £	Percentage Increase
Dividend	12,035,000	4,953,000	142.98%
Total directors fees	97,500	82,250	18.54%

Share Price and the VCT Generalist Share Price 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

Director	Fees 2014 £	Fees 2013 £
Anthony Townsend	29,500	25,750
Andrew Karney	22,000	18,000
Gillian Nott	24,000	20,500
Ian Orrock	22,000	18,000
Total	97,500	82,250

Approved by the Board of Directors and signed by

Anthony Townsend

Chairman of the Management Engagement
and Remuneration Committee

17 February 2015

Anthony Townsend

Statement of Directors' Responsibilities

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Responsibility statement of the Directors in respect of the annual financial report

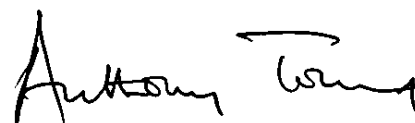
We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company,
- the Annual Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face, and
- the report and accounts, taken as a whole, are fair, balanced, and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy

On behalf of the Board,

Anthony Townsend
Chairman

17 February 2015



Independent Auditor's Report

Baronsmead VCT 3 plc
Audited Annual Report & Accounts
for the year ended 31 December 2014

Independent Auditor's Report to the Members of Baronsmead VCT 3 Plc Only

Opinions and conclusions arising from our audit

1 Opinion on financial statements

We have audited the financial statements of Baronsmead VCT 3 plc for the year ended 31 December 2014 set out on pages 42 to 56. In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended,
- have been properly prepared in accordance with UK accounting standards, and
- have been prepared in accordance with the requirements of the Companies Act 2006

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows

Valuation of Unquoted Investments (£24.3m)

The risk – 31.5% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments and this is the key judgemental area that our audit focused on.

Our response – Our procedures included

- documenting and assessing the design and implementation of the investment valuation processes and controls in place,
- attendance at the quarterly valuation meetings with the directors and investment manager to assess their discussion and review of the investment valuations,
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations,
- challenging the investment manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we challenged the appropriateness of the valuation basis selected as well

as the underlying assumptions, such as discount factors, and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or whether refinancing may be required. Where a recent transaction had been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report,

- attending the year-end valuation meeting where we assessed the effectiveness of the directors' review, challenge and approval of unquoted investment valuations, and
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Valuation of quoted Investments (£34.4m)

The risk – The Company's portfolio of quoted investments makes up 44.6% of the company's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response – Our procedures over the completeness, valuation and existence of the company's quoted investment portfolio included, but were not limited, to

- documenting and assessing the processes in place to record investment transactions and to value the portfolio,
- agreeing the valuation of 100% of investments in the portfolio to externally quoted prices, and

Independent Auditor's Report

- agreeing 100% of investment holdings in the portfolio to independently received third party confirmations

3 Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £1,544,344, determined with reference to a benchmark of Total Assets (of which it represents 2%)

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £77,217, in addition to other identified misstatements that warranted reporting on qualitative grounds

Our audit of the company was undertaken to the materiality level specified above and was performed at the Manager, Livingbridge VC LLP, head office in London and at the administrator, Capita Asset Services, in Exeter

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading

In particular, we are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, or
- the Audit Committee section of the Corporate Governance report does not appropriately address matters communicated by us to the Audit Committee

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or

Under the Listing Rules we are required to review

- the directors' statement, set out on page 39, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 29 to 33 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

17 February 2015

Income Statement

Baronsmead VCT 3 plc
Audited Annual Report & Accounts
for the year ended 31 December 2014

For the year ended 31 December 2014

	Notes	Year ended 31 December 2014			Year ended 31 December 2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on movements in fair value of investments	23	–	2,443	2,443	–	8,624	8,624
Realised gains/(losses) on disposal of investments	23	–	957	957	–	(1,069)	(1,069)
Income	25	2,591	–	2,591	3,763	–	3,763
Investment management fee	26	(461)	(1,381)	(1,842)	(443)	(1,329)	(1,772)
Other expenses	26	(455)	–	(455)	(438)	–	(438)
Profit on ordinary activities before taxation		1,675	2,019	3,694	2,882	6,226	9,108
Taxation on ordinary activities	29	(250)	250	–	(560)	560	–
Profit on ordinary activities after taxation		1,425	2,269	3,694	2,322	6,786	9,108
Return per ordinary share:							
Basic	22	1.95p	3.10p	5.05p	3.50p	10.23p	13.73p

All items in the above statement derive from continuing operations

There are no recognised gains and losses other than those disclosed in the Income Statement

The revenue column of the Income Statement includes all income and expenses. The capital column accounts for the realised and unrealised profit or loss on investments and the proportion of the management fee charged to capital.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Opening shareholders' funds		74,879	74,562
Profit on ordinary activities after taxation		3,694	9,108
Net proceeds of share issues & costs of buybacks		10,081	(817)
Other costs charged to capital	32	(2)	(15)
Dividends paid	24	(12,035)	(7,959)
Closing shareholders' funds		76,617	74,879

Balance Sheet

As at 31 December 2014

COMPANY NUMBER 4115341

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Fixed assets			
Investments	23	66,410	67,727
Current assets			
Debtors	27	485	178
Cash at bank and on deposit		10,323	7,564
		10,808	7,742
Creditors (amounts falling due within one year)	28	(601)	(590)
Net current assets		10,207	7,152
Net assets		76,617	74,879
Capital and reserves			
Called-up share capital	31	8,463	7,573
Share premium	32	8,813	–
Other reserve	32	33,716	33,718
Capital reserve	32	12,410	19,906
Revaluation reserve	32	12,521	12,992
Revenue reserve	32	694	690
Equity shareholders' funds	21	76,617	74,879
NAV per share			
- Basic	21	101.72p	113.40p
- Treasury	21	100.98p	112.48p

The financial statements were approved by the board of Directors on 17 February 2015 and were signed on its behalf by

Anthony Townsend
Chairman



Cash Flow Statement

Baronsmead VCT 3 plc
Audited Annual Report & Accounts
for the year ended 31 December 2014

For the year ended 31 December 2014

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Operating activities		
Investment income received	2,394	3,931
Deposit interest received	35	18
Other income received	15	–
Investment management fees paid	(1,831)	(1,744)
Other cash payments	(452)	(410)
Net cash inflow from operating activities	161	1,795
Financial investment		
Purchases of investments	(59,406)	(36,380)
Disposals of investments	63,967	42,948
Net cash inflow from financial investment	4,561	6,568
Equity dividends paid	(12,035)	(7,959)
Net cash (outflow)/inflow before financing	(7,313)	404
Financing		
Net proceeds of share issues & costs of buybacks	10,081	3,930
Other costs charged to capital	(9)	(8)
Net cash inflow from financing	10,072	3,922
Increase in cash	2,759	4,326
Reconciliation of net cash flow to movement in net cash		
Increase in cash	2,759	4,326
Opening cash position	7,564	3,238
Closing cash at bank and on deposit	10,323	7,564
Reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities		
Profit on ordinary activities before taxation	3,694	9,108
Gains on investments	(3,400)	(7,555)
(Increase)/decrease in debtors	(151)	197
Increase in creditors	18	45
Net cash inflow from operating activities	161	1,795

Notes to the Financial Statements

We have grouped notes into sections under three key categories

- 1 Basis of preparation
- 2 Investments, performance and shareholder returns
- 3 Other required disclosures

The key accounting policies have been incorporated throughout the notes to the financial statements adjacent to the disclosure to which they relate. All accounting policies are included within an outlined box.

1 Basis of Preparation

1.1 Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") in January 2009 and on the assumption that the Company maintains VCT status.

2 Investments, Performance and Shareholder Returns

2.1 NAV per share

	Number of ordinary shares		NAV per share attributable		Net assets attributable	
	31 December 2014 number	31 December 2013 number	31 December 2014 pence	31 December 2013 pence	31 December 2014 £'000	31 December 2013 £'000
Ordinary shares (basic)	75,318,966	66,032,705	101.72	113.40	76,617	74,879
Ordinary shares (Treasury)	84,628,180	75,731,919	100.98	112.48	85,461	85,184

The treasury NAV per share as at 31 December 2014 has been calculated by assuming that all shares held in treasury were sold to the market at the mid-share price of 95.00p at 31 December 2014 (2013: 106.25p).

2.2 Return per share

	Weighted average number of ordinary shares		Return per ordinary share		Net profit on ordinary activities after taxation	
	31 December 2014 number	31 December 2013 number	31 December 2014 pence	31 December 2013 pence	31 December 2014 £'000	31 December 2013 £'000
Revenue	73,235,895	66,308,458	1.95	3.50	1,425	2,322
Capital	73,235,895	66,308,458	3.10	10.23	2,269	6,786
Total			5.05	13.73	3,694	9,108

2 Investments, Performance and Shareholder Returns (continued)

2.3 Investments

Purchases or sales of investments are recognised at the date of transaction

Investments are measured at fair value. For AIM traded securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is traded

In respect of unquoted investments, these are valued at fair value by the Directors using methodology which is consistent with the International Private Equity and Venture Capital Valuation guidelines ("IPEV"). This means investments are valued using an earnings multiple, which has a discount or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a NAV basis

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

All investments are initially recognised and subsequently measured at fair value. Changes in fair value are recognised in the Income Statement. The details of which are set out in the box above

The methods of fair value measurement are classified into a hierarchy based on reliability of the information used to determine the valuation

- Level 1 – Fair value is measured based on quoted prices in an active market
- Level 2 – Fair value is measured based on directly observable current market prices or indirectly being derived from market prices
- Level 3 – Fair value is measured using a valuation technique that is not based on data from an observable market

	31 December 2014 £'000	31 December 2013 £'000
Level 1		
Listed interest bearing securities	9,494	3,498
Investments traded on AIM	24,938	25,722
Investments traded on ISDX	–	346
Investments listed on LSE	–	2,850
	34,432	32,416
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	7,676	7,012
Level 3		
Unquoted investments	24,302	28,299
	66,410	67,727

Notes to the Financial Statements

2 Investments, Performance and Shareholder Returns (continued)

2.3 Investments (continued)

	Level 1				Level 2	Level 3	
	Listed Interest bearing securities £'000	Traded on AIM £'000	Traded on ISDX £'000	Listed on LSE £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	3,498	17,467	227	1,729	3,525	28,289	54,735
Opening unrealised appreciation	–	8,255	119	1,121	3,487	10	12,992
Opening valuation	3,498	25,722	346	2,850	7,012	28,299	67,727
Movements in the year							
Reclassification in the year	–	816	(227)	(589)	–	–	–
Purchases at cost	53,178	1,286	–	–	–	5,005	59,469
Sales – proceeds	(47,182)	(4,288)	–	(2,831)	–	(9,885)	(64,186)
– realised gains on sales	–	466	–	14	–	477	957
Unrealised gains/(losses) realised during the year	–	1,950	–	1,677	–	(713)	2,914
(Decrease)/increase in unrealised appreciation	–	(1,014)	(119)	(1,121)	664	1,119	(471)
Closing valuation	9,494	24,938	–	–	7,676	24,302	66,410
Closing book cost	9,494	17,697	–	–	3,525	23,173	53,889
Closing unrealised appreciation	–	7,241	–	–	4,151	1,129	12,521
Closing valuation	9,494	24,938	–	–	7,676	24,302	66,410
Equity shares	–	24,892	–	–	7,676	6,795	39,363
Loan notes	–	46	–	–	–	17,507	17,553
Fixed income securities	9,494	–	–	–	–	–	9,494
Closing valuation	9,494	24,938	–	–	7,676	24,302	66,410

The gains and losses included in the above table have all been recognised in the Income Statement on page 42

For Level 3 unquoted investments, the effect on fair value of changing one or more assumptions to reasonably possible alternatives has been considered. The portfolio has been reviewed and both downside and upside reasonable possible alternatives have been identified and applied to the valuation of each of the investments. The inputs flexed in determining the reasonably possible alternative assumptions include the earnings stream and marketability discount.

Applying the downside alternatives the value of the unquoted investments would be £1.6 million or 6.5 per cent lower. Using the upside alternatives the value of the unquoted investments would be increased by £1.7 million or 7.0 per cent.

2 Investments, Performance and Shareholder Returns (continued)

2.4 Dividends

	Year ended 31 December 2014			Year ended 31 December 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 31 December 2014						
- First interim dividend of 8.0p per ordinary share paid on 7 March 2014	311	4,972	5,283	-	-	-
- Second interim dividend of 4.5p per ordinary share paid on 19 September 2014	554	2,817	3,371	-	-	-
- Third interim dividend of 4.5p per ordinary share paid on 19 December 2014	556	2,825	3,381	-	-	-
For the year ended 31 December 2013						
- First interim dividend of 3.0p per ordinary share paid on 20 September 2013	-	-	-	991	990	1,981
- Second interim dividend of 4.5p per ordinary share paid on 20 December 2013	-	-	-	991	1,981	2,972
For the year ended 31 December 2012						
- Final interim dividend of 4.5p per ordinary share paid on 15 April 2013	-	-	-	334	2,672	3,006
	1,421	10,614	12,035	2,316	5,643	7,959

2.5 Income

Interest income on loan notes and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful.

Where the terms of unquoted loan notes only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment.

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

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

Notes to the Financial Statements

2. Investments, Performance and Shareholder Returns (continued)

2.5 Income (continued)

	Year ended 31 December 2014			Year ended 31 December 2013		
	Quoted securities £'000	Unquoted securities £'000	Total £'000	Quoted securities £'000	Unquoted securities £'000	Total £'000
Income from investments†						
UK franked	513	–	513	472	–	472
UK unfranked	19	1,382	1,401	8	2,351	2,359
Redemption premium	–	627	627	–	913	913
	532	2,009	2,541	480	3,264	3,744
Other income‡						
Deposit interest			35			19
Other income			15			–
Total income			2,591			3,763
Total income comprises:						
Dividends			513			472
Interest			2,078			3,291
			2,591			3,763

† All investments have been designated at fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss

‡ Other income on financial assets not designated fair value through profit or loss

2.6 Investment management fee and other expenses

All expenses are recorded on an accruals basis

	Year ended 31 December 2014			Year ended 31 December 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	461	1,381	1,842	443	1,329	1,772
Performance fee	–	–	–	–	–	–
	461	1,381	1,842	443	1,329	1,772

Management fees are allocated 25 per cent income 75 per cent capital derived in accordance with the board's expected split between long term income and capital returns Performance fees are allocated 100 per cent capital

The management agreement may be terminated by either party giving twelve months notice of termination

2 Investments, Performance and Shareholder Returns (continued)

2.6 Investment management fee and other expenses (continued)

The Manager, Livingbridge VC LLP, receives a fee of 2.5 per cent per annum of the net assets of the Company, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee when the total return on net proceeds of the ordinary shares exceeds 8 per cent per annum (on a simple basis). The Manager is entitled to 10 per cent of the excess. The amount of any performance fee which is paid in respect of a calculation period shall be capped at 5 per cent of the shareholders' funds at the end of the calculation period. No performance fee is payable for the year ended 31 December 2014 (2013: £nil).

Other expenses

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Directors' fees	98	82
Secretarial and accounting fees paid to the Manager	133	130
Remuneration of the auditors and their associates		
– audit	23	22
– other services supplied pursuant to legislation (interim review)	6	5
– other services supplied relating to taxation	6	6
– other services supplied relating to financial statements' reorganisation	4	5
Other	185	188
	455	438

Information on Directors' remuneration is given in the Directors' remuneration table on page 38.

Charges for other services provided by the Auditors in the year ended 31 December 2014 were in relation to the interim reviews, tax compliance work (including iXBRL) and financial statements' reorganisation. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained. The Directors consider that the Auditors were best placed to provide such services.

2.7 Debtors

	As at 31 December 2014 £'000	As at 31 December 2013 £'000
Prepayments and accrued income	329	178
Amount due from deferred consideration	156	–
	485	178

Notes to the Financial Statements

2 Investments, Performance and Shareholder Returns (continued)

2.8 Creditors (amounts falling due within one year)

	As at 31 December 2014 £'000	As at 31 December 2013 £'000
Management, performance, secretarial and accounting fees due to the Manager	512	504
Share premium and capital redemption reserve cancellation costs	-	7
Other creditors	89	79
	601	590

2.9 Tax

UK corporation tax payable is provided on taxable profits at the current rate

Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability

The tax charge for the year is lower than the standard rate of corporation tax in the UK for a company. The differences are explained below:

	Year ended 31 December 2014			Year ended 31 December 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit on ordinary activities before taxation	1,675	2,019	3,694	2,882	6,226	9,108
Corporation tax at 21.5 per cent (2013: 23.25 per cent)	360	434	794	670	1,448	2,118
Effect of:						
Non-taxable gains	-	(731)	(731)	-	(1,757)	(1,757)
Non-taxable dividend income	(110)	-	(110)	(110)	-	(110)
Losses carried forward/(utilised)	-	47	47	-	(251)	(251)
Tax charge/(credit) for the year	250	(250)	-	560	(560)	-

At 31 December 2014 the Company had surplus management expenses of £2,182,000 (2013: £1,964,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future year in excess of the deductible expenses of that future year and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

3. Other Required Disclosures

3.1 Called-up share capital

Allotted, called-up and fully paid

Ordinary shares	£'000
75,731,919 ordinary shares of 10p each listed at 31 December 2013	7,573
8,896,261 ordinary shares of 10p each issued during the year	890
84,628,180 ordinary shares of 10p each listed at 31 December 2014	8,463
9,699,214 ordinary shares of 10p each held in treasury at 31 December 2013	(970)
(390,000) ordinary shares of 10p each sold from treasury during the year	39
9,309,214 ordinary shares of 10p each held in treasury at 31 December 2014	(931)
75,318,966 ordinary shares of 10p each in circulation* at 31 December 2014	7,532

* Carrying one vote each

During the year the Company sold from treasury 390,000 ordinary shares representing 0.5 per cent of the ordinary shares in issue at the beginning of the financial year

There were no changes in share capital between the year end and when the financial statements were approved

Treasury shares

When the Company re-acquires its own shares, they are currently held as treasury shares and not cancelled

Shareholders have authorised the board to re-issue treasury shares at a discount to the prevailing NAV subject to the following conditions

- It is in the best interests of the Company,
- Demand for the Company's shares exceeds the shares available in the market,
- A full prospectus must be produced if required, and
- HMRC will not consider these 'new shares' for the purposes of the purchasers' entitlement to initial income tax relief

Notes to the Financial Statements

3 Other Required Disclosures (continued)

3.2 Reserves

Gains and losses on realisation of investments of a capital nature are dealt with in the capital reserve. Purchases of the Company's own shares to be either held in treasury or cancelled are also funded from this reserve. 75 per cent of management fees are allocated to the capital reserve in accordance with the board's expected split between long term income and capital returns.

	Distributable reserves			Non-distributable reserves			
	Capital reserve £'000	Revenue reserve £'000	Total £'000	Share premium £'000	Other reserve £'000	Revaluation reserve* £'000	Total £'000
At 1 January 2014	19,906	690	20,596	–	33,718	12,992	46,710
Share premium and capital redemption reserve cancellation costs	–	–	–	–	(2)	–	(2)
Proceeds of share issue	–	–	–	9,110	–	–	9,110
Sale of shares from treasury	386	–	386	–	–	–	–
Loss on shares sold from treasury	(8)	–	(8)	–	–	–	–
Gain on shares sold from treasury	–	–	–	3	–	–	3
Expenses of share issue and buybacks	–	–	–	(300)	–	–	(300)
Reallocation of prior year unrealised gains	2,914	–	2,914	–	–	(2,914)	(2,914)
Realised gain on disposal of investments#	957	–	957	–	–	–	–
Net increase in value of investments#	–	–	–	–	–	2,443	2,443
Management fee capitalised#	(1,381)	–	(1,381)	–	–	–	–
Taxation relief from capital expenses#	250	–	250	–	–	–	–
Revenue return on ordinary activities after taxation#	–	1,425	1,425	–	–	–	–
Dividends paid in the year	(10,614)	(1,421)	(12,035)	–	–	–	–
At 31 December 2014	12,410	694	13,104	8,813	33,716	12,521	55,050

* Changes in fair value of investments are dealt with in this reserve

The total of these items is £3,694,000 which agrees to the total profit on ordinary activities

Share premium is recognised net of issue costs

The Company does not have any externally imposed capital requirements

On 18 December 2013 the court granted orders allowing the Company to cancel its share premium account and capital redemption reserve. The amounts of £22,866,000 (share premium) and £10,862,000 (capital redemption reserve) less costs paid will become distributable during 2015.

3 Other Required Disclosures (continued)

3.3 Financial instruments risks

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of UK growth businesses.

The Company's investing activities expose it to a range of financial risks. These key risks and the associated risk management policies to mitigate these risks are described below.

Market risk

Market risk includes price risk on investments and interest rate risk on investments and other financial assets and liabilities.

Price risk

The investment portfolio is managed in accordance with the policies and procedures described on pages 22 to 25 of the Strategic Report.

Investments in unquoted stocks and AIM quoted companies involve a higher degree of risk than investments in the main market. The Company aims to reduce this risk by diversifying the portfolio across business sectors and asset classes.

Management performs continuing analysis on the fair value of investments and the Company's overall market positions are monitored by the board on a quarterly basis.

	As at 31 December 2014			As at 31 December 2013		
	% of total investments	5% increase in share price effect on net assets and profit £'000	5% decrease in share price effect on net assets and profit £'000	% of total investments	5% increase in share price effect on net assets and profit £'000	5% decrease in share price effect on net assets and profit £'000
AIM and CIV	49	1,631	(1,631)	53	1,797	(1,797)
Unquoted	37	1,215	(1,215)	42	1,415	(1,415)

Valuation methodology includes the application of earnings multiples derived from either listed companies with similar characteristics or recent comparable transactions. Therefore the value of the unquoted element of the portfolio may also indirectly be affected by price movements on the listed exchanges.

Notes to the Financial Statements

3 Other Required Disclosures (continued)

3.3 Financial instruments risks (continued)

Interest rate risk

The Company has the following investments in fixed rate financial assets

	As at 31 December 2014			As at 31 December 2013		
	Total investment £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total investment £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed rate loan note securities	17,553	8.64	#	22,916	7.89	#
Fixed interest instruments	9,494	0.33	40	3,498	0.26	48
Cash at bank and on deposit	10,323	–	–	7,564	–	–
	37,370			33,978		

Due to the complexity of the instruments and uncertainty surrounding timing of realisation the weighted average time for which the rate is fixed has not been calculated

Credit risk

Credit risk refers to the risk that counterparty will default on its obligation resulting to a financial loss to the Company. The Investment Manager monitors credit risk on an ongoing basis.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following

	As at 31 December 2014 £'000	As at 31 December 2013 £'000
Investments in fixed rate instruments	9,494	3,498
Cash at bank and on deposit	10,323	7,564
Interest, dividends and other receivables	485	178
	20,302	11,240

Credit risk arising on fixed interest instruments is mitigated by investing in UK Treasury Bills.

Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed earlier in the note.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The board monitors the quality of service provided by the brokers used to further mitigate this risk.

All the assets of the Company which are traded on a recognised exchange are held by JP Morgan Chase ("JPM"), the Company's Custodian. The board monitors the Company's risk by reviewing the Custodian's internal controls reports as described in the Corporate Governance section of this report.

3 Other Required Disclosures (continued)

3.3 Financial instruments risks (continued)

Credit risk (continued)

The cash held by the Company is held by JPM and Lloyds. The board monitors the Company's risk by reviewing regularly the internal control reports of these banks. Should the credit quality or the financial position of either bank deteriorate significantly the Investment Manager will seek to move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 31 December 2014 or 31 December 2013. No individual investment in a portfolio company exceeded 4.3 per cent of the net assets attributable to the Company's shareholders at 31 December 2014 (2013: 6.2 per cent).

Liquidity risk

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

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures in place as described in the Risk Matrix on pages 19 and 20. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 December 2014 these investments were valued at £19,817,000 (2013: £11,062,000).

3.4 Related parties

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, Livingbridge VC LLP, as disclosed in notes 2.6 and 2.8, and fees paid to the Directors as disclosed in note 2.6. In addition, the Manager operates a Co-investment Scheme, detailed in the Extract from the Report of the Directors, whereby employees of the Manager are entitled to participate in all unquoted investments alongside the Company.

Appendices

Investment Policy

The Company's investment 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 bearing securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AIM traded investments are primarily held in ordinary shares. Pending investment in VCT qualifying and non-VCT qualifying unquoted, AIM traded and other quoted securities (which may be held directly or indirectly through collective investment vehicles), cash is primarily held in interest bearing accounts, money market OEICs, UK gilts and treasury bills.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees may have some trade overseas.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Amongst other conditions, the Company may not invest more than 15 per cent by value of its investments calculated in accordance with section 278 of ITA 2007 (as amended) (VCT Value) in a single company or group of companies and must have at least 70 per cent of its investments by VCT Value throughout the year in shares and securities comprised in qualifying holdings.

At least 70 per cent by VCT Value of qualifying holdings must be in "eligible shares", which are ordinary shares which have no preferential rights to assets on a winding up and no rights to be redeemed, but may have certain preferential rights to dividends. For funds raised before 6 April 2011, at least 30 per cent by VCT Value of qualifying holdings must be in "eligible shares" which are ordinary shares which do not carry any rights to be redeemed or preferential rights to dividends or to assets on a winding up. At least 10 per cent of each qualifying investment must be in "eligible shares".

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment to be classed as a VCT qualifying holding.

Asset mix

The Company aims to be at least 90 per cent invested, directly or indirectly, in VCT qualifying and non qualifying growth businesses subject always to the quality of investment opportunities and the timing of realisations. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments. Non-VCT qualifying investments held in unquoted, AIM traded and other quoted companies may be held directly or indirectly through collective investment vehicles.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different qualifying industry sectors using a mixture of securities. Generally no more than £2.5 million, at cost, is invested in the same company. The maximum the Company will invest in a single company (including a collective investment vehicle) is 15 per cent of its investments by VCT Value. 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 with other Baronsmead VCTs

The Company aims to invest in larger more mature unquoted and AIM traded companies and to achieve this it invests alongside the other Baronsmead VCTs

Management retention

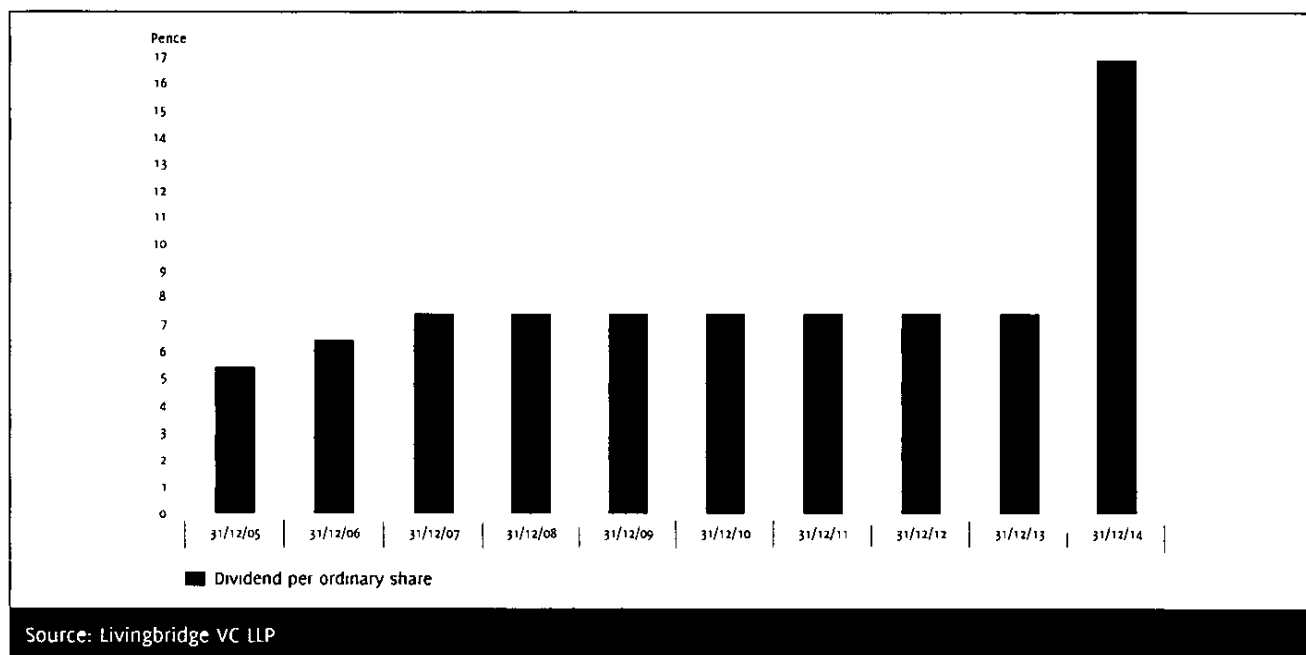
Certain members and employees of the Manager invest in unquoted investments alongside the Company. This scheme is in line with current practice of private equity houses and its objective is to attract, recruit, retain and incentivise the Manager's team and is made on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's policy is to use borrowing for short term liquidity purposes only up to a maximum of 25 per cent of the Company's gross assets, as permitted by the Company's articles. The Company currently has no borrowings.

Appendices

Dividend History in the Last Ten Years



Dividends Paid Since Launch

Year ended	Revenue (p)	Capital (p)	Ordinary share		
			Dividend history per ordinary share (p)	Cumulative dividends (p)	Average total dividend per ordinary share (p)
31/12/01	2.30	0.00	2.30	2.30	2.30
31/12/02	2.80	0.00	2.80	5.10	2.55
31/12/03	2.20	2.00	4.20	9.30	3.10
31/12/04	1.20	3.30	4.50	13.80	3.45
31/12/05	2.00	3.50	5.50	19.30	3.86
31/12/06	1.75	4.75	6.50	25.80	4.30
31/12/07	2.30	5.20	7.50	33.30	4.76
31/12/08	2.40	5.10	7.50	40.80	5.10
31/12/09	1.20	6.30	7.50	48.30	5.37
31/12/10	2.00	5.50	7.50	55.80	5.58
31/12/11	1.65	5.85	7.50	63.30	5.75
31/12/12	0.50	7.00	7.50	70.80	5.90
31/12/13	3.00	4.50	7.50	78.30	6.02
31/12/14	1.95	15.05	17.00	95.30	6.81

Performance Record Since Launch

Year ended	Total net assets (£m)	NAV per share (p)	Ordinary share		Ongoing charges %†
			Share price (p)	NAV† per share (p)	
31/12/2001	31.1m	93.85	88.00	101.21	2.9
31/12/2002	32.1m	94.85	85.50	105.35	3.3
31/12/2003	33.0m	97.15	90.00	112.65	3.1
31/12/2004	35.1m	106.38	92.50	125.64	3.5
31/12/2005	56.2m	117.31	100.50	144.77	3.5
31/12/2006	66.5m	130.77	116.50	169.27	3.4
31/12/2007	65.2m	120.44	111.50	170.56	3.4
31/12/2008	55.1m	102.72	90.50	149.56	3.0
31/12/2009	52.9m	97.50	86.25	159.89	3.1
31/12/2010	64.6m	106.60	94.25	180.19	3.0
31/12/2011	60.1m	100.16	91.25	189.74	3.0
31/12/2012	74.6m	111.62	105.38	217.38	3.0
31/12/2013	74.9m	113.40	106.25	245.38	3.0
31/12/2014	76.6m	101.72	95.00	257.18	2.9

* Net asset value total return (gross dividends reinvested) Source: Livingbridge VC LLP

† Figures from 31 December 2012 onwards are based on the new AIC guidelines for the calculation of ongoing charges

Cash Returned to Shareholders

Year subscribed	Cash invested (p)	Income tax reclaim (p)	Net cash invested (p)	Cumulative dividends (p)	Net annual yield*	Gross equivalent yield†
2001 (January)	100.00	20.00	80.00	95.30	8.6%	11.4%
2005 (March) - C share	100.00	40.00	60.00	60.10	10.2%	13.6%
2010 (March)	103.09	30.93	72.16	47.00	13.6%	18.2%
2012 (December)	117.40	35.22	82.18	29.00	17.4%	23.2%
2014 (March)	112.40	33.70	78.70	9.00	14.3%	19.1%

The total return could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less

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

† The gross equivalent yield if the dividends had been subject to the higher rate of tax on dividends (currently 32.5 per cent). For those shareholders who earn over £150,000 per tax year and who would otherwise pay this additional rate of tax on dividends, the gross equivalent yield will be higher than the figures stated above

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

Appendices

Full Investment Portfolio

Company	Sector	Book cost £'000	31 December 2014 Valuation £'000	31 December 2013 Valuation £'000	% of net assets	% of equity held by Baronsmead VCT plc	% of equity held by all funds
Unquoted							
Nexus Vehicle Holdings Ltd	Business Services	245	2,502	4,621	33	137	62.1
Crew Clothing Holdings Ltd	Consumer Markets	1,453	2,464	2,336	32	61	25.5
Create Health Ltd	Healthcare & Education	1,065	1,775	1,384	23	57	29.0
Luxury For Less Ltd	Consumer Markets	955	1,621	429	21	40	40.0
Pho Holdings Ltd	Consumer Markets	991	1,375	1,090	18	55	28.0
Independent Community Care Management Ltd	Healthcare & Education	1,358	1,344	1,583	18	139	70.0
Carousel Logistics Ltd	Business Services	955	1,338	955	17	60	40.0
Eque2 Ltd	TMT*	877	1,333	1,131	17	76	38.5
CableCom II Networking Holdings Ltd	TMT*	1,250	1,331	1,250	17	25	11.2
Key Travel Ltd	Business Services	954	1,176	954	15	47	48.0
Kingsbridge Ltd	Business Services	899	1,144	-	15	57	34.0
Valldata Group Ltd	Business Services	1,220	1,090	1,701	14	†	†
Happy Days Consultancy Ltd	Healthcare & Education	1,052	1,053	833	14	129	65.0
Kirona Ltd	TMT*	955	955	-	13	38	37.5
IP Solutions Ltd	TMT*	954	954	-	13	44	30.0
Upper Street Events Ltd	Consumer Markets	953	953	-	13	80	70.1
CR7 Services Ltd	TMT*	949	949	-	12	44	52.1
Armstrong Craven Ltd	Business Services	673	845	673	11	77	46.0
Playforce Holdings Ltd	Business Services	0	100	402	0.1	N/A	N/A
Carnell Contractors Ltd	Business Services	941	0	0	-	##	##
Fisher Outdoor Leisure Holdings Ltd	Consumer Markets	1,423	0	961	-	105	44.0
Impetus Holdings Ltd	Business Services	1,305	0	1,174	-	89	45.6
Surgi C Ltd	Healthcare & Education	853	0	0	-	133	57.5
Xention Discovery Ltd	Healthcare & Education	893	0	0	-	17	2.9
Total unquoted		23,173	24,302		31.7		
AIM							
Netcall plc	TMT*	869	3,318	2,847	43	36	18.0
IDOX plc	TMT*	614	2,530	2,081	33	18	4.9
Accumuli plc	TMT*	505	1,829	1,309	24	42	23.1
Tasty plc	Consumer Markets	594	1,500	1,634	20	25	14.5
TLA Worldwide plc	Business Services	733	1,309	1,091	17	30	14.6
Jelf Group plc	Business Services	551	1,015	1,036	13	07	2.8
Driver Group plc	Business Services	563	950	1,332	12	35	16.5
Dods (Group) plc	TMT*	1,219	938	469	12	42	20.1
Plastics Capital plc	Business Services	793	860	820	11	23	11.7
Anpario plc	Healthcare & Education	206	851	1,315	11	15	9.5
Gama Aviation plc	Business Services	388	846	533	11	24	11.2
Inspired Energy plc	Business Services	287	844	810	11	22	10.8
Escher Group Holdings plc	TMT*	614	831	867	11	19	9.7
Sanderson Group plc	TMT*	612	781	793	10	22	8.9
Bioventix plc	Healthcare & Education	227	614	346	08	17	7.6
InterQuest Group plc	Business Services	310	580	506	08	16	6.6
Electric Word plc	TMT*	696	575	575	08	51	27.6
Ideagen plc	TMT*	225	450	329	06	10	4.3

Full Investment Portfolio (continued)

Company	Sector	Book cost £'000	31 December 2014 Valuation £'000	31 December 2013 Valuation £'000	% of net assets	% of equity held by Baronsmead VCT 3 plc	% of equity held by all funds ⁹
AIM (continued)							
Everyman Media Group plc	Consumer Markets	391	392	391	0.5	1.3	5.8
Tangent Communications plc	Business Services	523	376	580	0.5	2.3	11.3
Vianet Group plc	Business Services	646	373	388	0.5	1.9	9.7
Scholium Group plc	Consumer Markets	450	369	-	0.5	3.3	14.7
MartinCo plc	Consumer Markets	343	353	436	0.5	1.6	6.9
EG Solutions plc	TMT*	453	351	378	0.5	3.3	15.0
Daily Internet plc	TMT*	340	263	225	0.3	4.4	19.5
Crawshaw Group plc	Consumer Markets	200	252	-	0.3	0.6	9.1
Begbies Traynor Group plc	Business Services	231	250	239	0.3	0.6	2.2
Brady plc	TMT*	176	232	214	0.3	0.4	2.1
Paragon Entertainment Ltd [^]	Consumer Markets	258	135	293	0.2	3.6	19.1
Synectics plc	Business Services	296	129	626	0.2	0.6	2.1
Castleton Technology plc	TMT*	68	126	-	0.2	0.5	2.4
One Media IP Group plc	TMT*	113	116	93	0.2	1.6	7.0
Mi Pay Group plc	Business Services	400	102	102	0.1	0.9	3.8
Ubisense Group plc	TMT*	130	87	175	0.1	0.3	1.4
Synety Group plc	TMT*	113	83	-	0.1	0.5	2.4
Cohort plc	Business Services	48	74	248	0.1	0.1	0.4
STM Group plc	Business Services	162	67	77	0.1	0.6	4.0
Gresham House plc	TMT*	56	56	-	0.1	0.2	0.9
EG Solutions plc Loan note	TMT*	33	46	-	0.1	N/A	N/A
Pinnacle Technology Group plc	TMT*	169	35	96	0.0	1.2	5.4
APC Technology Group plc	Business Services	932	22	42	0.0	0.1	0.7
Fulcrum Utility Services Ltd [^]	Business Services	51	17	-	0.0	0.1	2.6
Marwyn Management Partners plc	Business Services	525	7	15	-	-	0.2
Zoo Digital Group plc	TMT*	584	4	9	-	0.2	4.6
Total AIM		17,697	24,938		32.6		
Listed interest bearing securities							
UK Treasury Bill 09/02/15		4,996	4,996	-	6.5		
UK Treasury Bill 19/01/15		2,999	2,999	-	3.9		
UK Treasury Bill 23/03/15		1,499	1,499	-	2.0		
Total listed interest bearing securities		9,494	9,494		12.4		
Collective investment vehicle							
Wood Street Microcap Investment Fund		3,525	7,676	7,012	10.0		
Total collective investment vehicle		3,525	7,676		10.0		
Total investments		53,889	66,410		86.7		
Net current assets			10,207		13.3		
Net assets			76,617		100.0		

[#] All funds managed by the same investment manager Livingbridge VC LLP and Livingbridge EP LLP including Baronsmead VCT 3 plc.

^{*} Technology Media & Telecommunications ("TMT")

^{##} Following a restructuring and partial redemption the funds no longer hold equity in Carnell Contractors Ltd

[‡] Following a restructure the effective ownership percentage is dependent on final exit proceeds

[^] Fulcrum Utility Services Ltd and Paragon Entertainment Ltd shares were received in exchange for Marwyn Value Investors Ltd shares following a Scheme of Arrangement

Appendices

Breakdown of Shareholdings

The shareholdings of ordinary shares as at 31 December 2014 (excluding shares held in Treasury) are analysed as follows

Size of shareholding	Number of shareholders	Ordinary shares		
		Percentage of total number of shareholders	Number of shares	Percentage of shares %
1 - 2,000	342	8.59	418,132	0.56
2,001 - 5,000	983	24.69	3,497,265	4.64
5,001 - 10,000	909	22.83	6,770,019	8.99
10,001 - 25,000	1,023	25.70	16,582,567	22.02
25,001 - 50,000	459	11.53	16,305,421	21.65
50,001 - 100,000	177	4.45	12,497,599	16.59
100,001 - above	88	2.21	19,247,963	25.55
Total	3,981	100.00	75,318,966	100.00*

*excluding Treasury Shares

Shareholder Information and Contact Details

Baronsmead VCT 3 plc
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Shareholder Account Queries

The Registrar for **Baronsmead VCT 3** is Computershare Investor Services PLC ("Computershare") The Registrar will deal with all of your queries with regard to your shareholder account, such as

- Change of address
- Latest share price
- Your current share holding balance
- Your payment history, including any outstanding payments
- Your payment options (cheque, direct payment to your bank/building society account, reinvestment)
- Paper or electronic communications
- Request replacement cheques or share certificates (for which there may be additional administrative and other charges)

You can contact Computershare with your queries in several ways

Telephone:	0800 923 1532	• This is an automated self-service system • It is available 24 hours a day, 7 days a week • You should have your Shareholder Reference Number ("SRN") to hand, which is available on your share certificate and dividend tax voucher and which you should always keep confidential for security reasons • Press '0' if you wish to speak to someone • The Contact Centre in Bristol is available on UK business days between 8.30am - 5.00pm Monday to Friday
On-line:	Investor Centre www.investorcentre.co.uk	• Computershare's secure website, Investor Centre, allows you to manage your own shareholding online • You will need to register to use this service on the Investor Centre web site • You should have your SRN to hand, which is available on your share certificate and dividend tax voucher and which you should always keep confidential for security reasons
Email:	web.queries@computershare.co.uk	
Post:	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ	

Warning to Shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers for free company reports.

Please note that it is very unlikely that either the Company or the Company Registrar, Computershare, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment "advice".

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company or the Registrar at the numbers provided above.

Shareholder Information and Contact Details

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 the link on the Company's website and 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

Panmure Gordon & Co 020 7886 2500 (the Company's broker)

Winterflood 020 3400 0251

Financial Calendar

April 2015 Fourteenth Annual General Meeting

August 2015 Announcement of interim results and posting of half-yearly report

February 2016 Announcement of final results for year to 31 December 2015

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. Livingbridge VC 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 Livingbridge VC LLP which is Authorised and regulated by the FCA. 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.

Secondary Market in the Shares of Baronsmead VCT 3 plc

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.

Corporate Information

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Directors

Anthony Townsend (Chairman)
Gill Nott OBE
Andrew Karney
Ian Orrock

Secretary

Livingbridge VC LLP

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Investment Manager

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