

£30 million Offers for Subscription

British Smaller Companies VCT plc and
British Smaller Companies VCT2 plc

27 November 2018

**2018/19
tax year**

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

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

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

Each of the Directors of the VCTs, whose names are set out on page 5 of this document, and the VCTs accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the VCTs (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

British Smaller Companies VCT plc

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

and

British Smaller Companies VCT2 plc

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

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

The Offers will close on Friday 5 April 2019 or earlier should the Offers become fully subscribed. The terms and conditions of application are set out on pages 43 to 45 of the Securities Note and are followed by an Application Form for use in connection with the Offers. The Offers are not being underwritten and are not subject to reaching a minimum level of subscription. If the Offers are over-subscribed, they may be increased by a further £5 million at the discretion of the Boards up to a maximum of £35 million funds raised, in aggregate.

The whole of this document should be read. Your attention is drawn to the “Risk Factors” set out on page 3 of this document.

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Risk factors

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

- Qualifying status. There can be no guarantee that the VCTs will maintain full Venture Capital Trust status. Where full approval as a Venture Capital Trust is withdrawn the relevant VCT will also lose its exemption from corporation tax on capital gains. If, at any time, Venture Capital Trust status is lost, dealings in the Shares will normally be suspended until such time as the relevant VCT has published proposals either to continue as an investment company or to be wound up, during which time the Shares will not be able to be publicly traded.
- The tax reliefs described in this document are those currently available. The tax rules or their interpretation in relation to an investment in the VCTs and/or rates of tax may change during the life of the VCTs and may apply retrospectively, which may adversely affect the VCTs.
- As a result of the restrictions regarding Qualifying Companies set out in the VCT Regulations, the VCTs' investments are likely to be in relatively small companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining the value of smaller companies or the risks to which they are exposed may also not be available. All of these factors may adversely affect the performance of the VCTs.
- The VCTs' ability to obtain maximum value from its investments (for example, through a sale or takeover) may be limited by requirements imposed in order to maintain its Venture Capital Trust status (such as the condition that not less than 70 per cent (80 per cent for accounting periods commencing after 5 April 2019) by value of its total investments must be in shares in, or securities of, an unquoted company carrying on a qualifying trade satisfying the conditions in Chapter 4 of the Income Tax Act 2007), which may adversely affect the performance of the VCTs.
- Recent legislation has restricted the type and nature of businesses that the VCTs can invest in. These revisions are expected to make the VCTs' returns more reliant on the successful delivery of exits and, therefore, more unpredictable.
- You may lose some or all of your capital. Past performance of the VCTs is no guarantee of future returns and may not be repeated.
- Investment in the VCTs should be regarded as long-term in nature and may not be suitable for all Shareholders.
- The VCTs will only pay dividends to the extent that they have distributable reserves and cash available for that purpose. A reduction in income from the VCTs' investments may adversely affect the VCTs' ability to pay dividends to Shareholders.
- Venture Capital Trust status will be withdrawn if, in respect of shares issued on or after 6 April 2014, a dividend is paid (or other forms of distribution or payments are made to investors) from share capital or reserves arising from the issue of shares within three years of the end of the accounting period in which shares were issued to investors. This may reduce the amount of distributable reserves available to the VCTs to fund dividends and share buy-backs.
- On 24 June 2016 it was announced that the UK electorate had voted to leave the European Union ("EU"). At the date of this document there is significant uncertainty over the form of the UK's eventual trade and regulatory position relative to the EU. As the VCTs are impacted by European-led legislation while the UK remains a part of the EU, the future regulatory environment is, therefore, subject to significant uncertainty. However, at least in the short term and until the terms of the UK's withdrawal from the EU have been agreed, the VCTs will continue to be subject to European-led legislation, as enacted into UK legislation.

Forward looking statements

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

Directors and Advisers

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

British Smaller Companies VCT plc

Helen Rachel Sinclair (Chairman)
Charles Walter Edward Ralph Buchan
Rupert Cook

British Smaller Companies VCT2 plc

Richard Last (Chairman)
Robert Martin Pettigrew
Peter Charles Waller

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

Company Secretary

The City Partnership (UK) Limited
110 George Street
Edinburgh EH2 4LH

Investment Adviser

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

Registrar

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

Sponsor to the Offers

Howard Kennedy Corporate Services LLP
No 1 London Bridge
London SE1 9BG

Stockbrokers

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Registered Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

VCT Tax Advisers

Philip Hare & Associates LLP
Suite C, first floor,
4-6 Staple Inn,
Holborn
London WC2N 6RH

Bankers

Santander UK plc
44 Merrion Street
Leeds LS2 8JQ

Receiving Agents

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

Solicitors to the VCTs and to the Offers

Howard Kennedy LLP
No 1 London Bridge
London SE1 9BG

Promoter to the Offers

RAM Capital Partners LLP
4 Staple Inn
London WC1V 7QH

Definitions

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

| | |
|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Act” | the Companies Act 2006, as amended from time to time; |
| “Admission” | the admission of the Offer Shares to a premium listing on the Official List and to trading on the London Stock Exchange’s market for listed securities; |
| “AIM” | the Alternative Investment Market of the London Stock Exchange; |
| “Applicant(s)” | an Investor(s) who applies to subscribe for Offer Shares; |
| “Application Form” | form of application for Offer Shares set out at the end of the Securities Note; |
| “Articles” | the articles of association of the relevant VCT (as amended from time to time); |
| “Board(s)” or “Directors” | the directors of the relevant VCT at the date of this document (and each a “Director”); |
| “BSC” | British Smaller Companies VCT plc; |
| “BSC2” | British Smaller Companies VCT2 plc; |
| “Business Day” | a day (excluding Saturday and Sunday and public holidays in England and Wales) when the banks are generally open for business in London; |
| “Dividend Re-investment Scheme(s)”, “DRIS” or “Scheme(s)” | the respective dividend re-investment scheme established for each VCT; |
| “DTRs” | the Disclosure and Transparency Rules made by the FCA under Part VI of FSMA; |
| “FCA” | the Financial Conduct Authority or its successor; |
| “Financial Adviser” | an authorised intermediary offering investment advice to their client; |
| “FSMA” | Financial Services and Markets Act 2000, as amended from time to time; |
| “HMRC” | HM Revenue & Customs; |
| “Howard Kennedy” | Howard Kennedy Corporate Services LLP; |
| “Intermediary” | an authorised firm who signs the Application Form and whose details are set out in Section 10 of that document; |
| “Investment Adviser” or “YFM Private Equity” | YFM Private Equity Limited registered number 02174994 in its position as the FCA authorised and regulated subsidiary of YFM Equity Partners; |
| “Investment Team” | those persons whose details are set out on page 11 under the heading “The Investment Team”; |
| “Investor(s)” | an individual(s) who subscribes for Offer Shares; |

| | |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “ITA” | Income Tax Act 2007, as amended from time to time; |
| “IFRS” | International Financial Reporting Standards as adopted by the European Union; |
| “Knowledge Intensive Company” | a company satisfying the conditions in Section 331(A) of Part 6 ITA 2007. |
| “Link Asset Services” | a trading name of Link Market Services Limited, whose details are given on page 5; |
| “Listing Rules” | listing rules made by the FCA under Part VI of FSMA; |
| “London Stock Exchange” | London Stock Exchange plc; |
| “Net Assets” | gross assets less all liabilities; |
| “Net Asset Value(s)” or “NAV” | net asset value per Ordinary Share; |
| “NEX Exchange” | Nex Exchange Limited, registered in England and Wales with company number 04309969 whose registered office is at 2 Broadgate, London EC2M 7UR; |
| “Offer Agreement” | an offer agreement dated 27 November 2018 as set out in paragraph 4.1 on page 45 of this document; |
| “Offer Costs Percentage” | the costs of the Offers as a percentage of subscription proceeds, as set out on page 20 of the Securities Note; |
| “Offers” | the offers for subscription by the VCTs of Ordinary Shares, in respect of the tax year 2018/2019, details of which are set out in the Prospectus; |
| “Offer Price(s)” | the price of the Offer Shares as set out on pages 21 and 22 of the Securities Note; |
| “Offer Shares” | Shares to be issued under the Offers; |
| “Official List” | the Official List of the UK Listing Authority; |
| “Ordinary Shares” or “Shares” | ordinary shares of 10p each in the capital of the relevant VCT; |
| “Prospectus” | the Securities Note, the Registration Document and the Summary, which together describe the Offers in full; |
| “Prospectus Rules” | prospectus rules made under Part VI of FSMA; |
| “Qualifying Company” | an unquoted (including AIM-traded) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of Part 6 ITA. A summary of these requirements is given in Part 3 of this Registration Document; |
| “Qualifying Holdings” or “Qualifying Investment(s)” | shares in, or securities of, a Qualifying Company held by a Venture Capital Trust which meets the requirements described in Chapter 4 of Part 6 ITA; |
| “Receiving Agent” | Link Asset Services; |
| “Registrar of Companies” | the registrar of companies for England and Wales; |

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|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Registration Document” | this document dated 27 November 2018, which has been prepared in accordance with the Prospectus Rules in connection with the Offers; |
| “Regulatory Information Service” | a regulatory information service that is on the list of regulatory information services maintained by the FCA; |
| “Risk Finance State Aid” | State aid received by a company as defined in Section 280B (4) of ITA; |
| “RPI” | the general index of retail prices published by the Office of National Statistics each month; |
| “Scheme Administrator” | Link Asset Services; |
| “Securities Note” | the securities note dated 27 November 2018, which has been prepared in accordance with the Prospectus Rules in connection with the Offers; |
| “Shareholder(s)” | holder(s) of Ordinary Shares; |
| “Shares” or “Ordinary Shares” | ordinary shares of 10p each in the capital of the relevant VCT; |
| “Statutes” | the “Companies Acts” as defined in Section 2 of the Act; |
| “Summary” | the summary of the Offers dated 27 November 2018, which has been prepared in accordance with the Prospectus Rules in connection with the Offers; |
| “UK Listing Authority” | the FCA acting in its capacity as the competent authority under the FSMA; |
| “VAT” | value added tax; |
| “VCTs” | BSC and BSC2, and VCT means either one of them as the context requires; |
| “VCT Regulations” | Part 6 ITA and every other statute (including any orders, regulations or other subordinate legislation made under them) for the time being in force concerning Venture Capital Trusts as amended from time to time; |
| “Venture Capital Trust” | a Venture Capital Trust as defined in Section 259 Income Taxes Act 2007; |
| “YFM Equity Partners” | YFM Equity Partners LLP, registered number OC384467; |

Part 1: The VCTs

Introduction

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

BSC and BSC2 are seeking to raise additional funds of up to £30 million, in aggregate, with an over-allotment facility of up to a further £5 million, in aggregate, to increase their investment capacity to take advantage of their ability to invest up to £5 million into larger businesses at an attractive point in their investment cycle. Subject to the Offers remaining open for both VCTs, Investors will have the option to invest in either of the VCTs or a combination of the two and if no preference is given, 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 fund. Subscription monies received from an Applicant who has chosen that those monies are allocated to a VCT for which the Offer has closed, will be returned to the Applicant or, will be allocated to the other Offer, if still open, as indicated by the Applicant. The minimum investment under the Offers is £3,000.

An investment in the VCTs will provide individuals with the opportunity to invest in established Venture Capital Trusts with diversified portfolios of mainly unlisted smaller UK companies with the aim of increasing total shareholder return over the medium to long term. Since inception, the VCTs have invested over £155 million in 141 businesses.

A typical investor for whom the Offers are designed is a UK income taxpayer aged 18 or over, who is professionally advised, with an investment range of between £3,000 and £200,000, who may already have a portfolio of non-Venture Capital Trust investments such as unit trusts/OEICs, investment trusts and direct shareholdings in listed companies, who is willing to invest over the medium to long term and who, having regard to the risk factors set out in the Prospectus, considers the investment policy of the VCTs to be attractive. That is to say, an investment policy with potential returns and associated risks that may be higher than investment in the FTSE All-Share Index. This may include retail and sophisticated investors and high net-worth individuals.

Investment objectives and policies

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

- to continue to expand their diversified portfolios of investments;
- to invest in Qualifying Investments in line with HMRC requirements in order to maintain their Venture Capital Trust status;
- to invest in smaller private companies which are not always accessible to the private investor; and
- to continue to broaden their portfolios of investments by investing across a range of companies and sectors, thereby reducing exposure to particular markets and individual companies.

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

Co-investment policy

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

Share buy-back policies

The VCTs are conscious that their Share price is affected by the illiquidity of their Shares in the market. Accordingly, in line with many other Venture Capital Trusts, the VCTs, when appropriate, will operate a buy-back policy. The policies and the rate of discount at which the Shares are bought back are regularly reviewed and the policies are subject to resolutions put before the Shareholders. The rate of discount for both VCTs is currently targeted to be no more than 5 per cent to NAV per share.

The Investment Adviser

Introduction

YFM Private Equity specialises in investing in unquoted companies and has been making investments in fast growing businesses for over 35 years. Including BSC and BSC2, the Investment Adviser directly manages funds in excess of £235 million.

The Investment Team directly responsible for advising on the management of BSC and BSC2 is led by 4 key investment directors who together have over 100 years' experience of investing in and managing venture capital opportunities. This key team is strengthened by investment and portfolio staff together with a strong group of support staff from across YFM Equity Partners. This experience has enabled the Investment Adviser to establish wide networks of deal introducers, effective investment selection processes and strong portfolio management procedures.

The Investment Adviser sources its deals from many areas. The regional office network of 5 Regional offices provides excellent access to interesting investment opportunities. Having been investing for over 35 years the Investment Adviser has built an extensive and proprietary network of chairmen, CEOs and management teams who regularly introduce opportunities to the Investment Adviser.

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

Performance of the Investment Adviser

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

Track record of the VCTs

| | Fundraising round at launch (Tax Years) | Offer price net of income tax relief | Net Asset Value at 30 September 2018 | Cumulative dividends paid since launch | Total return to date* | Overall Return (in DRIS)** |
|------|--------------------------------------------|--------------------------------------------|-----------------------------------------------|-------------------------------------------------|--------------------------|----------------------------------|
| | | pence | pence | pence | pence | pence |
| BSC | 1995/96 and 1996/97 | 80.0 | 78.6 | 140.4 | 219.0 | 277.8 |
| BSC2 | 2000/01 and 2001/02 | 80.0 | 58.1 | 58.5 | 116.6 | 140.7 |

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

** NAV plus additional NAV on DRIS Shares purchased. Assuming that all dividends since inception were invested under the terms of the current DRIS. This excludes the benefits of any tax relief(s).

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

The Investment Team

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

David Bell – Director – Head of Portfolio. David joined YFM Private Equity in 2009 to lead portfolio management activities and is a director of YFM Private Equity. Prior to joining YFM he spent 10 years at 3i where he was also portfolio director and had extensive experience of managing and realising in excess of 40 private equity investments in SMEs. He has a first-class degree in Mathematics from Imperial College and also spent five years working as a management consultant focussing on supply chain solutions.

Paul Cannings – Director – Head of New Investments. Paul joined YFM Private Equity in 2006 to raise new funds and to make and manage investments. He is a director of YFM Private Equity. Prior to joining YFM he spent 14 years at 3i where he was also director and had extensive experience of making and managing private equity investments. Latterly, he held the position of director of the small buyouts and growth capital team. He has a first-class degree in Economics from Bristol University and qualified as a Chartered Accountant with PricewaterhouseCoopers.

David Gee – Member of Investment Committee. David has 24 years' experience in the venture capital field with YFM Private Equity. From 1996 until 2012 David was investment director on the Board of YFM Private Equity and now holds a non-Board position as director of Investments. He has been responsible for a significant number of realisations and listings of investments made by both VCTs. He qualified as a Chartered Accountant with Grant Thornton, latterly specialising in corporate finance and holds a degree in Mathematics from Imperial College.

Ian Waterfield – Investment Director. Ian has been with YFM since 2007 and is responsible for the investment team across the north of the UK and is a member of YFM's Investment Advisory Committee. Before joining YFM Ian trained as a Chartered Accountant with KPMG, where he spent five years in their Transaction Services team, advising on over 20 transactions of varying sizes and industry sectors across a range of private equity and listed companies. Based in YFM's Leeds office, he holds a first-class degree in Accounting and Finance from Leeds University.

Eamon Nolan – Portfolio Director. Eamon joined YFM in London in 2014, since when he has been responsible for a number of the VCTs' investments, including IO Outsourcing and Deep-Secure. Prior to YFM Eamon worked at 3i for fifteen years, latterly as Portfolio Director in their Asset Management Group, where he was responsible for managing twelve high value investments in challenging circumstances. Prior to that Eamon was Portfolio Manager in 3i's Small and Medium Investments team, where he led thirty exits, generating combined proceeds in excess of £100 million.

Colin Granger – Investment Director. Colin joined YFM's London office in 2016 and most recently he led the investment into Eikon. Between 2007 and 2016 Colin was Investment Director at Milestone Capital, a lower mid-market private equity manager, where he was involved in a number of investments, including the acquisition of Coffee Nation and its subsequent sale to Costa Coffee. Colin qualified as a Chartered Accountant with PricewaterhouseCoopers and holds a degree in Management Science from the University of Warwick.

Performance incentive fee

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

For BSC, the Investment Adviser will receive an incentive payment equal to 20 per cent of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per Share (increasing in line with RPI and as at 31 March 2018 the adjusted target was 5.1 pence per Share), subject to cumulative shortfalls in any prior accounting period being made up. The incentive payment is also conditional upon the average Net Asset Value being not less than 94.0 pence per Share in the relevant accounting period, as adjusted for the impact of share issues and buy backs (as at 31 March 2014 the adjusted target was 92.2 pence per Share). With effect from 1 April 2014 the amount of the incentive payment paid to the Investment Adviser for any one year is capped such that when taken with all other relevant costs, the Total Expenses Ratio (that is the total expenses of BSC as a percentage of its NAV), is no greater than 5 per cent of the NAV 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.

The BSC Board has convened a general meeting of BSC for 7 January 2019 to approve revisions to the incentive agreement between BSC and YFM. The major proposed revisions are:

- the incentive fee will be subject to achieving a target level of total return, replacing the current requirement to achieve an average adjusted Net Asset Value (NAV) per Ordinary Share;
- an incentive fee will be payable once a total return of at least 228.6 pence per Ordinary Share has been achieved. This is 12.6 pence per Ordinary Share higher than the total return at 31 March 2018 (216.0 pence per Ordinary Share) and represents 15.8 per cent of NAV at 31 March 2018;
- there will be an annual increase to the total return per Ordinary Share that must be achieved in order for an incentive fee to be paid. This is the minimum level of dividends required in order to pay an incentive fee under the current arrangements, as set out below;
- if the required total return is achieved the incentive fee can only be paid if the actual dividends paid exceed the minimum requirement, calculated on the same basis as the existing scheme; The minimum requirement is annual dividends of at least 4.0 pence per Ordinary Share, as increased or decreased by the percentage increase or decrease (if any) in RPI. For the year ending 31 March 2019 the requirement is 5.3 pence per Ordinary Share;
- as a result of the above the total return hurdle for the year ending 31 March 2019 is 233.9 pence per Ordinary Share while the total return at 30 September 2018 was 219.0 pence per Ordinary Share.

It is expected that under all scenarios the amended scheme will generate a lower fee payable than the old scheme because of a new threshold for growth in NAV used in the calculation of applicable dividends to be included in the dividend calculation, in order to calculate the fee payable to the Investment Adviser.

Further details are given on pages 46 and 47.

For BSC2, the Investment Adviser will receive an amount (satisfied by the issue of Shares) equivalent to 20 per cent of the amount by which the cumulative dividends paid as at the last Business Day in December in any year, plus the average of the middle market quotation per Share on the five dealing days prior to that day, exceeds 120 pence per Share on that same day, multiplied by the number of Shares in issue and the Shares under option (if any). These subscription rights are exercisable in the ratio 95:5 between the Investment Adviser and Chord Capital Limited. Further details are given on pages 48 and 49. The BSC2 Board have agreed to amend the incentive agreement such that the amount received by YFM and Chord Capital Limited will be paid in cash instead of Shares.

Substantial investments

Prior to the Offers, the Boards, the Investment Adviser, the Investment Team and employees of the Investment Adviser hold 336,133 Shares in BSC and 346,442 Shares in BSC2.

The Boards

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

British Smaller Companies VCT plc

Helen Sinclair (appointed 1 March 2008) has an MA in Economics from the University of Cambridge and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly 8 years at 3i plc focusing on MBOs and growth capital investments. She later co-founded Matrix Private Equity (now Mobeus Equity Partners) in early 2000 raising Mobeus Income & Growth 2 VCT plc (formerly Matrix e-Ventures VCT plc). She subsequently became managing director of Matrix Private Equity before moving to take on a portfolio of non-executive director roles in 2005. She is currently a non-executive director of The Income & Growth VCT plc, Mobeus Income & Growth 4 VCT plc, Gresham House Strategic plc and North East Finance (Holdco) Limited.

Edward Buchan (appointed 22 September 2010) is a Fellow of the Institute of Chartered Accountants in England and Wales, starting his career with Deloitte before moving to Hill Samuel Bank Limited where he became Head of Corporate Finance and a member of the Bank Executive Committee. He subsequently joined Close Brothers Corporate Finance Limited and then West LB Panmure, specialising in the transport and logistics industry sectors and latterly has been a senior consultant in corporate finance at Edmond De Rothschild Securities. It is Mr Buchan's intention to resign from the Board with effect from BSC's next AGM and BSC intends to begin the recruitment process for his replacement early in 2019.

Rupert Cook (appointed 1 August 2017) specialises in corporate and business development, with twenty-five years' experience of technology, including fifteen years in corporate finance and investment. He has led multiple fund-raising, acquisitions and sales of IT businesses as well as having co-founded and built up his own IT Services business through to sale to a UK plc. Earlier in his career, he was a senior manager at Cap Gemini plc, Director of Advisory Services at Interregnum plc and Head of Technology M&A at goetzpartners corporate finance. Rupert is the founder of Red Penguin Ventures Limited, and was previously a partner at Realise Capital Partners, both of which are firms which advise and have investments in a range of technology businesses. He is investor-director of Krowd 9 Limited, Operatix Limited and Immersive Labs Limited.

British Smaller Companies VCT2 plc

Richard Last (appointed 16 November 2000) is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors and is chairman and non-executive director of ITE Group plc which is listed on the main market of the London Stock Exchange. He is also a chairman and non-executive director of Gamma Communications plc, Lighthouse Group plc, Tribal Group plc and Arcontech Group plc and non-executive director of Corero Network Security plc, all AIM listed. In addition he is director of several private companies. It is Mr Last's intention to resign from the board with effect from BSC2's next AGM and the Company has started a recruitment process for his replacement.

Robert Pettigrew (appointed 16 November 2000) has more than 30 years' experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Science Group plc) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is currently an investor-director and non-executive chairman of Sunamp Limited, 4 T 2 Technologies Limited and Pervasid Limited, and a director and non-executive chairman of Cambridge Touch Technologies Limited.

Peter Waller (appointed 1 November 2010) is an experienced chairman and director with extensive UK and international executive experience in the IT technology, software and services sector. He initially worked with IBM and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He is currently chairman of KeyPoint Technologies (UK) Limited, and director and founder of Turnberry Management Company Limited. For the past decade Peter has worked as a board member with a succession of early stage and early growth private and public companies. His particular skills are in sales and marketing and working with companies to develop successful sales growth strategies. Following the resignation of Mr Last, Peter will take on the role of Chairman.

Practices and operations

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

The Investment Adviser is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Boards regarding potential investments. Once approved, further due diligence is carried out as necessary and, where deemed appropriate, HMRC clearance is obtained for approval as a Qualifying Investment.

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

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

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

The VCTs presently comply with the provisions of the UK Corporate Governance Code, published by the Financial Reporting Council in June 2016 (the "Code"), save for those provisions relating to the following: (i) Shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting (since the VCTs do not have major Shareholders), (ii) the VCTs have not appointed a CEO or a senior independent non-executive director and (iii) the presumption concerning the Chairman's independence. BSC2 has not complied with the provisions relating to the establishment of an independent remuneration committee and the Chairman acting as chairman of the audit committee, as explained below. It is each VCT's standard practice not to appoint executive officers as executive functions are delegated to the Investment Adviser and the Boards consider that each of the Directors acts as a senior independent non-executive Director. The Code has been updated in respect of accounting periods beginning on or after 1 January 2019.

Committees

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

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

BSC2 has a nomination committee which consists of the Directors who are considered by the BSC2 Board to be independent of the Investment Adviser. The BSC2 Board has determined that due to the remuneration procedures currently in place, in its opinion there is no role for a separate remuneration committee. For BSC2, remuneration issues are dealt with by the full Board.

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

Allotment Committees. With regards to the allotment of new Shares, BSC and BSC2 both generally operate through a committee of any one Director. In addition the VCTs' company secretary has an authority to allot Shares under the DRIS. The allotment committees meet as and when required to formally approve the allotment of Shares.

Investment Committee. The Directors of BSC meet as an investment committee of the Board to consider and approve all investment decisions. The committee is chaired by Rupert Cook. The BSC2 Board has determined that due to the investment procedures currently in place, in its opinion there is no role for an independent investment committee.

Custody arrangements

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

Dividend policy

BSC is aiming to maintain a consistent dividend but this depends on the level of investment income and realisations and cannot be guaranteed. BSC expects to be able to pay smaller regular dividends along with special dividends as investments are realised. **This is a target, and not guaranteed. No forecast or projection is to be implied or inferred.**

BSC2 is aiming to maintain a consistent dividend but this depends on the level of investment income and realisations and cannot be guaranteed. BSC2 expects to be able to pay smaller regular dividends along with special dividends as investments are realised. **This is a target, and not guaranteed. No forecast or projection is to be implied or inferred.**

Dividend Re-investment Schemes

BSC and BSC2 currently operate Dividend Re-investment Schemes providing Shareholders with the opportunity to reinvest the cash dividends paid by the VCTs through the issue of new Shares. It is expected that the first applicable dividend in relation to which the Schemes will operate for the Offer Shares will be an interim dividend for the financial year ending 31 March 2020 for BSC and the final dividend for the financial year ending 31 December 2018 for BSC2, both of which are expected to be paid in May 2019. Currently, Shareholders whose dividends are re-invested under the Schemes receive Shares at a 5 per cent discount to the latest reported Net Asset Value as at the date the dividend is paid (adjusted for the relevant dividend if this Net Asset Value does not already recognise the dividend). Whilst the Schemes can be withdrawn at any time, the Directors have no plans to do so.

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

Shareholders wishing to participate in the Schemes should complete the appropriate box in Section 4 of the Application Form, having read and understood the terms and conditions of the Schemes, which are set out on pages 43 to 45 of the Securities Note.

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

The VCTs

British Smaller Companies VCT plc

1. BSC was incorporated and registered in England and Wales under the Companies Act 1985 as a public company limited by shares on 6 December 1995, with registered number 03134749 under the name British Smaller Companies VCT plc, which is the current legal and commercial name of BSC.
2. The principal legislation under which BSC operates is the Act, FSMA and the regulations made thereunder (including the Listing Rules, the Prospectus Rules and the DTRs). The registered office and principal place of business of BSC is 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.
3. Since incorporation BSC has carried on business as a Venture Capital Trust. BSC is registered by the Financial Conduct Authority as a Small Registered Alternative Investment Fund Manager.
4. BSC has no subsidiaries or associated companies. BSC does not have any employees, does not own or occupy any premises and has not incurred any borrowings.
5. On 29 March 2004 BSC revoked its investment company status.
6. BSC's Articles require that at the annual general meeting of BSC held after the later of i) 31 March 2020 and ii) the fifth anniversary of the last allotment of shares (from time to time) in BSC and, if BSC has not then been wound-up or reconstructed or re-organised, at each fifth annual general meeting of BSC thereafter, the Directors shall procure that an ordinary resolution will be proposed to the effect that BSC shall continue as a Venture Capital Trust.

British Smaller Companies VCT2 plc

1. BSC2 was incorporated and registered in England and Wales under the Companies Act 1985 as a public company limited by shares on 4 October 2000, with registered number 04084003 under the name British Smaller Technology Companies VCT2 plc. On 18 October 2010 its name was changed to British Smaller Companies VCT2 plc, which is the current legal and commercial name of BSC2.
2. The principal legislation under which BSC2 operates is the Act, FSMA and the regulations made thereunder (including the Listing Rules, the Prospectus Rules and the DTRs). The registered office and principal place of business of BSC2 is 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.
3. Since incorporation BSC2 has carried on business as a Venture Capital Trust. BSC2 is registered by the Financial Conduct Authority as a Small Registered Alternative Investment Fund Manager.
4. BSC2 has no subsidiaries or associated companies. BSC2 does not have any employees, does not own or occupy any premises and has not incurred any borrowings.
5. On 12 November 2004 BSC2 revoked its investment company status.
6. BSC2's Articles require that at the general meeting of BSC2 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 BSC2 and, if BSC2 has not then been wound-up or reconstructed or reorganised, at every fifth annual general meeting thereafter the Directors shall procure that an ordinary resolution will be proposed to the effect that BSC2 should continue as a Venture Capital Trust.

Part 2: Investment Policies, Strategies and Objectives

Investment Policies

The investment policy of BSC is as follows:

BSC's investment policy is to create a portfolio that blends a mix of businesses operating in established industries with those that offer opportunities in the application and development of innovation. Investing across a range of companies and sectors reduces exposure to particular markets and individual companies. The changes to the venture capital trust legislation in November 2015 and those announced in the November 2017 Budget mean that there is greater emphasis on earlier stage growth businesses focussing on the application and development of innovation.

To this end, BSC will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain BSC's venture capital trust status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments. In order to limit the risk to the portfolio that is derived from any particular investment, at the point of investment no more than 15 per cent of BSC by value will be in any one investment.

Borrowing

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

Co-investment

BSC and BSC2 have in aggregate priority in all investment opportunities meeting the venture capital trust qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's co-investment funds and two thirds to BSC and BSC2. Where there are opportunities for BSC and BSC2 to co-invest with each other the basis for allocation is 60 per cent to BSC and 40 per cent to BSC2. The Board of BSC has discretion as to whether to take up its allocation, or where BSC2 does not take up its allocation, to increase its allocation in such co-investment opportunities.

Asset mix

Pending investment in venture capital trust qualifying securities, surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts and investment funds listed on a recognised stock exchange (including FCA authorised and regulated UCITS funds). Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes most AIM investments in this category.

The investment policy of BSC2 is as follows:

BSC2's investment policy is to create a portfolio that blends a mix of businesses operating in established industries with those that offer opportunities in the application and development of innovation. Investing across a range of companies and sectors reduces exposure to particular markets and individual companies. The changes to the venture capital trust legislation in November 2015 and those announced in the November 2017 Budget mean that there is greater emphasis on earlier stage growth businesses focussing on the application and development of innovation.

To this end, BSC2 will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain BSC2's venture capital status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments. In order to limit the risk to the portfolio that is derived from any particular investment, at the point of investment no more than 15 per cent of BSC2 by value will be in any one investment.

Borrowing

BSC2 funds the investment programmes out of its own resources and has no borrowing facilities for this purpose.

Co-investment

BSC2 and BSC have in aggregate priority in all investment opportunities meeting the venture capital trust qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's co-investment funds and two thirds to BSC2 and BSC. Where there are opportunities for BSC2 and BSC to co-invest with each other the basis for allocation is 40 per cent to BSC2 and 60 per cent to BSC. The Board of BSC2 has discretion as to whether to take up its allocation, or where BSC does not take up its allocation, to increase its allocation in such co-investment opportunities.

Asset mix

Pending investment in venture capital trust qualifying securities, surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts. Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes most AIM investments in this category.

Investment strategies and objectives

The investment strategy of the VCTs is to create a portfolio that blends a mix of businesses operating in established industries with those that offer opportunities in the application and development of innovation.

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

Prior to the investment of funds in suitable Qualifying Companies surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts. BSC also has some surplus cash held in investment funds listed on a recognised stock exchange (including FCA authorised and regulated UCITS funds). Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes most AIM investments in this category.

Part 3: Taxation

Qualification and approval as a Venture Capital Trust

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

- a) the Venture Capital Trust's income must have been derived wholly or mainly from shares and securities;
- b) no holding in a company (other than a Venture Capital Trust or a company which would, if its shares were listed, qualify as a Venture Capital Trust) by the Venture Capital Trust may represent more than 15 per cent, by value, of the Venture Capital Trust's total investments at the time of investment;
- c) the Venture Capital Trust must not have retained more than 15 per cent of the income derived from shares or securities in any accounting period;
- d) the Venture Capital Trust must not be a close company. Its ordinary share capital must be listed on a regulated European market;
- e) at least 70 per cent, by value, of its investments is represented by shares or securities comprising Qualifying Investments (80 per cent for accounting periods commencing after 5 April 2019);
- f) have at least 70 per cent by value of the Venture Capital Trust's Qualifying Investments in "eligible shares", that is ordinary shares which carry no preferential rights to assets on a winding up and no rights to be redeemed although they may have certain preferential rights to dividends so long as that right is non-cumulative and is not subject to discretion (investments made prior to 6 April 2018 from funds raised before 6 April 2018 are excluded from this requirement);
- g) at least 10 per cent of the Venture Capital Trust's total investment in each Qualifying Investment must be in eligible shares, as described above;
- h) not make an investment in a company which causes that company to receive more than £5 million of Risk Finance State Aid investment in the 12 months ended on the date of the investment (£10 million for Knowledge Intensive Companies);
- i) not return capital to shareholders before the end of the accounting period during which the third anniversary of the subscription for shares occurs;
- j) for share issues in accounting periods beginning on or after 6 April 2018, at least 30 per cent of the funds from those share issues must be invested in Qualifying Holdings by the anniversary of the accounting period in which those shares were issued.

Qualifying investments

A Qualifying Investment comprises shares or securities first issued to the Venture Capital Trust (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) by a company satisfying the conditions set out in Chapters 3 and 4 of Part 6 of ITA 2007. The conditions are detailed, but include that the company must be a Qualifying Company (as defined below), have gross assets not exceeding £15 million immediately prior to the investment and £16 million immediately thereafter, apply the funds raised for the purposes of a qualifying trade within certain time limits, have fewer than 250 full-time equivalent employees (500 employees in the case of a Knowledge Intensive Company), and must not receive more than £5 million (£10 million for a Knowledge Intensive Company) from Venture Capital Trusts or other Risk Finance State Aid investment sources during the 12 month period which ends on the date of the Venture Capital Trust's investment. Neither the Venture Capital Trust nor any other company may control the investee company. In certain circumstances an investment in a company by a Venture Capital Trust can be split into a part which is a qualifying holding and a part which is a non-qualifying holding.

A Qualifying Company must be unquoted (companies whose shares are traded on AIM or NEX Exchange are treated as unquoted companies for this purpose) and carry on a qualifying trade. Shares in an unquoted company which subsequently becomes listed may still be regarded as a Qualifying Investment for a further five years following listing, provided all other conditions are met. The definition of a qualifying trade excludes certain activities such as dealing in property, shares or securities and the provision of financial services. The trade must be carried on by, or be intended to be carried on by the Qualifying Company or a subsidiary, which must be at least 90 per cent owned by the parent company at the time of the issue of the shares or securities to the Venture Capital Trust (and at all times thereafter). A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the Venture Capital Trust and continue it thereafter. At least 10 per cent of the Venture Capital Trust's total investment in the investee company must be in eligible shares, as described above. The company cannot receive more than £12 million (£20 million if the company is deemed to be a Knowledge Intensive Company) of Risk Finance State Aid investment (including from Venture Capital Trusts) over the company's lifetime. The company's first commercial sale must be no more than 7 years (10 years for a Knowledge Intensive Company) prior to the date of the Venture Capital Trust's investment, except where previous Risk Finance State Aid was received by the company within 7 years or where a turnover test is satisfied. Funds received from an investment by a Venture Capital Trust cannot be used to acquire shares in another company nor another existing business or trade.

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

Recent Legislative Changes

- The EU State Aid Risk Capital Guidelines were updated in May 2014 and, while the EU has approved the UK Government's application to renew the State Aid approval of the VCT scheme this was conditional on a number of changes to the rules that were largely enacted in the November 2015 Budget. The major changes were as follows:
 - there is a maximum age test which prohibits an investment in any company whose first commercial sale was more than seven years (ten years for a knowledge-intensive company) from its first commercial sale unless:
 - the company has previously received state-aid investment (eg EIS, VCT, SEIS) within seven years of its first commercial sale; or
 - the amount of the investment is at least 50 per cent of the company's average turnover for the previous five years and the funds are used to expand new geographies or develop new products.
 - investments cannot be used to acquire existing shares or an existing business;
 - on a portfolio basis, loans can represent no more than 30 per cent of the amount invested;
- Following publication in August 2017 by HM Treasury of "Financing Growth in Innovative Firms", and the results of its "Patient Capital Review" which considered the effectiveness of schemes such as VCTs in relation to patient capital, the Chancellor of the Exchequer, in his Autumn Budget on 22 November 2017, announced certain changes to the rules relating to VCTs which were implemented in the Finance Act 2018. The proposed legislation was set out in the Finance Bill (No. 2) 2017-19, which received Royal Assent on 15 March 2018 and were approved by the European Commission on 5 July 2018. The major changes were as follows:
 - The maximum amount of state-aid funding that a knowledge-intensive business can receive is increased to £10 million per annum;
 - For an investment to be considered as Qualifying Investments for VCT purposes HMRC will use a "principles-based approach" known as the "risk-to-capital condition" and this depends on taking a view as to whether an investment has been structured as for "capital preservation", where an investor's tax relief is likely to provide much of the return;
 - loans have to be unsecured;
 - the return on any loans above ten per cent are required to represent a commercial return on the principal;
 - for accounting periods beginning after 5 April 2018 VCTs have to invest at least 30 per cent of any new funds into qualifying investments within twelve months of the funds being raised;
 - for accounting periods beginning after 5 April 2019 Qualifying Investments must represent at least 80 per cent of total investments;
 - with effect from 6 April 2019 the period of disregard for the proceeds on the disposal of a Qualifying Investment will increase to twelve months.

Taxation of a Venture Capital Trust

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

Withdrawal of approval

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

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

Part 4: Financial Information on the VCTs

Introduction

Audited statutory accounts of BSC for the years ended 31 March 2016, 31 March 2017 and 31 March 2018 in respect of which BSC's auditors, BDO LLP, registered auditor of 55 Baker Street, London, W1U 7EU, a registered member firm of the Institute of Chartered Accountants in England and Wales, made unqualified reports under section 495 of the Act as appropriate, have been delivered to the Registrar of Companies and such reports did not contain any statements under section 498(2) or (3) of the Act. Copies of these audited statutory accounts are available at www.bscfunds.com.

Audited statutory accounts of BSC2 for the year ended 31 December 2016 and 31 December 2017, in respect of which BSC2's auditors, BDO LLP, registered auditor of 55 Baker Street, London, W1U 7EU, a registered member firm of the Institute of Chartered Accountants in England and Wales, made unqualified reports under section 495 of the Act, have been delivered to the Registrar of Companies and these reports did not contain any statements under section 498(2) or (3) of the Act. Audited statutory accounts of BSC2 for the year ended 31 December 2015, in respect of which BSC2's previous auditors, Grant Thornton UK LLP, registered auditor of 2 Broadfield Court, Sheffield, S8 0XF, a registered member firm of the Institute of Chartered Accountants in England and Wales, made an unqualified report under section 495 of the Act, have been delivered to the Registrar of Companies and such report did not contain any statements under section 498(2) or (3) of the Act. Copies of these audited statutory accounts are available at www.bscfunds.com.

Unaudited interim accounts of BSC for the six months ended 30 September 2017 and 30 September 2018 are available at www.bscfunds.com. The interim accounts for the six months ended 30 September 2017 have not been audited or reviewed by BSC's auditors. The interim accounts for the six months ended 30 September 2018 have been reviewed, but not audited, by BSC's auditors.

Unaudited interim accounts of BSC2 for the six months ended 30 June 2017 and 30 June 2018 and for the nine months ended 30 September 2018 are available at www.bscfunds.com. The interim accounts for the periods ending 30 June 2017 and 30 June 2018 have not been audited or reviewed by BSC2's auditors. The interim accounts for the nine month period ended 30 September 2018 have been reviewed, but not audited, by BSC2's auditors.

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

Historical financial information

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

| BSC | Audited Statutory Accounts for Year Ended 31 March 2016 | Audited Statutory Accounts for Year Ended 31 March 2017 | Unaudited Interim Report for 6 Months Ended 30 September 2017 | Audited Statutory Accounts for Year Ended 31 March 2018 | Unaudited Interim Report for 6 Months Ended 30 September 2018 |
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| Risk Factors | 30-31 | 29-30 | - | 28-29 | - |
| Principal Risks and Uncertainties | - | - | 17 | - | 14 |
| Other Matters | 32 | 31 | - | 30 | - |
| Directors | 33 | 32 | - | 31 | - |
| Directors' Report | 34-36 | 33-35 | - | 32-34 | - |
| Corporate Governance | 37-42 | 36-41 | - | 35-40 | - |
| Directors' Remuneration Report | 43-45 | 42-44 | - | 41-43 | - |
| Directors' Responsibilities Statement | 46 | 45 | 18 | 44 | 15 |
| Independent Auditors' Report | 47-49 | 46-49 | - | 45-49 | - |
| Independent Auditors' Review | - | - | - | - | 16-17 |
| Statement of Comprehensive Income | 50 | 50 | 19 | 50 | 18 |
| Balance Sheet | 51 | 51 | 20 | 51 | 19 |
| Statement of Changes in Equity | 52-53 | 52-53 | 21-23 | 52-53 | 20-22 |
| Statement of Cash Flows | 54 | 54 | 24 | 54 | 23 |
| Notes to the Financial Statements | 55-75 | 55-74 | 25-33 | 55-76 | 24-32 |
| Related Party Transactions | 71 | 70 | - | 72 | - |

| BSC2 | Audited Statutory Accounts for Year Ended 31 Dec 2015 | Audited Statutory Accounts for Year Ended 31 Dec 2016 | Unaudited Interim Report for 6 Months Ended 30 June 2017 | Audited Statutory Accounts for Year Ended 31 Dec 2017 | Unaudited Interim Report for 6 Months Ended 30 June 2018 | Unaudited Interim Report for 9 Months Ended 30 September 2018 |
|---------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Nature of Information | Page No. | Page No. | Page No. | Page No. | Page No. | Page No. |
| Financial Summary and Highlights | 4-5 | 4-5 | 1-2 | 2-3 | 1-2 | 1-2 |
| Chairman's Statement | 6-9 | 6-9 | 3-5 | 4-7 | 3-6 | 3-6 |
| Objectives and Key Policies | 10 | 10 | - | 8 | - | 7 |
| Objectives and Strategy | - | - | 6 | - | 7 | - |
| Investment Policy | 10 | 10 | - | 8 | - | 7 |
| Processes and Operations | 11 | 11 | - | 9 | - | - |
| Key Performance Indicators | 12-14 | 12-14 | - | 10-12 | - | - |
| Investment Performance | 15-29 | 15-28 | - | 13-26 | - | - |
| Investment Review | - | - | 7-13 | - | 8-14 | 8-14 |
| Risk Factors | 30-31 | 29-30 | - | 27-28 | - | - |
| Principal Risks and Uncertainties | - | - | 14 | - | 15 | 15 |
| Other Matters | 32 | 31 | - | 29 | - | - |
| Directors | 33 | 32 | - | 30 | - | - |
| Directors' Report | 34-36 | 33-35 | - | 31-33 | - | - |
| Corporate Governance | 37-42 | 36-41 | - | 34-39 | - | - |
| Directors' Remuneration Report | 43-45 | 42-44 | - | 40-42 | - | - |
| Directors' Responsibilities Statement | 46 | 45 | 14 | 43 | 16 | 16 |
| Independent Auditors' Report | 47-49 | 46-49 | - | 44-47 | - | - |
| Independent Auditors' Review | - | - | - | - | - | 17-18 |
| Statement of Comprehensive Income | 50 | 50 | 15 | 48 | 17 | 19 |
| Balance sheet | 51 | 51 | 16 | 49 | 18 | 20 |
| Statement of Changes in Equity | 52-53 | 52-53 | 17-19 | 50-51 | 19-21 | 21-23 |
| Statement of Cash Flows | 54 | 54 | 20 | 52 | 22 | 24 |
| Notes to the Financial Statements | 55-75 | 55-74 | 21-28 | 53-74 | 23-30 | 25-32 |
| Related Party Transactions | 71 | 71 | - | 15 | - | - |

Operating and financial review

| BSC | Audited Statutory Accounts for Year Ended 31 March 2016 | Audited Statutory Accounts for Year Ended 31 March 2017 | Unaudited Interim Report for six months Ended 30 September 2017 | Audited Statutory Accounts for Year Ended 31 March 2018 | Unaudited Interim Report for six months Ended 30 September 2018 |
|-------------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Total Net Assets (£000) | 95,723 | 88,072 | 83,974 | 86,137 | 85,218 |
| Change in Net Assets (£000) | 8,003 | (7,651) | (4,098) | 2,163 | (919) |
| Net Asset Value per Share | 100.0p | 82.3p | 77.0p | 79.6p | 78.6p |
| Dividends paid per Share | 10.0p | 22.0p | 5.75p | 5.75p | 4.0p |
| Cumulative Dividends paid per Share | 108.7p | 130.7p | 136.4p | 136.4p | 140.4p |

| BSC2 | Audited Statutory Accounts for Year Ended 31 Dec 2015 | Audited Statutory Accounts for Year Ended 31 Dec 2016 | Unaudited Interim Report for 6 Months Ended 30 June 2017 | Audited Statutory Accounts for Year Ended 31 Dec 2017 | Unaudited Interim Report for 6 Months Ended 30 June 2018 | Unaudited Interim Report for 9 Months Ended 30 September 2018 |
|-------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Total Net Assets (£000) | 54,850 | 56,109 | 59,375 | 59,056 | 63,234 | 62,501 |
| Change in Net Assets Value (£000) | 15,517 | 1,259 | 3,266 | (319) | 4,178 | (733) |
| Net Asset Value per Share | 62.9p | 59.7p | 59.0p | 58.8p | 58.8p | 58.1p |
| Dividends paid per Share | 4.5p | 4.5p | 1.5p | 3.0p | 1.5p | 3.0p |
| Cumulative Dividends paid per Share | 48.0p | 52.5p | 54.0p | 55.5p | 57.0p | 58.5p |

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

- (i) for the financial years ended 31 December 2015, 31 December 2016 and 31 December 2017, in respect of BSC2 and 31 March 2016, 31 March 2017 and 31 March 2018 in respect of BSC, is set out in the sections headed "Chairman's Statement" and "Investment Performance" in the published audited statutory accounts of the relevant VCT for these periods; and
- (ii) for the six months ended 30 June 2017 and 30 June 2018 and for the nine months ended 30 September 2018, in respect of BSC2, and the six months ended 30 September 2017 and 30 September 2018 in respect of BSC, is set out in the sections headed "Chairman's Statement" and "Investment Review" in the unaudited interim reports for these periods. The investment portfolio table on pages 26 to 28 of this document has been extracted without material adjustment from the unaudited interim report for the nine months ended 30 September 2018 in the case of BSC2 and from the unaudited interim report for the 6 months ended 30 September 2018 in the case of BSC.

As at 30 September 2018 BSC's unaudited Net Asset Value was 78.6 pence per Share and as at 30 September 2018 BSC2's unaudited Net Asset Value was 58.1 pence per Share.

There have been no significant changes in the financial or trading positions of BSC since 30 September 2018, the date of the last unaudited published financial information of BSC.

There have been no significant changes in the financial or trading positions of BSC2 since 30 September 2018, the date of the last unaudited published financial information of BSC2.

Investment Portfolio

A full list of the current investments held by BSC and BSC2 as at the date of this document, the values being as at 30 September 2018 (being the latest published NAVs of the VCTs) is set out below. There has been no material change to the VCTs' investment portfolios since 30 September 2018. All the investments are in portfolio companies incorporated in the UK.

| Investee company (All in £000) | Sector | BSC | | BSC2 | | Combined | |
|------------------------------------------------------|-------------------------------------|----------------|-----------|----------------|-----------|----------------|-----------|
| | | Carrying cost* | Valuation | Carrying cost* | Valuation | Carrying cost* | Valuation |
| Unquoted Investments | | | | | | | |
| ACC Aviation (via NewAcc(2014) Limited) | Business Services | 220 | 7,159 | 145 | 4,773 | 365 | 11,932 |
| Matillion Limited | Software, IT & Telecommunications | 2,666 | 6,063 | 1,778 | 4,042 | 4,444 | 10,105 |
| Mangar Health Limited | Healthcare | 2,460 | 4,446 | 1,640 | 2,964 | 4,100 | 7,410 |
| Intelligent Office UK | Business Services | 2,934 | 4,438 | 1,956 | 2,959 | 4,890 | 7,397 |
| Deep-Secure Ltd | Software, IT & Telecommunications | 1,000 | 3,875 | 500 | 1,939 | 1,500 | 5,814 |
| Gill Marine Holdings Limited | Retail & Brands | 2,500 | 3,261 | 1,870 | 2,439 | 4,370 | 5,700 |
| KeTech Enterprises Limited | Software, IT & Telecommunications | 2,000 | 2,669 | 2,000 | 2,669 | 4,000 | 5,338 |
| Business Collaborator Limited | Software, IT & Telecommunications | 2,010 | 3,130 | 1,340 | 2,087 | 3,350 | 5,217 |
| Eikon Holdco Limited | Software, IT & Telecommunications | 3,000 | 3,000 | 2,000 | 2,000 | 5,000 | 5,000 |
| GTK (Holdco) Limited | Manufacturing & Industrial Services | 222 | 2,883 | 146 | 1,897 | 368 | 4,780 |
| Springboard Research Holdings Limited | Business Services | 2,647 | 2,699 | 1,765 | 1,799 | 4,412 | 4,498 |
| Leengate Holdings Limited | Manufacturing & Industrial Services | 1,401 | 2,415 | 934 | 1,610 | 2,335 | 4,025 |
| Friska Limited | Retail & Brands | 1,800 | 1,803 | 1,200 | 1,202 | 3,000 | 3,005 |
| Arcus Global Limited | Software, IT & Telecommunications | 1,800 | 1,800 | 1,200 | 1,200 | 3,000 | 3,000 |
| Sipsynergy (via Hosted Network Services Limited) | Software, IT & Telecommunications | 1,770 | 1,358 | 1,309 | 1,004 | 3,079 | 2,362 |
| Hutchinson Networks Limited | Software, IT & Telecommunications | 1,320 | 1,320 | 880 | 880 | 2,200 | 2,200 |
| Wakefield Acoustics (via Malvar Engineering Limited) | Manufacturing & Industrial Services | 1,080 | 1,302 | 720 | 867 | 1,800 | 2,169 |
| Ncam Technologies Limited | Software, IT & Telecommunications | 1,466 | 1,100 | 977 | 733 | 2,443 | 1,833 |
| Traveltek Group Holdings Limited | Software, IT & Telecommunications | 1,470 | 1,090 | 980 | 726 | 2,450 | 1,816 |
| Macro Art Holdings Limited | Business Services | 720 | 1,070 | 480 | 713 | 1,200 | 1,783 |
| DisplayPlan Holdings Limited | Business Services | 130 | 1,122 | 70 | 604 | 200 | 1,726 |

| Investee company (All in £000) | Sector | BSC | | BSC2 | | Combined | |
|--------------------------------------------|-------------------------------------------------------|----------------|---------------|----------------|---------------|----------------|----------------|
| | | Carrying cost* | Valuation | Carrying cost* | Valuation | Carrying cost* | Valuation |
| Biz2Mobile Limited | Software, IT & Telecommunications | 1,500 | 932 | 1,000 | 621 | 2,500 | 1,553 |
| Bagel Nash Group Limited | Retail & Brands / Manufacturing & Industrial Services | 944 | 737 | 630 | 493 | 1,574 | 1,230 |
| EL Support Services Limited | Business Services | 500 | 500 | 500 | 500 | 1,000 | 1,000 |
| NB Technology Services Limited | Software, IT & Telecommunications | 500 | 500 | 500 | 500 | 1,000 | 1,000 |
| OC Engineering Services Limited | Manufacturing & Industrial Services | 500 | 500 | 500 | 500 | 1,000 | 1,000 |
| SH Healthcare Services Limited | Healthcare | 500 | 500 | 500 | 500 | 1,000 | 1,000 |
| SP Manufacturing Services Limited | Manufacturing & Industrial Services | 500 | 500 | 500 | 500 | 1,000 | 1,000 |
| Immunobiology Limited | Healthcare | - | - | 2,582 | 920 | 2,582 | 920 |
| RMS Group Holdings Limited | Manufacturing & Industrial Services | 180 | 632 | 70 | 246 | 250 | 878 |
| TeraView Limited | Software, IT & Telecommunications | 377 | 418 | 377 | 418 | 754 | 836 |
| The Heritage Window Company Holdco Limited | Manufacturing & Industrial Services | 615 | 341 | 410 | 227 | 1,025 | 568 |
| e2E Engineering Limited | Software, IT & Telecommunications | 900 | 225 | 600 | 150 | 1,500 | 375 |
| Seven Technologies Holdings Limited | Software, IT & Telecommunications | 1,984 | 174 | 1,238 | 109 | 3,222 | 283 |
| Harris Hill Holdings Limited | Business Services | 543 | 283 | - | - | 543 | 283 |
| Intamac Systems Limited | Software, IT & Telecommunications | 303 | 51 | 905 | 155 | 1,208 | 206 |
| Tissuemed Limited | Healthcare | - | - | 47 | - | 47 | - |
| | | 44,462 | 64,296 | 34,249 | 44,946 | 78,711 | 109,242 |

| Investee company | | BSC | | BSC2 | | Combined | |
|--------------------------------|-------------------------------------|----------------|-----------|----------------|-----------|----------------|-----------|
| [All in £000] | Sector | Carrying cost* | Valuation | Carrying cost* | Valuation | Carrying cost* | Valuation |
| Quoted Investments | | | | | | | |
| EKF Diagnostics Holdings plc** | Healthcare | 422 | 720 | 411 | 548 | 833 | 1,268 |
| AB Dynamics plc | Manufacturing & Industrial Services | 51 | 600 | 36 | 434 | 87 | 1,034 |
| Gamma Communications plc | Software, IT & Telecoms | 104 | 467 | 72 | 322 | 176 | 789 |
| Mattioli Woods plc | Business Services | 111 | 697 | - | - | 111 | 697 |
| Iomart Group plc | Software, IT & Telecommunications | - | - | 119 | 596 | 119 | 596 |
| Gooch & Housego plc | Manufacturing & Industrial Services | - | - | 221 | 566 | 221 | 566 |
| | | 688 | 2,484 | 859 | 2,466 | 1,547 | 4,950 |
| Total unquoted and quoted | | 45,150 | 66,780 | 35,108 | 47,412 | 80,258 | 114,192 |

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

** subsequent to 30 September 2018 the VCTs received, via a distribution in specie from EKF Diagnostic Holdings plc, shares in Renalytix AI plc, a company listed on AIM, with an initial value of £171,000 (BSC £97,000, BSC2 £74,000).

No investments have been made since 30 September 2018

Realisations since 30 September 2018

| (All in £000) | Sector | BSC | | BSC2 | | Combined | |
|-------------------------------|-------------------------------------|----------------|--------------|----------------|--------------|----------------|----------------|
| | | Carrying cost* | Valuation | Carrying cost* | Valuation | Carrying cost* | Valuation |
| EKF Diagnostic Holdings plc | Healthcare | (63) | (108) | (61) | (82) | (124) | (190) |
| AB Dynamics plc | Manufacturing & Industrial Services | (12) | (134) | (23) | (268) | (35) | (402) |
| Gamma Communications Software | Software, IT and Telecommunications | (26) | (117) | (18) | (80) | (44) | (197) |
| Gooch & Housego plc | Manufacturing & Industrial Services | - | - | (221) | (566) | (221) | (566) |
| Total realisations** | | (101) | (359) | (323) | (996) | (424) | (1,355) |

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

** total proceeds were £1,387,000 (BSC £375,000, BSC2 £1,012,000)

Summaries of investments

Brief details are given below of the Venture Capital Trust investments which together represent 64.5 per cent of the combined Net Asset Value of the VCTs as at 30 September 2018. These investments represent 66.7 per cent of BSC's NAV and 61.6 per cent of BSC2's NAV at that date, and have been extracted from the unaudited interim report for BSC for the six month period ended 30 September 2018 and the unaudited interim report for the nine month period ended 30 September 2018 for BSC2. All of the investments listed are invested in by both VCTs.

Top 20 Unquoted Investments by Combined Value

ACC Aviation (via NewACC (2014) Limited)

| | | | | |
|--------------------|-------------------|-------------------------------------------------------|-------|-------|
| Cost | £365,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £11,932,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 93.05 | 60.89 |
| Equity held | 45.0% | EBITA | 3.63 | 3.30 |
| Type | Business Services | Profit before tax | 2.14 | 2.19 |
| | | Retained profits (losses) | 0.17 | 0.91 |
| | | Net assets (liabilities) | 3.21 | 1.58 |

Matillion Limited

| | | | | |
|--------------------|--------------------------|-------------------------------------------------------|--------|--------|
| Cost | £4,444,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £10,105,000 | £m | 2017 | 2016* |
| Basis of valuation | Sales multiple | Sales | 3.04 | 1.29 |
| | | LBITA | (1.70) | (0.86) |
| Equity held | 18.0% | Loss before tax | (1.65) | (0.87) |
| Type | Software, IT & Telecomms | Retained losses | (3.27) | (1.65) |
| | | Net assets | 0.45 | 2.07 |

* Adjusted to reflect underlying performance as the company did not trade for a full year

Mangar Health Limited

| | | | | |
|--------------------|-------------------|---------------------------------------------------|--------|--------|
| Cost | £4,100,000 | Audited financial information: Year ended 31 July | | |
| Valuation | £7,410,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 8.78 | 7.74 |
| Equity held | 42.8% | EBITA | 1.26 | 1.34 |
| Type | Healthcare | Profit before tax | 0.01 | 0.06 |
| | | Retained losses | (0.52) | (0.33) |
| | | Net assets | 0.46 | 0.66 |

Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)

| | | | | |
|--------------------|-------------------|--------------------------------------------------------|--------|--------|
| Cost | £4,890,000 | Audited financial information: Year ended 30 September | | |
| Valuation | £7,397,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 26.24 | 29.12 |
| Equity held | 44.4% | EBITA | 1.30 | 1.67 |
| Type | Business Services | (Loss) Profit before tax | (0.69) | 0.06 |
| | | Retained losses | (1.78) | (0.87) |
| | | Net assets | 7.03 | 7.16 |

Deep-Secure Ltd

| | | | | |
|--------------------|--------------------------|-------------------------------------------------------|--------|--------|
| Cost | £1,500,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £5,814,000 | £m | 2017 | 2016 |
| Basis of valuation | Sales Multiple | Sales | 4.85 | 3.87 |
| Equity held | 23.8% | EBITA | 0.99 | 0.64 |
| Type | Software, IT & Telecomms | Loss before tax | (0.30) | (0.50) |
| | | Retained losses | (4.29) | (4.21) |
| | | Net liabilities | (3.88) | (3.81) |

Gill Marine Holdings Limited

| | | | | |
|--------------------|-------------------|--------------------------------------------------------|--------|--------|
| Cost | £4,370,000 | Audited financial information: Year ended 30 September | | |
| Valuation | £5,700,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 14.19 | 12.23 |
| Equity held | 32.3% | EBITA | 1.35 | 1.45 |
| Type | Retail & Brands | Loss before tax | (0.72) | (0.87) |
| | | Retained losses | (1.22) | (0.51) |
| | | Net assets | 0.35 | 1.06 |

Ketech Enterprises Limited

| | | | | |
|--------------------|--------------------------|-----------------------------------------------------|------|-------|
| Cost | £4,000,000 | Audited financial information: Year ended 31 August | | |
| Valuation | £5,338,000 | £m | 2017 | 2016* |
| Basis of valuation | Earning multiple | Sales | 4.77 | 7.13 |
| Equity held | 30.4% | Net assets | 0.47 | 0.44 |
| Type | Software, IT & Telecomms | | | |

* Adjusted to reflect underlying performance as the company did not trade for a full year

Business Collaborator Limited

| | | | | |
|--------------------|--------------------------|-------------------------------------------------------|--------|--------|
| Cost | £3,350,000 | Audited financial information: Year ended 30 November | | |
| Valuation | £5,217,000 | £m | 2017 | 2016 |
| Basis of valuation | Sales Multiple | Sales | 3.68 | 3.80 |
| Equity held | 48.5% | (LBITA) EBITA | (0.54) | 0.29 |
| Type | Software, IT & Telecomms | (Loss) profit before tax | (0.87) | 0.05 |
| | | Retained losses | (0.80) | (0.25) |
| | | Net (liabilities) assets | (0.33) | 0.23 |

Eikon Holdco Limited

| | | | | |
|--------------------|--------------------------|------------------------------------------------------|------|------|
| Cost | £5,000,000 | Audited financial information: Year ended 31 October | | |
| Valuation | £5,000,000 | £m | 2017 | 2016 |
| Basis of valuation | Cost, reviewed for | Sales | 6.51 | 4.05 |
| | change in fair value | EBITA | 1.52 | 0.87 |
| | value | Profit before tax | 1.22 | 0.73 |
| Equity held | 14.6% | Retained profits | 1.64 | 0.34 |
| Type | Software, IT & Telecomms | Net assets | 2.50 | 1.20 |

Accounts for the trading company Eikon Group Limited are shown, as Eikon Holdco Limited has not yet published a full year's accounts

GTK (Holdco) Limited

| | | | | |
|--------------------|----------------------------|---------------------------------------------------|-------|-------|
| Cost | £368,000 | Audited financial information: Year ended 31 July | | |
| Valuation | £4,780,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 14.32 | 12.19 |
| Equity held | 44.6% | EBITA | 1.38 | 1.08 |
| Type | Manufacturing & Industrial | Profit before tax | 1.21 | 0.62 |
| | | Retained profits | 2.07 | 0.97 |
| | | Net assets | 2.71 | 1.61 |

Springboard Research Holdings Limited

| | | | | |
|--------------------|-------------------|-------------------------------------------------------|--------|--------|
| Cost | £4,412,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £4,498,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 5.09 | 4.47 |
| Equity held | 32.4% | EBITA | 0.38 | 0.19 |
| Type | Business Services | Loss before tax | (0.42) | (0.90) |
| | | Retained losses | (2.12) | (1.61) |
| | | Net assets | 1.01 | 1.52 |

Leengate Holdings Limited

| | | | | |
|--------------------|----------------------------|-------------------------------------------------------|------|------|
| Cost | £2,335,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £4,025,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings Multiple | Sales | 9.57 | 8.23 |
| Equity held | 17.5% | EBITA | 1.39 | 1.42 |
| Type | Manufacturing & Industrial | Profit before tax | 0.52 | 0.55 |
| | | Retained profits | 1.11 | 0.79 |
| | | Net assets | 1.69 | 1.37 |

Friska Limited

| | | | | |
|--------------------|-------------------|--------------------------------------------------------|--------|--------|
| Cost | £3,000,000 | Audited financial information: Year ended 30 September | | |
| Valuation | £3,005,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings multiple | Sales | 4.34 | 3.67 |
| Equity held | 36.0% | LBITA | (0.41) | (0.15) |
| Type | Retail & Brands | Loss before tax | (0.49) | (0.20) |
| | | Retained profits | (0.73) | (0.25) |
| | | Net (liabilities) assets | (0.22) | - |

Arcus Global Limited

| | | | | |
|--------------------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------|--------|--------|
| Cost | £3,000,000 | Audited financial information: Year ended 30 June | | |
| Valuation | £3,000,000 | £m | 2018* | 2017 |
| Basis of valuation | Cost, reviewed for change in fair value | Sales | 13.09 | 9.68 |
| | | LBITA | (1.11) | (3.43) |
| Equity held | 18.0% | Loss before tax | (1.20) | (3.51) |
| Type | Software, IT & Telecomms | Retained losses | (6.17) | (5.46) |
| | | Net liabilities | (2.16) | (4.75) |
| * The 2018 figures above are not yet filed and may still be subject to change. | | | | |

Sipsynergy (via Hosted Network Services Limited)

| | | | | |
|--------------------------------------------------------------------------------|--------------------------|---------------------------------------------------|--------|--------|
| Cost | £3,079,000 | Audited financial information: Year ended 30 June | | |
| Valuation | £2,362,000 | £m | 2018* | 2017 |
| Basis of valuation | Sales Multiple | Sales | 1.78 | 1.39 |
| Equity held | 36.2% | LBITA | (0.85) | (1.68) |
| Type | Software, IT & Telecomms | Loss before tax | (0.97) | (1.89) |
| | | Retained losses | (2.07) | (2.11) |
| | | Net assets | 0.59 | 1.57 |
| * The 2018 figures above are not yet filed and may still be subject to change. | | | | |

Hutchinson Networks Limited

| | | | | |
|--------------------|-----------------------------------------|-------------------------------------------------------|------|------|
| Cost | £2,200,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £2,200,000 | £m | 2017 | 2016 |
| Basis of valuation | Cost, reviewed for change in fair value | Sales | 9.48 | 5.58 |
| | | EBITA | 0.46 | 0.05 |
| Equity held | 17.0% | Profit before tax | 0.32 | 0.81 |
| Type | Software, IT & Telecomms | Retained profits | 0.32 | 0.76 |
| | | Net assets | 0.55 | 0.30 |

Wakefield Acoustics (via Malvar Engineering Limited)

| | | | | |
|--------------------|----------------------------|---------------------------------------------------|------|------|
| Cost | £1,800,000 | Audited financial information: Year ended 31 July | | |
| Valuation | £2,169,000 | £m | 2017 | 2016 |
| Basis of valuation | Earnings multiple | Sales | 5.92 | 5.07 |
| Equity held | 41.1% | EBITA | 0.85 | 0.73 |
| Type | Manufacturing & Industrial | Profit before tax | 0.57 | 0.49 |
| | | Retained profits | 0.45 | 0.02 |
| | | Net assets | 0.88 | 0.45 |

Ncam Technologies Limited

| | | | | |
|-------------------------------------------------------------------------------|-----------------------------------------|----------------------------------------------------|--------|--------|
| Cost | £2,443,000 | Audited financial information: Year ended 31 March | | |
| Valuation | £1,833,000 | £m | 2018* | 2017 |
| Basis of valuation | Cost, reviewed for change in fair value | Sales | 2.22 | 1.53 |
| | | LBITA | (0.61) | (0.12) |
| Equity held | 27.9% | Loss before tax | (0.64) | (0.15) |
| Type | Software, IT & Telecomms | Retained losses | (1.23) | (0.59) |
| | | Net assets (liabilities) | 2.08 | (0.02) |
| *The 2018 figures above are not yet filed and may still be subject to change. | | | | |

Traveltek Group Holdings Limited

| | | | | |
|--------------------|--------------------------|-------------------------------------------------------|--------|------|
| Cost | £2,450,000 | Audited financial information: Year ended 31 December | | |
| Valuation | £1,816,000 | £m | 2017 | 2016 |
| Basis of valuation | Sales multiple | Sales | 5.72 | 4.66 |
| Equity held | 10.3% | (LBITA) EBITA | (0.40) | 0.12 |
| Type | Software, IT & Telecomms | (Loss) profit before tax | (0.77) | 0.03 |
| | | Retained losses | (0.59) | - |
| | | Net assets | 0.06 | 0.64 |

Macro Art Holdings Limited

| | | | | |
|--------------------|-------------------|--------------------------------------------------|--------|------|
| Cost | £1,200,000 | Audited financial information: Year ended 31 May | | |
| Valuation | £1,783,000 | £m | 2018 | 2017 |
| Basis of valuation | Earnings Multiple | Sales | 10.85 | 9.85 |
| Equity held | 35.2% | EBITA | 0.31 | 0.39 |
| Type | Business Services | (Loss) profit before tax | (0.02) | 0.19 |
| | | Retained profits | 0.28 | 0.36 |
| | | Net assets | 1.05 | 0.81 |

Part 5: General Information

Share capital

- 1.1 The following allotments and repurchases of Ordinary Shares have taken place since 1 April 2015 (BSC) and 1 January 2015 (BSC2):

BSC

| Buy-backs | | | Issues | | |
|-------------------|------------------|-------------------------|------------------|------------------|-------------------------|
| Date | Number of Shares | Price per Share (pence) | Date | Number of Shares | Price per Share (pence) |
| 14 August 2015 | 281,101 | 86.83 | 22 April 2015 | 1,385,722 | 99.26-101.58 |
| 30 September 2015 | 83,231 | 86.83 | 4 August 2015 | 750,029 | 94.72 |
| 17 June 2016 | 115,764 | 95.25 | 7 September 2015 | 803,289 | 91.39 |
| 6 July 2016 | 217,570 | 90.03 | 15 January 2016 | 453,191 | 91.49 |
| 29 March 2017 | 125,000 | 78.50 | 24 February 2016 | 3,672,283 | 103.45 |
| 27 September 2017 | 260,000 | 73.22 | 11 March 2016 | 227,424 | 94.15 |
| 19 December 2017 | 500,000 | 73.65 | 5 August 2016 | 847,016 | 93.10 |
| 26 February 2018 | 122,000 | 74.98 | 5 August 2016 | 494,088 | 91.20 |
| 28 February 2018 | 115,019 | 74.98 | 18 January 2017 | 5,312,221 | 77.71 |
| 27 March 2018 | 180,000 | 74.98 | 29 March 2017 | 5,008,836 | 84.64-86.34 |
| 4 July 2018 | 620,767 | 72.32 | 26 May 2017 | 2,407,686 | 72.53 |
| 27 September 2018 | 968,258 | 73.84 | 18 May 2018 | 1,751,747 | 70.68 |

BSC2

| Buy-backs | | | Issues | | |
|-------------------|------------------|-------------------------|-------------------|------------------|-------------------------|
| Date | Number of Shares | Price per Share (pence) | Date | Number of Shares | Price per Share (pence) |
| 6 May 2015 | 103,845 | 56.86 | 6 January 2015 | 7,417,987 | 65.50-69.13 |
| 23 June 2015 | 114,136 | 55.87 | 2 February 2015 | 2,893,324 | 63.25-66.23 |
| 24 March 2016 | 74,364 | 56.86 | 2 March 2015 | 3,799,670 | 65.25-66.23 |
| 27 April 2016 | 62,946 | 57.63 | 30 March 2015 | 8,412,414 | 65.00-68.06 |
| 15 June 2016 | 102,220 | 58.30 | 22 April 2015 | 1,141,754 | 65.00-68.06 |
| 29 November 2016 | 178,213 | 57.54 | 8 June 2015 | 677,522 | 58.71 |
| 13 April 2017 | 350,000 | 55.80 | 28 September 2015 | 581,009 | 54.79 |
| 26 June 2017 | 360,000 | 56.46 | 14 January 2016 | 5,683,709 | 63.00-64.50 |
| 27 September 2017 | 150,000 | 55.13 | 9 May 2016 | 763,247 | 58.05 |
| 20 October 2017 | 290,605 | 55.13 | 26 September 2016 | 682,526 | 56.05 |
| 19 December 2017 | 310,000 | 55.51 | 10 February 2017 | 6,787,231 | 62.17-63.41 |
| 27 March 2018 | 415,000 | 56.36 | 12 May 2017 | 583,201 | 55.96 |
| 22 June 2018 | 559,500 | 55.32 | 29 September 2017 | 606,434 | 54.63 |
| 27 September 2018 | 684,652 | 54.94 | 16 February 2018 | 7,366,700 | 59.39-60.57 |
| | | | 11 May 2018 | 655,669 | 54.82 |
| | | | 28 September 2018 | 658,086 | 54.44 |

- 1.2 As at 30 September 2018 (being the end of the last financial period of BSC for which unaudited interim financial information has been published) there were 108,352,886 issued Shares in BSC, each ranking pari passu. All of the Shares are listed on the premium segment of the Official List of the UK Listing Authority. BSC held an additional 6,814,043 Shares in the treasury account at this date.

As at 30 September 2018 (being the end of the last financial period of BSC2 for which unaudited financial information has been published) there were 107,511,878 issued Shares in BSC2, each ranking pari passu. All of the Shares are listed on the premium segment of the Official List of the UK Listing Authority. BSC2 held an additional 5,665,503 Shares in the treasury account at this date.

- 1.3 Immediately following the close of the Offers, assuming £35,000,000 is raised in aggregate by the VCTs under the Offers, including the over-allotment facility, at an Indicative Offer Price of 80.615 pence and 59.590 pence per Offer Share for BSC and BSC2 respectively and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to BSC2, the issued share capital of BSC, fully paid or credited as fully paid, will be £14,121,667 divided into 141,216,672 Shares (of which 6,814,043 Shares are held in treasury) and the issued share capital of BSC2, fully paid or credited as fully paid, will be £13,667,126 divided into 136,671,256 Shares (of which 5,665,503 Shares are held in treasury). The maximum number of Offer Shares which may be issued by BSC and BSC2 under the Offers is 45,000,000 and 60,000,000 respectively.
- 1.4 The maximum number of Offer Shares, assuming a subscription of £35,000,000, including the over-allotment facility, an Indicative Offer Price of 80.615 pence per Offer Share and 59.590 pence per Offer Share for BSC and BSC2 respectively and an allocation of 60 per cent to BSC and 40 per cent to BSC2, will be 26,049,743 for BSC and 23,493,875 for BSC2. This represents a dilution to existing Shareholders of 19.4 per cent in BSC and 17.9 per cent in BSC2.
- 1.5 Except for commissions paid to authorised introducers in respect of previous offers for subscription of Shares, no commissions, discounts, brokerages or other special terms have been granted by the VCTs during or since the financial periods set out in Part 4.

- 1.6 No share or loan capital of the VCTs is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offers and under the Dividend re-investment Schemes, no material issue of Ordinary Shares (other than to Shareholders pro rata to existing holdings) will be made within one year of the closing of the Offers without the prior approval of Shareholders in general meeting.
- 1.7 The Ordinary Shares issued under the Offers will be created under the Act, issued in registered form and temporary documents of title will not be issued. The ISIN of the BSC Ordinary Shares is GB0001403152. The ISIN of the BSC2 Ordinary Shares is GB0005001796.
- 1.8 Each VCT will be subject to the continuing obligations of the UK Listing Authority and the London Stock Exchange with regard to the issue of securities for cash and to the provisions of section 561 of the Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash except to the extent disappplied by the VCTs in general meeting).

Memorandum and Articles

2.1 Memorandum of Association

The memorandum of association of the VCTs provide that each VCT's principal object is to carry on the business of a Venture Capital Trust. The objects of the VCTs are set out in full in clause 4 of their memorandum of association which are available for inspection at the address specified in paragraph 7.1 below.

2.2 Articles of Association

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

2.2.1 *Voting rights*

Subject to any disenfranchisement as provided in paragraph 2.2.4 below and subject to any special terms as to voting on which any shares may be issued, on a show of hands or by proxy every Member present in person (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every Member present in person or by proxy shall have one vote for every share of which he is the holder.

2.2.2 *Transfer of Shares*

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

- (a) it is duly stamped (if so required), is lodged with the VCT's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates (save in the case of a transfer by a person to whom no certificate was issued) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) it is in respect of only one class of share; and
- (c) the transferees do not exceed four in number.

2.2.3 *Dividends*

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

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

2.2.4 *Disclosure of interests in Shares*

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

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

2.2.5 *Distribution of assets on liquidation*

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

2.2.6 *Changes in share capital*

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

2.2.7 *Variation of rights*

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

2.2.8 *Directors' interests*

- (a) A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the VCT shall, at a meeting of the Directors declare, in accordance with the Act, the nature of his interest.
- (b) Provided that he has declared his interest in accordance with paragraph 2.2.8(a) above, a Director may be a party to or otherwise interested in any transaction or arrangement with the VCT or in which the VCT is interested and may be a Director or other officer or otherwise interested in any body corporate promoted by the VCT or in which the VCT is otherwise interested. No Director so interested shall be accountable to the VCT, by reason of his being a Director, for any benefit which he derives from such office or interest or any such transaction or arrangement.
- (c) A Director shall not vote at a meeting of the Directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the VCT unless his interest arises only because the case falls within one or more of the specified paragraphs in the Articles.

- (d) Where proposals are under consideration concerning the appointment of two or more Directors to offices or employment with the VCT or any company in which the VCT is interested the proposals may be divided and considered in relation to each Director separately and (if not otherwise precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

2.2.9 *Remuneration of Directors*

- (a) The ordinary remuneration of the Directors (other than an executive Director appointed under the Articles) shall be such amount as the Directors shall from time to time determine (provided that unless otherwise approved by the VCT in general meeting the aggregate of the ordinary remuneration of the Directors of BSC2 shall not exceed £100,000 per year and the ordinary remuneration of the Directors of BSC shall not exceed £115,000 per year) to be divided among them in such proportions and manner as the Directors may determine. The Directors of BSC shall also be paid by the VCT all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.
- (b) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the VCT may be paid such extra remuneration as the Directors may determine.
- (c) The emoluments and benefits of any executive Director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

2.2.10 *Retirement of Directors*

- (a) At each annual general meeting of the VCT one-third of the Directors who are subject to retirement by rotation, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, or if their number is less than three then one of them, shall retire from office, provided that no Director shall be required to retire by rotation earlier than the third annual general meeting after the meeting at which he was elected or last elected. A Director retiring at a meeting shall retain office until the dissolution of that meeting and shall be eligible for re-election.
- (b) It is the policy of the Boards that each director's appointment will run for a term of one year or until the following annual general meeting subject to the agreement of the Board, and the performance evaluation carried out each year, that it is appropriate for the director to seek a further term.
- (c) A Director shall be capable of being appointed or reappointed a Director despite having attained the age of 70 or any other age and shall not be required to retire by reason of his having attained any particular age.

2.2.11 *Borrowing powers*

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

2.2.12 *Distribution of realised capital profits*

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

2.2.13 *Duration of the VCT*

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

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

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

2.2.14 *General meetings*

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

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

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

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

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

3.0 Directors' and other interests in the VCTs

- 3.1 DTR 5 of the DTRs requires a Shareholder to notify the relevant VCT of the percentage of its shares they hold if such percentage reaches, exceeds or falls below 3 per cent or subsequent 1 per cent thresholds. The relevant VCT will make such information public through a Regulatory Information Service. Neither VCT is aware of any person who, as at the date of this document and immediately following the issue of the Offer Shares, (assuming full subscription under the Offers, including the over-allotment facility) is or will, directly or indirectly, be interested in 3 per cent or more of the issued share capital of either VCT. Further, as at the date of this document and immediately following the issue of such Offer Shares, (assuming gross proceeds of £35,000,000, including the over-allotment facility, are raised under the Offers at an Indicative Offer Price of 80.615 pence for BSC and 59.590 pence for BSC2 and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to BSC2), neither VCT is aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over it.
- 3.2 The interests of the Directors and their immediate families in the share capital of each VCT, all of which are beneficial, as at the date of this document, and of connected persons, are set out below together with the percentages which such interests represent of the Ordinary Shares in issue at the date of this document:

| | Name | Number of Shares | % of issued share capital |
|-------------|------------------|------------------|---------------------------|
| BSC | Helen Sinclair | 23,062 | 0.02% |
| | Edward Buchan | 22,280 | 0.02% |
| | Rupert Cook | 7,750 | 0.01% |
| BSC2 | Richard Last | 134,632 | 0.12% |
| | Robert Pettigrew | 80,333 | 0.07% |
| | Peter Waller | 35,560 | 0.03% |

- 3.3 The interests of the Directors and their immediate families in the share capital of the VCTs, all of which are beneficial and the interests of a person connected with a Director following the Offers (assuming gross proceeds of £35,000,000, including the over-allotment facility, are raised under the Offers at an Indicative Offer Price for BSC of 80.615 pence and 59.590 pence for BSC2 and that Offer Shares are allocated 60 per cent to BSC and 40 per cent to BSC2) will be as follows:

| | Name | Number of Shares | % of issued share capital |
|-------------|------------------|------------------|---------------------------|
| BSC | Helen Sinclair | 23,062 | 0.02% |
| | Edward Buchan | 26,001 | 0.02% |
| | Rupert Cook | 32,559 | 0.02% |
| BSC2 | Richard Last | 151,413 | 0.12% |
| | Robert Pettigrew | 88,723 | 0.07% |
| | Peter Waller | 43,950 | 0.03% |

- 3.4 Save as disclosed in paragraphs 3.2 and 3.3, no Director, nor any person connected with any Director, has any interest in the share capital or loan capital of either VCT, whether beneficial or non-beneficial.
- 3.5 As at the date of this document, neither YFM Equity Partners nor YFM Private Equity hold any Shares in either VCT.
- 3.6 So far as is known to the VCTs, no interests in the VCTs' share capital or voting rights are notifiable under UK law or regulation.
- 3.7 No major Shareholders in the VCTs have different voting rights to the other Shareholders.
- 3.8 No Shares are being reserved for allocation to Shareholders, Directors or employees of either VCT.
- 3.9 All the Directors are non-executive and none of the Directors, therefore, has a service contract with the VCT, and no such contract is proposed. The services of each of the Directors are provided to the relevant VCT pursuant to letters of appointment, under which they are required to devote such time to the affairs of the relevant VCT as the Board reasonably requires consistent with their role as a non-executive Director. Each Director is currently entitled to receive the following annual fee, which is subject to annual review: Helen Sinclair - £40,000, Edward Buchan £25,000, Rupert Cook - £25,000, Richard Last - £40,000, Robert Pettigrew - £24,000 and Peter Waller - £24,000. No benefits are payable on termination.
- 3.10 No loan or guarantee has been granted or provided by either VCT to any Director.
- 3.11 Except as listed in paragraph 5.17 below, none of the Directors has had any interest in any party which is related to either VCT or has had any interest in any transactions since its incorporation which are or were unusual in their nature or conditions or significant to the business of that VCT.
- 3.12 Save as disclosed in paragraph 5.17 below, there are no potential conflicts of interest between the duties of any BSC Director or the Investment Adviser to BSC and their private interests and or other duties.
- Save as disclosed in paragraph 5.17 below, there are no potential conflicts of interest between the duties of any BSC2 Director or the Investment Adviser to BSC2 and their private interests and or other duties.
- Save as disclosed in paragraphs 4 and 5.17 below, no Director, nor any member of the administrative, management, supervisory body or senior management of the VCTs, nor the Investment Adviser has an interest in any transaction effected by either VCT which is or was unusual in its nature or conditions or significant to the business of that VCT.

- 3.13 It is anticipated that the aggregate of fees paid or to be paid to the Directors by BSC for the twelve month period ending 31 March 2019 will not exceed £90,000 plus VAT or National Insurance (as applicable) and by BSC2 for the twelve month period ending 31 December 2018 will not exceed £84,750 plus VAT or National Insurance (as applicable). Fees paid to the Directors of BSC for the year ended 31 March 2018 and to the Directors of BSC2 for the year ended 31 December 2017 were as follows:

| | Name | Fees paid (£) plus VAT or National Insurance (as applicable) |
|-------------|------------------|-----------------------------------------------------------------------|
| BSC | Helen Sinclair | 40,000 |
| | Edward Buchan | 25,000 |
| | Rupert Cook | 25,000 |
| BSC2 | Richard Last | 34,000 |
| | Robert Pettigrew | 20,500 |
| | Peter Waller | 20,500 |

- 3.14 With effect from 1 April 2018 the fees paid to the Directors of BSC2 were increased to the following: Richard Last - £40,000, Robert Pettigrew— £24,000 and Peter Waller - £24,000.
- 3.15 Each VCT has taken out Directors' and Officers' liability insurance for the benefit of the Directors.
- 3.16 The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document and the principal activities of the Directors outside the VCTs where these are significant with respect to the relevant VCT:

| BSC | Current directorships/ partnerships | Former directorship/partnerships (in last five years) |
|-----------------------------------------------|----------------------------------------------|----------------------------------------------------------|
| Helen Rachelle Sinclair | British Smaller Companies VCT plc | Octopus Eclipse VCT 3 plc (dissolved) |
| | The Income & Growth VCT plc | Downing Income VCT 4 plc (dissolved*) |
| | Mobeus Income & Growth 4 VCT plc | FTGS Holdco Limited |
| | Gresham House Strategic plc | Downing One VCT plc |
| | North East Finance (Holdco) Limited | OFT 2 Limited |
| | 94 Goldhurst Terrace Ltd | |
| | 16 Dennington Park Road Limited | |
| | 39 Homer St Management Ltd | |
| | Hemstall Road Residents Co Ltd | |
| | | |
| Rupert Cook | British Smaller Companies VCT plc | Vizion Europe Limited (dissolved) |
| | Krowd 9 Limited | 360Amigo Limited (dissolved) |
| | Operatix Limited | Cystal Capital Ventures LLP (dissolved) |
| | Red Penguin Ventures Limited | Realise Capital Limited |
| | Immersive Labs Limited | Realise Capital Partners LLP |
| | Immersive Labs Holdings Limited | |
| Charles Walter Edward Ralph Buchan | British Smaller Companies VCT plc | Downing Absolute Income VCT 1 plc (dissolved*) |
| | Wallem Group Limited | |
| | Buchan Investments Limited | 34 Rosary Gardens Limited |
| | Bristol Diocesan Board of Finance Limited | |

| BSC2 | Current directorships/ partnerships | Former directorship/partnerships (in last five years) |
|--------------------------------|------------------------------------------------|----------------------------------------------------------|
| Richard Last | British Smaller Companies VCT2 plc | Arcontech Solutions Limited |
| | Gamma Communications plc | Arcontech Limited |
| | Lighthouse Group plc | Cognita Technologies Limited |
| | Corero Network Security plc | Cord Developments Limited (dissolved*) |
| | Arcontech Group plc | The Coombes Estate Limited (dissolved*) |
| | Tribal Group plc | Servelec HSC Limited |
| | ITE Group plc | PVG 2007 Limited |
| | APD Communications Limited | |
| | Waste Management Systems Limited | |
| | Lynx Limited | |
| | APD Mobile Data Limited | |
| | Lynx Holdings Limited | |
| | Lynx Group Limited | |
| | Hobbs Hole Limited | |
| | Learn Solutions Limited | |
| | Longfield Management Company Limited | |
| | Blackwell Property Development Limited | |
| | Tribal Education Limited | |
| | International Graduate Insight Group Limited | |
| | Class Measures Limited | |
| | Tribal Holdings Limited | |
| | Sphinx CST (Ireland) Limited | |
| Robert Martin Pettigrew | British Smaller Companies VCT2 plc | Nightingale-EOS Limited |
| | Acal Energy Limited (in voluntary liquidation) | Odos Imaging Limited |
| | SunAmp Limited | |
| | PervasID Limited | |
| | 4T2 Sensors Limited | |
| | Cambridge Touch Technologies Limited | |
| Peter Charles Waller | British Smaller Companies VCT2 plc | Thanet One Limited |
| | Keypoint Technologies (UK) Limited | Zetland Limited |
| | Keypoint Technologies plc | PVG 2007 Limited |
| | Turnberry Management Company Limited | BCS Learning and Development Limited |
| | | |

* prior to being dissolved these companies were in voluntary liquidation

- 3.17 None of the Directors has:
- (i) any convictions in relation to fraudulent offences in the previous five years; or
 - (ii) been a member of the administrative, management or supervisory bodies or senior manager of a company or partnership associated with any bankruptcy, receivership or, save as set out in paragraph 3.16, liquidation within the previous five years; or
 - (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including recognised or designated professional bodies) or been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for the previous five years.
- 3.18 None of the service providers to BSC have any material potential conflicts of interest as between their duty to BSC and duties owed by them to third parties and their other interests.
- None of the service providers to BSC2 have any material potential conflicts of interest as between their duty to BSC2 and duties owed by them to third parties and their other interests.
- 3.19 There are no amounts set aside or accrued by either VCT to provide pension, retirement or similar benefits to the Directors or directors of the Investment Adviser.

4.0 Material contracts

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

- 4.1 An offer agreement dated 27 November 2018 ("the Offer Agreement") between the VCTs (1), the Directors (2), the Investment Adviser (3) and Howard Kennedy (4) under which the Investment Adviser has undertaken, as agent of the VCTs, to use its reasonable endeavours to procure subscribers under the Offers and Howard Kennedy has agreed to act as sponsor to the Offers. Pursuant to the Offer Agreement, for applications through execution only brokers, the VCTs will pay the Investment Adviser a fee of 4.5 per cent of the relevant gross funds raised and for applications through Financial Advisers or for direct applications the VCTs will pay the Investment Adviser a fee of 2.5 per cent of the relevant gross funds raised. As is usual in contracts of this type, the Investment Adviser agreed to indemnify the VCTs against the costs of the Offers (excluding trail commission) exceeding the Offer Costs Percentage. The VCTs have also agreed to indemnify Howard Kennedy in respect of its role as sponsor. The Investment Adviser will be responsible for all costs and expenses arising from the Offers, including any initial Intermediary commission payable, but excluding trail commission. Under the Offer Agreement, which may be terminated by the VCTs, the Directors and the Investment Adviser in certain circumstances, warranties have been given by the VCTs, the Directors and the Investment Adviser to the other parties, subject to certain limitations. The warranties are in the usual form for a contract of this type.
- 4.2 An offer agreement dated 20 October 2014 ("the October 2014 Offer Agreement") between the VCTs (1), the Directors (2), the Investment Adviser (3) and Howard Kennedy (4) under which the Investment Adviser undertook, as agent of the VCTs, to use its reasonable endeavours to procure subscribers under the offers for subscription that were launched by the VCTs on 20 October 2014 (the "October 2014 Offers") and Howard Kennedy agreed to act as sponsor to the October 2014 Offers. Pursuant to the October 2014 Offer Agreement, for applications through execution only brokers, the VCTs paid the Investment Adviser a fee of 5.0 per cent of the relevant gross funds raised and for applications through Financial Advisers or for direct applications the VCTs paid the Investment Adviser a fee of 3.0 per cent of the relevant gross funds raised. As is usual in contracts of this type, the Investment Adviser agreed to indemnify the VCTs against the costs of the October 2014 Offers (excluding trail commission) exceeding the Offer Costs Percentage, as defined in the prospectus relating to the October 2014 Offers. The VCTs also agreed to indemnify Howard Kennedy in respect of its role as sponsor. The Investment Adviser was responsible for all costs and expenses arising from the October 2014 Offers. Under the October 2014 Offer Agreement, which could be terminated by the VCTs, the Directors and the Investment Adviser in certain circumstances, warranties were given by the VCTs, the Directors and the Investment Adviser to the other parties, subject to certain limitations. The warranties were in the usual form for a contract of this type.

- 4.3 An agreement between the VCTs and Howard Kennedy dated 12 November 2013 under which Howard Kennedy agreed to act as sponsor to the offers for subscription that were launched by the VCTs pursuant to a prospectus dated 14 January 2014. The VCTs agreed to indemnify Howard Kennedy in respect of losses incurred by Howard Kennedy and which arise, directly or indirectly, from its role as sponsor.

BSC

- 4.4 An offer agreement of 10 February 2017 between BSC (1), the BSC Directors (2) and the Investment Adviser (3) under which the Investment Adviser undertook, as agent of BSC, to use its reasonable endeavours to procure subscribers under the top-up offer for subscription that was launched by BSC on 10 February 2017, pursuant to which, for applications through execution only brokers, BSC paid 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 BSC paid the Investment Adviser a fee of 3.0 per cent of the relevant gross funds raised.
- 4.5 By an administration and investment advisory agreement dated 28 February 1996 between BSC and YFM Private Equity (the "IAA"), as varied by deeds of variation dated 16 November 2012, 17 October 2014 and 24 August 2015, YFM Private Equity agreed to provide administrative, company secretarial and investment advisory services to BSC in relation to BSC's qualifying portfolio. The IAA took effect on 4 April 1996 for an initial period of 3 years and thereafter is terminable by either party on not less than 12 months' notice or, inter alia, on the others' breach or insolvency. Following the Financial Conduct Authority's registration of BSC as a Small Registered Alternative Investment Fund Manager BSC has retained responsibility for the custody of its investments.

Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2 per cent of the NAV 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 £65,000). 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 2018 was £1,782,000. Pursuant to the deed of variation dated 17 October 2014, the Investment Adviser shall bear the annual operating costs of BSC to the extent that those costs exceed 2.9 per cent of the Net Asset Value of BSC, a reduction from the previous level of 3.25 per cent. Subject to the approval of BSC's Shareholders to the revisions to BSC's incentive agreement referred to in paragraph 4.6 below, the Investment Advisor's fee for BSC on surplus cash (defined as cash in excess of £15 million until the threshold for the next incentive fee is met and in excess of £7.5 million thereafter) will reduce to 1 per cent per annum.

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 2018, BSC was due a rebate of £nil. 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.

Under the IAA, the Investment Adviser is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. The Investment Adviser is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 March 2018 the fees receivable by the Investment Adviser from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £680,000.

- 4.6 An incentive agreement (the "Incentive Agreement") dated 7 July 2009, as varied by deeds of variation dated 15 August 2014, 13 October 2014 and, subject to Shareholder approval, 27 November 2018 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 2018 was 5.1 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 2018 was 92.2 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, that is the total expenses of BSC as a percentage of its NAV, 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 2018 was £nil (in respect of the year to 31 March 2017: £3,648,873 and in respect of the year to 31 March 2016: £983,025).

The BSC Board has convened a general meeting for 7 January 2019 to approve revisions to the incentive agreement with YFM. The major proposed revisions are:

- the incentive fee will be subject to achieving a target level of total return, replacing the current requirement to achieve an average adjusted Net Asset Value (NAV) per Ordinary Share;
- an incentive fee will be payable once a total return of at least 228.6 pence per Ordinary Share has been achieved. This is 12.6 pence per Ordinary Share higher than the total return at 31 March 2018 (216.0 pence per Ordinary Share) and represents 15.8 per cent of NAV at 31 March 2018;
- there will be an annual increase to the total return per Ordinary Share that must be achieved in order for an incentive fee to be paid. This is the minimum level of dividends required in order to pay an incentive fee under the current arrangements, as set out below;
- if the required total return is achieved the incentive fee can only be paid if the actual dividends paid exceed the minimum requirement, calculated on the same basis as the existing scheme; The minimum requirement is annual dividends of at least 4.0 pence per Ordinary Share, as increased or decreased by the percentage increase or decrease (if any) in RPI. For the year ending 31 March 2019 the requirement is 5.3 pence per Ordinary Share;
- as a result of the above the total return hurdle for the year ending 31 March 2019 is 233.9 pence per Ordinary Share while the total return at 30 September 2018 was 219.0 pence per Ordinary Share.

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

- 4.7 Under the terms of a letter of engagement dated 26 November 2016 between BSC and Panmure Gordon (UK) Limited ("Panmure Gordon"), Panmure Gordon 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. Panmure Gordon are entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in advance on 1 January, 1 April, 1 July and 1 October. BSC indemnifies Panmure Gordon against losses arising out of Panmure Gordon's appointment except where such losses arise from Panmure Gordon's breach of agreement, negligence or wilful default.

BSC2

- 4.8 An offer agreement of 3 January 2017 between BSC2 (1), the BSC2 Directors (2) and the Investment Adviser (3) under which the Investment Adviser undertook, as agent of BSC2, to use its reasonable endeavours to procure subscribers under the top-up offer for subscription that was launched by BSC2 on 3 January 2017, pursuant to which, for applications through execution only brokers, BSC2 paid 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 BSC2 paid the Investment Adviser a fee of 3.0 per cent of the relevant gross funds raised.

- 4.9 An offer agreement of 11 January 2018 between BSC2 (1), the BSC2 Directors (2) and the Investment Adviser (3) under which the Investment Adviser undertook, as agent of BSC2, to use its reasonable endeavours to procure subscribers under the top-up offer for subscription that was launched by BSC2 on 11 January 2018, pursuant to which, for applications through execution only brokers, BSC2 paid the Investment Adviser a fee of 4.5 per cent of the relevant gross funds raised and for applications through Financial Advisers or for direct applications BSC2 paid the Investment Adviser a fee of 2.5 per cent of the relevant gross funds raised.
- 4.10 YFM Private Equity has acted as Investment Adviser and performed administrative and secretarial duties for BSC2 under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014 and 7 August 2015 (the "IAA"). This agreement may be terminated by not less than twelve months' notice given by either party at any time. Following the Financial Conduct Authority's registration of BSC2 as a Small Registered Alternative Investment Fund Manager BSC2 has retained responsibility for the custody of its investments. The key features of the agreement are: YFM Private Equity receives an Investment Adviser fee, payable quarterly in advance, at the rate of 2.5 per cent of NAV, calculated at half-yearly intervals as at 30 June and 31 December. Pursuant to a deed of variation dated 26 October 2011 the advisory fee will be reduced to 1.25 per cent per annum in respect of any net asset value of BSC2 in excess of £16 million and up to £26.667 million and to 2.0 per cent in respect of any net asset value of BSC2 in excess of £26.667 million. Pursuant to the deed of variation dated 17 October 2014, YFM Private Equity shall bear the annual operating costs of BSC2 (including the advisory fee set out above but excluding any payment of the performance incentive fee details of which are set out in paragraph 4.11 below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the net asset value of BSC2, a reduction from the previous level of 3.25 per cent. Under the IAA YFM Private Equity also provides administrative and secretarial services to BSC2 for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index (currently £66,000). 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 2017, BSC2 was due a rebate from the Investment Adviser of £nil. 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 2017 was £1,218,000.

Under the IAA, the Investment Adviser is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. The Investment Adviser is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2017 the fees receivable by The Investment Adviser from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £385,000.

In addition it is proposed that the Investment Advisor's fee be varied for BSC2. The new fees will be 1 per cent per annum on all Surplus Cash, defined as all cash above £10 million, unless the hurdle has been met triggering an incentive payment in which case the amount determined to be surplus will be the excess over £5 million. The fee on all other assets will be 2 per cent per annum.

- 4.11 Under the Subscription Rights Agreement dated 23 November 2001 between the Company, YFM Private Equity Limited and Chord Capital Limited ("Chord" formerly Generics Asset Management Limited), as amended by an agreement between those parties dated 31 October 2005, YFM Private Equity Limited and Chord have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue by the Company of ordinary shares) equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the five dealing days prior to that day, exceeds 120 pence per ordinary share, multiplied by the number of ordinary shares issued and the ordinary shares under option (if any) (the "Hurdle"). Under the terms of the Subscription Rights Agreement, once the Hurdle has been exceeded it is reset at that value going forward, which becomes the new Hurdle. Any subsequent exercise of these rights will only occur once the new Hurdle has been exceeded. The subscription rights are exercisable in the ratio 95:5 between the Investment Adviser and Chord Capital Limited.

The BSC2 board have agreed to amend the incentive agreement such that the amount received by YFM will be paid in cash instead of shares.

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 Limited subscription right was assigned to YFM Private Equity Limited Carried Interest Trust (the "Trust"), an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Pursuant to a deed of variation dated 16 November 2012 between the Company, the trustees of the Trust and Chord, 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 Limited.

As at 31 December 2017 the total of cumulative cash dividends paid and mid-market price was 110.50 pence per ordinary share. No shares have been issued under this agreement.

- 4.12 Under the terms of a letter of engagement dated 26 November 2016 between BSC2 and Panmure Gordon (UK) Limited ("Panmure Gordon"), Panmure Gordon 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. Panmure Gordon is entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in advance on 1 January, 1 April, 1 July and 1 October. BSC2 indemnifies Panmure Gordon against losses arising out of Panmure Gordon's appointment except where such losses arise from Panmure Gordon's breach of agreement, negligence or wilful default.

5.0 General

- 5.1 YFM Private Equity is or may be a promoter of the VCTs and will receive investment advisory fees and other payments from the VCTs under the agreements described in Section 4 above, save for which, no amount or benefit has been paid or given to the promoters and none is intended to be paid or given.
- 5.2 YFM Private Equity is paid an annual investment advisory fee equal to 2.0 per cent per annum of the Gross Assets of BSC. The BSC2 advisory fee is 2.5 per cent per annum of the Gross Assets of BSC2, reducing to 1.25 per cent per annum in respect of any Net Asset Value in excess of £16 million and up to £26.667 million. In line with normal Venture Capital Trust practice, the Investment Adviser will also be entitled to receive a performance related incentive fee. Further details of these arrangements are set out under the heading "The Investment Adviser" in Part 1 of this document and at paragraphs 4.5, 4.6, 4.10 and 4.11 of this Part 5. Paragraph 5.17 below sets out the VCTs' related party transactions.
- 5.3 There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either VCT is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on either VCT's financial position or profitability.
- 5.4 The maximum costs and expenses of the Offers, including any irrecoverable VAT and all fees and commissions payable are expected to amount to £945,000 for BSC and £630,000 for BSC2 assuming £35,000,000 is raised under the Offer, including the over-allotment facility, and that this is split as to 60 per cent as to BSC and 40 per cent as to BSC2 and that the Offer Costs Percentage is 4.5 per cent of gross funds raised. The proceeds will be applied in accordance with each VCT's investment policy. On the basis that £35,000,000 is raised under the Offers, including the over-allotment facility, and that this is split as to 60 per cent as to BSC and 40 per cent as to BSC2 and that the Offer Costs Percentage is 4.5 per cent of gross funds raised, the net proceeds are expected to be £20,055,000 for BSC and £13,370,000 for BSC2. The maximum costs and expenses of the Offers will be a maximum 4.5 per cent of gross funds raised by each VCT under the Offers.
- 5.5 BDO LLP of 55 Baker Street, London, W1U 7EU was appointed as auditor to BSC on 17 January 2014. Prior to that date Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF and, before their appointment, PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP and, before their appointment, PricewaterhouseCoopers LLP of Benson House, 33 Wellington House, Leeds LS1 4JP had been the only auditors of BSC since its incorporation. BDO LLP of 55 Baker Street, London, W1U 7EU was appointed as auditor to BSC2 on 22 August 2016. Prior to that date Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF and, before their appointment, PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP and, before their appointment, PricewaterhouseCoopers LLP of Benson House, 33 Wellington House, Leeds LS1 4JP had been the only auditors of BSC2 since its incorporation. BDO LLP, Grant Thornton UK LLP, PKF (UK) LLP and PricewaterhouseCoopers LLP are registered member firms of the Institute of Chartered Accountants in England and Wales.

- 5.6 YFM Private Equity was incorporated under the name Mossfire Limited in England on 7 October 1987 as a private company under the Companies Act 1985. The name of Mossfire Limited was changed to Yorkshire Investment Advisers Limited on 14 December 1987. The name of Yorkshire Investment Advisers Limited was changed to YFM Private Equity Limited on 7 October 2004. The registered number of YFM Private Equity is 02174994 and its registered office is at 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS (telephone number 0113 244 1000). YFM Private Equity is authorised and regulated by the FCA to conduct venture capital business.
- 5.7 Neither VCT assumes responsibility for the withholding of tax at source.
- 5.8 A VCT must satisfy the UK Listing Authority that its directors and any investment adviser have sufficient and appropriate experience in the management of assets on a scale and type in which the VCT proposes to invest. The VCT's board of directors must be able to demonstrate that it will act independently of any advisers of the VCT. A majority of the board (including the chairman) must not be directors, employees, partners, officers or professional advisers of or to the investment adviser or any other company in the same group as the investment adviser or any investment entity managed by them. The VCT's investments must not represent more than 15 per cent by value of all its investments at the time of investment, not more than 20 per cent of its gross assets can be invested in the securities of property companies. The VCT must continue to meet the above conditions. The VCTs meet these conditions and each of the VCTs must, at all times, invest and manage its assets in accordance with the investment policy set out in Part 2 and so as to comply with section 274 ITA. Any material change to the investment policy of either VCT will only be made with Shareholder approval.
- 5.9 Howard Kennedy, sponsor to the Offers, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 5.10 YFM Private Equity Limited, the VCTs' Investment Adviser, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 5.11 The unaudited Net Asset Value per BSC Ordinary Share as at 30 September 2018 was 78.6 pence and the unaudited Net Asset Value per BSC2 Ordinary Share as at 30 September 2018 was 58.1 pence.
- 5.12 BSC had available as at 30 September 2018 cash at bank of £14.1 million and £2.4 million in listed investment funds and BSC2 had available as at 30 September 2018 cash at bank of £13.7 million, each of which should be supplemented by the net proceeds of the Offers (source: unaudited interim accounts prepared by the relevant VCT). As at the date of this document the VCTs had no loan capital outstanding, no other borrowings or indebtedness in the nature of borrowings and no contingent liabilities or guarantees.
- 5.13 There have been no significant factors, including unusual or infrequent events or new developments, which have materially affected either VCT's income from operations. There have been no governmental, economic, fiscal, monetary or political policies or factors that have materially affected either VCT's operations. However, levels and bases of, and relief from, taxation are subject to change and such changes could be retrospective and could materially affect either VCT's operations.
- 5.14 The Investment Adviser is responsible for the determination and calculation of each VCT's Net Asset Value which the Boards intend to announce at least quarterly, through a Regulatory Information Service. The Boards believe that by announcing their VCT's financial results on a regular basis, it should help to provide a fairer market price for its Shares.
- 5.15 In the opinion of BSC, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 5.16 In the opinion of BSC2, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 5.17 The VCTs have entered into the following related party transactions during the period covered by the historical financial information set out in Part 4 and up to the date of this document:

BSC

- The offer agreement referred to in paragraphs 4.1 and 4.4 above, the offer agreement of 2 February 2016 between BSC, the BSC Directors and the Investment Adviser relating to a top-up offer for subscription that was launched by BSC on 12 February 2016 and the deed of variation dated 27 November 2018 referred to in paragraph 4.6 above.

BSC2

- Mr R Last has been chairman and non-executive director of Gamma Communications Limited since 17 June 2014. On 10 October 2014 the ordinary shares of Gamma were admitted to trading on AIM. As part of the placing of Gamma's ordinary shares Mr R Last invested £100,000.
- The offer agreements referred to in paragraphs 4.1, 4.8 and 4.9 above and the offer agreement of 8 December 2015 between BSC2, the BSC2 Directors and the Investment Adviser relating to a top-up offer for subscription that was launched by BSC2 on 8 December 2015.

- 5.18 The investment portfolio is valued in accordance with International Private Equity and Venture Capital ("IPEVC") valuation guidelines. These guidelines set out recommendations, intended to represent current best practice on the valuation of venture capital investments. These investments are valued on the basis of forward looking estimates and judgments about the business itself, its market and the environment in which it operates, together with the state of the mergers and acquisitions market, stock market conditions and other factors. In making these judgments the valuation, which is undertaken by the Investment Adviser, takes into account all known material facts up to the date of approval of the financial statements by the Boards. The valuation of listed investments and investments traded on AIM or other public stock markets will be stated at closing bid prices. Investments not listed on a public stock market will be valued in accordance with the IPEVC valuation guidelines.
- 5.19 Investments will be valued quarterly by the Investment Adviser and these Net Asset Values will be communicated to Shareholders through the Regulatory Information Service. Each VCT will also announce when there has been a major change to Net Asset Value, for instance as a result of a disposal of an investment or if that VCT undertakes a fundraising and needs to announce an interim valuation. The Directors do not anticipate any circumstances arising under which the calculation of the Net Asset Value may be suspended. Any suspension will be communicated to Shareholders through the Regulatory Information Service.
- 5.20 All third party information in the Prospectus has been identified as such by reference to its source and in each instance has been accurately reproduced and, so far as the VCTs are aware and are able to ascertain from information published by the relevant party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 5.21 The VCTs and the Directors consent to the use of the Prospectus by financial Intermediaries, and accept responsibility for the content of the Prospectus, with respect to subsequent resale or final placement of securities by financial intermediaries, from the date of the Prospectus until the close of the Offers. The Offers are expected to close on or before 5 April 2019. There are no conditions attaching to this consent. Financial intermediaries may use the Prospectus only in the UK.
- 5.22 In the event of an offer being made by a financial intermediary, the financial intermediary will provide information to investors on the terms and conditions of the offer at the time that the offer is made. Any financial intermediary using the Prospectus has to state on its website that it uses the Prospectus in accordance with the consent set out at paragraph 5.21 above.**

6.0 AIFM regulated status

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

7.0 Documents available for inspection

- 7.1 Copies of the following documents are available for inspection at the VCTs' registered office at 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS and at the offices of Howard Kennedy at No.1 London Bridge, London SE1 9BG, during normal business hours on any weekday (Saturdays and public holidays excepted) while the Offers remain open:
- (i) the Articles of each VCT;
 - (ii) the consent letters referred to in paragraphs 5.9 and 5.10 this Part 5 above;
 - (iii) the Directors' letters of appointment referred to in paragraph 3.9 of this Part 5 above;
 - (iv) the audited accounts of BSC for the periods ended 31 March 2016, 31 March 2017 and 31 March 2018 and the unaudited interim reports for the 6 month periods to 30 September 2017 and 30 September 2018;
 - (v) the audited accounts of BSC2 for the periods ended 31 December 2015, 31 December 2016 and 31 December 2017, the unaudited interim reports for the 6 month periods to 30 June 2017 and 30 June 2018 and the unaudited interim report for the nine months ended 30 September 2018; and
 - (vi) this document.

27 November 2018

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

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