

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

**If you are in any doubt about the action to be taken, you should immediately consult your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred all of your shares in British Smaller Companies VCT2 plc, please send this document and accompanying documents, as soon as possible, to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for delivery to the purchaser or transferee.

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

(Registered in England and Wales with registered number 04084003)

#### **Recommended proposals in connection with a joint offer for subscription relating to the authorities to allot Ordinary Shares, the amendment of the articles of association and the cancellation of the share premium account**

Your attention is drawn to the letter from the chairman of the Company set out on pages 3 to 5 which contains a recommendation to vote in favour of the Resolutions to be proposed at the General Meeting.

You will find set out at the end of this document a notice of the General Meeting to be held on 18 February 2014 at 11:30 am (or as soon as practicable thereafter as the BSC General Meeting has concluded or adjourned) to approve the Resolutions. The General Meeting will be held at The Berkeley Room, First Floor, Regus Lounge, 17 Bruton Street, London W1J 6QB.

To be valid, the form of proxy accompanying this document for the meeting should be returned not less than 48 hours (excluding weekends and public holidays) before the General Meeting, either by post or by hand to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU.

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# Part I: Letter from the Chairman

## British Smaller Companies VCT2 plc

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

14 January 2014

Dear Shareholder

### **Recommended proposals in connection with a joint offer for subscription relating to the authorities to allot Ordinary Shares, the amendment of the articles of association and the cancellation of the share premium account.**

#### **The Offers**

The Company and British Smaller Companies VCT plc (BSC) are seeking to raise additional funds by way of joint offers of up to £30 million in aggregate, with an over allotment facility of up to £10 million in aggregate, to allow further expansion of their diverse investment portfolios.

The Fund Manager receives a high level of investment opportunities from its national network of offices and the Offers, helped by the perceived reluctance of UK banks to lend to small and medium-sized businesses, should enable the Companies to capitalise on these opportunities.

The Offers will enable new and existing Shareholders to invest in a mature and diversified portfolio of businesses that will be supplemented with new investments in line with the Companies' investment strategy. Recent investments by the Company include technical clothing specialist Douglas Gill International Limited (£1.9 million in September 2013), specialist electronic components manufacturer GTK (UK) Limited (£1.2 million in October 2013) and valves wholesaler Leengate Valves Limited (through its holding company HLWKH 556 Limited) (£0.9 million in December 2013).

Subject to a maximum of £24 million being raised by the Company, investors will have the option to invest in either of the Companies or a combination of the two and if no preference is stated, each investor's subscription will be allocated 60% to BSC and 40% to the Company, broadly reflecting the relative sizes of each fund. If £24 million is raised by the Company, an announcement will be made to that effect by the Companies and subscription monies that would have otherwise been allocated to the Company will be returned to the applicant or, subject to the consent of the applicant, be allocated to BSC.

The objectives of both Companies are to provide investors with an attractive long-term tax free dividend yield while maintaining the capital value of their investment and their venture capital trust status. An increase in the size of each of the Companies will enable the fixed element of each of the Companies' running costs to be spread over a wider capital base.

The net proceeds of the Offers will be invested by the Companies in accordance with their stated investment policies. Prior to the investment of funds in suitable Qualifying Investments, those funds will be invested in a portfolio of Government stocks or other similar fixed interest securities, including fixed term bank deposits.

The Offer Shares will be issued on a fully paid up basis in registered form and evidence of title will be through possession of a share certificate in the Shareholder's name. Alternatively, the Offer Shares may be held in an account through the CREST system. An application has been made to the UK Listing Authority and will be made to the London Stock Exchange for the Offer Shares to be admitted to the premium segment of the Official List of the UKLA and to trading on the London Stock Exchange's main market for listed securities. It is expected that such admission will become effective and that dealings in the Offer Shares will commence within ten business days of their allotment. The Company will apply for the Offer Shares to be admitted to CREST and it is expected that the Offer Shares will be so admitted, and accordingly enabled for settlement in CREST. Offer Shares will be allotted and issued on 31 March 2014 and 5 April 2014 in respect of valid applications received in respect of the 2013/2014 Offers and on 30 April 2014 for all valid applications received in respect of the 2014/2015 Offers. At the Directors' discretion, they may make earlier allotments should it be deemed appropriate or extend the closing date of the Offers to a date not later than 13 January 2015.

## Expected Timetable

<b>Offers open</b>	
Offers open	14 January 2014
First allotment	31 March 2014*
Dealings commence	10 business days following allotment
Share and Tax certificates issued	within 10 business days of allotment
<b>Offers close**</b>	
2013/2014 Offers	11.00 am on 5 April 2014
2014/2015 Offers	11.00 am on 30 April 2014***

\* At the Directors' discretion, they may make earlier allotments should it be deemed appropriate.

\*\* In the event that the maximum subscription is reached before either closing date the Offers will be individually or jointly closed early.

\*\*\* The Directors reserve the right to extend the closing date of the 2014/2015 Offers (to a date not later than 13 January 2015).

The Directors reserve the right to increase the size of the Offers at their discretion to £40 million, in aggregate.

Shareholder approval is required under the Companies Act 2006 in respect of the Resolutions. The issue of Offer Shares by the Company under the Offers is conditional upon the passing of Resolutions 1, 3 and 5 at the General Meeting.

## Ordinary Resolutions

Resolution 1 will, if passed, give the Board authority to allot Shares in connection with the Offers up to an aggregate nominal amount of £3,000,000, a rights issue and an additional 10 per cent of the issued share capital of the Company immediately following the final closing of the Offers.

This authority will expire on the later of (i) the Company's next annual general meeting and (ii) 15 months from the passing of the Resolution.

Resolution 2 will, if passed, give the Board authority to allot Shares in connection with the Company's dividend re-investment scheme up to an aggregate nominal amount of £650,209, representing approximately 14 per cent of the share capital in issue as at 13 January 2014 (excluding treasury shares) during the period commencing on the passing of this Resolution and expiring on the fifth anniversary of this Resolution.

## Special Resolutions

Resolution 3 will, if passed, give the Board authority to allot the Shares referred to in Resolution 1 whilst disapplying the statutory pre-emption rights. This authority will expire on the later of (i) the Company's next annual general meeting or (ii) 15 months from the passing of this Resolution.

Resolution 4 will, if passed, give the Board authority to allot the Shares referred to in Resolution 2 whilst disapplying the statutory pre-emption rights. This authority will expire on the fifth anniversary of this Resolution.

Resolution 5 will, if passed, amend article 195 of the Company's articles of association which refers to the duration of the Company. This article provides that at the annual general meeting of the Company held in 2018 and, if the Company has not then been wound-up or reconstructed or re-organised, at each fifth annual general meeting thereafter, the Directors shall procure that an ordinary resolution will be proposed to the effect that the Company shall continue in being a venture capital trust.

Resolution 6 will, if passed, approve, subject to the sanction of the High Court, the cancellation of the amount standing to the credit of the share premium account of the Company immediately after the final closing date of the Offers. The Directors consider it appropriate to obtain the approval of Shareholders at the General Meeting to cancel the share premium account (subject to the sanction of the High Court) to create further distributable reserves to fund distributions to Shareholders and Share buy-backs, to set off or write off losses and for other corporate purposes of the Company. Application to court will be made if and when the Board feels this is appropriate. This authority is being taken now to provide flexibility to the Board in the future without a further general meeting having to be convened.

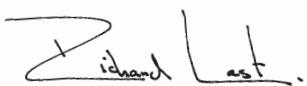
## Action to be Taken

Shareholders will find a form of proxy at the rear of this document for the General Meeting. Whether or not you propose to attend the General Meeting, you are requested to complete and return the form of proxy so as to be received not less than 48 hours before the time appointed for holding the General Meeting. Completion and return of the form of proxy will not prevent a Shareholder from attending and voting in person at the General Meeting should a Shareholder wish to do so.

## Recommendation

The Board considers that the Resolutions are in the best interests of the Shareholders as a whole and unanimously recommends you to vote in favour of the Resolutions. The Directors intend voting in favour of the Resolutions in respect of their own beneficial shareholdings in the Company which, at the date of this Circular, total 192,360 Shares (representing approximately 0.41% of the issued Shares).

Yours sincerely



**Richard Last**  
Chairman

# Part II: Additional Information

## 1. Responsibility and Registered Office

The Company, and the Directors whose names appear below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (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.

Richard Last (Chairman)

Robert Pettigrew

Peter Waller

The registered office of the Company is Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ.

## 2. Authorised and Issued Share Capital

- 2.1 As at 30 June 2013 (being the end of the last financial period of the Company for which unaudited interim financial information has been published) there were 75,000,000 authorised and 46,371,537 issued Ordinary Shares, each ranking pari passu. All of the Ordinary Shares are listed on the Official List of the UK Listing Authority. The Company held an additional 1,632,722 Shares in the treasury account at 30 June 2013.
- 2.2 Immediately following the close of the Offers, assuming £30,000,000 is raised in aggregate under the Offers, that the price per Offer Share for the Company is 68.0p and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to the Company with 17,647,059 Shares being allotted by the Company under the Offers, the issued share capital of the Company, fully paid or credited as fully paid, will be £6,586,834 divided into 65,868,344 Ordinary Shares (of which 1,777,772 Ordinary Shares will be held in treasury), and there will remain authorised but un-issued a minimum of £913,166 of share capital divided into 9,131,656 Ordinary Shares.

## 3. Directors' and Other Interests

- 3.1 The interests of the Directors, or persons connected with such Directors, (all of which are beneficial unless otherwise stated) in the issued share capital of the Company as at 13 January 2014 (being the latest practicable date before publication of this Circular) were:

Director	Ordinary Shares
Richard Last	120,912
Robert Pettigrew	54,292
Peter Waller	17,156

- 3.2 The interests of the Directors, or persons connected with such Directors, (all of which are beneficial unless otherwise stated) in the issued share capital of the Company as at the close of the Offers (assuming £30,000,000 is raised in aggregate under the Offers, that the price per Offer Share for the Company is 68.0p, that Offer Shares are allocated 60 per cent to BSC and 40 per cent to the Company and that the Directors are issued Loyalty Bonus Shares) will be:

Director	Ordinary Shares
Richard Last	125,887
Robert Pettigrew	57,277
Peter Waller	20,141

- 3.3 Save as disclosed above, no Director nor (so far as is known to the relevant Director) any person connected with a Director has any interest in the share capital of the Company.

## 4. Significant Shareholdings

As at 13 January 2014 (being the latest practicable date prior to the publication of this Circular) the Directors were not aware of any holdings of 3 per cent or more of the Company's issued share capital or of any person who, directly or indirectly, jointly or severally, exercises control over the Company.

## 5. Material Contracts

5.1 The Company has entered into the following material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this Circular or under which the Company has any obligation or entitlement which is material to it as at the date of this Circular:

5.1.1 An offer agreement dated 14 January 2014 ("the Offer Agreement") between the Companies (1), the Directors (2) and the Fund Manager (3) under which, the Fund Manager has undertaken, as agent of the Companies, to use its reasonable endeavours to procure subscribers under the Offers. As is usual in contracts of this type, the Fund Manager agreed to indemnify the Companies against the costs of the Offers exceeding the Offer Costs Percentage, excluding VAT and trail commission and will receive a percentage of the value of the gross proceeds relating to each applicant under the Offers that is equal to the Offer Costs Percentage relating to that applicant's subscription. Under the Offer Agreement, warranties have been given by each Company, the Directors and the Fund Manager, subject to certain limitations, which are in the usual form for a contract of this type.

5.1.2 An agreement between the Companies and Howard Kennedy dated 12 November 2013 under which Howard Kennedy agreed to act as sponsor to the Offers. The Companies agreed to indemnify Howard Kennedy in respect of losses incurred by Howard Kennedy and which arise, directly or indirectly, from its role as sponsor.

5.1.3 An offer agreement dated 26 October 2011 ("the 2011 Offer Agreement") between the Company (1), the Directors (2), Howard Kennedy (3) and YFM Private Equity (4) under which Howard Kennedy agreed to act as sponsor to the offer for subscription that was launched by the Company in October 2011. As is usual in contracts of this type, YFM Private Equity agreed to indemnify the Company against the costs of that offer exceeding 5.5 per cent of the aggregate value of accepted applications for ordinary shares received under that offer and received a commission of 5.5 per cent of the aggregate value of the gross proceeds received by the Company under that offer, less the upfront commission paid by the Company to recognised intermediaries in respect of accepted applications under the prospectus for that offer. Under the 2011 Offer Agreement YFM Private Equity, the Company and the Directors gave certain warranties which were subject to certain limitations. The Company agreed to indemnify Howard Kennedy in respect of its role as sponsor.

5.1.4 YFM Private Equity provides investment management, administrative and secretarial duties for the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011 and 16 November 2012. This agreement may be terminated by not less than twelve months' notice given by either party at any time. The key features of the agreement are: YFM Private Equity receives a fund management 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 management fee will be reduced to 1.25 per cent per annum in respect of any net asset value of the Company 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 the Company in excess of £26.667 million. Pursuant to the deed of variation dated 16 November 2012, YFM Private Equity shall bear the annual operating costs of the Company (including the management fee set out above but excluding any payment of the performance incentive fee details of which are set out at paragraph 5.1.5 below and excluding VAT and trail commissions) to the extent that those costs exceed 3.25 per cent of the Net Asset Values of the Company, a reduction from the previous level of 3.5 per cent. Under the Investment Management Agreement YFM Private Equity also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index (currently £58,489). The total remuneration payable to YFM Private Equity in the period to 31 December 2012 was £519,000.

5.1.5 Under the Subscription Rights Agreement dated 23 November 2001 between the Company (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 120.0 pence per Ordinary Share on that same day multiplied by the number of Ordinary Shares in issue and the Shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity and Chord. 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 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 the Company (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.

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 the Company's issued Shares.

5.1.6 Under an agreement dated 28 November 2000 between the Company and Brewin Dolphin Limited ("Brewin"), Brewin agreed to act as investment manager to the Company 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 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 Fund Manager.

5.1.7 By a deed of novation dated 6 November 2012 (to the agreement dated 3 September 2004 as novated 1 April 2009) between the Company (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 the Company and to carry out share purchases on the Company'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 the Company 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.

## 6. Directors' Service Contracts and Remuneration

None of the Directors has a service contract with the Company and the services of the Directors are provided to the Company pursuant to letters of appointment, under which they are required to devote such time to the affairs of the Company as the Board reasonably requires consistent with their role as a non-executive director.

The Directors are each currently entitled to receive the following annual fees:

Director	£
Richard Last	31,500
Robert Pettigrew	18,000
Peter Waller	18,000
	<b>67,500</b>

## 7. Significant Changes

Since 30 June 2013 (being the end of the last financial period of the Company for which unaudited interim financial information has been published), there has been no significant change in the financial or trading position of the Company.

## **8. Documents Available for Inspection**

Copies of the following documents will be available for inspection from the date of this Circular until the conclusion of the General Meeting during normal business hours and on any weekday (Saturdays and public holidays excepted) at the registered office of the Company at Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ:

- 8.1 the audited accounts of the Company for the years ended 31 December 2010, 2011 and 2012;
- 8.2 the unaudited interim financial statements for the 6 month periods to 30 June 2012 and 30 June 2013;
- 8.3 the Company's articles of association;
- 8.4 the Directors' letters of appointments referred to in paragraph 6 above; and
- 8.5 this Circular.

14 January 2014

# Part III: Definitions

<b>"2013/2014 Offers"</b>	the offers for subscription of Ordinary Shares to a value not exceeding £40 million, in respect of the tax year 2013/2014, details of which are set out in this document;
<b>"2014/2015 Offers"</b>	the offers for subscription of Ordinary Shares to a value not exceeding £40 million, in respect of the tax year 2014/2015, details of which are set out in this document;
<b>"Board" or "Directors"</b>	Richard Last, Robert Pettigrew and Peter Waller;
<b>"BSC"</b>	British Smaller Companies VCT plc, registered with the Registrar of Companies of England and Wales with registered number 03134749 and whose registered office is Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ;
<b>"the Circular"</b>	this document;
<b>"the Company"</b>	British Smaller Companies VCT2 plc, registered with the Registrar of Companies of England and Wales with registered number 04084003 and whose registered office is Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ;
<b>"the Companies"</b>	the Company and BSC;
<b>"the Prospectus"</b>	the prospectus dated the date of this Circular relating to the Offers;
<b>"Financial Advisers"</b>	an authorised intermediary offering investment advice to his client;
<b>"Fund Manager" or "YFM Private Equity"</b>	YFM Private Equity Limited, registered number 02174994 and whose registered office is Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ;
<b>"General Meeting"</b>	the general meeting of the Company to be held on 18 February 2014 (or any adjournment thereof);
<b>"Howard Kennedy"</b>	Howard Kennedy Corporate Services LLP, registered number OC354088;
<b>"Offer Costs Percentage"</b>	(i) 5.5 per cent of gross funds raised by the Companies in respect of applications received through execution only brokers and (ii) 3.5 per cent of gross funds raised by the Companies in respect of applications received through Financial Advisers or for direct applications;
<b>"Offers"</b>	the 2013/2014 Offers and the 2014/2015 Offers;
<b>"Offer Shares"</b>	Shares to be issued under the Offers;
<b>"Resolutions"</b>	the resolutions to be proposed at the General Meeting;
<b>"Shareholders"</b>	holders of Shares;
<b>"Shares" or "Ordinary Shares"</b>	ordinary shares of 10.0 pence each in the capital of the Company;
<b>"VCT"</b>	a venture capital trust as defined in Section 259 Income Taxes Act 2007.

# Part IV: British Smaller Companies VCT2 plc

(registered number 04084003)

## Notice of General Meeting

NOTICE IS HEREBY GIVEN that a General Meeting of British Smaller Companies VCT2 plc will be held at The Berkeley Room, First Floor, Regus Lounge, 17 Bruton Street, London W1J 6QB at 11:30 am on 18 February 2014 (or as soon as practicable thereafter as the BSC general meeting has concluded or adjourned) to consider and, if thought fit, pass the following Resolutions which will be proposed as ordinary Resolutions as to Resolutions 1 and 2 and as special Resolutions as to Resolutions 3 to 6:

### Ordinary Resolutions

- (1) THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot Shares in the Company or to grant rights to subscribe for or to convert any security into Shares in the Company in connection with:
  - (i) the Offers, up to an aggregate nominal amount of £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 date hereof or the next annual general meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require Shares to be allotted, or rights to subscribe for or to convert any security into Shares to be granted, after such expiry and that all previous authorities given to the Directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

- (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 in connection with the dividend re-investment scheme up to an aggregate nominal amount of £650,209 representing approximately 14 per cent of the share capital in issue as at 13 January 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 dividend re-investment scheme be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

### Special Resolutions

- (3) 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 rights;
  - (iii) the allotment for cash (otherwise than pursuant to sub-paragraph (i) to (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;

- [4] 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 £650,209 representing approximately 14 per cent of the share capital in issue as at 13 January 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;
- [5] THAT article 195 of the Company's articles of association be amended to delete the reference to "2018" in line 1 and substitute "2020" therefor;
- [6] THAT, subject to the sanction of the High Court, the amount standing to the credit of the Share premium account of the Company immediately after the final closing date of the Offers be cancelled.

**BY ORDER OF THE BOARD**

KHM Secretarial Services Limited

Secretary

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

Information regarding the General Meeting, including the information required by Section 311A of the Companies Act 2006, is available from [www.yfmep.com](http://www.yfmep.com)

14 January 2014

## Notes

(a) Any member of the Company entitled to attend and vote at the General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different Share or Shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the General Meeting in order to represent his appointor. A member entitled to attend and vote at the General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under Section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the General Meeting unless:

- answering the question would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the General Meeting that the question be answered.

(b) To be valid, a Form of Proxy must be completed and signed and together with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote.

(c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services before the General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the Directors' Letters of Appointment, the Register of Directors' interests in the Ordinary Shares of the Company kept, a copy of the amended Articles of Association (marked up to show the proposed changes) and a copy of the current Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and Public Holidays excluded) from the date of this notice, until the end of the General Meeting for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's Shares registered on the Register of Members of the Company as at 6 pm on 14 February 2014 or, in the event that the General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said General Meeting in respect of such Shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6 pm on 14 February 2014 or, in the event that the General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the General Meeting.

(g) As at 13 January 2014, the Company's issued share capital comprised 46,443,563 Ordinary Shares with a further 1,777,722 Ordinary Shares held in treasury. The total number of voting rights in the Company as at 13 January 2014 is 46,443,563. The website referred to above will include information on the number of Ordinary Shares and voting rights.

(h) If you are a person who has been nominated under Section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same Share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the Resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the General Meeting.
- (k) Members may not use any electronic address provided either in this notice of General Meeting, or any related documents (including the letter from the Chairman and proxy form), to communicate with the Company for any purposes other than those expressly stated.
- (l) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

# Form of Proxy

## British Smaller Companies VCT2 plc

(Registered in England and Wales with registered number 04084003)

For use at the General Meeting of the above-named Company to be held on 18 February 2014, at The Berkeley Room, First Floor, Regus Lounge, 17 Bruton Street, London W1J 6QB at 11:30 am (or as soon as practicable thereafter as the BSC general meeting has concluded or adjourned).

I/We\* \_\_\_\_\_ (in BLOCK CAPITALS please)

of \_\_\_\_\_

being a member of the above-named Company, hereby appoint the Chairman of the General Meeting (see note 2)

or \_\_\_\_\_

of \_\_\_\_\_

as my/our\* proxy to attend for me/us\* on my/our\* behalf at the General Meeting of the Company to be held at as detailed above or at any adjournment thereof.

Number of Ordinary Shares proxy is appointed over \_\_\_\_\_

Please tick here if you are appointing more than one proxy

I/ We\* desire to vote on the Resolutions as indicated in the appropriate column below. Please indicate with an "X" how you wish your vote to be cast.

Details of the Resolutions are set out in the Notice of the General Meeting

	FOR	AGAINST	WITHHELD
<b>ORDINARY RESOLUTION</b>			
1. To authorise the Directors to allot Ordinary Shares pursuant to Section 551 of the Companies Act 2006 in connection with the Offers, rights issue and generally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To authorise the Directors to allot Ordinary Shares pursuant to Section 551 of the Companies Act 2006 in connection with the dividend re-investment scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL RESOLUTIONS</b>			
3. To disapply Section 561(1) of the Companies Act 2006 in respect of the allotment of Ordinary Shares pursuant to the Offers, rights issue and generally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To disapply Section 561(1) of the Companies Act 2006 in respect of the allotment of Ordinary Shares pursuant to the dividend re-investment scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To amend article 195 of the Company's articles of association with respect to the Company's status as a VCT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To cancel, subject to the sanction of the High Court, the share premium account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\* Delete as appropriate

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2014

Signature(s) \_\_\_\_\_ / \_\_\_\_\_

## NOTES

1. The Notice of the General Meeting is set out on pages 11 to 14 of the Circular.
2. Any member of the Company entitled to attend and vote at the General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different Share or Shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the General Meeting in order to represent his appointor. A member entitled to attend and vote at the General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
3. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
4. Any alterations to the Form of Proxy should be initialled.
5. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote.
6. In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services before the General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
7. In the case of a corporation, this form must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
8. In the case of joint Shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
9. Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the General Meeting in person, the proxy appointment will automatically be terminated.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the Resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

# British Smaller Companies VCT2 plc

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