
British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

An opportunity to invest in two established VCTs

diversified portfolios
of established
UK growth
businesses

immediate access
to tax-free cash
dividends

Transforming Small Businesses
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British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

Offers for Subscription of up to 10,485,934 Ordinary Shares in British Smaller Companies VCT plc and up to 7,374,101 Ordinary Shares in British Smaller Companies VCT2 plc (subject to a maximum of £15 million, in aggregate, of funds raised).

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this document, you should seek your own financial advice from a person authorised under the Financial Services and Markets Act 2000.

This document, which constitutes a prospectus relating to British Smaller Companies VCT plc and British Smaller Companies VCT2 plc ("the Companies"), has been prepared in accordance with the Prospectus Rules made by the Financial Services Authority pursuant to Part VI of the Financial Services and Markets Act 2000 ("FSMA"), and has been approved by and filed with the Financial Services Authority.

Application has been made to the UK Listing Authority and the London Stock Exchange for the Ordinary Shares to be issued pursuant to the Offers to be admitted to the premium segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities. It is expected that such admission will become effective and that dealings in the Ordinary Shares will commence within 5 business days of their allotment.

Each of the Directors of the Companies, whose names are set out on page 71 of this document, and the Companies accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Companies (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Offers are not being made, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of South Africa, or their respective territories or possessions, and documents should not be distributed, forwarded or transmitted in or into such territories. The Offer Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) and may not be offered, sold or delivered, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of South Africa.

Howard Kennedy Corporate Services LLP (the "Sponsor"), which is authorised and regulated by the Financial Services Authority (reference no. 523524), is acting for the Companies in connection with the Offers, and is not advising any other person or treating any other person as a customer in relation to the Offers and will not be responsible to any such person for providing the protections afforded to customers of the Sponsor (subject to the responsibilities and liabilities imposed by FSMA and the regulatory regime established thereunder) or for providing advice in connection with the Offers. The Sponsor does not give any representation, warranty or guarantee that the Companies will qualify as Venture Capital Trusts or that Investors will obtain any tax relief in respect of their investment.

The whole of this document should be read. **Your attention is drawn to the "Risk Factors" set out on pages 16 to 17 of this document.**

British Smaller Companies VCT plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with Registered Number 03134749)

British Smaller Companies VCT2 plc

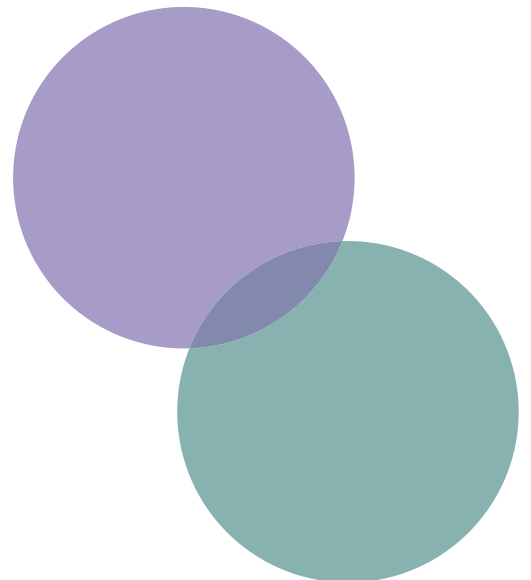
(Incorporated and registered in England and Wales under the Companies Act 1985 with Registered Number 04084003)

Joint Offers for Subscription

Of up to 10,485,934 Ordinary Shares of 10 pence each in British Smaller Companies VCT plc and up to 7,374,101 Ordinary Shares of 10 pence each in British Smaller Companies VCT2 plc to raise up to a maximum of £15 million, in aggregate, in the Companies.

The 2012/2013 Offers in relation to the 2012/2013 tax year will close at 11:00 am on Friday 5 April 2013 and the 2013/2014 Offers in relation to the 2013/2014 tax year will close at 11:00 am on Tuesday 30 April 2013 (or such later date to which the Directors extend the 2013/2014 Offers) or earlier should the Offers become fully subscribed.

The Offers are not being underwritten and are not subject to reaching a minimum level of subscription.



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Summary

Summaries are made up of disclosure requirements known as 'Elements'. The Elements are numbered in Sections A—E (A.1—E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted into the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.

Section A – Introduction and Warnings

Element	Disclosure requirement	Disclosure
A.1	Warning	This summary should be read as an introduction to the Prospectus. Any decision to invest in Offer Shares should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in Offer Shares.
A.2	Use of Prospectus by financial intermediaries	<p>The Companies and the Directors consent to the use of the Prospectus by financial intermediaries, from the date of the Prospectus until the close of the Offers, for the purpose of introducing subscribers for Offer Shares. The Offers are expected to close on or before 30 April 2013, unless previously extended by the Directors to a date not being later than 15 November 2013. There are no conditions attaching to this consent.</p> <p>Financial intermediaries must give Investors information on the terms and conditions of the Offers at the time they introduce the Offers to Investors.</p>

Section B – Issuers

Element	Disclosure requirement	Disclosure
B.1	Legal and commercial name	British Smaller Companies VCT plc ("BSC") and British Smaller Companies VCT2 plc ("BSC2").
B.2	Domicile and legal form	<p>BSC was incorporated and registered in England and Wales on 6 December 1995 as a public company limited by shares under the Companies Act 1985 with registered number 03134749.</p> <p>BSC2 was incorporated and registered in England and Wales on 4 October 2000 as a public company limited by shares under the Companies Act 1985 with registered number 04084003.</p> <p>The Companies operate under the Companies Act 2006 (the "Act") and regulations made under the Act.</p>

Element	Disclosure requirement	Disclosure																																																												
B.5	Group description	Not applicable. The Companies are not part of a group.																																																												
B.6	Major shareholders	<p>Neither Company is aware of any person who has as at the date of this document, or who immediately following the issue of the Offer Shares under the Offers (assuming full subscription under the Offers), will or could have, directly or indirectly, voting rights representing 3% or more of the issued share capital of that Company or who can, or could following the Offers, directly or indirectly exercise control over that Company.</p> <p>There are no different voting rights for any Shareholders.</p>																																																												
B.7	Selected key financial information	<table><tr><th>BSC</th><th>30 Sept 2012</th><th>30 Sept 2011</th><th>31 March 2012 *</th><th>31 March 2011 *</th><th>31 March 2010 *</th></tr><tr><td>Net Assets (£000)</td><td>37,176</td><td>39,363</td><td>37,894</td><td>41,172</td><td>29,008</td></tr><tr><td>Net Asset Value per Share (p)</td><td>94.2</td><td>106.5</td><td>99.6</td><td>120.0</td><td>94.4</td></tr><tr><td>Total Return per Share (p)</td><td>176.4</td><td>183.7</td><td>178.8</td><td>176.2</td><td>144.4</td></tr><tr><td>Cumulative dividend paid per Share (p)</td><td>82.2</td><td>77.2</td><td>79.2</td><td>56.2</td><td>50.0</td></tr></table> <p>* Audited</p> <p>Since 30 September 2012 there has been no significant change in the financial or trading position of BSC.</p> <table><tr><th>BSC2</th><th>30 Sept 2012</th><th>30 Sept 2011</th><th>31 Dec 2011 *</th><th>31 Dec 2010 *</th><th>31 Dec 2009 *</th></tr><tr><td>Net Assets (£000)</td><td>26,002</td><td>15,589</td><td>15,982</td><td>11,829</td><td>12,106</td></tr><tr><td>Net Asset Value per Share (p)</td><td>68.0</td><td>66.6</td><td>68.5</td><td>68.4</td><td>72.7</td></tr><tr><td>Total Return per Share (p)</td><td>100.0</td><td>96.6</td><td>98.5</td><td>94.4</td><td>94.7</td></tr><tr><td>Cumulative dividend paid per Share (p)</td><td>32.0</td><td>30.0</td><td>30.0</td><td>26.0</td><td>22.0</td></tr></table> <p>*Audited</p> <p>Since 30 September 2012 there has been no significant change in the financial or trading position of BSC2.</p>	BSC	30 Sept 2012	30 Sept 2011	31 March 2012 *	31 March 2011 *	31 March 2010 *	Net Assets (£000)	37,176	39,363	37,894	41,172	29,008	Net Asset Value per Share (p)	94.2	106.5	99.6	120.0	94.4	Total Return per Share (p)	176.4	183.7	178.8	176.2	144.4	Cumulative dividend paid per Share (p)	82.2	77.2	79.2	56.2	50.0	BSC2	30 Sept 2012	30 Sept 2011	31 Dec 2011 *	31 Dec 2010 *	31 Dec 2009 *	Net Assets (£000)	26,002	15,589	15,982	11,829	12,106	Net Asset Value per Share (p)	68.0	66.6	68.5	68.4	72.7	Total Return per Share (p)	100.0	96.6	98.5	94.4	94.7	Cumulative dividend paid per Share (p)	32.0	30.0	30.0	26.0	22.0
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B.8	Selected key pro forma financial information	Not applicable. There is no pro forma financial information in this document.																																																												
B.9	Profit forecast	Not applicable. No profit forecast or estimate made.																																																												
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. The audit reports on the historical financial information contained within this document are not qualified.																																																												

Element	Disclosure requirement	Disclosure
B.11	Working capital	Not applicable. The Companies are of the opinion that the working capital available to the Companies is sufficient for the Companies' present requirements (that is, for at least the next twelve months from the date of this document).
B.34	Investment policy	<p>The investment policy of each of the Companies is as follows.</p> <p>The investment policy of BSC is to create a portfolio that blends a mix of companies operating in traditional industries with those that offer opportunities in the development and application of innovation.</p> <p>BSC2 will invest in UK businesses across a broad range of sectors including Telecoms, Software and IT, Healthcare and Consumer Products, in VCT qualifying and AIM traded securities which, under the legislation governing VCTs, requires that at least 70% by value of its holdings must be in 'qualifying holdings'.</p> <p>The maximum by value that the Companies may hold in a single investment is 15%. Although the majority of investments will be in equities, in appropriate circumstances, preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.</p> <p>The Companies fund investment programmes out of their own resources and have no borrowing facilities for this purpose. The maximum that the Companies may invest in any holding in any tax year is limited to £5 million between them (increased in 2012 from £1 million each) and the average size of the Companies' qualifying investment is £0.59 million (2011: £0.45 million) in BSC and £0.51 million (2011: £0.45 million) in BSC2, based on cost of investments.</p> <p>The Fund Manager, YFM Private Equity Limited, is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Boards regarding potential investments. Once approved, further due diligence is carried out as necessary and HM Revenue & Customs clearance is obtained for approval as a qualifying VCT investment.</p> <p>The Board of each Company reserves the right of the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and where the decision is required urgently, in which case the Chairman, or Chairman of the Investment Committee if appropriate, may act in consultation with the Fund Manager.</p> <p>The Board of each Company regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from the Fund Manager as to the trading and financial position of each investee company and members of the Investment Management Team regularly attend the Companies' Board meetings. Monitoring reports are also received at each Company's Board meeting on compliance with VCT investment targets so that the Boards can monitor that the VCT status of their Company is maintained and take corrective action where appropriate.</p> <p>In the opinion of the Directors the continuing appointment of YFM Private Equity Limited as Fund Manager is in the interests of the Shareholders as a whole in view of its experience in managing VCTs and in making and exiting investments of the kind falling within the Companies' investment policies.</p>

Element	Disclosure requirement	Disclosure
B.34 (cont)	Investment policy	Prior to the investment of funds in suitable Qualifying Companies, the liquid assets of the Companies are invested in a portfolio of Government stocks or other similar fixed interest securities, including fixed term bank deposits. Reporting to the Fund Manager, the portfolio is managed by Brewin Dolphin Limited on a discretionary basis. The Boards receive regular reports on the make-up and market valuation of their portfolio. Alternatively surplus funds are invested in non-qualifying assets of a similar asset class to the Qualifying Investments.
B.35	Borrowing limits	The Directors shall restrict the borrowings of the Companies and their subsidiaries (together the "group") so that the aggregate amount at any time outstanding in respect of money borrowed by the group (excluding intra-group borrowings), shall not without the previous sanction of an ordinary resolution of that Company exceed a sum equal to the paid up share capital and the amount standing to the credit of the consolidated revenue reserves of the group as shown by the latest audited consolidated balance sheet of the group adjusted as specified in that Company's Articles.
B.36	Regulatory status	The Companies are not regulated entities.
B.37	Typical investor	A typical Investor for whom the Offers are designed is a UK income tax payer aged 18 or over, who is professionally advised, with an investment range of between £5,000 and £200,000, who may already have a portfolio of non-VCT investments such as unit trusts/OEICs, investment trusts and direct shareholdings in listed companies, who is willing to invest over the medium to long term and who, having regard to the risk factors set out at the front of this document, considers the investment policy of the Companies to be attractive. That is to say, an investment policy, with potential returns and associated risks that may be higher than investment in the FTSE All-Share Index. This may include retail, institutional and sophisticated investors and high net-worth individuals.
B.38	Investment of 20% or more in a single underlying asset or investment company	Not applicable. The Companies will not invest more than 20% in a single underlying asset or investment company.
B.39	Investment of 40% or more in a single underlying asset or investment company.	Not applicable. The Companies will not invest more than 40% in a single underlying asset or investment company.
B.40	Applicant's service providers	<p>The Companies</p> <p>An offer agreement dated 16 November 2012 ("the Offer Agreement") between the Companies (1), the Directors (2), and the Fund Manager (3) under which, as is usual in contracts of this type, the Fund Manager has, subject to the passing of Resolution 3 at BSC2's General Meeting, agreed to indemnify the Companies against the costs of the Offers exceeding the Offer Costs Percentage, and will receive a percentage of the value of the gross proceeds received from each Applicant by the Companies under the Offers that is equal to the Offer Costs Percentage in respect of that Applicant's subscription, less the initial commission paid by the Companies to recognised intermediaries in respect of accepted applications under the Prospectus for the Offers. Under the Offer Agreement, the Fund Manager, the Companies and the Directors gave certain warranties which were subject to certain limitations.</p> <p>An agreement between the Companies and Howard Kennedy dated 18 August 2012 under which Howard Kennedy agreed to act as sponsor to the Offers. The Companies agreed to indemnify Howard Kennedy in respect of losses incurred by Howard Kennedy and which arise, directly or indirectly, from its role as sponsor.</p>

Element	Disclosure requirement	Disclosure
B.40 (cont)	Applicant's service providers	<p>BSC</p> <p>By an administration and investment advisory agreement dated 28 February 1996 between BSC and YFM Private Equity (the "IAA"), as varied by an agreement dated 16 November 2012, the Fund Manager agreed to provide administrative, company secretarial and investment advisory services to BSC in relation to BSC's qualifying portfolio. The IAA is terminable by either party on not less than 12 months' notice or, inter alia, on the others' breach or insolvency.</p> <p>Under the IAA, the Fund Manager is entitled to receive an annual investment advisory fee of 2% of the Gross Assets of BSC (as determined on 31 March and 30 September each year, payable quarterly in advance on 1 January, 1 April, 1 July and 1 October in each year) together with an annual secretarial fee of £35,000 (subject to annual adjustment and currently £55,841) plus VAT. The Fund Manager is also entitled to all arrangement, syndication and monitoring fees payable in respect of unquoted investments. BSC indemnifies the Fund Manager against all things lawfully and properly done under the IAA. Pursuant to the deed of variation dated 16 November 2012, the Fund Manager shall bear the annual operating costs of BSC to the extent that those costs exceed 3.25% of the Net Asset Value of BSC.</p> <p>An incentive agreement dated 7 July 2009 between BSC, the YFM Private Equity Carried Interest Trust (an employee benefit trust established for the benefit of employees of the Fund Manager) and the Fund Manager (the "Incentive Agreement") under which, with effect from 1 April 2009 ("Effective Date") the Fund Manager is entitled to receive a fee, calculated by reference to each accounting period of BSC, equal to 20% of the amount by which dividends paid to Shareholders exceed 4 pence per Share per accounting period (as increased or decreased, as applicable, in each accounting period by the percentage increase or decrease (if any) in the retail prices index in the previous accounting period) ("Target Rate"), once cumulative dividends per Share of 10 pence or more have been paid to Shareholders. The Target Rate is further adjusted by reference to any cumulative shortfall in dividends paid per Share from any previous accounting period after the Effective Date. The payment is also conditional upon the Net Asset Value per Share in the relevant accounting period being not less than 94.0 pence per Share, as adjusted for the impact of share issues and share buy-backs. A compensatory payment is due if the Incentive Agreement is terminated without cause or if BSC is taken over.</p> <p>Under the terms of a letter from Brewin Dolphin ("Brewin") to BSC dated 25 October 2004, Brewin agreed to act as investment manager to BSC in relation to its portfolio of short-term government securities and to produce monthly portfolio valuations. In return for such services, Brewin is entitled to receive a management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly, subject to a maximum annual fee of £25,000 plus VAT. This cost is borne by the Fund Manager.</p> <p>By a deed of novation dated 9 November 2012 (to the agreement dated 3 September 2004 as novated on 1 April 2009) between BSC and Nplus1 Singer Advisory LLP ("Singer"), Singer agreed to act as brokers to BSC, and, inter alia, to act as a market maker in the Shares of BSC and to carry out share purchases on BSC's behalf. Singer is entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in arrears on 30 September, 31 December, 31 March and 30 June. Under the terms of the novated agreement BSC indemnifies Singer against losses arising out of Singer's appointment except where such losses arise from Singer's breach of the agreement, negligence or wilful default.</p>

Element	Disclosure requirement	Disclosure
B.40 (cont)	Applicant's service providers	<p>BSC2</p> <p>YFM Private Equity has acted as Fund Manager and performed administrative and secretarial duties for BSC2 under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011 and 16 November 2012. This agreement may be terminated by not less than twelve months' notice given by either party at any time. The Fund Manager receives a fund management fee, payable quarterly in advance, at the rate of 2.5% of BSC2's Net Asset Value, calculated at half-yearly intervals as at 30 June and 31 December. Pursuant to a deed of variation dated 26 October 2011 the management fee is reduced to 1.25% per annum in respect of any Net Asset Value of BSC2 in excess of £16 million and up to £26.667 million and to 2.0% in respect of any Net Asset Value of BSC2 in excess of £26.667 million. Pursuant to the deed of variation dated 16 November 2012, the Fund Manager shall bear the annual operating costs of BSC2 to the extent that those costs exceed 3.25% of the Net Asset Value of BSC2. Under this agreement, YFM Private Equity also provides administrative and secretarial services to BSC2 for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index plus VAT.</p> <p>Under a subscription rights agreement dated 23 November 2001 between BSC2 (1), the Fund Manager (2) and Chord Capital Limited (formerly Generics Asset Management Limited) ("Chord") (3), as amended by an agreement between those parties dated 31 October 2005, the Fund Manager and Chord have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary Shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary Share in BSC2 exceeds 120p per Ordinary Share on that same day multiplied by the number of Ordinary Shares in BSC2 in issue and the Shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between the Fund Manager and Chord Capital Limited as amended by agreements between those parties dated 31 October 2005. No Shares have been issued under this agreement. By a Deed of Assignment dated 19 December 2003 (together with a supplemental agreement dated 5 October 2005), the benefit of the Fund Manager's subscription right was assigned to YFM Private Equity Limited Trust (the "Trust"), an employee benefit trust formed for the benefit of certain employees of the Fund Manager and associated companies. Pursuant to a deed of variation dated 16 November 2012 between BSC2 (1), the trustees of the Trust (2) and Chord (3), the Subscription Rights Agreement will, subject to the passing of Resolution 4 at BSC2's General Meeting, be varied so that the subscription rights will be exercisable in the ratio of 95:5 between the trustees of the Trust and Chord.</p> <p>Under an agreement dated 28 November 2000 between BSC2 and Brewin Dolphin ("Brewin"), Brewin agreed to act as investment manager to BSC2 in relation to its portfolio of short-term government securities and to produce monthly portfolio valuations. In return for such services Brewin is entitled to receive a management fee based on an ad valorem charge of 0.2% per annum of funds under management, payable quarterly, plus VAT. This cost is borne by the Fund Manager.</p>

Element	Disclosure requirement	Disclosure
B.40 (cont)	Applicant's service providers	By a deed of novation dated 6 November 2012 (to the agreement dated 3 September 2004 as novated on 1 April 2009) between BSC2 (1) and Nplus1 Singer Advisory LLP (2) ("Singer"), Singer agreed to act as brokers to BSC2, and, inter alia, to act as a market maker in the Shares of BSC2 and to carry out share purchases on BSC2's behalf. Singer is entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in arrears on 30 September, 31 December, 31 March and 30 June. Under the terms of the novated agreement BSC2 indemnifies Singer against losses arising out of Singer's appointment except where such losses arise from Singer's breach of agreement, negligence or wilful default.
B.41	Regulatory status of the Manager	The Fund Manager and Brewin Dolphin Limited are authorised and regulated by the Financial Services Authority.
B.42	Calculation of Net Asset Value	<p>The Net Asset Value of a Share is calculated by each Company in accordance with the Companies' accounting policies and will be published at least quarterly through a Regulatory Information Service.</p> <p>The calculation of the Net Asset Value per Share will only be suspended in circumstances where the underlying data necessary to value the investments of the Companies cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.</p>
B.43	Cross liability	Not applicable. The Companies are not umbrella collective investment undertakings and as such there is no cross liability between classes or investment in another collective investment undertaking.
B.44	No financial statements have been made up	Not applicable. The Companies have commenced operations and historical financial information is included within this document.
B.45	Portfolio	The Companies' portfolios comprise predominantly established unquoted UK companies. BSC invests in a broad range of companies and sectors and BSC2 invests in a combination of mature businesses operating in traditional industries, including Telecoms, Software and IT, Healthcare and Consumer Products, as well as a smaller proportion of businesses offering opportunities in the application and development of innovation. As at 30 September 2012, BSC's portfolio of Qualifying Investments comprised, by value, £26.02 million and BSC2's portfolio of Qualifying Investments comprised, by value, £9.17 million.
B.46	Net Asset Value	As at 30 September 2012, the unaudited Net Asset Value per BSC Ordinary Share was 94.2p and the unaudited Net Asset Value per BSC2 Ordinary Share was 68.0p.

Section C – Securities

Element	Disclosure requirement	Disclosure
C.1	Types and class of securities	The Companies will issue Offer Shares under the Offers. The ISIN and SEDOL of the BSC Ordinary Shares are GB0001403152 and 0140315 respectively. The ISIN and SEDOL of the BSC2 Ordinary Shares are GB00050001796 and 0500179 respectively.
C.2	Currency	Sterling.
C.3	Number of securities to be issued	Under the Offers, up to a maximum of 10,485,934 Shares in BSC and up to a maximum of 7,374,101 Shares in BSC2 will be issued.
C.4	Description of the rights attaching to the securities	<p>As Regards Income: The holders of the Shares shall be entitled to receive such dividends as the Directors resolve to pay out of the net assets attributable to the Shares held by them and from income received and accrued from the portfolio attributable to the Shares held by them, in accordance with the Company's articles of association.</p> <p>As Regards Capital: On a return of capital on a winding up the surplus capital and assets attributable to the Shares shall be divided amongst the holders of Shares pro rata according to the nominal capital paid up on their respective holdings of Shares, in accordance with the Company's articles of association.</p> <p>As Regards Voting and General Meetings: Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to beneficial ownership, each holder of Shares present in person or by proxy shall on a poll have one vote for each such Share of which he is the holder.</p> <p>As Regards Redemption: The Shares are not redeemable.</p>
C.5	Restrictions on the free transferability of the securities	There are no restrictions on the free transferability of the Offer Shares.
C.6	Admission	Application will be made to the UK Listing Authority for the Offer Shares to be admitted to a premium segment of the Official List and to the London Stock Exchange for the Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that such admissions will become effective, and that dealings in the Offer Shares will commence within 5 days of their allotment.
C.7	Dividend policy	Generally, a VCT must distribute by way of dividend such amount as to ensure that it retains not more than 15% of its income from shares and securities. The Directors of each of the Companies aim to maximise tax free distributions to Shareholders of income or realised gains.

Section D – Risks

Element	Disclosure requirement	Disclosure
D.2	Key information on the risks specific to the issuer	<ul style="list-style-type: none"> The past performance of the Fund Manager or of the Companies is no indication of their future performance. Investments made in unquoted companies carry a higher degree of risk than those made in quoted companies. There can be no guarantees that the Companies will meet their objectives or that suitable investment opportunities will be identified. Although the Companies may agree conventional venture capital rights in connection with some of their investments, as minority investors they may not be in a position fully to protect their interests. Whilst it is the intention that each of the Companies will be managed so as to continue to qualify as a VCT, there can be no guarantee that such status, and the associated tax relief, will be maintained. It is possible for Investors to lose their tax reliefs by taking or not taking certain steps. Levels and bases of, and relief from, taxation are subject to change. Changes in legislation concerning VCTs, Qualifying Investments and qualifying trades may restrict or adversely affect the Companies' ability to meet their objectives and reduce the level of returns.
D.3	Key information on the risks specific to the securities	<ul style="list-style-type: none"> The value of Shares may fall below the original amount invested, their market price may not fully reflect the underlying Net Asset Value and dividends may not be paid. Investment in the Companies should be viewed as a long-term investment. Although it is anticipated that the Offer Shares will be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, there is likely to be an illiquid market. In addition, the market value of the Shares may not fully reflect the underlying Net Asset Value of the Shares.

Section E – Offer

Element	Disclosure requirement	Disclosure
E.1	Net proceeds and costs of the issue	<p>The costs and expenses relating to the Offers, assuming full subscription and an Offer Price of 97.75p per BSC Share and 69.50p per BSC2 Share, payable by the Companies are estimated to be approximately £825,000 (excluding VAT), capped at 5.5% (excluding VAT) of gross funds raised for each Company. The total net proceeds of the Offers, on the above assumptions and after all fees, are expected to be £14,175,000, split £9,450,000 as to BSC and £4,725,000 as to BSC2.</p>
E.2a	Reason for the Offers and use of proceeds	<p>The Boards believe that the current economic climate will continue to create opportunities for those investors able to take a medium to long term view to invest in well managed UK businesses that need capital to expand but are facing a shortage of finance, at a low point in the economic cycle, resulting in higher portfolio returns. The additional funds raised under the Offers will enable the Companies to increase the pace of their investment activity and both the number and size of their investments in the future and will finance running costs and dividends. By raising more capital the running costs per Share in the Companies will be reduced as the fixed costs are spread over a larger asset base.</p> <p>The Companies are currently invested in a diverse portfolio of unquoted and quoted shares, fixed income securities and cash. The Companies will use the proceeds in continuing to invest predominantly in established unquoted companies.</p>

Element	Disclosure requirement	Disclosure
E.3	Terms and conditions of the Offer	<p>Up to 10,485,934 Shares in BSC and up to 7,374,101 Shares in BSC2 are offered at the Offer Price under the Offers, payable in full upon application. If the Offers are over subscribed, they may be increased at the discretion of the Boards up to a maximum of £20 million, in aggregate. An Applicant's subscription will be split two thirds to BSC and one third to BSC2 respectively up to investments of £25,000. For investments of £25,000 and above Applicants are free to choose how the entire subscription is allocated. If Applicants do not wish to exercise that choice the subscription will be allocated in the same manner as applications for less than £25,000.</p> <p>The Offer Price is 97.75 pence per Share for BSC and 69.50 pence per Share for BSC2 in respect of applications received through execution brokers or intermediaries not offering financial advice, and provided such application is received on or before 28 December 2012, applications received through intermediaries offering financial advice or received directly from Applicants, calculated by reference to their most recent published Net Asset Values, adjusted for issue costs of 5.5% and, in the case of BSC, for the interim dividend of 2.0p per Share declared on 13 November 2012 and, in the case of BSC2, for the interim dividend of 2.5p per Share paid on 26 October 2012.</p> <p>The Offer Price is 95.75 pence per Share for BSC and 68.00 pence per Share for BSC2 in respect of applications received from 28 December 2012 directly from Applicants and through intermediaries offering financial advice, calculated by reference to their most recent published Net Asset Values, adjusted for issue costs of 3.5% and, in the case of BSC, for the interim dividend of 2.0p per Share declared on 13 November 2012 and, in the case of BSC2, for the interim dividend of 2.5p per Share paid on 26 October 2012.</p> <p>If, the Net Asset Value of BSC on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below 92.2 pence per Share, then such Ordinary Shares will be allotted at that Net Asset Value plus the Offer Costs Percentage, rounded to the nearest 0.25 pence.</p> <p>If, the Net Asset Value of BSC2 on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below 65.5 pence per Share, then such Ordinary Shares will be allotted at that Net Asset Value plus the Offer Costs Percentage, rounded to the nearest 0.25 pence.</p> <p>Accepted applications from Shareholders (including partners) in VCTs managed by YFM Private Equity, which are received on or before 28 December 2012, will attract additional Offer Shares equivalent to 2.5% of the amount subscribed by such Applicant under the Offers. The subscription list for the Offers will open on 16 November 2012 and close at 11.00 am on 5 April 2013 for the 2012/2013 Offers and at 11.00 am on 30 April 2013 for the 2013/2014 Offers (or at any earlier date on which the Offers are fully subscribed), save that the Directors reserve the right to extend the closing date of the 2013/2014 Offers but to no later than 15 November 2013.</p> <p>The Offers are conditional upon the passing of Resolutions 1 to 3 at the BSC General Meeting and Resolutions 2 to 3 and 5 to 6 at the BSC2 General Meeting.</p>
E.4	Material interests	Not applicable. No interest is material to the Offers.
E.5	Name of person selling securities	Not applicable. No person or entity is offering to sell the security as part of the Offers. There are no lock up agreements.

Element	Disclosure requirement	Disclosure
E.6	Dilution	<p>The existing issued BSC Ordinary Shares will represent 79.4 per cent of the enlarged ordinary share capital immediately following the Offers, assuming the Offers are fully subscribed, that the Offer Price is 97.75p per BSC Share and 69.50p per BSC2 Share and no Loyalty Bonus Shares are allotted, and on that basis, existing BSC Shareholders will therefore be diluted by 20.6 per cent. On the above assumptions, the existing issued BSC2 Ordinary Shares will represent 84.2 per cent of the enlarged ordinary share capital immediately following the Offers and on this basis, existing BSC2 Shareholders will be diluted by 15.8 per cent.</p>
E.7	Expenses charged to the investor	<p>The Costs of the Offers are 5.5% of gross funds raised for each Company in respect of applications received through execution brokers or intermediaries not offering financial advice and, provided such application is received on or before 28 December 2012, applications received through intermediaries offering financial advice or received directly from Applicants (including commission to intermediaries and execution brokers: either 3% or 1.5% initial plus annual trail commission of 0.4375% for up to eight years).</p> <p>Authorised intermediaries offering financial advice will be entitled to receive annual trail commission provided that the intermediary continues to act for the Investor and the Investor continues to be the beneficial owner of the Ordinary Shares for as long as laws and regulations permit the payment of such commission.</p> <p>The Costs of the Offers are 3.5% of gross funds raised for each Company in respect of applications received from 28 December 2012 directly from Applicants and through intermediaries offering financial advice.</p>

Risk Factors

The attention of Investors is drawn to the following Risk Factors that may affect the performance of the Companies and the availability of tax reliefs.

The past performance of the Companies and/or investments managed by the Fund Manager should not be regarded as an indication of the future performance of the Companies. The value of a VCT depends on the performance of its underlying assets. The value of the Shares and the income from them can fluctuate. In addition, there is no guarantee that the market price of the Offer Shares will fully reflect their underlying Net Asset Value or the ability to buy and sell at that price. Shareholders may get back less than they invested even after taking advantage of the tax incentives.

Investment in the Companies should be regarded as long-term in nature and Investors must hold their Shares for five years to retain their initial income tax relief. The Directors strongly recommend that all potential Investors consult an appropriate adviser before deciding whether to invest.

In the opinion of the Directors, all known material risks relating to the Companies, their industry and the Shares are set out below.

Taxation Related Risks

- Although it is intended that the Companies will be managed so as to retain their VCT status, there is no guarantee that such status will be maintained. Further details of the taxation implications of an investment in the Companies are set out on pages 50 to 52 of this document. However, if the Companies fail to meet the qualifying requirements for a VCT and as a result lose their status as a venture capital trust this could result in:
 - (i) the loss of income tax relief received if Investors have not held their Shares for the required qualifying period;
 - (ii) the loss of income tax relief on dividends paid (or subsequently payable) to Investors;
 - (iii) the loss of tax relief previously obtained in relation to corporation tax on capital gains made by the Companies; and
 - (iv) a liability to tax on capital gains on any disposal of new Shares.
- The levels and bases of reliefs from taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of Investors.
- An investment in a VCT is free from tax on capital gains for a qualifying Investor. Consequently, any realised losses on disposal of the Offer Shares cannot be used to create an allowable loss for capital gains tax purposes.
- Investors should be aware that the disposal of Shares within five years of their subscription will require repayment of the income tax relief available upon investment. Accordingly, investment in the Companies is not suitable as a short or medium term investment.
- Changes in legislation, concerning VCTs in general, Qualifying Investments and VCT qualifying trades in particular, may restrict or adversely affect the ability of the Companies to continue their current objectives and/or reduce the level of returns which would otherwise have been achievable.

Listing and Market Risks

- Although the Shares will be listed on the Official List and traded on the London Stock Exchange, it is unlikely that a liquid market in the Shares will develop and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their Shares.
- There is a limited secondary market for VCT shares and most trade below their underlying net asset values. The value of an investment in the Companies depends on the performance of its underlying assets and that value and the income derived from the investment may go down as well as up and an Investor may not get back the full amount invested.

Investment and Performance Risks

- The Companies' investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- In order to comply with VCT legislation, the Qualifying Companies, in which the Companies invest, must have gross assets of not more than £15 million immediately prior to investment, must have fewer than 250 full time employees and must not in any 12 month period receive more than £5 million from state aid sources. This may limit the number of attractive investment opportunities available to the Companies.
- The restrictions regarding Qualifying Companies set out in the preceding paragraph mean that the Companies are only able to invest in relatively small companies. An investment in unquoted, AIM-traded or PLUS-traded companies, by its nature, involves a higher degree of risk than investment in the main market. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining the value of smaller companies or the risks to which they are exposed may also not be available.
- Valuations of unquoted companies are determined in accordance with current financial reporting standards. The valuation of unquoted portfolio companies often takes into account discounted stock market multiples. The valuation and opportunities for realisation of portfolio companies may depend on stock market conditions.
- There is no guarantee that the Companies' objectives will be met or that suitable investment opportunities will be available.
- The Companies' ability to obtain maximum value from their investments (for example, through sale) may be limited by the requirements imposed in order to maintain the VCT tax status of the Companies (such as the obligation to have at least 70% by value of its investments in Qualifying Investments).

General

- Each Offer is conditional upon, and are open prior to, the Shareholders passing Resolutions 1 to 3 at the BSC General Meeting and Resolutions 2 to 3 and 5 to 6 at the BSC2 General Meeting as set out on pages 55 to 57. If these Resolutions are not passed the relevant Offer will not proceed and the benefits set out on page 23 will not be achieved.

Expected Timetable and Offer Statistics

Offers open:

Offers open	16 November 2012
First allotment	31 December 2012*
Dealings commence	Within 5 business days of allotment
Share and Tax certificates issued	Within 10 business days of allotment

Offers close**:

2012/2013 Offers	11.00 a.m. 5 April 2013
2013/2014 Offers	11.00 a.m. on 30 April 2013***

* In relation to applications received on or before 28 December 2012.

** In the event that the maximum subscription is reached before either closing date, the Offers will be individually or jointly closed early. The Directors reserve the right to increase the size of the Offers at their discretion to £20 million, in aggregate.

*** The Directors reserve the right to extend the closing date of the 2013/2014 Offers (to a date not later than 15 November 2013).

Applications

The completed Application Form in respect of the Offers should be sent by post (in the reply paid envelope provided) or delivered by hand to:
The City Partnership (UK) Limited,
Thistle House, 21-23 Thistle
Street, Edinburgh EH2 1DF.

Details of the Offers

£5,000

Minimum subscription per Investor (before any advisory fees that the Applicant may be liable to pay to their financial intermediary) which the Applicant can designate to be split across the 2012/13 and 2013/14 Offers if desired

£200,000

Maximum aggregate investment per Investor on which tax relief is available in all VCTs in any one tax year

**Up to
£25,000**

Applications will be applied
2/3 to BSC and 1/3 to BSC2 respectively

**£25,000
and above**

Applicants subscribing for sums of £25,000 and above (before any advisory fees that the Applicant may be liable to pay to their financial intermediary) are able
to choose how the entire subscription is allocated between BSC and BSC2

**Offer
Price**

To be calculated
in accordance with the Pricing Mechanism on page 28

Maximum net proceeds for the Companies after issue costs: £14,175,000, split £9,450,000 as to BSC and £4,725,000 as to BSC2 (based on an Offer Price of 97.75p per BSC Share and 69.50p per BSC2 Share)

The Offer Prices

Following the Retail Distribution Review (RDR) from 1 January 2013 intermediaries offering financial advice will no longer receive commission from investment product providers. However, those intermediaries not offering advice (sometimes known as execution only brokers) are still eligible to receive commission.

As a consequence the Boards of BSC and BSC2 have set Offer Prices as follows:

On or before 28 December 2012

Applications received on or before 28 December 2012, the allotment for which will take place on 31 December 2012:

- For BSC, which is estimated to be 97.75 pence per Share^{*1}
- For BSC2, which is estimated to be 69.50 pence per Share^{*2}

On or after 29 December 2012

Applications received on or after 29 December 2012, the allotments for which will take place on 5 April 2013 (or earlier in the event of full subscription) or 30 April 2013 (or such other date should the Directors choose to extend the Offer):

- For applications through intermediaries not offering financial advice (execution only brokers)
 - For BSC, which is estimated to be 97.75 pence per Share^{*1}
 - For BSC2, which is estimated to be 69.50 pence per Share^{*2}
- For applications through intermediaries offering financial advice or for direct applications
 - For BSC, which is estimated to be 95.75 pence per Share^{*3}
 - For BSC2, which is estimated to be 68.00 pence per Share^{*4}

^{*1} Based on the unaudited Net Asset Value of 94.20p per Share at 30 September 2012, adjusted for the costs of the Offers of 5.5% and the interim dividend of 2.0p per Share declared on 13 November 2012.

^{*2} Based on the unaudited Net Asset Value of 68.00p per Share at 30 September 2012, adjusted for the costs of the Offers of 5.5% and the interim and special dividend totalling 2.5p per Share paid on 26 October 2012.

^{*3} Based on the unaudited Net Asset Value of 94.20p per Share at 30 September 2012, adjusted for the costs of the Offers of 3.5% and the interim dividend of 2.0p per Share declared on 13 November 2012.

^{*4} Based on the unaudited Net Asset Value of 68.00p per Share at 30 September 2012, adjusted for the costs of the Offers of 3.5% and the interim and special dividend totalling 2.5p per Share paid on 26 October 2012.

2.5% Loyalty Bonus Shares for Existing Shareholders for Applications On or Prior to 28 December 2012

As has been the practice of both Boards, recent offers have sought to reward existing Shareholders (or their spouses or civil partners) who apply for Shares with a bonus through the issue of loyalty shares which is funded through the costs of the Offer which are underwritten by YFM Private Equity Limited. As a result accepted applications from existing Shareholders (including partners of those Shareholders whether or not the partner is a Shareholder) in the Companies, which are **received on or before 28 December 2012, will attract additional Offer Shares equivalent to 2.5%** of the amount subscribed in each Company by such Applicant under the Offers. The cost of these additional Offer Shares will be met by the Fund Manager and will not, therefore, be an additional charge to the Companies.

The table overleaf summarises the Offer Prices for applications received on or before 28 December 2012 and those received after. In addition it also shows the effective price per Share for those existing Shareholders (or their spouses or civil partners) who apply on or before 28 December 2012 receiving the additional 2.5% Bonus Shares.

Comparison of Offer Prices pre and post 28 December 2012 for Existing Shareholders

		BSC On or before 28 December	BSC Advised/Direct from Applicants Post 28 December		BSC2 On or before 28 December	BSC2 Advised/Direct from Applicants Post 28 December
Offer Price (pence per Share)		97.75	95.75		69.50	68.00
Existing Shareholder	£10,000			£10,000		
No. Shares		10,230			14,388	
Loyalty Bonus Shares	2.50%	255		2.50%	359	
		10,485			14,747	
Effective Price (pence per Share)		95.37	95.75		67.81	68.00

Costs of the Offers

The costs of the Offers as a percentage of the subscription proceeds:

5.5% of gross funds raised for each Company:

- in respect of applications received through execution brokers or intermediaries not offering financial advice; and
- in respect of applications received through intermediaries offering financial advice or received directly from Applicants provided such application is received on or before 28 December 2012

(including commission to intermediaries and execution brokers: either 3% or 1.5% initial plus annual trail commission* of 0.4375% for up to eight years.)

*Authorised intermediaries offering financial advice will be entitled to receive annual trail commission provided that the intermediary continues to act for the Investor and the Investor continues to be the beneficial owner of the Ordinary Shares for as long as laws and regulations permit the payment of such commission.

3.5% of gross funds raised for each Company

in respect of applications received **from 28 December 2012** directly from Applicants and through intermediaries offering financial advice

Loyalty Bonus Shares

The costs of the Loyalty Bonus Shares in respect of valid applications received and accepted **on or before 28 December 2012** will be paid by the Fund Manager.

Letter from the Chairmen of the Companies

British Smaller Companies VCT plc and British Smaller Companies VCT 2 plc

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



16 November 2012

Dear Investor

We are delighted to be writing to you in connection with the Offers to raise up to £15 million by the issue of Ordinary Shares in British Smaller Companies VCT plc and British Smaller Companies VCT2 plc in both the 2012/2013 and 2013/2014 tax years.

We believe it is the ideal time to increase the Companies' investment capacity. In particular VCTs may now invest up to £5 million in Qualifying Companies, up from £2 million previously. In addition, the size of businesses in which VCTs can invest has increased to those with 250 employees and £15 million of assets. Funding sources for many companies have reduced during the recession which provides more opportunities for VCTs to make attractive investments.

Performance

The prevailing economic conditions over the last few years have been some of the most difficult faced in the UK economy in living memory. We believe that the current economic climate will continue to create opportunities for those investors able to take a medium to long term view to invest in well run and managed UK businesses that need capital to expand but are facing a shortage of finance. History has shown us that cautious investments made in the low point of the economic cycle have resulted in the highest portfolio returns.

Against this economic background over the last five years to 30 September 2012 British Smaller Companies VCT plc and British Smaller Companies VCT2 plc have been consistent in their dividend performance delivering average annual tax free final dividend yields of 5.4% and 6.6% respectively. For British Smaller Companies VCT plc this excludes the special dividend of 18.0p per Share that resulted from the partial disposal of GO Outdoors Limited in April 2011. If this dividend was included the dividend yield would increase to 9.1%. This performance is based on:

- an existing diversified portfolio of over 40 investments (between the two Companies) built up over a number of years. Although not "twinned" Companies, many portfolio investments are common between the Companies; and
- 24 realisations that have delivered 2.7 times capital since 2004.

BSC is ranked top performer over 3 years and BSC2 is ranked fifth over the last five years to 30 September 2012. Both are ranked in the top quartile over 5 years on net asset growth *[Source: Citywire, 18 September 2012]*.

The Companies' investments typically involve acquisition funding and business development, together with funding for management buy-outs and buy-ins. The Companies have £23 million of existing cash and short term investments that can be used to finance buy-outs or otherwise acquire existing shares, with the monies raised under the Offers planned to be used for development capital and to finance running costs and dividends.

Advantages of VCTs

Venture capital trusts not only offer access to this market but we believe continue to be one of the most attractive investment opportunities currently available, with three distinct advantages over other investment products. Investing in a VCT:

- allows you to benefit from **upfront tax relief** of up to 30% on your investment. For example, if you invest £20,000 your income tax bill for the current tax year will be reduced by up to £6,000;
- provides you with the opportunity to enjoy the **potentially higher returns** associated with investing in the UK's privately owned businesses; and
- provides **tax-free dividends**.

Fund Manager

The Companies' Fund Manager, YFM Private Equity, has a long track record of generating consistent returns through capital growth of investments in established, growing UK businesses. The key success factors have been identified as:

- across their 6 regional offices, YFM Private Equity reviews 400 opportunities a year;
- YFM Private Equity has experience and knowledge across its investment directors of working with investee companies to enhance value; and
- the average time the Companies hold unquoted investments is 7 years.

This has led to a successful long-term track record; with an average 2.7 x cash multiple for unquoted investment realisations since 2004.

Portfolio(s)

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc are established VCTs with a track record of strong and consistent dividend performance.

Examples of recent developments within BSC's and BSC2's co-investment portfolio include:

- Following sustained profits at Humber logistics and stevedoring service provider, RMS Group Holdings Limited, a refinancing process has returned the full 2007 investment cost to BSC and BSC2 with their respective equity holdings retained.
- The investment in Primal Pictures Limited, provider of online anatomical models to medical professionals and students, was realised in August 2012, generating total proceeds of £0.67 million for BSC representing a 1.34 x return and total proceeds of £2.16 million for BSC2 representing a 2.25x return.
- Deep-Secure Limited, a provider of IT products for high security communications between governments and defence organisations, continues to perform well, with profit levels having grown strongly since the Companies' investment in 2009.

Examples of recent developments within BSC's portfolio include:

- Niche manufacturing group, President Engineering Group Limited, has delivered strong profit growth since the BSC investment in 2010, particularly benefiting from the introduction of improved safety standards within mining activities across the developing world.
- Discount outdoor equipment retailer, GO Outdoors Limited, has continued to rollout new stores across the UK with 7 new stores opened since BSC disposed of around a third of its holding in April 2011, which attracted investment from private equity group 3i plc.
- Specialist medical communications group, Fishawack Limited, last year completed its third acquisition cementing its position as the largest independent operator in its market with an international footprint matching its key customers.

Examples of recent developments within BSC2's portfolio include:

- Vaccine development group, Immunobiology Limited, has completed a £3 million funding round led by BSC2, which will enable it to progress its innovative platform technology into human clinical trials against two global health conditions with unmet medical need.
- Having successfully developed commercial applications for its fluorescent marking technology, Sirigen Limited was sold recently to a quoted US diagnostics group in a deal which returned 2.8x cost to BSC2 and an IRR of 100.84%.
- Digital Healthcare Limited is the leading UK provider of retinal screening for diabetic patients. Last year's acquisition of the number two provider, Orion Limited, further strengthened the company's dominant market position.

Over the 12 month period to 30 September 2012 BSC and BSC2 have invested a total of £7.69 million and £5.37 million in 9 and 11 businesses respectively, with an active pipeline of current opportunities under consideration by the Fund Manager.

Benefits of the Offers

Additional Incentive – any investment made by existing Shareholders on or before 28 December 2012 will be entitled to a further 25 free Shares for every 1,000 Shares applied for under the Offers.

Immediate Access to the Tax-Free Dividend Stream – the Offers give you immediate access to the Companies' mature portfolios and Investors will be eligible to receive any final tax free dividend declared in respect of the respective financial years ending 31 December 2012 (BSC2) and 31 March 2013 (BSC) (subject to Investors applying for, and having the Shares allotted, before the relevant record dates for the dividends).

Unique Deal Flow – British Smaller Companies VCTs will benefit from the large number (over 400 in the 12 months to 30 September 2012) of investment opportunities reviewed and generated through YFM Private Equity's regional offices and its 30 investment staff. This level of deal flow enables the Companies to be highly selective in their choice of investments.

Further Reduction in Costs – further increase in the size of the Companies will allow the fixed costs to be spread over a broader asset base. In addition the cost cap for each Company will be reduced by 0.25% to 3.25% per annum.

Liquidity – to increase liquidity, both BSC and BSC2 maintain buy-back policies, see page 28. The buy-back authority for BSC has been extended to 20 July 2015 and for BSC2 to 30 August 2014.

Details of the Offers

The Offer Price is set out on page 19 and is calculated by reference to their most recent published Net Asset Values, adjusted for issue costs of either 5.5% or 3.5%, as set out on page 20 and, in the case of BSC, the interim dividend of 2.0 pence per Share declared on 13 November 2012 and, in the case of BSC2, the interim and special dividend totalling 2.5 pence per Share paid on 26 October 2012. The Offer Price is subject to further adjustment if the Net Asset Value of the Companies increases or decreases by 5% or more prior to the allotment of Shares under the Offers.

Commitment of Directors and Fund Manager

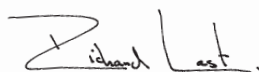
The Directors are intending to invest £35,000 under the Offers, increasing the aggregate investments of the Directors, Fund Manager and its employees in the Companies to in excess of 1.2 million Shares.

We look forward to welcoming new Shareholders and thank all of our existing Shareholders for their continued support.

Yours faithfully



Helen Sinclair
Chairman
British Smaller Companies VCT plc



Richard Last
Chairman
British Smaller Companies VCT2 plc

Key Features of the Offers

Introduction

BSC and BSC2 are seeking to raise additional funds of up to £15 million, in aggregate, to increase their investment capacity to both take advantage of the new ability to invest up to £5 million into larger businesses and to achieve this at an attractive point in their investment cycle.

An investment in both Companies will provide individuals with the opportunity to invest in established VCTs with mature and diversified portfolios of mainly unlisted smaller British companies with the aim of generating attractive returns over the medium to long term. Since inception, the Companies have invested £74.0 million in 117 businesses.

Why Invest?

Benchmarked Performance

BSC is ranked top performer over 3 years and BSC2 is ranked fifth over the same period. Both are ranked in the top quartile over 5 years on net asset growth (*Source: Citywire, 18 September 2012*).

Historic High Tax-free Yield

BSC has paid an annual tax free cash dividend of 5.25 pence per Share per annum on average over the five years to 30 September 2012 (this excludes a special dividend of 18.0 pence per Share in respect of the partial realisation of the investment in GO Outdoors in August 2011) delivering an annual yield of 5.4%. Based on an Offer Price of 97.75p per Share and income tax rates at the time of the issue of the Prospectus this is equivalent to 12.0% per annum to an Investor who is subject to the top rate of income tax.

BSC2 has paid an average annual tax free cash dividend of 4.60 pence per Share per annum on average over the five years to 30 September 2012, delivering an annual yield of 6.6%. Based on an Offer Price of 69.50p per Share and income tax rates at the time of the issue of the Prospectus this is equivalent to 14.8% per annum to an Investor who is subject to the top rate of income tax.

Loyalty Bonus

Accepted applications from existing Shareholders (including partners of those Shareholders whether or not the partner is a Shareholder) in the Companies, which are received on or before 28 December 2012, will attract additional Offer Shares equivalent to 2.5% of the amount subscribed in each Company by such Applicant under the Offers.

Change to VCT Rules

The Companies' combined existing Net Asset Value of £63.2 million at 30 September 2012 can continue to be used for buy-outs and buy-ins while the new monies raised can be used for development capital.

Immediate Access to Dividends

Investors will be eligible to receive any final tax free dividend declared in respect of the respective financial years ending 31 December 2012 (BSC2) and 31 March 2013 (BSC) (subject to Investors applying for, and having the Shares allotted, before the relevant record dates for the dividends).

Reduced Costs

Monies raised under the Offers will allow the Companies' fixed costs to be spread over a wider asset base. In addition the cost cap for each Company will be reduced by 0.25% to 3.25% per annum. Details of the cost cap are given on pages 66 to 67.

Award Winning Fund Manager

YFM Private Equity has a long track record of generating consistent returns through capital growth of investments in established, growing UK businesses. In addition to BSC and BSC2, YFM Private Equity has built a combined portfolio in excess of 190 unquoted investments for investors who have committed in excess of £345 million.

British Smaller Companies VCT plc (managed by YFM Private Equity Ltd)

VCT of the Year 2011

Investor Allstars Awards

YFM Private Equity Limited

Winner VCT Deal of the Year 2011

Unquote British Private Equity Awards

British Smaller Companies VCT plc

Shortlisted VCT of the Year 2010

Investor Allstars Awards

YFM Group

Shortlisted VCT Manager of the Year

Unquote British Private Equity Awards 2010

YFM Private Equity was awarded

Best Shareholder Communication Award 2009

The Association of Investment Companies for the British Smaller Companies VCT Reports

YFM Private Equity Limited won

Small/Medium Private Equity Company of the Year 2009

Acquisition Finance Awards

British Smaller Companies VCT plc

VCT Fund Manager of the Year 2007

Growth Company Investor

British Smaller Companies VCT2 plc was nominated for

VCT of the Year

Investor Allstars Awards in 2012

Key Statistics

As at 30 September 2012	BSC	BSC2
Average total dividend over 5 years	8.85 pence per Share*	4.60 pence per Share***
Average final/interim dividend over 5 years	5.25 pence per Share**	4.60 pence per Share
Average tax free yield****	12.0% per annum	14.8% per annum
Funds under management	£37.2 million	£26.0 million
Number of companies invested in	31	28
NAV price per Share	94.2 pence	68.0 pence

YFM Equity Partners total funds under management **in excess of £345 million**

* Excluding the dividend of 2.0 pence per Share in respect of the 6 months to 30 September 2012 declared on 13 November 2012.

** Excluding the special dividend of 18.0 pence per Share that resulted from the partial disposal of GO Outdoors Limited by BSC in April 2011.

*** Excluding the dividend of 2.5 pence per Share in respect of the 6 months to 30 June 2012 paid on 26 October 2012.

**** Based on the average cash dividend over 5 years, the Offer Prices (taking account of upfront tax relief of 30%) and assuming a top rate tax of 36.1%.

Minimum and Maximum Investment

- The minimum application per Investor under the Offers is £5,000 (before any advisory fees that the Applicant may be liable to pay to their financial intermediary), which can be allocated across the tax years if desired.
- Applications in excess of £5,000 may be made for any higher amount in multiples of £1,000, subject to availability.
- There is no maximum investment although tax reliefs are only available on a maximum investment of £200,000 per individual in all VCTs in any one tax year.
- A husband and wife can each invest up to £200,000 in any one tax year with each enjoying the tax reliefs.

Tax Benefits

- Qualifying individuals receive up to 30% upfront income tax rebate on the cost of their investment provided the shares are held for 5 years. This means that an investment of £10,000 will effectively cost an Investor £7,000. The maximum investment which can be made in order to qualify for the personal tax reliefs available from a VCT is currently £200,000 per person per tax year, or £400,000 across two tax years.
- Dividends paid by VCTs on ordinary shares acquired within the annual £200,000 investment limit are exempt from income tax.
- Capital gains on disposal of VCT shares are exempt from capital gains tax.

More details are given in Part 4 of this document.

Shareholder Relations

The Companies operate a dividend reinvestment scheme allowing Shareholders to build further capital value, and a share buy back policy to improve liquidity.

Part 1

Background of VCTs

VCTs were introduced in 1995, incorporating tax incentives for individuals to invest in smaller UK companies. VCTs are specialist investment companies similar to investment trusts listed on the London Stock Exchange.

Background of the Companies

Originally launched in 1996 and managed by YFM Private Equity, BSC was one of the first VCTs and is a mature VCT which invests in a broad range of companies and sectors. By following this investment strategy the Company has established a diverse portfolio of investments reducing the exposure to specific markets and individual companies. The Company has, to date, invested some £42.0 million in 77 companies.

Managed by YFM Private Equity, BSC2 was formed in 2000 and invests in a combination of mature businesses operating in traditional industries, as well as a smaller proportion of businesses offering opportunities in the application and development of innovation. Previously technology focused, in 2003 BSC2 aligned its investment strategy with that of BSC, increasing the number of co-investments, and the recent return has been driven from investment in a more mature portfolio. Its diverse existing portfolio of investments reduces the exposure to particular markets and individual companies. The Company has, to date, invested some £32.0 million in 56 companies.

Reasons for the Offers

The prevailing economic conditions of the last few years have been some of the most difficult faced by the UK economy in living memory. We believe that the current economic climate will continue to create opportunities for those investors able to take a medium to long term view to invest in well managed UK businesses that need capital to expand but are facing a shortage of finance. History has shown us that cautious investments made at the low point of the economic cycle have resulted in the highest portfolio returns.

The additional funds raised under the Offers will enable the Companies to increase the pace of their investment activity and both the number and size of their investments in the future. By raising more capital the running costs per Share in the Companies will be reduced as the fixed costs are spread over a larger asset base. In addition, the annual operating expenses (including the management fees set out on pages 66 and 67 but excluding VAT, trail commissions and any payment of the performance incentive fee details set out on pages 66 and 67 of each Company will be capped at 3.25% (previously 3.5%).

The Companies will continue to invest predominantly in established unquoted companies. The investment policy of both Companies is to create a portfolio that blends a mix of businesses operating in traditional industries with those that offer opportunities in the application and development of innovation.

The Companies are currently invested in a diverse portfolio of unquoted and quoted shares, loan instruments, fixed income securities and cash. The Offers enable new and existing Shareholders to invest in a mature and diverse existing portfolio to be supplemented with new investments made in line with the Companies' proven investment strategy.

The Offers

The Offers aim to raise up to £15 million, in aggregate, through the issue of up to 10,485,934 Shares in BSC and up to 7,374,101 Shares in BSC2. An Applicant's subscription will be split two thirds to BSC and one third to BSC2 respectively for investments of less than £25,000. For investments of £25,000 and above (before any advisory fees the Applicant may be liable to pay to their financial intermediary) Applicants are free to choose how the entire subscription is allocated. If Applicants do not wish to exercise that choice the subscription will be allocated in the same manner as applications for less than £25,000.

The Offer Price is set out on page 19 and is calculated by reference to the most recent published Net Asset Values, adjusted for issue costs and, in the case of BSC, for the interim dividend of 2.0p per Share declared on 13 November 2012 and in the case of BSC2 the interim and special dividend totalling 2.5p per Share paid on 26 October 2012. The Offer Price is subject to adjustment as set out on the pages overleaf if the Net Asset Value of either of the Companies increases or decreases by 5% or more prior to the allotment of Shares under the Offers.

Pricing Mechanism

As the Companies are currently trading, in order to be fair to both existing and new Shareholders, Ordinary Shares under the Offers will be allotted by reference to the Net Asset Value of the existing Ordinary Shares. Therefore, the Companies will allot such Ordinary Shares in accordance with the preceding paragraph.

If, however, the Net Asset Value of BSC on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below 92.2 pence per Share (being the current published Net Asset Value less the interim dividend of 2.0 pence per Share) then such Ordinary Shares will be allotted at that Net Asset Value plus the Offer Costs Percentage, rounded to the nearest 0.25 pence. If the price at which the Ordinary Shares allotted under the Offers is amended under the terms of this pricing mechanism then BSC will announce the fact through a Regulated Information Service.

If the Net Asset Value of BSC2 on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below 65.5 pence per Share (being the Net Asset Value at 30 September 2012 less the interim and special dividend of 2.5 pence per Share) then such Ordinary Shares will be allotted at that Net Asset Value plus the Offer Costs Percentage, rounded to the nearest 0.25 pence. If the price at which the Ordinary Shares allotted under the Offers is amended under the terms of this pricing mechanism then BSC2 will announce the fact through a Regulated Information Service. Investors should therefore indicate the total amount they wish to invest and the number of Offer Shares will be calculated in accordance with the principles set out above.

Share Buy Back Policies

The Companies are conscious that their Share price is affected by the illiquidity of their Shares in the market. In line with many other VCTs, the Companies, when appropriate, will operate a buy back policy. The policies and the rate of discount at which the Shares are bought back are regularly reviewed and the policies are subject to resolutions put before the Shareholders. In the period from 1 April 2012 to 30 September 2012, BSC bought back 354,107 Shares at a price of 85.00 pence per Share and BSC2 bought back 249,234 Shares at a price of 57.25 pence per Share, with Shares typically having been bought back at a discount of approximately 15% of the latest published Net Asset Value.

Dividend Reinvestment Scheme

BSC and BSC2 currently operate dividend reinvestment schemes providing Shareholders with the opportunity to reinvest the cash dividends paid by the Companies through the issue of new Shares. Whilst the schemes can be withdrawn at any time, the Directors have no plans to do so.

The tables below show the total return to Shareholders on each Company's fundraisings compared to the total return if the Shareholder had participated in the dividend reinvestment scheme. This assumes that at the time of investment the tax relief given on the investment was not invested in Shares of the VCTs and that all dividends since inception were invested under the dividend reinvestment scheme.

British Smaller Companies VCT plc

Tax Year of Fundraising Launch	Effective Net Issue Price**	Total Return since fundraisings***	Total Return since fundraisings with participation in the DRIS
	Pence per Share	Pence per Share	Pence per Share
1995/96 & 1996/97	80.00	176.40	194.13
1996/97 & 1997/98	80.00	175.34	193.06
1997/98 & 1998/99	84.00	171.84	189.56
2004/05 (C Share*)	59.70	159.59	172.01
2005/06	60.00	145.95	159.66
2006/07 & 2007/08	71.75	141.45	152.20
2007/08 & 2008/09	74.38	136.45	144.44
2009/10 & 2010/11	68.08	126.45	129.71
2010/11 & 2011/12	89.60	120.20	120.20
2011/12	69.83	97.20	97.20

* NAV has been adjusted for conversion of C shares into Ordinary Shares in May 2007

** Amount paid per Share less available income tax relief on the investment

*** Latest published NAV plus dividend paid in relevant tax year

British Smaller Companies VCT2 plc

Tax Year of Fundraising Launch	Effective Net Issue Price*	Total Return since fundraisings**	Total Return since fundraisings with participation in the DRIS
	Pence per Share	Pence per Share	Pence per Share
2000/01 & 2001/02	80.00	100.00	106.86
2001/02 & 2002/03	80.00	100.00	106.86
2009/10 & 2010/11	54.08	78.00	78.63
2010/11 & 2011/12	49.18	74.00	74.19
2011/12	49.35	70.00	70.00

* Amount paid per Share less available income tax relief on the investment

** Latest published NAV plus dividend paid in relevant tax year

The Fund Manager

YFM Private Equity Limited specialises in investing in unquoted companies and has been making investments in fast growing businesses for 30 years. Including BSC and BSC2, YFM Private Equity directly manages funds in excess of £125 million. YFM Private Equity is a wholly owned subsidiary of YFM Equity Partners, which through its investing subsidiaries manages total funds in excess of £345 million.

The Investment Management Team directly responsible for the management of BSC and BSC2 comprises principally of 5 key investment directors who together have over 80 years experience of investing in and managing venture capital opportunities. This key team is strengthened by investment managers and a strong group of support staff from across YFM Equity Partners. This experience has enabled the Fund Manager to establish wide networks of deal introducers, effective investment selection processes and strong portfolio management procedures.

The Fund Manager has a national presence through its four main offices in London, Leeds, Manchester and Bristol. The regional office network increases access to investment opportunities.

The Fund Manager is actively involved in the portfolio companies, taking non-executive positions where appropriate. The depth of experience in the Investment Management Team allows the Fund Manager to offer real practical support to portfolio companies particularly in relation to setting corporate strategy, board development, acquisitions, re-financing, and realisation with the objectives of maximising value.

Prior to the Offers, the Boards, the Fund Manager, the Investment Management Team and employees of the Fund Manager have together subscribed for 1,182,375 Shares.

Investment Strategy

The Companies will continue to invest predominantly in established unquoted companies. The investment policy of both Companies is to create a portfolio that blends a mix of businesses operating in traditional industries with those that offer opportunities in the application and development of innovation. BSC2 has historically invested a greater proportion in emerging companies than BSC. Prior to December 2003 the investment strategy of BSC2 was focused on investing in companies developing or using innovative technology. Since December 2003 the investment strategy of BSC2 has converged with that of BSC. The inclusion of investments in more established companies within its investment remit has allowed BSC2 to achieve a balance between exciting growth opportunities and mature companies and sectors, reducing its portfolio's exposure to particular markets and individual companies.

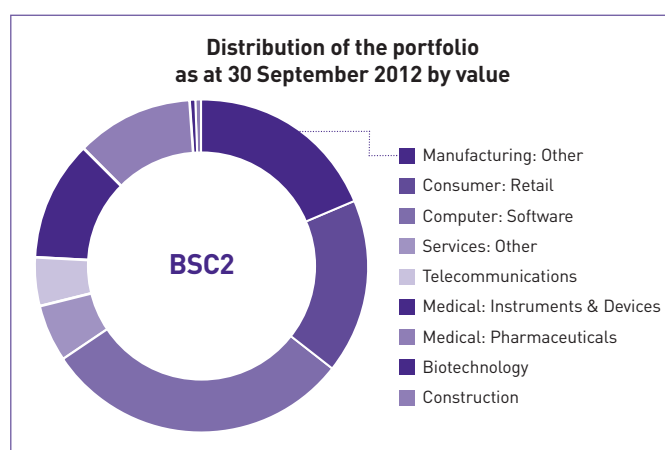
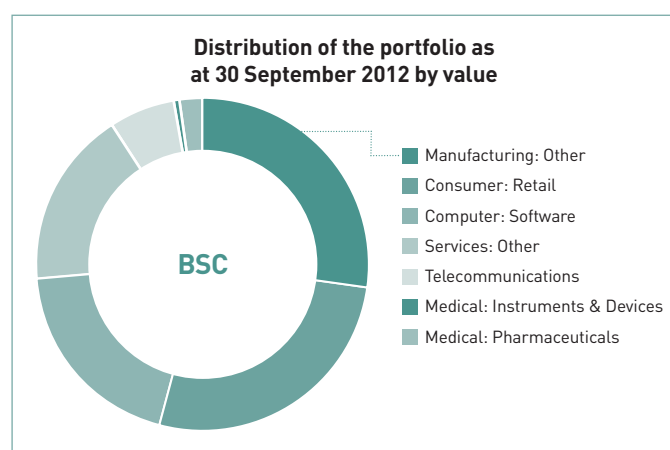
Investments have typically involved funding for acquisitions, business development and management buy-outs and buy-ins. The Fund Manager looks for businesses with a strong, balanced and well motivated management team and seeks to support them in the creation of shareholder value. The continued growth of certain businesses within the portfolio is expected to generate some interesting "buy and build" opportunities via the acquisition of smaller competitors. The majority of unquoted investments include an element of loan stock to enhance the security of the portfolio and to provide investment income for the Companies.

The Companies' combined existing Net Asset Value of £63.2 million at 30 September 2012 can continue to be used for buy-outs and buy-ins while the new monies raised can be used for development capital, operating expenses and dividends.

The Fund Manager sources its deals from many areas. The regional office network provides excellent access to interesting investment opportunities. Having been investing for 30 years and managing a combined portfolio in excess of 200 unquoted investments, the Fund Manager has built an extensive and proprietary network of chairmen, CEOs and management teams who regularly introduce opportunities to the Fund Manager.

The Fund Manager adds value to its investee companies by being actively involved in the companies from initial investment through to realisation. The Fund Manager uses its commercial experience to help shape and develop the investee management teams and often works with the investee companies to set, evolve and deliver strategy. By focusing on value growth the Fund Manager helps maximise exit potential for Shareholders.

Sector Distribution



Investment Objectives

Both Companies' objectives are:

- To continue to expand their diversified portfolios of investments with a focus on capital growth while maintaining a constant level of dividend;
- To invest at least 70% and up to 85% of its total assets in qualifying assets to maintain their VCT status;
- To invest in smaller private companies which are not always accessible to the private investor; and
- To continue to broaden their portfolios of investments by investing across a range of companies and sectors, thereby reducing an Investor's exposure to particular markets and individual companies.

The Board of each of the Companies has the discretion as to whether to take up their allocation in co-investment opportunities as set out under the heading "Co-Investment Policy" on page 44.

Performance

The Company has a track record of realising investments that provide a platform to support the payment of tax-free cash dividends.

Shareholder Returns

BSC

	31 March 2009 [Audited]	31 March 2010 [Audited]	31 March 2011 [Audited]	31 March 2012 [Audited]	30 September 2012* [Unaudited]
Pence per Share					
Cumulative Dividends	45.0	50.0	56.2	79.2	82.2
Total Return**	130.7	144.4	176.2	178.8	176.4
Dividends paid in the period	5.0	5.0	6.25	23.0	3.0

* 6 month period.

** Cumulative dividends paid plus NAV at period end.

Excludes 2.0p per Share interim dividend declared 13 November 2012

BSC2

	31 December 2008 (Audited)	31 December 2009 (Audited)	31 December 2010 (Audited)	31 December 2011 (Audited)	30 September 2012* (Unaudited)
Pence per Share					
Cumulative Dividends	16.0	22.0	26.0	30.0	32.0
Total Return**	92.9	94.7	94.4	98.5	100.0
Dividends paid in the period	5.5	6.0	4.0	4.0	2.0

* 9 month period.

** Cumulative dividends plus NAV at period end.

Excludes 2.0p per Share interim dividend declared 13 November 2012

BSC Dividend Table

Year ended 31 March	Dividend Pence per Share
1997	1.06p
1998	3.50p
1999	6.26p
2000	1.79p
2001	2.80p
2002	2.20p
2003	1.15p
2004	0.60p
2005	7.40p
2006	3.70p
2007	4.50p
2008	5.00p
2009	5.00p
2010	5.00p
2011	6.25p
2012	23.00p
2013 (to 30 September 2012)	3.00p
Cumulative dividends paid to date*	82.21p
Average dividends*	4.98p

* Excludes interim dividend of 2.0p per Share declared on 13 November 2012

Shareholders in BSC have benefited from average annual dividends of 5.25 pence per Share in the last 5 years to 30 September 2012. This excludes the special dividend of 18.0 pence per Share that resulted from the partial disposal of GO Outdoors Limited in April 2011. If this dividend was included the dividend yield would increase to 8.85 pence per Share.

BSC2 Dividend Table

Year ended 31 December	Dividend Pence per Share
2005	5.0p
2006	2.0p
2007	3.5p
2008	5.5p
2009	6.0p
2010	4.0p
2011	4.0p
2012 (to 30 September 2012)	2.0p
Cumulative dividends paid to date*	32.0p
Average dividends*	4.13p

*Excludes interim dividend of 2.5 p per Share paid 26 October 2012.

Shareholders in BSC2 have benefited from average annual dividends of 4.6 pence per Share in the last 5 years to 30 September 2012. Shareholders have also benefited from cumulative dividends of 32.0 pence per Share.

Illustration of Equivalent Income Returns

One of the benefits of VCTs is that dividends are distributed as tax free income. Both Companies follow strategies that are designed to optimise dividend income aiming to pay consistent and increasing dividends over time.

Based on an illustrative annual cash dividend of 5.25 pence per Share for BSC as set out above and an Offer Price of 97.75 pence per Share for BSC and an illustrative annual cash dividend of 4.60 pence per Share and an Offer Price of 69.50 pence per Share for BSC2, the equivalent returns would be as set out in the table below.

This is only an illustration and no forecast or projection is implied or inferred.

	BSC			BSC2		
	Offer Price *	Upfront Tax Relief**	Net Cost**	Offer Price *	Upfront Tax Relief**	Net Cost**
	Pence per Share/Yield %			Pence per Share/Yield %		
Offer price pps	97.75	29.33	68.42	69.50	20.85	48.64
Cash dividend (5.25 pps BSC, 4.60 pps BSC2) Yield %	5.4%		7.7%	6.6%		9.5%
Equivalent tax free dividend*** (8.22 pps BSC, 7.20 pps BSC2) Yield %	8.4%		12.0%	10.4%		14.8%

* Offer Price based on NAV as at 30 September 2012

** Upfront tax relief of 30%

*** For a higher rate tax payer assuming a top rate of tax of 36.1% (Based on income tax rates at the time of the issue of the Prospectus to an Investor who is subject to the 50% rate of income tax).

Dividend Policy

BSC is aiming to continue its dividend policy which has delivered net tax-free final and interim dividends averaging 5.25 pence per Share per annum paid over the last five years to 30 September 2012. **This is a targeted dividend, and not guaranteed. No forecast or projection is to be implied or inferred. This average excludes the special dividend of 18.0 pence per Share that resulted from the partial disposal of the investment in GO Outdoors Limited in April 2011, which if included would increase the dividend yield to 8.85 pence per Share.**

BSC2 is aiming to continue its dividend policy which has delivered net tax-free dividends averaging 4.60 pence per Share per annum paid over the last five years to 30 September 2012. **This is a targeted dividend, and not guaranteed. No forecast or projection is to be implied or inferred.**

Investment Portfolio

Lists of Current Investments

A full list of the current investments held by BSC and BSC2 as at the date of this document, the values being as at 30 September 2012 (being the end of the last financial period for which unaudited financial information has been published) is set out opposite.

As at 30 September 2012 BSC's unaudited Net Asset Value was 94.2 pence per Share and BSC2's unaudited Net Asset Value was 68.0 pence per Share.

There has been no material change to the values of the Companies' investment portfolios since 30 September 2012.

The average size of BSC's Qualifying Investment is £590,000 (2011: £452,000) based on cost of investments. The average size of BSC2's Qualifying Investment is £512,000 (2011: £452,000) based on cost of investments.

Investee Company	Sector	British Smaller Companies VCT		British Smaller Companies VCT2		Total	
		Carrying Cost* £'000	Valuation £'000	Carrying Cost* £'000	Valuation £'000	Carrying Cost* £'000	Valuation £'000
Unquoted Investments							
Seven Technologies Holdings Limited	Manufacturing	2,524	2,524	1,262	1,262	3,786	3,786
GO Outdoors Limited	Retail	113	3,739	–	–	113	3,739
Displayplan Holdings Limited	Retail	1,300	2,312	700	1,244	2,000	3,556
President Engineering Group Ltd	Manufacturing	1,000	3,454	–	–	1,000	3,454
Deep-Secure Ltd	Software	1,000	2,110	500	1,055	1,500	3,165
Insider Technologies (Holdings) Limited	Software	1,170	1,170	780	780	1,950	1,950
Waterfall Services Limited	Other Services	767	1,527	192	382	959	1,909
Fishawack Limited	Communications	878	1,219	–	–	878	1,219
Harvey Jones Holdings Limited	Retail	777	799	388	400	1,165	1,199
Bluebell Telecom Group	Telecommunications	500	545	500	545	1,000	1,090
Bagel Nash Limited	Retail Baker	616	600	413	400	1,029	1,000
Fairlight Bridge Limited	Turnaround	1,000	1,000	–	–	1,000	1,000
Immunobiology Limited	Pharmaceuticals	–	–	1,932	987	1,932	987
Digital Healthcare Limited	Medical: Instruments	–	–	3,072	921	3,072	921
Selima Limited	Software	600	600	300	300	900	900
PowerOasis Limited	Energy Infrastructure	375	375	500	500	875	875
RMS Group Holdings Limited	Industrial	180	567	70	221	250	788
Harris Hill Holdings Limited	Recruitment	600	682	–	–	600	682
Cambridge Cognition Limited	Software	325	245	240	182	565	427
TeraView Limited	Medical Instruments	375	150	375	150	750	300
Lightmain Company Limited	Manufacturing	600	248	–	–	600	248
Dryden Human Capital Group Limited	Recruitment	488	245	–	–	488	245
Ellfin Home Care Limited	Healthcare	823	83	317	32	1,140	115
Tissuemed Limited	Pharmaceuticals	–	–	48	60	48	60
Quoted Investments							
EKF Diagnostics Holdings plc	Pharmaceuticals	314	602	224	282	538	884
Pressure Technologies plc	Industrial	425	439	300	311	725	750
Hargreaves Services plc	Manufacturing	416	514	125	113	541	627
Tikit Group plc	Software	150	416	184	205	334	621
Vianet Group plc	Software	404	348	242	211	646	559
Mattioli Woods plc	Support Services	326	493	–	–	326	493
K3 Business Technology Group plc	Software	402	465	–	–	402	465
Iomart Group plc	IT Infrastructure	–	–	198	416	198	416
Brady plc	Metals & Commodities	–	–	179	294	179	294
Optos plc	Medical: Instruments	–	–	81	156	81	156
Straight plc	Industrial	225	65	–	–	225	65
Belgravium Technologies plc	Software	165	62	–	–	165	62
Woodspeen Training Group plc	Training Provider	250	62	–	–	250	62
Allergy Therapeutics plc	Blotechnology	–	–	350	56	350	56
May Gurney Integrated Services plc	Construction	–	–	106	49	106	49
2ergo Group plc	Software	–	–	197	31	197	31
		19,088	27,660	13,775	11,545	32,863	39,205

* The carrying cost is the original cost of the investment less repayments and the cost of part realisations

Summaries of Investments

Brief details are given below of the Companies' venture capital investments which together represent 62% of the combined Net Asset Value of the Companies at 30 September 2012.

These investments represent 74% of BSC's Net Asset Value and 44% of BSC2's Net Asset Value at 30 September 2012.

The turnover, profit/loss before tax, retained profit/loss and net assets of the investee companies are extracted without adjustment from the latest audited accounts of each of those companies.

(Source: BSC interim accounts to 30 September 2012 and BSC2 interim management statement to 30 September 2012).

Top 15 Unquoted Investments by Combined Value

Seven Technologies Holdings Limited

Belfast

www.seventechnologies.co.uk

**BSC
BSC2**

Cost	£3,786,000
Valuation	£3,786,000
Date of Investment	May 2012
Equity Held	9.37%

Year ended 31 May	2011 £million	2010 £million
Retained profits	1.56	0.73
Net assets	1.56	0.73

Seven Technologies Holdings Limited has a small company exemption from filing full financial statements at Companies House.

Seven Technologies is a fast growing specialist engineering business based in Northern Ireland specialising in the development and manufacture of bespoke electronics and communications applications for operation in inhospitable environments. The strategy is to maintain the impressive expansion to date through increasing the company's international presence and significantly growing average contract sizes, in what is now a significant international market for its products.

GO Outdoors Limited

Sheffield

www.gooutdoors.co.uk

BSC

Cost	£113,000
Valuation	£3,739,000
Dates of Investment	May 1998, March 2002 & April 2007
Equity Held	14.09%

52 weeks ended 30 January	2012 £million	2011 £million
Sales	144.67	115.24
Adjusted EBITDA	8.46	10.79
(Loss) profit before tax	(2.56)	5.20
Retained profits	1.57	8.55
Net assets	2.67	12.93

GO Outdoors is a retailer of outdoor clothing and equipment. The original investment of £500,000 in May 1998 supported the buyout with a second investment in March 2002 to support the company's first acquisition. The company has continued its expansion opening a further ten stores in the year to January 2012, taking the total number of outlets to forty-one. The £28 million investment by 3i plc in April 2011 was in part to fund a continuation of the rollout of this successful retail concept while at the same time purchasing approximately one-third of BSCs investment.

Displayplan Holdings Limited (formerly North Western Investments Limited)

Baldock, Herts
www.displayplan.com

BSC
BSC2

Cost	£2,000,000
Valuation	£3,557,000
Dates of Investment	February 2010 & January 2012
Equity Held	35.00%

Year ended 31 December	2011 £million	2010 £million
Sales	16.19	13.11
EBITA	1.78	0.08
Profit before tax	1.78	0.08
Retained profits	2.13	0.81
Net assets	2.14	0.82

The financial results above are for the Displayplan business acquired through the management buy-out

In January 2012 a further investment of £0.3 million was made into North Western Investments Limited to support the management buy-out of Displayplan Holdings Limited. **Displayplan Holdings Limited** offers a complete retail display consultancy service (from concept through design and sourcing to finished product delivery) to established branded product manufacturers and UK retailers. Typical products include bespoke point of purchase (POP) stands in high street retail stores.

President Engineering Group Ltd

Sheffield
www.conflo.com/www.bestobellvalves.com

BSC

Cost	£1,000,000
Valuation	£3,454,000
Date of Investment	September 2010
Equity Held	20.00%

Year ended 31 October	2011 £million
Sales	15.98
EBITA	2.78
Profit before tax	1.95
Retained profits	1.23
Net assets	1.42

President Engineering is a niche manufacturer of branded engineering products sold through agents to a diverse international customer base. The company produces mining safety systems sold into developed and developing economies under the Conflow brand and also cryogenic valves sold to the oil and gas sector under the Bestobell brand. BSC backed a management buy-out by the existing management team. Since that time the company has been successful in continuing the international development of its brands supported by strong underlying market growth.

Deep-Secure Ltd

Malvern
www.deep-secure.com

BSC
BSC2

Cost	£1,500,000
Valuation	£3,165,000
Date of Investment	December 2009
Equity Held	19.29%

Year ended 31 December	2011 £million	2010 £million
Sales	3.72	2.61
EBITA	1.50	0.63
Profit (loss) before tax	0.24	(0.50)
Retained losses	(0.26)	(0.50)
Net assets (liabilities)	0.14	(0.12)

Deep-Secure's market leading products protect against threats to IT security through high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack leads to more businesses relying on higher levels of security to protect their data, with the main customers being international governments, cross border forces and defence companies. Profit levels have grown strongly since the Companies' investment in 2009.

Insider Technologies (Holdings) Limited

Salford
www.insidertech.co.uk

BSC
BSC2

Cost	£1,950,000
Valuation	£1,950,000
Date of Investment	September 2012
Equity Held	43.00%

The first set of audited financial statements for Insider Technologies (Holdings) Limited following the investment by the Companies is not yet due.

Insider Technologies is an established provider of monitoring and scheduling software to the financial services and national security sectors. The VCTs backed the buy-out of the business introducing new senior management to complement the existing team, who also invested in the deal. The strategy is to increase the sales focus and roll out existing and new complementary products in the UK and overseas.

Waterfall Services Limited

Warrington
www.caterplus.co.uk

BSC
BSC2

Cost	£959,000
Valuation	£1,908,000
Date of Investment	February 2007
Equity Held	24.41%

Year ended 31 March	2011 £million	2010 £million
Sales	43.26	36.33
EBITA	2.10	1.65
Profit before tax	1.30	0.85
Retained profits	1.57	0.83
Net assets	2.45	1.59

Waterfall is a contract caterer specialising in the care home sector. Since the original investment in 2007 the company has expanded its original catering services business from supplying residential and care homes to supplying the educational market. There has been both organic and acquisitive growth which has broadened and diversified the customer base with significant progress being made in expanding the services provided to both the education and care home sectors.

Fishawack Limited

Knutsford
www.fishawack.com

BSC

Cost	£878,000
Valuation	£1,219,000
Dates of Investment	January 2008, December 2009, May 2010 & June 2011
Equity Held	8.39%

Year ended 31 March	2011 £million	2010 £million
Sales	7.87	4.60
EBITA	0.95	0.66
Loss before tax	(0.15)	(0.44)
Retained losses	(1.11)	(0.82)
Net liabilities	(0.34)	(0.19)

Fishawack is an established, specialist healthcare communications agency focusing on the medical sector, with a strong reputation for providing specialist communications consultancy services for many of the world's top global pharmaceutical companies. Three acquisitions have been made, of its US partner, a UK medical communications business and a Swiss based medical communications business. This has significantly increased its international reach and service capacity as well as broadening its customer base. Fishawack continues to seek further sales growth, both organically and through acquisition.

Harvey Jones Holdings Limited

London
www.harveyjones.com

BSC
BSC2

Cost	£1,165,000
Valuation	£1,199,000
Date of Investment	May 2007
Equity Held	10.32%

Year ended 31 December	2011 £million	2010 £million
Sales	12.24	10.87
EBITA	0.99	0.98
Profit before tax	0.28	0.27
Retained profits	0.20	0.09
Net assets	0.74	0.63

Harvey Jones is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to twenty-five from ten at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit if market conditions improve.

Bluebell Telecom Group Limited

Newcastle
www.bluebelltelecom.com

BSC
BSC2

Cost	£1,000,000
Valuation	£1,090,000
Date of Investment	September 2010
Equity Held	13.50%

Year ended 30 April	2011 £million
Sales	7.00
EBITA	0.90
Loss before tax	(0.17)
Retained losses	(0.27)
Net assets	4.58

Bluebell is a telecommunications service provider that aggregates a range of services including fixed line, mobile, and data to UK businesses. The Companies' investments in 2010 were made to fund the acquisition of Callstream, which has been successfully integrated, and a further acquisition of Worldwide ISDN was completed in 2011.

Bagel Nash Group Limited

Leeds
www.bagelnash.com

BSC
BSC2

Cost	£1,029,000
Valuation	£1,000,000
Date of Investment	July 2001
Equity Held	11.43%

Year ended 30 April	2011 £million	2010 £million
Sales	n/a	n/a
EBITA	n/a	n/a
Profit before tax	n/a	n/a
Retained profits	1.28	1.10
Net assets	1.28	1.10

The first set of audited accounts following the investment by the Companies is not yet due. The results are for the Bagel Nash business acquired through the management buy-in.

Bagel Nash is an established operator of twelve espresso and bagel bars in Leeds, Manchester, York, Huddersfield and Hull and also runs a bakery supplying products to its own stores and the UK wholesale trade. An experienced team completed the buy-in during July 2011 and value growth is expected through a retail rollout strategy with the first new sites having now been identified.

Fairlight Bridge Limited

BSC

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	April 2012
Equity Held	50.00%

The first set of audited financial statements for Fairlight Bridge Limited following the investment by the Company is not yet due.

Fairlight Bridge was formed to provide investment in SME businesses whose performance is in need of improvement. It is particularly focused on the Midlands and South West regions. With links to banks and other lenders it is well placed to acquire companies in need of turnaround management. Managing director Peter Bridge has previously run several engineering groups and has a successful track record of performance improvements within a range of private equity backed businesses.

Cambridge
www.immbio.com

Immunobiology Limited

BSC2

Cost	£1,932,000	
Valuation	£987,000	
Dates of Investment	June & December 2003, November & December 2005, August 2007, March 2010 and August 2012	
Equity Held	26.04%	
Year ended 31 May	2011	2010
	£million	£million
Sales	-	0.07
Loss before tax	(1.27)	(1.36)
Retained losses	(7.07)	(6.05)
Net liabilities	(2.05)	(1.03)

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. A licence deal has recently been signed with Chinese pharmaceutical group Lanzhou Institute of Biological Products Co Limited to fund the clinical development of a TB vaccine in China. Regulatory clearance has also been granted to commence human trials for a universal meningitis vaccine.

Cambridge
www.digital-healthcare.co.uk

Digital Healthcare Limited

BSC2

Cost	£3,072,000	
Valuation	£922,000	
Dates of Investment	June & December 2005, July 2007, October & November 2008	
Equity Held	25.04%	
Year ended 30 September	2011	2010
	£million	£million
Sales	2.61	2.72
LBITA	(0.18)	(0.53)
Retained losses	(6.70)	(5.26)
Net assets	0.99	1.12

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric markets. It has developed its UK business becoming a leading supplier of diabetic retinopathy screening software to the NHS. Last year Digital Healthcare completed the acquisition of the number two player, Orion Limited, supported by the National Screening Council.

Selima Limited

Sheffield
www.selima.co.uk

BSC
BSC2

Cost	£900,000
Valuation	£900,000
Date of Investment	March 2012
Equity Held	18.75%

The first set of audited financial statements for Selima Limited following the investment by the Companies is not yet due.

Headquartered in Sheffield, **Selima** has considerable experience of deploying comprehensive payroll, HR and expenses solutions and bureau services that save organisations significant sums of money. Selima's customers include Bristol City Council, Young's Brewery and Greater Manchester Police. The investment will help the business to expand by improving services for new and existing clients and introducing new, innovative products.

Top 5 Quoted Investments by Combined Value

EKF Diagnostics Holdings plc

London
www.ekfdiagnostics.com

BSC
BSC2

Cost	£538,000
Valuation	£884,000
Dates of Investment	July 2010, June 2011 & March 2012
Equity Held	1.10%

Year ended 31 December	2011 £million	2010 £million
Sales	21.66	6.48
EBITA (LBITA)	0.28	(1.12)
Loss before tax	(2.36)	(2.09)
Retained losses	(5.66)	(3.69)
Net assets	58.73	35.98

EKF is a provider of a wide range of diagnostic needs in clinical care, blood donor services and dialysis centres, recreation institutes, sports medicine and industrial applications. Its name consists of the first three letters of the German words for its main business divisions; Entwicklung (development), Konstruktion (construction) and Fertigung (production). EKF is well funded and has made some good acquisitions and commercial progress.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

BSC
BSC2

Cost	£725,000
Valuation	£749,000
Dates of Investment	July & July 2007
Equity Held	4.26%

Year ended 1 October (2010: 2 October)	2011 £million	2010 £million
Sales	23.13	21.71
EBITA	1.03	3.69
Profit before tax	0.58	3.51
Retained profits	9.61	10.00
Net assets	15.54	15.91

Pressure Technologies was admitted to AIM in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and gas industry but is increasingly diversifying through acquisitions into other sectors, such as biogas and defence. The balance sheet remains ungeared.

Hargreaves Services plc

Durham
www.hargreavesservices.co.uk

BSC
BSC2

Cost	£541,000
Valuation	£627,000
Dates of Investment	December 2007, January, February & March 2008, August 2012
Equity Held	0.34%

Year ended 31 May	2012 £million	2011 £million
Sales	688.26	552.26
EBITA	53.97	46.65
Profit before tax	43.12	36.93
Retained profits	97.80	74.16
Net assets	136.36	114.65

In the years following its formation in 1994 **Hargreaves Services** established itself as the largest independent bulk haulage company in Britain. The group has a national network of depots and facilities, and specialises in supplying and processing carbon-based minerals. It expanded into energy trading in mainland Europe and operates two collieries and a coke plant. The planning consent received in 2011 to begin production at the Tower Colliery in Wales was a significant step and should underpin further profit growth.

Tikit Group plc

London
www.tikit.com

BSC
BSC2

Cost	£334,000
Valuation	£621,000
Dates of Investment	June 2001, March & November 2006, January & April 2007
Equity Held	1.31%

Year ended 31 December	2011 £million	2010 £million
Sales	26.35	26.88
EBITA	4.45	3.43
Profit before tax	3.52	2.95
Retained profits	11.92	9.69
Net assets	18.17	16.16

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company provides a range of document and knowledge management tools to the majority of the top 50 UK legal practices. The business, which is ungeared, has continued to perform strongly with the business model transitioning to a higher proportion of recurring revenues.

Vianet Group plc (formerly Brulines Group plc)

Stockton-on-Tees
www.vianet.co.uk

BSC
BSC2

Cost	£646,000
Valuation	£559,000
Dates of Investment	October 2006, July 2007 & July 2012
Equity Held	2.07%

Year ended 31 March	2012 £million	2011 £million
Sales	22.98	24.28
EBITA	3.35	3.75
Profit before tax	2.34	3.02
Retained profits	9.73	9.00
Net assets	23.22	22.44

Vianet Group is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed on-trade. The company has consolidated its market leading position and continues to seek to expand its service and product offering. Dividend yield remains strong, but the pub chains continue to struggle, leading Vianet to diversify into related markets, such as petrol forecourts.

The Investment Team

David Hall – Managing Director

David became the managing director of YFM Private Equity in 2003, having had responsibility for the Manchester office since 2000. Prior to this he had been an investment manager with Innvotec Limited and Head of Investment for AIM listed Enterprise Plc. David trained as a Chartered Accountant with PricewaterhouseCoopers qualifying in 1986. He holds a BA (Hons) in Economics from the University of Manchester.



David Gee – Director of Investments

David has 23 years experience in the venture capital field with YFM Private Equity. Since 1996 he has been investment director on the Board of YFM Private Equity and is now Director of Investments. He is a non-executive director of several companies and has been responsible for a significant number of realisations and listings of investments made by both Companies. He qualified as a Chartered Accountant with Grant Thornton, latterly specialising in corporate finance and holds a degree in Mathematics from Imperial College.



David Bell – Portfolio Director

David joined YFM Private Equity in 2009 to lead portfolio management activities and is a Director of YFM Private Equity. Prior to joining YFM he spent 10 years at 3i where he was also portfolio director and had extensive experience of managing and realising in excess of 40 private equity investments in SMEs. He is on the board of RMS Europe Limited and Immunobiology Limited and represents the Companies' interests on several other investments. He has a first class degree in Mathematics from Imperial College and also spent 5 years working as a management consultant focussing on supply chain solutions.



Paul Cannings – Director

Paul joined YFM Private Equity in 2006 to raise new funds and to make and manage investments. He is a Director of YFM Private Equity. Prior to joining YFM he spent 14 years at 3i where he was also Director and had extensive experience of making and managing private equity investments. Latterly he held the position of Director of the small buyouts and growth capital team. He has led several new investments and currently sits on the boards of Harvey Jones, Harris Hill and GO Outdoors. He has a first class degree in Economics from Bristol University and qualified as a Chartered Accountant with PricewaterhouseCoopers.



Mark Boggett – Director

Mark joined YFM Private Equity in 2004. He initially trained as an equity analyst and fund manager at Williams de Broe and Brewin Dolphin before moving into venture capital. Mark is an active investor in technology across all sectors and stages, and has served on numerous boards throughout his career. He is one of Seraphim Capital's Managing Partners and has led all the investments made by Seraphim to date. Prior to that he was the Investment Director of London Seed Capital and three further venture EIS funds. He has a degree in Accounting & Finance, an MA in Economics & Finance and a range of professional investment qualifications.



The Boards

Both Companies benefit from highly experienced Boards consisting of three non-executive directors, who are listed below. The Boards have overall responsibility for each Company's investment policy and administration and have appointed YFM Private Equity as their investment manager.

British Smaller Companies VCT plc

Helen Sinclair – Chairman, British Smaller Companies VCT plc

Helen has an MA in Economics from the University of Cambridge and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly 8 years at 3i plc focusing on MBOs and growth capital investments. She later co-founded Matrix Private Equity Limited (now Mobeus) in early 2000 raising Mobeus Income & Growth 2 VCT plc (formerly Matrix e-Ventures VCT plc). She subsequently became managing director of Matrix Private Equity Limited before moving to take on a portfolio of non-executive director roles in 2005. She is currently a non-executive director of The Income & Growth VCT plc, Mobeus Income & Growth 4 VCT plc, Spark Ventures plc, Downing Income VCT 4 plc and Octopus Eclipse VCT 3 plc (which recently merged with Octopus Eclipse VCT plc).



Philip Simon Cammerman – British Smaller Companies VCT plc

Philip has an engineering degree from Imperial College and an MBA from Stanford University. He has over 20 years of industrial experience in engineering and technology orientated industries and has worked in both the USA and the UK. He has spent the last 26 years in the venture capital industry and was chairman of YFM Private Equity and a director of YFM Group (Holdings) Limited until he retired in April 2008. He has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of Pressure Technologies plc and Hargreave Hale AIM VCT 2 plc. He has been a director of the Company since its establishment.



Edward Buchan – British Smaller Companies VCT plc

Edward is a Fellow of the Institute of Chartered Accountants in England and Wales, starting his career with Deloitte before moving to Hill Samuel Bank Limited where he became Head of Corporate Finance and a member of the Bank Executive Committee. He subsequently joined Close Brothers Corporate Finance Limited and then West LB Panmure, specialising in the transport and logistics industry sectors. He is currently Managing Director, Corporate Finance at LCF Edmond De Rothschild Securities and is a non-executive director of Wallem Group Limited, a Cayman Islands registered company, based in Hong Kong and Downing Absolute Income VCT 1 plc.



British Smaller Companies VCT2 plc

Richard Last – Chairman, British Smaller Companies VCT2 plc

Richard Last is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors, and is chairman and non-executive director of Arcontech Group plc (a financial software business listed on AIM). He is also a chairman and non-executive director of Lighthouse Group plc and a non-executive director of Corero Network Security plc, both AIM listed. In addition he is a director and shareholder of a number of private companies including the IT company APD Communications Limited. He is also non-executive chairman of CSE Global (UK) Limited, a subsidiary of a Singapore Stock Exchange listed company CSE Global Limited, of which he is also a non-executive director.



Robert Martin Pettigrew – British Smaller Companies VCT2 plc

Robert has more than 20 years experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He currently is an investor-director and executive chairman of Acal Energy Limited and Odos Imaging Limited.



Peter Charles Waller – British Smaller Companies VCT2 plc

Peter is an experienced chairman and director with extensive UK and international executive experience in the IT technology, software and services sector. He initially worked with IBM and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He is currently chairman of Rocela Group Ltd, KeyPoint Technologies (UK) Limited and Premier Veterinary Group Limited, director and founder of Turnberry Management Company Limited and non-executive director of BCS Learning & Development Limited. For the past decade Peter has worked as a board member with a succession of early stage and early growth private and public companies. His particular skills are in sales and marketing and working with companies to develop successful sales growth strategies.



Practices and Operations

The Board of each Company is responsible for the overall control and management of that Company with responsibility for its affairs, including determining its investment policy. Investment proposals are originated by the Fund Manager and formally approved by the relevant Board or Committee.

Each Board meets regularly throughout the year (normally at least quarterly), and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings will take place or conference calls made when Board decisions are required in advance of regular meetings.

The provisions of the UK Corporate Governance Code have been complied with for the last financial year by each Company and up to the date of this document save that (i) Shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting (since the Companies do not have major shareholders), (ii) not all of the non-executive directors have service contracts, but consultancy agreements instead (whereas the UK Corporate Governance Code recommends fixed term renewable service contracts) and (iii) the Companies have not appointed a CEO or a senior independent non-executive director. It is VCT standard practice not to appoint executive officers as executive functions are delegated to the Fund Manager and the Boards consider that each of the Directors acts as a senior independent non-executive Director.

Committees

Audit Committees

Each Company has an audit committee which meets at least twice a year. The audit committees review the actions and judgements of the Fund Manager in relation to the interim and annual financial statements and each Company's compliance with the UK Corporate Governance Code. They review the terms of the management agreement and examine the effectiveness of each Company's internal control systems, receive information from the Fund Manager's compliance department and review the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. The audit committees have written terms of reference which define their responsibilities. The audit committee for BSC consists of Helen Sinclair, Philip Cammerman and Edward Buchan (Chairman) and the audit committee of BSC2 consists of Richard Last (Chairman), Robert Pettigrew and Peter Waller.

Nomination Committees

Each Company has a nomination committee which consists of the Directors who are considered by the respective Boards to be independent of the Fund Manager. The chairmen of the Boards act as chairmen of the committees save when the committee meets to consider a candidate for the Chairmanship. In considering appointments to the Boards, the nomination committees take into account the ongoing requirements of the Companies and the need to have a balance of skills and experience on the Boards.

Allotment Committees

With regards to the allotment of new Shares, the Boards of BSC and BSC2 generally operate through a committee of any one Director. The allotment committees meet as and when required to formally approve the allotment of Shares.

Remuneration Committee

BSC has a remuneration committee which meets at least once a year to review the remuneration paid to the Directors. The committee comprises each of the Directors and is chaired by Helen Sinclair. The BSC2 Board has determined that due to the remuneration procedures currently in place, in its opinion there is no role for a separate remuneration committee. For BSC2, remuneration issues are dealt with by the full Board.

Investment Committee

The Directors of BSC meet as an investment committee of the Board to consider and approve all investment decisions. The committee comprises all of the Directors and is chaired by Philip Cammerman. The BSC2 Board has determined that due to the investment procedures currently in place, in its opinion there is no role for a separate investment committee.

Custody Arrangements

Each Company's investments are held by the Fund Manager under the terms of an administration and investment advisory agreement (the "IAA"), details of which are set out on pages 66 and 67. The Fund Manager may be the holder, by way of safekeeping, of safe custody investments or custody assets belonging to the Companies and may hold documents of title itself by way of safekeeping. All investments made for the accounts of and monies received for the Companies will be deposited in the name of the Companies or will be held by a custodian or the Companies' solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the

Companies or the Fund Manager and will be held by the Fund Manager by way of safekeeping in the relevant Company's name or forwarded directly to the custodian or the Companies' solicitors. No third party custodian has been appointed. Neither the Fund Manager nor any custodian appointed by the Companies will take legal ownership of the Companies' assets.

Co-Investment Policy

The Fund Manager currently advises BSC and BSC2 and a number of other funds on behalf of institutional and retail investors. The Directors believe that this provides the Shareholders with a number of advantages, particularly in relation to deal flow and the opportunity for the Companies to co-invest in larger deals (including possible co-investments with these other funds) and, therefore, later stage companies. Furthermore, the Companies acknowledge that investment opportunities may be suitable for other funds managed by the Fund Manager ("Relevant Funds"). The Fund Manager will consult the Boards in relation to such investment opportunities, it being agreed that, in general for investment opportunities below £1 million falling within the Companies' investment criteria, the Companies will be offered first refusal. Investment opportunities greater than £1 million will be offered first to other Relevant Funds. In all such cases the proposed basis for the allocation is 60% to BSC and 40% to BSC2. In the event of a conflict of interest on the part of the Fund Manager (which shall include where an investment is proposed in a company in which a Relevant Fund already has an interest) or where co-investments are proposed to be made other than on the above basis, such an investment will require the approval of those members of the Boards who are independent of the Fund Manager.

Shareholder Reporting

The Directors strongly believe in the importance of good communication with Shareholders. Shareholders are kept informed through a series of workshops, newsletters, quarterly Net Asset Value announcements and a full listing and disclosure of all investments in the interim and full year reports.

Regular updates are announced on the website and emails are issued to keep relevant parties informed.

BSC was presented with the award for the 'Best Shareholder Communication for the VCT Reports and Accounts' by the Association of Investment Companies (AIC) in 2009.

The format for the 2010 BSC Annual Report was reviewed and updated in response to Shareholder feedback and now provides a summary of financial results.

Further Information Relating to the Offers

It is proposed to allot up to 10,485,934 Shares in BSC and up to 7,374,101 Shares in BSC2, subject to raising in aggregate a maximum of £15 million at the Offer Price, to the public under the Offers, which are structured so as to allow Investors to invest in both the 2012/2013 and 2013/2014 tax years. The Offer Price will be calculated according to the Pricing Mechanism. Applications will be made to the UK Listing Authority for the Offer Shares to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.

The obligations of each Company to issue and allot Ordinary Shares under the Offers are in all respects conditional on the passing by Shareholders of resolutions 1 to 3 at the BSC General Meeting as set out on pages 55 and 56 and resolutions 2 to 3 and 5 to 6 at the BSC2 General Meeting, as set out on pages 56 and 57.

Applications for the Offer Shares will be payable in full by cheque or bankers draft on application. Investors may post-date their cheques to 6 April 2013 for applications in respect of the 2013/2014 Offers. Applications under the Offers will be processed upon receipt. Applications accompanied by post-dated cheques will not be processed until the cheque can be presented and will not be treated as being received by the Receiving Agent until that date. Multiple subscriptions by Investors are permitted. The Offers are not underwritten.

The subscription list for the Offers will open on 16 November 2012 and close at 11.00 am on 5 April 2013 for the 2012/2013 Offers and at 11.00 am on 30 April 2013 for the 2013/2014 Offers (or at any earlier date on which the Offers are fully subscribed), save that the Directors reserve the right to extend the closing date of the 2013/2014 Offers to a date no later than 15 November 2013. The result of the Offers will be announced to the London Stock Exchange through a Regulatory Information Service provider authorised by the Financial Services Authority. There is no minimum subscription for the Offers to proceed.

If the Offers are over subscribed, they may be increased at the discretion of the Boards up to a maximum of £20 million funds raised in aggregate.

In the event that applications are received in excess of the maximum subscription under the Offers, the Directors reserve the right to use their absolute discretion in the allocation of successful applications.

Shares will be allotted and issued on 31 December 2012 in respect of valid applications received on or before 28 December 2012, on 5 April 2013 for all other valid and eligible applications in respect of the 2012/2013 Offers, and in respect of the 2013/2014 Offers on or prior to the closing of the 2013/2014 Offers. At the Directors' discretion, they may make earlier allotments should it be deemed appropriate. Details of such allotments will be announced through a Regulatory Information Service provider by no later than the business day following the allotment. Share and tax certificates are expected to be posted to Shareholders within 10 business days of each allotment.

The Shares will be issued on a fully paid up basis in registered form and evidence of title will be through possession of a share certificate in the Shareholder's name. Alternatively, the Shares may be held in an account through the CREST system. The Companies will apply for the Offer Shares to be admitted to CREST and it is expected that the Offer Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred. Upon receipt of their new share certificate(s) Shareholders wishing to dematerialise their shares into CREST should contact their broker who can advise on the CREST stock deposit procedure.

The Offers may not be withdrawn after dealings in the Offer Shares have commenced. In the event of any requirement for either of the Companies to publish a supplementary prospectus, Applicants who have yet to be entered into that Company's register of members will be given two days to withdraw from their subscription. Applicants should note, however, that such withdrawal rights are a matter of law that is yet to be tested in the courts of England and Wales and Applicants should, therefore, rely on their own legal advice in this regard. In the event that notification of withdrawal is given by post, such notification will be effected at the time the Applicant posts such notification rather than at the time of receipt by the Company.

Applicants wishing to subscribe for Shares may do so by completing the Application Form attached at the end of this document. Details of how to complete the Application Form are set out under the heading "Notes on the Application Form" on pages 77 and 78 of this document.

Allocation of Funds Raised

Investors' subscription monies of up to £25,000 will be allocated two thirds to BSC and one third to BSC2. Applicants subscribing for Offer Shares of £25,000 and above (before any advisory fees that the Applicant may be liable to pay to their financial intermediary) are free to choose how the entire subscription is allocated. In the absence of any determination, the subscription will be allocated in the same manner as applications for less than £25,000.

Investor Profile

A typical Investor for whom the Offers are designed is a UK income tax payer aged 18 or over, who is professionally advised, with an investment range of between £5,000 and £200,000, who may already have a portfolio of non-VCT investments such as unit trusts/OEICs, investment trusts and direct shareholdings in listed companies, who is willing to invest over the medium to long term and who, having regard to the risk factors set out at the front of this document, considers the investment policy of the Companies to be attractive. That is to say, an investment policy, with potential returns and associated risks that may be higher than investment in the FTSE All-Share Index. This may include retail, institutional and sophisticated investors and high net-worth individuals.

Minimum and Maximum Investment

The minimum application per Investor under the Offers is £5,000 (before any advisory fees that the Applicant may be liable to pay to their financial intermediary) which can be allocated across the tax years if desired. Applications in excess of £5,000 may be made for any higher amount in multiples of £1,000, subject to availability. There is no maximum investment although tax reliefs are only available on a maximum investment of £200,000 per individual in all VCTs in any one tax year. A husband and wife can each invest up to £200,000 in any one tax year with each enjoying the tax reliefs.

Loyalty Bonus Shares

Applicants are encouraged to submit their Application Form early in order to be confident that their application will be successful. Accepted applications from Shareholders (including partners of existing Shareholders) in VCTs managed by YFM Private Equity, which are received on or before 28 December 2012, will attract additional Offer Shares equivalent to 2.5% of the amount subscribed by such Applicant under the Offers. The cost of these additional Offer Shares will be met by the Fund Manager and will not, therefore, be an additional charge to the Companies.

How to Claim the Tax Relief

Certificates to enable a claim for income tax relief to be made are expected to be posted to Investors within 10 business days of each allotment. Investors then have two options on how to claim the tax relief:

- (a) by writing to their HMRC to ask for their PAYE tax code to be changed, or
- (b) by waiting until the end of the tax year and completing the appropriate section on the self-assessment form.

Part 2

Investment Strategies and Objectives

The investment strategies and objectives of each of the Companies are as set out below.

The investment strategies and objectives of each Company is to create a portfolio that blends a mix of companies operating in traditional industries with those that offer opportunities in the development and application of innovation.

The Companies will invest in UK businesses across a broad range of sectors including Telecoms, Software and IT, Healthcare and Consumer Products, in VCT qualifying and AIM traded securities as the legislation governing VCTs requires that at least 70% by value of each Company's holdings must be in Qualifying Holdings. The maximum by value that each Company may hold in a single investment is 15%. Although the majority of investments will be in equities normally, preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

The Companies fund the investment programmes out of their own resources and have no borrowing facilities for this purpose. The maximum that the Companies may invest in any holding in any tax year is limited to £5 million between them (increased in 2012 from £1 million each) and the average size of the Company's Qualifying Investment is £0.59 million (2011: £0.45 million) in BSC and £0.51 million (2011: £0.45 million) in BSC2, based on cost of investments.

The Fund Manager is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Boards regarding potential investments. Once approved, further due diligence is carried out as necessary and HM Revenue & Customs clearance is obtained for approval as a qualifying VCT investment.

Each Board reserves the right of the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and where the decision is required urgently, in which case the Chairman, or Chairman of the BSC Investment Committee if appropriate, may act in consultation with the Fund Manager.

The Board of each Company regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from the Fund Manager as to the trading and financial position of each investee company and members of the Investment Management Team regularly attend the Companies' Board meetings. Monitoring reports are also received at each Company's Board meeting on compliance with VCT investment targets so that the Boards can monitor that the VCT status of their Company is maintained and take corrective action where appropriate.

In the opinion of the Directors the continuing appointment of YFM Private Equity Limited as Fund Manager is in the interests of the Shareholders as a whole in view of its experience in managing VCTs and in making and exiting investments of the kind falling within the Companies' investment policies.

Prior to the investment of funds in suitable Qualifying Companies, the liquid assets of the Companies are invested in a portfolio of Government stocks or other similar fixed interest securities, including fixed term bank deposits. Reporting to the Fund Manager, the portfolio is managed by Brewin Dolphin Limited on a discretionary basis. The Boards receive regular reports on the make-up and market valuation of their portfolio. Alternatively surplus funds are invested in non-qualifying assets of a similar asset class to the Qualifying Investments.

Part 3 Financial Information on the Companies

Introduction

Audited statutory accounts of BSC for the years ended 31 March 2010, 31 March 2011 and 31 March 2012 in respect of which BSC's auditors, Grant Thornton UK LLP, registered auditor of 2 Broadfield Court, Sheffield, S8 0XF, a member of the Institute of Chartered Accountants in England and Wales, made unqualified reports under section 495 of the Act, have been delivered to the Registrar of Companies and such reports did not contain any statements under section 498(2) or (3) of the Act. Copies of these audited statutory accounts are available at www.yfmep.com.

Audited statutory accounts of BSC2 for the years ended 31 December 2009, 31 December 2010 and 31 December 2011 in respect of which BSC2's auditors, Grant Thornton UK LLP, registered auditor of 2 Broadfield Court, Sheffield, S8 0XF, a member of the Institute of Chartered Accountants in England and Wales, made unqualified reports under section 495 of the Act as appropriate, have been delivered to the Registrar of Companies and such reports did not contain any statements under section 498(2) or (3) of the Act. Copies of these audited statutory accounts are available at www.yfmep.com.

Unaudited interim accounts of BSC for the six months ended 30 September 2012 are available at www.yfmep.com. These interim accounts have not been audited or reviewed by BSC's auditors.

Unaudited interim accounts of BSC2 for the six months ended 30 June 2012 are available at www.yfmep.com. These interim accounts have not been audited or reviewed by BSC2's auditors.

These financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs) and also contain a description of the relevant Company's financial condition, changes in financial condition and results of operations for each of the above financial years.

Historic Financial Information

Historical financial information relating to each Company on the matters referred to overleaf is included in the published annual report and audited statutory accounts for the years stated above, and in the unaudited interim accounts of the relevant Company for the periods shown above, and is incorporated by reference into this document (the pages of those accounts and interim reports that are not referred to overleaf are not incorporated into and do not form part of this document):

British Smaller Companies VCT plc

	Audited Statutory Accounts for Year ended 31 March 2010	Audited Statutory Accounts for Year ended 31 March 2011	Audited Statutory Accounts for Year ended 31 March 2012	Unaudited Interim Report for 6 months ended 30 September 2012
Nature of Information	Page No.	Page No.	Page No.	Page No.
Financial Highlights	4	3	3	-
Chairman's Statement	6-8	6-8	6-8	4-6
Fund Manager's Review	9-20	9-23	9-23	-
Valuation of Investments	21	24	24	-
Investment Portfolio	-	-	-	7-12
Directors	22	25	25	-
Directors' Report	23-30	26-35	26-37	-
Directors' Remuneration Report	31-32	36-37	38-39	-
Independent Auditors' Report	33	38	40	-
Income Statement/Statement of Comprehensive Income	34	39	41	13
Balance Sheet	35	40	42	14
Statement of Changes in Equity	36	41	43	15
Cash Flow Statement/Statement of Cash Flows	37	42	44	16-17
Notes to the Financial Statements	38-53	43-58	45-62	18-21
Financial Summary	4	4	4	-

British Smaller Companies VCT2 plc

	Audited Statutory Accounts for Year ended 31 December 2009	Audited Statutory Accounts for Year ended 31 December 2010	Audited Statutory Accounts for Year ended 31 December 2011	Unaudited Interim Report for 6 months ended 30 June 2012
Nature of Information	Page No.	Page No.	Page No.	Page No.
Financial Summary/Highlights	3	3-5	3-5	3
Chairman's Statement	4-5	6-7	6-8	4-6
Fund Manager's Review	6-14	8-18	9-21	-
Valuation of Investments	15	19	22	-
Investment Portfolio	-	-	-	7-11
Directors	16	20	23	19
Directors' Report	17-25	21-29	24-32	-
Directors' Remuneration Report	26-27	30-31	33-34	-
Independent Auditors' Report	28	32	35	-
Income Statement/Statement of Comprehensive Income	29	33	36	12
Balance Sheet	30	34	37	13
Statement of Changes in Equity	31	35	38	14-15
Cash Flow Statement/Statement of Cash Flows	32	36	39	16
Notes to the Financial Statements	33-48	38-54	40-56	17-19
Financial History	53	4	4	-

Operating and Financial Review

British Smaller Companies VCT plc

	Audited Statutory Accounts for Year ended 31 March 2010	Audited Statutory Accounts for Year ended 31 March 2011	Audited Statutory Accounts for Year ended 31 March 2012	Unaudited Interim Report for 6 months ended 30 September 2012
Total Net Assets (£000)	29,008	41,172	37,894	37,176
Change in Net Assets (£000)	2,608	12,164	(3,278)	(718)
Net Asset Value per Share (pps)	94.4p	120.0p	99.6p	94.2p
Dividends paid/proposed for the year/period (pps)	6.25p	5.0p	23.0p	3.0p

British Smaller Companies VCT2 plc

	Audited Statutory Accounts for Year ended 31 December 2009	Audited Statutory Accounts for Year ended 31 December 2010	Audited Statutory Accounts for Year ended 31 December 2011	Unaudited Interim Report for 6 months ended 30 June 2012
Total Net Assets (£000)	12,106	11,829	15,982	26,058
Change in Net Assets (£000)	(688)	(277)	4,153	10,076
Net Asset Value per Share (pps)	72.7p	68.4p	68.5p	68.0p
Dividends paid/proposed for the year/period (pps)	6.0p	4.0p	4.0p	4.5p

A description of the changes in the performance of each Company, both capital and revenue, and changes to each Company's portfolio of investments:

- (i) for the financial years ended 31 December 2009, 31 March 2010, 31 December 2010, 31 March 2011, 31 December 2011 and 31 March 2012 is set out in the sections headed "Chairman's Statement" and "Fund Manager's Review" in the audited statutory accounts of the relevant Company for these years; and
- (ii) for the six months ended 30 June 2012 and 30 September 2012 is set out in the sections headed "Chairman's Statement" and "Investment Portfolio" in the unaudited interim accounts of the relevant Company for these periods.

Significant Change since 30 September 2012

There have been no significant changes in the financial or trading positions of the Companies since 30 September 2012.

Part 4

Taxation

The following information is based on the law and practice currently in force in the United Kingdom. It assumes that an Investor is resident or ordinarily resident in the UK and not in any other jurisdiction. If potential Investors are in any doubt as to their tax position, they should consult their professional advisers.

VCTs: Summary of the Applicable Legislation

1. Approval

To obtain VCT status a company must be approved by HMRC as a VCT.

To maintain approval, the conditions summarised below must continue to be satisfied throughout the life of the VCT:

- (i) the VCT's income must have been derived wholly or mainly from shares and securities (in the case of securities issued by a company, meaning loans with a five-year or greater maturity period);
- (ii) no holding in a company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT) by the VCT may represent more than 15%, by value, of the VCT's total investments at the time of investment; and
- (iii) the VCT must not have retained more than 15% of the income derived from shares or securities in any accounting period.

The VCT must not be a close company. Its ordinary share capital must be quoted on a European Regulated Stock Exchange by no later than the beginning of the accounting period following that in which the application for approval is made.

The following conditions must also continue to be satisfied throughout the life of the VCT:

- (i) at least 70%, by value, of its investments is represented by shares or securities comprising Qualifying Investments;
- (ii) for funds raised before 6 April 2011, have at least 30%, by value, of its qualifying investments is represented by holdings of ordinary shares which carry no present or future preferential rights to dividends, return of capital or any redemption rights;
- (iii) for funds raised after 5 April 2011, have at least 70% by value of the Company's Qualifying Investments in "eligible shares", that is ordinary shares which carry no preferential rights to assets on a winding up and no rights to be redeemed although they may have certain preferential rights to dividends so long as that right is non cumulative and is not subject to discretion; and
- (iv) not make an investment in a company which causes the company to receive more than £5 million of State Aid investment in the 12 months ended on the date of the investment.

"Qualifying investments" comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies which exist wholly or mainly for the purpose of carrying on one or more qualifying trades. The trade must be carried on by, or be intended to be carried on by, the investee company or a qualifying subsidiary at the time of the issue of the shares or securities to the VCT (and by such company or by any other subsidiary in which the investee company has not less than a 90% interest at all times thereafter). A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter. The definition of a qualifying trade excludes dealing in property, shares, securities, commodities or futures. It also excludes banking, insurance, receiving royalties or licence fees in certain circumstances, leasing, the provision of legal and accounting services, farming and market gardening, forestry and timber production, property development, shipbuilding, coal and steel production and operating or managing hotels, guest houses, nursing and residential care homes. The funds raised by the investment must be used for the purposes of the qualifying trade within certain time limits.

A qualifying investment can also be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades. Investee companies must have a permanent establishment in the UK. The investee company cannot receive more than £5 million from VCTs or other State Aid investment sources during the 12 month period which ends on the date of the VCT's investment. The investee company's gross assets must not exceed £15 million immediately prior to the investment and £16 million immediately thereafter. Neither the VCT nor any other company may control the investee company. At least 10% of the VCT's total investment in the investee company must be in eligible shares, as described above.

Companies whose shares are traded on AIM are treated as unquoted companies for the purposes of calculating qualifying investments. Shares in an unquoted company which subsequently becomes listed may still be regarded as a qualifying investment for a further five years following listing, provided all other conditions are met.

2. Taxation of a VCT

VCTs are exempt from corporation tax on chargeable gains. There is no restriction on the distribution of realised capital gains by a VCT, subject to the requirements of company law. The Company will be subject to corporation tax on its income (excluding dividends received from UK companies) after deduction of attributable expenses.

3. Tax Reliefs for Individual Investors Resident in the UK

Individuals who subscribe for Shares under the Offer must be aged 18 or over to qualify for the tax reliefs outlined below.

Relief from income tax

An investor subscribing up to £200,000 in any tax year for eligible shares in a VCT will be entitled to claim income tax relief on the investment, in the year in which the investment is made, at the rate of 30% for investments in the tax years 2012/13 and 2013/14, although this relief will be withdrawn if either the shares are disposed of within five years or an investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the Investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, Investors should take this into account when calculating the value of the income tax relief. HMRC has confirmed that the Ordinary Shares are eligible VCT shares for the purposes of this section.

Dividend relief

An investor who subscribes for or acquires ordinary shares in a VCT will not be liable for UK income tax on dividends paid by the VCT in respect of investments of up to a maximum of £200,000 in any one tax year. Dividends carry a tax credit at the rate of one-ninth of the net dividend which is not repayable and which cannot be utilised in any other way. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief.

Capital gains tax relief

A disposal by an individual investor of his shares in a VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is also limited to disposals of shares acquired within the £200,000 limit described above.

Loss of tax reliefs

- (i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax and capital gains will not apply to any gains realised by the VCT after this time.
- (ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:
 - repayment of the 30% income tax relief on subscription for new VCT shares;
 - income tax becoming payable on payments of dividends by the Company; and
 - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the Company, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.
- (iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:
 - repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;
 - income tax becoming payable on payments of dividends by the Company; and
 - any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

4. Consequences of an Investor Dying or a Transfer of Shares Between Spouses

(i) Initial income tax

If an investor dies within five years of making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.

(ii) Tax implications for the beneficiary

Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax-free dividends and will not pay capital gains tax on any disposal, but will not be entitled to any initial income tax relief.

(iii) **Transfer of shares between spouses**

Transfers of shares in a VCT between spouses are not deemed to be a disposal and therefore all tax reliefs will be retained.

5. General

(i) **Investors who are not resident in the UK**

Non resident investors, or investors who may become non resident, should seek their own professional advice as to the consequences of making an investment in each of the Companies, as they may be subject to tax in other jurisdictions.

(ii) **Stamp duty and stamp duty reserve tax**

No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of such shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid. Such duties would be payable by a person who purchases such shares from the original subscriber.

(iii) **Purchases in the market after listing**

Any subsequent purchaser of existing Shares, as opposed to a subscriber for new Shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of their Shares.

(iv) **The VCT Regulations 2004**

The VCT Regulations came into force on 17 September 2004. Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for the purposes of investment which meets the 70% and 30% tests described above. These tests will be deemed not to have been met if any of the money raised (except for amounts which HMRC agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares.

This is only a brief summary of the law concerning the tax position of individual investors in VCTs. Any potential Investor in doubt as to the taxation consequences of an investment in a VCT should consult an appropriately qualified professional adviser.

Part 5

Additional Information

1. Incorporation

BSC

- 1.1 BSC was incorporated and registered in England and Wales under the Companies Act 1985 as a public company limited by shares on 6 December 1995, with registered number 03134749 under the name British Smaller Companies VCT plc, which is the current legal and commercial name of BSC. The principal legislation under which BSC operates is the Act and regulations made thereunder. The registered office and principal place of business of BSC is Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ. The telephone number of BSC is 0113 294 5000.
- 1.2 Since incorporation BSC has carried on business as a Venture Capital Trust. BSC is not authorised and/or regulated by the FSA or an equivalent overseas regulator in the operation of its activities.
- 1.3 BSC has no subsidiaries or associated companies. BSC does not have any employees, does not own or occupy any premises and has not incurred any borrowings.
- 1.4 On 29 March 2004 BSC revoked its investment company status.

BSC2

- 1.5 BSC2 was incorporated and registered in England and Wales under the Companies Act 1985 as a public company limited by shares on 4 October 2000, with registered number 04084003 under the name British Smaller Technology Companies VCT2 plc. On 18 October 2010 its name was changed to British Smaller Companies VCT2 plc. The principal legislation under which BSC2 operates is the Act and regulations made thereunder. The registered office and principal place of business of BSC2 is Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ. The telephone number of BSC2 is 0113 294 5000.
- 1.6 Since incorporation BSC2 has carried on business as a Venture Capital Trust. BSC2 is not authorised and/or regulated by the FSA or an equivalent overseas regulator in the operation of its activities.
- 1.7 BSC2 has no subsidiaries or associated companies. BSC2 does not have any employees, does not own or occupy any premises and has not incurred any borrowings.
- 1.8 On 12 November 2004 BSC2 revoked its investment company status.

2. Share Capital

BSC

- 2.1 The following allotments and repurchases of Ordinary Shares have taken place since 1 April 2009:

2 July 2009	BSC repurchased 141,882 Ordinary Shares at a price of 73.0 pence per Share
13 August 2009	BSC issued 138,413 Ordinary Shares at a price of 78.57 pence per Share
23 December 2009	BSC repurchased 190,000 Ordinary Shares at a price of 74.0 pence per Share
7 January 2010	BSC issued 105,771 Ordinary Shares at a price of 84.17 pence per Share
1 April 2010	BSC issued 1,784,967 Ordinary Shares at a price of 97.25 pence per Share
6 April 2010	BSC issued 263,254 Ordinary Shares at a price of 97.25 pence per Share
22 June 2010	BSC issued 77 Ordinary Shares at a price of 97.25 pence per Share
3 September 2010	BSC repurchased 260,000 Ordinary Shares at a price of 78.0 pence per Share
28 September 2010	BSC issued 166,512 Ordinary Shares at a price of 85.64 pence per Share
10 December 2010	BSC repurchased 218,448 Ordinary Shares at a price of 82.25 pence per Share
7 January 2011	BSC issued 106,086 Ordinary Shares at a price of 91.96 pence per Share
22 March 2011	BSC issued 2,025,838 Ordinary Shares at a price of 128.0 pence per Share
31 March 2011	BSC repurchased 300,000 Ordinary Shares at a price of 102.75 pence per Share
5 April 2011	BSC issued 1,038,195 Ordinary Shares at a price of 128.0 pence per Share

4 May 2011	BSC issued 383,134 Ordinary Shares at a price of 128.0 pence per Share
22 August 2011	BSC issued 1,277,941 Ordinary Shares at a price of 94.05 pence per Share
20 September 2011	BSC repurchased 46,020 Ordinary Shares at a price of 92.75 pence per Share
19 December 2011	BSC repurchased 153,180 Ordinary Shares at a price of 90.75 pence per Share
20 January 2012	BSC issued 152,398 Ordinary Shares at a price of 99.27 pence per Share
20 March 2012	BSC issued 1,080,772 Ordinary Shares at a price of 99.75 pence per Share
5 April 2012	BSC issued 1,531,778 Ordinary Shares at a price of 99.75 pence per Share
14 June 2012	BSC repurchased 301,493 Ordinary Shares at a price of 85.0 pence per Share
29 June 2012	BSC repurchased 52,614 Ordinary Shares at a price of 85.0 pence per Share
17 August 2012	BSC issued 261,760 Ordinary Shares at a price of 91.77 pence per Share

- 2.2 As at 30 September 2012 (being the end of the last financial period of BSC for which unaudited interim financial information has been published) there were 165,000,000 authorised and 39,473,151 issued Ordinary Shares, each ranking pari passu. All of the Ordinary Shares are listed on the premium segment of the Official List of the UK Listing Authority. BSC holds an additional 2,714,592 shares in the treasury account.
- 2.3 Immediately following the close of the Offers, assuming full subscription and the maximum number of Loyalty Bonus Shares being allotted, the issued share capital of BSC, fully paid or credited as fully paid, will be £5,267,368 divided into 52,673,677 Ordinary Shares (of which 2,714,592 Ordinary Shares are held in treasury), and there will remain authorised but un-issued a minimum of £11,232,632 of share capital divided into 112,326,323 Ordinary Shares.

BSC2

- 2.4 The following allotments and repurchases of Ordinary Shares have taken place since 1 January 2009:

5 April 2010	BSC2 issued 953,798 Ordinary Shares at a price of 77.25 pence per Share
30 April 2010	BSC2 issued 242,464 Ordinary Shares at a price of 77.25 pence per Share
3 November 2010	BSC2 repurchased 300,000 Ordinary Shares at a price of 57.75 pence per Share
18 November 2010	BSC2 issued 7,277 Ordinary Shares at a price of 70.25 pence per Share
10 December 2010	BSC2 repurchased 266,100 Ordinary Shares at a price of 56.25 pence per Share
22 March 2011	BSC2 issued 3,655,500 Ordinary Shares at a price of 70.25 pence per Share
1 April 2011	BSC2 repurchased 191,280 Ordinary Shares at a price of 58.25 pence per Share
5 April 2011	BSC2 issued 1,921,901 Ordinary Shares at a price of 70.25 pence per Share
4 May 2011	BSC2 issued 690,699 Ordinary Shares at a price of 70.25 pence per Share
10 June 2011	BSC2 issued 3,762 Ordinary Shares at a price of 63.08 pence per Share
4 August 2011	BSC2 issued 137,931 Ordinary Shares at a price of 72.50 pence per Share
8 September 2011	BSC2 issued 5,335 Ordinary Shares at a price of 62.70 pence per Share
20 September 2011	BSC2 repurchased 87,450 Ordinary Shares at a price of 56.00 pence per Share
19 December 2011	BSC2 repurchased 84,292 Ordinary Shares at a price of 57.00 pence per Share
5 January 2012	BSC2 issued 3,795,914 Ordinary Shares at a price of 70.5 pence per Share
20 March 2012	BSC2 issued 6,106,906 Ordinary Shares at a price of 70.5 pence per Share
5 April 2012	BSC2 issued 5,080,416 Ordinary Shares at a price of 70.5 pence per Share
11 May 2012	BSC2 repurchased 168,318 Ordinary Shares at a price of 57.25 pence per Share
22 May 2012	BSC2 issued 20,611 Ordinary Shares at a price of 63.17 pence per Share
14 June 2012	BSC2 repurchased 80,916 Ordinary Shares at a price of 57.25 pence per Share

- 2.5 As at 30 June 2012 (being the end of the last financial period of BSC2 for which unaudited financial information has been published) there were 50,000,000 authorised and 38,243,718 issued Ordinary Shares, each ranking pari passu. All of the Ordinary Shares are listed on the premium segment of the Official List of the UK Listing Authority. BSC2 holds an additional 1,178,356 shares in the treasury account.

- 2.6 Immediately following the close of the Offers, assuming full subscription and the maximum number of Loyalty Bonus Shares being allotted and assuming the passing of Resolution 1 at BSC2's General Meeting, the issued share capital of BSC2 fully paid or credited as fully paid will be £4,679,617 divided into 46,796,175 Ordinary Shares (of which 1,178,356 Ordinary Shares are held in treasury), and there will remain authorised but un-issued a minimum of £2,820,383 of share capital divided into 28,203,825 Ordinary Shares.

3. The Companies

- 3.1 Save as disclosed in this paragraph 3 and in paragraphs 2.1 and 2.4 above, in the period since 1 January 2009 no share or loan capital of the Companies has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Companies or any subsidiary in connection with the issue or sale of any such capital.
- 3.2 No share or loan capital of the Companies is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offers and under the dividend reinvestment schemes of the Companies, no material issue of Ordinary Shares (other than to Shareholders pro rata to existing holdings) will be made within one year of the closing of the Offers without the prior approval of Shareholders in general meeting.
- 3.3 The Ordinary Shares issued under the Offers will be created under the Act, issued in registered form and temporary documents of title will not be issued. The ISIN of the BSC Ordinary Shares is GB0001403152. The ISIN of the BSC2 Ordinary Shares is GB0005001796.
- 3.4 Each Company will be subject to the continuing obligations of the UK Listing Authority and the London Stock Exchange with regard to the issue of securities for cash and the provisions of section 561 of the Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) will apply to the balance of the authorised but un-issued share capital of the relevant Company which is not subject to any disapplication of pre-emption rights conferred by authority of the Shareholders.
- 3.5 The obligations of BSC to issue and allot Ordinary Shares under the Offers are in all respects conditional on the passing of Resolutions 1 to 3 below, which, together with the other Resolutions set out below, will be proposed at the General Meeting of BSC to be convened on 18 December 2012:

Ordinary Resolution

- (1) THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company in connection with:

- (i) the Offers, up to an aggregate nominal amount of £1,500,000;
- (ii) an offer of securities by way of a rights issue;
- (iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) to (ii) above) of equity securities up to an aggregate nominal amount of 10% of the issued Ordinary Share capital of the Company immediately following the final closing of the Offers,

during the period commencing on the passing of this resolution and expiring on the later of 15 months from the date hereof or the next annual general meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the Directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

- (2) THAT the Directors be and are hereby empowered in accordance with section 570(1) of the Act during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the Directors in resolution (1) above as if Section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with:
- (i) the Offers;
 - (ii) an offer of securities by way of a rights issue;

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of 10% of the issued share capital of the Company immediately following the final closing of the Offers, but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560(2) of the Act as if in the first paragraph of this resolution the words "pursuant to the general authority conferred upon the Directors in resolution (1) above" were omitted;

(3) THAT article 191 of the Company's articles of association be amended to delete the reference to "2016" in line 1 and substitute "2018" therefor;

(4) THAT, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company immediately after the final closing date of the Offers be cancelled;

(5) THAT, subject to the sanction of the High Court, the amount standing to the credit of the capital redemption reserve of the Company immediately after the final closing date of the Offers be cancelled.

3.6 The obligations of BSC2 to issue and allot Ordinary Shares under the Offers are in all respects conditional on the passing of Resolutions 2 to 3 and 5 to 6 below, which, together with the other Resolutions set out below, will be proposed at the General Meeting of BSC2 to be convened on 18 December 2012:

Ordinary Resolution

(1) THAT the capital of the Company be increased to £7,500,000 by the creation of 25,000,000 Ordinary Shares of 10p each, ranking *pari passu* for all purposes with the existing Ordinary Shares of 10p each in the capital;

(2) THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company in connection with:

(i) the Offers, up to an aggregate nominal amount of £1,000,000;

(ii) an offer of securities by way of a rights issue;

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) to (ii) above) of equity securities up to an aggregate nominal amount of 10% of the issued Ordinary Share capital of the Company immediately following the final closing of the Offers,

during the period commencing on the passing of this resolution and expiring on the later of 15 months from the date hereof or the next annual general meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the Directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

(3) THAT the offer agreement dated 16 November 2012 between the Companies (1), the Directors of the Companies (2) and YFM Private Equity (3), details of which are set out on page 3 of the BSC2 Circular, be approved;

(4) THAT the deed of variation to the subscription rights agreement dated 23 November 2001 between the Company, YFM Private Equity Limited and Chord Capital Limited (formerly Generics Asset Management Limited), as amended, details of which are set out on pages 3 and 4 of the Circular, be approved;

Special Resolutions

(5) THAT the Directors be and are hereby empowered in accordance with section 570(1) of the Act during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the Directors in resolution (2) above as if Section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with:

(i) the Offers;

(ii) an offer of securities by way of a rights issue;

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of 10% of the issued share capital of the Company immediately following the final closing of the Offers,

but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560(2) of the Act as if in the first paragraph of this resolution the words "pursuant to the general authority conferred upon the Directors in resolution (2) above" were omitted;

(6) THAT article 195 of the Company's articles of association be amended to delete the reference to "2017" in line 1 and substitute "2018" therefor;

(7) THAT, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company immediately after the final closing date of the Offers be cancelled.

4. Memorandum and Articles of Association

4.1 Memorandum of Association

The memorandum of association of the Companies provides that each Company's principal object is to carry on the business of a venture capital trust. The objects of the Companies are set out in full in clause 4 of their memorandum of association which are available for inspection at the address specified in paragraph 8 below.

4.2 Articles of Association

The Articles of each Company contain provisions inter alia to the following effect:

4.2.1 Voting Rights

Subject to any disenfranchisement as provided in paragraph 4.2.4 below and subject to any special terms as to voting on which any shares may be issued, on a show of hands or by proxy every Member present in person (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every Member present in person or by proxy shall have one vote for every share of which he is the holder.

4.2.2 Transfer of Shares

The Ordinary Shares are in registered form and are freely transferable. All transfers of shares in certified form must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer of a share shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. All transfers of shares which are in uncertificated form may be effected by means of a relevant system. The Directors may refuse to register any transfer of a partly-paid share, provided that such refusal does not prevent dealings taking place on an open and proper basis, and may also refuse to register any instrument of transfer unless:

(a) it is duly stamped (if so required), is lodged with the Company's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates (save in the case of a transfer by a person to whom no certificate was issued) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) it is in respect of only one class of share; and

(c) the transferees do not exceed four in number.

4.2.3 Dividends

The Company may in a General Meeting, by ordinary resolution, declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay such interim dividends as appear to them to be justified. No dividends or other monies payable in respect of a share shall bear interest as against the Company. There are no fixed dates on which entitlement to dividend arises. The Directors may with the sanction of an Ordinary Resolution of the Company offer the Shareholders the right to elect to receive shares credited as fully paid instead of cash in respect of the whole or part of a dividend.

All dividends unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the Company.

4.2.4 Disclosure of Interests in Shares

If any member or other person appearing to be interested in shares of the Company is in default in supplying within 14 days after the date of service of a notice requiring such a member or other person to supply the Company in writing all or any such information as is referred to in Section 793 of the 2006 Act, the Directors may, for such period as the default shall continue, impose restrictions upon the relevant shares.

The restrictions available are the suspension of voting or other rights conferred by membership in relation to meetings of the Company in respect of the relevant shares and, additionally, in the case of a Shareholder representing at least 0.25 per cent by nominal value of any class of shares of the Company then in issue, the withholding of payment of any dividends on, and the restriction of transfer of, the relevant shares.

4.2.5 Distribution of Assets on Liquidation

On a winding-up any surplus assets will be divided amongst the holders of the shares according to the respective number of shares held by them and in accordance with the provisions of the Act, subject to the rights of any shares which may be issued with special rights or privileges. The Articles provide that the liquidator may, with the sanction of a special resolution and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of the Company in such manner as he may determine.

4.2.6 Changes in Share Capital

- (a) Without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, in the absence of such determination, as the Directors may determine. Subject to the Act, the Company may issue shares which are, or at the option of the Company or the holder are liable, to be redeemed.
- (b) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares or any of them into shares of smaller amount or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount so cancelled or the amount of the reduction.
- (c) Subject to the Act, the Company may by Special Resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Act, purchase its own shares.

4.2.7 Variation of Rights

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated with the sanction of a special resolution passed at a separate meeting of such holders.

4.2.8 Directors' Interests

- (a) A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the Company shall, at a meeting of the Directors declare, in accordance with the Act, the nature of his interest.
- (b) Provided that he has declared his interest in accordance with paragraph 4.2.8(a) above, a Director may be a party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is interested and may be a Director or other officer or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested. No Director so interested shall be accountable to the Company, by reason of his being a Director, for any benefit which he derives from such office or interest or any such transaction or arrangement.
- (c) A Director shall not vote at a meeting of the Directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the Company unless his interest arises only because the case falls within one or more of the specified paragraphs in the Articles.
- (d) Where proposals are under consideration concerning the appointment of two or more Directors to offices or employment with the Company or any company in which the Company is interested the proposals may be divided and considered in relation to each Director separately and (if not otherwise precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

4.2.9 Remuneration of Directors

- (a) The ordinary remuneration of the Directors (other than an executive Director appointed under the Articles) shall be such amount as the Directors shall from time to time determine (provided that unless otherwise approved by the Company in general meeting the aggregate of the ordinary remuneration of the Directors of BSC2 shall not exceed £75,000 per year and the ordinary remuneration of the Directors of BSC shall not exceed £115,000 per year) to be divided among them in such proportions and manner as the Directors may determine. The Directors shall also be paid by the Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.

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- (b) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the Directors may determine.
 - (c) The emoluments and benefits of any executive Director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

4.2.10 Retirement of Directors

- (a) At each Annual General Meeting of the Company one-third of the Directors who are subject to retirement by rotation, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, or if their number is less than three then one of them, shall retire from office, provided that no Director shall be required to retire by rotation earlier than the third Annual General Meeting after the meeting at which he was elected or last elected. A Director retiring at a meeting shall retain office until the dissolution of that meeting and shall be eligible for re-election.
- (b) A Director shall be capable of being appointed or reappointed a Director despite having attained the age of 70 or any other age and shall not be required to retire by reason of his having attained any particular age.

4.2.11 Borrowing Powers

- (a) The Directors may exercise all powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital.
- (b) The Directors shall restrict the borrowings of the Company and, by the exercise of the Company's voting and other rights or powers of control over its subsidiary undertakings (if any), secure that they restrict their borrowings, so that the aggregate amount at any time outstanding in respect of money borrowed by the group, being the Company and its subsidiary undertakings for the time being (excluding intra-group borrowings), shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to the aggregate of the amount paid up or credited as paid up on the allotted or issued share capital and the amount standing to the credit of the consolidated revenue reserves of the group as shown by the latest audited consolidated balance sheet of the group adjusted as specified in the Articles. Prior to the publication of an audited balance sheet of the Company such aggregate amount shall be limited to 90% of the amount paid up or credited as paid up (whether in respect of the nominal value or premium) on the allotted or issued share capital of the Company.

4.2.12 Distribution of Realised Capital Profits

At any time when the Company has given notice in the prescribed form (which has not been revoked) to the Registrar of Companies of its intention to carry on business as an investment company ("a Relevant Period"), distribution of the Company's capital profits (within the meaning of Section 833(2) of the Act) shall be prohibited. The Board shall establish a reserve to be called the capital reserve. During a Relevant Period, all surpluses arising from the realisation or revaluation of investments and all other monies realised on or derived from the realisation, payment off of or other dealing with any capital asset in excess of the book value thereof and all other monies which are considered by the Board to be in the nature of accretion to capital shall be credited to the capital reserve. Subject to the Act, the Board may determine whether any amount received by the Company is to be dealt with as income or capital or partly one way and partly the other. During a Relevant Period, any loss realised on the realisation or payment off of or other dealing with any investments or other capital assets and, subject to the Act, any expenses, loss or liability (or provision therefor) which the Board considers to relate to a capital item or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that during a Relevant Period no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by Section 829(1) of the Act) or applied in paying dividends on any shares in the Company otherwise than by way of redemption or purchase by the Company of its own shares. In periods other than a Relevant Period any amount standing to the credit of the capital reserve may be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution or be applied in paying dividends on any shares in the Company.

4.2.13 Duration of the Company

A Special Resolution is being put to a General Meeting of BSC on 18 December 2012 to extend the life of the Company from 2016 to 2018. At every fifth annual general meeting thereafter, the Directors are required to propose that the Company should continue as a venture capital trust for a further five year period.

A Special Resolution is being put to a General Meeting of BSC2 on 18 December 2012 to extend the life of the Company from 2017 to 2018. At every fifth annual general meeting thereafter, the Directors are required to propose that the Company should continue as a venture capital trust for a further five year period.

If any such further resolutions are not passed, the Directors shall draw up proposals for the voluntary liquidation, reconstruction or other reorganisation of the Company for submission to the members of the Company at a general meeting to be convened by the Directors on a date, in the case of BSC not more than six months after such annual general meeting, and in the case of BSC2 not more than four months after such annual general meeting. Implementation of the proposals will require the approval of Members by Special Resolution.

4.2.14 General Meetings

Annual general meetings shall be held at such time and place as may be determined by the Directors and not more than fifteen months shall elapse between the date of one annual general meeting and that of the next. The Directors may, whenever they think fit, convene a General Meeting of the Companies, and General Meetings shall also be convened on the requisition by members pursuant to the provisions of the Statutes. Any meeting convened under this Article by requisitionists shall be convened in the same manner as nearly as possible as that in which meetings are to be convened by the Directors. General meetings of the Company other than Annual General Meetings shall be called General Meetings.

Annual General Meetings shall be called on not less than twenty-one days notice in writing and General Meetings shall be called on not less than fourteen days notice in writing. The notice shall be exclusive of the day on which it is given and of the day of the meeting and shall specify the place, the day and hour of meeting, and in case of special business the general nature of such business. The notice shall be given to the members, other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive notice from the Company, to the Directors and to the auditors. A notice calling an Annual General Meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as such.

In every notice calling a meeting of the Company or any class of the members of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend, to speak and vote instead of him.

If within fifteen minutes from the time appointed for the meeting a quorum is not present, (or such longer time not exceeding one hour as the Chairman of the meeting may decide to wait) the meeting, if convened by or upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned to the same place and time one week later or to such day and such time (being not more than twenty-eight days hence) and at such place as the Directors shall determine. At any such adjourned meeting if a quorum is not present within 15 minutes from the time appointed for the meeting the member or members present in person or by proxy and entitled to vote shall be a quorum and have power to decide upon all matters which could properly have been disposed of at the meeting from which the adjournment took place. If the meeting is adjourned for 14 days or more the Company shall give not less than five days notice thereof by advertisement in one national newspaper, but no other notice shall be required.

The Chairman may, with the consent of the meeting (and shall, if so directed by the meeting) adjourn any meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting other than the business left unfinished and which might properly have been transacted at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more (otherwise than due to the absence of a quorum) or without a time and place for the adjourned meeting being fixed at least seven clear days notice of the adjourned meeting shall be given in the same manner as in the case of the original meeting.

5. Directors' and Other Interests in the Company

5.1 DTR 5 of the Disclosure and Transparency Rules requires a Shareholder to notify the relevant Company of the percentage of its shares they hold if such percentage reaches, exceeds or falls below 3% or subsequent 1% thresholds. The relevant Company will make such information public through a Regulatory Information Service. Neither Company is aware of any person who, as at the date of this document and immediately following the issue of the Ordinary Shares under the Offers, (assuming full subscription under the Offers) is or will, directly or indirectly, be interested in 3% or more of the issued share capital of either Company. Further, as at the date of this document and immediately following the issue of such shares, (assuming full subscription under the Offers and the maximum number of Loyalty Bonus Shares being allotted), neither Company is aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over it.

5.2 The interests of the Directors and their immediate families in the share capital of each Company, all of which are beneficial, as at the date of this document, and of connected persons, are set out below together with the percentages which such interests represent of the Ordinary Shares in issue at the date of this document:

BSC

Name	Number of Ordinary Shares	% issued of Ordinary Shares prior to the Offers
Helen Sinclair	13,407	0.03%
Edward Buchan	2,036	0.01%
Philip Cammerman	41,017	0.10%

BSC2

Name	Number of Ordinary Shares	% issued of Ordinary Shares prior to the Offers
Richard Last	115,972	0.30%
Robert Pettigrew	49,233	0.13%
Peter Waller	14,706	0.04%

- 5.3 The interests of the Directors and their immediate families in the share capital of the Companies, all of which are beneficial and (so far as is known or could with reasonable diligence be ascertained by the relevant Director) the interests of a person connected with a Director following the Offers, assuming the Offers are fully subscribed, that the Offer Price is 97.75p per BSC Share and 69.50p per BSC2 Share as set out on page 19 and that no Loyalty Bonus Shares are issued, will be as follows:

BSC

Name	Number of Ordinary Shares	% issued of Ordinary Shares following the Offers
Helen Sinclair	16,817	0.03%
Edward Buchan	5,446	0.01%
Philip Cammerman	44,427	0.09%

BSC2

Name	Number of Ordinary Shares	% issued of Ordinary Shares following the Offers
Richard Last	120,768	0.27%
Robert Pettigrew	51,631	0.11%
Peter Waller	17,104	0.04%

- 5.4 Save as disclosed in paragraphs 5.2 and 5.3, no Director, nor any person connected with any Director, has any interest in the share capital or loan capital of either Company, whether beneficial or non-beneficial.
- 5.5 YFM Equity Partners is the registered holder of 525,510 Ordinary Shares in BSC and YFM Private Equity is the registered holder of 10 Ordinary Shares in BSC and 345,086 Ordinary Shares in BSC2. These holdings represent 1.3%, 0% and 0.9% respectively of the issued share capital of the relevant Company as at the date of this document.

- 5.6 So far as is known to the Companies, no other interests (save as disclosed in paragraphs 5.2, 5.3 and 5.5) in the Companies' share capital or voting rights is notifiable under UK law or regulation.
- 5.7 No major Shareholders (including YFM Equity Partners and YFM Private Equity Limited) in the Companies have different voting rights to the other Shareholders.
- 5.8 The Directors of BSC and BSC2 have committed to invest £15,000 and £20,000 respectively under the Offers. Save as noted in this paragraph 5.8, no Ordinary Shares are being reserved for allocation to Shareholders, Directors or employees of either Company.
- 5.9 All the Directors are non-executive and none of the Directors, therefore, has a service contract with the Company, and no such contract is proposed. The services of each of the Directors are provided to the relevant Company pursuant to letters of appointment, under which they are required to devote such time to the affairs of the relevant Company as the Board reasonably requires consistent with their role as a non-executive Director. Each Director is currently entitled to receive the following annual fee which is, subject to annual review: Helen Sinclair – £35,000, Philip Cammerman – £20,000, Edward Buchan £20,000, Richard Last – £31,500, Robert Pettigrew – £18,000 and Peter Waller – £18,000. No benefits are payable on termination.
- 5.10 No loan or guarantee has been granted or provided by either Company to any Director.
- 5.11 Except as listed in paragraph 7.18 below, none of the Directors has had any interest in any party which is related to any Company or has had any interest in any transactions since its incorporation which are or were unusual in their nature or conditions or significant to the business of that Company.
- 5.12 Save as disclosed in paragraph 7.18, there are no potential conflicts of interest between the duties of any Director to the Companies and their private interests and or other duties.

Save as disclosed in the paragraph above, no Director, nor any member of the administrative, management, supervisory body or senior management of the Companies, (i) has an interest in any transaction effected by either Company which is or was unusual in its nature or conditions or significant to the business of that Company or (ii) has any potential conflicts of interest between any duties they have to the Companies and their private interests and/or other duties.

- 5.13 It is anticipated that the aggregate of fees paid or to be paid to the Directors by BSC for the twelve month period ending 31 March 2013 will not exceed £75,000 plus VAT or National Insurance (as applicable) and by BSC2 for the twelve month period ending 31 December 2012 £67,500 plus VAT or National Insurance (as applicable). Fees paid to the Directors of BSC for the year ended 31 March 2012 and to the Directors of BSC2 for the year ended 31 December 2011 were as follows:

Name	Fees paid (£) (plus VAT or National Insurance (as applicable))
BSC	
Helen Sinclair	35,000
Philip Cammerman	20,000
Edward Buchan	20,000
BSC2	
Richard Last	31,500
Robert Pettigrew	18,000
Peter Waller	18,000

- 5.14 Each Company has taken out Directors' and Officers' liability insurance for the benefit of the Directors.
- 5.15 The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document and the principal activities of the Directors outside the Companies where these are significant with respect to the relevant Company:

BSC

Name	Current directorships/partnerships	Former directorships/partnerships (in last five years)
Helen Rachelle Sinclair	British Smaller Companies VCT plc The Income & Growth VCT plc Mobeus Income & Growth 4 VCT plc Spark Ventures plc Downing Income VCT 4 plc Octopus Eclipse VCT 3 plc (in members voluntary liquidation) Hemstall Road Residents Co. Ltd	Hotbed Fund Managers Limited
Philip Simon Cammerman	British Smaller Companies VCT plc Clarendon Fund Managers Limited Clarendon Fund Nominees Limited Howmac Limited Nitech Venture Partners Limited NI Venture Partners Limited Pressure Technologies plc Connect Yorkshire Hargreave Hale AIM VCT 2 plc	British Smaller Companies VCT2 plc JKN 138 GP Limited Yorkshire Enterprise Finance Limited Yorkshire Enterprise Small Firms Fund Limited YFM Group (Holdings) Limited YFM Equity Partners Limited YFM Venture Finance Limited YFM Private Equity Limited Yorkshire Enterprise Limited White Rose Nominee Investments Limited White Rose Investments Limited Chandos Fund GP Limited Yorkshire Fund Managers (Investment) Limited Yorkshire Fund Managers (General Partner) Ltd YVF GP (Investment) Limited YVF GP (Development) Limited London Fund Managers Limited South West Ventures Limited London GP Limited South West GP Limited Yorkshire and Humber GP Limited PIF GP No 1 Limited PIF GP No 2 Limited PIF GP No 3 Limited PIF GP No 4 Limited YFM Workspace Limited NWBIS General Partner Limited Yorkshire Enterprise Finance (Holdings) Limited
Charles Walter Edward Ralph Buchan	British Smaller Companies VCT plc Wallem Group Limited Buchan Investments Limited The Bristol Diocesan Board of Finance Limited Downing Absolute Income VCT 1 plc 34 Rosary Gardens Limited	

BSC2

Name	Current directorships/partnerships	Former directorships/partnerships (in last five years)
Richard Last	British Smaller Companies VCT2 plc Lynx Group Limited Lynx Limited APD Communications Limited Lynx Holdings Limited Waste Management Systems Limited APD Mobile Data Limited Lighthouse Group plc Arcontech Group plc Corero Network Security plc CSE – Global (UK) Limited CSE – Global Limited Hobbs Hole Limited Sphinx CST (Ireland) Limited	British Smaller Companies VCT plc Power Education Limited Lynx Computer Services Limited Sphinx Professional Services Limited Orsted Limited Xenon Training (NE) Limited Xenon Training Limited Patsystems Limited (formerly Patsystems plc) Gapaid Lynx Overseas Investments Limited Transient 110 Limited Sphinx Group Limited FS (UK) Limited Overseas 110 Limited Sphinx CST Limited Switch Networks Limited Sphinx CST Networks Limited Sphinx 110 Limited Xpertise Training Limited Transient 110 (No 2) Limited Lynx Technology Holdings Limited BT Engage IT Limited APD Aspire Limited Broomco (4184) Limited Distal Holdings Limited Signal Limited Watermans People & Organisational Development Limited LynxServ Limited CNH Subsidiary Ltd MMi Automotive Limited Parseq plc Expertise Group Limited Expertise Training Limited Lynx IT Communications Limited
Robert Martin Pettigrew	British Smaller Companies VCT2 plc Odos Imaging Limited Acal Energy Ltd Sunamp Limited	British Smaller Companies VCT plc Sphere Medical Holding plc Digital Healthcare Limited Zinwave Holdings Limited Timberpost Limited Xeros Limited

BSC2 (cont)

Name	Current directorships/partnerships	Former directorships/partnerships (in last five years)
Peter Charles Waller	British Smaller Companies VCT2 plc Keypoint Technologies (UK) Limited Rocela Group Limited Rocela Limited Premier Veterinary Group Limited Thanet One Limited Zetland Limited Turnberry Management Company Limited BCS Learning & Development Limited	Corero Network Security plc (formerly Corero plc) Corero Dormant One Limited Corero Dormant Three Limited Corero Group Limited Corero Software Limited Eclipse Learner Systems Limited Mondas Information Technology Limited Mondas Systems Limited Quillion Limited

- 5.16 None of the Directors has:
- (i) any convictions in relation to fraudulent offences in the previous five years; or
 - (ii) been a member of the administrative, management or supervisory bodies or senior manager of a company or partnership associated with any bankruptcy, receivership or liquidation within the previous five years; or
 - (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including recognised or designated professional bodies) or been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for the previous five years.
- 5.17 None of the Companies' service providers have any conflict, or potential conflict, as between their duty to either Company and duties owed by them to third parties and other interests.
- 5.18 There are no amounts set aside or accrued by either Company to provide pension, retirement or similar benefits to the Directors or directors of the Fund Manager.

6. Material Contracts

The following are the summaries of the principal contents of contracts, not being contracts entered into in the ordinary course of business, which have been entered into by the Companies within two years immediately preceding the publication of this document or which contain any provisions under which the Companies have any obligation or entitlement which is material to them as at the date of this document:

The Companies

- 6.1 An offer agreement dated 16 November 2012 ("the Offer Agreement") between the Companies (1), the Directors (2) and YFM Private Equity (3) under which, as is usual in contracts of this type, YFM Private Equity has, subject to the passing of Resolution 3 at BSC2's General Meeting, agreed to indemnify the Companies against the costs of the Offers exceeding the Offer Costs Percentage and receives a percentage of the value of the gross proceeds received from each Applicant by the Companies under the Offers that is equal to the Offer Costs Percentage in respect of that Applicant's subscription, less the initial commission paid by the Companies to recognised intermediaries in respect of accepted applications under the Prospectus for the Offers. Under the Offer Agreement YFM Private Equity, the Companies, and the Directors gave certain warranties which were subject to certain limitations.
- 6.2 An offer agreement dated 8 December 2010 ("the 2010 Offer Agreement") between the Companies (1), the Directors (2), Howard Kennedy ("HK") (3) and YFM Private Equity (4) under which HK agreed to act as Sponsor to the offers for subscription that were launched by the Companies in December 2010. As is usual in contracts of this type YFM Private Equity agreed to indemnify the Companies against the costs of the offers exceeding 5.5% of the aggregate value of accepted applications for Ordinary Shares received under the offers and received a commission of 5.5% of the aggregate value of the gross proceeds received by the Companies under those offers, less the upfront commission paid by the Companies to recognised intermediaries in respect of accepted applications in the amount set out in the prospectus for those offers. Under the 2010 Offer Agreement, YFM Private Equity, the Companies and the Directors gave certain warranties which were subject to certain limitations. The Companies agreed to indemnify HK in respect of its role as sponsor and in respect of certain losses arising under the 2010 Offer Agreement.

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- 6.3 An agreement between the Companies and HK dated 18 August 2012 under which HK agreed to act as sponsor for the Offers. The Companies agreed to indemnify HK in respect of losses incurred by HK and which arise, directly or indirectly, from its role as sponsor,

BSC

- 6.4 By an administration and investment advisory agreement dated 28 February 1996 between BSC and YFM Private Equity (the "IAA"), as varied by an agreement dated 16 November 2012, YFM Private Equity agreed to provide administrative, company secretarial and investment advisory services to BSC in relation to BSC's qualifying portfolio. The IAA took effect on 4 April 1996 for an initial period of 3 years and thereafter is terminable by either party on not less than 12 months' notice or, inter alia, on the others' breach or insolvency.

Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2% of the Gross Assets of BSC (as determined on 31 March and 30 September each year), payable quarterly in advance on 1 January, 1 April, 1 July and 1 October in each year together with an annual secretarial fee of £35,000 (subject to annual adjustment and currently £55,841), plus VAT. The Fund Manager is also entitled to all arrangement, syndication and monitoring fees payable in respect of unquoted investments. BSC indemnifies the Fund Manager against all things lawfully and properly done under the IAA. The total remuneration payable to YFM Private Equity in the period (including irrecoverable VAT) to 31 March 2012 was £859,000. Pursuant to the deed of variation dated 16 November 2012, the Fund Manager shall, subject to the Offers proceeding, bear the annual operating costs of BSC to the extent that those costs exceed 3.25% of the Net Asset Value of BSC, a reduction from the present level of 3.5%.

- 6.5 An incentive agreement (the "Incentive Agreement") dated 7 July 2009 between BSC, the YFM Private Equity Carried Interest Trust (an employee benefit trust established for the benefit of employees of the Fund Manager) and the Fund Manager under which, with effect from 1 April 2009 ("Effective Date") the Fund Manager is entitled to receive a fee, calculated by reference to each accounting period of BSC, equal to 20% of the amount by which dividends paid to Shareholders exceed 4 pence per Share per accounting period (as increased or decreased, as applicable, in each accounting period by the percentage increase or decrease (if any) in the Retail Prices Index in the previous accounting period) ("Target Rate"), once cumulative dividends per Share of 10 pence or more have been paid to Shareholders. The Target Rate is further adjusted by reference to any cumulative shortfall in dividends paid per Share from any previous accounting period after the Effective Date. The payment is also conditional upon the Net Asset Value per Share in the relevant accounting period being not less than 94.0 pence per Share, as adjusted for the impact of share issues and buy-backs. A compensatory payment is due if the Incentive Agreement is terminated without cause or if BSC is taken over. The compensatory payment is calculated as a percentage of the fee that would otherwise be payable under the Incentive Agreement by reference to the accounting period following the Incentive Agreement being so terminated; 80% is payable in the first accounting period after such event, 55% in the second, 35% in the third, and nil thereafter. The maximum fee payable in any 12 month period cannot exceed an amount which would represent 25% or more of the Net Asset Value or market capitalisation of BSC at such time. The Target Rate at 31 March 2012 was 4.4, and the calculation was verified by independent auditors. The total incentive payment to YFM Private Equity in the period to 31 March 2012 was £1,415,058.

Mr Cammerman, as a former employee of YFM Private Equity Limited, is one of the beneficiaries of that Trust, and received £735.78 in August 2012.

- 6.6 Under the terms of a letter from Brewin Dolphin Limited ("Brewin") to BSC dated 25 October 2004, Brewin agreed to act as investment manager to BSC in relation to its portfolio of short-term Government securities and to produce monthly portfolio valuations. In return for such services, Brewin are entitled to receive a management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly, subject to a maximum annual fee of £25,000 (plus VAT). This cost is borne by the Fund Manager.
- 6.7 By a deed of novation dated 9 November 2012 (to the agreement dated 3 September 2004 as novated on 1 April 2009) between BSC and Nplus1 Singer Advisory LLP ("Singer"), Singer agreed to act as brokers to BSC, and, inter alia, to act as a market maker in the Shares of BSC and to carry out share purchases on BSC's behalf. Singer are entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in arrears on 30 September, 31 December, 31 March and 30 June. Under the terms of the novated agreement BSC indemnifies Singer against losses arising out of Singer's appointment except where such losses arise from Singer's breach of agreement, negligence or wilful default.

BSC2

- 6.8 An offer agreement dated 26 October 2011 ("the 2011 Offer Agreement") between BSC2 (1), the Directors (2), Howard Kennedy ("HK") (3) and YFM Private Equity (4) under which HK agreed to act as Sponsor to the offer for subscription that was launched by BSC2 in October 2011. As is usual in contracts of this type YFM Private Equity agreed to indemnify BSC2 against the costs of that offer exceeding 5.5% of the aggregate value of accepted applications for ordinary shares received under that offer and received a commission of 5.5% of the aggregate value of the gross proceeds received by BSC2 under that offer, less the upfront commission paid by BSC2 to recognised intermediaries in respect of accepted applications under the prospectus for that offer. Under the 2011 Offer Agreement YFM Private Equity, BSC2, and the Directors gave certain warranties which were subject to certain limitations. BSC2 agreed to indemnify HK in respect of its role as sponsor and under the 2011 Offer Agreement.
- 6.9 YFM Private Equity has acted as Fund Manager and performed administrative and secretarial duties for BSC2 under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011 and 16 November 2012. This agreement may be terminated by not less than twelve months' notice given by either party at any time. The key features of the agreement are: YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2.5% of Net Asset Value, calculated at half-yearly intervals as at 30 June and 31 December. Pursuant to a deed of variation dated 26 October 2011 the management fee will be reduced to 1.25% per annum in respect of any Net Asset Value of BSC2 in excess of £16 million and up to £26.667 million and to 2.0% in respect of any Net Asset Value of BSC2 in excess of £26.667 million. Pursuant to the deed of variation dated 16 November 2012, YFM Private Equity shall, subject to the Offers proceeding, bear the annual operating costs of BSC2 (including the management fee set out above but excluding any payment of the performance incentive fee details of which are set out in paragraph 6.10 below and excluding VAT and trail commissions) to the extent that those cost exceed 3.25% of the Net Asset Value of BSC2, a reduction from the present level of 3.5%. Under the Investment Management Agreement YFM Private Equity also provides administrative and secretarial services to BSC2 for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index (currently £56,736) plus VAT. The total remuneration payable to YFM Private Equity in the period to 31 December 2011 was £399,000.
- 6.10 Under the Subscription Rights Agreement dated 23 November 2001 between BSC2 (1), YFM Private Equity (2) and Chord Capital Limited (formerly Generics Asset Management Limited) ("Chord") (3), as amended by an agreement between those parties dated 31 October 2005, YFM Private Equity and Chord have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue by BSC2 of Ordinary Shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary Share exceeds 120p per Ordinary Share on that same day multiplied by the number of Ordinary Shares in issue and the Shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity and Chord Capital Limited. No Shares have been issued under this agreement. By a Deed of Assignment dated 19 December 2003 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity subscription right was assigned to YFM Private Equity Limited Carried Interest Trust (the "Trust"), an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Mr Cammerman, as a former employee of YFM Private Equity Limited, is one of the beneficiaries of that Trust.
- Pursuant to a deed of variation dated 16 November 2012 between BSC2 (1), the trustees of the Trust (2) and Chord (3), the Subscription Rights Agreement will, subject to the passing of Resolution 4 at BSC2's General Meeting, be varied so that the subscription rights will be exercisable in the ratio of 95:5 between the trustees of the Trust and Chord.
- Following the issue of this document, arrangements will be put in place in order that the benefit of the subscription rights are extended to include all of BSC2's issued Shares.
- 6.11 Under an agreement dated 28 November 2000 between BSC2 and Brewin Dolphin Limited ("Brewin"), Brewin agreed to act as investment manager to BSC2 in relation to its portfolio of short-term Government securities and to produce monthly portfolio valuations. In return for such services Brewin is entitled to receive a management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly subject to a maximum annual fee of £25,000 (plus VAT). This cost is borne by the Fund Manager.
- 6.12 By a deed of novation dated 6 November 2012 (to the agreement dated 3 September 2004 as novated on 1 April 2009) between BSC2 (1) and Nplus1 Singer Advisory LLP ("Singer") (2), Singer agreed to act as brokers to BSC2, and, inter alia, to act as a market maker in the Shares of BSC2 and to carry out share purchases on BSC2's behalf. Singer is entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in arrears on 30 September, 31 December, 31 March and 30 June. Under the terms of the novated agreement BSC2 indemnifies Singer against losses arising out of Singer's appointment except where such losses arise from Singer's breach of agreement, negligence or wilful default.

7. General

7.1 YFM Private Equity is or may be a promoter of the Companies and will receive investment advisory fees and other payments from the Companies under the agreements described in paragraphs 6.3 and 6.8 above, save for which, no amount or benefit has been paid or given to the promoters and none is intended to be paid or given.

7.2 Material Interests

YFM Private Equity is paid an annual investment advisory fee equal to 2% per annum of the Gross Assets of BSC. The BSC2 management fee is 2.5% per annum of the Gross Assets of BSC2, reducing to 1.25% per annum in respect of any Net Asset Value in excess of £16 million and up to £26.667 million.

In line with normal VCT practice, the Fund Manager will also be entitled to receive a performance related incentive fee. Further details of these arrangements are set out under the heading "Fund Manager" in Part 1 of this document and at paragraphs 6.5 and 6.10 of this Part 5.

Paragraph 7.18 below sets out the Companies' related party transactions.

7.3 There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Company is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on either Company's financial position or profitability.

7.4 The costs and expenses of the Offers, including any irrecoverable VAT and all fees and commissions payable are expected to amount to £825,000 assuming subscription in full. The proceeds will be applied in accordance with each Company's investment policy. On the basis that the Offers are fully subscribed the net proceeds are expected to be £9,450,000 for BSC and £4,725,000 for BSC2. The costs and expenses of the Offers will be 5.5% of gross funds raised by each Company under the Offers.

7.5 Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF was appointed as auditor to the Companies on 13 January 2010. Prior to that date PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP and, before their appointment, PricewaterhouseCoopers LLP of Benson House, 33 Wellington House, Leeds LS1 4JP had been the only auditors of the Company since their incorporation. Grant Thornton UK LLP, PKF (UK) LLP and PricewaterhouseCoopers LLP are members of the Institute of Chartered Accountants in England and Wales.

7.6 YFM Private Equity was incorporated under the name Mossfire Limited in England on 7 October 1987 as a private company under the Companies Act 1985. The name of Mossfire Limited was changed to Yorkshire Fund Managers Limited on 14 December 1987. The name of Yorkshire Fund Managers Limited was changed to YFM Private Equity Limited on 7 October 2004. The registered number of YFM Private Equity is 02174994 and its registered office is at Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ (telephone number 0113 294 5000). YFM Private Equity is authorised and regulated by the Financial Services Authority to conduct venture capital business.

7.7 Neither Company assumes responsibility for the withholding of tax at source.

7.8 A VCT must satisfy the UK Listing Authority that its directors and any investment manager have sufficient and appropriate experience in the management of assets on a scale and type in which the VCT proposes to invest. The VCT's board of directors must be able to demonstrate that it will act independently of any advisers of the VCT. A majority of the board (including the chairman) must not be directors, employees, partners, officers or professional advisers of or to the investment manager or any other company in the same group as the investment manager or any investment entity managed by them. The VCT's investments must not represent more than 15% by value of all its investments at the time of investment, not more than 20% of its gross assets can be invested in the securities of property companies. The VCT must continue to meet the above conditions. The Companies meet these conditions and each of the Companies must, at all times, invest and manage its assets in accordance with the investment policy set out on page 46 and so as to comply with section 274 ITA. Any material change to the investment policy of either Company will only be made with Shareholder approval.

7.9 Howard Kennedy, sponsor to the Offers, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.

7.10 YFM Private Equity, the Companies' fund manager, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.

7.11 The unaudited Net Asset Value per BSC Ordinary Share as at 30 September 2012 was 94.2 pence and the unaudited Net Asset Value per BSC2 Ordinary Share as at 30 September 2012 was 68.0 pence.

- 7.12 BSC had available as at 30 September 2012 cash at bank of £6,634,142 and £2,494,843 in Government stocks and similar fixed interest securities and BSC2 had available as at 30 September 2012 cash at bank of £12,954,671 and £919,022 in Government stocks and similar fixed interest securities, each of which should be supplemented by the net proceeds of the Offers (source: unaudited management accounts prepared by the relevant Company). As at the date of this document the Companies had no loan capital outstanding, no other borrowings or indebtedness in the nature of borrowings and no contingent liabilities or guarantees.
- 7.13 The existing issued BSC Ordinary Shares will represent 79.4% of the enlarged Ordinary Share capital immediately following the Offers, assuming the Offers are fully subscribed, that the Offer Price is 97.75p per BSC Share and 69.50p per BSC2 Share and no Loyalty Bonus Shares are allotted, and on that basis, existing BSC Shareholders will therefore be diluted by 20.6%. On the above assumptions, the existing issued BSC2 Ordinary Shares will represent 84.2% of the enlarged Ordinary Share capital immediately following the Offers and on this basis, existing BSC2 Shareholders will be diluted by 15.8%.
- 7.14 There have been no significant factors, including unusual or infrequent events or new developments, which have materially affected either Company's income from operations. There have been no governmental, economic, fiscal, monetary or political policies or factors that have materially affected either Company's operations, however levels and bases of, and relief from, taxation are subject to change and such changes could be retrospective and could materially affect either Company's operations.
- 7.15 Each Board is responsible for the determination and calculation of its Company's Net Asset Value and intends to announce it at least quarterly, through a Regulatory Information Service. The Boards believe that by announcing their Company's financial results on a regular basis, it should help to provide a fairer market price for its Shares.
- 7.16 In the opinion of BSC, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 7.17 In the opinion of BSC2, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 7.18 The Companies have entered into the following related party transactions during the period covered by the historical financial information set out in Part 3 and up to the date of this document:

BSC

- Mr P S Cammerman has been a non-executive director of Pressure Technologies plc since 14 April 2008. During the year to 31 March 2012 Mr Cammerman received £18,000 (2011: £15,925 and 2010: £15,300) from Pressure Technologies plc in respect of his services. Mr Cammerman holds a 0.1% equity stake in Pressure Technologies plc and a 0.004% stake in Straight plc. Mr Cammerman is also a director and 2.1% shareholder of Howmac Limited which holds a 0.02% stake in Hargreaves Services plc.
- The offer agreements dated 16 November 2012 and 8 December 2010 referred to in paragraphs 6.1 and 6.2 and the deed of variation dated 16 November 2012 referred to in paragraph 6.4 above.
- The incentive agreement referred to in paragraph 6.5 above.

BSC2

- YFM Equity Partners Limited the parent company of YFM Private Equity Limited holds an investment in Digital Healthcare Limited which as at 31 December 2011 was valued at £21,795 (2010: £21,791 and 2009: £21,791).
 - Mr R Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.
 - Mr R Last was a non-executive director of Patsystems Limited (formerly Patsystems plc) from January 2002 until January 2012. During the year to 31 December 2011 Mr Last received £39,938 from that company in respect of his services (2010 and 2009: £45,000) and holds a 0.4% equity stake.
 - The offer agreements dated 16 November 2012, 26 October 2011 and 8 December 2010 referred to in paragraphs 6.1, 6.2 and 6.8 above, the deeds of variation dated 8 December 2010, 26 October 2011 and 16 November 2012 referred to in paragraph 6.9 above and the deed of variation referred to in paragraph 6.10 above.
- 7.19 Valuation of listed investments and investments traded on AIM or other public stock markets will be stated at closing bid prices. Where quoted investments are subject to restrictions, an appropriate discount to the latest market price may be applied with regard to International Private Equity and Venture Capital ("IPEVC") valuation guidelines. Investments not listed on a public stock market will be stated at the Directors' valuation. The Directors will value these investments in accordance with the IPEVC valuation guidelines.

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- 7.20 Investments will be valued quarterly by each Board and these Net Asset Values will be communicated to Shareholders through the Regulatory Information Service. Each Company will also announce when there has been a major change to Net Asset Value, for instance as a result of a disposal of an investment or if that Company undertakes a fundraising and needs to announce an interim valuation. The Directors do not anticipate any circumstances arising under which the calculation of the Net Asset Value may be suspended.
- 7.21 The Directors believe that the Offers have the potential to constitute a significant gross change in each Company, including an increase in the net assets of the Companies by the amount of the net funds raised under the Offers. On the basis of maximum subscription under the Offers, the increase in net funds would be £9,450,000 for BSC and £4,725,000 for BSC2. Subject to the level of subscription of the Offers, an increase in net assets could have certain consequences, potentially including a reduction in the annual expense ratio of each Company, increasing the size and range of investments which each Company could undertake and increasing the number of investments each Company would be required to make in order to meet the VCT eligibility rules. The effect of the Offers on the earnings of the holders of Ordinary Shares is expected to be positive since the fixed costs of operating the Companies will be spread over a larger asset base, thereby reducing the running cost per Share. The effect of the Offers on the earnings of each Company is expected to be positive.
- 7.22 All third party information in this Prospectus has been identified as such by reference to its source and in each instance has been accurately reproduced and, so far as the Companies are aware and are able to ascertain from information published by the relevant party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 7.23 The Companies and the Directors consent to the use of the Prospectus by financial intermediaries, from the date of the Prospectus until the close of the Offers, for the purpose of introducing subscribers for Offer Shares, and accept responsibility for the information contained therein for such purpose. The Offers are expected to close on or before 30 April 2013, unless previously extended by the Directors. Financial intermediaries may use the Prospectus in the UK.
- 7.24 **Information on the terms and conditions of the Offers will be given to Investors by financial intermediaries at the time that the Offers are introduced to Investors. Any financial intermediary using the Prospectus must state on its website that it is using the Prospectus in accordance with the consent set out in paragraph 7.23 above.**

8. Documents for Inspection

Copies of the following documents are available for inspection at the Companies' registered office at Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ and at the offices of Howard Kennedy at 19 Cavendish Square, London W1A 2AW, during normal business hours on any weekday (Saturdays and public holidays excepted) while the Offers remain open:

- (i) the Articles of each Company;
- (ii) the consent letters referred to in paragraphs 7.9 and 7.10 of this Part 5 above;
- (iii) the Directors' letters of appointment referred to in paragraph 5.9 of this Part 5 above;
- (iv) the audited accounts of BSC for the periods ended 31 March 2010, 2011 and 2012 and the interim financial statements for the 6 month period to 30 September 2012;
- (v) the audited accounts of BSC2 for the periods ended 31 December 2009, 2010 and 2011 and interim financial statements for the 6 month period to 30 June 2012;
- (vi) the BSC Circular and the BSC2 Circular; and
- (vii) this document.

16 November 2012

Part 6

Directors and Advisers

Directors British Smaller Companies VCT plc

Helen Sinclair (Chairman)
Philip Cammerman
Edward Buchan
(all non-executive)

Directors British Smaller Companies VCT2 plc

Richard Last (Chairman)
Robert Pettigrew
Peter Waller
(all non-executive)

All of: Saint Martins House
210-212 Chapeltown Road,
Leeds, West Yorkshire, LS7 4HZ

Registered Offices for both Companies:

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

Company Secretary

KHM Secretarial Services Limited
Old Cathedral Vicarage
St James Row
Sheffield, South Yorkshire S1 1XA

Fund Manager

YFM Private Equity Limited
Saint Martins House
210-212 Chapeltown Road,
Leeds, West Yorkshire, LS7 4HZ

Solicitors to the Offers

Howard Kennedy LLP
19 Cavendish Square
London W1A 2AW

Sponsor to the Offers

Howard Kennedy Corporate Services LLP
19 Cavendish Square
London W1A 2AW

Stockbrokers

Nplus1 Singer Advisory LLP
1 Bartholomew Lane
London EC2N 2AX

Fixed Interest Securities Adviser

Brewin Dolphin Limited
34 Lisbon Street
Leeds LS1 4LX

Registered Auditors

Grant Thornton UK LLP
2 Broadfield Court
Sheffield S8 0XF

VCT Tax Advisers

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Bankers

The Royal Bank of Scotland plc
27 Park Row
Leeds LS1 5QB

Lloyds Banking Corporate Markets
40 Spring Gardens
Manchester, M2 1EN

Receiving Agents

The City Partnership (UK) Limited
(assisted by Share Registrars Limited)
Thistle House
21-23 Thistle Street
Edinburgh EH2 1DF

Registrars

Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Part 7

Definitions

In this document the following words and expressions have the following meanings:

“Act”	the Companies Act 2006 (as amended) and in force from time to time;
“Admission”	the admission of the Offer Shares to a premium listing on the Official List and to trading on the London Stock Exchange’s market for listed securities;
“AIM”	the Alternative Investment Market of the London Stock Exchange;
“annual running costs”	the annual costs incurred by the relevant Company in the ordinary course of its business (including irrecoverable VAT);
“Applicant(s)”	an investor(s) who applies to subscribe for Shares under the Offers;
“Articles”	the articles of association of either Company (as amended from time to time);
“Board(s)” or “Directors”	the directors of the relevant Company at the date of this document;
“BSC”	British Smaller Companies VCT plc;
“BSC Circular”	the circular issued to the shareholders of BSC dated 16 November 2012;
“BSC2”	British Smaller Companies VCT2 plc;
“BSC2 Circular”	the circular issued to the shareholders of BSC2 dated 16 November 2012;
“Capita Registrars”	a trading name of Capita IRG Plc;
“Company”, “Companies” or “British Smaller Companies VCTs”	BSC or BSC2 or BSC and BSC2;
“FSA”	the Financial Services Authority;
“General Meeting” or “GM”	the general meeting of the relevant Company convened for 10.30 am (in the case of BSC) (or as soon as practicable thereafter as the BSC2 General Meeting has concluded or adjourned) and 09.00 am (in the case of BSC2) on 18 December 2012 at Berkeley Square House, Berkeley Square, London W1J 6BD (and any adjournment thereof);
“Gross Assets”	the aggregate of the gross assets of the relevant Company including assets represented by any principal monies borrowed by the relevant Company less all current liabilities of the relevant Company (other than any principal monies borrowed);
“HMRC”	HM Revenue & Customs;
“Howard Kennedy”	Howard Kennedy Corporate Services LLP;
“Investment Management Team”	those persons whose details are set on page 41 under the heading “The Investment Team”;
“Investor(s)”	an individual(s) who subscribes for Shares under the Offers;
“ITA”	Income Tax Act 2007, as amended;
“IFRS”	International Financial Reporting Standards;
“London Stock Exchange”	London Stock Exchange plc;

“Loyalty Bonus Shares”	the additional Shares to be issued to Applicants who are existing Shareholders in VCTs managed by YFM Private Equity (or partners of such Shareholders), as detailed on page 19;
“2012/2013 Offers”	the offers for subscription of Ordinary Shares to a value not exceeding £15 million in respect of the tax year 2012/2013, details of which are set out in this document;
“2013/2014 Offers”	the offers for subscription of Ordinary Shares to a value not exceeding £15 million in respect of the tax year 2013/2014, details of which are set out in this document;
“Net Asset Value(s)” or “NAV”	Net Asset Value per Ordinary Share;
“Offers”	the 2012/2013 Offers and the 2013/2014 Offers;
“Offer Costs Percentage”	the costs of the Offers as a percentage of subscription proceeds, as set out on page 20;
“Offer Price”	the price of the Offer Shares, as set out on page 19;
“Offer Shares”	Shares to be issued under the Offers;
“Official List”	the Official List of the UK Listing Authority;
“Ordinary Shares” or “Shares”	ordinary shares of 10p each in the capital of the relevant Company;
“Pricing Mechanism”	the basis on which the Offer Price will be calculated as set out on page 28 of this document;
“Prospectus”	this document, relating to the Offers;
“Qualifying Company”	an unquoted (including AIM-traded) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of Part 6 ITA, which is summarised in Part 2 of this document;
“Qualifying Holdings” or “Qualifying Investments”	shares in, or securities of, a Qualifying Company held by a VCT which meets the requirements described in Chapter 4 of Part 6 ITA;
“Receiving Agent”	The City Partnership (UK) Limited (assisted by Share Registrars Limited);
“Resolutions”	the resolutions of the relevant Company to be proposed at the GM;
“Shareholder(s)”	holder(s) of Ordinary Shares;
“Shares” or “Ordinary Shares”	ordinary shares of 10p each in the capital of the relevant Company;
“Statutes”	the “Companies Acts” as defined in section 2 of the Act;
“UK Listing Authority”	the FSA acting in its capacity as the competent authority under the Financial Services and Markets Act 2000;
“VAT”	value added tax;
“Venture Capital Trust” or “VCT”	a venture capital trust as defined in Section 259 Income Taxes Act 2007;
“YFM Group”	YFM Private Equity and YFM Venture Finance Limited (registered number 4195617 authorised and regulated by the FSA) and each, together with other companies, being subsidiary companies of YFM Group (Holdings) Limited (registered number 3194987);
“YFM Equity Partners”	YFM Private Equity and YFM Venture Finance Limited (registered number 4195617 authorised and regulated by the FSA) and each, together with other companies, being subsidiary companies of YFM Group (Holdings) Limited (registered number 3194987); and
“YFM Private Equity” or “the Fund Manager”	YFM Private Equity Limited registered number 2174994, authorised and regulated by the FSA.

Part 8

Terms and Conditions of Application

1. The contract created by the acceptance of an Application will (unless the Boards resolve otherwise) be conditional on the Admission of the Offer Shares becoming effective.
2. The Offer Shares will be issued at an Offer Price calculated in accordance with the Pricing Mechanism.
3. (a) The right is reserved to present all cheques and banker's drafts for payment on receipt and to retain share certificates and subscription monies, pending clearance of successful Applicant cheques and banker's drafts. The Companies may treat Applications as valid and binding even if not made in all respects in accordance with the prescribed instructions and the Companies may, at their discretion, accept an Application in respect of which payment is not received prior to the closing of the Offers. If any Application is not accepted in full, or any contract created by acceptance does not become unconditional, or if any Application is accepted for fewer Shares than the number applied for, the application monies or the balance of the amount paid on application will be returned without interest by post at the risk of the Applicant.
- (b) Applications will be accepted generally on a first come, first served basis (but always subject to the absolute discretion of the Directors). Subscriptions which are not accompanied by cheques available for immediate presentation or by other valid payment means will be dealt with at the Directors' discretion. If any dispute arises as to the date or time at or on which an Application is received, the Directors' determination shall be final and binding.
- (c) The Companies reserve the right to allot and arrange for the listing of Offer Shares under the Offers prior to the stated closing date and generally vary the allotment and Admission timetable.
4. By completing and delivering an Application Form, you as the Applicant (and, if you sign an Application Form on behalf of somebody else, that person):
 - (a) irrevocably offer to subscribe the amount of money specified in your Application Form subject to the provisions of this Document, these Terms and Conditions and the Memorandum and Articles of Association of British Smaller Companies VCT Plc and British Smaller Companies VCT2 Plc;
 - (b) authorise the Registrar to send share certificates in respect of the Offer Shares for which your Application is accepted, and/or a crossed cheque for any monies returnable by post without interest at your risk to your address as set out on your Application Form and to procure that your name is placed on the registers of members of the Companies in respect of such Offer Shares;
 - (c) agree that, in consideration of the Companies agreeing to process your Application, your Application will not be revoked until after the Closing Date of the Offers and that this paragraph constitutes a collateral contract between you and the Companies which will become binding upon despatch by post to or, in the case of delivery by hand, on receipt by, the Receiving Agent of your Application Form subject to your statutory rights of withdrawal in the event of the publication of a supplementary prospectus by the Companies;
 - (d) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive share certificates for the Offer Shares applied for or to enjoy or receive any rights or distributions in respect of such Offer Shares unless and until you make payment in cleared funds for such Offer Shares and such payment is accepted by the Companies (which acceptance shall be in their absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Companies of such late payment in respect of such Offer Shares, the Companies may (without prejudice to their other rights) treat the agreement to allot such Offer Shares as void and may allot such Offer Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Offer Shares (other than return of such late payment);
 - (e) agree that in respect of those Offer Shares for which your Application Form has been received and is not rejected, your Application may be accepted at the election of the Companies either by notification to the UK Listing Authority of the basis of allocation or by notification of acceptance thereof to the Receiving Agent;
 - (f) agree that any monies in respect of your Application together with any other monies received in respect of all Applications may be held on trust for the payment of the Offer Price in respect of Offer Shares for which you have subscribed or failing such payment be returned to you without interest and that any interest earned in respect of such monies will be paid to the Companies;

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- (g) agree that the monies returnable to you may be retained pending clearance of your remittance and any verification of identity which is, or which the Companies or the Receiving Agent may consider to be, required by the Money Laundering Regulations 2007 ("the Regulations") and that such monies will not bear interest;
 - (h) agree that, having had the opportunity to read the Prospectus, you are deemed to have had notice of all information and statements concerning the Companies and the Offer Shares contained therein;
 - (i) confirm that in making such Application you are not relying on any information and representation in relation to the Companies other than the information contained in the Prospectus or any part thereof and accordingly you agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in preparation thereof will have any liability for any such other information or representation;
 - (j) agree that all Applications, acceptances of Applications and contracts resulting therefrom under the Offers shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the rights of the Companies to bring any action, suit or proceedings arising out of or in connection with any such Applications, acceptance and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - (k) irrevocably authorise the Receiving Agent or any other person authorised by them, as your agent, to do all things necessary to effect registration of any Offer Shares subscribed by you into your name and authorise any representatives of the Receiving Agent to execute any document required therefor;
 - (l) agree to disclose promptly in writing to the Companies any information which they may reasonably request in connection with your Application, including, without limitation, satisfactory evidence of identity to ensure compliance with the Money Laundering Regulations 2007 and authorise them to disclose any information relating to your Application as they consider appropriate;
 - (m) confirm that you have reviewed the restrictions contained in paragraphs 5 and 6 below and warrant that you are not a "US person" as defined in the United States Securities Act of 1933, as amended, nor a resident of Canada and that you are not applying for any Offer Shares with a view to their offer, sale or delivery to or for the benefit of any US Person or a resident of Canada, Australia, South Africa or Japan;
 - (n) declare that you are aged 18 years or over;
 - (o) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have due authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
 - (p) declare that a loan has not been made to you or any associate, which would not have been made, or would not have been made on the same terms, but for you offering to subscribe for, or acquiring, Offer Shares and that the Offer Shares are being acquired for bona fide commercial purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax;
 - (q) declare that the Application Form has been completed to the best of your knowledge;
 - (r) undertake that you will notify the Companies if you are not, or cease to be, either a Qualifying Applicant or beneficially entitled to the Offer Shares;
 - (s) agree that all documents and cheques sent by post to, by or on behalf of the Companies or the Receiving Agent will be sent at your risk;
5. No person receiving a copy of the Document or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application thereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
6. The Offer Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction ("the USA"). In addition, the Companies have not been and will not be registered under the United States Investment Company Act of 1940, as amended. No Application will be accepted if it bears an address in the USA.
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7. Dealings prior to the issue of certificates for Offer Shares will be at the risk of Qualifying Applicants. A person so dealing must recognise the risk that an Application may not have been accepted to the extent anticipated or at all.
 8.
 - (a) In relation to Applications under the Offers that are received on or before 28 December 2012, authorised financial intermediaries who, acting on behalf of their clients, return valid Application Forms (bearing their stamp/full postal address and FSA number) will be entitled to commission on the amount payable in respect of the Offer Shares allocated for each such Application Form at the rates specified in paragraph 7 under "Notes on the Application Form" on pages 77 to 78. Authorised financial advisers may agree to waive part or all of their initial commission in respect of an application. If this is the case, then the Application Amount will be increased by an amount equivalent to the amount of commission waived. Financial advisers should keep a record of Application Forms submitted bearing their stamp/full postal address and FSA number to substantiate any claim for their commission.
 - (b) In relation to Applications under the Offers that are received after 28 December 2012 from Applicants who have been advised by authorised financial intermediaries, in accordance with regulations introduced by the FSA such intermediaries will have been obliged to recover compensation from the Applicants in consideration of advice provided to them, and no commission (initial or trail) is payable. However, subject to express instruction from the Applicant, arrangements will be made to pay on the Applicant's behalf such advisory fees as the Applicant and his intermediary agree (and notify to the Companies) represent the cost to the Applicant of the advice he received in relation to the making of this Application.
 9. The section headed Notes on the Application Form forms part of these Terms and Conditions of Application.
 10. It is a condition of these Offers that compliance with the Money Laundering Regulations 2007 is ensured. The Receiving Agent is therefore entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to the Receiving Agent to be acting on behalf of some other person. Pending the provision of evidence satisfactory to the Receiving Agent as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, the Receiving Agent may, at its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or the Registrar may not enter the Applicant on the registers of members of the Companies or issue any share certificates in respect of such application. If verification of identity is required, this may result in a delay in dealing with an application and in rejection of the application. The Companies reserve the right, at their absolute discretion, for them or the Receiving Agent to reject any application in respect of which the Receiving Agent considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Companies reserve the right at their absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the shares in question (but in each case without prejudice to any rights the Companies may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to the Receiving Agent such information as may be specified by it as being required for the purpose of the Money Laundering Regulations 2007.
 11. The right is also reserved to treat as valid any application not complying fully with these Terms and Conditions of Application for the Offers or not in all respects complying with the Notes on the Application Form. In particular, but without limitation, the Companies may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Companies to apply in accordance with these Terms and Conditions of Application.
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Notes on the Application Form

It is essential that you complete all relevant parts of the Application Form in accordance with the instructions in these notes. Please send the completed Application Form, together with your cheque or banker's draft, by post, or deliver it by hand (during normal business hours), to The City Partnership (UK) Limited, Thistle House, 21-23 Thistle Street, Edinburgh, EH2 1DF. If you have any questions on how to complete the Application Form please contact YFM Private Equity Limited on 0800 854 057, email tracey.nice@yfmepe.com or speak to your financial adviser.

Pages 1 and 2 – Subscription Details

- 1 **Amount for which you wish to subscribe:** Insert (in figures) in Boxes A, B and C the amount you wish to subscribe (subject, if relevant, to the deduction of any adviser fees – see Option B in Section 7 of the Application Form) in relation to each individual tax year if you wish to have your subscription allocated two thirds to BSC and one third to BSC2. If you are applying for £25,000 or more and wish to choose how your subscription is allocated please insert (in figures) in Boxes D, E and F the amount you wish to subscribe (subject, if relevant, to the deduction of any adviser fees – see Option B in Section 7 of the Application Form) in relation to each individual tax year and VCT. The Application must be for a minimum of £5,000 and above that minimum in multiples of £1,000.

For Applications in respect of which intermediaries have offered financial advice after 28 December 2012 :

- Where an Investor has applied for an amount where the deduction of IFA fees takes the net subscription to below £5,000 then Offer Shares will be issued based on the net amount.
- Where an Investor has applied for an amount of £25,000 or above they will be able to determine how their subscription is allocated **even where the deduction of IFA fees takes the net subscription to below £25,000.**

Payment can be made by Electronic Transfer, cheque or bankers draft. Your payment must relate solely to this application.

If you wish to pay by **Electronic Transfer**, please contact the City Partnership (UK) Limited for the details of the account into which your transfer should be made. Please either email Malcom.Haw@city.uk.com or telephone 0131 243 7210.

To pay by **cheque or banker's draft** please attach a cheque or banker's draft to the Application Form for the exact amount shown in Box C (or Box F if appropriate) and Box Ga. Your cheque or banker's draft must be made payable to "BSC plc and BSC2 plc" and crossed "A/C Payee only". Your payment must relate solely to this application. Cheques may be presented for payment on receipt. Subscription forms accompanied by a postdated cheque will not be processed until the cheque can be presented and will not be treated as being received by the Receiving Agent until that date.

Your electronic transfer, cheque or banker's draft must be drawn in sterling on an account with a United Kingdom or European Union regulated credit institution, and which is in the sole or joint name of the Applicant and must bear, if a cheque, the appropriate sort code in the top right-hand corner.

The right is reserved to reject any Application in respect of which the Applicant's Electronic Transfer, cheque or banker's draft has not been cleared on first presentation. Any monies returned will be sent through the post at the risk of the persons entitled thereto by cheque crossed "A/C Payee only" in favour of the Applicant without interest.

Money Laundering Notice – Important procedures for applications of the Sterling equivalent of €15,000 (approximately £12,700) or more. The verification of identity requirements in the Money Laundering Regulations 2007 will apply and verification of the identity of the Applicant may be required. Failure to provide the necessary evidence of identity may result in your Application being treated as invalid or result in a delay.

If the amount of your application is for the Sterling equivalent of €15,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) then please provide the documents set out in A or B below (as appropriate).

Copies should be certified by a solicitor or a bank. Original documents will be returned by post at your risk. If a cheque is drawn by a third party, the above will also be required from that third party.

A Application is made through an IFA: verification of the Applicant's identity may be provided by means of a "Letter of Introduction" from an IFA or other regulated person (such as a solicitor or accountant) who is a member of a regulatory authority and is required to comply with the Money Laundering Regulations 2007 or a UK or EC financial institution (such as a bank). The City Partnership (UK) Limited will supply specimen wording on request.

OR

B Application is made direct (not through an IFA): please ensure that the following documents are enclosed with the Application Form:

1. A certified copy of either your passport or driving licence; and
2. A recent (no more than 3 months old) original bank or building society statement,
OR a utility bill, or recent tax bill, in your name.

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- 2 **Name and address, etc:** Insert (using block capitals please) in Section 2 your full name, full address including the post code, email address, daytime telephone number, National Insurance number and date of birth.
 - 3 **Signature and date:** Sign and date the Application Form in Section 3. By signing and dating this form you agree to invest in British Smaller Companies VCT plc and British Smaller Companies VCT2 plc in accordance with the Terms and Conditions as set out in Part 8 of the Prospectus dated 16 November 2012.

Administration of Shareholder Account

The dividends paid by the Companies can be taken as cash. Sections 4 and 5 of the Application Form allow you to indicate whether you would like to have them paid directly into your bank account. Dividends paid by cheque will be sent to the Shareholder's registered address using the standard mail delivery at the Shareholder's own risk if neither Section 4 nor 5 is completed. The Companies' Registrar will charge administration fees for re-issuing cheques.

- 4 **Payment to your bank account:** In order to facilitate the payment of dividends on any shares held in the Companies directly to your bank or building society account, please complete Section 4 of the Application Form. Dividends paid directly into your account will be paid in cleared funds on the dividend payment date. Your bank or building society statement will identify details of the dividends as well as the dates and amounts paid.
- 5 **Signature, date and post code:** Please sign and date the Administration of Shareholder Accounts in Section 5 of the Application Form. Please also include your post code as this will allow the Registrar to match your details with those that the Receiving Agent will have recorded with respect to your Application. By signing and dating this section of the form you authorise the Companies' Registrar to administer your shareholding in accordance with the instructions noted in the Shareholder Account Administration section of the Application Form.

Pages 3 and 4 – Details of your Financial Adviser

- 6 **Financial Advisers' Details:** appropriately authorised financial advisers who are entitled to receive commission should complete Sections 6 and 7, giving their contact name and address and their FSA number. Please note the financial advisers' obligations to advise their clients of the risk factors set out on pages 16 and 17 of this document.
- 7 **Commission:**

For Applications other than those in respect of which intermediaries have offered financial advice after 28 December 2012

Introductory commission will be paid to authorised financial intermediaries at a rate of either 3% or 1.5% (with additional annual trail commission) on the amount invested. Authorised financial intermediaries can waive some or all of the commission and have it invested in Offer Shares for their clients.

7A1 Introductory commission of 3% – no annual trail commission is to be paid.

7A2 The amount of introductory commission to be waived and invested.

7B1 Introductory commission of 1.5% – annual trail commission.

7B2 The amount of introductory commission to be waived and invested.

For Applications in respect of which intermediaries have offered financial advice after 28 December 2012

This section is to be completed by you and your financial adviser.

- 8 **Bank details for Commissions:** Financial advisers who are entitled to receive commission can choose to have their commission paid directly to their bank account. In order to facilitate this, please complete Section 8 of the Application Form.
- 9 **Bank details for One-off fees:** Financial advisers who are entitled to receive one-off fees can choose to have their one-off fees paid directly to their bank account. In order to facilitate this, please complete Section 9 of the Application Form.

Application Form

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

If you are in any doubt about the action to take you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. **IMPORTANT – before completing this form please read the accompanying notes, PLEASE USE BLOCK CAPITALS TO COMPLETE THE FORM.**

Cheque/Bankers Draft

Make your cheque or bankers draft out to "BSC plc and BSC2 plc" and cross it with the words "A/C Payee only". Please complete Box Ga at the end of Section 1 of the Application Form. Return this form by post or by hand (during normal business hours) to The City Partnership (UK) Limited, Thistle House, 21-23 Thistle Street, Edinburgh, EH2 1DF so as to arrive by no later than 11:00 am on 5 April 2013 in respect of the 2012/2013 Offers or 11:00 am on 30 April 2013 in respect of the 2013/2014 Offers. If you post your Application Form you are recommended to use first class post and allow at least four days for delivery.

Electronic Transfer

If you wish to pay by Electronic Transfer, please contact the City Partnership (UK) Limited for the details of the account into which your transfer should be made. Please either email Malcom.Haw@city.uk.com or telephone 0131 243 7210 and use your surname as the reference. Please complete Box Gb at the end of Section 1 of the Application Form. Return this form by post or by hand (during normal business hours) to The City Partnership (UK) Limited, Thistle House, 21-23 Thistle Street, Edinburgh, EH2 1DF so as to arrive by no later than 11:00 am on 5 April 2013 in respect of the 2012/2013 Offers or 11:00 am on 30 April 2013 in respect of the 2013/2014 Offers. If you post your Application Form you are recommended to use first class post and allow at least four days for delivery.

1. Subscription Details:

If you are an existing Shareholder or partner of an existing Shareholder place an 'X' in this box ☐

This applies to existing Shareholders and partners in either BSC or BSC2 and entitles them to 2.5% Loyalty Bonuses for Applications received on or before 28 December 2012.

For subscriptions up to £25,000

A 2012/2013 Offers (income tax year 2012/2013)

£

B 2013/2014 Offers (income tax year 2013/2014)

£

C Total (A+B)

£

Total (A + B) to be not less than £5,000 (multiples of £1,000 thereafter)

For subscriptions of £25,000 and above please fill out in boxes D, E and F how you wish this to be allocated between BSC and BSC2

A 2012/2013 Offers (income tax year 2012/2013)

£

B 2013/2014 Offers (income tax year 2013/2014)

£

C Total (A+B)

£

Total (A + B) to be not less than £5,000 (multiples of £1,000 thereafter)

For subscriptions of £25,000 and above where you wish to choose how your subscription is allocated

I would like the subscription (of £25,000 or above) applied as follows

British Smaller
Companies VCT plc

British Smaller
Companies VCT2 plc

D 2012/2013 Offers (income tax year 2012/2013)

£

£

E 2013/2014 Offers (income tax year 2013/2014)

£

£

F Total (C+D)

£

£

For subscriptions of £25,000 or above the total in Box C should equal the total in Box F and the amount on the cheque (or banker's draft) attached to the Application Form (multiples of £1,000) or the amount subscribed by Electronic Transfer

Box Ga Total per cheque/bankers draft

Box Gb Total per Electronic Transfer

2. Personal Details (to be completed by the Applicant):

Title	<input type="text"/>	Email	<input type="text"/>
Full Name	<input type="text"/>	Daytime Tel No.	<input type="text"/>
Address	<input type="text"/>	Date of Birth	<input type="text"/>
	<input type="text"/>	National Insurance No.	<input type="text"/>
	<input type="text" value="Post Code"/>		

3. Signature (to be completed by the Applicant):

By signing this form I HEREBY DECLARE THAT I have read the Terms and Conditions of Application and agree to be bound by them. I understand this is a LONG TERM investment and have read the RISK FACTORS.

Signature

Date

Administration of Shareholder Account

Please complete any relevant section.

4. Payment of Dividends to your Bank Account (to be completed by the Applicant):

If you would like your dividends to be paid directly into your bank or building society please tick this box.

☐

If you are interested in reinvesting your dividends please tick the box to receive a mandate form.

☐

Terms and Conditions can be downloaded from yfme.com

Please provide your Bank or Building Society details below. The Companies cannot accept responsibility if any details provided by you are incorrect.

Account Name	<input type="text"/>	Account No.	<input type="text"/>
Name of Bank or Building Society	<input type="text"/>		(please quote all digits and zeros):
Branch	<input type="text"/>	Sort Code	<input type="text"/>
Branch Address	<input type="text"/>		
	<input type="text" value="Post Code"/>		

5. Dividend Payment Authorisation (to be completed by the Applicant):

Please forward, until further notice, all dividends that may from time to time become due on any Shares now standing or which may hereafter stand, in my name in the registers of members of the Companies to the account noted above.

Full Name

Post Code

Signature

Date

6. Details of Financial Advisers (to be completed by intermediaries only. FSA number must be quoted):

All financial advisers **MUST** advise their clients of the Risk Factors set out on pages 16 and 17 of this document.

Firm Name			
Contact	[Adviser/Administrator] (delete as appropriate)		
Email Address			
FSA No.		Tel No.	
		Fax No.	
Address			
	Post Code		

7. Commission Options (to be completed by intermediaries whose details are in Section 6):

For Applications other than those in respect of which intermediaries have offered financial advice after 28 December 2012

Please complete section 7A or 7B (NOT BOTH)

7A Introductory commission of 3%.

7A1 To receive commission of 3% place an 'X' in this box ☐

7A2 Insert the amount of the 3% commission that you wish to be waived and reinvested in additional new Shares for your client e.g. 0%, 1%, 1.5%, 2%, 2.5% or ALL

OR

7B Introductory commission of 1.5% plus trail commission

7B1 To receive 1.5% initial plus annual trail commission of 0.4375% for up to 8 years place an 'X' in this box ☐

7B2 Insert the amount of 1.5% introductory commission you wish to be waived and reinvested in additional new Shares for your client e.g. 0%, 1% or ALL

For Applications in respect of which intermediaries have offered financial advice after 28 December 2012 (to be completed by you and your financial adviser)

Option A (Tick Box)

I have agreed to pay fees directly to my adviser for advice relating to my investment on the basis agreed between us. I therefore do not require the facilitation of any payment from my investment. ☐

OR

Option B (Tick Box)

I have agreed to pay the adviser detailed in Section 6 the one-off fee detailed below for advice relating to my investment. I hereby instruct the deduction of this amount from my subscription and its remittance to that adviser on my behalf. ☐

One-off fee to be deducted £

I understand that tax relief will only be available on the amount subscribed net of this fee.

I also understand that if my adviser's fee includes VAT I may remain liable for the VAT element thereof, even where arrangements have been made to pay the deduction mentioned above.

Signed by Applicant:

Confirmed by Adviser:

8. Direct Payments of Commissions to a Bank Account (to be completed by intermediaries whose details are in Section 6):

If you would like your commission(s) to be paid directly into your Bank or Building Society please tick this box ☐

Please provide your Bank or Building Society details below. The Companies and The City Partnership (UK) Limited cannot accept responsibility if any details provided by you are incorrect.

Account Name	<input type="text"/>	Account No.	<input type="text"/>
Name of Bank or Building Society	<input type="text"/>	(please quote all digits and zeros):	
Branch	<input type="text"/>	Sort Code	<input type="text"/>
Branch Address	<input type="text"/>		
	<input type="text"/>		
	Post Code		

Please forward, until further notice, all commission(s) that may from time to time become due as a result of my client's investment in the Companies.

Signature

Date

9. Direct Payments of One-off Fees to a Bank Account for applications in respect of which intermediaries have offered financial advice after 28 December 2012 (to be completed by intermediaries whose details are in Section 6):

If you would like your one-off fee to be paid directly into your Bank or Building Society please tick this box ☐

Please provide your Bank or Building Society details below. The Companies and The City Partnership (UK) Limited cannot accept responsibility if any details provided by you are incorrect.

Account Name	<input type="text"/>	Account No.	<input type="text"/>
Name of Bank or Building Society	<input type="text"/>	(please quote all digits and zeros):	
Branch	<input type="text"/>	Sort Code	<input type="text"/>
Branch Address	<input type="text"/>		
	<input type="text"/>		
	Post Code		

Please forward any one-off fee that may become due as a result of my client's investment in the Companies.

Signature

Date

British Smaller Companies VCT plc and

British Smaller Companies VCT2 plc

Saint Martins House

210 - 212 Chapeltown Road

Leeds LS7 4HZ

Application Form

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

If you are in any doubt about the action to take you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. **IMPORTANT – before completing this form please read the accompanying notes, PLEASE USE BLOCK CAPITALS TO COMPLETE THE FORM.**

Cheque/Bankers Draft

Make your cheque or bankers draft out to "BSC plc and BSC2 plc" and cross it with the words "A/C Payee only". Please complete Box Ga at the end of Section 1 of the Application Form. Return this form by post or by hand (during normal business hours) to The City Partnership (UK) Limited, Thistle House, 21-23 Thistle Street, Edinburgh, EH2 1DF so as to arrive by no later than 11:00 am on 5 April 2013 in respect of the 2012/2013 Offers or 11:00 am on 30 April 2013 in respect of the 2013/2014 Offers. If you post your Application Form you are recommended to use first class post and allow at least four days for delivery.

Electronic Transfer

If you wish to pay by Electronic Transfer, please contact the City Partnership (UK) Limited for the details of the account into which your transfer should be made. Please either email Malcom.Haw@city.uk.com or telephone 0131 243 7210 and use your surname as the reference. Please complete Box Gb at the end of Section 1 of the Application Form. Return this form by post or by hand (during normal business hours) to The City Partnership (UK) Limited, Thistle House, 21-23 Thistle Street, Edinburgh, EH2 1DF so as to arrive by no later than 11:00 am on 5 April 2013 in respect of the 2012/2013 Offers or 11:00 am on 30 April 2013 in respect of the 2013/2014 Offers. If you post your Application Form you are recommended to use first class post and allow at least four days for delivery.

1. Subscription Details:

If you are an existing Shareholder or partner of an existing Shareholder place an 'X' in this box ☐

This applies to existing Shareholders and partners in either BSC or BSC2 and entitles them to 2.5% Loyalty Bonuses for Applications received on or before 28 December 2012.

For subscriptions up to £25,000

A 2012/2013 Offers (income tax year 2012/2013)

£

B 2013/2014 Offers (income tax year 2013/2014)

£

C Total (A+B)

£

Total (A + B) to be not less than £5,000 (multiples of £1,000 thereafter)

For subscriptions of £25,000 and above please fill out in boxes D, E and F how you wish this to be allocated between BSC and BSC2

A 2012/2013 Offers (income tax year 2012/2013)

£

B 2013/2014 Offers (income tax year 2013/2014)

£

C Total (A+B)

£

Total (A + B) to be not less than £5,000 (multiples of £1,000 thereafter)

For subscriptions of £25,000 and above where you wish to choose how your subscription is allocated

I would like the subscription (of £25,000 or above) applied as follows

British Smaller
Companies VCT plc

British Smaller
Companies VCT2 plc

D 2012/2013 Offers (income tax year 2012/2013)

£

£

E 2013/2014 Offers (income tax year 2013/2014)

£

£

F Total (C+D)

£

£

For subscriptions of £25,000 or above the total in Box C should equal the total in Box F and the amount on the cheque (or banker's draft) attached to the Application Form (multiples of £1,000) or the amount subscribed by Electronic Transfer

Box Ga Total per cheque/bankers draft

Box Gb Total per Electronic Transfer

2. Personal Details (to be completed by the Applicant):

Title	<input type="text"/>	Email	<input type="text"/>
Full Name	<input type="text"/>	Daytime Tel No.	<input type="text"/>
Address	<input type="text"/>	Date of Birth	<input type="text"/>
	<input type="text"/>	National Insurance No.	<input type="text"/>
	<input type="text" value="Post Code"/>		

3. Signature (to be completed by the Applicant):

By signing this form I HEREBY DECLARE THAT I have read the Terms and Conditions of Application and agree to be bound by them. I understand this is a LONG TERM investment and have read the RISK FACTORS.

Signature

Date

Administration of Shareholder Account

Please complete any relevant section.

4. Payment of Dividends to your Bank Account (to be completed by the Applicant):

If you would like your dividends to be paid directly into your bank or building society please tick this box.

☐

If you are interested in reinvesting your dividends please tick the box to receive a mandate form.

☐

Terms and Conditions can be downloaded from yfme.com

Please provide your Bank or Building Society details below. The Companies cannot accept responsibility if any details provided by you are incorrect.

Account Name	<input type="text"/>	Account No.	<input type="text"/>
Name of Bank or Building Society	<input type="text"/>		(please quote all digits and zeros):
Branch	<input type="text"/>	Sort Code	<input type="text"/>
Branch Address	<input type="text"/>		
	<input type="text" value="Post Code"/>		

5. Dividend Payment Authorisation (to be completed by the Applicant):

Please forward, until further notice, all dividends that may from time to time become due on any Shares now standing or which may hereafter stand, in my name in the registers of members of the Companies to the account noted above.

Full Name

Post Code

Signature

Date

6. Details of Financial Advisers (to be completed by intermediaries only. FSA number must be quoted):

All financial advisers **MUST** advise their clients of the Risk Factors set out on pages 16 and 17 of this document.

Firm Name			
Contact	[Adviser/Administrator] (delete as appropriate)		
Email Address			
FSA No.		Tel No.	
		Fax No.	
Address			
	Post Code		

7. Commission Options (to be completed by intermediaries whose details are in Section 6):

For Applications other than those in respect of which intermediaries have offered financial advice after 28 December 2012

Please complete section 7A or 7B (NOT BOTH)

7A Introductory commission of 3%.

7A1 To receive commission of 3% place an 'X' in this box ☐

7A2 Insert the amount of the 3% commission that you wish to be waived and reinvested in additional new Shares for your client e.g. 0%, 1%, 1.5%, 2%, 2.5% or ALL

OR

7B Introductory commission of 1.5% plus trail commission

7B1 To receive 1.5% initial plus annual trail commission of 0.4375% for up to 8 years place an 'X' in this box ☐

7B2 Insert the amount of 1.5% introductory commission you wish to be waived and reinvested in additional new Shares for your client e.g. 0%, 1% or ALL

For Applications in respect of which intermediaries have offered financial advice after 28 December 2012 (to be completed by you and your financial adviser)

Option A (Tick Box)

I have agreed to pay fees directly to my adviser for advice relating to my investment on the basis agreed between us. I therefore do not require the facilitation of any payment from my investment. ☐

OR

Option B (Tick Box)

I have agreed to pay the adviser detailed in Section 6 the one-off fee detailed below for advice relating to my investment. I hereby instruct the deduction of this amount from my subscription and its remittance to that adviser on my behalf. ☐

One-off fee to be deducted £

I understand that tax relief will only be available on the amount subscribed net of this fee.

I also understand that if my adviser's fee includes VAT I may remain liable for the VAT element thereof, even where arrangements have been made to pay the deduction mentioned above.

Signed by Applicant:

Confirmed by Adviser:

8. Direct Payments of Commissions to a Bank Account (to be completed by intermediaries whose details are in Section 6):

If you would like your commission(s) to be paid directly into your Bank or Building Society please tick this box ☐

Please provide your Bank or Building Society details below. The Companies and The City Partnership (UK) Limited cannot accept responsibility if any details provided by you are incorrect.

Account Name	<input type="text"/>	Account No.	<input type="text"/>
Name of Bank or Building Society	<input type="text"/>	(please quote all digits and zeros):	
Branch	<input type="text"/>	Sort Code	<input type="text"/>
Branch Address	<input type="text"/>		
	<input type="text"/>		
	Post Code		

Please forward, until further notice, all commission(s) that may from time to time become due as a result of my client's investment in the Companies.

Signature

Date

9. Direct Payments of One-off Fees to a Bank Account for applications in respect of which intermediaries have offered financial advice after 28 December 2012 (to be completed by intermediaries whose details are in Section 6):

If you would like your one-off fee to be paid directly into your Bank or Building Society please tick this box ☐

Please provide your Bank or Building Society details below. The Companies and The City Partnership (UK) Limited cannot accept responsibility if any details provided by you are incorrect.

Account Name	<input type="text"/>	Account No.	<input type="text"/>
Name of Bank or Building Society	<input type="text"/>	(please quote all digits and zeros):	
Branch	<input type="text"/>	Sort Code	<input type="text"/>
Branch Address	<input type="text"/>		
	<input type="text"/>		
	Post Code		

Please forward any one-off fee that may become due as a result of my client's investment in the Companies.

Signature

Date

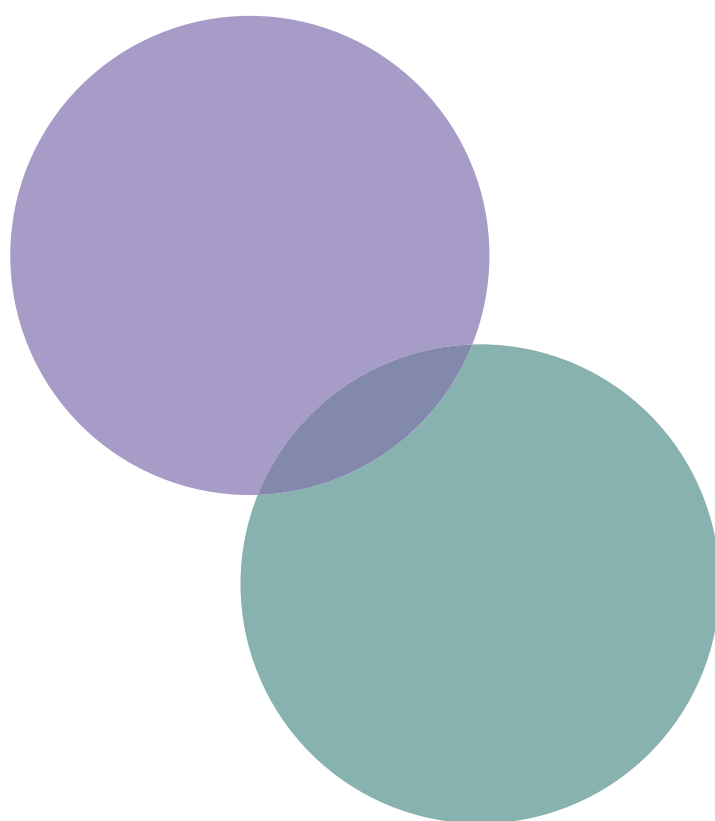
British Smaller Companies VCT plc and

British Smaller Companies VCT2 plc

Saint Martins House

210 - 212 Chapeltown Road

Leeds LS7 4HZ



British Smaller Companies VCT plc and British Smaller Companies VCT2 plc



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Transforming Small Businesses
yfmepl.com

