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# British Smaller Companies VCT2 plc

An opportunity to invest in an established VCT

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diversified portfolio  
of established  
UK growth  
businesses

immediate access  
to tax-free cash  
dividends





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# British Smaller Companies VCT2 plc

Offer for Subscription of up to 14,539,007 Ordinary Shares in British Smaller Companies VCT2 plc (Subject to a maximum of £10 million of funds raised).

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

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

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

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

Each of the Directors of British Smaller Companies VCT2 plc (the "Company"), whose names are set out on page 45 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (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 Offer is 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 of 1933 (as amended) and may not be offered, sold or delivered, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of South Africa.

Howard Kennedy Corporate Services LLP (the "Sponsor"), which is authorised and regulated by the Financial Services Authority, is acting for the Company in connection with the Offer and is not advising any other person or treating any other person as a customer in relation to the Offer 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 Offer. The Sponsor does not give any representation, warranty or guarantee that the Company will qualify as a Venture Capital Trust or that Investors will obtain any tax relief in respect of their investment.

The whole of this document should be read. **Your attention is drawn to the "Risk Factors" set out on pages 7 to 9 of this document.**

# British Smaller Companies VCT2 plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with Registered Number 4084003)

## Offer for Subscription

Of up to 14,539,007 Ordinary Shares of 10 pence each in British Smaller Companies VCT2 plc to raise up to a maximum of £10 million.

The Offer closes at 11:00 am on Thursday 5 April 2012 or earlier should the Offer become fully subscribed. The Offer is not being underwritten and is not subject to reaching a minimum level of subscription.

The terms and conditions are set out on pages 48 to 50 of this document, together with the application procedure and an application form for use in connection with the Offer.

- The minimum subscription per Investor is £5,000. The completed application form in respect of the Offer should be sent by post (in the enclosed reply paid envelope) or delivered by hand to: The City Partnership (UK) Limited, Thistle House, 21-23 Thistle Street, Edinburgh EH2 1DF.
- The Offer constitutes an issue of up to £10,000,000 by value of Ordinary Shares at the Offer Price, which is to be calculated according to the Pricing Mechanism. The estimated Offer Price is 70.5 pence per Offer Share, calculated by reference to the most recent published Net Asset Value, adjusted for issue costs of 5.5% and, under the Pricing Mechanism any Net Asset Value published while the Offer remains open may affect the price payable by Applicants.
- If the Offer is over-subscribed, it may be increased at the discretion of the Board to up to a maximum of £15 million of funds raised.

# Contents

	Page		Page
Summary	6	Costs of the Offer	11
Risk Factors	7	2.5% Loyalty Bonus Shares	11
Expected Timetable and Offer Statistics	10	Reduction in Management and Operating Costs	11
Key Details of the Offer	10	Letter from the Chairman of the Company	12

## Part 1

Background of VCTs	14	Investment Portfolio	18
Background of the Company	14	The Investment Team	23
The Offer	14	The Board	24
Pricing Mechanism	14	Practices and Operations	24
Share Buy Back Policy	15	Committees	24
Dividend Reinvestment Scheme	15	Custody Arrangements	25
The Fund Manager	15	Co-Investment Policy	25
Investment Strategy	16	Reporting to Shareholders	25
Investment Objectives	16	Further Information Relating to the Offer	25
Performance	17		

## Part 2

Investment Policy	27
-------------------	----

## Part 3

Financial Information on the Company	28
--------------------------------------	----

## Part 4

Taxation	30
----------	----

## Part 5

Additional Information	33
------------------------	----

## Part 6

Directors and Advisers	45
------------------------	----

## Part 7

Definitions	46
-------------	----

## Part 8

Terms and Conditions of Application	48	Application Form	53
Notes on the Application Form	51		

# Summary

## Introduction

The Company is seeking to raise additional funds of up to £10 million to allow further expansion and continued diversification of its investment portfolio at an attractive point in its investment cycle.

At  
30 September 2011

<b>Offer price</b>	70.5 pence per share
<b>Average dividend since 2005</b>	4.44 pence per Share
<b>Average tax free yield</b>	6.3% per annum
<b>BSC2 funds under management</b>	£15.54 million
<b>Number of companies invested in</b>	28
<b>NAV price per share</b>	66.6 pence
<b>YFM Equity Partners total funds under management</b>	in excess of £375 million

An investment in the Company will provide individuals with the opportunity to invest in an established VCT with a mature and diversified portfolio of mainly unlisted smaller British companies with the aim of generating attractive returns over the long term.

## Why Invest

**Award-winning Fund Manager YFM** has a long track record of generating consistent returns through capital growth of investments in established, growing UK businesses. YFM also manages the sister VCT fund, British Smaller Companies VCT plc, winner of VCT of the year 2011 (Investor Allstars Awards) and VCT Deal of the Year 2011 (Unquote British Private Equity Awards) and ranked top in performance over 1, 3 and 10 years by Trustnet as at 1 September 2011. This sister VCT recently distributed a special dividend of 18 pence per Share as a result of its partial realisation in one of its investments. The net proceeds of the Offer will be applied in accordance with the Company's investment policy and it is envisaged that in implementing this policy a significant proportion of funds raised under the Offer will be invested with British Smaller Companies VCT plc.

### Historic High Yield

- The Company has paid an average annual tax-free cash dividend of 4.44 pence per Share per annum since dividend payments commenced in 2005 delivering an annual yield of 6.3% which, based on the current offer price would be equivalent to 9.90% per annum to a higher rate taxpayer.

### Immediate Access to Dividends

- Applicants will be eligible to receive any final dividend in relation to the year ended 31 December 2011.

## Loyalty Bonus

- 2.5% bonus for existing investors applying before 31 December 2011

### Benchmarked Performance

The Company ranked in the top quartile both for net asset growth, of all 73 VCTs over five years old and by performance over 10 years (Source: Trustnet, 19 August 2011). It has several investee companies that are at a transformational stage of their growth or have recently made earnings enhancing acquisitions.

### Reduced Costs

- YFM Private Equity receives a management fee based on the Net Asset Value. The present management fee of 2.5% per annum will be reduced to 1.25% per annum in respect of any Net Asset Value of the Company in excess of £16 million and up to £26.667 million. The management fee in respect of any Net Asset Value of the Company in excess of £26.667 million will be 2% per annum. In addition monies raised under the Offer will allow the Company's fixed costs to be spread over a wider asset base.

### Shareholder Relations

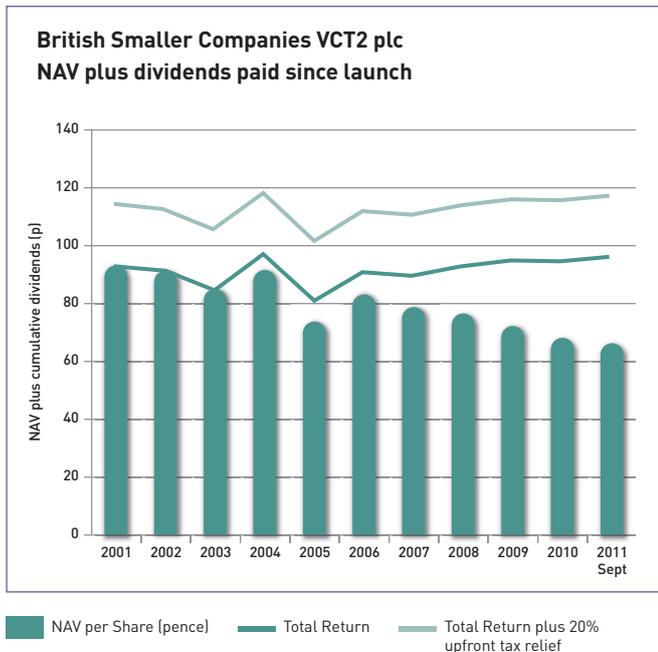
- The Company operates a dividend re-investment scheme allowing Shareholders to build further capital value, and a recently introduced share buy back policy should help to improve liquidity.

## Tax Benefits

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

## Performance

The graph below shows the Company's NAV and dividend history since inception.



## Illustration of Equivalent Income Returns

Based on an illustrative annual cash dividend of 4.44 pence per Share (p.p.s) and an Offer Price of 70.5 pence per Share, the equivalent return would be:

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

	Offer Price p.p.s	Tax Relief p.p.s	Net Cost p.p.s
	70.5	21.15	49.35
Cash dividend (4.44 p.p.s)			
Yield	6.3%		9.0%
Equivalent tax free dividend (6.96 p.p.s)*			
Yield	9.9%		14.1%

\*For a higher rate taxpayer assuming a top rate of tax of 36.1%

## Total Return by Fundraising Round

British Smaller Companies VCT2 plc has a track record of realising investments that provide a platform to support the payment of tax-free cash dividends.

Tax Year of Fund-raising Launch	Effective Net Issue Price <sup>1</sup>	Dividends Paid	Latest NAV	Total Return <sup>2</sup>	Increase over Effective Net Issue Price	Tax-free Annual Return %
2000/01	80.00	30.0	66.6	96.6	16.60	5.10
2009/10	54.08	8.0	66.6	74.6	20.52	9.26
2010/11	49.18	4.0	66.6	70.6	21.42	8.49

Notes

- Amount paid per Share less available income tax relief on the investment
- Latest published NAV plus dividends paid in relevant tax year

## Key Risk Factors

Prospective Investors should be aware that the value of the Shares can fluctuate and that they may not get back the amount they invest. Investment in the Company should be viewed as a longer term investment. The past performance of the Fund Manager or of the Company is no indication of their future performance.

Investments made in unquoted companies carry a higher degree of risk than quoted companies. There can be no guarantees that the Company will meet its objective or that suitable investment opportunities will be identified. Although the Company may agree conventional venture capital rights in connection with some of its investments, as a minority investor it may not be in a position fully to protect its interests.

Whilst it is the intention that the Company will be managed so as to continue to qualify as a VCT, there can be no guarantee that such status will be maintained. It is possible for Investors to lose their tax reliefs by taking or not taking certain steps. Levels and bases of, and relief from, taxation are subject to change.

Although it is anticipated that the Offer Shares will be admitted to the premium tier of the Official List and to trading on the London Stock Exchange's main market for listed securities, there is likely to be an illiquid market. In addition, the market value of the Shares may not fully reflect the underlying Net Asset Value of the Shares.

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# Risk Factors

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

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

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

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

## Taxation Related Risks

- Although it is intended that the Company will be managed so as to retain its VCT status, there is no guarantee that such status will be maintained. Further details of the taxation implications of an investment in the Company are set out on pages 30 to 32 of this document. However, if the Company fails to meet its qualifying requirements for a VCT and as a result loses its status as a VCT this could result in:
  - (i) the loss of income tax relief received if Investors have not held their Shares for the required qualifying period;
  - (ii) the loss of income tax relief on dividends paid (or subsequently payable) to Investors;
  - (iii) the loss of tax relief previously obtained in relation to corporation tax on capital gains made by the Company; and
  - (iv) a liability to tax on capital gains on any disposal of new Shares.
- The levels and bases of reliefs from taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of Investors.

- An investment in a VCT is free from tax on capital gains for a qualifying Investor. Consequently, any realised losses on disposal of the Offer Shares cannot be used to create an allowable loss for capital gains tax purposes.
- Investors should be aware that the sale of Shares within five years of their subscription will require repayment of the income tax relief available upon investment. Accordingly, investment in the Company is not suitable as a short or medium term investment.
- Changes in legislation, concerning VCTs in general, Qualifying Investments and VCT qualifying trades in particular, may restrict or adversely affect the ability of the Company to continue its current objectives and/or reduce the level of returns which would otherwise have been achievable. For example, on 6 July 2011 HM Treasury issued a consultation paper, which is likely to result in changes to VCT legislation in the Finance Bill 2012. Whilst these changes are presently uncertain, they could restrict the types of businesses that would represent Qualifying Investments and any changes are likely to apply to investments made after 5 April 2012.

## Listing and Market Risks

- Although the Shares will be admitted to a premium listing on the Official List and traded on the London Stock Exchange, it is unlikely that a liquid market in the Shares will develop and there may never be two competitive market makers. It may, therefore, prove difficult for Shareholders to sell their Shares.
- There is a limited secondary market for VCT shares and most trade below their net asset values.

## Investment and Performance Risks

- The Company's investments are likely to be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise.
- In order to comply with VCT legislation, the Qualifying Companies, in which the Company invests, must have gross assets of not more than £7 million immediately prior to investment, must have fewer than 50 full time employees and must not in any 12 month period receive more than £2 million from state aid sources, including VCT money raised on or after 6 April 2007 and the Enterprise Investment Scheme (there are proposals to increase these limits from 6 April 2012, subject to EU approval). These restrictions may limit the number of attractive investment opportunities available to the Company.

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- The restrictions regarding Qualifying Companies set out in the preceding paragraph mean that the Company is only able to invest in relatively small companies. An investment in unquoted, AIM-traded or PLUS-traded companies, by its nature involves a higher degree of risk than investment in the main market. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining their value or the risks to which they are exposed may also not be available.
  - The valuations of the unquoted companies in which the Company is likely to be investing are determined in accordance with current financial reporting standards. The valuation of unquoted portfolio companies often takes into account discounted stock market multiples and therefore the valuation of the Company's portfolio and opportunities for realisation may depend on stock market conditions.
  - There is no guarantee that the Company's objectives will be met or that suitable investment opportunities will be available.
  - The Company's ability to obtain maximum value from its investments (for example, through sale) may be limited by the requirements imposed in order to maintain the VCT tax status of the Company (such as the obligation to have at least 70% by value of its investments in Qualifying Investments).

## General

- The Offer is conditional upon, and is open prior to, the Shareholders passing at the General Meeting resolutions 1 to 3 set out on pages 34 and 35. If these resolutions are not passed the Offer will not proceed and the benefits set out on page 13 will not be achieved.

# Expected Timetable and Offer Statistics

Offer opens:	
<b>Offer opens</b>	26 October 2011
<b>First allotment</b>	5 January 2012
<b>Final allotment</b>	5 April 2012
<b>Dealings commence</b>	Within 5 business days of allotment
<b>Share certificates issued</b>	Within 10 business days of allotment

Offer closes:	
<b>Offer closes</b>	11.00 a.m. 5 April 2012*

\* The Directors reserve the right to bring forward the closing date of the Offer or increase the size of the Offer. In the event that the maximum subscription is reached before the closing date, the Offer will be closed early.

## Key Details of the Offer

<b>Minimum subscription per Investor: £5,000</b>
Maximum aggregate investment in all VCTs in any one tax year on which tax relief is available is <b>£200,000</b>
Offer Price to be calculated in accordance with the Pricing Mechanism on page 14
<b>Estimated Offer Price:</b> <b>70.5 pence per Offer Share</b> (based on the unaudited Net Asset Value of 66.6 pence per Share at 30 September 2011, adjusted for the costs of the Offer)

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# Costs of the Offer

Costs of the Offer as a percentage of the subscription proceeds: **5.5% of gross funds raised**

Commission to intermediaries: **3.00% or 2.25% plus annual trail commission of 0.5% for up to eight years**

Maximum net proceeds for the Company after issue costs: **£9,450,000** (based on the above Offer Price)

## 2.5% Loyalty Bonus Shares

Accepted applications from shareholders (including spouses of those shareholders whether or not the spouse is a shareholder) in VCTs managed by YFM Private Equity, which are **received by 31 December 2011, will attract additional Offer Shares equivalent to 2.5%** of the amount subscribed by such applicant under the Offer. The cost of these additional Offer Shares will be met by the Fund Manager and will not, therefore, be an additional charge to the Company.

## Reduction in Management and Operating Costs

YFM Private Equity receives a management fee based on the Net Asset Value. The present management fee of 2.5% per annum will be reduced to 1.25% per annum in respect of any Net Asset Value of the Company in excess of £16 million and up to £26.667 million. The management fee in respect of any Net Asset Value of the Company in excess of £26.667 million will be 2% per annum.

In addition, monies raised under the Offer will allow the Company's fixed costs to be spread over a wider asset base.

If the Net Asset Value of the Company exceeds £20 million the annual operating expenses (including the management fee set out above but excluding any payment of the performance incentive fee details of which are set out in paragraph 6.4 of Part 5 and excluding VAT, trail commissions) of the Company, expressed as a proportion of the Company's Net Asset Value, would be capped at 3.5%.

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# Letter from the Chairman of the Company

## Registered Office:

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

26 October 2011

Dear Investor

I am delighted to be writing to you in connection with the Offer to raise up to £10 million by the issue of Ordinary Shares in British Smaller Companies VCT2 plc.



The prevailing economic conditions of the last few years have been some of the most difficult faced by the UK economy in living memory. Against this background over the last six years and 9 months British Smaller Companies VCT2 plc has been consistent in its dividend performance paying average annual tax-free dividends of 4.44 pence per Share for the period since the payment of dividends commenced. For a higher rate taxpayer this equates to a yield, based on the Offer Price, of 14.1% taking into account all tax benefits. This performance is derived from an existing diversified portfolio of 28 investments built up over a number of years.

I believe that the current economic climate will continue to create increasing opportunities for those investors able to take a long term view to investing in well run and well managed UK businesses, in particular those businesses that need capital to expand but are facing a shortage of finance. History has shown us that cautious investments through the low point of the economic cycle have resulted in the highest portfolio returns.

Investing through a venture capital trust not only offers access to this market but I believe continues to be one of the most attractive investment opportunities currently available, with three distinct advantages over other investment products.

Investing in a VCT

- allows you to benefit from **upfront income tax relief** of 30% on your investment. For example, if you invest £20,000 in British Smaller Companies VCT2 plc, your income tax bill for the current tax year will be reduced by up to £6,000;
- provides you with the opportunity to enjoy the **potentially higher returns** associated with investing in the UK's privately owned businesses; and
- provides **tax-free dividends**.

## **British Smaller Companies VCT2 plc is an established VCT with a track record of strong and consistent dividend performance.**

Significant recent progress has been made by many of the Company's portfolio businesses which is now beginning to show through in improving valuations. The 9 months to 30 September 2011 saw an unaudited 8.0% increase in NAV from an increasingly diversified and well funded portfolio. Although the challenging economic times have continued, many businesses have previously taken tough actions to become more efficient and several are proactively seeking to exploit changes in their market conditions to gain market share and create value. The current focus is on continuing to build a strong and diversified portfolio and maintain a high quality threshold for all new investments whilst seeking to gradually improve levels of portfolio income.

Examples of recent progress within the Company's portfolio include:

- Digital Healthcare Limited, the leading UK provider of retinal screening for diabetic patients, has recently completed the acquisition of the number two provider, Orion Limited, which now gives the company a dominant market position.
- Deep-Secure Limited, a provider of IT products for high security communications between governments and defence organisations, has established a profitable business with a rapidly growing order pipeline in this exciting market.
- Primal Pictures Limited, now a profitable provider of online anatomical models to medical professionals and students, developed a full online training module in 2010 based on its core anatomy models which has significant global potential.

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- Immunobiology Limited has developed a new vaccine platform technology which has recently received full pre-clinical regulatory approval and is in licensing discussions with several international pharmaceutical groups.
  - Waterfall Services Limited was awarded a significant new contract to provide meals to school children in the Sheffield area from September 2011.
  - Bluebell Telecom Group Limited, a consolidator in the fragmented UK telecoms service market, has just completed its second acquisition.
  - Harvey Jones Holdings Limited, a manufacturer and retailer of quality kitchens experiencing a significant market slowdown, has continued to open new stores, gaining significant market share and developing a strong national brand identity whilst at the same time becoming near debt-free.

Over the 9 month period to 30 September 2011 a total of £1.8 million has been invested in 9 businesses with an active pipeline of current opportunities under consideration by the Fund Manager.

## Benefits of the Offer

**Attractive Yields** – An average annual net cash dividend of 4.44 pence per Share equates to a tax free yield of 9.90% per annum equivalent to 14.1% for a higher rate taxpayer.

**Immediate Access to the Dividend Stream** – the Offer gives you immediate access to the Company's mature portfolio. Investors will be eligible to receive any final tax-free dividend declared in respect of the financial year ending 31 December 2011.

**Additional Incentive** – Any investment in the Offer made by existing shareholders in any Venture Capital Trust managed by YFM Private Equity, prior to 31 December 2011 will be entitled to a further 25 free Shares for every 1,000 Shares applied for under the Offer.

**Further Reduction in Costs** – the further increase in the size of the Company will allow the fixed costs to be spread over a broader asset base as well as enabling a reduction in the Fund Manager's fees.

**Unique Deal Flow** – The Company will benefit from the large number of investment opportunities generated by YFM's regional offices and thirty investment staff. This level of deal flow enables the Company to be highly selective.

In addition, with in excess of £375 million under management, YFM Equity Partners has one of the largest range of investment funds dedicated to investing in privately owned businesses. Through these funds it has built portfolios with in excess of 200 investments. As a result there may also be opportunities for the Company to participate in follow-on and co-investments in some of those companies already held within these substantial portfolios.

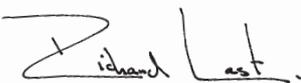
**Liquidity** – to increase liquidity, the Company now maintains a buy back policy.

The Offer Price is 70.5 pence per Share calculated by reference to the most recent published Net Asset Value, adjusted for the issue costs of 5.5%. The Offer Price is subject to adjustment if the Net Asset Value of the Company increases or decreases by 5% or more prior to the allotment of Shares under the Offer.

The Directors are intending to invest £20,000 under the Offer, increasing the investments of the Directors, the Fund Manager and its employees in the Company to in excess of £370,000.

I look forward to welcoming new Shareholders and thank all existing Shareholders for their continued support.

Yours faithfully



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

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# Part 1

## Background of VCTs

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

## Background of the Company

Managed by YFM Private Equity, the Company was formed in 2000 and targets investment in companies that are on the point of transformational growth. These comprise a mixture of more mature businesses operating in sectors such as healthcare, manufacturing, digital and telecommunications and business services, as well as a smaller proportion of businesses offering opportunities in the application and development of innovation. The Company has a diverse existing portfolio and has, to date, invested some £10.74m in 28 companies which reduces the exposure to particular markets and individual companies.

## The Offer

The UK continues to endure one of the longest recessions in peacetime, an unparalleled level of public sector debt and the worst banking crisis in living memory which, together, have combined to destabilise the economic and business environment. Valuations of unquoted companies have generally fallen over the past three years. At the same time, funding for those companies seeking to expand either organically or through acquisition has been significantly reduced. This means that well managed companies continue to face an unusual combination of falling values and a shortage of capital. The Directors of the Company believe that these changes continue to create the opportunity for those prepared to take a longer term view to invest funds into attractive businesses at a low point in the economic cycle at favourable valuations.

The additional funds raised under the Offer will enable the Company to further increase the pace of its investment activity and both the number and size of its investments in the future. By raising more capital the running costs per Share will be further reduced as the fixed costs are spread over a larger asset base.

The Company will continue to invest predominantly in established unquoted companies. The investment policy of the Company is to create a portfolio that blends a mix of businesses operating in more mature and growing companies that offer opportunities in the application and development of innovation.

The Offer enables new and existing Shareholders to invest in a mature and diverse existing portfolio to be supplemented with new investments made in line with the Company's proven investment strategy.

The Offer aims to raise up to £10 million through the issue of up to 14,539,007 Shares.

The Offer Price is 70.5 pence per Share, calculated by reference to the most recent published Net Asset Value, adjusted for the issue costs of 5.5%. The Offer Price is subject to adjustment if the Net Asset Value of the Company increases or decreases by 5% or more prior to an allotment of Shares under the Offer.

## Pricing Mechanism

As the Company is currently trading and, in order to be fair to both existing and new Shareholders, Ordinary Shares under the Offer will be allotted by reference to the Net Asset Value. Therefore, the Company will allot Offer Shares at prices determined by in accordance with the paragraph below.

The Offer Price will, subject to the provisions of this paragraph, be 70.5 pence per Offer Share (being the Net Asset Value as at 30 September 2011 as adjusted for the costs of the Offer. If the Net Asset Value on the last day of the month immediately preceding any allotment of Offer Shares is more than 5% above or 5% below 66.6 pence per Share (being the current published Net Asset Value as at 30 September 2011) then such Shares will be allotted at the relevant Net Asset Value adjusted for issue costs of 5.5%, rounded up to the nearest 0.25 pence. If the price at which the Ordinary Shares allotted under the Offer is adjusted under the terms of this Pricing Mechanism then the Company will announce the fact through a regulated information service.

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Investors should, therefore, indicate in the application form the total amount they wish to invest and the number of Shares will be calculated in accordance with the principles set out above.

## Share Buy Back Policy

The Company is conscious that its Share price is affected by the illiquidity of its Shares in the market. In line with many other VCTs, the Company, when appropriate, will operate a buy back policy. The policy and the rate of discount at which the Shares are bought back are regularly reviewed and the policy is subject to the passing of a resolution put before the Shareholders every three years. On 30 August 2011 Shareholders voted in favour of re-introducing a buy back policy and the rate of discount to Net Asset Value at which Shares are currently bought back has been set at no more than 15%.

## Dividend Reinvestment Scheme

The Company currently operates a dividend reinvestment scheme providing Shareholders with the opportunity to reinvest any cash dividends paid by the Company through the issue of new Shares. Whilst the scheme can be withdrawn at any time, the Directors have no current plans to do so.

## The Fund Manager

### **YFM Private Equity Limited**

YFM Private Equity Limited specialises in investing in unquoted companies and has been making investments in fast growing businesses for over 20 years. Including the Company and British Smaller Companies VCT plc, YFM Private Equity directly manages funds in excess of £215 million. YFM Private Equity is a wholly owned subsidiary of YFM Equity Partners, which through its investing subsidiaries manages total funds in excess of £375 million.

The Investment Management Team directly responsible for the management of the Company comprises principally of 6 investment directors with extensive experience who, together, have over 100 years experience of investing in and managing venture capital opportunities. This key team is strengthened and draws on additional, experienced investment managers and a strong group of support staff from across YFM Equity Partners. This experience has enabled the Fund Manager to establish wide networks of deal introducers, effective investment selection processes and strong portfolio management procedures.

YFM Private Equity has a unique national presence through its four main offices in London, Leeds, Manchester and Bristol. The regional office network provides unrivalled access to investment opportunities.

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

Funds managed by YFM Private Equity were awarded:

- In 2011 VCT Deal of the Year in the Unquote British Private Equity Awards;
- In 2011 BSC was the winner of VCT of the Year at the Investor Allstars Awards;
- In 2010 BSC was shortlisted for VCT of the Year at the Investor Allstars Awards and YFM Equity Partners, the Fund Manager's parent company, was shortlisted for the Unquote British Private Equity Awards 2010 – VCT Manager of the Year;
- The Association of Investment Companies Best Shareholder Communication Award 2009 for the British Smaller Companies VCT plc Reports;
- Acquisition Finance's UK small/medium private equity company of the year in 2009; and
- Growth Company Investor VCT Fund Manager of the Year 2007 for British Smaller Companies VCT Plc.

Prior to the Offer, the Investment Management Team and employees of the Fund Manager and YFM Equity Partners have, together, subscribed for £370,234 of Shares.

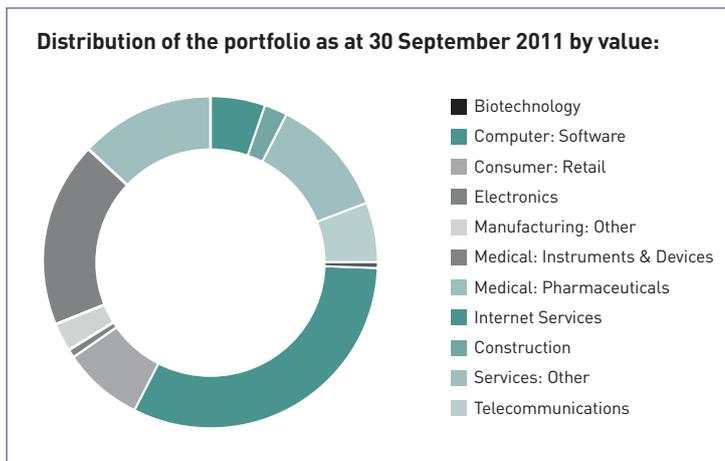
## Investment Strategy

The Company will continue to invest predominantly in unquoted companies with growth opportunities. The investment policy of the Company is to create a portfolio that blends a mix of businesses operating in more mature and growing companies that offer opportunities in the application and development of innovation. Prior to December 2003, the investment strategy of the Company was focused on investing in companies developing or using innovative technology (albeit generally these companies were not generating profits and in some cases were yet to generate sales). Since December 2003, the investment strategy of the Company has converged with that of its sister company, BSC, by investing in companies that are generally both revenue and profit generating. Investing in these more established companies within its investment remit has allowed the Company to achieve a balance between exciting growth opportunities and mature companies and sectors, reducing the portfolio's exposure to particular markets and individual companies.

The Company's investments typically involve funding for management buy-outs and buy-ins, acquisition funding and business development. The Fund Manager looks for businesses with a strong, balanced and well motivated management team and seeks to support them in the creation of shareholder value. The continued growth of certain businesses within the portfolio has generated some interesting "buy and build" opportunities through the acquisition of smaller competitors and the Directors expect this to increase as the portfolio grows. For example both Digital Healthcare Limited and Bluebell Telecom Group Limited have recently acquired competitors. The majority of the Company's unquoted investments include an element of loan stock to enhance the security of the portfolio and to provide investment income for the Company.

The Fund Manager sources its deals from many areas. Its regional office network provide excellent access to interesting investment opportunities. Having been investing for over 20 years and managing a combined portfolio in excess of 200 unquoted investments, YFM has built an extensive network of chairmen, CEOs and management teams who regularly introduce opportunities to the Fund Manager.

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



## Investment Objectives

The Company's objectives are:

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

## Performance

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

### Shareholder Returns

(all figures in pence per Share)

	31 December 2007 (Audited)	31 December 2008 (Audited)	31 December 2009 (Audited)	31 December 2010 (Audited)	30 September 2011* (Unaudited)
Cumulative Dividends	10.5	16.0	22.0	26.0	30.0
Total Return	89.5	92.9	94.7	94.4	96.6
Dividends in the period	3.5	5.5	6.0	4.0**	4.0

\* 9 month period \*\* paid and declared

### Dividend Table

Year ended 31 December	Gross Dividend Paid during the year
2005	5.0p
2006	2.0p
2007	3.5p
2008	5.5p
2009	6.0p
2010	4.0p
2011 (9 months)	4.0p
<b>Cumulative dividends to date</b>	<b>30.0p</b>
<b>Average dividend in period</b>	<b>4.44p</b>

Since the inception of dividend payments in 2005, Shareholders have benefited from annual dividends equivalent to 4.44 pence per Share in the six years and 9 months to 30 September 2011 and cumulative dividends of 30.0 pence per Share.

### Illustration of Equivalent Income Returns

Based on an illustrative annual cash dividend of 4.44 pence per Share, if the Offer Price is 70.5 pence per Share, the equivalent return would be:

	Offer Price p.p.s	Tax Relief p.p.s	Net Cost p.p.s
	**70.5	21.15	49.35
Cash dividend (4.44 p.p.s)			
Yield	6.3%		9.0%
Equivalent tax-free dividend (6.96 p.p.s.)*			
Yield	9.9%		14.1%

\*For a higher rate taxpayer assuming a top rate of tax of 36.1% \*\* Offer Price based on NAV as at 30 September 2011

## Dividend Policy

The Company is aiming to continue its dividend policy which has delivered net tax-free dividends averaging 4.44 pence per Share per annum paid over the six years and 9 month period to 30 September 2011 since it started paying dividends in 2005. **This is a targeted dividend, and not guaranteed. No forecast or projection is to be implied or inferred.**

## Investment Portfolio

### List of Investments

A full list of the investments held by the Company set out below constitutes a comprehensive and meaningful analysis of the Company's portfolio as at the date of this document, the values being as at 30 September 2011, being the end of the last financial period for which unaudited financial information has been published.

As at 30 September 2011 the Company's unaudited Net Asset Value was 66.6 pence per Share, as determined by its Board.

Investee Company	Sector	Carrying Cost* £'000	Valuation £'000
Digital Healthcare Limited	Medical: Instruments	3,072	1,128
Deep-Secure Ltd	Software	500	1,040
Primal Pictures Limited	Software	897	1,005
Immunobiology Limited	Pharmaceuticals	1,032	1,002
Waterfall Services Limited	Other Services	250	700
Bluebell Telecom Group Limited	Telecommunications	500	500
Bagel Nash Limited	Retail	400	400
Sirigen Group Limited	Medical Technology	400	400
Harvey Jones Holdings Limited	Retail	389	352
Brady plc	Software	239	283
Pressure Technologies plc	Manufacturing	300	259
Group NBT plc	Internet Services	197	253
Cambridge Cognition Limited	Software	240	245
Iomart Group plc	Internet Services	198	237
RMS Group Holdings Limited	Industrial Services	210	228
Patsystems plc	Software	317	223
May Gurney Integrated Services plc	Industrial Services	212	208
Tikit Group plc	Legal Services Software	198	192
Optos plc	Medical: Instruments	115	164
Tissuemed Limited	Pharmaceuticals	48	120
2ergo Group plc	Marketing Services	197	120
EKF Diagnostics Holdings plc	Pharmaceuticals	77	97
Brulines plc	Consumer	81	61
Allergy Therapeutics plc	Biotechnology	350	50
Intelligent Recordings Limited	Electronics	0	40
Ellfin Home Care Limited	Other Services	317	40
Solcom Limited	Software	-	-
Oxis Energy Limited	Electronics	5	-
		10,741	9,348

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

There has been no material change to the values of the Company's investment portfolio since 30 September 2011.

The average size of the Company's qualifying investment is £452,000 (2010: £513,000) based on cost of investments. The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in an AAA rated liquidity fund, which invests in a pool of highly rated money market securities.

## Summary of Investments

Brief details are given below of the Company's venture capital investments which, together, represent 60.1% of the Net Asset Value of the Company at 30 September 2011. The turnover, profit/loss before tax, retained profit/loss and net assets of the investee companies are extracted without adjustment from the latest audited accounts of each of those companies (Source: Interim Management Statement 30 September 2011).

### Digital Healthcare Limited

Cambridge

[www.digital-healthcare.co.uk](http://www.digital-healthcare.co.uk)

Cost:	£3,072,000	
Valuation:	£1,128,000	
Dates of Investment:	June & December 2005, July 2007, October & November 2008	
Equity held:	25.04%	
Year ended	<b>2010</b>	2009
30 September	<b>£million</b>	£million
Loss before tax	<b>(2.49)</b>	(0.38)
Retained losses	<b>(5.26)</b>	(2.77)
Net assets	<b>2.43</b>	4.92

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

### Deep-Secure Limited

Malvern

[www.deep-secure.com](http://www.deep-secure.com)

Cost:	£500,000	
Valuation:	£1,040,000	
Date of Investment:	December 2009	
Equity held:	19.3%	
Year ended	<b>2010</b>	
31 December	<b>£million</b>	
Sales	<b>2.6</b>	
Loss before tax	<b>(0.5)</b>	
Retained losses	<b>(0.5)</b>	
Net liabilities	<b>(0.18)</b>	

**Deep-Secure's** market leading products protect against threats to IT security through high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack demands more businesses rely on higher levels of security to protect their data. The main customers are in the government and defence sectors where tight security is essential.

### Primal Pictures Limited

London

[www.primalpictures.com](http://www.primalpictures.com)

Cost:	£897,000	
Valuation:	£1,005,000	
Date of Investment:	December 2005	
Equity held:	17.18%	
Year ended	<b>2009</b>	2008
31 December	<b>£million</b>	£million
Profit before tax	<b>0.31</b>	0.30
Retained losses	<b>(4.44)</b>	(4.76)
Net liabilities	<b>(1.05)</b>	(1.38)

**Primal Pictures** has developed a range of high quality anatomical CD-ROMs aimed at medical students and health care professionals. Images derived from X-ray, magnetic resonance and other scan data have enabled the production of a completely authentic anatomical model of the human body. The company has developed recurring licence revenues from reseller partners, and is now seeking to establish itself as a supplier of educational products.

## Immunobiology Limited

Cambridge  
www.immbio.com

Cost:	£1,032,000	
Valuation:	£1,002,000	
Dates of Investment:	June & December 2003, November & December 2005 and August 2007	
Equity held:	10.2%	
Year ended	<b>2010</b>	2009
31 May	<b>£million</b>	£million
Sales	<b>0.07</b>	0.08
Loss before tax	<b>(1.36)</b>	(1.22)
Retained losses	<b>(6.05)</b>	(4.89)
Net liabilities/assets	<b>(1.03)</b>	0.68

**Immunobiology** is developing new methods of producing high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. Progress is being made in partnership with various healthcare institutions and universities to prove the advantages of this new technology and gain regulatory clearances to begin human trials.

## Waterfall Services Limited

Warrington  
www.caterplus.co.uk

Cost:	£250,000	
Valuation:	£700,000	
Dates of Investment:	February 2007	
Equity held:	4.61%	
Year ended	<b>2010</b>	2009
31 March	<b>£million</b>	£million
Sales	<b>36.33</b>	28.41
Profit before tax	<b>0.85</b>	0.44
Retained profits	<b>0.83</b>	0.33
Net assets	<b>1.59</b>	1.10

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

## Bluebell Telecom Group Limited

Newcastle upon Tyne  
www.bluebelltelecom.com

Cost:	£500,000	
Valuation:	£500,000	
Date of Investment:	September 2010	
Equity held:	6.43%	
Year ended	<b>2010</b>	2009
30 September	<b>£million</b>	£million
Loss before tax	<b>(0.02)</b>	(0.02)
Retained losses	<b>(0.04)</b>	(0.02)
Net assets	<b>3.96</b>	1.98

**Bluebell** is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The company's investments were made to assist with the next phase of Bluebell's growth. The business anticipates further acquisition activity. The financial information relates to the results of the non trading entity that was used to acquire Bluebell.

## Bagel Nash

Yorkshire  
www.bagelnash.com

Cost:	£400,000
Valuation:	£400,000
Dates of Investment:	July 2011
Equity held:	4.6%

Year ended 31 December	2010 £million	2009 £million
Sales	-	-
Profit before tax	<b>0.179</b>	0.179
Retained profits	<b>1.278</b>	1.099
Net assets	<b>1.278</b>	1.099

**Bagel Nash** is a bakery and branded food retailer based in the north east of England with 11 outlets. Our recent investment backed a proven management team to lead a buyout with the potential to improve operational efficiencies and then roll out the proven retail concept into other geographical areas.

## Sirigen Group Limited

Hampshire  
www.sirigen.com

Cost:	£400,000
Valuation:	£400,000
Date of Investment:	October 2010
Equity held:	4.2%

Year ended 31 December	2010 £million	2009 £million
Sales	<b>0.10</b>	-
Loss before tax	<b>(0.46)</b>	(0.36)
Retained losses	<b>(0.88)</b>	(0.42)
Net liabilities	<b>(0.88)</b>	(0.42)

**Sirigen** produces reagents that improve the efficiency of analysis of the effectiveness of certain drugs. Sirigen's versatile HSF™ technology simplifies sample processing and instrumentation requirements in both immunodiagnostic and nucleic acid based applications, facilitating high volume screening in the radio diagnostics and other personal care applications.

## Harvey Jones Holdings Limited

London  
www.harveyjones.com

Cost:	£1,166,000
Valuation:	£352,000
Date of Investment:	May 2007
Equity held:	10.3%

Year ended 31 December	2010 £million	2009 £million
Sales	<b>10.86</b>	8.63
Profit before tax	<b>0.27</b>	0.37
Retained profits	<b>0.09</b>	1.72
Net assets	<b>0.63</b>	1.73

**Harvey Jones** is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped it to retain volumes through the economic downturn. The business has continued to open selective new stores increasing the number of its branches to 21 from 10. This increased market share coupled with a low level of gearing position Harvey Jones well to benefit as market conditions improve.

## Brady plc

Cambridge  
www.bradyplc.com

Cost:	£239,000	
Valuation:	£283,000	
Date of Investment:	December 2010	
Equity held:	0.75%	
Year ended	<b>2010</b>	2009
30 September	<b>£million</b>	£million
Sales	<b>11.12</b>	8.18
Profit before tax	<b>0.62</b>	1.04
Retained profits	<b>3.00</b>	2.74
Net assets	<b>32.20</b>	11.00

AIM-listed **Brady plc** develops and provides trading and risk management systems. In December 2010 it acquired Viz Risk Management, which is a leading supplier of trading and risk management software for energy markets. This is in addition to Brady's market leading position in software for trading metals and soft commodities.

## Pressure Technologies plc

Sheffield  
www.pressuretechnologies.co.uk

Cost:	£300,000	
Valuation:	£259,000	
Dates of Investment:	June and July 2007	
Equity held:	1.77%	
Year ended	<b>2010</b>	2009
3 October	<b>£million</b>	£million
Sales	<b>21.71</b>	26.19
Profit before tax	<b>3.51</b>	5.05
Retained profits	<b>10.00</b>	8.21
Net assets	<b>15.91</b>	14.11

**Pressure Technologies** was admitted to Alternative Investment Market (AIM) in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and gas industry but is increasingly diversifying into other sectors, such as biogas and defence through acquisitions. The balance sheet remains un-g geared with substantial cash available.

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## The Investment Team

### David Hall – Managing Director

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



### David Gee – Director of Investments

David has 22 years experience in the venture capital field with YFM Private Equity. Since 1996 he has been investment director on the Board of YFM Private Equity and is now director of Investments. He is a non-executive director of several investee companies and has been responsible for a significant number of realisations and listings of investments made by funds under management. He qualified as a Chartered Accountant with Grant Thornton, latterly specialising in corporate finance and holds a degree in Mathematics from Imperial College.



### Paul Cannings – Director

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



### David Bell – Portfolio Director

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



### Joseph Bergin – Investment Director

Joseph joined YFM Equity Partners in March 2011 to head up the Manchester and Liverpool offices with their six strong investment team and their current portfolio of 40 companies. His main responsibility is to identify and complete new investments. Joseph has an extensive network of contacts in businesses and corporate finance advisers in the North West of England. In addition to focusing on new deals Joseph also represents YFM Equity Partners on the board of Waterfall Services Group. Prior to joining YFM Private Equity, Joseph was a director at NBGI Private Equity. He has over 16 years experience in private equity (both in the UK and Continental Europe) and has held senior positions at Octopus Investments (where he completed a number of highly successful VCT investments) and 3i Group plc. He has significant board experience in both public and private companies both in the UK and in Germany.



### Mike White – Investment Director

Mike joined YFM Private Equity in 1999. Prior to that, he spent 10 years working in the software industry, co-founding and subsequently listing on NASDAQ a software company in the USA that specialised in selling business intelligence and performance management solutions. During his software career Mike focused on business development, strategy formulation and the establishment of new business partnerships. As investment director, Mike is focused on making and managing investments.



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## The Board

The Company benefits from a highly experienced Board consisting of three non-executive directors, who are listed below. The Board has overall responsibility for the Company's investment policy and administration and has appointed YFM Private Equity as its fund manager.

### **Richard Last – Chairman**

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



### **Robert Pettigrew**

Robert has more than 20 years experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (re-named Sagentia) in 1986 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 an investor-director on the boards of a number of technology companies, including Sphere Medical Limited and Acal Energy Limited (of which he is chairman).



### **Peter Waller**

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



## Practices and Operations

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

The 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 other arrangements made when Board decisions are required in advance of regular meetings.

The provisions of the UK Corporate Governance Code have been complied with for the last financial year and up to the date of this document save that (i) Shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting (since the Company does not have major shareholders) and (ii) the directors (who are all non-executive directors) do not have service contracts, but letters of appointment instead (whereas the UK Corporate Governance Code recommends fixed term renewable service contracts). Remuneration issues are dealt with by the full Board.

## Committees

### **Audit Committee**

The Company has an audit committee which meets at least twice a year. The audit committee reviews the actions and judgements of the Fund Manager in relation to the interim and annual financial statements and the Company's compliance with the UK Corporate Governance Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Fund Manager's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. The audit committee has written terms of reference which define its responsibilities. The audit committee consists of Richard Last (Chairman), Robert Pettigrew and Peter Waller.

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## Nomination Committee

The Company has a nomination committee which consists of the directors who are considered by the Board to be independent of the Fund Manager. The chairman of the Board acts as chairman of the committee. In considering appointments to the Board, the nomination committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

## Allotment Committee

With regards to the allotment of new shares, the Board generally operates through a committee of any two directors, other than in respect of any allotment pursuant to the Company's dividend reinvestment scheme when the committee may comprise any one director. The allotment committee meets as and when required to formally approve the allotment of shares.

## Custody Arrangements

The Company's investments will be held by the Fund Manager under the terms of an administration and investment advisory agreement, details of which are set out on page 42. The Fund Manager may be the holder by way of safekeeping of safe custody investments or custody assets belonging to the Company and may hold documents of title itself by way of safekeeping. All investments made for the account of and, subject as aforesaid, monies received for the Company will be deposited in the name of the Company or will be held by a custodian or the Company's solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the Company or the Fund Manager and, as noted above, will be held by the Fund Manager by way of safekeeping in the Company's name or forwarded directly to the custodian or the Company's solicitors. No third party custodian has been appointed. Neither the Fund Manager nor any custodian appointed by the Company will take legal ownership of the Company's assets

## Co-investment Policy

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

## Reporting to Shareholders

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

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

## Further Information Relating to the Offer

It is proposed to allot up to 14,539,007 Shares in BSC2, subject to raising in aggregate a maximum of £10 million at the Offer Price under the Offer. The Offer Price will be calculated according to the Pricing Mechanism. Applications will be made to the UK Listing Authority for the Offer Shares to be admitted to a premium listing on the Official List and to trading on the London Stock Exchange's main market for listed securities. The obligations of the Company to issue and allot Ordinary Shares under the Offer are in all respects conditional on the passing by Shareholders of resolutions 1 to 3 set out on pages 34 and 35, to be proposed at the General Meeting.

Applications for the Shares must be payable in full by cheque or bankers draft on application. Applications under the Offer will be processed upon receipt. Multiple subscriptions by Investors are permitted. The Offer is not underwritten.

The subscription list for the Offer will open on 26 October 2011 and close at 11.00 am on 5 April 2012 or at any earlier date on which the Offer is fully subscribed. The result of the Offer will be announced to the London Stock Exchange through a Regulatory Information Service provider authorised by the Financial Services Authority. There is no minimum subscription for the Offer to proceed.

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If the Offer is over subscribed, it may be increased at the discretion of the Board up to a maximum of £15 million of funds raised.

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

Shares will be allotted and issued on 5 January 2012 in respect of valid applications received prior to 31 December 2011 and on 5 April 2012 for all other valid and eligible applications and, at the Directors' discretion, they may make earlier allotments should it be deemed appropriate. Details of such allotments will be announced through a Regulatory Information Service provider by no later than the business day following the allotment. Share certificates (where applicable) are expected to be posted to Shareholders within 10 business days of each allotment.

The Shares will be issued on a fully paid up basis in registered form and evidence of title will be through possession of a share certificate in the Shareholder's name. Alternatively, the Shares may be held in an account through the CREST system. The Company will apply for the Offer Shares to be admitted to CREST and it is expected that the Offer Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred. Accordingly, settlement of transactions in these Shares may take place within the CREST system if Shareholders wish.

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

Applicants wishing to subscribe for Shares may do so by completing the Application Form attached at the end of this document. Details of how to complete the Application Form are set out under the heading "Notes on the Application Form" on pages 51 and 52 of this document.

### **Investor Profile**

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

### **Minimum and Maximum Investment**

The minimum application per Investor under the Offer is £5,000. Applications in excess of £5,000 may be made for any higher amount in multiples of £1,000, subject to availability. There is no maximum investment although tax reliefs are only available on a maximum investment of £200,000 per individual in all VCTs in any one tax year. A husband and wife can each invest up to £200,000 in any one tax year with each enjoying the tax reliefs.

### **Loyalty Bonus Shares**

Applicants are encouraged to submit their Application Form early in order to be confident that their applications will be successful. Accepted applications from Shareholders (including spouses) in VCTs managed by YFM Private Equity, which are received by 31 December 2011, will attract additional Offer Shares equivalent to 2.5% of the amount subscribed by such Applicant under the Offer. The cost of these additional Offer Shares will be met by the Fund Manager and will not, therefore, be an additional charge to the Company.

### **How to Claim the Tax Relief**

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

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

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# Part 2

## Investment Policy

The investment policy of the Company is as set out below.

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

The Company will invest in UK businesses across a broad range of sectors including Industrial, Healthcare, Software and Consumer Products, Electronics and Telecommunications, in VCT qualifying and AIM traded securities which, under the legislation governing VCTs, requires that at least 70% by value of its holdings must be in 'qualifying holdings'. The maximum by value that the Company may hold in a single investment is 15%. Although the majority of investments will be in equities, in appropriate circumstances, preference shares and loan stock may be subscribed for, thereby spreading risk and enhancing yields.

The Company funds the investment programmes out of its own resources and has no borrowing facilities for this purpose. The maximum that the Company may invest in any holding in any tax year is limited to £1 million and the average size of the Company's qualifying investment is £452,000 (2010: £513,000) based on cost of investments. Typically the Company invests alongside other venture capital funds such syndication spreading investment risks.

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

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

The Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from YFM Private Equity Limited as to the trading and financial position of each investee company and members of the investment team regularly attend Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT investment targets so that the Board can monitor that the status of the Company is maintained and take corrective action where appropriate.

In the opinion of the directors the continuing appointment of YFM Private Equity Limited as Fund Manager is in the interests of the Shareholders as a whole in view of its experience in managing venture capital trusts and in making and exiting investments of the kind falling within the Company's investment policy.

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are either held in cash or invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to YFM Private Equity Limited, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in an AAA rated liquidity fund, which invests in a pool of highly rated money market securities. Reporting to YFM Private Equity Limited, the fund is managed by Prime Rate Capital LLP. The Board receives regular reports on the diversity and return of the fund's portfolio. At 30 September 2011 £nil was held in this fund and a total of £4,009,735 was held on deposit with Royal Bank of Scotland plc which is included within cash and cash equivalents on the balance sheet.

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

# Part 3

## Financial Information on the Company

### Introduction

Audited statutory accounts of the Company for the year ended 31 December 2008 in respect of which the Company's former auditors, PKF (UK) LLP, registered auditor of Farringdon Place, 20 Farringdon Road, London, EC1M 3AP, and for the years ended 31 December 2009 and 31 December 2010, in respect of which the Company's current auditors, Grant Thornton UK LLP, registered auditor of 2 Broadfield Court, Sheffield, S8 0XF, both members of the Institute of Chartered Accountants in England and Wales, made unqualified reports under section 235 of the Companies Act 1985 or 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 237(2) or (3) of the Companies Act 1985, or section 498(2) or (3) of the Act. Copies of these audited statutory accounts are available at [yfmp.com](http://yfmp.com).

Unaudited interim accounts of the Company for the six months ended 30 June 2011 are available at [yfmp.com](http://yfmp.com). These interim accounts have not been audited or reviewed by the Company's auditors.

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

### Historic Financial Information

Historic financial information relating to the Company on the matters referred to below is included in the published audited statutory accounts for the years stated above, and in the unaudited interim accounts of the Company for the periods shown above, and which is incorporated by reference into this document, as follows:

	Audited Statutory Accounts for year ended 31 December 2008	Audited Statutory Accounts for year ended 31 December 2009	Audited Statutory Accounts for year ended 31 December 2010	Unaudited Interim Report for 6 months ended 30 June 2011
Nature of Information	Page No.	Page No.	Page No.	Page No.
Financial Summary/Highlights	3	3	3-5	3
Chairman's Statement	4-5	4-5	6-7	4-6
Fund Manager's Review	6-12	6-14	8-18	-
Valuation of Investments	13	15	19	-
Investment Portfolio	-	-	10-16	7-11
Directors	14	16	20	19
Directors' Report	15-24	17-25	21-29	-
Directors' Remuneration Report	25-26	26-27	30-31	-
Independent Auditors' Report	27	28	32	-
Income Statement/Statement of Comprehensive Income	28	29	33	12
Balance Sheet	29	30	34	13
Statement of Changes in Equity	30	31	35	14-15
Cash Flow Statement/Statement of Cash Flows	31	32	36	16
Notes to the Financial Statements	32-46	33-48	37-54	17-19
Financial History	51	53	4	-

## Operating and Financial Review

	Audited Statutory Accounts for year ended 31 December 2008	Audited Statutory Accounts for year ended 31 December 2009	Audited Statutory Accounts for year ended 31 December 2010	Unaudited Interim Report for 6 months ended 30 June 2011
Total Net Assets (£000)	12,794	12,106	11,829	15,888
Changes in Net Assets (£000)	(357)	(688)	(277)	4,059
Net Asset Value per Share	76.9p	72.7p	68.4p	68.0p
Dividends paid/proposed for the year/period	6.0p	6.0p	4.0p	2.0p

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

- (i) for the financial years ended 31 December 2008, 31 December 2009, 31 December 2010 is set out in the sections headed "Chairman's Statement" and "Fund Manager's Review" in the audited statutory accounts of the Company for these years; and
- (ii) for the six months ended 30 June 2011 is set out in the sections headed "Chairman's Statement" and "Investment Portfolio" in the unaudited interim accounts of the Company for these periods.

Historic financial information relating to the Company on the matters referred to above is included in the published annual report and audited statutory accounts of the Company for the years stated above, and in the unaudited interim accounts of the Company for the period shown above, and which is incorporated by reference into this document, as shown on the previous page.

### Significant Change since 30 September 2011

There has been no significant change in the financial or trading position of the Company since 30 September 2011.

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# Part 4

## Taxation

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

### VCTs: Summary of the Applicable Legislation

#### 1. Approval

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

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

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

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

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

- (i) at least 70%, by value, of its investments is represented by shares or securities comprising Qualifying Investments;
- (ii) for funds raised prior to 6 April 2011 at least 30%, by value, of its qualifying investments is represented by holdings of ordinary shares which carry no present or future preferential rights to dividends, return of capital or any redemption rights; and
- (iii) for funds raised on or after 6 April 2011, have at least 70% by value of the Company's Qualifying Investments in "eligible shares". "Eligible shares" for this purpose includes shares which have no preferential rights to a return of capital, but may have certain preferential rights to dividends.

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

Qualifying Investments are limited to investments of up to £1 million per investee company in any one tax year or in any six month period straddling two tax years. A qualifying investment can also be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades. An investee company must at all times have a permanent establishment in the UK. Neither the VCT nor any other company may control the investee company. At least 10% of the VCT's total investment in the investee company must be in ordinary non-preferential shares. For VCT funds raised after 5 April 2007, the investee company's gross assets must not exceed £7 million immediately prior to the investment and £8 million immediately thereafter, must have fewer than 50 full time equivalent employees and must not receive more than £2 million from VCTs or from investors under the Enterprise Investment Scheme in any 12 month period. There are proposals to increase these limits for investments made on or after 6 April 2012, subject to EU State Aid approval.

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

On 6 July 2011 HM Treasury issued a consultation paper which included proposals for some additional requirements for Qualifying Companies, with a view to ensuring that investments under the VCT and Enterprise Investment Scheme continue to be appropriately targeted at smaller, higher risk companies which would otherwise experience difficulties in raising the finance needed to carry on their business.

## 2. Taxation of a VCT

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

## 3. Tax Reliefs for Individual Investors Resident in the UK

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

### Relief from income tax

An investor subscribing up to £200,000 in any tax year for eligible shares in a VCT will be entitled to claim income tax relief on the investment, in the year in which the investment is made, at the rate of 30% for investments in the tax years 2011/12, although this relief will be withdrawn if either the shares are sold within five years or an investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the Investor's income tax liability to nil. However, tax credits on dividends are notional and cannot be repaid and, therefore, Investors should take this into account when calculating the value of the income tax relief.

### Dividend relief

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

### Capital gains tax relief

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

### Loss of tax reliefs

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

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

(i) **Initial income tax**

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

(ii) **Tax implications for the beneficiary**

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

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

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

#### 5. General

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

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

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

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

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

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

(iv) **The VCT Regulations 2004**

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

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

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# Part 5

## Additional Information

### 1. Incorporation etc.

#### BSC2

- 1.1 The Company 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 4084003 under the name British Smaller Technology Companies VCT 2 plc. On 18 October 2010 the Company resolved that its name be changed from British Smaller Technology Companies VCT 2 plc and by a Certificate of Incorporation on Change of Name the name was changed to British Smaller Companies VCT2 plc. The principal legislation under which the Company operates is the Act and regulations made thereunder. The registered office and principal place of business of the Company is Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ. The telephone number of the Company is 0113 294 5000.
- 1.2 Since incorporation the Company has carried on business as a venture capital trust. At an Extraordinary General Meeting held on 31 October 2000 a Special Resolution was passed to adopt new Articles of Association of the Company which provided that the duration of the Company would be extended until the Annual General Meeting to be held in 2010 when a resolution would be placed before Shareholders for the Company to so continue for a further five years. On 12 May 2010 by Ordinary Resolution it was resolved that the Company continue as a venture capital trust until the Annual General Meeting to be held in 2015. On 11 January 2011 by a Special Resolution the Articles of Association of the Company were amended to enable the Company to continue as a venture capital trust until the Annual General Meeting to be held in 2016. A similar resolution will be placed before shareholders at a general meeting of the Company to be held on 28 November 2011 for the Company to continue for a further five years. The Company is not regulated in the operation of its activities.
- 1.3 The Company has no subsidiaries or associated companies. The Company does not have any employees, does not own or occupy any premises and has not incurred any borrowings.
- 1.4 On 12 November 2004 the Company revoked its investment company status.
- 1.5 At a General Meeting on 30 August 2011 a Special Resolution was passed to authorise the Company to make market purchases of its own shares.

### 2. Share Capital

- 2.1 The following allotments and repurchases of Ordinary Shares have taken place since 1 January 2008:
  - on 5 April 2010 the Company issued 953,798 Ordinary Shares at a price of 77.25 pence per Share
  - on 30 April 2010 the Company issued 242,464 Ordinary Shares at a price of 77.25 pence per Share
  - on 3 November 2010 the Company purchased 300,000 Ordinary Shares at a price of 57.75 pence per Share
  - on 18 November 2010 the Company issued 7,277 Ordinary Shares at a price of 70.25 pence per Share
  - on 10 December 2010 the Company purchased 266,100 Ordinary Shares at a price of 56.25 pence per Share
  - on 22 March 2011 the Company issued 3,655,500 Ordinary Shares at a price of 70.25 pence per Share
  - on 1 April 2011 the Company purchased 191,280 Ordinary Shares at a price of 58.25 pence per Share
  - on 5 April 2011 the Company issued 1,921,901 Ordinary Shares at a price of 70.25 pence per Share
  - on 4 May 2011 the Company issued 690,699 Ordinary Shares at a price of 70.25 pence per Share
  - on 10 June 2011 the Company issued 3,762 Ordinary Shares at a price of 63.08 pence per Share
  - on 4 August 2011 the Company issued 137,931 Ordinary Shares at a price of 72.5 pence per Share
  - on 8 September 2011 the Company issued 5,335 Ordinary Shares at a price of 62.70 pence per Share
  - on 20 September 2011 the Company purchased 87,450 Ordinary Shares at a price of 56.00 pence per Share
- 2.2 As at 30 September 2011 (being the end of the last financial period of the Company for which unaudited financial information has been published) there were 50,000,000 authorised and 23,415,094 issued Ordinary Shares, each ranking *pari passu*. All of the Ordinary Shares are listed on the premium tier of the Official List of the UK Listing Authority. The Company held an additional 844,830 Shares in the treasury account.

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2.3 Immediately following the close of the Offer, assuming full subscription, at an Offer Price of 70.5 pence per Offer Share, the maximum number of Loyalty Bonus Shares being allotted and that there is no increase in the size of the Offer, the issued share capital of the Company fully paid or credited as fully paid will be £3,879,893 divided into 38,798,931 Ordinary Shares (of which 844,830 Ordinary Shares are held in treasury), and there will remain authorised but un-issued a minimum of £1,120,107 of share capital divided into 11,201,069 Ordinary Shares.

### **3. The Company**

3.1 Save as disclosed in this paragraph 3 and in paragraph 2.1 above and pursuant to the Offer, in the period since 1 January 2008 no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital.

3.2 No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offer and under the dividend reinvestment scheme no material issue of Ordinary Shares (other than to Shareholders pro rata to existing holdings) will be made within one year without the prior approval of Shareholders in general meeting.

3.3 The Ordinary Shares issued under the Offer will be created under the Act, issued in registered form and temporary documents of title will not be issued. The ISIN of the Ordinary Shares is GB0005001796.

3.4 The Company will be subject to the continuing obligations of the UK Listing Authority and the London Stock Exchange with regard to the issue of securities for cash and the provisions of section 561 of the Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) will apply to the balance of the authorised but un-issued share capital of the Company which is not subject to any dis-application of pre-emption rights conferred by authority of the Shareholders.

3.5 The obligations of the Company to issue and allot Ordinary Shares under the Offer are in all respects conditional on the passing of resolutions 1 to 3 below, which, together with resolution 4 set out below, will be proposed at the General Meeting to be convened on 28 November 2011:

#### **Ordinary Resolution**

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

(i) the Company's Offer for subscription of up to 14,539,007 Ordinary Shares of 10 pence each to a value not exceeding £10 million in respect of the tax year 2011/2012, including any increase in this Offer in accordance with the provisions set out in the prospectus relating to this Offer issued by the Company on 26 October 2011 (the "Offer"), up to an aggregate nominal amount of £2,400,000;

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

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) to (ii) above) of equity securities up to an aggregate nominal amount of 10% of the issued Ordinary Share capital of the Company immediately following the final closing of the Offer, during the period commencing on the passing of this resolution and expiring on the later of 15 months from the date hereof or the next annual general meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the Directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect;

#### **Special Resolutions**

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

(i) the Offer;

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

(iii) the allotment for cash (otherwise than pursuant to sub-paragraph (i) to (ii) above) of equity securities up to an aggregate nominal amount of 10% of the issued Ordinary Share capital of the Company immediately following the final closing of the Offer, but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offer or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(2) of the Act as if in the first paragraph of this resolution the words "pursuant to the general authority conferred upon the Directors in resolution (1) above" were omitted. For the avoidance of doubt this authority shall be in addition to and shall not revoke the authority granted pursuant to resolution numbered 4 (authority to disapply section 561 of the Act to the allotment of equity securities in connection with the dividend reinvestment scheme) at the general meeting of the Company held on 11 January 2011;

(3) THAT article 195 of the Company's articles of association be amended by deleting the reference to "2016" in line 1 and substituting "2017" therefor.

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

## **4. Memorandum and Articles of Association**

### **4.1 Memorandum of Association**

The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of a venture capital trust. The object of the Company is set out in full in clause 4 of its Memorandum of Association which is available for inspection at the address specified in paragraph 8 below.

### **4.2 Articles of Association**

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

#### **4.2.1 Voting Rights**

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

#### **4.2.2 Transfer of Shares**

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

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

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

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

#### **4.2.3 Dividends**

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

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

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#### 4.2.4 Disclosure of Interests in Shares

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

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

#### 4.2.5 Distribution of Assets on Liquidation

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

#### 4.2.6 Changes in Share Capital

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

#### 4.2.7 Variation of Rights

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

#### 4.2.8 Directors' Interests

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

#### 4.2.9 Remuneration of Directors

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

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

#### 4.2.10 Retirement of Directors

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

#### 4.2.11 Borrowing Powers

The Directors may exercise all powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital.

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

#### 4.2.12 Distribution of Realised Capital Profits

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

#### 4.2.13 Duration of the Company

If the Company has not been wound up or re-organised, an ordinary resolution will be put to the annual general meeting of the Company in 2016 or, subject to the Offer proceeding, 2017 and at every fifth annual general meeting thereafter, proposing that the Company should continue as a venture capital trust for a further five year period. If any such further resolution is not passed, the Directors shall draw up proposals for the voluntary liquidation, reconstruction or other reorganisation of the Company for submission to the members of the Company at a general meeting to be convened by the Directors on a date not more than four months after such annual general meeting. Implementation of the proposals will require the approval of members by special resolution.

#### 4.2.14 General Meetings

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

Annual general meetings and also general meetings (as a result of the implementation of the Companies (Shareholders' Rights) Regulations 2009) shall be called on not less than twenty-one days notice in writing. The notice shall be exclusive of the day on which it is given and of the day of the meeting and shall specify the place, the day and hour of meeting, and in case of special business the general nature of such business. The notice shall be given to the Members, other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive notice from the Company, to the Directors and to the Auditors. A notice calling an annual general meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as such.

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

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

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

## 5. Directors' and Other Interests in the Company

5.1 DTR 5 of the Disclosure and Transparency Rules requires a Shareholder to notify the Company of the percentage of its shares he holds if such percentage reaches, exceeds or falls below 3% or subsequent 1% thresholds. The Company will make such information public through a Regulatory Information Service. The Company is not aware of any person who, as at the date of this document and immediately following the issue of the Ordinary Shares under the Offer (assuming full subscription under the Offer), directly or indirectly, jointly or severally, exercises or could exercise control over the Company. This includes, for these purposes, joint control meaning control exercised by two or more persons who have concluded an agreement which may lead to their adopting a common policy in respect of the Company.

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

Name	Number of Ordinary Shares	% issued of Ordinary Shares prior to the Offer
Richard Last	43,987	0.2%
Robert Pettigrew	41,858	0.2%
Peter Waller	7,224	0.0%

- 5.3 The interests of the Directors and their immediate families in the share capital of the Company, all of which are beneficial, (so far as is known or could with reasonable diligence be ascertained by the relevant Director) the interests of a person connected with a Director following the Offer, assuming the Offer is fully subscribed at an Offer Price of 70.5 pence per Offer Share, that the maximum number of Loyalty Bonus Shares are issued, and that there is no increase in the size of the Offer, will be as follows:

Name	Number of Ordinary Shares	% issued of Ordinary Shares prior to the Offer
Richard Last	58,171	0.2%
Robert Pettigrew	48,950	0.1%
Peter Waller	14,316	0.0%

- 5.4 Save as disclosed in paragraph 5.2, no Director, nor any person connected with any Director has any interest in the share capital or loan capital of the Company, whether beneficial or non-beneficial.

- 5.5 YFM Equity Partners is the registered holder of 345,086 Ordinary Shares in BSC2. This holding represents 1.47% of the issued share capital of the Company as at the date of this document.

- 5.6 So far as is known to the Company, no other interests in the Company's share capital or voting rights is notifiable under UK law or regulation.

No major shareholders (including YFM Equity Partners and YFM Private Equity Limited) in the Company have different voting rights to the other shareholders.

- 5.7 The Directors have committed to invest £20,000 under the Offer. Save as noted in this paragraph 5.7, no Ordinary Shares are being reserved for allocation to Shareholders, Directors or employees of the Company.

- 5.8 All the Directors are non-executive and none of the Directors, therefore, have a service contract with the Company, and no such contract is proposed. The services of each of the Directors are provided to the Company pursuant to letters of appointment, under which they are required to devote such time to the affairs of the Company as the Board reasonably requires consistent with their role as a non-executive Director. Each Director is currently entitled to receive the following annual fee which is, subject to annual review: Richard Last-£31,500, Robert Pettigrew-£18,000 and Peter Waller-£18,000. No benefits are payable on termination.

- 5.9 No loan or guarantee has been granted or provided by the Company to any Director.

- 5.10 Mr R Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited, in which the Company has invested. Mr R Last has been a non-executive director of Patsystems plc, in which the Company has invested, since January 2002 and, during the year to 31 December 2010, received £45,000 from Patsystems plc in respect of his services. Mr R Last holds a 0.4% equity stake in Patsystems plc. Except as disclosed in this paragraph, none of the Directors has had any interest in any party which is related to the Company or has had any interest in any transactions since its incorporation which are or were unusual in their nature or conditions or significant to the business of the Company.

- 5.11 Save as disclosed in paragraph 7.16 and as may arise by virtue of the directorships shown in paragraph 5.14 below, there are no potential conflicts of interest between the duties of any Director and their private interests and or other duties.

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

5.12 It is anticipated that the aggregate of fees paid or to be paid to the Directors for the twelve month period ending 31 December 2011 is £67,500 plus VAT or National Insurance (as applicable). Fees paid to the Directors and to Philip Cammerman who resigned as a Director of the Company on 22 September 2010, for the year ended 31 December 2010 were as follows:

Name	Fees paid (£) (plus VAT or National Insurance (as applicable))
Richard Last	31,500
Robert Pettigrew	18,000
Peter Waller (appointed 1/10/2010)	4,500
Philip Cammerman	13,500

5.13 The Company has taken out Directors' and Officers' liability insurance for the benefit of the Directors.

5.14 The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document (excluding the Company) and the principal activities of the Directors outside the Company where these are significant with respect to the Company:

Name	Current directorships/partnerships	Former directorships/partnerships (in last five years)
<b>Richard Last</b>	Lynx Group Limited	British Smaller Companies VCT plc
	Lynx Limited	Xpertise Group Limited
	APD Communications Limited	Power Education Limited
	Lynx Holdings Limited	Lynx Computer Services Limited
	Lynx IT Communications Limited	Sphinx Professional Services Limited
	Gapaid	Orsted Limited
	Waste Management Systems Limited	Xenon Training (NE) Limited
	Patsystems plc	Xenon Training Limited
	APD Mobile Data Limited	British Smaller Technology Companies VCT plc
	Lighthouse Group plc	Lynx Overseas Investments Limited
	Arcontech Group plc	Transient 110 Limited
	Corero Network Security plc	Sphinx Group Limited
	CSE – Global (UK) Limited	FS (UK) Limited
	Hobbs Hole Limited	Overseas 110 Limited
	Parseq plc	Sphinx CST Limited
	APD-S.com Limited	Switch Networks Limited
	Sphinx CST (Ireland) Limited	Sphinx 110 Limited
	Documetric Limited	Quantix Holdings Limited
		Quantix Limited
		Xpertise Training Limited
		Transient 110 (No 2) Limited
		Lynx Technology Holdings Limited
		BT Engage IT Limited
		APD Aspire Limited
		Broomco (4184) Limited
		Distal Holdings Limited
		Signal Limited
		Watermans People & Organisational Development Limited
		LynxServ Limited
		Expertise Training Limited

	Current directorships/partnerships	Former directorships/partnerships (in last five years)
<b>Robert Pettigrew</b>	Sphere Medical Holdings plc Odos Imaging Limited Acal Energy Limited	British Smaller Companies VCT plc Digital Healthcare Limited Timberpost Limited British Smaller Technology Companies VCT plc Cambridge Advanced Materials Limited Biowisdom Limited Oxonica Limited Zinwave Holdings Limited Xeros Limited
<b>Peter Waller</b>	Keypoint Technologies (UK) Limited Rocela Group Limited Rocela Limited Premier Veterinary Group Limited Thanet One Limited Zetland Limited Turnberry Management Company Limited	Biotrace International Limited Corero Network Security plc Corero Dormant One Limited Corero Dormant Three Limited Corero Group Limited Corero Software Limited Eclipse Learner Systems Limited Miami International Sales Limited Mondas Information Technology Limited Mondas Systems Limited MI International Limited Quillion Limited

- 5.15 None of the Directors has:
- (i) any convictions in relation to fraudulent offences in the previous five years; or
  - (ii) been a member of the administrative, management or supervisory bodies or senior manager of a company or partnership associated with any bankruptcy, receivership or liquidation within the previous 5 years; or
  - (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including recognised or designated professional bodies) or been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for the previous five years.
- 5.16 Except as noted in paragraph 5.11 above, none of the Company's service providers have any conflict, or potential conflict, as between their duty to the Company and duties owed by them to third parties and other interests.
- 5.17 There are no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors or directors of the Fund Manager.

## 6. Material Contracts

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

- 6.1 An offer agreement dated 26 October 2011 ("the Offer Agreement") between the Company [1], the Directors [2], Howard Kennedy ("HK") [3] and YFM Private Equity [4] under which HK agreed to act as Sponsor to the Offer. As is usual in contracts of this type YFM Private Equity agreed to indemnify the Company against the costs of the Offer exceeding 5.5% of the aggregate value of accepted applications for Ordinary Shares received under the Offer and received a commission of 5.5% of the aggregate value of the gross proceeds received by the Company under the Offer, less the initial commission paid by the Company to recognised intermediaries in respect of accepted applications under the Prospectus for the Offer. Under the Offer Agreement YFM Private Equity, the Company and the Directors gave certain warranties which were subject to certain limitations. The Company agreed to indemnify HK in respect of its role as Sponsor and under this Offer Agreement.

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- 6.2 An offer agreement dated 8 December 2010 (“the 2010 Offer Agreement”) between the Company (1), BSC (2), the Directors (3), Howard Kennedy (“HK”) (4) and YFM Private Equity (5) under which HK agreed to act as Sponsor to the linked offer with BSC for the 2010/2011 and 2011/2012 tax years which closed on 4 May 2011. As is usual in contracts of this type YFM Private Equity agreed to indemnify the Company and BSC (the “Companies”) against the costs of the linked offer exceeding 5.5% of the aggregate value of accepted applications for Ordinary Shares received under the linked offer and received a commission of 5.5% of the aggregate value of the gross proceeds received by the Companies under the linked offer, less the initial commission paid by the Companies to recognised intermediaries in respect of accepted applications in the amount set out on page 11 of the prospectus for the linked offer. Under the 2010 Offer Agreement, YFM Private Equity, the Companies and the Directors of the Companies gave certain warranties which were subject to certain limitations. The Companies agreed to indemnify HK in respect of its role as Sponsor and under the 2010 Offer Agreement.
- 6.3 YFM Private Equity has acted as Fund Manager and performed administrative and secretarial duties for the Company under an agreement (the “Investment Management Agreement”) dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010 and 26 October 2011. The Investment Management Agreement may be terminated by not less than twelve months’ notice given by either party at any time. The key features of the agreement are: YFM Private Equity receives a fund management fee, payable quarterly in advance, at the rate of 2.5% of Net Asset Value, calculated at half-yearly intervals as at 30 June and 31 December. Pursuant to a deed of variation dated 26 October 2011 the management fee will be reduced to 1.25% per annum in respect of any Net Asset Value of the Company in excess of £16 million and up to £26.667 million and to 2.0% in respect of any Net Asset Value of the Company in excess of £26.667 million. Pursuant to the same deed of variation, if the Net Asset Value of the Company exceeds £20 million, YFM Private Equity shall bear the annual operating costs of the Company (including the management fee set out above but excluding any payment of the performance incentive fee details of which are set out in paragraph 6.4 below and excluding VAT and trail commissions) to the extent that those costs exceed 3.5% of the Net Asset Value of the Company. Under the Investment Management Agreement YFM Private Equity also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. The total remuneration payable to YFM Private Equity in the period to 31 December 2010 was £360,000 (2009: £367,000).
- 6.4 Under a subscription rights agreement dated 28 November 2000 (the “Subscription Rights Agreement”), YFM Private Equity and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary Shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary Share exceeds 120p per Ordinary Share on that same day multiplied by the number of Ordinary Shares in issue and the Shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued under this agreement.
- By a Deed of Assignment dated 19 December 2003 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity subscription right under the Subscription Rights Agreement was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity and associated companies.
- Following the issue of this document, arrangements will be put in place in order that the benefit of the subscription rights are extended to include all of the issued Shares.
- 6.5 Under an agreement dated 28 November 2000 between BSC2 and Brewin Dolphin, Brewin Dolphin agreed to act as investment manager to BSC2 in relation to its portfolio of short-term government securities and to produce monthly portfolio valuations. In return for such services Brewin Dolphin is entitled to receive a management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly, plus VAT. This cost is borne by the Fund Manager.
- 6.6 By a deed of novation dated 1 April 2009 (to an agreement dated 3 September 2004) between the Company (1) and Singer Capital Markets Limited (2), Singer Capital Markets Limited agreed to act as brokers to the Company, and, inter alia, to act as a market maker in the Shares of the Company and to carry out share purchases on the Company’s behalf. Singer Capital Markets Limited are entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in arrears on 30 September, 31 December, 31 March and 30 June. Under the terms of the novated agreement the Company indemnifies Singer Capital Markets Limited against losses arising out of Singer Capital Markets Limited’s appointment except where such losses arise from Singer Capital Markets Limited’s breach of the agreement.

## **7. General**

- 7.1 YFM Private Equity is or may be a promoter of the Company and will receive investment advisory fees and other payments from the Company under the agreements described in paragraph 6.3 and 6.4 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.

The present management fee of 2.5% per annum will be reduced to 1.25% per annum in respect of any Net Asset Value of the Company in excess of £16 million and up to £26.667 million. The management fee in respect of any Net Asset Value of the Company

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- in excess of £26.667 million will be 2.0% per annum. If the Net Asset Value exceeds £20 million the annual operating expenses (including the management fee set out above but excluding any payment of the performance incentive fee details of which are set out in paragraph 6.4 of Part 5 and excluding VAT and trail commissions) of the Company would be capped at 3.5% of Net Asset Value. The cap is presently 4% having been reduced in accordance with the Company's and BSC's linked offer fundraising for 2010/11 for the Company and BSC which advised that the total cap on annual operating expenses would be reduced to 4.0% if monies raised were £5 million or less.
- 7.2 There is no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Company is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on the Company's financial position or profitability.
- 7.3 The costs and expenses of the Offer, including any irrecoverable VAT and all fees and commissions payable are expected to amount to £550,000 assuming subscription in full. The proceeds will be applied in accordance with the Company's investment policy. On the basis that the Offer is fully subscribed the net proceeds are expected to £9,450,000. The net proceeds will be applied in accordance with the Company's investment policy. The costs and expenses of the Offer will be 5.5% of gross funds raised by the Company under the Offer.
- 7.4 Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF were appointed as auditors to the Company on 13 January 2010. Prior to that date PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP and, before their appointment, PricewaterhouseCoopers LLP of Benson House, 33 Wellington House, Leeds LS1 4JP had been the only auditors of the Company since its incorporation. Grant Thornton UK LLP, PKF (UK) LLP and PricewaterhouseCoopers LLP are members of the Institute of Chartered Accountants in England and Wales.
- 7.5 YFM Private Equity was incorporated under the name Mosspire Limited in England on 7 October 1987 as a private company under the 1985 Act. The name of Mosspire Limited was changed to Yorkshire Fund Managers Limited on 14 December 1987. The name of Yorkshire Fund Managers Limited was changed to YFM Private Equity Limited on 7 October 2004. The registered number of YFM Private Equity is 2174994 and its registered office is at Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ (telephone number 0113 294 5000). YFM Private Equity Limited is authorised and regulated by the Financial Services Authority to conduct venture capital business (FRN: 122120).
- 7.6 The Company assumes no responsibility for the withholding of tax at source.
- 7.7 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 Fund Manager or any other company in the same group as the Fund Manager or any investment entity managed by them. None of the VCT's investments will represent more than 15% by value of all its investments at the time of investment, nor will more than 20% of its gross assets be invested in the securities of property companies. The VCT must continue to meet the above conditions. The Company must, at all times, invest and manage its assets in accordance with the investment policy set out on page 27 and so as to comply with section 274 ITA. Any material change to the investment policy of the Company will only be made with Shareholder approval.
- 7.8 Howard Kennedy, sponsor to the Offer, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 7.9 YFM Private Equity, the Company's Fund Manager, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 7.10 The unaudited Net Asset Value per Ordinary Share as at 30 September 2011 was 66.6 pence.
- 7.11 BSC2 had available as at 30 September 2011 cash at bank of £4,042,234 and £2,099,484 in government stocks and similar fixed interest securities, which should be supplemented by the net proceeds of the Offer (source: unaudited Interim Management Statement for the period from 30 June to 30 September 2011). As at the date of this document the Company had no loan capital outstanding, no other borrowings or indebtedness in the nature of borrowings and no contingent liabilities or guarantees.
- 7.12 The issued Ordinary Shares as at the date of this document will represent 61.7% of the enlarged Ordinary Share capital immediately following the Offer, assuming the Offer is fully subscribed at an Offer Price of 70.5 pence per Offer Share, that the maximum number of Loyalty Bonus Shares are allotted, and that there is no increase in the size of the Offer and, on the basis that the new Ordinary Shares are being issued at the NAV as at 30 September 2011 adjusted for the costs of the issue, the existing Ordinary Shareholders will not suffer any NAV dilution on a pence per share basis.
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- 7.13 There have been no significant factors, including unusual or infrequent events or new developments, which have materially affected the Company's income from operations. There have been no governmental, economic, fiscal, monetary or political policies or factors that have materially affected the Company's operations. However, levels and bases of, and relief from, taxation are subject to change and such changes could be retrospective and could materially affect the Company's operations.
- 7.14 The Board is responsible for the determination and calculation of its Company's Net Asset Value and intends to announce it at least quarterly, through a regulatory information service. The Board believes that, by announcing the Company's financial results on a regular basis, it should help to provide a fairer market price for its Shares.
- 7.15 In the opinion of the Company, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 7.16 The Company has entered into the following related party transactions during the period covered by the historical financial information set out in Part 3 and up to the date of this document:
- YFM Equity Partners Limited the parent company of YFM Private Equity Limited holds investments in Primal Pictures Limited which as at 31 December 2010 was valued at £29,161 and Digital Healthcare Limited which as at 31 December 2010 was valued at £21,791.
  - Mr R Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.
  - Mr R Last has been a non-executive director of Patsystems plc since January 2002. During the year to 31 December 2010 Mr Last received £45,000 from Patsystems plc in respect of his services. Mr R Last holds a 0.4% equity stake in Patsystems plc.
  - The offer agreements dated 26 October 2011 and 8 December 2010 referred to in paragraphs 6.1 and 6.2 above and the deed of variation dated 8 December 2010 referred to in paragraph 6.3 above.
- 7.17 Valuation of listed investments and investments traded on AIM or other public stock markets will be stated at closing bid prices. Where quoted investments are subject to restrictions, an appropriate discount to the latest market price may be applied with regard to International Private Equity and Venture Capital ("IPEVC") valuation guidelines. Investments not listed on a public stock market will be stated at Directors' valuation. The Directors will value these investments in accordance with the IPEVC valuation guidelines.
- 7.18 Investments will be valued quarterly by the Board and these net asset values will be communicated to its Shareholders through a regulatory information service. The Company will also announce when there has been a major change to its Net Asset Value, for instance as a result of a disposal of an investment or if the Company undertakes a fundraising and needs to announce an interim valuation. The Directors do not anticipate any circumstances arising under which the calculation of the Net Asset Value may be suspended.
- 7.19 The Directors believe that the Offer has the potential to constitute a significant gross change in the Company, including an increase in the net assets of the Company by the amount of the net funds raised under the Offer (which, on the basis of maximum subscription under the Offer and an Offer Price of 70.5 pence per Offer Share, would be £9,450,000). Subject to the level of subscription under the Offer, an increase in net assets could have certain consequences, potentially including a reduction in the annual expense ratio of the Company, increasing the size and range of investments which the Company could undertake and increasing the number of investments the Company would be required to make in order to meet the VCT eligibility rules. The effect of the Offer on the earnings of the holders of Ordinary Shares is expected to be positive since the fixed costs of operating the Company will be spread over a larger asset base, thereby reducing the running cost per Share.

## 8. Documents for Inspection

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

- (i) the Articles;
- (ii) the consent letters referred to in paragraph 7.8 and 7.9 of this Part 5 above;
- (iii) the Directors' letters of appointment referred to in paragraph 5.8 of this Part 5 above;
- (iv) the audited accounts of the Company for the periods ended 31 December 2008, 2009 and 2010 and a half yearly report for the 6 month period to 30 June 2011; and
- (v) this document.

# Part 6

## Directors and Advisers

### **Directors**

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

All of:

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

### **Company Secretary**

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

### **Registered Office**

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

### **Fund Manager**

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

### **Solicitors to the Offer**

Howard Kennedy LLP  
19 Cavendish Square  
London W1A 2AW

### **Sponsor to the Offer**

Howard Kennedy Corporate Services LLP  
1a Cavendish Square  
London W1A 2AW

### **Stockbrokers**

Singer Capital Markets  
One Hanover Street  
London W1S 1AX

### **Fixed Interest Securities Adviser**

Brewin Dolphin Securities Limited  
34 Lisbon Street  
Leeds LS1 4LX

### **Registered Auditors**

Grant Thornton UK LLP  
2 Broadfield Court  
Sheffield S8 0XF

### **VCT Tax Advisers**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### **Bankers**

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

### **Receiving Agents**

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

### **Registrars**

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

# Part 7

## Definitions

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

<b>“Act”</b>	the Companies Act 2006 (as amended) and in force from time to time;
<b>“AIM”</b>	the Alternative Investment Market of the London Stock Exchange;
<b>“annual running costs”</b>	the annual costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT);
<b>“Applicant”</b>	an investor who applies to subscribe for Offer Shares;
<b>“Articles”</b>	the articles of association of the Company (as amended from time to time);
<b>“Board” or “Directors”</b>	the directors of the Company at the date of this document;
<b>“British Smaller Companies VCTs”</b>	BSC and BSC2;
<b>“BSC”</b>	British Smaller Companies VCT plc;
<b>“Capita Registrars”</b>	a trading name of Capita IRG Plc;
<b>“Company” or “BSC2”</b>	British Smaller Companies VCT2 plc;
<b>“FSA”</b>	the Financial Services Authority;
<b>“General Meeting” or “GM”</b>	the general meeting of the Company convened for 10.00 a.m. on 28 November 2011 at Berkeley Square House, Berkeley Square, London W1J 6BD (and any adjournment thereof);
<b>“Gross Assets”</b>	the aggregate of the gross assets of the Company including assets represented by any principal monies borrowed by the Company less all current liabilities of the Company (other than any principal monies borrowed);
<b>“HMRC”</b>	HM Revenue & Customs;
<b>“Howard Kennedy”</b>	Howard Kennedy Corporate Services LLP;
<b>“Investment Management Team”</b>	those persons whose details are set on page 23 under the heading “The Investment Team”;
<b>“Investor” or “Applicant”</b>	an individual who subscribes for Offer Shares;
<b>“ITA”</b>	Income Tax Act 2007, as amended;
<b>“IFRS”</b>	International Financial Reporting Standards;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Loyalty Bonus Shares”</b>	the additional Shares to be issued to Applicants who are existing shareholders in VCTs managed by YFM Private Equity (or spouses of such shareholders), as detailed on page 11;

<b>“Net Asset Value” or “NAV”</b>	Net Asset Value per Ordinary Share;
<b>“Offer”</b>	the offer for subscription of Ordinary Shares to a value not exceeding £10 million in respect of the tax year 2011/2012, details of which are set out in this document;
<b>“Offer Price”</b>	70.5 pence per Offer Share, being the unaudited Net Asset Value per Share as at 30 September 2011 plus 5.5% (being the costs of the Offer), rounded up to the nearest quarter pence;
<b>“Offer Shares”</b>	Shares to be issued under the Offer;
<b>“Official List”</b>	the Official List of the UK Listing Authority;
<b>“Ordinary Shares” or “Shares”</b>	ordinary shares of 10p each in the capital of the Company;
<b>“Pricing Mechanism”</b>	the basis on which the price at which Ordinary Shares will be allotted pursuant to the Offer, calculated in accordance with the procedure set out on page 14 of this document;
<b>“Qualifying Company”</b>	an unquoted (including AIM-traded) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of Part 6 ITA, which is summarised in Part 2 of this document;
<b>“Qualifying Holdings” or “Qualifying Investments”</b>	shares in, or securities of, a Qualifying Company held by a VCT which meets the requirements described in Chapter 4 of Part 6 ITA;
<b>“Receiving Agent”</b>	City Partnership (UK) Limited;
<b>“Resolutions”</b>	the resolutions of the Company to be proposed at the GM;
<b>“Shareholder(s)”</b>	holder(s) of Ordinary Shares;
<b>“UK Listing Authority”</b>	the FSA acting in its capacity as the competent authority under the Financial Services and Markets Act 2000;
<b>“VAT”</b>	value added tax;
<b>“Venture Capital Trust” or “VCT”</b>	a venture capital trust as defined in Section 259 ITA;
<b>“YFM Private Equity” or “the Fund Manager” or “YFM”</b>	YFM Private Equity Limited registered number 2174994, authorised and regulated by the FSA;
<b>“YFM Equity Partners”</b>	YFM Private Equity and YFM Venture Finance Limited (registered number 4195617 authorised and regulated by the FSA) and each, together with other companies, being subsidiary companies of YFM Group (Holdings) Limited (registered number 3194987).

# Part 8

## Terms and Conditions of Application

1. The contract created by the acceptance of an Application will (unless the Board resolves otherwise) be conditional on the admission of the Offer Shares becoming effective.
2. The Offer Shares will be issued at an Offer Price calculated on the basis of the following formula ("the Pricing Formula"):
  - Offer Price per Share equals Net Asset Value (most recently announced prior to the date of allotment) adjusted for any dividend, divided by 0.945 to allow for issue costs of 5.5% of the gross sum subscribed calculated, in pence, rounded up to the nearest 0.25 pence.
  - The Offer Price will be determined by the Pricing Formula so as to avoid dilution in the Net Asset Value attributable to existing Shares.
  - The unaudited Net Asset Value of the Company as at 30 September 2011 (the latest date for which the Net Asset Value has been announced prior to the publication of this document) was 66.6 pence per Ordinary Share. Based on this, and after adjusting for the costs of the Offer, the Offer Shares would be issued at a price of 70.5 pence per Share.
3. (a) The right is reserved to present all cheques and banker's drafts for payment on receipt and to retain share certificates and subscription monies, pending clearance of successful Applicant cheques and banker's drafts. The Company may treat Applications as valid and binding even if not made in all respects in accordance with the prescribed instructions and the Company may, at its discretion, accept an Application in respect of which payment is not received prior to the closing of the Offer. If any Application is not accepted in full, or any contract created by acceptance does not become unconditional, or if any Application is accepted for fewer Offer Shares than the number applied for, the application monies or the balance of the amount paid on application will be returned without interest by post at the risk of the Applicant.  
  
(b) Applications will be accepted generally on a first come, first served basis (but always subject to the absolute discretion of the Directors). Subscriptions which are not accompanied by cheques available for immediate presentation or by other valid payment means will be dealt with at the Directors' discretion. If any dispute arises as to the date or time at or on which an Application is received, the Directors' determination shall be final and binding.  
  
(c) The Company reserves the right to allot and arrange for the listing of Offer Shares under the Offer prior to the stated closing date and generally vary the allotment and Admission timetable.
4. By completing and delivering an Application Form, you as the Applicant (and, if you sign an Application Form on behalf of somebody else, that person):
  - (a) irrevocably offer to subscribe the amount of money specified in your Application Form subject to the provisions of this document, these Terms and Conditions and the Memorandum and Articles of Association of British Smaller Companies VCT2 plc;
  - (b) authorise the Registrar to send share certificates in respect of the Offer Shares for which your Application is accepted, and/or a crossed cheque for any monies returnable by post without interest at your risk to your address as set out on your Application Form and to procure that your name is placed on the register of members of the Company in respect of such Offer Shares;
  - (c) agree that, in consideration of the Company agreeing to process your Application, your Application will not be revoked until after the closing date of the Offer and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post to or, in the case of delivery by hand, on receipt by, the Receiving Agent of your Application Form subject to your statutory rights of withdrawal in the event of the publication of a supplementary prospectus by the Company;
  - (d) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive a share certificate for the Offer Shares applied for or to enjoy or receive any rights or distributions in respect of such Offer Shares unless and until you make payment in cleared funds for such Offer Shares and such payment is accepted by the Company (which acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such Offer Shares, the Company may (without prejudice to their other rights) treat the agreement to allot such Offer Shares as void and may allot such Offer Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Offer Shares (other than return of such late payment);

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- (e) agree that in respect of those Offer Shares for which your Application Form has been received and is not rejected, your Application may be accepted at the election of the Company either by notification to the UK Listing Authority of the basis of allocation or by notification of acceptance thereof to the Receiving Agent;
- (f) agree that any monies in respect of your Application together with any other monies received in respect of all Applications may be held on trust for the payment of the Offer Price in respect of Offer Shares for which you have subscribed or failing such payment be returned to you without interest and that any interest earned in respect of such monies will be paid to the Company;
- (g) agree that the monies returnable to you may be retained pending clearance of your remittance and any verification of identity which is, or which the Company or the Receiving Agent may consider to be, required by the Money Laundering Regulations 2007 and that such monies will not bear interest;
- (h) agree that, having had the opportunity to read the document, you are deemed to have had notice of all information and statements concerning the Company and the Offer Shares contained therein;
- (i) confirm that (save for advice received from your financial adviser) in making such Application you are not relying on any information and representation in relation to the Company other than the information contained in the document or any part thereof and accordingly you agree that no person responsible solely or jointly for the document or any part thereof or involved in preparation thereof will have any liability for any such other information or representation;
- (j) agree that all Applications, acceptances of Applications and contracts resulting therefrom under the Offer shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the rights of the Company to bring any action, suit or proceedings arising out of or in connection with any such Applications, acceptance and contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (k) irrevocably authorise the Receiving Agent or any other person authorised by it, as your agent, to do all things necessary to effect registration of any Offer Shares subscribed by you into your name and authorise any representatives of the Receiving Agent to execute any document required therefore;
- (l) agree to disclose promptly in writing to the Company any information which it may reasonably request in connection with your Application, including, without limitation, satisfactory evidence of identity to ensure compliance with the Money Laundering Regulations 2007 and authorise it to disclose any information relating to your Application as it considers appropriate;
- (m) confirm that you have reviewed the restrictions contained in paragraphs 5 and 6 below and warrant that you are not a "US person" as defined in the United States Securities Act of 1933, as amended, nor a resident of Canada and that you are not applying for any Offer Shares with a view to their offer, sale or delivery to or for the benefit of any US Person or a resident of Canada, Australia, South Africa or Japan;
- (n) declare that you are aged 18 years or over;
- (o) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have due authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
- (p) declare that a loan has not been made to you or any associate, which would not have been made, or would not have been made on the same terms, but for you offering to subscribe for, or acquiring, Offer Shares and that the Offer Shares are being acquired for bona fide commercial purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax;
- (q) declare that the Application Form has been completed to the best of your knowledge;
- (r) undertake that you will notify the Company if you are not, or cease to be, either a qualifying Applicant or beneficially entitled to the Offer Shares;
- (s) agree that all documents and cheques sent by post to, by or on behalf of the Company or the Receiving Agent will be sent at your risk.
5. No person receiving a copy of the document or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application thereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
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6. The Offer Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the USA<sup>™</sup>). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. No Application will be accepted if it bears an address in the USA.
  7. Dealings prior to the issue of certificates for Offer Shares will be at the risk of qualifying Applicants. A person so dealing must recognise the risk that an Application may not have been accepted to the extent anticipated or at all.
  8. Authorised financial intermediaries who, acting on behalf of their clients, return valid Application Forms (bearing their stamp/full postal address and FSA number) will be entitled to commission on the amount payable in respect of the Offer Shares allocated for each such Application Form. IFAs may choose an introductory commission of 3% of sums subscribed or an introductory commission of 2.25% of sums subscribed. If the latter is chosen the IFA would also receive annual trail commission at a rate of 0.5% for up to eight years. Authorised financial advisers may agree to waive part or all of their introductory commission in respect of an application. If this is the case, then the Application amount will be increased by an amount equivalent to the amount of commission waived. Financial advisers should keep a record of Application Forms submitted bearing their stamp/full postal address and FSA number to substantiate any claim for their commission.
  9. The section headed Notes on the Application Form forms part of these Terms and Conditions of Application.
  10. It is a condition of this Offer that compliance with the Money Laundering Regulations 2007 is ensured. The Receiving Agent is therefore entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to the Receiving Agent to be acting on behalf of some other person. Pending the provision of evidence satisfactory to the Receiving Agent as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, the Receiving Agent may, at its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or the Registrar may not enter the Applicant on the registers of members of the Company or issue any share certificates in respect of such application. If verification of identity is required, this may result in a delay in dealing with an application and in rejection of the application. The Company reserves the right, at its absolute discretion, for it or the Receiving Agent to reject any application in respect of which the Receiving Agent considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company reserves the right at its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the shares in question (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to the Receiving Agent such information as may be specified by it as being required for the purpose of the Money Laundering Regulations 2007.
  11. The right is also reserved to treat as valid any application not complying fully with these Terms and Conditions of Application for the Offer or not in all respects complying with the Notes on the Application Form. In particular, but without limitation, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.

# Notes on the Application Form

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

## Page 1 – Subscription Details

- 1 Amount for which you wish to subscribe: Insert (in figures) in Box 1 the amount for which you wish to apply in relation to income tax year 2011/12. The Application must be for a minimum of £5,000 and above that minimum in multiples of £1,000.

Attach a cheque or banker's draft to the Application Form for the exact amount shown in Box 1. Your cheque or banker's draft must be made payable to "BSC2 plc" and crossed "A/C Payee only". Your payment must relate solely to this application. Cheques may be presented for payment on receipt. Application Forms accompanied by a postdated cheque will not be processed until the cheque can be presented and will not be treated as being received by the Receiving Agent until that date.

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

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

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

If the amount of your application is for the Sterling equivalent of €15,000 or more (or is one of a series of linked applications, the value of which exceeds that amount) and

### A

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

### OR

### B

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

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

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

- 2 Name and address, etc: Insert (using block capitals please) in Section 2 your full name, full address including the postcode, daytime telephone number, National Insurance number and date of birth.
- 3 Signature and date: Sign and date the Application Form in Section 3. By signing and dating this form you agree to invest in British Smaller Companies VCT2 plc in accordance with the Terms and Conditions as set out on pages 48 to 50 of the Prospectus dated 26 October 2011.

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## Administration of Shareholder Account

Dividends paid by the Company can be taken as cash. Sections 4 and 5 of the Application Form allow you to indicate whether you would like to have them paid directly into your bank account. Dividends paid by cheque will be sent to the Shareholder's registered address using the standard mail delivery at the Shareholder's own risk if neither Section 4 or 5 is completed. The Company's Registrar will charge administration fees for re-issuing cheques.

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

## Page 2 – Details of your Financial Adviser

- 6 Financial Adviser's Details: appropriately authorised financial advisers who are entitled to receive commission should complete Sections 6 and 7, giving their contact name and address and their FSA number. Please note the financial adviser's obligations to advise their clients of the risk factors set out on pages 7 to 9 of this Document.
- 7 Commission: Introductory commission will be paid to authorised financial advisers at a rate of either 3% or 2.25% (with additional annual trail commission) on the amount invested. Under the Offer authorised financial intermediaries can waive some or all of the commission and have it invested in Offer Shares for their clients.
  - 7A1 Introductory commission of 3% – no annual trail commission is to be paid.
  - 7A2 The amount of introductory commission to be waived and invested.
  - 7B1 Introductory commission of 2.25% – annual trail commission.
  - 7B2 The amount of introductory commission to be waived and invested.
- 8 Bank details: Financial advisers who are entitled to receive commission can choose to have their commission paid directly to their bank account. In order to facilitate this, please complete section 8 of the Application Form.

# British Smaller Companies VCT2 plc

## Application Form

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

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

### Subscription Details:

#### 1. The Offer (income tax year 2011/2012)

Box 1 £

The amount in Box 1 to be not less than £5,000 (multiples of £1,000 thereafter)

#### 2.

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

If you are an existing Shareholder or spouse of an existing Shareholder\* place an 'X' in this box.

#### 3.

Signature	<input type="text"/>	Date	<input type="text"/>
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By signing this form I HEREBY DECLARE THAT I have read the Terms and Conditions of Application and agree to be bound by them. I understand this is a LONG TERM investment and have read the RISK FACTORS.

### Administration of Shareholder Account Please complete any relevant section.

#### 4. Payment of Dividends to your Bank Account

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

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

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

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

5. Name	<input type="text"/>	Post Code	<input type="text"/>
Signature	<input type="text"/>	Date	<input type="text"/>

\* This applies to existing Shareholders and spouses in either BSC or BSC2 and entitles them to 2.5% Loyalty Bonus for Applications which are received by 31 December 2011

## 6. Details of Financial Advisers

To be completed by intermediaries only. FSA number must be quoted. All financial advisers **MUST** advise their clients of the Risk Factors set out on pages 7 to 9 of this document.

Firm Name	<input type="text"/>
Contact	<input type="text"/> (Adviser/Administrator) (delete as appropriate)
Email Address	<input type="text"/>
FSA No.	<input type="text"/>
Tel No.	<input type="text"/>
Fax No.	<input type="text"/>
Address	<input type="text"/>
	<input type="text"/>
	<input type="text"/> Postcode

## 7. Commission Options

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

**7A**

7A Introductory commission of 3%.

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

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

**7B**

7B Introductory commission of 2.25% plus trail commission

7B1 To receive 2.25% plus annual trail commission place an 'X' in this box

7B2 Insert the amount of 2.25% introductory commission you wish to be waived and reinvested in additional Offer Shares for your client e.g. 0%, 1%, 1.5% or ALL

## 8. Direct Payments of Commission/s to a Bank Account

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

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

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

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

Signature	<input type="text"/>	Date	<input type="text"/>
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### British Smaller Companies VCT2 plc

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



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# British Smaller Companies VCT2 plc



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

T: 0113 294 5000  
F: 0113 294 5002  
E: [leeds@yfmepl.com](mailto:leeds@yfmepl.com)

Transforming Small Businesses  
[yfmepl.com](http://yfmepl.com)

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