

## **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 the Companies, 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 VCT plc ("BSC")**

(Registered in England and Wales with registered number 03134749)

### **British Smaller Companies VCT2 plc ("BSC2")**

(Registered in England and Wales with registered number 04084003)

#### **Recommended proposals in connection with:**

- the approval of the Offer Agreement for BSC and BSC2;
- the increase in BSC2's authorised share capital;
- the authorities for BSC2 to allot Ordinary Shares;
- the amendment of BSC2's articles of association; and
- the cancellation of BSC2's share premium account.

Your attention is drawn to the letter from the chairmen of the Companies set out on pages 3 to 6 which contains a recommendation to vote in favour of the Resolutions to be proposed at the General Meetings.

You will find set out at the end of this document a notice of the General Meetings to be held, in the case of BSC, on 3 December 2014 at 10.30 am and, in the case of BSC2, on 3 December 2014 at 10.45 am (or as soon thereafter as the BSC General Meeting has concluded or adjourned) to approve the Resolutions. The General Meetings will be held at 4 Cavendish Square, London, W1G 0PG.

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

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# British Smaller Companies VCT plc

## British Smaller Companies VCT2 plc

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# Part I: Letter from the Chairmen

## British Smaller Companies VCT plc British Smaller Companies VCT2 plc

### **Registered Office:**

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

20 October 2014

Dear Shareholder

### **Recommended proposals in connection with:**

- **the approval of the Offer Agreement for BSC and BSC2;**
- **the increase in BSC2's authorised share capital;**
- **the authorities for BSC2 to allot Ordinary Shares;**
- **the amendment of BSC2's articles of association; and**
- **the cancellation of BSC2's share premium account.**

The purpose of this document is to explain the recommended proposals listed above and to seek Shareholder approval for the required authorities.

### **The Offers**

The Companies are seeking to raise additional funds by way of Offers of up to £30 million in aggregate with an over allotment facility of up to £10 million in aggregate, to provide additional funds for investment.

The Investment Adviser reviews a large number of investment opportunities via its national network of offices and the Offers will enable the Companies to capitalise on these opportunities and further diversify their portfolios.

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 joint investments by the Companies include:

- healthcare equipment specialist, Mangar Health Limited (£4.10 million in January 2014);
- a leading provider of business process outsourcing solutions to the UK legal sector, Intelligent Office UK Ltd (£4.89 million in June 2014);
- specialist digital printer, Macro Art Holdings Limited (£2.10 million in June 2014);
- cloud-based software provider, Intamac Systems Limited (£1.00 million in June 2014);
- a manufacturer and retailer of aluminium windows, The Heritage Window Company Holdco Limited (£3.17 million in September 2014);
- telecommunications provider, Gamma Communications plc (£0.42 million in October 2014); and
- a follow-on investment into kitchen manufacturer and retailer Harvey Jones Holdings Limited (£2.00 million in September 2014).

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 per cent to BSC and 40 per cent to BSC2, broadly reflecting the relative sizes of each VCT.

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 retaining 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 VCT qualifying investments, those funds will be invested in a portfolio of Government stocks or other similar fixed interest securities, including 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 Companies will apply for the Offer Shares to be admitted to CREST and it is expected that the Offer Shares will be so admitted, and accordingly enabled for settlement in CREST. It is anticipated that Offer Shares will be allotted and issued on 6 January, 2 February, 2 March, 30 March, 1 April (CREST Holders) and 4 April 2015 in respect of valid applications received in respect of the 2014/2015 Offers and 30 April 2015 for all valid applications received in respect of the 2015/2016 Offers. At the Directors' discretion, they may make earlier allotments should it be deemed appropriate or extend the closing date of the 2015/2016 Offers to a date not later than 19 October 2015. From the date of issue the Offer Shares will rank pari passu with the existing issue Shares. Full details of the Offers are contained in the Securities Note and Application Form, Summary and Registration Document available on the Companies' website [bscfunds.com](http://bscfunds.com).

## The Offer Agreement

The Companies and the Directors entered into an agreement dated 20 October 2014 with the Investment Adviser and Howard Kennedy under which the Investment Adviser has undertaken, as agent of the Companies, 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 Companies 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 Companies will pay the Investment Adviser a fee of 3.0 per cent of the relevant gross funds raised (together the "Promoter's Fee"). As is usual in contracts of this type, the Investment Adviser has agreed to indemnify the Companies against the costs of the Offers (excluding trail commission) exceeding the Offer Costs Percentage. The Investment Adviser will be responsible for all costs and expenses arising from the Offers, excluding trail commission.

The Promoter's Fee is a "related party transaction" under the Listing Rules, the Investment Adviser being a related party. The Listing Rules require that certain related party transactions must have shareholder approval, depending on the economic benefit that the related party is to receive and, for the purpose of calculating the benefit that the Investment Adviser is to receive as a result of the Promoter's Fee, require that the Promoter's Fee is aggregated with the promoter's fee that the Investment Adviser could have received under the offers for subscription that were launched by the Companies on 14 January 2014. As a result the Offer Agreement, under which the Promoter's Fee is payable, must be approved by the Shareholders, other than the Investment Adviser and its associates.

## Expected Timetable

Offers open	
Offers open	20 October 2014
First allotment*	6 January 2015
Second allotment*	2 February 2015
Third allotment*	2 March 2015
Fourth allotment*	30 March 2015
Fifth allotment (CREST holders)*	1 April 2015
Fifth allotment (Non-CREST holders)*	4 April 2015
Final allotment	30 April 2015
Dealings commence	10 business days following allotment
Share and Tax certificates issued	within 10 business days of allotment
Offers close**	
2014/2015 Offers	11.00 am on 4 April 2015
2015/2016 Offers	11.00 am on 30 April 2015***

\* 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 may be individually or jointly closed early.

\*\*\* The Directors reserve the right to extend the closing date of the 2015/2016 Offers (to a date not later than 19 October 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 and the Listing Rules in respect of the Resolutions. The issue of Offer Shares by BSC under the Offers is conditional upon the passing of Resolution 1 at the BSC General Meeting. The issue of Offer Shares by BSC2 under the Offers is conditional upon the passing of Resolutions 1, 2, 4, 5 and 7 at the BSC2 General Meeting.

## **Ordinary Resolutions**

Resolution 1 to be proposed at the BSC2 General Meeting will, if passed, increase the authorised share capital of BSC2 from £7,500,000 to £16,500,000 by the creation of 90,000,000 Ordinary Shares of 10p each in the capital of BSC2, having attached thereto the rights and privileges and being subject to the limitations and restrictions set out in the articles of association of BSC2.

Resolution 2 to be proposed at the BSC2 General Meeting will, if passed, give the BSC2 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 BSC2 immediately following the final closing of the Offers.

This authority will expire on the later of (i) BSC2's next annual general meeting and (ii) 15 months from the passing of the Resolution.

Resolution 3 to be proposed at the BSC2 General Meeting will, if passed, give the BSC2 Board authority to allot Shares in connection with BSC2'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.

Resolution 4 to be proposed at the BSC2 General Meeting and Resolution 1 to be proposed at the BSC General Meeting will, if passed, approve the Offer Agreement, details of which are set out on page 4. The Promoter's Fee, as defined on page 4, is a "related party transaction" under the Listing Rules. The Listing Rules require that the Offer Agreement, under which the Promoter's Fee is payable, must be approved by the Shareholders, other than the Investment Adviser and its associates. The Boards, having been so advised by Howard Kennedy, as sponsor to the Companies, believes that the Offer Agreement is fair and reasonable as far as the Shareholders are concerned. The Investment Adviser will not vote on these Resolutions and has undertaken to take all reasonable efforts to ensure that its associates will not vote on these Resolutions. All other Shareholders will be entitled to vote.

## **Special Resolutions**

Resolution 5 to be proposed at the BSC2 General Meeting will, if passed, give the BSC2 Board authority to allot the Shares referred to in Resolution 2 to be proposed at the BSC2 General Meeting whilst disapplying the statutory pre-emption rights. This authority will expire on the later of (i) BSC2's next annual general meeting or (ii) 15 months from the passing of this Resolution.

Resolution 6 to be proposed at the BSC2 General Meeting will, if passed, give the BSC2 Board authority to allot the Shares referred to in Resolution 3 to be proposed at the BSC2 General Meeting whilst disapplying the statutory pre-emption rights. This authority will expire on the fifth anniversary of this Resolution.

Resolution 7 to be proposed at the BSC2 General Meeting will, if passed, amend article 195 of BSC2's articles of association which refers to the duration of BSC2. This article provides that at the annual general meeting of BSC2 held in 2020 and, if BSC2 has not then been wound-up or reconstructed or re-organised, at each fifth annual general meeting thereafter, the BSC2 Directors shall procure that an ordinary resolution will be proposed to the effect that BSC2 shall continue in being a venture capital trust.

In view of the five year VCT qualifying period for tax relief that will relate to the further Shares that will be issued under the Offers, Resolution 7 proposes that article 195 of BSC2's articles of association is amended so that "in 2020" is replaced with "held 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".

The articles of association of BSC2 will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the BSC2 General Meeting at the registered office of BSC2. They will also be available at the BSC2 General Meeting for at least 15 minutes before and during the BSC2 General Meeting.

Resolution 8 to be proposed at the BSC2 General Meeting 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 BSC2 at the date that the court order granting the cancellation is made. The BSC2 Directors consider it appropriate to obtain the approval of Shareholders at the BSC2 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 BSC2. Application to court will be made if and when the BSC2 Board feels this is appropriate. This authority is being taken now to provide flexibility to the BSC2 Board in the future without a further general meeting of BSC2 having to be convened.

### **Action to be Taken**

Shareholders will find a form of proxy at the rear of this document for the General Meetings. Whether or not you propose to attend the General Meetings, 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 Meetings. Completion and return of the form of proxy will not prevent a Shareholder from attending and voting in person at the General Meetings should a Shareholder wish to do so.

### **Recommendation**

The BSC Board considers that Resolution 1 to be proposed at the BSC General Meeting is in the best interests of the BSC Shareholders as a whole and unanimously recommends the BSC Shareholders to vote in favour of Resolution 1 to be proposed at the BSC General Meeting. The BSC2 Board considers that Resolutions 1 to 8 to be proposed at the BSC2 General Meeting are in the best interests of the BSC2 Shareholders as a whole and unanimously recommends the BSC2 Shareholders to vote in favour of Resolutions 1 to 8 to be proposed at the BSC2 General Meeting. The BSC Directors intend voting in favour of Resolution 1 to be proposed at the BSC General Meeting in respect of their own beneficial shareholdings in BSC which, at the date of this Circular, total 97,210 Shares (representing approximately 0.15 per cent of BSC's issued Shares) and the BSC2 Directors intend voting in favour of Resolutions 1 to 8 be proposed at the BSC2 General Meeting in respect of their own beneficial shareholdings in BSC2 which, at the date of this Circular, total 211,620 Shares (representing approximately 0.34 per cent of BSC2's issued Shares).

Yours sincerely



**Helen Sinclair**  
Chairman  
British Smaller Companies VCT plc



**Richard Last**  
Chairman  
British Smaller Companies VCT2 plc

# Part II: Additional Information

## 1. Responsibility and Registered Office

The Companies, 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 Companies 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.

### **BSC**

Helen Sinclair (Chairman)

Philip Cammerman

Edward Buchan

### **BSC2**

Richard Last (Chairman)

Robert Pettigrew

Peter Waller

The registered office of the Companies is 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.

## 2. Authorised and Issued Share Capital

- 2.1 As at 31 March 2014 (being the end of the last financial period of BSC for which audited financial information has been published) there were 165,000,000 authorised and 61,385,687 issued Ordinary Shares, each ranking pari passu. All of the Ordinary Shares are listed on the Official List of the UK Listing Authority. BSC held an additional 2,469,502 Shares in the treasury account at 31 March 2014.
- 2.2 As at 30 June 2014 (being the end of the last financial period of BSC2 for which unaudited interim financial information has been published) there were 75,000,000 authorised and 62,269,837 issued Ordinary Shares, each ranking pari passu. All of the Ordinary Shares are listed on the Official List of the UK Listing Authority. BSC2 held an additional 1,840,918 Shares in the treasury account at 30 June 2014.
- 2.3 Immediately following the close of the Offers, assuming £30,000,000 is raised in aggregate under the Offers, based on a price per Offer Share for BSC of 101.75p and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to BSC2 with 17,690,418 Shares being allotted by BSC under the Offers, the issued share capital of BSC, fully paid or credited as fully paid, will be £8,621,752 divided into 86,217,523 Ordinary Shares (of which 3,006,322 Ordinary Shares will be 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 Ordinary Shares.
- 2.4 Immediately following the close of the Offers, assuming £30,000,000 is raised in aggregate under the Offers, based on a price per Offer Share for BSC2 of 63.25p and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to BSC2 with 18,972,332 Shares being allotted by BSC2 under the Offers, and subject to the passing of Resolution 1 to be proposed 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 Ordinary Shares (of which 1,840,918 Ordinary Shares will be 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 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 Companies of which they are a Director as at 20 October 2014 (being the latest practicable date before publication of this Circular) were:

### **BSC**

<b>Director</b>	<b>Ordinary Shares</b>
Helen Sinclair	17,004
Philip Cammerman	67,975
Edward Buchan	12,231

### **BSC2**

<b>Director</b>	<b>Ordinary Shares</b>
Richard Last	126,882
Robert Pettigrew	58,759
Peter Waller	25,979

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 of which they are Director as at the close of the Offers (assuming that the price per Offer Share 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:

**BSC**

<b>Director</b>	<b>Ordinary Shares</b>
Helen Sinclair	22,959
Philip Cammerman	73,930
Edward Buchan	18,186

**BSC2**

<b>Director</b>	<b>Ordinary Shares</b>
Richard Last	134,866
Robert Pettigrew	68,340
Peter Waller	30,769

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 of which they are a Director.

#### **4. Significant Shareholdings**

As at 20 October 2014 (being the latest practicable date prior to the publication of this Circular) the BSC Directors were not aware of any holdings of 3 per cent or more of BSC's issued share capital or of any person who, directly or indirectly, jointly or severally, exercises control over BSC and the BSC2 Directors were not aware of any holdings of 3 per cent or more of BSC2's issued share capital or of any person who, directly or indirectly, jointly or severally, exercises control over BSC2.

#### **5. Material Contracts**

5.1 The Companies have 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 Companies have any obligation or entitlement which is material to them as at the date of this Circular:

5.1.1 An offer agreement dated 20 October 2014 ("the Offer Agreement") between the Companies (1), the Directors (2), the Investment Adviser (3) and Howard Kennedy (4) under which, the Investment Adviser has undertaken, as agent of the Companies, 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 Companies 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 Companies 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 Companies against the costs of the Offers exceeding the Offer Costs Percentage, excluding trail commission. Under the Offer Agreement, warranties have been given by the Companies, the Directors and the Investment Adviser, subject to certain limitations, which are in the usual form for a contract of this type.

5.1.2 An offer agreement dated 14 January 2014 ("the January 2014 Offer Agreement") between the Companies (1), the Directors (2) and the Investment Adviser (3) under which the Investment Adviser undertook, as agent of the Companies, to use its reasonable endeavours to procure subscribers under the offers for subscription that were launched by the Companies on 14 January 2014 (the "January 2014 Offers"). Pursuant to the January 2014 Offer Agreement, for applications through execution only brokers, the Companies 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 Companies 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 Companies against the costs of the January 2014 Offers exceeding the Offer Costs Percentage, as defined in the prospectus relating to the January 2014 Offers, excluding VAT and trail commission and received a percentage of the value of the gross proceeds relating to each applicant under the January 2014 Offers that is equal to the Offer Costs Percentage relating to that applicant's subscription. Under the January 2014 Offer Agreement, warranties were given by each Company, the Directors and the Investment Adviser, subject to certain limitations, which are in the usual form for a contract of this type.

5.1.3 An agreement between the Companies and Howard Kennedy dated 12 November 2013 under which Howard Kennedy agreed to act as sponsor to the January 2014 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.

5.1.4 An offer agreement dated 16 November 2012 ("the 2012 Offer Agreement") between the Companies (1), the Directors (2) and YFM Private Equity (3) under which, as is usual in contracts of this type, YFM Private Equity agreed to indemnify the Companies against the costs of the offers launched by the Companies 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 a percentage of the value of the gross proceeds received from each applicant by the Companies under the 2012 Offers that is equal to the Offer Costs Percentage in respect of that applicant's subscription, less the initial commission paid by the Companies to recognised intermediaries in respect of accepted applications as set out in the 2012 Prospectus. Under the 2012 Offer Agreement YFM Private Equity, the Companies 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.

**BS****C**

5.1.5 By an administration and investment advisory agreement dated 28 February 1996 between BSC and YFM Private Equity (the "IAA"), as varied by agreements 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 three years and thereafter is terminable by either party on not less than 12 months' notice or, *inter alia*, on the others' breach or insolvency.

Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2.0 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 16 November 2012, and varied on 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.

5.1.6 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 per cent 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 Limited 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).

- 5.1.7 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 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 Investment Adviser.
- 5.1.8 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**

- 5.1.9 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, 16 November 2012 and 17 October 2014. This agreement may be terminated by not less than twelve months' notice given by either party at any time.

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 HM Revenue & Customs clearance is obtained for approval as a qualifying VCT investment.

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

The Board of each VCT regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from the Investment Adviser as to the trading and financial position of each investee company and members of the investment management team regularly attend the VCTs' Board meetings. Monitoring reports are also received at each VCT's Board meeting on compliance with VCT 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.

YFM Private Equity receives an investment advisory 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 investment advisory 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, and varied on 17 October 2014, YFM Private Equity shall bear the annual operating costs of the Company (including the investment advisory fee set out above but excluding any payment of the performance incentive fee details of which are set out at paragraph 5.1.10 below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the net asset value of the Company, a reduction from the previous level of 3.25 per cent. Under the Investment Management Agreement dated 28 November 2000 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 £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.

5.1.10 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.

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 the Company's issued Shares.

5.1.11 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 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.

5.1.12 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.

## 6. Directors' Service Contracts and Remuneration

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

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

**BSC**

<b>Director</b>	<b>£</b>
Helen Sinclair	40,000
Philip Cammerman	25,000
Edward Buchan	25,000
	<b>90,000</b>

**BSC2**

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

## **7. Significant Changes**

Since 31 March 2014 (being the end of the last financial period of BSC for which audited financial information has been published), there has been no significant change in the financial or trading position of BSC.

Since 30 June 2014 (being the end of the last financial period of BSC2 for which unaudited interim financial information has been published), there has been no significant change in the financial or trading position of BSC2.

## **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 Meetings during normal business hours and on any weekday (Saturdays and public holidays excepted) at the registered office of the Companies at 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS:

- 8.1 the audited accounts of BSC for the years ended 31 March 2012, 2013 and 2014 and of BSC2 for the years ended 31 December 2011, 2012 and 2013 and the unaudited interim financial statements for BSC2 for the 6 month periods to 30 June 2013 and 30 June 2014;
- 8.2 BSC2's articles of association;
- 8.3 the Directors' letters of appointments referred to in paragraph 6 above; and
- 8.4 this Circular.

20 October 2014

# Part III: Definitions

<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>"2015/2016 Offers"</b>	the offers for subscription of Ordinary Shares to a value not exceeding £40 million, in respect of the tax year 2015/2016, details of which are set out in this document;
<b>"Board" or "Directors"</b>	the board of directors of the relevant Company;
<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 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS;
<b>"BSC2"</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 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS;
<b>"BSC General Meeting"</b>	the general meeting of BSC to be held on 3 December 2014 (or any adjournment thereof);
<b>"BSC2 General Meeting"</b>	the general meeting of BSC2 to be held on 3 December 2014 (or any adjournment thereof);
<b>the "Circular"</b>	this document;
<b>the "Companies"</b>	BSC and BSC2 (and each a "Company");
<b>the "Prospectus"</b>	the prospectus dated the date of this Circular relating to the Offers;
<b>"Financial Adviser(s)"</b>	an authorised intermediary offering investment advice to his client;
<b>"Investment Adviser" or "YFM Private Equity"</b>	YFM Private Equity Limited, registered number 02174994 and whose registered office is 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS;
<b>"General Meetings"</b>	the BSC General Meeting and the BSC2 General Meeting (and each a "General Meeting");
<b>"Howard Kennedy"</b>	Howard Kennedy Corporate Services LLP, registered number OC354088;
<b>"Loyalty Bonus Shares"</b>	the additional Shares to be issued to investors under the Offers who are existing Shareholders in VCTs managed by the Investment Adviser;
<b>"Offer Costs Percentage"</b>	(i) 5.0 per cent of gross funds raised by the Companies in respect of applications received through execution only brokers and (ii) 3.0 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 2014/2015 Offers and the 2015/2016 Offers;
<b>"Offer Shares"</b>	Shares to be issued under the Offers;
<b>"Resolutions"</b>	the resolutions to be proposed at the General Meetings;
<b>"Shareholders"</b>	holders of Shares;
<b>"Shares" or "Ordinary Shares"</b>	ordinary shares of 10 pence each in the capital of the Companies;
<b>"VCT"</b>	a venture capital trust as defined in section 272 Income Taxes Act 2007.

# Part IV: British Smaller Companies VCT plc

(registered number 03134749)

## Notice of General Meeting

**NOTICE IS HEREBY GIVEN** that a General Meeting of British Smaller Companies VCT plc (the "Company") will be held at 4 Cavendish Square, London W1G 0PG at 10.30 am on 3 December 2014 to consider and, if thought fit, pass the following Resolution which will be proposed as an ordinary Resolution:

### Ordinary Resolutions

- (1) THAT the offer agreement dated 20 October 2014 between the Company and British Smaller Companies VCT2 plc (the "Companies" (1), the directors of the Companies (2), YFM Private Equity Limited (3) and Howard Kennedy Corporate Services LLP (4), details of which are set out on page 4 of the circular issued to the Company's shareholders dated 20 October 2014, be approved.

### BY ORDER OF THE BOARD

KHM Secretarial Services Limited

Secretary

### Registered Office:

5th Floor  
Valiant Building  
14 South Parade  
Leeds  
LS1 5QS

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

20 October 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 6.00 pm on 1 December 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 6.00 pm on 1 December 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 20 October 2014, the Company's issued share capital comprised 65,520,783 Ordinary Shares with a further 3,006,322 Ordinary Shares held in treasury. The total number of voting rights in the Company as at 20 October 2014 is 65,520,783. 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 VCT plc

(Registered in England and Wales with registered number 03134749)

For use at the General Meeting of the above named Company  
to be held on 3 December 2014 at 4 Cavendish Square, London W1G 0PG at 10.30 am.

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 vote for me/us\* on my/our\* behalf at the General Meeting of the Company to be held 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 Resolution are set out in the Notice of General Meeting.

	FOR	AGAINST	WITHHELD
<b>ORDINARY RESOLUTION</b>			
1. To approve the Offer Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

### Notes:

1. The Notice of General Meeting is set out on page 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.

\* Delete as appropriate

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.

# 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 (the "Company") will be held at 4 Cavendish Square, London W1G 0PG at 10.45 am (or as soon thereafter as the BSC General Meeting has concluded or adjourned) on 3 December 2014 to consider and, if thought fit, pass the following Resolutions which will be proposed as ordinary Resolutions as to Resolutions 1 to 4 and as special Resolutions as to Resolutions 5 to 8:

### 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 10 pence 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 dated 20 October 2014 between the Company and British Smaller Companies VCT plc (the "Companies") (1), the directors of the Companies (2), YFM Private Equity Limited (3) and Howard Kennedy Corporate Services LLP (4), details of which are set out on page 4 of the circular issued to the Company's shareholders dated 20 October 2014, 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 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 (2) 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 the cancellation is made, be cancelled.

#### **BY ORDER OF THE BOARD**

KHM Secretarial Services Limited

Secretary

#### **Registered Office:**

5th Floor  
Valiant Building  
14 South Parade  
Leeds  
LS1 5QS

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

20 October 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 6.00 pm on 3 December 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 6.00 pm on 3 December 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 20 October 2014, the Company's issued share capital comprised 62,625,980 Ordinary Shares with a further 1,840,918 Ordinary Shares held in treasury. The total number of voting rights in the Company as at 20 October 2014 is 62,625,980. 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 3 December 2014 at 4 Cavendish Square, London W1G 0PG at  
10.45 am (or as soon 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 vote for me/us\* on my/our\* behalf at the General Meeting of the Company to be held 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 Resolution are set out in the Notice of the General Meeting.

	FOR	AGAINST	WITHHELD
<b>ORDINARY RESOLUTIONS</b>			
1. To increase the authorised share capital of the Company	<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 Offers, rights issue and generally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. 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"/>
4. To approve the Offer Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL RESOLUTIONS</b>			
5. 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"/>
6. 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"/>
7. 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"/>
8. To cancel, subject to the sanction of the High Court, the share premium account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

\* Delete as appropriate

**Notes:**

1. The Notice of the General Meeting is set out on pages 19 to 20 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.