

# £30 million Offers for subscription

British Smaller Companies VCT plc ("BSC")  
British Smaller Companies VCT2 plc ("BSC2")

20 October 2014

2014/15  
and 2015/16  
tax years

This document, the Securities Note and the Summary, which together comprise the Prospectus relating to BSC and BSC2 (together “the VCTs”), have been prepared in accordance with the Prospectus Rules made by the Financial Conduct Authority pursuant to Part VI of the Financial Services and Markets Act 2000 (“FSMA”), and have been approved by and filed with the Financial Conduct Authority.

An application has been made to the UK Listing Authority for the Offer Shares to be admitted to the premium segment of the Official List of the UK Listing Authority and will be made to the London Stock Exchange for the Offer Shares to be admitted to trading on its main market for listed securities. It is expected that such Admission will become effective and that dealings in the Ordinary Shares will commence within 10 Business Days of their allotment.

Each of the Directors of the VCTs, whose names are set out on page 5 of this document, and the VCTs accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the VCTs (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 Conduct Authority (reference no. 523524), is acting for the VCTs 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 VCTs will qualify as Venture Capital Trusts or that Investors will obtain any tax relief in respect of their investment.

**British Smaller Companies VCT plc**

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

**and**

**British Smaller Companies VCT 2 plc**

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

**Offers for Subscription of ordinary shares in British Smaller Companies VCT plc and British Smaller Companies VCT2 plc, to raise up to £30 million, in aggregate**

The 2014/2015 Offers will close at 11:00 am on Saturday 4 April 2015 and the 2015/2016 Offers will close at 11:00 am on Thursday 30 April 2015 (or such later date to which the Directors extend the 2015/2016 Offers, but no later than 19 October 2015) or earlier should the Offers become fully subscribed. The terms and conditions of application are set out on pages 40 to 42 of the Securities Note and are followed by an Application Form for use in connection with the Offers. The Offers are not being underwritten and are not subject to reaching a minimum level of subscription. If the Offers are over subscribed, they may be increased by a further £10 million at the discretion of the VCTs up to a maximum of £40 million funds raised, in aggregate.

**The whole of this document should be read. Your attention is drawn to the “Risk Factors” set out on page 4 of this document.**

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## Risk factors

The VCTs and the Directors consider the following risks to be material to each VCT. Additional risks and uncertainties currently unknown to the VCTs and the Directors (such as changes in legal, regulatory or tax requirements), or which the VCTs and the Directors currently believe are immaterial to each VCT, may also have a materially adverse effect on the financial condition or prospects of the VCTs. Material risks relating to the Offer Shares are contained in the Securities Note.

- If you invest in either of the VCTs and you may lose some or all of your capital. Past performance of the VCTs is no guarantee of future returns and may not be repeated.
- Investment in the VCTs should be regarded as long-term in nature and may not be suitable for all Shareholders.
- There can be no guarantee that the VCTs will maintain full Venture Capital Trust qualifying status. Where full approval as a Venture Capital Trust is withdrawn the relevant VCT will also lose its exemption from corporation tax on capital gains. If at any time one of the VCT's Venture Capital Trust status is lost, dealings in its Shares will normally be suspended until such time as the relevant VCT has published proposals either to continue as an investment company or to be wound up, during which time the Shares will not be able to be publicly traded.
- The tax reliefs described in this document are those currently available. The tax rules or their interpretation in relation to an investment in the VCTs and/or rates of tax may change during the life of the VCTs and may apply retrospectively, which may adversely affect the VCTs. The EU State Aid Risk Capital Guidelines were updated in May 2014, and the UK Government will need to apply for renewal of State Aid approval of the VCT scheme. Whilst it is expected that approval will be renewed, it is possible some changes will be made to the rules, which may adversely affect the VCTs.
- As a result of the restrictions regarding Qualifying Companies set out in the VCT Regulations, the VCTs' investments are likely to be in relatively small companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. 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. Furthermore an investment in an unquoted, AIM-traded or ISDX-traded company, by its nature, involves a higher degree of risk than investment in the main market of the London Stock Exchange. All of these factors may adversely affect the performance of the Shares.
- The VCTs' ability to obtain maximum value from its investments (for example, through a sale or takeover) may be limited by requirements imposed in order to maintain its Venture Capital Trust status (such as the condition that not less than 70 per cent by value of its total investments must be in shares in, or securities of, an unquoted (including AIM and ISDX quoted) company carrying on a qualifying trade satisfying the conditions in Chapter 4 of the Income Tax Act 2007), which may adversely affect the performance of the VCTs.
- The Finance Act 2014 restricts the ability of Venture Capital Trusts to pay tax-free dividends from reserves created after 5 April 2014 from the cancellation of share premium accounts and similar reserves until such time as the VCTs have filed three full years' of financial statements.

## Forward looking statements

Potential Investors should not place undue reliance on forward looking statements. This Registration Document includes statements that are (or may be deemed to be) "forward looking statements", which can be identified by the use of forward looking terminology including terms such as "believes", "continues", "expects", "intends", "may", "will", "would", "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include matters that are not historical facts. Forward looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this Registration Document, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future. These statements will be updated as and when required by the Prospectus Rules, the Listing Rules and the DTRs, as appropriate.

# Directors and Advisers

## **Directors (all non-executive) and Registered Office (both VCTs):**

### **British Smaller Companies VCT plc**

Helen Rachelle Sinclair (Chairman)  
Philip Simon Cammerman  
Edward Charles Walter Buchan

### **British Smaller Companies VCT2 plc**

Richard Last (Chairman)  
Robert Martin Pettigrew  
Peter Charles Waller

All of: 5th Floor, Valiant Building  
14 South Parade  
Leeds LS1 5QS

### **Company Secretary**

hlw Keeble Hawson LLP  
Protection House  
16-17 East Parade  
Leeds LS1 2BR

### **Investment Adviser**

YFM Private Equity Limited  
5th Floor, Valiant Building  
14 South Parade  
Leeds LS1 5QS

### **Registrar**

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
0871 664 0324

### **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 Auditor of BSC**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

## **Registered Auditor of BSC2**

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**

Capita Asset Services  
Corporate Actions  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## **Solicitors to the VCTs and to the Offers**

HowardKennedyFsi LLP  
19 Cavendish Square  
London W1A 2AW

## **Promoter to the Offers**

RAM Capital Partners LLP  
10 Furnival Street  
London EC4A 1YH

# Definitions

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

<b>“Act”</b>	the Companies Act 2006, as amended from time to time;
<b>“Admission”</b>	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;
<b>“AIM”</b>	the Alternative Investment Market of the London Stock Exchange;
<b>“Applicant(s)”</b>	an investor(s) who applies to subscribe for Offer Shares;
<b>“Application Form”</b>	form of application for Offer Shares set out at the end of the Securities Note;
<b>“Articles”</b>	the articles of association of either VCT (as amended from time to time);
<b>“Board(s)” or “Directors”</b>	the directors of the relevant VCT at the date of this document (and each a “Director”);
<b>“BSC”</b>	British Smaller Companies VCT plc;
<b>“BSC2”</b>	British Smaller Companies VCT2 plc;
<b>“Business Day”</b>	a day (excluding Saturday and Sunday and public holidays in England and Wales) when the banks are generally open for business in London;
<b>“Capita Asset Services” “Circular”</b>	a trading name of Capita Registrars Limited, whose details are given on page 5; the circular issued to the Shareholders dated 20 October 2014;
<b>“Dividend Re-investment Scheme(s)”, “DRIS” or “Scheme(s)”</b>	the respective dividend re-investment scheme established for each VCT;
<b>“DTRs”</b>	the Disclosure and Transparency Rules made by the FCA under Part VI of FSMA;
<b>“FCA” “Financial Adviser”</b>	the Financial Conduct Authority or its successor; an authorised intermediary offering investment advice to their client;
<b>“FSMA”</b>	Financial Services and Markets Act 2000, as amended from time to time;
<b>“Investment Adviser” or “YFM Private Equity”</b>	YFM Private Equity Limited registered number 02174994 in its position as the FCA authorised and regulated subsidiary of YFM Equity Partners;
<b>“General Meetings” or “GMs”</b>	the general meeting of the relevant VCT convened for 3 December 2014 at 4 Cavendish Square, London, W1G 0PG (and any adjournment thereof);
<b>“HMRC”</b>	HM Revenue & Customs;
<b>“Howard Kennedy”</b>	Howard Kennedy Corporate Services LLP;
<b>“Intermediary”</b>	an authorised firm who signs the Application Form and whose details are set out in Section 6 of that document;
<b>“Investment Team”</b>	those persons whose details are set out on page 11 under the heading “The Investment Team”;
<b>“Investor(s)”</b>	an individual(s) who subscribes for Offer Shares;
<b>“ISDX”</b>	the trading facility operated by ICAP Securities and Derivatives Exchange Limited;

<b>“ITA”</b>	Income Tax Act 2007, as amended from time to time;
<b>“IFRS”</b>	International Financial Reporting Standards as adopted by the European Union;
<b>“January 2014 Prospectus”</b>	the prospectus that was issued by the VCTs on 14 January 2014;
<b>“January 2014 Offers”</b>	the offers for subscription of Ordinary Shares in respect of the tax years 2013/2014, and 2014/2015, details of which were set out in the January 2014 Prospectus;
<b>“Listing Rules”</b>	listing rules made by the FCA under Part VI of FSMA;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Net Assets”</b>	the aggregate of the gross assets of the relevant VCT including assets represented by any principal monies borrowed by the relevant VCT less all current liabilities of the relevant VCT (other than any principal monies borrowed);
<b>“Net Asset Value(s)” or “NAV”</b>	net asset value per Ordinary Share;
<b>“2014/2015 Offers”</b>	the offers for subscription of Ordinary Shares to a value not exceeding £30 million in respect of the tax year 2014/2015, details of which are set out in this document;
<b>“2015/2016 Offers”</b>	the offers for subscription of Ordinary Shares to a value not exceeding £30 million in respect of the tax year 2015/2016, details of which are set out in this document;
<b>“Offer Agreement”</b>	an offer agreement dated 20 October 2014 as set out in paragraph 4.1 on page 43 of this document;
<b>“Offer Costs Percentage”</b>	the costs of the Offers as a percentage of subscription proceeds, as set out on page 20 of the Securities Note;
<b>“Offers”</b>	the 2014/2015 Offers and the 2015/2016 Offers;
<b>“Offer Price(s)”</b>	the price of the Offer Shares as set out on page 21 of the Securities Note,
<b>“Offer Shares”</b>	Shares to be issued under the Offers;
<b>“Official List”</b>	the Official List of the UK Listing Authority;
<b>“Ordinary Shares” or “Shares”</b>	ordinary shares of 10p each in the capital of the relevant VCT;
<b>“Prospectus”</b>	the Securities Note, the Registration Document and the Summary, which together describe the Offers in full;
<b>“Prospectus Rules”</b>	prospectus rules made under Part VI of FSMA;
<b>“Qualifying Company”</b>	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. A summary of these requirements is given in Part 3 of this Registration Document;
<b>“Qualifying Holdings” or “Qualifying Investment(s)”</b>	shares in, or securities of, a Qualifying Company held by a Venture Capital Trust which meets the requirements described in Chapter 4 of Part 6 ITA;
<b>“Receiving Agent”</b>	Capita Asset Services;
<b>“Registrar of Companies”</b>	the registrar of companies for England and Wales;
<b>“Registration Document”</b>	this document, which has been prepared in accordance with the Prospectus Rules in connection with the Offers;

<b>“Regulatory Information Service”</b>	a regulatory information service that is on the list of regulatory information services maintained by the FCA;
<b>“Resolutions”</b>	the resolutions of the relevant VCT to be proposed at the GM;
<b>“RPI”</b>	UK Index of Retail Prices;
<b>“Scheme Administrator”</b>	Capita Asset Services;
<b>“Securities Note”</b>	the securities note dated 20 October 2014, which has been prepared in accordance with the Prospectus Rules in connection with the Offers;
<b>“Shareholder(s)”</b>	holder(s) of Ordinary Shares;
<b>“Shares” or “Ordinary Shares”</b>	ordinary shares of 10p each in the capital of the relevant VCT;
<b>“Statutes”</b>	the “Companies Acts” as defined in Section 2 of the Act;
<b>“Summary”</b>	the summary of the Offers dated 20 October 2014, which has been prepared in accordance with the Prospectus Rules in connection with the Offers;
<b>“UK Listing Authority”</b>	the FCA acting in its capacity as the competent authority under the FSMA;
<b>“VAT”</b>	value added tax;
<b>“VCTs”</b>	BSC and BSC2, and VCT means either one of them as the context requires;
<b>“VCT Regulations”</b>	The Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004, as amended from time to time;
<b>“Venture Capital Trust”</b>	a Venture Capital Trust as defined in Section 259 Income Taxes Act 2007;
<b>“YFM Equity Partners”</b>	YFM Equity Partners LLP, registered number OC384467;



# Part 1: The VCTs

## Introduction

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

BSC and BSC2 are seeking to raise additional funds of up to £30 million, in aggregate, with an over allotment facility of up to a further £10 million, in aggregate, to increase their investment capacity to take advantage of their ability to invest up to £5 million into larger businesses at an attractive point in their investment cycle.

An investment in the VCTs will provide individuals with the opportunity to invest in established Venture Capital Trusts with mature and diversified portfolios of mainly unlisted smaller UK companies with the aim of generating attractive returns over the medium to long term. Since inception, the VCTs have invested over £94 million in 120 businesses.

A typical Investor for whom the Offers are designed is a UK income taxpayer aged 18 or over, who is professionally advised, with an investment range of between £6,000 and £200,000, who may already have a portfolio of non-Venture Capital Trust 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 VCTs 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.

## Investment objectives and policies

The net proceeds of the Offers will be invested by the VCTs in accordance with their stated investment policies. Both VCTs' objectives are:

- to continue to expand their diversified portfolios of investments with a focus on long-term capital growth while maintaining a consistent or increasing level of tax-free dividend;
- to invest in Qualifying Investments in line with HMRC requirements in order to maintain their Venture Capital Trust 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 exposure to particular markets and individual companies.

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. The VCTs' investment strategies and objectives are set out in Part 2 of this document.

## Co-investment policy

The VCTs have first choice of all investment opportunities requiring up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's institutional co-investment fund and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest the agreed initial basis for allocation is 60% to BSC and 40% to BSC2. The Board of each of the VCTs has the discretion as to whether to take up their allocation in such co-investment opportunities.

## Share buy-back policies

The VCTs are conscious that their Share price is affected by the illiquidity of their Shares in the market. In line with many other Venture Capital Trusts, the VCTs, 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. The rate of discount for both VCTs is currently targeted to be no more than 10 per cent.

# The Investment Adviser

## Introduction

**YFM Private Equity** specialises in investing in unquoted companies and has been making investments in fast growing businesses for over 30 years. Including BSC and BSC2, the Investment Adviser directly manages funds in excess of £150 million.

The Investment Team directly responsible for advising on the management of BSC and BSC2 comprises principally 4 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 and portfolio staff together with a strong group of support staff from across YFM Equity Partners. This experience has enabled the Investment Adviser to establish wide networks of deal introducers, effective investment selection processes and strong portfolio management procedures.

The Investment Adviser sources its deals from many areas. The regional office network provides excellent access to interesting investment opportunities. Having been investing for over 30 years the Investment Adviser has built an extensive and proprietary network of chairmen, CEOs and management teams who regularly introduce opportunities to the Investment Adviser.

The Investment Adviser is actively involved in the portfolio companies, taking non-executive positions where appropriate. The depth of experience in the Investment Team allows the Investment Adviser 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.

## Performance of the Investment Adviser

The unaudited returns of the VCTs to investors who subscribed at each of the VCT's launches are set out below:

Track record of the VCTs							
	Fundraising round at launch (Tax Years)	Offer price net of income tax relief	Net Asset Value at 30 June 2014	Cumulative dividends paid since launch	Total return to date*	Overall Return (not in DRIS)**	Overall Return (in DRIS)***
		pence	pence	pence	pence	pence	pence
BSC	1995/96 and 1996/97	80.0	102.0	90.7	192.7	212.7	258.5
BSC2	2000/01 and 2001/02	80.0	63.2	41.5	104.7	124.7	151.0

\* Sum of NAV and the cumulative dividends paid to Shareholders per Share. This assumes that at the time of the investment the tax relief given in the investment was not also invested in Shares of the VCT

\*\* NAV plus cash dividends paid plus tax relief on the initial subscription

\*\*\* NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS Shares purchased. Assuming that all dividends since inception were invested under the terms of the current DRIS

**The past performance of the Investment Adviser and of the funds it manages may not be repeated and is not a guide to the future performance of the VCTs.**

## The Investment Team

**David Hall – Managing Director.** David became the managing director of the Investment Adviser in 2003, having had responsibility for the Manchester office since 2000. Prior to this he had been an investment adviser 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 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, PowerOasis Limited and Immunobiology Limited and represents the VCTs' interests on several other investments. He has a first class degree in Mathematics from Imperial College and also spent five 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, Seven Technologies Holdings, Gill Marine Holdings and Deep-Secure. He has a first class degree in Economics from Bristol University and qualified as a Chartered Accountant with PricewaterhouseCoopers.

**David Gee – Director of Investments.** David has 24 years' experience in the venture capital field with YFM Private Equity. From 1996 until 2012 David was investment director on the Board of YFM Private Equity and now holds a non-board position as 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 VCTs. He qualified as a Chartered Accountant with Grant Thornton, latterly specialising in corporate finance and holds a degree in Mathematics from Imperial College.

## Performance incentive fee

In line with normal Venture Capital Trust practice, the Investment Adviser is entitled to receive a performance related incentive fee.

For BSC, the Investment Adviser will receive an incentive payment equal to 20 per cent of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per Share (increasing in line with RPI and as at 31 March 2014 the adjusted target was 4.7 pence per Share), subject to cumulative shortfalls in any prior accounting period being made up. The incentive payment is also conditional upon the average Net Asset Value being not less than 94.0 pence per Share in the relevant accounting period, as adjusted for the impact of share issues and buy backs (as at 31 March 2014 the adjusted target was 92.8 pence per Share). With effect from 1 April 2014 the amount of the incentive payment paid to the Investment Adviser for any one year shall be capped such that when taken with all other relevant costs, ensure that the Total Expenses Ratio is no greater than 5 per cent of the net asset value at the end of the financial year (as adjusted for all realised gains that have been distributed during that year). Any unpaid incentive payment will be carried over to subsequent financial years and be included in the calculation of the Total Expenses Ratio. Further details are given on page 44.

For BSC2, the Investment Adviser will receive an amount (satisfied by the issue of Shares) equivalent to 20 per cent. of the amount by which the cumulative dividends paid as at the last Business Day in December in any year plus the middle market quotation per Share exceeds 120 pence per Share on that same day, multiplied by the number of Shares in issue and the Shares under option (if any). These subscription rights are exercisable in the ratio 95:5 between the Investment Adviser and Chord Capital Limited. Further details are given on page 45.

## Substantial investments

Prior to the Offers, the Boards, the Investment Adviser, the Investment Team and employees of the Investment Adviser have together subscribed for 355,249 shares in BSC and 331,066 shares in BSC2.

## The Boards

Both VCTs benefit from highly experienced Boards, each consisting of three non-executive directors, who are listed below. The Boards have overall responsibility for each VCT's investment policy and administration and have appointed the Investment Adviser as their investment adviser.

### British Smaller Companies VCT plc

**Helen Sinclair (Chairman)** 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 Partners 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 Partners 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 and Downing One VCT plc and chairs the investment committees of the Third Sector Loan Fund and the Community Investment Fund, both part of Social & Sustainable Capital LLP.

**Philip Cammerman** has an engineering degree from Imperial College and an MBA from Stanford University. He has over twenty 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 and a number of smaller private businesses.

**Edward Buchan** 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 a senior adviser in corporate finance at Edmond De Rothschild Securities and is a non-executive director of Wallem Group Limited, an international ship management and shipping services company based in Hong Kong.

### British Smaller Companies VCT2 plc

**Richard Last (Chairman)** 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 Servelec Group plc, which is listed on the main market of the London Stock Exchange. He is also chairman and non-executive director of Gamma Communications plc (a telecoms company), Lighthouse Group plc (a financial services group) and Arcontech Group plc (a financial software business) and a non-executive director of Corero Network Security plc, all AIM listed. In addition he is a director of a number of private companies including APD Communications Limited (an IT company), Learn Solutions Limited (an online tutoring business), both of which he is chairman of, and Waste Management Solutions Limited (a waste logistics business).

**Robert Pettigrew** 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 non-executive chairman of Sunamp Limited and Odos Imaging Limited and non-executive director of Acal Energy Limited and Nightingale-EOS Limited.

**Peter Waller** 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 KeyPoint Technologies (UK) 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

Each Board is responsible for the overall control and management of their VCT with responsibility for its affairs, including determining its investment policy. Investment proposals are originated by the Investment Adviser and formally approved by the relevant Board or investment committee.

The Investment Adviser 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 HMRC clearance is obtained for approval as a Qualifying Investment.

Each Board reserves the right to take all investment and divestment decisions except 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 Investment Adviser.

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 Board of each VCT regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT Regulations. Reports are received from the Investment Adviser as to the trading and financial position of each investee company and members of the Investment Team regularly attend the Board meetings. Monitoring reports are also received at each Board meeting on compliance with each VCTs' investment targets so that the Boards can monitor that the Venture Capital Trust status of their VCT is maintained and take corrective action where appropriate.

The VCTs comply with the provisions of the UK Corporate Governance Code save for those provisions relating to the following: (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 VCTs do not have major Shareholders), (ii) the VCTs have not appointed a CEO or a senior independent non-executive director and (iii) the presumption concerning the Chairman's independence. BSC2 has not complied with the provisions relating to the establishment of an independent remuneration committee and the Chairman acting as chairman of the audit committee, as explained below. It is each VCT's standard practice not to appoint executive officers as executive functions are delegated to the Investment Adviser and the Boards consider that each of the Directors acts as a senior independent non-executive Director.

## Committees

**Audit Committees.** Each VCT has an audit committee which meets at least twice a year. The audit committees review the actions and judgements of the Investment Adviser in relation to the interim and annual financial statements and each VCT's compliance with the UK Corporate Governance Code. They review the terms of the advisory agreement and examine the effectiveness of each VCT's internal control systems, receive information from the Investment Adviser'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.

**Nominations and Remuneration Committees.** BSC has a combined nominations and remuneration committee which consists of the Directors who are considered by the BSC Board to be independent of the Investment Adviser.

BSC2 has a nomination committee which consists of the Directors who are considered by the BSC2 Board to be independent of the Investment Adviser. 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.

Edward Buchan is the chairman of BSC's combined nominations and remuneration committee and Richard Last is the chairman of BSC2's nominations committee save when the relevant committee meets to consider a candidate for the Chairmanship. In considering appointments to the Boards, the committees dealing with nominations take into account the ongoing requirements of the VCTs and the need to have a balance of skills and experience on the Boards.

**Allotment Committees.** With regards to the allotment of new Shares, BSC generally operate through a committee of any one Director. BSC2 generally operate through a committee of any two Directors (unless it is an allotment under the BSC2's DRIS when it is only one Director). The allotment committees meet as and when required to formally approve the allotment of Shares.

**Investment Committee.** The Directors of BSC meet as an investment committee of the Board to consider and approve all investment decisions. The committee 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 an independent investment committee.

## Custody arrangements

Following the FCA's registration of the VCTs' as Small Registered Alternative Investment Fund Managers the VCTs hold their own investments. All investments made for the accounts of and monies received for the VCTs will be deposited in the name of the VCTs or will be held by a custodian or the VCTs' solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the VCTs and will be held in the relevant VCT's name or forwarded directly to the custodian or the VCTs' solicitors. No third party custodian has been appointed. The VCTs will take legal ownership of the VCTs' assets.

## Dividend policy

BSC is aiming to continue its dividend policy and has a target of increasing dividends over time. The average over the last five years to 30 June 2014 is 9.2 pence per Share per annum. This average includes 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. Excluding this dividend the average is 5.6 pence per share. **This is a target, and not guaranteed. No forecast or projection is to be implied or inferred.**

BSC2 is aiming to continue its dividend policy and has a target dividend of increasing dividends over time. The average over the last five years to 30 June 2014 is 4.7 pence per Share per annum. **This is a target, and not guaranteed. No forecast or projection is to be implied or inferred.**

## Dividend Re-investment Schemes

BSC and BSC2 currently operate Dividend Re-investment Schemes providing Shareholders with the opportunity to reinvest the cash dividends paid by the VCTs through the issue of new Shares. It is expected that the first applicable dividend in relation to which Schemes will operate for the Offer Shares will be the final dividend for the financial year ending 31 March 2015 for BSC and the final dividend for the financial year ending 31 December 2014 for BSC2, expected to be paid in August 2015 and June 2015 respectively. Currently, Shareholders whose dividends are re-invested under the Schemes receive Shares at a 5 per cent discount to the latest reported Net Asset Value as at the date the dividend is paid (adjusted for the relevant dividend if this Net Asset Value does not already recognise the dividend). Whilst the Schemes can be withdrawn at any time, the Directors have no plans to do so.

Shareholders participating in the Schemes should qualify for the Venture Capital Trust tax reliefs that are applicable at the time of investment to subscription for new shares in the VCTs, subject to current law and the limits set out below, provided they hold the Shares for the 5 year Venture Capital Trust qualifying period applicable to new subscriptions. The Shares subscribed through the Schemes will form part of each Shareholder's current annual limit of £200,000 for new subscription in Venture Capital Trusts. Dividends paid by either VCT are tax-free provided the holding is acquired within this limit, and need not be reported in the Shareholder's annual tax return. Any loss or gain accruing to a Shareholder on a disposal of the Shares acquired within the current annual limit of £200,000 will be neither a chargeable gain nor an allowable tax loss for the purposes of capital gains tax. Shares acquired first will be treated as disposed of first, whether or not tax relief was obtained on those Shares.

Shareholders wishing to participate in the Schemes should complete the appropriate box in Section 4 of the Application Form, having read and understood the terms and conditions of the Schemes, which are set out on pages 37 to 39 of the Securities Note.

**The tax consequences of a Shareholder choosing to participate in either Scheme will depend on their personal circumstances and specialist independent tax and financial advice should be obtained before entering the Scheme.**

## The VCTs

### British Smaller Companies VCT plc

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.
2. The principal legislation under which BSC operates is the Act, FSMA and the regulations made thereunder (including the Listing Rules, the Prospectus Rules and the DTRs). The registered office and principal place of business of BSC is 5<sup>th</sup> Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.
3. Since incorporation BSC has carried on business as a Venture Capital Trust. BSC is registered by the Financial Conduct Authority as a Small Registered Alternative Investment Fund Manager.
4. 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.
5. On 29 March 2004 BSC revoked its investment company status.
6. BSC's Articles require that at the annual general meeting of BSC held after the later of i) 31 March 2020 and ii) the fifth anniversary of the last allotment of shares (from time to time) in BSC and, if BSC has not then been wound-up or reconstructed or re-organised, at each fifth annual general meeting of BSC thereafter, the Directors shall procure that an ordinary resolution will be proposed to the effect that BSC shall continue as a Venture Capital Trust.

### British Smaller Companies VCT2 plc

1. 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.
2. The principal legislation under which BSC2 operates is the Act, FSMA and the regulations made thereunder (including the Listing Rules, the Prospectus Rules and the DTRs). The registered office and principal place of business of BSC2 is 5<sup>th</sup> Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.
3. Since incorporation BSC2 has carried on business as a Venture Capital Trust. BSC2 is registered by the Financial Conduct Authority as a Small Registered Alternative Investment Fund Manager.
4. 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.
5. On 12 November 2004 BSC2 revoked its investment company status.
6. A special Resolution was approved by BSC2 Shareholders at a general meeting held on 18 February 2014 extending the life of BSC2 to 2020. BSC2's Articles require that at every fifth annual general meeting thereafter the Directors propose that BSC2 should continue as a Venture Capital Trust for a further 5 years.



## Part 2: Investment Policies, Strategies and Objectives

### Investment Policies

The investment policy of each of the VCTs is as follows:

The investment strategy of the VCT is to create a portfolio with a mix of companies operating in traditional industries and those that offer opportunities in the development and application of innovation.

The legislation governing Venture Capital Trusts requires that at least 70 per cent by value of its holdings must be in qualifying holdings. The maximum value of any single investment is 15 per cent at the time of investment.

- Diversification

The VCT invests in UK businesses across a broad range of sectors including but not limited to Software, IT and Telecommunications, Business Services, Manufacturing & Industrial Services, Retail & Brands and Healthcare in Venture Capital Trust qualifying and non-qualifying unquoted and AIM traded securities.

The VCT invests in a range of securities including, but not limited to, ordinary and preference shares, corporate bonds and other fixed income securities. Unquoted investments are structured so as to spread risk and enhance revenue yields, usually as a combination of ordinary shares, preference shares and loan stocks, while AIM securities are generally held in ordinary shares.

- Borrowing

The VCT funds the investment programmes out of its own resources and has no borrowing facilities for this purpose.

- Co-investment

The VCTs have first choice of all investment opportunities requiring up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's institutional co-investment fund and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest with each other, the agreed initial basis for allocation is 60 per cent to BSC and 40 per cent to BSC2. The Board of each VCT has discretion as to whether to take up their allocation of such investment opportunities, or to take up a different participation.

- Asset Mix

Pending investment in Venture Capital Trust-qualifying and Venture Capital Trust non-qualifying unquoted or AIM traded securities, surplus cash is primarily held in interest bearing instant access, notice and fixed term bank accounts or in UK Gilts.

### Investment strategies and objectives

The investment strategies and objectives of each VCT 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.

In the opinion of the Directors the continuing appointment of the Investment Adviser as the VCTs' investment adviser is in the interests of the Shareholders as a whole in view of its experience in managing Venture Capital Trusts and in making and exiting investments of the kind falling within the VCTs' investment policies.

Prior to the investment of funds in suitable Qualifying Companies, the liquid assets of the VCTs are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to the Investment Adviser, 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. In addition, the Investment Adviser also invests surplus funds in fixed rate bank deposits. Alternatively surplus funds are invested in non-qualifying assets of a similar asset class to the Qualifying Investments.



## Part 3: Taxation

### Qualification and approval as a Venture Capital Trust

To obtain Venture Capital Trust status a company must be approved by HMRC as a Venture Capital Trust. A Venture Capital Trust must be approved at all times. A Venture Capital Trust cannot be approved unless the tests detailed below are met throughout the most recent complete accounting period of the Venture Capital Trust and HMRC is satisfied that they will be met in relation to the accounting period of the Venture Capital Trust which is current when the application is made. Where a Venture Capital Trust raises further funds it is given a grace period to invest those funds before the funds become subject to such tests. To maintain approval, the conditions summarised below must continue to be satisfied throughout the life of the Venture Capital Trust:

- a) the Venture Capital Trust's income must have been derived wholly or mainly from shares and securities;
- b) no holding in a company (other than a Venture Capital Trust or a company which would, if its shares were listed, qualify as a Venture Capital Trust) by the Venture Capital Trust may represent more than 15 per cent, by value, of the Venture Capital Trust's total investments at the time of investment;
- c) the Venture Capital Trust must not have retained more than 15 per cent of the income derived from shares or securities in any accounting period;
- d) The Venture Capital Trust must not be a close company. Its ordinary share capital must be listed on a regulated European market;
- e) at least 70 per cent, by value, of its investments is represented by shares or securities comprising Qualifying Investments;
- f) for funds raised before 6 April 2011, have at least 30 per cent, by value, of its Qualifying Investments represented by holdings of ordinary shares which carry no present or future preferential rights to dividends, return of capital or any redemption rights;
- g) for funds raised after 5 April 2011, have at least 70 per cent by value of the Venture Capital Trust'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;
- h) at least 10 per cent of the Venture Capital Trust's total investment in each Qualifying Investment must be in eligible shares, as described above;
- i) not make an investment in a company which causes that company to receive more than £5 million of State Aid investment in the 12 months ended on the date of the investment; and
- j) not return capital to shareholders before the end of the accounting period during which the third anniversary of the subscription for shares occurs.

### Qualifying investments

A Qualifying Investment comprises shares or securities first issued to the Venture Capital Trust (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) by a company satisfying the conditions set out in Chapters 3 and 4 of Part 6 of ITA 2007. The conditions are detailed, but include that the company must be a Qualifying Company (as defined below), have gross assets not exceeding £15 million immediately prior to the investment and £16 million immediately thereafter, apply the funds raised for the purposes of a qualifying trade within certain time limits, have fewer than 250 full-time equivalent employees, and must not receive more than £5 million from Venture Capital Trusts or other State Aid investment sources during the 12 month period which ends on the date of the Venture Capital Trust's investment. Neither the Venture Capital Trust nor any other company may control the investee company. In certain circumstances an investment in a company by a Venture Capital Trust can be split into a part which is a qualifying holding and a part which is a non-qualifying holding.

A Qualifying Company must be unquoted (companies whose shares are traded on AIM or ISDX are treated as unquoted companies for this purpose) and carry on a qualifying trade. 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. The definition of a qualifying trade excludes certain activities such as dealing in property, shares or securities and the provision of financial services. The trade must be carried on by, or be intended to be carried on by the Qualifying

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Company or a subsidiary, which must be at least 90 per cent owned by the parent company at the time of the issue of the shares or securities to the Venture Capital Trust (and 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 Venture Capital Trust and continue it thereafter.

A Qualifying Company must have a permanent establishment in the UK, but need not be UK resident, and may have no subsidiaries other than qualifying subsidiaries which must, in most cases, be at least 51 per cent owned.

### **Taxation of a Venture Capital Trust**

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

### **Withdrawal of approval**

Approval of a Venture Capital Trust may be withdrawn by HMRC if the tests summarised above are not satisfied. The exemption from corporation tax on capital gains will not apply to any gain realised after the point at which Venture Capital Trust status is lost. Withdrawal of approval generally has effect from the time when notice is given to the Venture Capital Trust but, in relation to capital gains tax, can be backdated to not earlier than the first day of the accounting period commencing immediately after the last accounting period in which all of the tests were satisfied.

**The above is only a summary of the conditions to be satisfied for a company to be treated as a Venture Capital Trust.**

## Part 4: Financial Information on the VCTs

### Introduction

Audited statutory accounts of BSC for the year ended 31 March 2014, in respect of which BSC's auditors, BDO LLP, registered auditor of 55 Baker Street, London, W1U 7EU, a registered member firm of the Institute of Chartered Accountants in England and Wales, made an unqualified report under section 495 of the Act, have been delivered to the Registrar of Companies and this report did not contain any statements under section 498(2) or (3) of the Act. Audited statutory accounts of BSC for the years ended 31 March 2012, and 31 March 2013, in respect of which BSC's auditors, Grant Thornton UK LLP, registered auditor of 2 Broadfield Court, Sheffield, S8 0XF, a registered member firm 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](http://www.yfmep.com).

Audited statutory accounts of BSC2 for the years ended 31 December 2011, 31 December 2012 and 31 December 2013, in respect of which BSC2's auditors, Grant Thornton UK LLP, registered auditor of 2 Broadfield Court, Sheffield, S8 0XF, a registered member firm 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](http://www.yfmep.com).

Unaudited interim accounts of BSC2 for the six months ended 30 June 2013 and 30 June 2014 are available at [www.yfmep.com](http://www.yfmep.com). These interim accounts have not been audited or reviewed by BSC2's auditors.

These financial statements are prepared in accordance with IFRS and also contain a description of the relevant VCT's financial condition, changes in financial condition and results of operations for each of the above financial years.

## Historical financial information

Historical financial information relating to each VCT on the matters referred to below 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 VCT 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 below are not relevant to Investors and are not incorporated into and do not form part of this document):

<b>BSC</b>	<b>Audited Statutory Accounts for Year Ended 31 March 2012</b>		<b>Audited Statutory Accounts for Year Ended 31 March 2013</b>		<b>Audited Statutory Accounts for Year Ended 31 March 2014</b>
<b>Nature of information</b>	<b>Page No.</b>		<b>Page No.</b>		<b>Page No.</b>
Financial Summary and Highlights	3-5		3-5		4-5
Chairman's Statement	6-8		6-9		6-8
Objectives and Key Policies	-		-		9
Fund Management & Key Contracts	-		-		9-10
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Investment Performance	-		-		14-29
Principal Risks	-		-		30-31
Other Matters	-		-		32
Fund Manager's Review	9-23		10-26		-
Investment Portfolio	-		-		-
Valuation of Investments	24		27		55
Directors	25		28		33
Directors Report	26-37		29-40		34-36
Corporate Governance	-		-		37-42
Directors Remuneration Report	38-39		41-42		43-45
Directors Responsibilities Statement	-		-		46
Independent Auditors' Report	40		43		47-48
Independent Review Report	-		-		-
Statement of Comprehensive Income	41		44		49
Balance Sheet	42		45		50
Statement of Changes in Equity	43		46-47		51-52
Statement of Cash Flows	44		48		53
Notes to the Financial Statements	45-62		49-65		54-73
Related Party Transactions	57		61		69

<b>BSC2</b>	<b>Audited Statutory Accounts for Year Ended 31 Dec 2011</b>	<b>Audited Statutory Accounts for Year Ended 31 Dec 2012</b>	<b>Unaudited Interim Report for 6 Months Ended 30 June 2013</b>	<b>Audited Statutory Accounts for Year Ended 31 Dec 2013</b>	<b>Unaudited Interim Report for 6 Months Ended 30 June 2014</b>
<b>Nature of information</b>	<b>Page No.</b>	<b>Page No.</b>	<b>Page No.</b>	<b>Page No.</b>	<b>Page No.</b>
Financial Summary and Highlights	3-5	3-5	2-3	3-5	2-3
Chairman's Statement	6-8	6-9	4-6	6-8	4-5
Objectives and Investment Policy	-	-	-	9	-
Fund Manager's Review	9-21	10-26	-	10-26	-
Investment Review	-	-	-	-	6-7
Investment Portfolio	-	-	7-13	-	8-10
Valuation of Investments	22	27	-	27	-
Key Performance Indicators	-	-	-	28	-
Principal Risks and Uncertainties	-	-	-	-	11
Risk Factors	-	-	-	29	-
Other Matters	-	-	-	30	-
Directors	23	28	-	31	-
Directors Report	24-32	29-38	-	32-39	-
Directors Remuneration Report	33-34	39-40	-	40-42	-
Directors Responsibilities Statement	-	-	-	43	11
Independent Auditors' Report	35	41	-	44-45	-
Statement of Comprehensive Income	36	42	14	46	12
Balance sheet	37	43	15	47	13
Statement of Changes in Equity	38	44-45	16-17	48-49	14-15
Statement of Cash Flows	39	46	18	50	16
Notes to the Financial Statements	40-56	47-65	19-22	51-69	17-24
Related Party Transactions	52	60	22	-	-

## Operating and financial review

<b>BSC</b>			<b>Audited Statutory Accounts for Year Ended 31 March 2012</b>	<b>Audited Statutory Accounts for Year Ended 31 March 2013</b>	<b>Audited Statutory Accounts for Year Ended 31 March 2014</b>
Total Net Assets (£000)			37,894	42,089	62,584
Change in Net Assets (£000)			(3,278)	4,913	20,495
Net Asset Value per Share			99.6p	97.0p	102.0p
Dividends paid per Share			23.0p	5.0p	6.5p
Cumulative Dividends paid per Share			79.2p	84.2p	90.7p

<b>BSC2</b>	<b>Audited Statutory Accounts for Year Ended 31 Dec 2011</b>	<b>Audited Statutory Accounts for Year Ended 31 Dec 2012</b>	<b>Unaudited Interim Report for 6 Months Ended 30 June 2013</b>	<b>Audited Statutory Accounts for Year Ended 31 Dec 2013</b>	<b>Unaudited Interim Report for 6 Months Ended 30 June 2014</b>
Total Net Assets (£000)	15,982	27,152	30,258	30,458	39,330
Change in Net Assets (£000)	4,153	1,094	3,106	200	8,872
Net Asset Value per Share	68.5p	65.5p	65.3p	65.6p	63.2p
Dividends paid per Share	4.0p	4.5p	2.5p	4.5p	2.5p
Cumulative Dividends paid per Share	30.0p	34.5p	37.0p	39.0p	41.5p

A description of the changes in the performance of the VCTs, both capital and revenue, and changes to their portfolios of investments:

- (i) for the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013, in respect of BSC2 and 31 March 2012 and 31 March 2013 in respect of BSC is set out in the sections headed “Chairman’s Statement” and “Investment Adviser’s Review” and for the financial year ended 31 March 2014, in respect of BSC, is set out in the sections headed “Chairman’s Statement” and “Investment Performance” in the published audited statutory accounts of the relevant VCT for these periods; and
- (ii) for the six months ended 30 June 2013 and 30 June 2014, in respect of BSC2, is set out in the sections headed “Chairman’s Statement” and “Investment Portfolio” in the unaudited interim accounts of BSC2 for these periods. The investment portfolio table on pages 23 to 24 of this document has been extracted without material adjustment from the management accounts for the period ended 30 June 2014 in the case of BSC and from the unaudited interim report for the 6 months ended 30 June 2014 in the case of BSC2.

As at 30 June 2014 BSC’s unaudited Net Asset Value was 102.0 pence per Share and as at 30 June 2014 BSC2’s unaudited Net Asset Value was 63.2 pence per Share. There have been no significant changes in the financial or trading positions of BSC and BSC2 since 30 June 2014, the date of the last unaudited published financial information of the VCTs.

## Investment Portfolio

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 June 2014 (being the latest published NAVs of the VCTs) is set out below. Investments completed after that date are valued at the cost of the investment on the date it was completed. There has been no material change to the VCTs' investment portfolios since 30 June 2014.

Investee company		BSC		BSC2		Combined	
(AI in £000)	Sector	Carrying cost*	Valuation	Carrying cost*	Valuation	Carrying cost*	Valuation
Unquoted Investments							
GO Outdoors Topco Limited	Retail & Brands	215	6,473	-	-	215	6,473
DisplayPlan Holdings Limited	Business Services	975	3,830	525	2,062	1,500	5,892
Intelligent Office UK Limited	Business Services	2,934	2,934	1,956	1,956	4,890	4,890
President Engineering Group Ltd	Manufacturing & Industrial Services	700	4,371	-	-	700	4,371
Gill Marine Holdings Limited	Retail & Brands	2,500	2,500	1,870	1,870	4,370	4,370
Mangar Health Limited	Healthcare	2,460	2,460	1,640	1,640	4,100	4,100
Waterfall Services Limited	Business Services	100	3,164	26	792	126	3,956
Seven Technologies Holdings Limited	Software, IT & Telecomms	1,984	1,984	1,238	1,238	3,222	3,222
GTK (UK) Limited	Manufacturing & Industrial Services	1,650	1,650	1,084	1,084	2,734	2,734
Leengate Holdings Limited	Manufacturing & Industrial Services	1,401	1,401	934	934	2,335	2,335
Macro Art Holdings Limited	Business Services	1,260	1,260	840	840	2,100	2,100
Deep-Secure Ltd	Software, IT & Telecomms	1,000	1,287	500	644	1,500	1,931
Callstream Group Limited	Software, IT & Telecomms	415	771	415	771	830	1,542
Bagel Nash Group Limited	Retail & Brands / Manufacturing & Industrial Services	1,157	918	771	613	1,928	1,531
Insider Technologies (Holdings) Limited	Software, IT & Telecomms	1,170	880	780	587	1,950	1,467
RMS Group Holdings Limited	Manufacturing & Industrial Services	180	1,024	70	398	250	1,422
Harvey Jones Holdings Limited	Retail & Brands	777	901	389	451	1,166	1,352
Intamac Systems Limited	Software, IT & Telecomms	250	250	750	750	1,000	1,000
Fairlight Bridge Limited	Business Services	1,000	1,000	-	-	1,000	1,000
Immunobiology Limited	Healthcare	-	-	1,932	987	1,932	987
Selima Holding Company Ltd	Software, IT & Telecomms	600	600	300	300	900	900
Harris Hill Holdings Limited	Business Services	600	666	-	-	600	666
PowerOasis Limited	Software, IT & Telecomms	425	213	567	284	992	497
Tissuemed Limited	Healthcare	-	-	48	60	48	60
Dryden Human Capital Limited	Business Services	610	50	-	-	610	50
TeraView Limited	Software, IT & Telecomms	375	-	375	-	750	-
		24,738	40,587	17,010	18,261	41,748	58,848

Quoted Investments							
Pressure Technologies plc	Manufacturing & Industrial Services	184	890	121	583	305	1,473
EKF Diagnostics Holdings plc	Healthcare	448	534	437	407	885	941
AB Dynamics plc	Manufacturing & Industrial Services	380	564	253	376	633	940
Mattioli Woods plc	Business Services	258	847	-	-	258	847
Hargreaves Services plc	Manufacturing & Industrial Services	310	424	325	314	635	738
Vianet Group plc	Business Services	302	217	181	132	483	349
Iomart Group plc	Software, IT & Telecomms	-	-	119	247	119	247
Cambridge Cognition Holdings plc	Healthcare	325	139	240	102	565	241
Brady Public Limited Company	Software, IT & Telecomms	-	-	134	171	134	171
Allergy Therapeutics plc	Healthcare	-	-	350	70	350	70
Woodspeen Training plc	Business Services	250	63	-	-	250	63
Belgravium plc	Software, IT & Telecomms	165	53	-	-	165	53
		2,622	3,731	2,160	2,402	4,782	6,133
<b>Total unquoted and quoted</b>		<b>27,360</b>	<b>44,318</b>	<b>19,170</b>	<b>20,663</b>	<b>46,530</b>	<b>64,981</b>

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

Additional investments totalling £5.59 million have been made since 30 June 2014. In October 2014 BSC and BSC2 completed a new quoted investment of £0.4 million into Gamma Communications plc. In September 2014 BSC and BSC2 completed a new unquoted investment of £1.90 million and 1.27 million respectively into The Heritage Window Company Holdco Limited, a manufacturer and retailer of aluminium framed windows. In September 2014 BSC and BSC2 completed a follow-on investment of £1.20 million and £0.80 million respectively into kitchen manufacturer and retailer Harvey Jones Holdings Limited.

Investments (realisations) since 30 June 2014	Sector	BSC		BSC2		Combined	
		Carrying cost*	Valuation	Carrying cost*	Valuation	Carrying cost*	Valuation
(All in £000)							
Harvey Jones Holdings Limited	Retail & Brands	1,200	1,200	800	800	2,000	2,000
The Heritage Window Company Holdco Limited	Retail & Brands / Manufacturing & Industrial Services	1,903	1,903	1,268	1,268	3,171	3,171
Gamma Communications plc	Software, IT & Telecoms	253	253	168	168	421	421
Vianet Group plc	Business Services	(302)	(217)	(181)	(132)	(483)	(349)

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



## Summaries of investments

Brief details are given below of the Venture Capital Trust investments which together represent 59% of the combined Net Asset Value of the VCTs as at 30 June 2014. These investments represent 65% of BSC's NAV and 51% of BSC2's NAV at that date, and have been extracted from the management accounts for BSC and unaudited interim accounts of BSC2 for the period ended 30 June 2014.

### Top 15 Unquoted Investments by Combined Value

#### GO Outdoors Topco Limited (BSC)

Cost	£215,099	Audited financial information: 52 weeks ended 29 January		
Valuation	£6,473,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	170.98	143.67
Equity held	14.2%	EBITDA pre-exceptionals	9.44	8.46
Type	Retail and Brands	Profit (loss) before tax	1.49	(2.56)
		Net assets	11.47	2.67

#### DisplayPlan Holdings Limited (BSC & BSC2)

Cost	£1,500,000	Audited financial information: year ended 31 December 2013 (2012: 9 months ended 31 December)		
Valuation	£5,892,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	16.50	19.97
Equity held	35.0%	EBITA	2.20	3.35
Type	Business Services	Profit before tax	1.66	2.99
		Net assets	3.89	2.81

#### Intelligent Office (UK) Ltd (BSC & BSC2)

Cost	£4,890,000	Recent trading information: year ended 30 September		
Valuation	£4,890,000	Adjusted for deal related costs and to reflect the on-going cost structure due to recently completed transaction		
Basis of valuation	Price of recent investment, reviewed for change in fair value	£m		2013
Equity held	44.4%	Sales		14.00
Type	Business Services	EBITA		0.96

#### President Engineering Group Ltd (BSC)

Cost	£700,000	Audited financial information: Year ended 31 Oct		
Valuation	£4,371,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	20.52	19.58
Equity held	20.0%	EBITA	3.76	4.01
Type	Manufacturing and Industrial	Profit before tax	1.78	2.21
		Net assets	3.29	2.57

**Gill Marine Holdings Limited (formerly Friar 139 Ltd) (BSC & BSC2)**

Cost	£4,370,000	Recent trading information: year ended 30 September	
Valuation	£4,370,000	Adjusted for deal related costs and to reflect the on-going cost structure due to recently completed transaction	
Basis of valuation	Price of recent investment, reviewed for change in fair value	£m	2013
Equity held	32.3%	Sales	12.01
Type	Retail and Brands	EBITA	1.63

**Mangar Health Limited (BSC & BSC2)**

Cost	£4,100,000	Recent trading information: year ended 31 July	
Valuation	£4,100,000	Adjusted for deal related costs and to reflect the on-going cost structure due to recently completed transaction	
Basis of valuation	Price of recent investment, reviewed for change in fair value	£m	2013
Equity held	37.1%	Sales	6.40
Type	Healthcare	EBITA	1.45

**Waterfall Services Limited (BSC & BSC2)**

Cost	£125,258	Audited financial information: year ended 31 March		
Valuation	£3,956,000	£m	2014	2013
Basis of valuation	Earnings multiple	Sales	50.31	48.74
Equity held	23.97%	EBITA	2.73	1.81
Type	Business Services	Profit before tax	2.06	1.05
		Net assets	5.11	3.47

**Seven Technologies Holdings Limited (BSC & BSC2)**

Cost	£3,222,610	Audited financial information: Year ended 31 May		
Valuation	£3,222,000	£m		2013
Basis of valuation	Earnings multiple	Sales		11.58
Equity held	16.3%	EBITA		2.58
Type	Software, IT and Telecomms	Loss before tax		(0.17)
		Net assets		17.75

**GTK (UK) Limited (BSC & BSC2)**

Cost	£2,734,722	Recent trading information: year ended 31 July		
Valuation	£2,734,722	Adjusted for deal related costs and to reflect the on-going cost structure due to recently completed transaction		
Basis of valuation	Price of recent investment, reviewed for change in fair value	£m		2013
Equity held	45.9%	Sales		9.30
Type	Manufacturing and Industrial	EBITA		0.73

### Leengate Holdings Limited (BSC & BSC2)

Cost	£2,335,000	Recent trading information: year ended 31 December	
Valuation	£2,335,000	Adjusted for deal related costs and to reflect the on-going cost structure due to recently completed transaction	
Basis of valuation	Price of recent investment, reviewed for change in fair value	£m	2013
Equity held	17.5%	Sales	6.79
Type	Manufacturing and Industrial	EBITA	1.00

### Macro Art Limited (BSC & BSC2)

Cost	£2,100,000	Recent trading information: year ended 30 November	
Valuation	£2,100,000	Audited accounts of the trading company which was acquired by the management buyout vehicle in June 2014	
Basis of valuation	Price of recent investment, reviewed for change in fair value	£m	2013
Equity held	35.2%	Sales	6.65
Type	Business Services	EBITA	0.48

### Deep-Secure Ltd (BSC & BSC2)

Cost	£1,500,000	Audited financial information: year ended 31 December		
Valuation	£1,931,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	2.59	2.75
Equity held	24.4%	EBITA	0.38	0.40
Type	Software, IT and Telecomms	(Loss) before tax	(1.19)	(1.16)
		Net (liabilities)	(1.98)	(0.88)

### Callstream Group Limited (formerly Bluebell Telecom Group Limited) (BSC & BSC2)

Cost	£830,971	Audited financial information: year ended 30 April		
Valuation	£1,542,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	13.31	13.59
Equity held	13.5%	EBITA	2.78	2.37
Type	Software, IT and Telecomms	Profit before tax	0.78	0.34
		Net assets	5.02	4.68

### Bagel Nash Group Limited (BSC & BSC2)

Cost	£1,928,192	Audited financial information: year ended 30 April		
Valuation	£1,531,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	5.51	3.56
Equity held	11.4%	EBITA	0.43	0.25
Type	Retail and Brands /	Loss before tax	(0.28)	(0.26)
	Manufacturing and Industrial	Net assets	0.16	0.45

### Insider Technologies (Holdings) Limited (BSC & BSC2)

Cost	£1,950,000	Audited financial information for period from 14 June 2012 to 31 March:	
Valuation	£1,467,000	£m	2013
Basis of valuation	Earnings multiple	Net assets	0.76
Equity held	43.0%	Insider has a small companies exemption from filing full financial statements at Companies House.	
Type	Software, IT and Telecomms		

### RMS Group Holdings Limited (BSC & BSC2)

Cost	£250,088	Audited financial information: year ended 31 December		
Valuation	£1,422,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	28.97	28.60
Equity held	11.3%	EBITDA	3.16	4.11
Type	Manufacturing and Industrial	Profit before tax	1.65	2.51
		Net assets	8.07	6.99

### Harvey Jones Holdings Limited (BSC & BSC2)

Cost	£1,165,714	Audited financial information: year ended 31 December		
Valuation	£1,352,000	£m	2013	2012
Basis of valuation	Earnings multiple	Sales	15.56	14.48
Equity held	10.3%	EBITA	0.64	0.87
Type	Retail and Brands	(Loss) profit before tax	(0.12)	0.13
		Net assets	0.57	0.73

### Fairlight Bridge Limited (BSC)

Cost	£1,000,000	Audited financial information: 13 months ended 31 March		
Valuation	£1,000,000	£m	2013	
Basis of valuation	Price of recent investment, reviewed for change in fair value	Net assets		1.00
Equity held	50.00%	Fairlight Bridge has a small companies exemption from filing full financial statements at Companies House.		
Type	Business Services			

### Intamac Systems Limited (BSC & BSC2)

Cost	£1,000,000	Audited financial information: year ended 31 December		
Valuation	£1,000,000	£m	2013	
Basis of valuation	Price of recent investment, reviewed for change in fair value	Sales		2.53
Equity held	18.2%	Loss before tax		(1.59)
Type	Software, IT and Telecomms	Net (liabilities)		(0.39)

### Immunobiology Limited (BSC2)

Cost	£1,931,818	Audited financial information: year ended 31 May		
Valuation	£987,000	£m	2013	2012
Basis of valuation	Price of recent investment, reviewed for change in fair value	Sales	-	-
	And supporting third party valuation	Loss before tax	(1.10)	(1.33)
		Net assets (liabilities)	2.67	(3.11)
Equity held	23.4%			
Type	Healthcare			

### Top 10 Quoted Investments by Combined Value

#### Pressure Technologies plc (BSC & BSC2)

Cost	£304,381	Audited financial information: year ended 28 Sept. (2012: 29 September)		
Valuation	£1,473,000	£m	2013	2012
Basis of valuation	Quoted bid price	Sales	34.38	30.44
Equity held	1.41%	EBITA	3.31	2.03
Type	Manufacturing and Industrial	Profit before tax	2.88	1.78
		Net assets	17.46	16.06

#### EKF Diagnostics Holdings plc (BSC & BSC2)

Cost	£885,330	Audited financial information: year ended 31 December		
Valuation	£941,000	£m	2013	2012
Basis of valuation	Quoted bid price	Sales	31.80	26.06
Equity held	0.91%	EBITA	4.65	2.12
Type	Healthcare	Profit (loss) before tax	0.61	(0.20)
		Net assets	40.92	39.43

#### AB Dynamics plc (BSC & BSC2)

Cost	£632,794	Audited financial information: year ended 31 August		
Valuation	£940,000	£m	2013	2012
Basis of valuation	Quoted bid price	Sales	12.17	8.91
Equity held	3.62%	EBITA	1.89	1.80
Type	Manufacturing and Industrial	Profit before tax	1.87	1.88
		Net assets	8.22	4.68

**Mattioli Woods plc (BSC)**

Cost	£257,501	Audited financial information: year ended 31 May		
Valuation	£847,000	£m	2013	2012
Basis of valuation	Quoted bid price	Sales	23.41	20.48
Equity held	0.97%	EBITA	5.45	4.84
Type	Business Services	Profit before tax	4.64	4.18
		Net assets	29.10	25.47

**Hargreaves Services plc (BSC & BSC2)**

Cost	£635,237	Audited financial information: year ended 31 May		
Valuation	£738,000	£m	2014	2013
Basis of valuation	Quoted bid price	Sales	869.24	843.30
Equity held	0.02%	EBITA	52.26	47.83
Type	Manufacturing and Industrial	Profit before tax	52.08	43.06
		Net assets	150.12	118.33

**Iomart Group plc (BSC2)**

Cost	£148,678	Audited financial information: year ended 31 March		
Valuation	£514,000	£m	2014	2013
Basis of valuation	Quoted bid price	Sales	55.62	43.06
Equity held	0.13%	EBITA	14.81	10.97
Type	Software, IT and Telecomms	Profit before tax	9.72	8.70
		Net assets	64.89	52.22

**Vianet Group plc (BSC & BSC2)**

Cost	£646,070	Audited financial information: year ended 31 March		
Valuation	£437,000	£m	2014	2013
Basis of valuation	Quoted bid price	Sales	18.34	21.09
Equity held	0.52%	EBITA	2.35	2.48
Type	Business Services	Profit before tax	1.56	1.82
		Net assets	24.95	23.37

**Cambridge Cognition Holdings plc (BSC & BSC2)**

Cost	£564,998	Audited financial information: year ended 31 December		
Valuation	£350,000	£m	2013	2012
Basis of valuation	Quoted bid price	Sales	4.15	5.68
Equity held	2.80%	EBITA (LBITA)	2.96	(1.45)
Type	Healthcare	Loss before tax	(2.99)	(1.58)
		Net assets (liabilities)	2.13	(1.68)

**Brady Public Limited Company (BSC2)**

Cost	£134,343	Audited financial information: year ended 31 December		
Valuation	£134,343	£m	2013	2012
Basis of valuation	Quoted bid price	Sales	29.36	28.14
Equity held	0.30%	EBITA	3.24	2.56
Type	Software, IT and Telecomms	Profit before tax	0.93	0.80
		Net assets	38.89	41.61

**Allergy Therapeutics plc (BSC2)**

Cost	£350,000	Audited financial information: year ended 30 June.		
Valuation	£69,549	£m	2014	2013
Basis of valuation	Quoted bid price	Sales	41.96	39.28
Equity held	0.12%	EBITA	1.49	1.04
Type	Healthcare	Profit before tax	1.08	0.53
		Net assets	15.08	14.67

# Part 5: General Information

## Share capital

1.1 The following allotments and repurchases of Ordinary Shares have taken place since 1 April 2011 (BSC) and 1 January 2011 (BSC2):

### BSC

Buy-backs			Issues		
Date	Number of Shares	Price per Share (pence)	Date	Number of Shares	Price per Share (pence)
29 June 2012	52,614	85.00	5 April 2011	1,038,195	128.00
21 November 2012	333,603	80.35	4 May 2011	383,134	128.00
28 March 2013	167,463	81.50	22 August 2011	1,277,941	94.05
19 June 2013	377,000	87.30	20 January 2012	152,398	99.27
27 March 2014	308,217	89.80	20 March 2012	1,080,772	99.75
27 June 2014	230,135	92.05	5 April 2012	1,531,778	99.75
22 September 2014	306,685	88.90	17 August 2012	261,760	91.77
			31 December 2012	4,235,020	97.75
			14 January 2013	183,667	87.57
			05 April 2013	2,730,385	95.75
			05 April 2013	2,929,326	97.75
			30 April 2013	559,278	97.75
			30 April 2013	155,045	95.75
			09 May 2013	26,109	95.75
			13 August 2013	472,076	90.44
			21 March 2014	215,781	94.53
			31 March 2014	5,814,637	103.00
			31 March 2014	5,777,495	100.75 to 105.55
			4 April 2014	447,044	103.00
			4 April 2014	865,131	100.75 to 106.76
			5 April 2014	342,385	103.00
			5 April 2014	124,361	100.75 to 106.06
			29 May 2014	1,452,180	103.00
			29 May 2014	947,945	100.75 to 105.51
			1 August 2014	492,870	93.58



## BSC2

Buy-backs			Issues		
Date	Number of Shares	Price per Share (pence)	Date	Number of Shares	Price per Share (pence)
20 September 2011	87,450	56.00	22 March 2011	3,655,500	70.25
19 December 2011	84,292	57.00	5 April 2011	1,921,901	70.25
11 May 2012	168,318	57.25	4 May 2011	690,699	70.25
14 June 2012	80,916	57.25	10 June 2011	3,762	63.08
21 November 2012	74,405	55.68	4 August 2011	137,931	72.50
18 April 2013	279,961	59.20	8 September 2011	5,335	62.70
19 June 2013	100,000	57.87	5 January 2012	3,795,914	70.50
30 October 2013	145,000	59.10	20 March 2012	6,106,906	70.50
27 June 2014	63,196	57.67	5 April 2012	5,080,416	70.50
			22 May 2012	20,611	63.17
			22 May 2012	158,303	63.17
			26 October 2012	151,836	62.23
			31 December 2012	3,136,695	69.50
			05 April 2013	2,191,606	69.50
			05 April 2013	2,236,692	68.00
			30 April 2013	558,579	69.50
			30 April 2013	51,801	68.00
			05 June 2013	254,976	61.09
			27 September 2013	217,026	60.14
			31 March 2014	5,912,188	69.50
			31 March 2014	5,568,210	68.00 to 71.19
			4 April 2014	440,429	69.50
			4 April 2014	827,035	68.00 to 72.06
			5 April 2014	226,879	69.50
			5 April 2014	122,499	68.00 to 72.06
			29 May 2014	1,517,587	69.50
			29 May 2014	896,788	68.00 to 71.22
			30 June 2014	377,855	60.61

- 1.2 As at 30 June 2014 (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 65,334,598 issued Shares, each ranking pari passu. All of the Shares are listed on the premium segment of the Official List of the UK Listing Authority. BSC holds an additional 2,699,637 Shares in the treasury account.

As at 30 June 2014 (being the end of the last financial period of BSC2 for which unaudited financial information has been published) there were 75,000,000 authorised and 62,269,837 issued Shares, each ranking pari passu. All of the Shares are listed on the premium segment of the Official List of the UK Listing Authority. BSC2 held an additional 1,840,918 Shares in the treasury account at this date.

- 1.3 Immediately following the close of the Offers, assuming £30,000,000 is raised in aggregate by the VCTs under the Offers, at an Indicative Offer Price of 101.75p per Share and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to BSC2, the issued share capital of BSC, fully paid or credited as fully paid, will be £8,621,752 divided into 86,217,523 Shares (of which 3,006,322 Shares are held in treasury), and there will remain authorised but un-issued a minimum of £7,878,248 of share capital divided into 78,782,477 Shares.

Immediately following the close of the Offers, assuming £30,000,000 is raised in aggregate by the VCTs under the Offers, at an Indicative Offer Price of 63.25p per Share and that Offer Shares are allocated 60 per cent to BSC and 40

per cent to BSC2, and pursuant to the shareholders approving Resolution 1 at the BSC2 General Meeting the issued share capital of BSC2 fully paid or credited as fully paid will be £8,343,923 divided into 83,439,230 Shares (of which 1,840,918 Shares are held in treasury), and there will remain authorised but un-issued a minimum of £8,156,077 of share capital divided into 81,560,770 Shares.

- 1.4 The maximum number of Offer Shares, assuming a subscription of £40,000,000, an Indicative Offer Price of 101.75p per Share and 63.25p per Share for BSC and BSC2 respectively and an allocation of 60 per cent to BSC and 40 per cent to BSC2 will be 23,587,224 for BSC and 25,296,443 for BSC2. This represents a dilution to existing Shareholders of 26.5 per cent in BSC and 28.8 per cent in BSC2. Assuming a subscription of £30,000,000 and the Indicative Offer Prices and allocation set out above, the maximum number of Offer Shares will be 17,690,418 for BSC and 18,972,332 for BSC2, representing a dilution to existing Shareholders of 21.3 per cent in BSC and 23.3 per cent in BSC2.
- 1.5 Save as disclosed in this Part 5, in the period since 1 April 2011, in the case of BSC and since 1 January 2011, in the case of BSC2, no share or loan capital of the VCTs 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 VCTs or any subsidiary in connection with the issue or sale of any such capital.
- 1.6 No share or loan capital of the VCTs 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 re-investment Schemes, 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.
- 1.7 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.
- 1.8 Each VCT 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 VCT which is not subject to any disapplication of pre-emption rights conferred by authority of the Shareholders.
- 1.9 The obligations of BSC to issue and allot Offer Shares are in all respects conditional on the approval of the Offer Agreement by Shareholders at the BSC General Meeting. The obligations of BSC2 to issue and allot Offer Shares are in all respects conditional on the passing of Resolutions 1, 2, 4, 5 and 7 below, which, together with the other Resolutions set out below, will be proposed at the BSC2 General Meeting.

#### **Ordinary Resolutions**

- (1) THAT the authorised share capital of the Company be and hereby is increased from £7,500,000 to £16,500,000 by the creation of 90,000,000 ordinary shares of 10p each in the capital of the Company, having attached thereto the rights and privileges and being subject to the limitations and restrictions set out in the Articles of Association of the Company.
- (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 £3,000,000;
  - (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 per cent 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 passing of this Resolution 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 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 in

connection with the Company's dividend re-investment scheme up to an aggregate nominal amount of £876,763 representing approximately 14 per cent of the share capital in issue as at 20 October 2014 (excluding treasury shares) during the period commencing on the passing of this Resolution and expiring on the fifth anniversary of this Resolution (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 after such expiry and that all previous authorities given to the Directors to allot shares in connection with the Company's dividend re-investment scheme be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

- (4) THAT the Offer Agreement 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 (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 per cent 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;

- (6) 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 on the fifth anniversary of this Resolution (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 the dividend re-investment scheme up to an aggregate nominal amount of £876,763 representing approximately 14 per cent of the share capital in issue as at 20 October 2014 (excluding treasury shares) 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;
- (7) THAT article 195 of the Company's articles of association be amended by the deletion of the words "in 2020" in line 1 and their substitution with the words "after the later of i) 31 December 2020 and ii) the fifth anniversary of the last allotment of shares (from time to time) in the Company".
- (8) THAT, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company at the date that the court order granting is cancellation is made, be cancelled.

## Memorandum and Articles

### 2.1 Memorandum of Association

The memorandum of association of the VCTs provide that each VCT's principal object is to carry on the business of a Venture Capital Trust. The objects of the VCTs are set out in full in clause 4 of their memorandum of association which are available for inspection at the address specified in paragraph 6.1 below.

### 2.2 Articles of Association

The Articles of each VCT (for the purpose of this part 5 section 2 the "Companies" and each a "Company") contain provisions inter alia to the following effect:

#### 2.2.1 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.

#### 2.2.2 *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 VCT'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.

#### 2.2.3 *Dividends*

The VCT 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 VCT. 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 VCT.

#### 2.2.4 *Disclosure of interests in Shares*

If any member or other person appearing to be interested in shares of the VCT 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 VCT 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 VCT 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 VCT then in issue, the withholding of payment of any dividends on, and the restriction of transfer of, the relevant shares.

#### 2.2.5 *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 VCT in such manner as he may determine.

#### 2.2.6 *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 VCT may by ordinary resolution determine or, in the absence of such determination, as the Directors may determine. Subject to the Act, the VCT may issue shares which are, or at the option of the VCT or the holder are liable, to be redeemed.

- (b) The VCT 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 VCT 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.

#### 2.2.7 *Variation of rights*

Whenever the capital of the VCT 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.

#### 2.2.8 *Directors' interests*

- (a) A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the VCT 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 2.2.8(a) above, a Director may be a party to or otherwise interested in any transaction or arrangement with the VCT or in which the VCT is interested and may be a Director or other officer or otherwise interested in any body corporate promoted by the VCT or in which the VCT is otherwise interested. No Director so interested shall be accountable to the VCT, 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 VCT 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 VCT or any company in which the VCT 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.

#### 2.2.9 *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 VCT 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 VCT 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.
- (b) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the VCT 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.

#### 2.2.10 *Retirement of Directors*

- (a) At each annual general meeting of the VCT 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) It is the policy of the Boards that each director's appointment will run for a term of one year or until the following annual general meeting subject to the agreement of the Board, and the performance evaluation carried out each year, that it is appropriate for the director to seek a further term.
- (c) 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.

#### 2.2.11 *Borrowing powers*

- (a) The Directors may exercise all powers of the VCT to borrow money and to mortgage or charge its undertaking, property and uncalled capital.
- (b) The Directors shall restrict the borrowings of the VCT and, by the exercise of the VCT'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 VCT and its subsidiary undertakings for the time being (excluding intra-group borrowings), shall not without the previous sanction of an ordinary resolution of the VCT 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 VCT 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 VCT.

#### 2.2.12 *Distribution of realised capital profits*

At any time when the VCT 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 VCT'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 VCT 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 VCT or be regarded or treated as profits of the VCT available for distribution (as defined by Section 829(1) of the Act) or applied in paying dividends on any shares in the VCT otherwise than by way of redemption or purchase by the VCT 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 VCT or be regarded or treated as profits of the VCT available for distribution or be applied in paying dividends on any shares in the VCT.

#### 2.2.13 *Duration of the VCT*

BSC's Articles require that at the annual general meeting of BSC held after the later of i) 31 March 2020 and ii) the fifth anniversary of the last allotment of shares (from time to time) in BSC and, if BSC has not then been wound-up or reconstructed or re-organised, at each fifth annual general meeting of BSC thereafter, the Directors shall procure that an ordinary resolution will be proposed to the effect that BSC shall continue as a Venture Capital Trust.

A Special Resolution was approved by shareholders at the General Meeting of BSC2 on 18 February 2014 extending the life of the VCT to 2020 and at every fifth annual general meeting thereafter, the Directors are required to propose that the VCT should continue as a Venture Capital Trust for a further five year period. A resolution will be proposed at the General Meeting of BSC2 to be convened on 3 December 2014 to amend BSC2's Articles in

order to require that at the annual general meeting of BSC2 held after the later of i) 31 March 2020 and ii) the fifth anniversary of the last allotment of shares (from time to time) in BSC2 and, if BSC2 has not then been wound-up or reconstructed or re-organised, at each fifth annual general meeting of BSC2 thereafter, the Directors shall procure that an ordinary resolution will be proposed to the effect that BSC2 shall continue as a Venture Capital Trust.

If any such further resolutions are not passed, the Directors shall draw up proposals for the voluntary liquidation, reconstruction or other reorganisation of the VCT for submission to the members of the VCT 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.

#### 2.2.14 *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 VCT 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 VCT, 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 VCT or any class of the members of the VCT 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 VCT 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.



### 3.0 Directors' and other interests in the VCTs

3.1 DTR 5 of the Disclosure and Transparency Rules requires a Shareholder to notify the relevant VCT of the percentage of its shares they hold if such percentage reaches, exceeds or falls below 3 per cent or subsequent 1 per cent thresholds. The relevant VCT will make such information public through a Regulatory Information Service. Neither VCT 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 per cent or more of the issued share capital of either VCT. Further, as at the date of this document and immediately following the issue of such Shares, (assuming gross proceeds of £30,000,000 are raised under the Offers at an Indicative Offer Price of 101.75p for BSC and 63.25p for BSC2 and that Offer Shares are allocated 60 per cent. to BSC and 40 per cent. to BSC2), neither VCT is aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over it.

3.2 The interests of the Directors and their immediate families in the share capital of each VCT, 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:

	Name	Number of Shares	% of issued share capital
<b>BSC</b>	Helen Sinclair	17,004	0.03%
	Edward Buchan	12,231	0.02%
	Philip Cammerman	67,975	0.10%
<b>BSC2</b>	Richard Last	126,882	0.20%
	Robert Pettigrew	58,759	0.09%
	Peter Waller	25,979	0.04%

3.3 The interests of the Directors and their immediate families in the share capital of the VCTs, all of which are beneficial and the interests of a person connected with a Director following the Offers, assuming that the price per Offer Price for BSC is 101.75p and for BSC2 is 63.25p and that the Directors are issued Loyalty Bonus Shares of 1.0 per cent) will be as follows:

	Name	Number of Shares	% of issued share capital
<b>BSC</b>	Helen Sinclair	22,959	0.03%
	Edward Buchan	18,186	0.02%
	Philip Cammerman	73,930	0.09%
<b>BSC2</b>	Richard Last	134,866	0.17%
	Robert Pettigrew	68,340	0.08%
	Peter Waller	30,769	0.04%

3.4 Save as disclosed in paragraphs 3.2 and 3.3, no Director, nor any person connected with any Director, has any interest in the share capital or loan capital of either VCT, whether beneficial or non-beneficial.

3.5 As at the date of this document, YFM Equity Partners holds no Shares in either VCT and YFM Private Equity is the registered holder of 10 Ordinary Shares in BSC.

3.6 So far as is known to the VCTs, no other interests (save as disclosed in paragraphs 3.2 and 3.3) in the VCTs' share capital or voting rights is notifiable under UK law or regulation.

3.7 No major Shareholders in the VCTs have different voting rights to the other Shareholders.

3.8 No Shares are being reserved for allocation to Shareholders, Directors or employees of either VCT.

3.9 All the Directors are non-executive and none of the Directors, therefore, has a service contract with the VCT, and no such contract is proposed. The services of each of the Directors are provided to the relevant VCT pursuant to letters of appointment, under which they are required to devote such time to the affairs of the relevant VCT 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 - £40,000, Philip Cammerman - £25,000, Edward Buchan £25,000, Richard Last - £31,500, Robert Pettigrew - £18,000 and Peter Waller - £18,000. No benefits are payable on termination.



- 3.10 No loan or guarantee has been granted or provided by either VCT to any Director.
- 3.11 Except as listed in paragraph 5.17 below, none of the Directors has had any interest in any party which is related to either VCT 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 VCT.
- 3.12 Save as disclosed in paragraph 5.17 below, there are no potential conflicts of interest between the duties of any Director or the Investment Adviser to the relevant VCT and their other interests or their duties owed to third parties.
- Save as disclosed in paragraphs 4 and 5.17 below, no Director, nor any member of the administrative, management, supervisory body or senior management of the VCTs, nor the Investment Adviser has an interest in any transaction effected by either VCT which is or was unusual in its nature or conditions or significant to the business of that VCT.
- 3.13 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 2015 will not exceed £90,000 plus VAT or National Insurance (as applicable) and by BSC2 for the twelve month period ending 31 December 2014 £67,500 plus VAT or National Insurance (as applicable). Fees paid to the Directors of BSC for the year ended 31 March 2014 and to the Directors of BSC2 for the year ended 31 December 2013 were as follows:

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

- 3.14 Each VCT has taken out Directors' and Officers' liability insurance for the benefit of the Directors.
- 3.15 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 VCTs where these are significant with respect to the relevant VCT:

<b>BSC</b>	<b>Current directorships/partnerships</b>	<b>Former directorship/partnerships (in last five years)</b>
<b>Helen Rachelle Sinclair</b>	British Smaller Companies VCT plc The Income & Growth VCT plc Mobeus Income & Growth 4 VCT plc Spark Ventures plc Downing One VCT plc Downing Income VCT 4 plc (in voluntary liquidation) 39 Homer Street Management Limited Hemstall Road Residents Co. Limited	Octopus Eclipse VCT 3 plc (dissolved)
<b>Philip Simon Cammerman</b>	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 Hargreave Hale AIM VCT 2 plc Evince Technology Limited	British Smaller Companies VCT2 plc Connect Yorkshire
<b>Charles Walter Edward Ralph Buchan</b>	British Smaller Companies VCT plc Wallem Group Limited Buchan Investments Limited	

	The Bristol Diocesan Board of Finance Limited 34 Rosary Gardens Limited Downing Absolute Income VCT 1 plc (in voluntary liquidation)	
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BSC2	Current directorships/partnerships	Former directorship/partnerships (in last five years)
<b>Richard Last</b>	British Smaller Companies VCT2 plc Lighthouse Group plc Lynx Limited Lynx Group Limited Lynx Holdings Limited APD Communications Limited APD Mobile Data Limited Waste Management Systems Limited Arcontech Group plc Corero Network Security plc Servelec Group plc Hobbs Hole Limited Sphinx CST (Ireland) Limited Learn Solutions Limited Longfield Management Company Limited Cord Developments Limited Gamma Communications plc The Coombes Estate Limited (in voluntary liquidation)	British Smaller Companies VCT plc Orsted Limited (dissolved) Patsystems Limited Gapaid Lynx Overseas Investments Limited (dissolved*) Lynx IT Communications Limited (dissolved*) FS (UK) Limited (dissolved) Overseas 110 Limited (dissolved*) Sphinx CST Limited Sphinx Group Limited Switch Networks Limited (dissolved) Sphinx CST Networks Limited Sphinx Professional Services Limited Sphinx 110 Limited (dissolved*) Transient 110 (No 2) Limited (dissolved*) Broomco (4184) Limited Signal Limited (dissolved) LynxServ Limited (dissolved) CNH Subsidiary Ltd Parseq limited Arcontech Solutions Limited Arcontech Limited Cognita Technologies Limited Premier Veterinary Group Limited
<b>Robert Martin Pettigrew</b>	British Smaller Companies VCT2 plc Odos Imaging Limited Acal Energy Ltd Sunamp Limited Nightingale-EOS Limited	British Smaller Companies VCT plc Sphere Medical Holding plc Timberpost Limited (dissolved) Xeros Limited
<b>Peter Charles Waller</b>	British Smaller Companies VCT2 plc Keypoint Technologies (UK) Limited Turnberry Management Company Limited BCS Learning & Development Limited	Corero Network Security plc Corero Dormant Three Limited (dissolved) Corero Group Limited (dissolved) Corero Software Limited (dissolved) Eclipse Learner Systems Limited (dissolved) Mondas Information Technology Limited (dissolved) Mondas Systems Limited (dissolved) Rocela Group Limited Premier Veterinary Group Limited Thanet One Limited Zetland Limited Version 1 Limited

\* prior to being dissolved these companies were in voluntary liquidation

**3.16** 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, save as set out in paragraph 3.15, 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.
- 3.17 None of the VCTs' service providers have any conflict, or potential conflict, as between their duty to either VCT and duties owed by them to third parties and other interests.
- 3.18 There are no amounts set aside or accrued by either VCT to provide pension, retirement or similar benefits to the Directors or directors of the Investment Adviser.

## 4.0 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 VCTs within two years immediately preceding the publication of this document or which contain any provisions under which the VCTs have any obligation or entitlement which is material to them as at the date of this document:

- 4.1 An offer agreement dated 20 October 2014 ("the Offer Agreement") between the VCTs (1), the Directors (2), the Investment Adviser (3) and Howard Kennedy (4) under which the Investment Adviser has undertaken, as agent of the VCTs, to use its reasonable endeavours to procure subscribers under the Offers and Howard Kennedy has agreed to act as sponsor to the Offers. Pursuant to the Offer Agreement, for applications through execution only brokers, the VCTs will pay the Investment Adviser a fee of 5.0 per cent of the relevant gross funds raised and for applications through Financial Advisers or for direct applications the VCTs will pay the Investment Adviser a fee of 3.0 per cent of the relevant gross funds raised. As is usual in contracts of this type, the Investment Adviser agreed to indemnify the VCTs against the costs of the Offers (excluding trail commission) exceeding the Offer Costs Percentage. The VCTs have also agreed to indemnify Howard Kennedy in respect of its role as sponsor. The Investment Adviser will be responsible for all costs and expenses arising from the Offers, including the Bonus Shares and any initial Intermediary commission payable, but excluding trail commission. Under the Offer Agreement, which may be terminated by the VCTs, the Directors and the Investment Adviser in certain circumstances, warranties have been given by the VCTs, the Directors and the Investment Adviser to the other parties, subject to certain limitations. The warranties are in the usual form for a contract of this type.
- 4.2 An offer agreement dated 14 January 2014 ("the January 2014 Offer Agreement") between the VCTs (1), the Directors (2) and the Investment Adviser (3) under which the Investment Adviser undertook, as agent of the VCTs, to use its reasonable endeavours to procure subscribers under the January 2014 Offers. Pursuant to the January 2014 Offer Agreement, for applications through execution only brokers, the VCTs will pay the Investment Adviser a fee of 5.5 per cent of the relevant gross funds raised and for applications through Financial Advisers or for direct applications the VCTs will pay the Investment Adviser a fee of 3.5 per cent of the relevant gross funds raised. As is usual in contracts of this type, the Investment Adviser agreed to indemnify the VCTs against the costs of the January 2014 Offers (excluding VAT and trail commission) exceeding the Offer Costs Percentage, as defined in the January 2014 Prospectus, and receives a percentage of the value of the gross proceeds relating to each Applicant under the January 2014 Offers. The Investment Adviser will be responsible for all costs and expenses arising from the January 2014 Offers, including the bonus shares issued to investors under the January 2014 Offers and any initial Intermediary commission payable, but excluding VAT and trail commission. Under the January 2014 Offer Agreement, which may be terminated by the VCTs, the Directors and the Investment Adviser in certain circumstances, warranties have been given by each party to the other parties, subject to certain limitations. The warranties are in the usual form for a contract of this type.
- 4.3 An agreement between the VCTs and Howard Kennedy dated 12 November 2013 under which Howard Kennedy agreed to act as sponsor to the January 2014 Offers. The VCTs agreed to indemnify Howard Kennedy in respect of losses incurred by Howard Kennedy and which arise, directly or indirectly, from its role as sponsor.
- 4.4 An offer agreement dated 16 November 2012 ("the 2012 Offer Agreement") between the VCTs (1), the Directors (2) and YFM Private Equity (3) under which, as is usual in contracts of this type, YFM Private Equity agreed to indemnify the VCTs against the costs of the offers launched by the VCTs on 16 November 2012 (the "2012 Offers") exceeding the Offer Costs Percentage, as defined in the prospectus relating to the 2012 Offers ("2012 Prospectus"), and received for applications through execution only brokers, a fee of 5.5 per cent of the relevant gross funds raised and for applications through Financial Advisers or for direct applications a fee of 3.5

per cent of the relevant gross funds raised, less the initial commission paid by the VCTs to recognised intermediaries in respect of accepted applications as set out in the 2012 Prospectus. Under the 2012 Offer Agreement YFM Private Equity, the VCTs and the Directors gave certain warranties which were subject to certain limitations. The warranties were in the usual form for a contract of this type.

## **BSC**

- 4.5 By an administration and investment advisory agreement dated 28 February 1996 between BSC and YFM Private Equity (the “IAA”), as varied by deeds of variation dated 16 November 2012 and 17 October 2014, 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. Following the Financial Conduct Authority’s registration of BSC as a Small Registered Alternative Investment Fund Manager BSC has retained responsibility for the custody of its investments.

Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2 per cent of the Net 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 £59,133). The Investment Adviser is also entitled to all arrangement, syndication and monitoring fees payable in respect of unquoted investments. BSC indemnifies the Investment Adviser against all things lawfully and properly done under the IAA. The total remuneration payable to YFM Private Equity in the period to 31 March 2014 was £944,000. Pursuant to the deed of variation dated 17 October 2014, the Investment Adviser shall bear the annual operating costs of BSC to the extent that those costs exceed 2.9 per cent of the Net Asset Value of BSC, a reduction from the previous level of 3.25 per cent.

When BSC makes investments into its unquoted portfolio the Investment Adviser charges that investee an arrangement fee, calculated by applying a percentage to the investment amount. With effect from 1 October 2013 if the average of relevant fees exceed 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over BSC’s financial year this excess will be rebated to BSC. As at 31 March 2014, BSC was due a rebate from the Investment Adviser of £29,800. Monitoring and directors fees the Investment Adviser receives from investee companies are limited to a maximum of £40,000 (excluding VAT) per annum per company.

- 4.6 An incentive agreement (the “Incentive Agreement”) dated 7 July 2009, as varied by a deed of variation dated 15 August 2014 and a deed of variation dated 13 October 2014, between BSC and the Investment Adviser under which, with effect from 1 April 2009 (“Effective Date”) the Investment Adviser 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 Target Rate at 31 March 2014 was 4.7 pence, and the calculation was verified by independent auditors. 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. The adjusted Net Asset Value per Share at 31 March 2014 was 92.8 pence per ordinary share. With effect from 1 April 2014 the amount of the incentive payment paid to the Investment Adviser for any one year shall, when taken with all other relevant costs, ensure that the Total Expenses Ratio is no greater than 5 per cent of the net asset value at the end of the financial year (as adjusted for all realised gains that have been distributed during that year). Any unpaid incentive payment will be carried over to subsequent financial years and be included in the calculation of the Total Expenses Ratio. 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 per cent is payable in the first accounting period after such event, 55 per cent in the second, 35 per cent in the third, and nil thereafter. The maximum fee payable in any 12 month period cannot exceed an amount which would represent 25 per cent or more of the net asset value or market capitalisation of BSC at such time. The total incentive payment to YFM Private Equity in respect of the year to 31 March 2014 was £220,531 (in respect of the year to 31 March 2013: £38,678 and in respect of the year to 31 March 2012: £1,415,058).

Pursuant to a deed of variation dated 15 August 2014 the Incentive Agreement was varied so that the recipient was changed from the YFM Private Equity Carried Interest Trust to YFM Private Equity.

Mr Cammerman, as a former employee of YFM Private Equity, is one of the beneficiaries of that Trust, and received £55.70 in August 2014 (£14.82 in August 2013).

- 4.7 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 cent 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 Investment Adviser.
- 4.8 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**

- 4.9 YFM Private Equity has acted as Investment Adviser 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, 16 November 2012 and 17 October 2014 (the "IAA"). This agreement may be terminated by not less than twelve months' notice given by either party at any time. Following the Financial Conduct Authority's registration of BSC2 as a Small Registered Alternative Investment Fund Manager BSC2 has retained responsibility for the custody of its investments. The key features of the agreement are: YFM Private Equity receives an Investment Adviser fee, payable quarterly in advance, at the rate of 2.5 per cent of Net Assets, calculated at half-yearly intervals as at 30 June and 31 December. Pursuant to a deed of variation dated 26 October 2011 the advisory fee will be reduced to 1.25 per cent 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 per cent in respect of any net asset value of BSC2 in excess of £26.667 million. Pursuant to the deed of variation dated 17 October 2014, YFM Private Equity shall bear the annual operating costs of BSC2 (including the advisory 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 costs exceed 2.9 per cent of the net asset value of BSC2, a reduction from the previous level of 3.25 per cent. Under the IAA 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 £60,054). When BSC2 makes investments into its unquoted portfolio the Investment Adviser charges that investee an arrangement fee, calculated by applying a percentage to the investment amount. With effect from 1 October 2013 if the average of relevant fees exceed 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over BSC2's financial year this excess will be rebated to BSC2. As at 31 December 2013, BSC2 was due a rebate from the Investment Adviser of £11,500. Monitoring and directors fees the Investment Adviser receives from investee companies are limited to a maximum of £40,000 (excluding VAT) per annum per company. The total remuneration payable to YFM Private Equity in the period to 31 December 2013 was £620,000.
- 4.10 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 per cent 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 were exercisable in the ratio 59:41 between YFM Private Equity and Chord. 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, 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 was varied so that the subscription rights will be exercisable in the ratio of 95:5 between the trustees of the Trust and Chord.

Pursuant to a deed of variation dated 5 August 2014 the Subscription Rights Agreement was varied so that the recipient was changed from the Trust to YFM Private Equity.

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.

- 4.11 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 Investment Adviser.
- 4.12 By a deed of novation dated 6 November 2012 (to the agreement dated 3 September 2004 as novated 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.

## 5.0 General

- 5.1 YFM Private Equity is or may be a promoter of the VCTs and will receive investment advisory fees and other payments from the VCTs under the agreements described in Section 4.0 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.
- 5.2 YFM Private Equity is paid an annual investment advisory fee equal to 2.0% per annum of the Gross Assets of BSC. The BSC2 advisory 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 Venture Capital Trust practice, the Investment Adviser will also be entitled to receive a performance related incentive fee. Further details of these arrangements are set out under the heading “The Investment Adviser” in Part 1 of this document and at paragraphs 4.5, 4.6, 4.9 and 4.10 of this Part 5. Paragraph 5.17 below sets out the VCTs’ related party transactions.
- 5.3 There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either VCT is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on either VCT’s financial position or profitability.
- 5.4 The maximum costs and expenses of the Offers, including any irrecoverable VAT and all fees and commissions payable are expected to amount to £1,200,000 for BSC and £800,000 assuming £40,000,000 is raised under the Offer and that this is split as to 60% as to BSC and 40% as to BSC2 and that the Offer Costs Percentage is 5.0 per cent of gross funds raised. The proceeds will be applied in accordance with each VCT’s investment policy. On the basis that £40,000,000 is raised under the Offers and that this is split as to 60% as to BSC and 40% as to BSC2 and that the Offer Costs Percentage is 5.0 per cent of gross funds raised, the net proceeds are expected to be £22,800,000 for BSC and £15,200,000 for BSC2. The maximum costs and expenses of the Offers will be a maximum 5.0% of gross funds raised by each VCT under the Offers.
- 5.5 BDO LLP of 55 Baker Street, London, W1U 7EU was appointed as auditor to the BSC on 17 January 2014. Prior to that date Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF and, before their appointment, 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 BSC since its incorporation. Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF was appointed auditor to BSC2 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 BSC2 since its incorporation. BDO LLP, Grant Thornton UK LLP, PKF (UK) LLP and PricewaterhouseCoopers LLP are registered member firms of the Institute of Chartered Accountants in England and Wales.
- 5.6 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 Investment Advisers Limited on 14 December 1987. The name of Yorkshire Investment Advisers 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 5<sup>th</sup> Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS (telephone number 0113 xxx xxxx). YFM Private Equity is authorised and regulated by the FCA to conduct venture capital business.
- 5.7 Neither VCT assumes responsibility for the withholding of tax at source.
- 5.8 A VCT must satisfy the UK Listing Authority that its directors and any investment adviser 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 adviser or any other company in the same group as the investment adviser 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 VCTs meet these conditions and each of the VCTs must, at all times, invest and manage its assets in accordance with the investment policy set out in Part 2 and so as to comply with section 274 ITA. Any material change to the investment policy of either VCT will only be made with Shareholder approval.
- 5.9 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.

- 5.10 YFM Private Equity Limited, the VCTs' Investment Adviser, 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.
- 5.11 The unaudited Net Asset Value per BSC Ordinary Share as at 30 June 2014 was 102.0 pence and the unaudited Net Asset Value per BSC2 Ordinary Share as at 30 June 2014 was 63.2 pence.
- 5.12 BSC had available as at 30 June 2014 cash at bank of £19,667,299 and £2,390,251 in Government stocks and similar fixed interest securities and BSC2 had available as at 30 June 2014 cash at bank of £17,914,550 and £nil 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 VCT). As at the date of this document the VCTs had no loan capital outstanding, no other borrowings or indebtedness in the nature of borrowings and no contingent liabilities or guarantees.
- 5.13 There have been no significant factors, including unusual or infrequent events or new developments, which have materially affected either VCT's income from operations. There have been no governmental, economic, fiscal, monetary or political policies or factors that have materially affected either VCT'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 VCT's operations.
- 5.14 The Investment Adviser is responsible for the determination and calculation of each VCT's Net Asset Value which the Boards intend to announce at least quarterly, through a Regulatory Information Service. The Boards believe that by announcing their VCT's financial results on a regular basis, it should help to provide a fairer market price for its Shares.
- 5.15 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.
- 5.16 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.
- 5.17 The VCTs have entered into the following related party transactions during the period covered by the historical financial information set out in Part 4 and up to the date of this document:

#### **BSC and BSC2**

- SMH Equity Partners Limited (formerly YFM Equity Partners Limited), the parent company of YFM Private Equity Limited until 30 September 2013, held an investment in Primal Pictures Limited, an investee company of BSC. On 13 August 2012 YFM Equity Partners disposed of its holding in Primal Pictures Limited for which it has received total proceeds of £74,362.

#### **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 2014 Mr Cammerman received £30,000 (2013: £23,000 and 2012: £18,000) from Pressure Technologies plc in respect of his services. Mr Cammerman holds a 0.25 per cent equity stake in Pressure Technologies plc and until March 2013 held a 0.004% stake in Straight plc. Mr Cammerman is also a director and 2.1% shareholder of Howmac Limited which held a 0.02% stake in Hargreaves Services plc until 1 March 2013.
- The offer agreements dated 20 October 2014, 14 January 2014 and 16 November 2012 referred to in paragraphs 4.1 and 4.3 above, an offer agreement dated 8 December 2010 between the VCTs (1), the Directors (2), Howard Kennedy (3) and YFM Private Equity (4) under which Howard Kennedy agreed to act as sponsor to the offers for subscription that were launched by the VCTs in December 2010 and the deed of variation dated 16 November 2012 referred to in paragraph 4.5 above.

#### **BSC2**

- SMH Equity Partners Limited (formerly YFM Equity Partners Limited), the parent company of YFM Private Equity Limited until 30 September 2013, held an investment in Digital Healthcare Limited, an investee company of BSC2. On 6 August 2013 YFM Equity Partners disposed of its holding in Digital Healthcare Limited for which it has received total proceeds of £21,795.
- Mr R Pettigrew held a 0.1% equity stake in Digital Healthcare Limited.
- Mr R Last was a non-executive director of Patsystems Limited (an investee company of BSC2 until 26 January 2012) from January 2002 until January 2012 and held a 0.4% equity stake as at 31 December 2011. During the year to 31 December 2012 Mr Last received £12,955 from that company in respect of his services (2011: £39,938).



- Mr R Last has been chairman and non-executive director of Gamma Communications Limited since 17 June 2014. On 10 October 2014 the ordinary shares of Gamma were admitted to trading on AIM. As part of the placing of Gamma's ordinary shares Mr R Last invested £100,000.
- The offer agreements dated 20 October 2014, 14 January 2014, 16 November 2012 and 26 October 2011 referred to in paragraphs 4.1, 4.3 and 4.9 above, the deeds of variation dated 8 December 2010, 26 October 2011 and 16 November 2012 referred to in paragraph 4.10 above and the deed of variation referred to in paragraph 4.11 above.

- 5.18** The investment portfolio is valued in accordance with International Private Equity and Venture Capital ("IPEVC") valuation guidelines. These guidelines set out recommendations, intended to represent current best practice on the valuation of venture capital investments. These investments are valued on the basis of forward looking estimates and judgments about the business itself, its market and the environment in which it operates, together with the state of the mergers and acquisitions market, stock market conditions and other factors. In making these judgments the valuation, which is undertaken by the Investment Adviser, takes into account all known material facts up to the date of approval of the financial statements by the Board. The valuation of listed investments and investments traded on AIM or other public stock markets will be stated at closing bid prices. Investments not listed on a public stock market will be valued in accordance with the IPEVC valuation guidelines.
- 5.19** Investments will be valued quarterly by the Investment Adviser and these Net Asset Values will be communicated to Shareholders through the Regulatory Information Service. Each VCT 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 VCT 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. Any suspension will be communicated to Shareholders through the Regulatory Information Service.
- 5.20** All third party information in the Prospectus has been identified as such by reference to its source and in each instance has been accurately reproduced and, so far as the VCTs 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.
- 5.21** The VCTs 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, and accept responsibility for the information contained therein, with respect to subsequent resale or final placement of securities by financial intermediaries. The Offers are expected to close on or before 4 April 2015 and 30 April 2015 respectively. The Directors may choose to extend the offer that closes on 30 April 2015 to a date no later than 19 October 2015. Financial intermediaries may use the Prospectus only in the UK.
- 5.22** **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 5.21 above.**

## 6.0 AIFM regulated status

- 6.1** The Financial Conduct Authority has registered the VCT's as Small Registered Alternative Investment Fund Managers.

## 7.0 Documents available for inspection

- 7.1** Copies of the following documents are available for inspection at the VCTs' registered office at 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS 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 VCT;
  - (ii) the consent letters referred to in paragraphs 5.9 and 5.10 of this Part 5 above;
  - (iii) the Directors' letters of appointment referred to in paragraph 3.9 of this Part 5 above;
  - (iv) the audited accounts of BSC for the periods ended 31 March 2012, 31 March 2013 and 31 March 2014;
  - (v) the audited accounts of BSC2 for the periods ended 31 December 2011, 31 December 2012 and 31 December 2013 and interim financial statements for the 6 month periods to 30 June 2013 and 30 June 2014;
  - (vi) the Circular; and
  - (vii) this document.

**20 October 2014**

British Smaller Companies VCT plc (“BSC”)  
British Smaller Companies VCT2 plc (“BSC2”)

YFM Equity  
Partners

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