Chairman's Statement

Peter Lawrence Chairman

The year to 31 January 2010 has seen a resumption of positive investment returns amounting to a 15.8 per cent increase in the underlying Net Asset Value per share. A number of investments were realised and the 4p dividend came largely out of the capital profits generated in the year.

In compliance with the Listing Rules, I am required to step down as Chairman of the Company as I also chair the Board of another Baronsmead VCT and will do so at the Annual General Meeting on 21 April 2010. That said, I am delighted that John Davies will succeed me as Chairman of Baronsmead AIM VCT. Since launch in 2006 we have withstood the tough economic and stock market conditions and met our original objectives relating to qualifying status and dividends. Investment performance has been consistently top quartile in our peer group. We also believe that your Company is well placed to benefit from an improvement in the wider economy.

INVESTMENT PERFORMANCE

Results for the year to 31 January 2010

In the twelve months to 31 January 2010, the Net Asset Value (NAV) per share increased by 15.8 per cent from 66.29p to 76.75p before the dividend payments. The position can be summarised as follows:

NAV at 1 February 2009	66.29p
Valuation uplift	10.46p
	76.75p
Interim dividend paid on 2 October 2009	(2.00p)
Interim dividend paid on 28 January 2010	(2.00p)
NAV at 31 January 2010	72.75p

Over the same period, the FTSE All-Share index increased 28 per cent, which is similar to the actual up lift in the value of the quoted equities in the portfolio. This is higher than the NAV total return as there were uninvested cash balances held throughout the period earning only a nominal amount of interest.

The Board paid two interim dividends of 2p per ordinary share in October 2009 and January 2010, making a total of 4.0p for the year. Realised capital profits during the year totalled £995,000 (equivalent to approximately 3.6p per share) providing the reserves from which the majority of the dividends were paid.

The six VCT tests relating to the qualifying tax status of Baronsmead AIM VCT were met throughout the year, including the key test requiring that over 70 per cent of the ordinary share capital raised prior to 31 January 2008 be invested in qualifying investments.

Longer term performance

The stated intention in both the prospectus offers in 2006 and 2007 was to become approximately 75 per cent invested in qualifying holdings. Part of this policy was also to gradually reduce the level of non-qualifying holdings, coupled with other sales from the qualifying portfolio, to generate realised profits from their sale to accelerate the payment of dividends to shareholders. Both objectives have been achieved with dividends paid at a higher level than might otherwise have been the case.

Since the launch of the Company in the first quarter of 2006, the NAV total return shows a fall of 9.0 per cent. The Board compares the Company's longer term performance with that of the FTSE All-Share Total Return Index, as the most widely drawn indicator of UK equity markets and this index has achieved a positive 1.7 per cent total return since the Company's launch.

The Board also monitors the Company's performance against its peer group of AIM VCTs launched in the 2005/6 tax year. The Company has remained in the first quartile of this group throughout this time. Over the almost four years from launch to 31 January 2010, the NAV total return performance has also exceeded that of the FTSE UK Small Cap Index by 3 per cent (source Bloomberg).

These investment returns are stated before taking account of any VCT tax reliefs from which shareholders may have benefited. VCT tax reliefs are designed to redress the VCT investing constraints which require us to invest in a limited range of smaller companies which, for reasons of size, can be higher risk. At a time of lower investment returns, the proportional benefits from these tax reliefs is greater. Quantification of the scale of these tax benefits depends on the individual circumstances of each shareholder but the table on page 3 in this report indicates the range of yields achievable for both original subscribers and those who subscribed to the C share offer in 2007.

Chairman's Statement

Dividends paid to founder shareholders now total 14.2p per share, which is an average annual dividend through the four year period of 3.6p per share. There is the additional benefit of receiving dividends tax free, which has been worth the equivalent of a further 6.8p per share for a higher rate founder shareholder (which would imply an equivalent total dividend of 21p per share, an average of 5.3p net)

Investment activity

Twelve new investments were made at a cost of £5.5 million as companies regained the confidence to raise funds. This took the portfolio to 40 companies together with another £666,000 invested in the initial 13 holdings in the Wood Street Microcap Investment Fund (described more fully below).

Three of the AIM investee companies were taken over indicating that acquirers appreciated that good value resided in these companies which had become lowly rated. This also endorses our long term strategy of investing in companies which are likely to be attractive to trade buyers at some point. Increasingly, we are looking to take more influential stakes in a small number of AIM companies which have these promising investment characteristics.

The health of the portfolio is measured quarterly in terms of the trend in underlying profitability, as well as against non-financial indicators. The downward trend in 2008 was reversed and by the year end, 35 companies within the 40 investees were reporting steady or improving performance. The largest VCT qualifying investment (Advanced Computer Software) and the largest non-qualifying investment (Character Group) at the year-end represented 6.4 per cent and 1.6 per cent of the Company's net assets respectively. 20.8 per cent of the Company's net assets were held in cash or interest bearing securities.

Non-Qualifying AIM and Small Cap investments

The Company has invested a small proportion of its assets in non-VCT qualifying AIM and Small Cap companies in order to take advantage of investment opportunities that the Manager identifies. These investments are now made through a collective investment vehicle set up and managed by the Manager in order to provide the Baronsmead VCT Boards with greater flexibility to choose and vary their respective Company's allocation to this area of investing.

This investment is referred to in the portfolio and the various notes to the accounts as Wood Street Microcap Investment Fund (WSM) and during the year Baronsmead AIM VCT invested £666,000 (approximately 3 per cent of the Company's NAV) in this vehicle. In future most of the Company's non-qualifying investments will be made indirectly through WSM. The Manager receives no additional fee for managing the Company's investments in this way.

SHAREHOLDER ISSUES

The Board introduced a dividend reinvestment plan (DRIP) in June 2009 and to date, 172,845 existing shares have been acquired by the scheme on behalf of 10 per cent of shareholders who elected to become part of the DRIP. This has also helped to reduce the level of buy backs as just 169,000 shares were bought back in the second half as opposed to 591,528 in the first half of the year.

For those individuals earning more than £150,000, the Finance Act 2009 introduced restrictions which curb both the level of contributions and amount of tax relief available on payments made into a pension scheme with effect from 6 April 2011. Further restrictions have been introduced for this tax year and next, known as ''anti-forestalling measures'', which prevent many individuals investing larger sums in their pension schemes ahead of the changes coming into force.

As a result, VCTs now represent an attractive supplement to traditional pension planning for individuals affected by these changes and others seeking to supplement their retirement planning options and tax efficient investing generally. Private investors should consult their financial advisers about how these changes might affect them and whether or not investing in a VCT is suitable for them, taking into account their personal circumstances.

The first top up issue for Baronsmead AIM VCT was launched in February 2010 to existing shareholders only. This offer to raise the sterling equivalent of €2.5 million provides them with the opportunity to subscribe for further shares in the current tax year to 5 April 2010. The Board believes that now is an advantageous time in the economic cycle to be investing in UK smaller companies. Proceeds from the offer will help position the Company to take advantage of attractive investment opportunities.

Chairman's Statement

BOARD SUCCESSION

Shareholders were alerted last year to the new independence criteria for directors of VCTs that could result in Board changes ahead of the rule change becoming effective on 28 September 2010. As a result of the review, I am required to retire as your chairman but I am very pleased that John Davies has accepted the Board's invitation to take on the Chairman's role at the close of the fourth AGM. He is very experienced in UK Small Cap investment having been Managing Director of 3i Asset Management for 17 years and subsequently been a director of the BlackRock Smaller Companies Investment Trust. He became a director of Baronsmead AIM VCT on its formation in early 2006.

It is rewarding for me to have been the founding Chairman of Baronsmead AIM VCT. Our relative performance has been top quartile amongst our peer group throughout and we have developed our strategy to be a more influential investor which should stand us in good stead having withstood a severe recession and market downturn. We have also met the objectives set at the outset in regard to dividends paid.

I have been a director of Baronsmead VCT since 1999 and accepted that Board's invitation to become the third Chairman. Clive Parritt too, is Chairman of Baronsmead VCT 2 and plans are underway this year to find his successor for our Board as the listing rules require that a VCT chairman cannot serve on more than one VCT managed by the same manager.

ANNUAL GENERAL MEETING

We now have almost 2,000 Ordinary shareholders and the task of the Board is to ensure that we meet and understand our shareholders' requirements. I look forward to welcoming as many of you as possible to our fourth AGM on 21 April 2010 at 11am at the London Stock Exchange in the City of London. There will be a number of presentations and a shareholder workshop finishing by approximately 2 pm.

We keep shareholders informed about the Company on a quarterly basis and would also like to refer shareholders to the Company's website, www.baronsmeadaimvct.co.uk for more information.

OUTLOOK

The Manager's strategy has evolved, in conjunction with the Board in the pursuit of achieving greater consistency of returns and to cope with the smaller size of AIM investees that fit the current VCT rules. There is an increasing focus on taking more influential stakes (when combined across the family of Baronsmead VCTs) in companies where a clear exit strategy can be envisaged, typically to a trade buyer.

Quoted stock market sentiment has improved markedly since March 2009. Liquidity is returning and investors in AIM are seeking value, as witnessed by the successful bids for several of our portfolio companies. We are well placed in the AIM market to be selective and use the Manager's knowledge to our advantage.

Peter Lawrence
Chairman

17 March 2010