

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take, you are recommended to seek advice from your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your Ordinary Shares in British Smaller Companies VCT2 plc you should send this document and accompanying Form of Proxy immediately to the purchaser or transferee or the stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee.

**British Smaller Companies VCT2 plc**

(Incorporated in England and Wales under the Companies Act 1985 with registered number 04084003)

**Circular to Shareholders issued in connection with the proposed  
authority for the Company to purchase its own shares**

**NOTICE OF GENERAL MEETING**

Your attention is drawn to the letter from the Chairman of the Company set out on pages 2 and 3 of this document which contains a recommendation to vote in favour of the resolution to be proposed at the General Meeting referred to below.

A notice convening a General Meeting of the Company to be held at Berkeley Square House, Berkeley Square, Mayfair, London, W1J 6BD at 2.00 p.m. on 30 August 2011 is set out at the end of this document. A Form of Proxy accompanies this document.

To be valid, Forms of Proxy for use at the General Meeting must be completed and returned so as to be received at the offices of the Company's registrars, Capita Registrars Limited, at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by 2.00 p.m. on 25 August 2011. A pre-paid envelope is enclosed for this purpose.

The completion and depositing of a Form of Proxy will not preclude you from attending and voting in person at the General Meeting should you wish to do so.

# Chairman's Letter

## British Smaller Companies VCT2 plc

(Registered No. 04084003)

**Directors:**

Richard Last  
Robert Martin Pettigrew  
Peter Charles Waller

**Registered Office:**

Saint Martins House  
210-212 Chapeltown Road  
Leeds  
West Yorkshire LS7 4HZ

27 July 2011

Dear Shareholder

## Notice of General Meeting

### 1. Introduction

The Company's recent track record has seen a balancing of its investment approach between more developed income generating investments and earlier stage emerging businesses. This has resulted in a more mature investment portfolio that has delivered strong investment performance and tax free cash dividends averaging 5.2 pence per Ordinary Share for the last 3 years to December 2010. In addition, the final 2 pence dividend in respect of 2010 was paid on 10 June 2011. The unaudited net asset value per Ordinary Share as at 31 March 2011 was 68.9 pence per share (source: Interim Management Statement of the Company for the three months to 31 March 2011). This performance underpins the Board's commitment to maximising Shareholder dividends and has contributed to the total return to 31 March 2011 of 94.9 pence per Ordinary Share, which includes 26.0 pence per Ordinary Share of tax-free dividends. If you are a tax payer paying the highest rate of tax and eligible for all the tax benefits available to shareholders in a venture capital trust\*, your return will have been increased to 124.2 pence per Ordinary Share.

### 2. Authority to Purchase Own Shares

The Directors' authority to make market purchases of the Company's Ordinary Shares was recently sought at the 2011 AGM but unfortunately due to a negative response in what was a very low voting turnout, the resolution was considered likely to fail. The Board therefore chose to withdraw the resolution to allow further time to consult with existing Shareholders and the new Shareholders who have recently invested in the Company.

The Board is proposing a special resolution at a General Meeting which has been convened for 30 August 2011 (details of which appear in the Notice on pages 4 and 5 of this document), to enable the Company to renew the Directors' authority to make market purchases of the Company's own Ordinary Shares in accordance with the Company's share buyback policy.

The Directors believe the buyback policy is very important for Shareholders for a number of reasons. These are:

**Demand for shares in the secondary market:**

The Board believes that it is in all Shareholders' interests to be able to realise their investments. This has generally not been possible in the case of those venture capital trusts where a lack of a buyback policy results in insufficient demand to meet the requirements of those shareholders who wish to realise their investment.

**Ability to attract further investment in the Company:**

It is important to be able to attract new investment into the Company in order that it can continue to expand and further diversify its investment portfolio. This in turn can lead to increased income generation from the portfolio which assists in achieving a consistency of future dividends and spreads the costs over a larger investment base thereby reducing its Total Expense Ratio to each Shareholder. In order to attract these new investors it is essential to provide a clear mechanism for them to realise that investment in due course.

**Selling shares in the secondary market:**

In the Board's opinion, without a buyback policy in place Shareholders will have no method of realising their investment in the Company without suffering a significant discount to the net asset value. The experience of the venture capital trust market is that the amount by which the market price for shares is discounted to net asset value is materially influenced by whether the company has a buyback policy in place and that this is a more important factor than the company's performance. A newly issued share attracts income tax relief (currently 30% of the amount subscribed as long as it is not greater than the amount of income tax paid by the investor), provided all the conditions are met. There is no tax relief available on the purchase of shares through the market. If no buyback policy is in place, the amount by which the market price is discounted to the net asset value is generally at least equal to the income tax relief

available on a new share issue. As a result there is no incentive for shareholders to sell on the secondary market without suffering a large discount. If a buyback policy is in place, the amount by which the market price is discounted to net asset value is generally less than the income tax relief available on a new share issue.

In light of these reasons, the Board believes that it is very much in the Shareholders' interests to support the renewal of the Company's buyback policy.

The Directors will only exercise the authority where they consider that such purchases will be in the best interests of Shareholders generally and will result in an increase in earnings and net assets per Ordinary Share. Shares purchased under the buyback policy will be held in Treasury and may therefore be reissued at a later date.

### **Proposal to Shareholders**

Under the proposal to be put before the Shareholders, the Company will have the authority to make market purchases of its own Ordinary Shares up to a maximum number equivalent to 14.99% of the total Ordinary Shares in issue as at the date of the notice of General Meeting for a period of 3 years from the date of the General Meeting. The Board believes that an authority which endures for 3 years will provide certainty for the Company and its Shareholders and be in the best interests of the Shareholders.

Subject to Shareholder approval, the Board intends to operate a policy of purchasing Ordinary Shares that become available in the market at a price equivalent to the Company's most recently published net asset value less a discount of up to 15%.

The minimum price that the Company may pay for each Ordinary Share is 10p, its nominal value, and under the rules of the UK Listing Authority, the maximum price is an amount not more than 5% above the average market value of the Ordinary Shares taken from the Official List of the UK Listing Authority for the five business days immediately preceding the day on which the Ordinary Shares are contracted to be purchased.

As at the date of this document there are no options to subscribe for Ordinary Shares and the Company does not have any outstanding share warrants.

### **3. General Meeting**

The Resolution upon which Shareholders are asked to vote at the General Meeting is set out in the Notice on pages 4 and 5 and is summarised above.

The General Meeting has been convened for 2.00 p.m. on 30 August 2011 at Berkeley Square House, Berkeley Square, Mayfair, London W1J 6BD. At the General Meeting, a special resolution, requiring the approval of not less than 75 per cent of the votes cast, will be proposed in order to pass the Resolution.

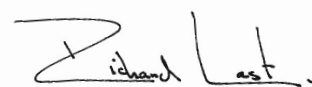
### **4. Action to be Taken**

Shareholders will find accompanying this document a Form of Proxy for use at the General Meeting. Shareholders are asked to complete and return this (as appropriate) to the Company's registrars, Capita Registrars Limited, at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received as soon as possible, and in any event to arrive not later than 2.00 p.m. on 25 August 2011. A pre-paid envelope is enclosed for this purpose. Completion and return of a Form of Proxy will not affect a registered Shareholder's right to attend and vote at the General Meeting should he or she wish to do so.

### **5. Recommendation**

The Board considers that the Resolution is in the best interests of the Company and the Shareholders as a whole and, accordingly, the Board recommends Shareholders to vote in favour of the Resolution, as they intend to do in respect of their own beneficial shareholdings totalling 92,898 Ordinary Shares (representing 0.39% of the issued share capital of the Company). In addition the Company's Fund Manager intends to vote its shareholding of 345,086 Ordinary Shares (representing 1.43% of the issued share capital of the Company) in favour of the Resolution.

Yours sincerely



**Richard Last**  
Chairman

# Notice of General Meeting

## BRITISH SMALLER COMPANIES VCT2 PLC

(Incorporated in England and Wales with registered number 04084003)

Notice is hereby given that a General Meeting of British Smaller Companies VCT2 plc will be held at 2.00 p.m. on 30 August 2011 at Berkeley Square House, Berkeley Square, Mayfair, London W1J 6BD for the purpose of considering and, if thought fit, passing the resolution below as a Special Resolution of the Company:

### SPECIAL RESOLUTION

That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 10p in the capital of the Company provided that:

- (1) the maximum aggregate number of Ordinary Shares authorised to be purchased is 3,501,555 being 14.99% of the issued Ordinary Shares as at 27 July 2011;
- (2) the maximum price which may be paid for an Ordinary Share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
- (3) the minimum price which may be paid for an Ordinary Share is its nominal value;
- (4) this authority shall take effect from 30 August 2011 and shall expire on 30 August 2014; and
- (5) the Company may make a contract or contracts to purchase Ordinary Shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

### BY ORDER OF THE BOARD

For and on behalf of  
British Smaller Companies VCT2 plc  
**Clare Mackintosh LL.B.**  
Company Secretary

Registered Office:  
Saint Martins House  
210-212 Chapeltown Road  
Leeds  
LS7 4HZ

Information regarding the General Meeting, including the information required by section 311A of the Companies Act 2006, is available from **www.yfmep.com**

### NOTES

- (a) Any member of the Company entitled to attend and vote at the General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the General Meeting in order to represent his appointor. A member entitled to attend and vote at the General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the General Meeting unless:
- answering the question would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

- (c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited 48 hours before the General Meeting. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Ordinary Shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and Public Holidays excluded) from the date of this Notice, until the end of the General Meeting and at the General Meeting venue itself for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6pm. on 28 August 2011 or, in the event that the General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6pm. on 28 August 2011 or, in the event that the General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the General Meeting.
- (g) As at 27 July 2011, the Company's issued share capital comprised 23,359,278 Ordinary Shares with a further 757,380 shares held in treasury. The total number of voting rights in the Company as at 27 July 2011 is 23,359,278. The website referred to above will include information on the number of shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the General Meeting;
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the General Meeting.
- (k) Members may not use any electronic address provided either in this notice of General Meeting, or any related documents (including the Chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.
- (l) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

# Definitions

<b>“Act”</b>	Companies Act 2006
<b>“AGM” or “2011 AGM”</b>	the Annual General Meeting of the Company held on 16 May 2011
<b>“the Company”</b>	British Smaller Companies VCT2 plc
<b>“Articles”</b>	the existing Articles of Association of the Company
<b>“Directors” or “Board”</b>	the board of directors of the Company
<b>“Form of Proxy”</b>	the form of proxy for use in connection with the General Meeting accompanying this document
<b>“Fund Manager”</b>	YFM Private Equity Limited, company number 2174994, whose registered office is at Saint Martins House, 210 – 212 Chapeltown Road, Leeds, LS7 4HZ
<b>“General Meeting”</b>	General Meeting of the Company to be held at Berkeley Square House, Berkeley Square, Mayfair, London, W1J 6BD at 2.00 p.m. on 30 August 2011
<b>“Listing Rules”</b>	the Listing Rules as contained in the Handbook of the Financial Services Authority as UK Listing Authority
<b>“Notice”</b>	the notice of the General Meeting set out on pages 4 and 5 of this document
<b>“Ordinary Shares”</b>	Ordinary Shares of 10 pence each in the capital of the Company
<b>“Resolution”</b>	the resolution to be proposed at the General Meeting, as set out in the Notice
<b>“Shareholder”</b>	a holder of Ordinary Shares
<b>“Total Expense Ratio”</b>	the annual costs incurred by the Company in the ordinary course of its business (excluding irrecoverable VAT)
<b>“UK Listing Authority”</b>	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
<b>“VCT” or “venture capital trust”</b>	a company which is, for the time being, approved as a venture capital trust under Chapter 3 of Part 6 of the Income Tax Act 2007

## British Smaller Companies VCT2 plc

Saint Martins House

210-212 Chapeltown Road

Leeds LS7 4HZ

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