



VCT Linked Offer Prospectus

British Smaller Companies VCT plc
and British Smaller Companies VCT2 plc



Offers for Subscription of up to 8,780,488 Ordinary Shares in British Smaller Companies VCT plc and up to 12,811,388 Ordinary Shares in British Smaller Companies VCT2 plc (Subject to a maximum of £15 million, in aggregate, of funds raised)

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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 VCT plc and 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 Offers to be admitted to the premium tier of 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 VCT plc and each of the Directors of British Smaller Companies VCT2 plc (the "Companies"), whose names are set out on page 56 of this document, and the Companies accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Companies (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Offers are not being made, directly or indirectly, in or into the United States, Canada, Australia, Japan or the Republic of South Africa or their respective territories or possessions, and documents should not be distributed, forwarded or transmitted in or into such territories. The Offer Shares have not been and will not be registered under the United States Securities Act 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 (the "Sponsor"), which is authorised and regulated by the Financial Services Authority, is acting for the Companies in connection with the Offers and is not advising any other person or treating any other person as a customer in relation to the Offers and will not be responsible to any such person for providing the protections afforded to customers of the Sponsor (subject to the responsibilities and liabilities imposed by FSMA and the regulatory regime established thereunder) or for providing advice in connection with the Offers. The Sponsor does not give any representation, warranty or guarantee that the Companies will qualify as Venture Capital Trusts 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 and 8 of this document.**

British Smaller Companies VCT plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with Registered Number 3134749)

British Smaller Companies VCT2 plc

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

JOINT OFFERS FOR SUBSCRIPTION

Of up to 8,780,488 Ordinary Shares of 10 pence each in British Smaller Companies VCT plc and up to 12,811,388 Ordinary Shares of 10 pence each in British Smaller Companies VCT2 plc to raise up to a maximum of £15 million in aggregate in British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

The 2010/2011 Offers in relation to the 2010/2011 tax year will close at 11:00 am on Tuesday 5 April 2011 and the 2011/2012 Offers in relation to the 2011/2012 tax year will close at 11:00 am on Friday 29 April 2011 (or such later date to which the Directors extend the 2011/2012 Offers) or earlier should the Offers become fully subscribed. The Offers are not being underwritten and are not subject to reaching a minimum level of subscription.

The terms and conditions are set out on pages 59 to 61 of this document, together with the application procedure and an application form for use in connection with the Offers.

- The minimum subscription per Investor is £5,000. The completed Application Form in respect of the Offers 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 Offers constitute an issue of up to £15,000,000 by value of Ordinary Shares at the Offer Price, which is to be calculated according to the Pricing Mechanism. The estimated Offer Price for British Smaller Companies VCT plc is 102.50 pence per Share and for British Smaller Companies VCT2 plc is 70.25 pence per Share, calculated by reference to the most recent published Net Asset Values, adjusted for issue costs of 5.5% and, in the case of British Smaller Companies VCT plc, for the interim dividend of 2.0p per Share declared on 23 November 2010. Under the Pricing Mechanism any Net Asset Value published while the Offers remain open may affect the prices payable by Applicants.
- An Applicant's subscription will be equally split between the Companies up to an investment of £25,000 with the excess being allocated between the Companies in line with the Applicant's wishes.

Summary

Introduction

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc are seeking to raise additional funds of up to £15 million in aggregate to allow further expansion of their diverse investment portfolios.

An investment in both Companies will provide individuals with the opportunity to invest in established VCTs with mature and diversified portfolios of mainly unlisted smaller British companies with the aim of generating attractive returns over the medium to long term. Since inception the Companies have invested £49 million in 109 businesses.

Performance

VCT	First Listed	Net Asset Value pence per Share	Total dividends pence per Share	Average dividend paid last 5 years to 30 September 2010	Total Return pence per Share
As at 30 September 2010					
BSC	4 April 1996	98.8	54.2*	5.1*	153.0*
BSC2	12 April 2001	66.2	26.0	4.2	92.2

* excluding the dividend of 2.0 pence per Share in respect of the 6 months to 30 September 2010 declared on 23 November 2010.

The British Smaller Companies VCTs have a track record of realising investments that provides a platform supporting the payment of tax free cash dividends.

British Smaller Companies VCT plc (BSC)

- Has made a total return to original Shareholders of 153.0 pence per Share (unaudited as at 30 September 2010).
- Has paid an annual tax free cash dividend of 5.1 pence per Share per annum on average over the five years to 30 September 2010 (excluding the dividend of 2.0 pence per Share in respect of the 6 months to 30 September 2010 declared on 23 November 2010)
- Investors who are on the register at 30 April 2011 will be eligible to receive any final dividend in relation to the year ended 31 March 2011; and
- Performance consistently ranked by Trustnet in the top 5 best performing VCTs (both NAV and share price growth) over five years.

British Smaller Companies VCT2 plc (BSC2)

- Has paid an annual tax free cash dividend of 4.2 pence per Share per annum on average over the five years to 30 September 2010; and
- Investors who are on the register at 30 April 2011 will be eligible to receive any final dividend in relation to the year ended 31 December 2010.

In December 2003 BSC2 amended its investment strategy to include a substantially increased emphasis on later stage investments. Following this change in investment strategy, the Company has seen improved investment performance and as at 16 November 2010 was ranked by Trustnet 19th out of 89 VCTs over three years and 18th out of 64 VCTs over five years for net asset growth.

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.

Tax benefits

- Individuals receive a 30% up front 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 personal tax reliefs available from a Venture Capital Trust is currently £200,000 per person per tax year, or £400,000 per person 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.

Award Winning Fund Manager

YFM Private Equity Limited is a leading fund manager that specialises in making equity investments of up to £5 million in unquoted companies and has been making investments in fast growing businesses for over 20 years. In addition to BSC and BSC2, YFM Group has, as at the date of this document, built a combined portfolio in excess of 250 unquoted investments for investors, who have committed in excess of £360 million.

YFM Private Equity was awarded:

- The Association of Investment Companies Best Shareholder Communication Award 2009 for the British Smaller Companies VCT Reports; and
- Acquisition Finance's UK small/medium private equity company of the year in 2009.
- Growth Company Investor VCT Fund Manager of the Year 2007 for British Smaller Companies VCT plc;

In 2010 BSC was shortlisted for VCT of the Year at the Investor Allstars Awards and YFM Group was shortlisted for the Unquote British Private Equity Awards 2010 – VCT Manager of the year.

Background of the Companies

Originally launched in 1996 and managed by YFM Private Equity, BSC was one of the first VCTs and is a mature VCT which invests in a broad range of companies and sectors. By following this investment strategy the Company has established a diverse portfolio of investments reducing exposure to specific markets and individual companies.

Managed by YFM Private Equity, BSC2 was formed in 2001 and invests in a combination of mature businesses operating in traditional industries, as well as a smaller proportion of businesses offering opportunities in the application and development of innovation. A diverse existing portfolio of investments again reduces the exposure to particular markets and individual companies.

Reasons for the Offers

The UK has endured the longest recession 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 fallen over the past two 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 are facing an unusual combination of falling values and a shortage of capital. The Directors of both Companies believe that these changes have created the opportunity for those prepared to take a medium term view to invest funds into attractive businesses at a low point in the economic cycle.

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

The Companies will continue to invest predominantly in established unquoted companies. The investment policy of both Companies is to create a portfolio that blends a mix of businesses operating in traditional industries with those that offer opportunities in the application and development of innovation. Whilst the investment strategies of both VCTs are broadly similar, BSC2 additionally intends to invest selectively in relatively earlier stage businesses that utilise innovative technology or techniques to establish a competitive edge in their chosen markets.

The Companies are currently invested in a diverse portfolio of unquoted and quoted Shares, fixed income securities and cash. The Offers enable new and existing Shareholders to invest in a mature and diverse existing portfolio to be supplemented with new investments made in line with the Companies' proven investment strategy.

The Offers

The Offers aim to raise up to £15 million in aggregate through the issue of up to 8,780,488 Shares in BSC and up to 12,811,388 Shares in BSC2. An Applicant's subscription will be equally split between the Companies up to an investment of £25,000 with the excess being allocated between the Companies in line with the Applicant's wishes.

The Offer Price is 102.50 pence per Share for BSC and 70.25 pence per Share for BSC2, calculated by reference to the most recent published Net Asset Values, adjusted for issue costs of 5.5% and, in the case of BSC, for the interim dividend of 2.0 pence per Share declared on 23 November 2010. The Offer Price is subject to adjustment if the Net Asset Value of the Companies increases or decreases by 5% or more prior to the allotment of Shares under the Offers. Although an Applicant's subscription will be equally split between the Companies (up to £25,000), because of the different Net Asset Values of the Companies, Applicants will receive a different number of shares in each Company.

Pricing Mechanism

As the Companies are currently trading and in order to be fair to both existing and new Shareholders, Ordinary Shares under the Offers will be allotted by reference to the Net Asset Value of the existing Ordinary Shares. Therefore, the Companies will allot such Ordinary Shares in accordance with the paragraph above.

If, however, the Net Asset Value of BSC on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below 96.8 pence per Share (being the current published Net Asset Value less the interim dividend of 2.0 pence per share) then such Ordinary Shares will be allotted at the relevant Net Asset Value plus 5.5%, rounded to the nearest 0.25 pence. If the price at which the Ordinary Shares allotted under the Offers is amended under the terms of this pricing mechanism then the Company will announce the fact through a Regulated Information Service.

If the Net Asset Value of BSC2 on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below 66.2 pence per Share (being the Net Asset Value at 30 September 2010) then such Ordinary Shares will be allotted at the relevant Net Asset Value plus 5.5%, rounded to the nearest 0.25 pence. If the price at which the Ordinary Shares allotted under the Offers is amended under the terms of this pricing mechanism then the Company will announce the fact through a Regulated Information Service.

Investors should therefore indicate 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 Companies are conscious that their Share price is affected by the illiquidity of their Shares in the market. In line with many other VCTs, the Companies, when appropriate, will operate a buy back policy. The policies and the rate of discount at which the Shares are bought back are regularly reviewed and the policies are subject to annual resolutions put before the Shareholders. In the period from 1 April 2010 to 30 September 2010, BSC bought back 260,000 Ordinary Shares at a price of 78 pence per Share with Shares typically having been bought back at a discount of approximately 15% of the latest published net asset value. BSC2 Shareholders recently voted in favour of re-introducing a buy back policy and the rate of discount to net asset value at which BSC2's Shares are bought back has been set at no more than 15%. On 3 November 2010 BSC2 bought back 300,000 Ordinary Shares at a price of 57.75 pence per Share.

Dividend Reinvestment Scheme

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

BSC2 intends to introduce a similar scheme and resolutions are being put to the BSC2 Shareholders at the BSC2 General Meeting in this regard, as set out on page 42. Subject to the passing of these resolutions, the first dividend to which the BSC2 dividend reinvestment scheme will apply will be the final dividend for the year ending 31 December 2010.

Management and operating costs

YFM Private Equity receives a management fee based on the net asset value of each Company as follows:

BSC: 2.0% per annum

BSC2: 2.5% per annum

Expressed as proportion of net asset value, 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 paragraphs 6.3 and 6.7 of Part 5 and excluding VAT and trail commissions) of the Companies are capped at:

BSC: 3.5%

BSC2:

- From 1st April 2011 if monies raised by BSC2 under the Offers are £5 million or less, the total cap (excluding VAT and trail commissions) will be 4.0%.
- If monies raised by BSC2 under the Offers are between £5.001 million and £7.499 million this cap (excluding VAT and trail commissions) will reduce to 3.75%.
- If monies raised by BSC2 under the Offers are £7.5 million or more, the cap (excluding VAT and trail commissions) will reduce to 3.5%.

Key Risk Factors

Prospective Investors should be aware that the value of Shares can fluctuate and that they may not get back the amount they invest. Investment in the Companies should be viewed as a longer-term investment. The past performance of the Fund Manager or of the Companies 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 Companies will meet their objectives or that suitable investment opportunities will be identified. Although the Companies may agree conventional venture capital rights in connection with some of their investments, as minority investors they may not be in a position fully to protect their interests.

Whilst it is the intention that each of the Companies 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.

Risk Factors

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

The past performance of the Companies and/or investments managed by the Fund Manager should not be regarded as an indication of the future performance of the Companies. 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 Companies should be regarded as long-term in nature and Investors must hold their Shares for five years to retain their initial income tax relief. **The Directors strongly recommend that all potential Investors consult an appropriate adviser before deciding whether to invest.**

Furthermore, in the opinion of the Directors, all known material risks are set out below.

Taxation related risks

- Although it is intended that the Companies will be managed so as to retain their VCT status, there is no guarantee that such status will be maintained. Further details of the taxation implications of an investment in the Companies are set out on pages 38 to 40 of this Document. However, if the Companies fail to meet their qualifying requirements for a VCT and as a result loses their status as a venture capital trust 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 Companies
 - (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 Companies is not suitable as a short or medium term investment.
- Changes in legislation, concerning VCTs in general, qualifying Investments and qualifying trades in particular, may restrict or adversely affect the ability of the Companies to meet their objectives and/or reduce the level of returns which would otherwise have been achievable.

Listing and market risks

- Although the Shares will be listed 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 Companies' 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 Companies invest, 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. This may limit the number of attractive investment opportunities available to the Companies.
- The restrictions regarding Qualifying Companies set out in the preceding paragraph mean that the Companies are 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.
- Valuations of unquoted companies are determined in accordance with current financial reporting standards. The valuation of unquoted portfolio companies often takes into account discounted stock market multiples. The valuation and opportunities for realisation, of portfolio companies may depend on stock market conditions.
- There is no guarantee that the Companies' objectives will be met or that suitable investment opportunities will be available.
- The Companies' ability to obtain maximum value from their investments (for example, through sale) may be limited by the requirements imposed in order to maintain the VCT tax status of the Companies (such as the obligation to have at least 70% by value of its investments in Qualifying Investments).

Legislation risk

- New legislation or regulations or different or more stringent interpretation or enforcement of existing laws may require the Companies to change their investment strategy which may have an adverse impact on the Companies' financial performance.

Expected Timetable and Offer Statistics

- 2010/2011 tax year; open from 8 December 2010 until 5 April 2011
- 2011/2012 tax year; open from 6 April 2010 until 29 April 2011

Offers open:

Offers Open	8 December 2010
First Allotment	5 April 2011
Dealings commence	within 5 business days of allotment
Share certificates issued	within 10 business days of allotment

Offers close:

2010/2011 Offers*	11.00 a.m. on 5 April 2011*
2011/2012 Offers*	11.00 a.m. on 29 April 2011*

*The Directors reserve the right to extend the closing date of the 2011/2012 Offers or increase the size of the Offers at their discretion. In the event that the maximum subscription is reached before either closing date, the Offers will be individually or jointly closed early.

Key Details of the Offers

Minimum subscription per investor: £5,000

Linked offer with applications of up to £25,000 being equally applied between both Companies

Applicants subscribing for amounts in excess of £25,000 are able to select which of the VCTs the excess amount is allocated to

Maximum aggregate investment in all VCTs in any one tax year on which tax relief is available is £200,000

Offer Price to be calculated in accordance with the Pricing Mechanism on page 6

Estimated Offer Price for BSC 102.50 pence

(based on the unaudited Net Asset Value of 98.8 pence per Share at 30 September 2010, adjusted for the costs of the Offers and the interim dividend of 2.0 pence per Share declared on 23 November 2010)

Estimated Offer Price for BSC2 70.25 pence

(based on the unaudited Net Asset Value of 66.2 pence per Share at 30 September 2010, adjusted for the costs of the Offers)

Costs of the Offers

Costs of the Offers as a percentage of the subscription proceeds	5.5%
Commission to intermediaries: Initial of 3% or 2.25% plus annual trail commission of 0.5% for four years	
Maximum net proceeds for the Companies after issue costs (based on the above Offer Price)	£14,175,000

Early Subscription Shares

Early Investors will receive additional Shares equivalent to 1% of the amount they subscribe in respect of valid applications received and accepted prior to 1 March 2011 (which will be paid by the Fund Manager).

Letter from the Chairmen of the Companies

British Smaller Companies VCT Plc and British Smaller Companies VCT2 Plc
Saint Martin's House
210-212 Chapeltown Road
LEEDS
LS7 4HZ

8 December 2010

Dear Investor

We are delighted to be writing to you in connection with the Offers to raise up to £15 million by the issue of Ordinary Shares in British Smaller Companies VCT Plc and British Smaller Companies VCT2 Plc in both the 2010/2011 and 2011/2012 tax years.

We believe that the current economic climate is creating increasing opportunities for those investors able to take a medium term view to invest in well run and managed UK businesses that need capital to expand but are facing a shortage of finance.

Venture Capital Trusts not only offer access to this market but we believe continue 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 tax relief** of 30% on your investment. For example, if you invest £20,000 in British Smaller Companies VCT, your income tax bill for the current tax year will be reduced by £6,000;
- provides you with the opportunity to enjoy the **potentially higher returns** associated with investing in the UK's privately owned businesses; and
- can provide tax free dividends.

Strong Performance of British Smaller Companies VCTs

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 five years British Smaller Companies VCT plc and British Smaller Companies VCT2 plc have been consistent in their dividend performance delivering average annual tax free dividends of 5.1 and 4.2 pence per Share respectively. This performance is derived from an existing diversified portfolio of over forty investments (between the two Companies) built up over a number of years. Although not "twinned" companies, many portfolio investments are common between the Companies.

Benefits of the Offers

Immediate Access to the Dividend Stream – the Offers give you immediate access to the Companies' mature portfolios and Investors will be eligible to receive any final tax free dividend declared in respect of the respective financial years ending 31 December 2010 (British Smaller Companies VCT2 plc) and 31 March 2011 (British Smaller Companies VCT plc).

Unique Deal Flow – British Smaller Companies VCTs will benefit from the large number (over 850 in the 12 months to 31 September 2010) of investment opportunities generated by YFM Group's regional offices and thirty investment staff. This level of deal flow enables the Companies to be highly selective.

In addition, with in excess of £360 million under management, YFM Group 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 250 investments. As a result there may also be opportunities for the Companies to participate in follow-on and co-investments in some of those companies already held within these substantial portfolios.

Further Reduction in Costs – the further increase in the size of the Companies will allow the fixed costs to be spread over a broader asset base.

Additional incentive – Any investment made prior to 1 March 2011 will be entitled to a further 10 free Shares for every 1,000 Shares applied for under the Offers.

Liquidity – to increase liquidity, both British Smaller Companies VCT plc and British Smaller Companies VCT2 plc now maintain buy back policies. In the period from 1 April 2010 to 30 September 2010, BSC bought back 260,000 Ordinary Shares. BSC2 introduced its policy following a general meeting on 18 October 2010.

The Offer Price is 102.50 pence per Share for British Smaller Companies VCT plc and 70.25 pence per Share for British Smaller Companies VCT2 plc, calculated by reference to the most recent published Net Asset Values, adjusted for issue costs of 5.5% and, in the case of BSC, the interim dividend of 2.0 pence per Share declared on 23 November 2010. The Offer Price is subject to adjustment if the Net Asset Value of the Companies increases or decreases by 5% or more prior to the allotment of Shares under the Offers. Although an Applicant's subscription will be equally split between the Companies (up to £25,000), because of the different Net Asset Values for the Companies Applicants will receive a different number of shares in each Company.

The Directors are intending to invest £46,000 under the Offers, increasing the aggregate investments of the Directors, Fund Manager and its employees in the Companies to in excess of £900,000.

We look forward to welcoming new Shareholders and thank all of our existing Shareholders for their continued support.



Richard Last
Chairman
British Smaller Companies VCT2 plc



Helen Sinclair
Chairman
British Smaller Companies VCT plc

Part 1

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The Fund Manager

YFM Private Equity Limited

YFM Group manages in excess of £360 million of investment funds and a combined portfolio of more than 250 investments.

YFM Private Equity Limited specialises in investing in unquoted companies and has been making investments in fast growing businesses for over 20 years. In addition to British Smaller Companies VCT plc and British Smaller Companies VCT2 plc, YFM Private Equity directly manages other funds of approximately £200 million under management, including the Chandos Fund LLP which is an institutional fund with investors which include UK Pension Funds and other financial institutions. In addition, the Fund Manager has established a subsidiary company, YFM Private Finance Limited, and has applied for this company to be authorised by the FSA with the intention of launching an EIS fund.

The Investment Management Team directly responsible for the management of BSC and BSC2 comprises principally of 6 key executives with extensive experience who together have over 100 years experience of investing in and managing venture capital opportunities. This key team is strengthened by and draws on additional, experienced investment managers and a strong group of support staff from across YFM Group. 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.

YFM Private Equity was awarded

- 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.
- Growth Company Investor VCT Fund Manager of the Year 2007 for British Smaller Companies VCT Plc.
- In 2010 BSC was shortlisted for VCT of the Year at the Investor Allstars Awards and YFM Group was shortlisted for the Unquote British Private Equity Awards 2010 – VCT Manager of the year.

The majority of the Investment Management Team that invests the VCTs' funds has been working together for over 10 years. Prior to these Offers, the Investment Management Team and employees of the Fund Manager and YFM Group have together subscribed for over £897,800 of Shares.

Investment Strategy

The Companies will continue to invest predominantly in established unquoted companies. The investment policy of both Companies is to create a portfolio that blends a mix of businesses operating in traditional industries with those that offer opportunities in the application and development of innovation. BSC2 has historically invested a greater proportion in emerging companies than BSC. Prior to December 2003 the investment strategy of BSC2 was focussed on investing in

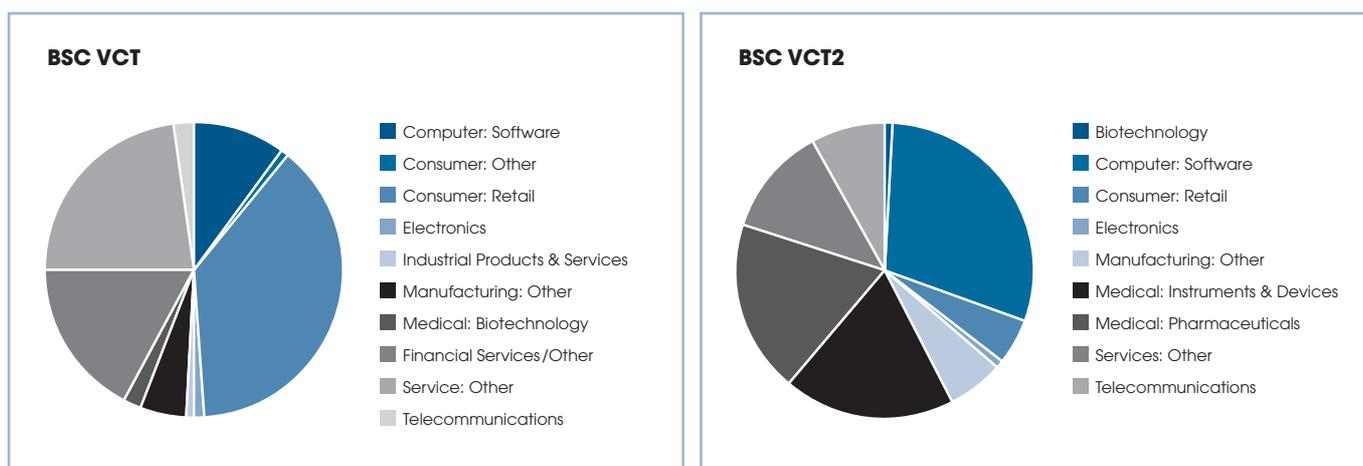
companies developing or using innovative technology. Since December 2003 the investment strategy of BSC2 has converged with that of BSC. The inclusion of investment in more established companies within its investment remit has allowed BSC2 to achieve a balance between exciting growth opportunities and mature companies and sectors, reducing the portfolio's exposure to particular markets and individual companies.

BSC's investments have typically involved 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 is expected to generate some interesting "buy and build" opportunities via acquisition of smaller competitors. The majority of 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. The regional office network provides excellent access to interesting investment opportunities. Having been investing for over 20 years and managing a combined portfolio in excess of 250 unquoted investments, YFM has built an extensive and proprietary network of chairmen, CEOs and management teams who regularly introduce opportunities to the Fund Manager.

The Fund Manager adds value to its 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 management teams and often works with the investee companies to set, evolve and deliver strategy. By focusing on value growth the Fund Manager helps maximise exit potential for Shareholders.

Distribution of the portfolios as at 30 September 2010 by value:



Investment Objectives

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

Both companies objectives are:

- To continue to expand their diversified portfolios 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 their total assets in qualifying assets to maintain the Companies' VCT statuses.
- To invest in smaller private companies which are not always accessible to the private investor; and
- To continue to broaden their portfolios of investments by investing across a range of companies and sectors, thereby reducing an Investor's exposure to particular markets and individual companies.

Performance

The British Smaller Companies VCTs have a track record of realising investments that provides a platform supporting the payment of tax free cash dividends.

Originally launched in 1996 and managed by YFM Private Equity, BSC, one of the first VCTs to be established, is a mature generalist VCT which invests in a range of companies and sectors. The Company's diverse existing portfolio of investments

reduces the exposure to particular markets and individual companies. The Company currently has 28 investments with the cost of investments being £13.9 million and with a current unaudited valuation of £20.4 million (source: unaudited interim results as at 30 September 2010).

Investors who subscribed for Shares in BSC in the initial public offering in 1996 will have seen their initial investment of 100.0 pence per Share (80.0 pence per Share after income tax rebates) produce a total return to Shareholders of 153.0 pence per Share (unaudited Net Asset Value at 30 September 2010 of 98.8 pence per Share plus tax free dividends of 54.2 pence per Share).

Managed by YFM Private Equity, BSC2 was formed in 2001 and invests in a combination of mature businesses operating in traditional industries and emerging businesses offering opportunities in the application and development of innovation. A diverse existing portfolio of investments reduces the exposure to particular markets and individual companies. It currently has 21 investments with the cost of investments being £10.0 million and with a current unaudited valuation of £6.2 million (Source: Interim Management Statement 30 September 2010).

Investors who subscribed for Shares in BSC2 in the initial public offering in 2001 will have seen their initial investment of 100 pence per share (before taxation rebates and deferrals) produce a total return to Shareholders of 92.2 pence per Share (unaudited Net Asset Value at 30 September 2010 of 66.2 pence per Share plus tax free dividends of 26.0 pence per Share).

Although not "twinned" companies, many portfolio investments are common between the Companies, further details of which are set out on page 17.

Shareholder Returns

British Smaller Companies VCT plc (all figures in pence per Share)

	March 2006 Audited	March 2007 Audited	March 2008 Audited	March 2009 Audited	March 2010 Audited	September 2010 Unaudited (Half Yearly Report)
Net Asset Value (NAV)	97.5	101.3	102.1	85.7	94.4	98.8
Cumulative Dividends	30.5	35.0	40.0	45.0	50.0	54.2*
Total Return	128.0	136.3	142.1	130.7	144.4	153.0*
Dividends in the period	3.7	4.5	5.0	5.0	5.0	4.2*

* 6 month period.

NAV and cash dividends are unadjusted for 2.0 pence per Share dividend declared on 23 November 2010.

Dividend Table

Year ended 31 March	Dividend
1997	1.06p
1998	3.50p
1999	6.26p
2000	1.79p
2001	2.80p
2002	2.20p
2003	1.15p
2004	0.60p
2005	7.40p
2006	3.70p
2007	4.50p
2008	5.00p
2009	5.00p
2010	5.00p
2011 (paid to 30 September 2010)	4.25p
Cumulative dividends to date	54.21p

Shareholders in BSC have benefited from annual dividends of 5.0 pence per Share in the last three financial years to 31 March 2010. The average dividend actually paid in respect of the five years to 30 September 2010 was 5.1 pence per share

Illustration of equivalent returns

Based on an illustrative annual cash dividend of 5.00 pence per Share; if the Offer Price is 102.50 pence per Share, calculated with reference to the Net Asset Value as at 30 September 2010, (which could be subject to adjustment prior to the close of the Offers), the equivalent return would be:-

Illustration of equivalent returns	Gross Yield	Cash Yield
Offer Price (gross)	8.13% p.a.	4.87% p.a.
Offer Price (net of 30% tax relief)	11.61% p.a.	6.97% p.a.

An annual dividend of 5.0 pence per Share is the equivalent to a tax free yield of 4.87% per annum on the Offer Price of 102.50 pence per Share. A net cash dividend of 5.0 pence per Share based on the subscription price, net of 30% income tax relief equates to a net tax free yield of 6.97% per annum. To obtain an equivalent net return a higher rate tax payer (40%) would require a gross yield of 11.61% per annum.

The Finance Act 2009 set out the introduction of a 50% higher rate income tax and the restriction of tax relief on pension contributions. From 6 April 2010 to obtain an equivalent net return a higher rate tax payer (50%) would require a gross yield of 13.94% per annum.

Dividend policy

BSC is aiming to continue to pay net tax free dividends of 5.0 pence per annum, in line with the average cash dividend of 5.1 pence per annum paid over the last five years to 30 September 2010. This is a targeted dividend, and not guaranteed. No forecast or projection is to be implied or inferred. The Board aspires to an increasing dividend.

The figures above show that, for a 40% tax payer, an equivalent annual gross yield of 11.61% (including tax reliefs) would result if annual cash dividends were to remain at 5.0 pence per Share.

British Smaller Companies VCT2 plc (all figures in pence per Share)

	December 2005 Audited	December 2006 Audited	December 2007 Audited	December 2008 Audited	December 2009 Audited	June 2010 Unaudited (Half Yearly Report)	September 2010 Unaudited (Interim Management Statement)
Net Asset Value (NAV)	74.2	83.7	79.0	76.9	72.7	70.1	66.2
Cumulative Dividends	7.0	7.0	10.5	16.0	22.0	24.0	26.0*
Total Return	81.2	90.7	89.5	92.9	94.7	94.1	92.2*
Dividends in the period	7.0	-	3.5	5.5	6.0	2.0	4.0*

* 9 month period.

Dividend Table

Year ended 31 December	Gross Dividend
2005	7.0p
2006	-
2007	3.5p
2008	5.5p
2009	6.0p
2010 (half year)	4.0p
Cumulative dividends to date	26.0p

Shareholders in BSC2 have benefited from annual dividends of 4.2 pence per Share for the last five years to 30 September 2010 and cumulative dividends of 26.0 pence per Share.

Illustration of equivalent returns

Based on an illustrative annual cash dividend of 5.0 pence per Share; if the Offer Price is 70.25 pence per Share, calculated with reference to the Net Asset Value as at 30 September 2010, which could be subject to adjustment prior to the close of the Offers, the equivalent return would be:-

Illustration of equivalent returns	Gross Yield	Cash Yield
Offer Price (gross)	11.86% p.a.	7.12% p.a.
Offer Price (net of 30% tax relief)	16.94% p.a.	10.17% p.a.

An annual dividend of 5.0 pence per Share is the equivalent to a tax free yield of 7.12% per annum on the Offer Price of 70.25 pence per Share. A net cash dividend of 5.0 pence per Share based on the Offer Price, net of 30% income tax relief, equates to a net tax free yield of 10.17% per annum. To obtain an equivalent return a higher rate tax payer (40%) would require a gross yield of 16.94% per annum.

The Finance Act 2009 set out the introduction of a 50% higher rate income tax and the restriction of tax relief on pension contributions. From 6 April 2010 to obtain an equivalent return a higher rate tax payer (50%) would require a gross yield of 20.34% per annum.

Dividend policy

BSC2 is aiming to continue to pay net tax free dividends of 4.0 pence per annum, in line with the average dividend of 4.2 pence per annum paid over the last five years to 30 September 2010. This is a targeted dividend, and not guaranteed. No forecast or projection is to be implied or inferred. The Board aspires to an increasing dividend.

The figures above show that, for a 40% tax payer, an equivalent annual gross yield of 16.94% (including tax reliefs) would result if annual cash dividends were to remain at 5.0 pence per Share.

Investment Portfolio

Lists of Investments

A full list of the investments held by BSC and BSC2 as at the date of this document (the values being as at 30 September 2010, being the end of the last financial period for which unaudited financial information has been published) is set out on the next page. There has been no material change to the values of the Companies' investment portfolios since 30 September 2010.

As at 30 September 2010 (being the end of the last financial period for which unaudited financial information has been published) BSC's unaudited net asset value was 98.8 pence per Share, as determined by its Board and BSC2's unaudited net asset value was 66.2 pence per Share, as determined by its Board.

At the time of investment almost all of these investments would have been classified as Qualifying Investments under the then current Finance Act.

Investee To 30 September 2010	Sector	British Smaller Companies VCT		British Smaller Companies VCT2		Total	
		Carrying Cost* £'000	Valuation £'000	Carrying Cost* £'000	Valuation £'000	Carrying Cost* £'000	Valuation £'000
GO Outdoors Limited	Retail	156	7,135	-	-	156	7,135
Waterfall Services Limited	Other Services	1,000	1,977	250	494	1,250	2,471
Primal Pictures Limited	Software	468	371	897	1,184	1,365	1,555
Digital Healthcare Limited	Medical: Instruments	-	-	3,072	1,156	3,072	1,156
Immunobiology Limited	Pharmaceuticals	-	-	1,032	1,002	1,032	1,002
Adex Bridge Investments Limited	Other	1,000	1,000	-	-	1,000	1,000
4G Capital Limited	Other	1,000	1,000	-	-	1,000	1,000
North Western Investments Limited	Other	1,000	1,000	-	-	1,000	1,000
Bluebell Telecom Group	Telecommunications	500	500	500	500	1,000	1,000
Fishawack Limited	Other Services	775	947	-	-	775	947
Pressure Technologies plc	Manufacturing	425	471	300	350	725	821
Harvey Jones Holdings Limited	Retail	777	544	389	273	1,166	817
Deep-Secure Ltd	Software	1,000	500	500	250	1,500	750
Hargreaves Services plc	Other Services	469	636	-	-	469	636
Lightmain Company Limited	Manufacturing	600	600	-	-	600	600
Mattlioli Woods plc	Financial Services	326	547	-	-	326	547
Patsystems plc	Software	222	218	317	311	539	529
RMS Group Holdings Limited	Industrial Services	540	360	210	140	750	500
K3 Business Technology Group plc	Software	402	411	-	-	402	411
EKF Diagnostics Holdings plc	Biotechnology	250	404	-	-	250	404
Tikit Group plc	Software	226	378	-	-	226	378
Harris Hill Holdings Limited	Other Services	600	337	-	-	600	337
Elfin Home Care Limited	Other Services	823	216	317	82	1,140	298
Darwin Rhodes Group Limited	Other Services	444	268	-	-	444	268
Brulines plc	Consumer	163	159	81	79	244	238
Straight plc	Industrial Products	226	234	-	-	226	234
Cambridge Cognition Limited	Software	325	63	240	47	565	110
Tissuemed Limited	Pharmaceuticals	-	-	48	120	48	120
Optos plc	Medical: Instruments	-	-	115	118	115	118
Allergy Therapeutics plc	Biotechnology	-	-	350	47	350	47
Belgravium Technologies plc	Software	200	34	-	-	200	34
Freshroast Coffee Co. Limited	Other Consumer	5	30	-	-	5	30
Denison Mayes Group Limited	Industrial Products	15	15	-	-	15	15
Solcom Limited	Software	-	-	0	12	0	12
Silistix Limited	Semi-conductors	-	-	1,365	0	1,365	0
Oxis Energy Limited	Electronics	-	-	5	0	5	0
Intelligent Recordings Limited	Electronics	-	-	0	0	0	0
		13,937	20,355	9,988	6,165	23,925	26,520

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

Investments/Realisations Since 30 September 2010		Valuation as at 8 December 2010					
President Engineering Group Limited	Engineering	1,000	1,000	-	-	1,000	1,000
Sirigen Group Limited	Medical Technology	-	-	267	267	267	267
Woodspeen Training Plc	Education	250	250	-	-	250	250
Freshroast Coffee Co Ltd	Other Consumer	(5)	(30)	-	-	(5)	(30)

Summaries of Investments

Brief details are given below of the Companies' venture capital investments which together represent 60% of the combined net asset value of the Companies at 30 September 2010. These investments represent 63.0% of BSC's net asset value and 52.2% of BSC2's net asset value at 30 September 2010. 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: BSC interim accounts to 30 September 2010, BSC2 quarter interim management statement to 30 September 2010).

GO Outdoors Limited

Sheffield

www.gooutdoors.co.uk

Cost	£155,697	
Valuation	£7,135,000	
Dates of Investment	May 1998, March 2002 and April 2007	
Equity held	20.2%	
Valuation basis	Earnings multiple	
52 weeks ended	30 Jan 2010	24 Jan 2009
	£million	£million
Sales	76.43	41.19
Profit before tax	4.25	1.21
Retained profits	4.89	2.08
Net assets	10.32	7.22

GO Outdoors is a retailer of outdoor clothing and equipment. The original investment of £500,000 in May 1998 supported the buyout with a second investment in March 2002 to support the company's first acquisition. The company has continued its expansion opening a further nine stores since January 2010, taking the total number of outlets to twenty-seven with further expansion planned.

Waterfall Services Limited

Warrington

www.caterplus.co.uk

Cost	£1,250,129	
Valuation	£2,471,000	
Dates of Investment	February 2007	
Equity held	23.1%	
Valuation basis	Earnings multiple	
Year ended	2010	2009
31 March	£million	£million
Sales	36.33	28.41
Profit before tax	0.85	0.44
Retained profits	0.83	0.33
Net assets	1.59	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 supplying 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.

Primal Pictures Limited

London

www.primalpictures.com

Cost	£1,365,000	
Valuation	£1,555,000	
Dates of Investment	March 2001	
Equity held	21.3%	
Valuation basis	Earnings multiple	
Year ended	2009	2008
31 December	£million	£million
Sales	3.22	2.54
Profit before tax	0.43	0.30
Retained losses	(4.44)	(4.76)
Net liabilities	(1.05)	(1.38)

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons. 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 significantly expanded its business development activities to a range of healthcare and education markets, also developing recurring licence revenues from reseller partners.

Digital Healthcare Limited

Cambridge
www.digital-healthcare.co.uk

Cost: £3,071,603
Valuation: £1,156,000
Dates of Investment: June & December 2005, July 2007, October & November 2008
Equity held: 25.0%
Valuation basis: Price of recent investment, reviewed for impairment

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 becoming the leading supplier of diabetic retinopathy screening software to the NHS.

Year ended	2009	2008
30 September	£million	£million
Sales	3.20	2.15
Loss before tax	(0.50)	(1.52)
Retained losses	(6.09)	(3.88)
Net assets	1.60	1.59

Immunobiology Limited

Cambridge
www.immbio.com

Cost: £1,032,000
Valuation: £1,002,000
Dates of Investment: June & December 2003, November & December 2005, August 2007
Equity held: 12.5%
Valuation basis: Price of recent investment, reviewed for impairment

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.

Year ended	2009	2008
31 May	£million	£million
Sales	0.08	-
Loss before tax	(1.22)	(1.55)
Retained losses	(4.89)	(3.92)
Net assets	(0.68)	0.29

Bluebell Telecom Group

Newcastle
www.bluebelltelecom.com

Cost: £1,000,000
Valuation: £1,000,000
Dates of Investment: September 2010
Equity held: 13.5%
Valuation basis: Price of recent investment, reviewed for impairment

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.

Year ended	2009	2008
30 September	£million	£million
Sales	-	2.87
Loss before tax	(0.02)	(1.71)
Retained losses	(0.02)	(5.36)
Net assets*	1.98	0.13

*Prior to the acquisition of Bluebell Services and Callstream Limited in September 2010, Bluebell Telecom Group Limited (formerly Vulcan Services 2 Limited) was a non-trading holding company without any subsidiaries

Adex Bridge Investments Limited

Midlands

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	March 2010
Equity held	50.0%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Adex Bridge Investments Limited is not yet due.

Adex Bridge was formed to provide investment to SME businesses whose performance needs to be improved. With a successful turnaround record and an extensive network of trusted business contacts, this company is particularly focused on the Midlands region. With links to banks and other lenders the business is well placed to expand its activities in the turnaround sector.

4G Capital Limited

North West

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	March 2010
Equity held	50.0%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for 4G Capital Limited is not yet due.

4G Capital is an investment company led by an experienced serial entrepreneur in the software sector. With significant experience of running software businesses and developing teams and business strategies the business has identified the opportunity to fund more traditional software companies to transition to providing web-based services.

North Western Investments Limited

North West

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	February 2010
Equity held	50.0%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for North Western Investments Limited is not yet due.

North Western Investments has significant contacts across the North West of England which makes it well-placed to expand its activities which are principally focused on acquiring and improving under-performing businesses. It supports an experienced turnaround management team based in Merseyside.

Fishawack LimitedKnutsford
www.fishawack.com

Cost	£775,000
Valuation	£947,000
Date of Investment	January 2008 and December 2009
Equity held	8.4%
Valuation basis	Earnings multiple

Year ended	2010	2009
31 March	£million	£million
Sales	4.8	3.8
Loss before tax	(0.44)	(0.19)
Retained losses	(0.82)	(0.19)
Net (liabilities) assets	(0.19)	0.37

Fishawack is an established, specialist healthcare communications agency focusing on the medical sector, with a strong reputation for providing specialist support for many of the world's top global pharmaceutical companies. Two acquisitions have been made, its US partner and another UK medical communications business, to increase its international reach and service capacity and broaden the customer base. Fishawack continues to seek further sales growth, both organically and through acquisition.

Pressure Technologies plcSheffield
www.pressuretechnologies.co.uk

Cost	£725,000
Valuation	£821,000
Date of Investment	June and July 2007
Equity held	4.3%
Valuation basis	Quoted bid price

Year ended	2009	2008
3 October	£million	£million
Sales	26.19	23.66
Profit before tax	5.05	5.01
Retained profits	8.21	5.26
Net assets	14.11	11.17

Pressure Technologies was admitted to 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 ungeared with substantial cash available.

Harvey Jones Holdings LimitedLondon
www.harveyjones.com

Cost	£1,166,000
Valuation	£817,000
Date of Investment	May 2007
Equity held	10.3%
Valuation basis	Earnings multiple

Year ended	2009	2008
31 December	£million	£million
Sales	8.63	9.59
(Loss) profit before tax	(0.37)	0.20
Retained profits	-	0.33
Net assets	0.53	0.89

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 Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 17 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.

Deep-Secure Ltd Malvern

Malvern
www.deep-secure.com

Cost	£1,500,000
Valuation	£750,000
Date of Investment	December 2009
Equity held	19.3%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Deep-Secure Ltd is not yet due.

Deep-Secure's market leading products protect against threats to IT security via 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.

Hargreaves Services plc

Esh Winning, Durham
www.hargreavesservices.co.uk

Cost	£468,550
Valuation	£636,000
Dates of Investment	December 2007, January, February and March 2008
Equity held	0.4%
Valuation basis	Quoted bid price

Year ended	2010	2009
31 May	£million	£million
Sales	459.8	503.1
Profit before tax	30.7	26.2
Retained profits	51.8	35.8
Net assets	89.8	71.7

In the years following its formation in 1994 Hargreaves established itself as the largest independent bulk haulage company in Britain. It has now evolved into an integrated supplier to the energy industry, concentrating on generation. 2010 is the fifth consecutive year that Earnings per Share have increased at a rate exceeding 20% per annum.

Lightmain Company Limited

Rotherham
www.lightmain.co.uk

Cost	£600,000
Valuation	£600,000
Dates of Investment	March 2010
Equity held	30.0%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended	2009	2008
30 September	£million	£million
Retained profits	0.96	0.90
Net assets	0.96	0.90

Lightmain Company Limited has a small company exemption from filing full financial statements at Companies House.

Lightmain is a manufacturer and installer of playground equipment and multi-user games areas across the UK. The business has a reputation for quality and an established customer base which provides visibility of forward orders.

Mattioli Woods plcLeicester
www.mattioli-woods.com

Cost	£325,922
Valuation	£547,000
Date of Investment	November 2005, February, March, October 2006 and July 2007
Equity held	1.4%
Valuation basis	Quoted bid price

Year ended	2010	2009
31 May	£million	£million
Sales	13.7	13.3
Profit before tax	4.3	3.9
Retained profits	10.3	8.1
Net assets	19.0	16.5

Mattioli Woods provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional persons. The Group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes ("SSAS"). This market has continued to develop as the changing landscape of pension provision and increased legislation drives consolidation amongst providers.

Patsystems plcLondon
www.patsystems.com

Cost	£539,000
Valuation	£529,000
Date of Investment	October 2007, March 2008
Equity held	1.1%
Valuation basis	Quoted bid price

Year ended	2009	2008
31 December	£million	£million
Sales	22.10	19.63
Profit before tax	4.49	2.07
Retained losses	(3.70)	(6.47)
Net assets	23.51	20.05

The holding in Patsystems has arisen as a result of deferred consideration payable in shares on the acquisition of Tamesis in August 2005. Patsystems is listed on AiM and develops trading and risk management systems for derivatives traders. It sells its products to all major financial services and has delivered strong growth particularly with recent further contract wins in Asia.

RMS Group Holdings LimitedGoole
www.rms-europe.co.uk

Cost	£750,000
Valuation	£500,000
Date of Investment	July 2007, August 2008
Equity held	11.8%
Valuation basis	Earnings multiple

Year ended	2009	2008
31 December	£million	£million
Sales	24.0	31.40
Profit before tax	0.70	-
Retained profits (losses)	0.40	(0.40)
Net assets	5.43	5.16

RMS operates from six sites on the Humber estuary handling around 2 million tonnes of cargo a year. RMS has continued to broaden its range of customer service and expand its operations along the Humber estuary. Whilst dependent on the overall level of commodity movements the financing structure of the company has been defensively constructed giving it a competitive advantage over others in its sector. The team have used the tough economic conditions to consolidate their market position and have been able to repay half of the original loan instrument.

K3 Business Technology Group PlcColne
www.k3btg.com

Cost	£402,094	
Valuation	£411,000	
Date of Investment	April 2008	
Equity held	1.2%	
Valuation basis	Quoted bid price	
Year ended	2010	2009
30 June	£million	£million
	Unaudited	
Sales	43.84	36.44
Profit before tax	4.60	3.20
Retained profits	11.33	8.02
Net assets	31.40	26.98

K3 provides software-based supply chain management solutions to the manufacturing and retail sectors, and its Microsoft-based product range has continued to take market share from more established providers. Growth in internet retailing has helped offset recent weakness in sales to traditional retailers and recurring revenue is an increasingly large proportion of turnover. Recent trading has showed a strong recovery in order levels.

EKF Diagnostics Holdings plcLondon
www.ekf-diagnostic.de

Cost	£250,000	
Valuation	£404,000	
Date of Investment	July 2010	
Equity held	1.1%	
Valuation basis	Quoted bid price	
Year ended	2009	2008
31 December	£million	£million
Sales	0.26	0.47
Profit before tax	(0.28)	(0.92)
Retained profits	(0.39)	(0.08)
Net assets	5.62	5.07

EKF Diagnostics reversed into IBL plc in June 2010. It is building a substantial business in in-vitro diagnostics via acquisition, and completed the purchase of Quotient Diagnostics in October 2010. It has yet to report trading figures for the new business.

Tikit Group plcLondon
www.tikit.com

Cost	£226,009	
Valuation	£378,000	
Dates of Investment	June 2001, March and November 2006, January and April 2007	
Equity held	1.3%	
Valuation basis	Quoted bid price	
Year ended	2009	2008
31 December	£million	£million
Sales	25.20	28.47
Profit before tax	2.47	3.49
Retained profits	8.13	7.05
Net assets	15.18	14.25

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company provides a range of document and knowledge management tools to the majority of the top 50 UK legal practices. The business has continued to perform strongly in 2010 with increases in recurring revenues a feature. The business is un-gearred with net cash in excess of £2 million at its half year.

Harris Hill Holdings LimitedKingston-Upon-Thames
www.harrishill.co.uk

Cost	£600,000	
Valuation	£337,000	
Date of Investment	June 2007	
Equity held	10.7%	
Valuation basis	Earnings multiple	
Year ended	2010	2009
31 March	£million	£million
Sales	3.34	3.89
Loss before tax	(0.78)	(0.76)
Retained losses	(2.12)	(1.34)
Net liabilities	(1.64)	(0.86)

Harris Hill is a niche recruitment business with a strong reputation for providing excellent permanent and temporary recruitment solutions to the charity and not for profit sectors. Whilst market conditions have been difficult over recent months at the level of earnings before interest, tax and amortisation the business has remained profitable and well placed for a recovery.

Elfin Home Care LimitedOldham
www.ablecare.co.uk

Cost	£1,140,000	
Valuation	£298,000	
Dates of Investment	December 2007 and October 2008.	
Equity held	22.2%	
Valuation basis	Earnings multiple	
Dividends received	£2,233 (2009: £nil)	
12 months ended	2009	2008
31 October (2008: 11 months)	£million	£million
Sales	4.36	3.06
(Loss) profit before tax	(0.02)	0.16
Retained losses	(0.09)	(0.01)
Net assets	0.48	0.56

Elfin Home Care is a domiciliary care business providing care in the home services to both public and private clients. The Company was established as a vehicle to acquire a number of home care businesses forming a north west group over a five year period. To date two acquisitions have been completed.

Darwin Rhodes Group LimitedLondon
www.darwinrhodes.com

Cost	£443,925	
Valuation	£268,000	
Date of Investment	April 2008	
Equity held	6.06%	
Valuation basis	Earnings multiple	
Period ended	2010	2009
31 March	£million	£million
Sales	4.95	8.36
(Loss) profit before tax	(0.58)	(1.37)
Retained (losses) profits	(1.89)	(1.32)
Net assets	3.19	3.85

Darwin Rhodes is an international recruitment firm specialising in the actuarial, insurance and compliance markets. Whilst there have been significant pressures on the financial services sector, the absence of financial gearing and breadth of Darwin Rhodes' activities both in terms of sectors and geographic diversity have assisted in managing these pressures. The business has no debt and market conditions in 2010 have improved significantly.

Brulines plcStockton-on-Tees
www.brulines.com

Cost	£244,000
Valuation	£238,000
Dates of Investment	October 2006 and July 07
Equity held	0.7%
Valuation basis	Quoted bid price

Year ended	2010	2009
31 March	£million	£million
Sales	19.83	19.07
Profit before tax	4.04	4.62
Retained profits	7.64	6.50
Net assets	21.04	20.06

Brulines is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK Licensed on-trade. Brulines has consolidated its market leading position and continues to seek to expand its service and product offering. Dividend yield remains strong but the pub chains continue to struggle. Diversifying into related markets, such as petrol forecourts, has been an increasing focus.

Straight plcLeeds
www.straight.co.uk

Cost	£226,000
Valuation	£234,000
Dates of Investment	February 2004, January, March & November 2005, May 2006
Equity held	1.8%
Valuation basis	Quoted bid price

Year ended	2009	2008
31 December	£million	£million
Sales	28.32	25.44
Profit (loss) before tax	1.56	(0.97)
Retained profits	2.87	2.09
Net assets	9.70	8.92

Straight is a provider of environmental products and services and is the UK's leading supplier of recycling containers. The group has recently expanded through acquisitions in its supply chain which it believes strengthens its position in the UK market and support its increasing overseas expansion. Results continue to demonstrate recovery.

Cambridge Cognition LimitedCambridge
www.camcog.com

Cost	£565,000
Valuation	£110,000
Date of Investment	May 2002
Equity held	6.7%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended	2009	2008
31 December	£million	£million
Sales	3.12	2.14
Loss before tax	(0.52)	(1.09)
Retained losses	(6.91)	(6.39)
Net assets	(0.80)	(0.28)

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions. It raised £1.5 million in January 2008, from a range of investors, to assist with commercialising its intellectual property. The company has restructured and trading is much improved in recent months.

Tissuemed Limited

Leeds
www.tissuemed.com

Cost:	£47,539
Valuation:	£120,000
Dates of Investment:	December 2005 & March 2007
Equity held:	1.6%
Valuation basis:	Price of recent investment, reviewed for impairment

Year ended	2010	2009
31 March	£million	£million
Retained losses	(16.0)	(15.40)
Net assets	0.65	1.24

Tissuemed Limited has a small company exemption from filing full audited financial statements at Companies House.

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients. In April 2010 (post accounting period) the company secured investment and a pan-European distribution agreement from a US listed medical devices company.

Optos plc

Dunfermline
www.optos.com

Cost:	£114,809
Valuation:	£118,000
Dates of Investment:	December 2005 & February 2007
Equity held:	0.2%
Valuation basis:	Quoted bid price

Year ended	2009	2008
30 September	\$million	\$million
Sales	97.16	100.81
(Loss) profit before tax	(3.82)	5.89
Retained losses	(59.96)	(54.43)
Net assets	58.66	63.93

Optos has developed a series of Scanning Laser Ophthalmoscopes used by optometrists for the early detection of eye problems such as age-related macular degeneration. Approximately 4,000 devices have been installed world-wide, mostly in North America, either on a capital sale or rental basis. Recent trading is in line with market expectations.

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 PwC qualifying in 1986. He holds a BA (Hons) in Economics from the University of Manchester.

Nigel Barraclough Investment Director

Nigel joined YFM Private Equity Limited in 1991, where he has been responsible for the appraisal, negotiation and conclusion of many deals in a varied range of sectors. He has been making venture capital investments since 1995 and led many of BSC's largest investments. He represents the Companies on the Boards of Waterfall Services Limited and Deep-Secure Limited and is an independent non-executive director of AIM quoted Hargreaves Services plc. Nigel qualified as a Chartered Accountant with BDO Stoy Hayward before joining Ernst & Young.

David Gee Director of Investments

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

David Bell Portfolio Director

David joined YFM in 2009 to lead portfolio management activities and is a Director of YFM Private Equity Limited. 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 Companies 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 focussing on supply chain solutions.

Paul Cannings Director

Paul joined YFM in 2006 to raise new funds and to make and manage investments. He is a Director of YFM Private Equity Limited. Prior to joining YFM he spent 14 years at 3i where he was also Director and had extensive experience of making and managing private equity investments. Latterly he held the position of Director of the small buyouts and growth capital team. He has led several new investments and currently sits on the boards of Harvey Jones, Harris Hill and GO Outdoors. He has a first class degree in Economics from Bristol University and qualified as a chartered accountant with PwC.

Mike White Investment Director

Mike joined YFM 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 focussed on business development, strategy formulation and the establishment of new business partnerships. As Investment Director, Mike is focussed on making and managing investments. He represents the Companies on the Board of Fishawack Limited.

The Boards

Both Companies benefit from highly experienced Boards consisting of three Non Executive Directors, who are listed below. The Boards have overall responsibility for each Company's investment policy and administration and have appointed YFM Private Equity Limited as the Fund Manager.

Helen Sinclair Chairman British Smaller Companies VCT plc

Helen has an MA in Economics from the University of Cambridge and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly 8 years at 3i plc focusing on MBO and growth capital investments. She later co-founded Matrix Private Equity raising a successful technology fund, the Matrix Venture Fund VCT plc. She subsequently became Managing Director of Matrix Private Equity before moving to take on a portfolio of non-executive Director roles in 2005. She is currently a non-executive Director of The Income & Growth VCT plc, Matrix Income & Growth 4 VCT plc, Spark Ventures plc and Framlington Aim VCT.

Philip Simon Cammerman British Smaller Companies VCT plc

Philip has over 20 years of industrial experience in engineering and technology orientated industries and has worked in both the USA and the UK. He has spent the last 25 years in the venture capital industry and was Chairman of YFM Private Equity Limited and a Director of YFM Group (Holdings) Limited until he retired in April 2008. He has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety

equipment, design and textiles. He is a Non Executive Director of Pressure Technologies plc and Hargreaves Hale AiM VCT 2 plc. He has been a Director of the Company since its establishment as a venture capital trust.

Edward Buchan British Smaller Companies VCT plc

Edward is a Fellow of the Institute of Chartered Accountants in England and Wales, starting his career with Deloitte before moving to Hill Samuel Bank Limited where he became Head of Corporate Finance and a member of the Bank Executive Committee. He subsequently joined Close Brothers Corporate Finance Limited and then West LB Panmure, specialising in the transport and logistics industry sectors. He is currently Managing Director, Corporate Finance at LCF Edmond De Rothschild Securities and is a non-executive Director of Wallem Group Limited and Downing Absolute Income VCT 1 plc.

Richard Last Chairman British Smaller Companies VCT2 plc

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 Arcotech 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 Martin Pettigrew British Smaller Companies VCT2 plc

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 (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is an investor-director on the Boards of a number of technology companies, including Sphere Medical Limited, Timberpost Limited, Xeros Ltd and Acal Energy Limited (of which he is Chairman).

Peter Waller British Smaller Companies VCT2 plc

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 and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He is currently Chairman of Corero plc, and 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 Operation

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

Each Board meets regularly throughout the year (normally at least quarterly), and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings will take place or 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 Companies do not have major shareholders) and (ii) not all of the non-executive directors have service contracts, but consultancy agreements instead (whereas the UK Corporate Governance Code recommends fixed term renewable service contracts). For BSC2, remuneration issues are dealt with by the full Board.

Audit and Nomination Committees

Audit Committees

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

Nomination Committees

Each Company has a nomination committee which consists of the directors who are considered by the respective Boards to be independent of the Fund Manager. The chairmen of the Boards act as chairmen of the committees. In considering appointments to the Boards, the nomination committees take into account the ongoing requirements of the Companies and the need to have a balance of skills and experience within the Boards.

Remuneration and Investment Committees

Remuneration Committee

BSC has a remuneration committee which meets at least once a year to review the remuneration paid to the Directors. The committee comprises each of the non-executive Directors and is chaired by Helen Sinclair. The BSC2 Board has determined that due to the remuneration procedures currently in place, in its opinion there is no role for an independent remuneration committee.

Investment Committee

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

Custody Arrangements

Each Company's investments will be held by the Fund Manager under the terms of an administration and investment advisory agreement (the "IAA"), details of which are set out on pages 51 and 52. The Fund Manager may be the holder by way of safekeeping of safe custody investments or custody assets belonging to the Companies 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 Companies will be deposited in the name of the Companies or will be held by a custodian or the Companies' solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the Companies or, subject as aforesaid, the Fund Manager and subject as aforesaid will be held by the Fund Manager by way of safekeeping in the relevant Company's name or forwarded directly to the custodian or the Companies' solicitors. No third party custodian has been appointed. Neither the Fund Manager nor any custodian appointed by the Companies will take legal ownership of the Companies' assets.

Co-investment Policy

BSC

The Fund Manager currently advises BSC2 and a number of other funds on behalf of institutional investors. The Directors believe that this provides BSC Shareholders with a number of advantages, particularly in relation to deal flow and the opportunity for BSC to co-invest in larger deals (including possible co-investments with these other funds) and, therefore, later stage companies. Furthermore, BSC acknowledges that investment opportunities may be suitable for other funds managed by the Fund Manager ("Relevant Funds"). The Fund Manager will consult the BSC Board in relation to such investment opportunities, it being agreed that, in general for investment opportunities below £1m falling within the Company's investment criteria, the Company will be offered first refusal. 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 those members of the BSC Board who are independent of the Fund Manager.

BSC2

The Fund Manager currently advises BSC and a number of other funds on behalf of institutional investors. The Directors believe that this provides BSC2 Shareholders with a number of advantages, particularly in relation to deal flow and the opportunity for BSC2 to co-invest in larger deals (including possible co-investments with these other funds) and, therefore, later stage companies. Furthermore, BSC2 acknowledges that investment opportunities may be suitable for other funds managed by the Fund Manager ("Relevant Funds"). The Fund Manager will consult the BSC2 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 BSC2 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 those members of the BSC2 Board who are 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.

BSC was presented with the award for the 'Best Shareholder Communication for the VCT Reports and Accounts' by the Association of Investment Companies (AIC) in 2009.

The format for the 2010 British Smaller Companies Annual Report was reviewed and updated in response to Shareholder feedback and now provides a summary of financial results.

Further Information Relating to the Offers

It is proposed to allot up to 8,780,488 Shares in BSC and up to 12,811,388 Shares in BSC2, subject to raising in aggregate a maximum of £15m at the Offer Price, to the public under the Offers, which are structured so as to allow Investors to invest in both the 2010/2011 and 2011/2012 tax years. 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 the premium tier of the Official List and to trading on the London Stock Exchange's main market for listed securities.

Applications for the Shares will be payable in full by cheque or bankers draft on application. Investors may post-date their cheques to 6 April 2011 for applications in respect of the 2011/2012 Offers. Applications under the Offers will be processed upon receipt. Applications accompanied by post dated cheques 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. Multiple subscriptions by Investors are permitted. The Offers are not underwritten.

The subscription list for the Offers will open on 8 December 2010 and close at 11.00 am on 5 April 2011 for the 2010/2011 Offers and at 11.00 am on 29 April 2011 for the 2011/2012 Offers (or at any earlier date on which the Offers are fully subscribed), save that the Directors reserve the right to extend the closing date of the 2011/2012 Offers. The result of the Offers 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 Offers to proceed.

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

Shares will be allotted and issued in respect of valid applications in respect of the 2010/2011 Offers on 5 April 2011 and, in respect of the 2011/2012 Offers after 5 April 2011 and on or prior to the closing of the 2011/2012 Offers. 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 Companies will apply for the Offer Shares to be admitted to CREST and it is expected that the Offer Shares will be so admitted, and accordingly enabled for settlement in CREST, 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 Offers may not be withdrawn after dealings in the Offer Shares have commenced. In the event of any requirement for either of the Companies to publish a supplementary prospectus, Applicants who have yet to be entered into that Company's register of members will be given two 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 62 to 63 of this document.

Allocation of Funds Raised

Investors' subscription monies of up to £25,000 will be allocated equally between the Companies. Although an Applicant's subscription will be equally split between the Companies (up to £25,000), because of the different Net Asset Values for the Companies, Applicants will receive a different number of shares in each Company. Applicants subscribing for Offer Shares in excess of £25,000 will be able to determine how the excess is to be split between the Companies.

Investor Profile

A typical Investor for whom the Offers are designed is a UK income tax payer 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 Companies 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 Offers 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.

Early Subscriptions

Applicants are encouraged to submit their Application Form early in order to be confident that their applications will be successful. Investors will receive additional Shares equivalent to 1% of the amount they subscribe (which will be paid by the Fund Manager) in respect of valid application forms received and accepted prior to 1 March 2011

How to Claim the Tax Relief

Certificates to enable a claim for income tax relief to be made are expected to be posted to 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 HM Revenue & Customs office 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.

Part 2

Investment Policies of BSC and BSC2

The investment policy of each of the Companies is as set out below.

The investment policies of the Companies are 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 Companies 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 Companies 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 Companies fund the investment programmes out of their own resources and have no borrowing facilities for this purpose. The maximum that the Companies 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 £0.45 million (2009: £0.39 million) in BSC VCT Plc and £0.58 million (2009: £0.5 million) in BSC VCT 2 Plc, based on cost of investments. Typically the Company invests alongside other venture capital funds such as 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 Boards reserve the right of the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AiM and where the decision is required urgently, in which case the Chairman, or Chairman of the Investment Committee if appropriate, may act in consultation with the Fund Manager.

The Boards regularly monitor 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 Companies are 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 Companies 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 Boards receive regular reports on the diversity and return of the fund's portfolios. At 30 September 2010 £nil was held by BSC VCT plc in this fund and £nil was held by BSC VCT2 plc in this fund which is included within Cash and Cash Equivalents on the balance sheet.

Part 3

Financial Information on the Companies

Introduction

Audited statutory accounts of BSC for the years ended 31 March 2008 and 31 March 2009 in respect of which the Company's former auditors, PKF (UK) LLP, registered auditor of Farringdon Place, 20 Farringdon Road, London, EC1M 3AP, and 31 March 2010, in respect of which the Company's 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 1985 Act or section 495 of the 2006 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 1985 Act, or section 498 (2) or (3) of the 2006 Act. Copies of these audited statutory accounts are available at www.yfm.co.uk.

Audited statutory accounts of BSC2 for the years ended 31 December 2007 and 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 31 December 2009, in respect of which the Company's 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 1985 Act or section 495 of the 2006 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 1985 Act, or section 498 (2) or (3) of the 2006 Act. Copies of these audited statutory accounts are available at www.yfm.co.uk.

Unaudited interim accounts of BSC for the six months ended 30 September 2009 and the six months ended 30 September 2010 are available at www.yfm.co.uk. These interim accounts have not been audited or reviewed by the Company's auditors.

Unaudited interim accounts of BSC2 for the six months ended 30 June 2009 and the six months ended 30 June 2010 are available at www.yfm.co.uk. 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

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

British Smaller Companies VCT plc

Nature of Information	Audited Statutory Accounts for Year Ended 31 March 2008 Page No.	Audited Statutory Accounts for Year Ended 31 March 2009 Page No.	Unaudited Interim Reports for 6 Months Ended 30 September 2009 Page No.	Audited Statutory Accounts for Year Ended 31 March 2010 Page No.	Unaudited Interim Reports for 6 Months Ended 30 September 2010 Page No.
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Fund Manager's Review	7-18	6-17	-	9-20	-
Valuation of Investments	19	18	-	21	-
Investment Portfolio	-	-	4-8	-	5-10
Directors	20	19	-	22	-
Directors Report	21-29	20-28	-	23-30	-
Directors' Remuneration Report	30-31	28-29	-	31-32	-
Independent Auditors' Report	32-33	30-31	-	33	-
Income Statement/Statement of Comprehensive Income	34	32	9	34	11
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British Smaller Companies VCT2 plc

Nature of Information	Audited Statutory Accounts for Year Ended 31 December 2007 Page No.	Audited Statutory Accounts for Year Ended 31 December 2008 Page No.	Unaudited Interim Report for 6 Months Ended 30 June 2009 Page No.	Audited Statutory Accounts for Year Ended 31 December 2009 Page No.	Unaudited Interim Report for 6 Months Ended 30 June 2010 Page No.
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Chairman's Statement	3-4	4-5	3-4	4-5	3-4
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Directors' Remuneration Report	23-24	25-26	-	26-27	-
Independent Auditors' Report	25	27	-	28	-
Income Statement/Statement of Comprehensive Income	26	28	10	29	10
Balance Sheet	27	29	11	30	11
Statement of Changes in Equity	28	30	12-13	31	12-13
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Operating and Financial Review British Smaller Companies VCT plc

	31 March 2008 (Audited)	31 March 2009 (Audited)	30 September 2009 (Unaudited)	31 March 2010 (Audited)	30 September 2010 (Unaudited)
Total Net Assets £'000	26,198	26,400	27,915	29,008	32,292
Change in Net Assets £'000	9,410	202	1,515	1,093	3,284
Net Asset Value per Share	102.1p	85.7p	90.6p	94.4p	98.8p
Dividends paid/proposed for the year/period	5.0p	5.0p	2.0p	6.25p	2.0p

British Smaller Companies VCT2 plc

	31 December 2007 (Audited)	31 December 2008 (Audited)	30 June 2009 (Unaudited)	31 December 2009 (Audited)	30 June 2010 (Unaudited)
Total Net Assets £'000	13,151	12,794	12,600	12,106	12,498
Change in Net Assets £'000	(785)	(357)	(194)	(494)	392
Net Asset Value per Share	79.0p	76.9p	75.7p	72.7p	70.1p
Dividends paid/proposed for the year/period	3.0p	6.0p	2.0p	6.0p	2.0p

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

- (i) for the financial years ended 31 December 2007, 31 March 2008, 31 December 2008, 31 March 2009, 31 December 2009, and 31 March 2010 is set out in the sections headed "Chairman's Statement" and "Fund Manager's Review" in the audited statutory accounts of the relevant Company for these years; and
- (ii) for the six months ended 30 June 2009, 30 September 2009, 30 June 2010 and 30 September 2010 is set out in the sections headed "Chairman's Statement" and "Investment Portfolio" in the unaudited interim accounts of the relevant Company for these periods.

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

No Significant Change

Since 30 September 2010 (being the end of the last financial period of BSC for which unaudited interim financial statements have been published), the Company has invested £1 million into the management buy-out of President Engineering Group Limited a Sheffield based specialist manufacturer of valves. The Company has realised the whole of its investment in Freshroast Coffee Company Limited for £30,000 (which is the same value as reported in the results to 30 September 2010). The Company's board has recommended payment of an interim dividend of 2 pence per share which is payable on 7 January 2011. On 7 December 2010 the Company completed an investment of £250,000 into Woodspeen Training plc, a listed vocational training provider. Other than these matters there has been no significant change in the financial or trading position of BSC since 30 September 2010.

Since 30 June 2010 (being the end of the last financial period of BSC2 for which unaudited interim financial statements have been published), BSC2 invested £500,000 in Bluebell Telecom Group Limited alongside BSC. In addition in October 2010 the Company approved an investment of up to £400,000 in to Sirigen Limited. In November 2010 £266,667 of the approved amount was invested with the balance available for further investment subject to performance milestones. Sirigen produces reagents that improves the efficiency of analysis of the effectiveness of certain drugs. The Company has approved an investment of £238,832 into AiM-listed Brady plc a provider of risk management solutions to the metals and commodities markets which is anticipated to complete on 23 December 2010. The Company paid an interim dividend of 2 pence per Share on 30 September 2010. On 17 November the Company announced its interim management results for the nine month period which showed after payment of the interim dividend net assets of 66.2 pence per Share. Other than these matters there has been no significant change in the financial or trading position of BSC2.

Historical Financial Information Incorporated by Reference

The audited statutory accounts for the years ended 31 December 2007, 31 March 2008, 31 December 2008, 31 March 2009, 31 December 2009 and 31 March 2010 and the unaudited interim accounts for the six months to 30 June 2009, 30 September 2009, 30 June 2010 and 30 September 2010 are being incorporated by reference, as set out above.

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 HM Revenue & Customs 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 the London 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) 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 a commencement date, expected to be in April 2011, have at least 70% by value of the Company's Qualifying Investments in "eligible shares". Legislation re-defining "eligible shares" for this purpose is due to be introduced in the Finance (No. 3) Act 2010, and is expected to include shares with 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 and residential care homes. 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, one of which is carried on wholly or mainly in the United Kingdom (once enacted, expected to be in April 2011, the Finance (No. 3) Act 2010 will replace this requirement and stipulate that investee companies must merely have a permanent establishment in the UK). The investee company's gross assets must not exceed £7 million immediately prior to the investment and £8 million immediately thereafter. 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.

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.

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. Each of the Companies 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 Offers 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 2010/11 and 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. HM Revenue & Customs has confirmed that the Ordinary Shares are eligible VCT shares for the purposes of this section.

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 each of the Companies; and
 - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in each of the Companies, 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 each of the Companies; 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.

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 each of the Companies, 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 his 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 HM Revenue & Customs 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.

Part 5

Additional Information

1. Incorporation etc.

BSC

- 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 6 December 1995, with registered number 3134749 under the name British Smaller Companies VCT plc, which is the current legal and commercial name of the Company. 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. On 11 July 2003 by ordinary resolution it was resolved that the Company continue as a venture capital trust. At an Extraordinary General Meeting held on 2 February 2008 a Special Resolution was passed to adopt new Articles of Association which extended the duration of the Company for a further five years to the Annual General Meeting to be held in 2013. 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 29 March 2004 the Company revoked its investment company status.

BSC2

- 1.5 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 VCT2 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 294 500.
- 1.6 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 when a similar resolution will be placed before shareholders for the Company to continue for a further five years. The Company is not regulated in the operation of its activities.
- 1.7 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.
- 1.8 On 12 November 2004 the Company revoked its investment company status.

2. Share Capital

BSC

- 2.1 The following allotments and repurchases of Ordinary Shares have taken place since 1 October 2007.
- on 30 November 2007 the Company repurchased 40,000 Ordinary Shares at a price of 91.0 pence per Share
 - on 14 February 2008 the Company repurchased 135,000 Ordinary Shares at a price of 91.0 pence per Share
 - on 20 February 2008 the Company repurchased 50,000 Ordinary Shares at a price of 91.0 pence per Share
 - on 31 March 2008 the Company repurchased 79,357 Ordinary Shares at a price of 91.0 pence per Share
 - on 4 April 2008 the Company issued 5,041,746 Ordinary Shares at a price of 106.025 pence per Share
 - on 30 April 2008 the Company issued 337,493 Ordinary Shares at a price of 106.025 pence per Share
 - on 10 July 2008 the Company repurchased 110,081 Ordinary Shares at a price of 89.50 pence per Share
 - on 30 September 2008 the Company repurchased 188,072 Ordinary Shares at a price of 88.5 pence per Share
 - on 11 February 2009 the Company issued 67,445 Ordinary Shares at a price of 89.11 pence per Share
 - on 2 July 2009 the Company repurchased 141,882 Ordinary Shares at a price of 73.0 pence per Share

- on 13 August 2009 the Company issued 138,413 Ordinary Shares at a price of 78.57 pence per Share
- on 23 December 2009 the Company repurchased 190,000 Ordinary Shares at a price of 74.0 pence per Share
- on 7 January 2010 the Company issued 105,771 Ordinary Shares at a price of 84.17 pence per Share
- on 1 April 2010 the Company issued 1,784,967 Ordinary Shares at a price of 97.25 pence per Share
- on 6 April 2010 the Company issued 263,254 Ordinary Shares at a price of 97.25 pence per Share
- on 22 June 2010 the Company issued 77 Ordinary Shares at a price of 97.25 pence per Share
- on 3 September 2010 the Company repurchased 260,000 Ordinary shares at a price of 78.0 pence per Share
- on 28 September the Company issued 166,512 Ordinary shares at a price of 85.64 pence per Share

2.2 As at 30 September 2010 (being the end of the last financial period of the Company for which unaudited interim financial information has been published) there were 165,000,000 authorised and 32,687,004 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 holds an additional 1,642,837 shares in the treasury account.

2.3 Immediately following the close of the Offers, assuming full subscription and the maximum number of Early Subscription Shares being allotted, the issued share capital of BSC, fully paid or credited as fully paid, will be £4,311,033 divided into 43,110,329 Ordinary Shares (of which 1,642,837 Ordinary Shares are held in treasury), and there will remain authorised but un-issued a minimum of £12,188,967 of share capital divided into 121,889,671 Ordinary Shares.

BSC2

2.4 The following allotments and repurchases of Ordinary Shares have taken place since 1 October 2007.

- 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.

2.5 As at 30 June 2010 (being the end of the last financial period of the Company for which unaudited interim financial information has been published) there were 50,000,000 authorised and 17,837,519 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.

2.6 Immediately following the close of the Offers, assuming full subscription and the maximum number of Early Subscription Shares being allotted, the issued share capital of BSC2 fully paid or credited as fully paid will be £3,065,618 divided into 30,656,184 Ordinary Shares (of which 300,000 Ordinary Shares are held in treasury), and there will remain authorised but un-issued a minimum of £1,934,382 of share capital divided into 19,343,816 Ordinary Shares.

3. The Companies

3.1 Save as disclosed in this paragraph 3 and in paragraphs 2.1 and 2.4 above, in the period since 1 October 2007 no share or loan capital of the Companies 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 Companies or any subsidiary in connection with the issue or sale of any such capital.

3.2 No share or loan capital of the Companies is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offers and under the dividend re-investment scheme for BSC and the proposed dividend re-investment scheme for BSC2, 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 Offers will be created under the Act, issued in registered form and temporary documents of title will not be issued. The ISIN of the BSC Ordinary Shares is GB0001403152. The ISIN of the BSC2 Ordinary Shares is GB0005001796.

3.4 Each 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 relevant Company which is not subject to any dis application of pre-emption rights conferred by authority of the shareholders.

3.5 The obligations of each Company to issue and allot Ordinary Shares under the Offers are in all respects conditional on the passing of resolutions 1 and 4 below, which, together with the other resolutions set out below, will be proposed at the General Meetings to be convened on 11 January 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 Offers, up to an aggregate nominal amount of \$900,000;

- (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 Offers, during the period commencing on the passing of this resolution and expiring on the later of 15 months from the date hereof or the next annual general meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the Directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect;
- (2) THAT pursuant to article 166 of BSC's articles of association and article 168 of BSC2's articles of association, the Directors be and are hereby authorised to offer holders of shares in the Company the right to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part to be determined by the Boards) of all or any dividend declared in the period commencing on the date of this resolution and ending on the fifth anniversary of this resolution pursuant to the Company's dividend reinvestment scheme.
- (3) THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot shares in the Company in connection with a dividend reinvestment scheme during the period commencing on the passing of this resolution and expiring on the fifth anniversary of this resolution (unless previously revoked, varied or extended by the company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted after such expiry and that all previous authorities given to the Directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect;

Special Resolutions

- (4) THAT the directors be and are hereby empowered in accordance with section 570(1) of the Act during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the directors in resolution (1) above as if section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with:
- (i) the Offers;
 - (ii) an offer of securities by way of rights;
 - (iii) the allotment for cash (otherwise than pursuant to sub-paragraph (i) to (ii) above) of equity securities up to an aggregate nominal amount of 10 per cent. of the issued share capital of the Company immediately following the final closing of the Offers, but so that this authority shall allow the Company to make offers or agreements before the expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560 (2) of the Act as if in the first paragraph of this resolution the words "pursuant to the general authority conferred upon the directors in resolution (1) above" were omitted;
- (5) THAT the directors be and are hereby empowered in accordance with section 570(1) of the Act during the period commencing on the passing of this resolution and expiring on the fifth anniversary of this resolution (unless previously revoked, varied or extended by the company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the directors in resolution (3) 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 a dividend reinvestment scheme but so that this authority shall allow the company to make offers or agreements before the expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.
- (6) THAT article 191 of BSC's articles of association and article 195 of BSC2's articles of association be amended to delete the reference to "2013" and "2010" in line 1 respectively and substitute "2016" therefor;
- (7) THAT, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company immediately after the final closing date of the Offers be cancelled.

4. Memorandum and Articles of Association

4.1 Memorandum of Association

The Memorandum of Association of the Companies provides that each Company's principal object is to carry on

the business of a venture capital trust. The objects of the Companies are set out in full in clause 4 of their Memorandum of Association which are available for inspection at the address specified in paragraph 8 below.

4.2 Articles of Association

The Articles of each 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 respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay such interim dividends as appear to them to be justified. No dividends or other monies payable in respect of a share shall bear interest as against the 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.

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 of BSC2 shall not exceed £75,000 per year and the ordinary remuneration of the Directors of BSC shall not exceed £115,000 per year) to be divided among them in such proportions and manner as the Directors may determine. The Directors shall also be paid by the 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.
- (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 off of or other dealing with any investments or other capital assets and, subject to the Act, any expenses, loss or liability (or provision therefor) which the Board considers to relate to a capital item or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that during a Relevant Period no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the 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

An Ordinary Resolution is being put to a General Meeting of BSC on 11 January 2011 to extend the life of the Company from 2013 to 2016 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.

An Ordinary Resolution is being put to a General Meeting of BSC2 on 11 January 2011 to extend the life of the Company from 2015 to 2016 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, in the case of BSC not more than six months after such Annual General Meeting, and in the case of BSC2 not more than four months after such Annual General Meeting. Implementation of the proposals will require the approval of Members by Special Resolution.

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 shall be called on not less than twenty-one days notice in writing and General Meetings shall be called on not less than fourteen days notice in writing. The notice shall be exclusive of the day on which it is given and of the day of the meeting and shall specify the place, the day and hour of meeting, and in case of special business the general nature of such business. The notice shall be given to the Members, other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive notice from the 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 Companies

- 5.1 DTR 5 of the Disclosure and Transparency Rules requires a Shareholder to notify the relevant Company of the percentage of its shares he holds if such percentage reaches, exceeds or falls below 3% or subsequent 1% thresholds. The relevant Company will make such information public through a Regulatory News Service. Neither Company is aware of any person who, as at the date of this document and immediately following the issue of the Ordinary Shares under the Offers, (assuming full subscription under the Offers) is or will, directly or indirectly, be interested in 3% or more of the issued share capital of either Company. Further, as at the date of this document and immediately following the issue of such shares, (assuming full subscription under the Offers), neither Company is aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over it. No major shareholder has different voting rights.
- 5.2 The interests of the Directors and their immediate families in the share capital of each 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	% of issued Ordinary Shares prior to the Offers
BSC		
Helen Sinclair	7,270	0.02 %
Edward Buchan	-	-
Philip Cammerman	35,880	0.1 %
BSC2		
Richard Last	36,870	0.2 %
Robert Pettigrew	37,524	0.2 %
Peter Waller	-	-

- 5.3 The interests of the Directors and their immediate families in the share capital of the Companies, 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 Offers, assuming the Offers are fully subscribed, that the Offer Price is as set out on page 11 and that no Early Subscription Shares are issued, will be as follows:

Name	Number of Ordinary Shares	% of issued Ordinary Shares after the Offers
BSC		
Helen Sinclair	14,587	0.03 %
Edward Buchan	2,439	0.006 %
Philip Cammerman	35,880	0.08 %
BSC2		
Richard Last	43,987	0.14 %
Peter Waller	7,117	0.02 %
Robert Pettigrew	41,794	0.14 %

- 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 either Company, whether beneficial or non-beneficial.
- 5.5 YFM Group Limited is the registered holder of 525,500 Ordinary Shares in BSC and YFM Private Equity is the registered holder of 10 Ordinary shares in BSC and 345,086 Ordinary Shares in BSC2. These holdings represent 1.6%, 0.00003% and 1.9% respectively of the issued share capital of the relevant Company as at the date of this document.

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

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

- 5.6 The Directors of BSC and BSC2 have committed to invest £25,000 and £21,000 respectively under the Offers. Save as noted in this paragraph 5.6, no Ordinary Shares are being reserved for allocation to Shareholders, Directors or employees of either Company.
- 5.7 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 relevant Company pursuant to letters of appointment, under which they are required to devote such time to the affairs of the relevant 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: Helen Sinclair - £35,000, Philip Cammerman - £20,000, Edward Buchan - £20,000, Richard Last - £35,000, Robert Pettigrew - £18,000, and Peter Waller - £18,000. No benefits are payable on termination.
- 5.8 No loan or guarantee has been granted or provided by either Company to any Director.
- 5.9 Except as listed in paragraph 7.20 below, none of the Directors has had any interest in any party which is related to any 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 that Company.
- 5.10 Save as disclosed in paragraph 7.18 and as may arise by virtue of the directorships shown in paragraph 5.13 below, there are no potential conflicts of interest between the duties of any Director to the Companies 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 Companies, (i) has an interest in any transaction effected by either Company which is or was unusual in its nature or conditions or significant to the business of that Company or (ii) has any potential conflicts of interest between any duties they have to the Companies and their private interests and/or other duties.

- 5.11 It is anticipated that the aggregate of fees paid or to be paid to the Directors by BSC for the twelve month period ending 31 March 2011 will not exceed £85,000 plus VAT or National Insurance (as applicable) and by BSC 2 for the twelve month period ending 31 December 2010 £67,500 plus VAT or National Insurance (as applicable). Fees paid to the Directors of BSC for the year ended 31 March 2010 and to the Directors of BSC2 for the year ended 31 December 2009 are as follows:

Name	Fees Paid (£) (plus VAT or National Insurance (as applicable))
BSC	
Helen Sinclair	38,748.88
Philip Cammerman	21,828.88
Edward Buchan	Nil
BSC2	
Richard Last	34,809.69
Robert Pettigrew	19,581.69
Peter Waller	Nil

- 5.12 Each Company has taken out Directors' and Officers' liability insurance for the benefit of the Directors.
- 5.13 The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document and the principal activities of the Directors outside the Companies where these are significant with respect to the relevant Company:

Name	Current directorships/partnerships	Former directorship/partnerships (in last five years)
Helen Rachelle Sinclair	British Smaller Companies VCT plc The Income & Growth VCT plc Matrix Income & Growth 4 VCT plc Spark Ventures plc Framlington Aim VCT plc	Hotbed Fund Managers Limited
Philip Simon Cammerman	British Smaller Companies VCT plc Clarendon Fund Managers Limited Clarendon Fund Nominees Limited Howmac plc Nitech Venture Partners Limited NI Venture Partners Limited Pressure Technologies plc Connect Yorkshire Hargreaves Hale AiM VCT 2 plc	British Smaller Companies VCT2 plc Catapult Venture Managers Limited Growth Capital Partners Limited JKN 138 GP Limited Yorkshire Enterprise Finance Limited Yorkshire Enterprise Small Firms Fund Limited GCC GP (Development) Limited GCC GP (Investment) Limited GCC London Limited YFM Group (Holdings) Limited YFM Group Limited YFM Venture Finance Limited YFM Private Equity Limited GCC South West Limited GCC Yorkshire Limited White Rose Ventures Limited PIF GP No 5 Limited PIF GP No 6 Limited Yorkshire Enterprise Limited White Rose Nominee Investments Limited White Rose Investments Limited Chandos Fund GP Limited Yorkshire Fund Managers (Investment) Limited Yorkshire Fund Managers (General Partner) Ltd YVF GP (Investment) Limited YVF GP (Development) Limited London Fund Managers Limited South West Ventures Limited London GP Limited South West GP Limited Yorkshire and Humber GP Limited PIF GP No 1 Limited PIF GP No 2 Limited PIF GP No 3 Limited PIF GP No 4 Limited YFM Workspace Limited NWBIS General Partner Limited Yorkshire Enterprise Finance (Holdings) Limited YFM Business Development Limited British Smaller Technology Companies VCT plc
Richard Last	British Smaller Companies VCT2 plc Lynx Limited APD Communications Limited Lynx Holdings Limited Lynx IT Communications Limited	British Smaller Companies VCT plc Xpertise Group plc Power Education Limited Lynx Computer Services Limited Sphinx Professional Services Limited

Richard Last (continued)	Gapaid Waste Management Systems Limited Patsystems plc APD Mobile Data Limited Lighthouse Group plc Arcontech Group plc Corero plc CSE – Global (UK) Limited Hobbs Hole Limited Parseq plc	Orsted Limited Xenon Training (NE) Limited Xenon Training Limited British Smaller Technology Companies VCT plc Lynx Overseas Investments Limited Transient 110 Limited Sphinx Group Limited Sphinx CST (Ireland) Limited FS (UK) Limited Overseas 110 Limited Sphinx CST Limited Switch Networks Limited Sphinx 110 Limited Quantix Holdings Limited Xpertise Training Limited Transient 110 (No 2) Limited Lynx Technology Holdings Limited BT Engage IT Limited APD Aspire Limited Sphinx CST Networks Limited Broomco (4184) Limited MMI Automotive Limited Distal Holdings Limited Signal Limited Watermans People & Organisational Development Limited LynxServ Limited
Robert Martin Pettigrew	British Smaller Companies VCT2 plc Sphere Medical Holdings plc Timberpost Limited Xeros Limited Odos Imaging Limited Acal Energy Limited	British Smaller Companies VCT plc Digital Healthcare Limited Sphere Medical Limited Genesis Consulting Limited British Smaller Technology Companies VCT plc Cambridge Advanced Materials Limited Biowisdom Limited Oxonica plc Zinwave Holdings Limited
Charles Walter Edward Ralph Buchan	British Smaller Companies VCT plc Wallem Group Limited Buchan Investments Limited The Bristol Diocesan Board of Finance Limited Downing Absolute Income VCT 1 plc 34 Rosary Gardens Limited	Tibbett & Britten Group Plc Isotron Plc
Peter Waller	British Smaller Companies VCT2 plc Keypoint Technologies (UK) Limited Corero plc Rocela Group Limited Rocela Limited Premier Veterinary Group Limited Thanet One Limited Zetland Limited	Biotrace International plc MI International Limited Quillian Limited Miami International Sales Limited

Peter Waller (continued)	Corero Dormant One Limited Dorero Dormant Three Limited Corero Group Limited Corero Software Limited Eclipse Learner Systems Limited Mondas Information Technology Limited Mondas Systems Limited	
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- 5.14 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.
- 5.15 Except as noted in paragraph 5.13 above, none of the Companies' service providers have any conflict, or potential conflict, as between their duty to either Company and duties owed by them to third parties and other interests.
- 5.16 There are no amounts set aside or accrued by either 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 Companies within two years immediately preceding the publication of this document or contain any provisions under which the Companies have any obligation or entitlement which is material to it as at the date of this document:

The Companies

- 6.1 An offer agreement dated 8 December 2010 ("the Offer Agreement") between the Companies (1), the Directors (2), Howard Kennedy ("HK") (3) and YFM Private Equity (4) under which HK agreed to act as Sponsor to the Offers. As is usual in contracts of this type YFM Private Equity has agreed to indemnify the Companies against the costs of the Offers exceeding 5.5% of the aggregate value of accepted applications for Ordinary Shares received under the Offers and receives a commission of 5.5% of the aggregate value of the gross proceeds received by the Companies under the Offers, less the upfront commission paid by the Companies to recognised intermediaries in respect of accepted applications in the amount set out on page 9. YFM Private Equity agrees to indemnify BSC to the extent that BSC's annual operating expenses (including the advisory fee set out above but excluding any performance fee referred to in the paragraph below and excluding VAT and Trail commissions) exceeds 3.5% of the Net Asset Value of BSC.

Under the Offer Agreement, which may be terminated by HK in certain circumstances of breach, YFM Private Equity, the Companies and the Directors have given certain warranties which are subject to certain limitations. Warranty claims against the BSC2 Directors must be made no later than 60 days after the date of publication of the audited accounts of BSC2 for the year ending 31 December 2012 and warranty claims against the BSC Directors must be made no later than 60 days after the date of publication of the audited accounts of BSC for the year ending 31 March 2012. The Companies have agreed to indemnify HK in respect of its role as Sponsor and under this Offer Agreement. The Offer Agreement may also be terminated, inter alia, if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

BSC

- 6.2 By an administration and investment advisory agreement dated 28 February 1996 between BSC and YFM Private Equity (formerly Yorkshire Fund Managers Limited) (the "IAA"), YFM Private Equity agreed to provide administrative, company secretarial and investment advisory services to BSC in relation to the BSC's qualifying portfolio. The IAA took effect on 4 April 1996 for an initial period of 3 years and thereafter is terminable by either party on not less than 12 months' notice or, inter alia, on the others' breach or insolvency.

Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2% of the Gross Assets of BSC (as determined on 31 March and 30 September each year), plus VAT, if applicable, payable quarterly in advance on 1 January, 1 April, 1 July and 1 October in each year together with an annual secretarial fee of £35,000 (subject to annual adjustment and currently £49,024), plus VAT. The Fund Manager is also entitled to all arrangement, syndication and monitoring fees payable in respect of unquoted investments. BSC indemnifies the Fund Manager against all things lawfully and properly done under the IAA. YFM Private Equity agrees to indemnify

BSC to the extent that BSC's annual operating expenses (including the advisory fee set out above but excluding any performance fee referred to in the paragraph below and excluding VAT and trail commissions, exceeds 3.5% of the Net Asset Value of BSC). The total remuneration payable to YFM Private Equity in the period (including irrecoverable VAT to 31 March 2010) was £592,000 (2009: £711,000).

- 6.3 An incentive agreement (the "Incentive Agreement") dated 7 July 2009 between BSC, the YFM Private Equity Carried Interest Trust (an employee benefit trust established for the benefit of employees of the Fund Manager) and the Fund Manager under which, with effect from 1 April 2009 ("Effective Date") the Fund Manager is entitled to receive a fee, calculated by reference to each accounting period of BSC, equal to 20% of the amount by which dividends paid to Shareholders exceed 4 pence per share per accounting period (as increased or decreased, as applicable, in each accounting period by the percentage increase or decrease (if any) in the retail prices index in the previous accounting period) ("Target Rate"), once cumulative dividends per share of 10 pence or more have been paid to shareholders. The Target Rate is further adjusted by reference to any cumulative shortfall in dividends paid per share from any previous accounting period after the Effective Date. The payment is also conditional upon the net asset value per Share in the relevant accounting period being not less than 94 pence per Share. A compensatory payment is due if the Incentive Agreement is terminated without cause or if BSC is taken over. The compensatory payment is calculated as a percentage of the fee that would otherwise be payable under the Incentive Agreement by reference to the accounting period following the Incentive Agreement being so terminated. 80% is payable in the first accounting period after such event, 55% in the second, 35% in the third, and nil thereafter. The maximum fee payable in any 12 month period cannot exceed an amount which would represent 25% or more of the net asset value or market capitalisation of BSC at such time.

Mr Cammerman, as a former employee of YFM Private Equity Limited, is one of the beneficiaries of that Trust.

- 6.4 Under the terms of a letter from Brewin to BSC dated 25 October 2004, Brewin agreed to act as investment manager to the Company in relation to its portfolio of short-term government securities and to produce monthly portfolio valuations. In return for such services, Brewin are entitled to receive a management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly, subject to a maximum annual fee of £25,000 plus VAT. This cost is borne by the Fund Manager.
- 6.5 By a deed of novation dated 1 April 2009 (to the agreement dated 3 September 2004) between the Company and Singer Capital Markets Limited ("Singer"), Singer 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 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 against losses arising out of Singer's appointment except where such losses arise from Singer's breach of agreement.

BSC2

- 6.6 YFM Private Equity Limited has acted as Fund Manager and performed administrative and secretarial duties for the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by an agreement dated 8 December 2010. The 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 Limited 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. Under this same agreement YFM Private Equity Limited 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 Limited in the period (including irrecoverable VAT to September 2008) was £367,000 (2008: £437,000). For the period until 30 April 2011, YFM Private Equity agrees to indemnify BSC2 to the extent that BSC2's annual operating expenses (including the management fee set out above but excluding any performance fee referred to in the paragraph below and excluding VAT and trail commissions) exceed 4.5% of BSC2's Net Asset Value. From 30 April 2011, the indemnity applies if the annual operating expenses exceed 4.0% if £5 million or less is raised by BSC2 under the Offers; 3.75% if between £5,001 and £7,499 million is raised and 3.5% if £7.5 million or more is raised
- 6.7 Under the Subscription Rights Agreement dated 28 November 2000, YFM Private Equity Limited 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 Limited 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 Limited subscription right was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Mr Cammerman, as a former employee of YFM Private Equity Limited, is one of the beneficiaries of that Trust.

Following the issue of this document, arrangements will be put in place in order that the benefit of the subscription rights are extended to include all of BSC2's issued Shares.

- 6.8 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.
- 6.9 By a deed of novation dated 1 April 2009 (to the 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 agreement.

7. General

- 7.1 YFM Private Equity Limited is or may be a promoter of the Companies and will receive investment advisory fees and other payments from the Companies under the agreements described in paragraph 6.2 and 6.6 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.
- 7.2 **Material Interests**
YFM Private Equity is paid an annual investment advisory fee equal to 2% per annum of the Gross Assets of BSC and 2.5% per annum of the Gross Assets of BSC2. In line with normal VCT practice, the Fund Manager will also be entitled to receive a performance related incentive fee. Further details of these arrangements are set out under the heading "Fund Manager". In Part 1 of this document and at paragraphs 6.3 and 6.7 of this Part 5.
- Paragraph 7.18 below sets out the Company's related party transactions.
- 7.3 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 either Company's financial position or profitability.
- 7.4 The costs and expenses of the Offers, including any irrecoverable VAT and all fees and commissions payable are expected to amount to £825,000 assuming subscription in full. The proceeds will be applied in accordance with the Company's investment policy. On the basis that the Offers are fully subscribed the net proceeds are expected to be £7,087,500 for BSC and £7,087,500 for BSC2. The net proceeds will be applied in accordance with the relevant Company's investment strategy. The costs and expenses of the Offers will be 5.5% of gross funds raised by each Company under the Offers.
- 7.5 Grant Thornton UK LLP of 2 Broadfield Court, Sheffield, S8 0XF were appointed as auditors to the Companies 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.
- 7.6 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.
- 7.7 Neither Company assumes responsibility for the withholding of tax at source.
- 7.8 A VCT must satisfy the UK Listing Authority that its directors and any investment manager have sufficient and appropriate experience in the management of assets on a scale and type in which the VCT proposes to invest. The VCT's board of directors must be able to demonstrate that it will act independently of any advisers of the VCT. A majority of the board (including the chairman) must not be directors, employees, partners, officers or professional advisers of or to the investment manager or any other company in the same group as the investment 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 33 and so as to comply with

section 842 ITA. Any material change to the investment policy of the Company will only be made with Shareholder approval.

- 7.9 Howard Kennedy, sponsor to the Offers, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 7.10 YFM Private Equity, the Companies' investment 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.
- 7.11 The unaudited Net Asset Value per BSC Ordinary Share as at 30 September 2010 was 98.8 pence and the unaudited Net Asset Value per BSC 2 Ordinary Share as at 30 September 2010 was 66.2 pence.
- 7.12 BSC had available as at 30 September 2010 cash at bank of £1,348,000 and £10,336,000 in government stocks and similar fixed interest securities (source: Interim Report for the period from 1 April 2010 to 30 September 2010) and BSC2 had available as at 30 September 2010 cash at bank of £1,329,000 and £4,042,000 in government stocks and similar fixed interest securities (source: Interim Management Statement for the quarter ended 30 September 2010), each of which should be supplemented by the net proceeds of the Offers. As at the date of this document the Companies had no loan capital outstanding, no other borrowings or indebtedness in the nature of borrowings and no contingent liabilities or guarantees.
- 7.13 The existing issued BSC Ordinary Shares will represent 79.63% of the enlarged ordinary share capital immediately following the Offers, assuming the Offers are fully subscribed and no Early Subscription Shares are allotted, and on that basis, existing BSC Shareholders will therefore be diluted by 20.37% at full subscription under the Offers. In respect of BSC2 existing issued BSC2 Ordinary Shares will represent 58.21% of the enlarged ordinary share capital on this basis, and existing shareholders will be diluted by 41.79% at full subscription under the Offers.
- 7.14 There have been no significant factors, including unusual or infrequent events or new developments, which have materially affected either Company's income from operations. There have been no governmental, economic, fiscal, monetary or political policies or factors that have materially affected either 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 either Company's operations.
- 7.15 Each 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 Boards believe that by announcing their Company's financial results on a regular basis, it should help to provide a fairer market price for its Shares.
- 7.16 In the opinion of BSC, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 7.17 In the opinion of BSC2, its working capital is sufficient for its present requirements, that is for at least 12 months from the date of this document.
- 7.18 The Companies have 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:

BSC

- Mr S Noar a former director was a non-executive director of Cozart plc a former investment of BSC until 4 October 2007 and during the year to 31 March 2008 he received remuneration of £17,000 in respect of his services.
- Until 3 April 2008 Mr P S Cammerman was executive Chairman of YFM Private Equity Limited, wholly owned subsidiary of YFM Group Limited (which held 0.01635% of the issued share capital of the Company as at 31 March 2010). Until 3 April 2008 Mr Cammerman was also a director of YFM (Group) Holdings Limited the ultimate parent company of YFM Private Equity Limited, and he held a beneficial shareholding.
- Mr P S Cammerman has been a non-executive director of Pressure Technologies plc since 14 April 2008. During the year to 31 March 2010 Mr Cammerman received £15,300 from Pressure Technologies plc in respect of his services. As at 31 March 2010 Mr Cammerman held a 0.1% equity stake in Pressure Technologies plc, a 0.04% stake in Brulines plc and a 0.004% stake in Straight plc. Mr Cammerman is also a director of Howmac plc and as at 31 March 2010 a 2.1% shareholder. As at 31 March 2010 Howmac plc held a 0.02% stake in Hargreaves Services plc.
- Mr R Last has been a non-executive director of Patsystems plc since January 2002. During the year to 31 March 2010 Mr Last received £45,000 from Patsystems plc in respect of his services. As at 31 March 2010 Mr Last held a 0.4% equity stake in Patsystems plc.
- YFM Group Limited holds an investment in Primal Pictures Limited, an investee company of the Company. As at 31 March 2010 YFM Group Limited's investment in Primal Pictures Limited was valued at £25,428.

BSC2

- Mr S Noar a former director was a non-executive director of Cozart plc a former investment of BSC2 until 4 October 2007 and during the year to 31 December 2007 he received £17,107 from Cozart plc in respect of his services. At 31 December 2007 Mr Noar no longer held an equity stake in Cozart plc.
- Until 3 April 2008, Mr P S Cammerman was the Chairman of YFM Private Equity Limited.
- YFM Group Limited the parent company of YFM Private Equity Limited holds investments in Primal Pictures Limited which as at 31 December 2009 was valued at £25,428) and Digital Healthcare Limited (which as at 31 December 2009 was valued at £21,791) .
- Mr R Pettigrew was a non-executive director of Digital Healthcare Limited until 31 December 2007 and Oxonica plc until 27 September 2007. During the year to 31 December 2007 Mr Pettigrew received £12,500 from Digital Healthcare Limited and £10,833 from Oxonica plc in respect of his services. As at 31 December 2009, Mr Pettigrew held 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 2009 Mr Last received £45,000 from Patsystems plc in respect of his services. As at 31 December 2009 Mr R Last held a 0.4% equity stake in Patsystems plc.
- Mr P S Cammerman has been a non-executive director of Pressure Technologies plc since 14 April 2008. During the year to 31 December 2009 Mr P S Cammerman received £15,300 from Pressure Technologies plc in respect of his services. As at 31 December 2009 Mr P S Cammerman held a 0.02% equity stake in Pressure Technologies plc and a 0.04% stake in Brulines plc.

- 7.19 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.
- 7.20 Investments will be valued quarterly by each Board and these net asset values will be communicated to Shareholders through the Regulatory News Service. Each Company will also announce when there has been a major change to net asset value, for instance as a result of a disposal of an investment or if that 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.
- 7.21 The Directors believe that the Offers have the potential to constitute a significant gross change in each Company, including an increase in the net assets of the Companies by the amount of the net funds raised under the Offers (which, on the basis of maximum subscription under the Offers and the Offer Price, would be £7,087,500 for BSC and £7,087,500 for BSC2). Subject to the level of subscription of the Offers, an increase in net assets could have certain consequences, potentially including a reduction in the annual expense ratio of each Company, increasing the size and range of investments which each Company could undertake and increasing the number of investments each Company would be required to make in order to meet the VCT eligibility rules. The effect of the Offers on the earnings of the holders of Ordinary Shares is expected to be positive since the fixed costs of operating the Companies will be spread over a larger asset base, thereby reducing the running cost per Share. The effect of the Offers on the earnings of each Company is expected to be positive.

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 Offers remain open:

- (i) the Articles of Association of the each Company;
- (ii) the consent letters referred to in paragraph 7.9 and 7.10 of this Part 5 above;
- (iii) the Directors' letters of appointment referred to in paragraph 5.7 of this Part 5 above;
- (iv) the audited accounts of BSC for the periods ended 31 March 2008, 2009 and 2010 and the interim financial statements for the 6 month period to 30 September 2010 and the audited accounts of BSC2 for the periods ended 31 December 2007, 2008 and 2009 and interim financial statements for the 6 month period to 30 June 2010.
- (v) this document.

8 December 2010

Part 6

Directors and Advisers

Directors British Smaller Companies VCT plc (all non-executive)

Helen Sinclair (Chairman)
Phillip Cammerman
Edward Buchan

Directors British Smaller Companies VCT2 plc (all non-executive)

Richard Last (Chairman)
Robert Pettigrew
Peter Waller

All of:

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

Company Secretary

James Gervasio LLB

Registered Offices

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

Sponsor and Solicitors to the Offers

Howard Kennedy
19 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

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

VCT Tax Advisers

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Part 7

Definitions

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

“Act”	the Companies Act 2006 (as amended) and in force from time to time;
“AIM”	the Alternative Investment Market of the London Stock Exchange;
“annual running costs”	the annual costs incurred by the relevant company in the ordinary course of its business (including irrecoverable VAT);
“Applicant”	an investor who applies to subscribe for Shares under the Offers;
“Articles”	the articles of association of either Company (as amended from time to time);
“Board” or “Directors”	the Directors of the relevant Company at the date of this document;
“BSC”	British Smaller Companies VCT plc;
“BSC2”	British Smaller Companies VCT2 plc;
“Capita Registrars”	a trading name of Capita IRG Plc;
“Company”, “Companies” or “British Smaller Companies VCTs”	BSC or BSC2 or BSC and BSC2;
“Early Subscription Shares”	the additional Shares to be issued to early Applicants as detailed on page 9
“FSA”	the Financial Services Authority;
“General Meeting” or “GM”	the general meeting of the relevant Company convened for 10.15am (in the case of BSC) and 11.00am (in the case of BSC2) on 11 January 2011 at Berkeley Square House, Berkeley Square, London W1J 6BD (and any adjournment thereof);
“Gross Assets”	the aggregate of the gross assets of the relevant Company including assets represented by any principal monies borrowed by the relevant Company less all current liabilities of the relevant Company (other than any principal moneys borrowed);
“HMRC”	HM Revenue & Customs;
“Investment Management Team” or “Management Team”	those persons whose details are set on page 28 under the heading “The Investment Team”
“Investors”	an individual who subscribes for Shares under the Offers;
“ITA”	Income Tax Act 2007, as amended;
“IFRS”	International Financial Reporting Standards;
“London Stock Exchange”	London Stock Exchange plc;
“2010/2011 Offers”	the offers for subscription of Ordinary Shares to a value not exceeding £15 million in respect of the tax year 2010/2011, details of which are set out in this document;
“2011/2012 Offers”	the offers for subscription of Ordinary Shares to a value not exceeding £15 million in respect of the tax year 2011/2012, details of which are set out in this document;
“Net Asset Value” or “NAV”	net asset value per Ordinary Share
“Offers”	the 2010/2011 Offers and the 2011/2012 Offers;
“Offer Price”	102.50p per BSC Share, being the unaudited net asset value per BSC Share as at 30 September 2010 of 98.8p, less the interim dividend of 2p declared on 23 November 2010 plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence and 66.2p per BSC2 Share, being the unaudited net asset value per BSC2 Share as at 30 September 2010 plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence;
“Offer Shares”	Shares to be issued under the Offers;
“Official List”	the Official List of the UK Listing Authority;
“Ordinary Shares” or “Shares”	ordinary shares of 10p each in the capital of the relevant Company;
“Pricing Mechanism”	the basis on which the price at which Ordinary Shares will be allotted pursuant to the Offers, calculated in accordance with the procedure set out on page 6 of this document;

“Qualifying Company”	an unquoted (including AIM-traded) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of Part 6 ITA, which is summarised in Part 2 of this document;
“Qualifying Holdings” or “Qualifying Investments”	shares in, or securities of, a Qualifying Company held by a VCT which meets the requirements described in Chapter 4 of Part 6 ITA;
“Receiving Agent”	City Partnership (UK) Limited;
“Resolutions”	the resolutions of the relevant Company to be proposed at the GM;
“Shareholder(s)”	holder(s) of Ordinary Shares;
“UK Listing Authority”	the FSA acting in its capacity as the competent authority under the Financial Services and Markets Act 2000;
“VAT”	value added tax;
“Venture Capital Trust” or “VCT”	a venture capital trust as defined in Section 259 Income Taxes Act 2007;
“YFM Private Equity” or “the Fund Manager”	YFM Private Equity Limited registered number 2174994, authorised and regulated by the FSA;
“YFM Group”	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.

Part 8

Terms and Conditions of Application

1. The contract created by the acceptance of an Application will (unless the Boards resolve otherwise) be conditional on the Admission of the New Ordinary 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) divided by 0.945 to allow for Issue costs of 5.5% 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 British Smaller Companies VCT plc as at 30 September 2010 (the latest date for which the Net Asset Value has been announced prior to the date of this Document) was 98.8 pence per Ordinary Share. Based on this, and after adjusting for the costs of the Offers and the interim dividend of 2.0 pence per Share declared on 23 November 2010, the new Shares would be issued at a price of 102.50 pence per Share.

The unaudited Net Asset Value of British Smaller Companies VCT2 plc as at 30 September 2010 (the latest date for which the Net Asset Value has been announced prior to the date of this Document) was 66.2 pence per Ordinary Share. Based on this, and after adjusting for the costs of the Offers, the new Shares would be issued at a price of 70.25 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 Companies may treat Applications as valid and binding even if not made in all respects in accordance with the prescribed instructions and the Companies may, at their discretion, accept an Application in respect of which payment is not received prior to the closing of the Offers. 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 New 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 Companies reserve the right to allot and arrange for the listing of New Shares under the Offers 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 VCT Plc and British Smaller Companies VCT2 Plc;
 - (b) authorise the Registrar to send share certificates in respect of the New 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 registers of members of the Companies in respect of such New Shares;
 - (c) agree that, in consideration of the Companies agreeing to process your Application, your Application will not be revoked until after the Closing Date of these Offers and that this paragraph constitutes a collateral contract between you and the Companies 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 Companies;
 - (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 share certificates for the New Shares applied for or to enjoy or receive any rights or distributions in respect of such New Shares unless and until you make payment in cleared funds for such New Shares and such payment is accepted by the Companies (which acceptance shall be in their 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 Companies of such late payment in respect of such New

Shares, the Companies may (without prejudice to their other rights) treat the agreement to allot such New Shares as void and may allot such New Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such New Shares (other than return of such late payment);

- (e) agree that in respect of those New Shares for which your Application Form has been received and is not rejected, your Application may be accepted at the election of the Companies 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 New 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 Companies;
 - (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 Companies or the Receiving Agent may consider to be, required by the Money Laundering Regulations 2007 ("the Regulations") 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 Companies and the New 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 Companies 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 Offers 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 Companies 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 them, as your agent, to do all things necessary to effect registration of any New 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 Companies any information which they 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 them to disclose any information relating to your Application as they consider 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 New 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, New Shares and that the New 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 Companies if you are not, or cease to be, either a Qualifying Applicant or beneficially entitled to the New 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.

6. The new 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"). 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 new 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 new Shares allocated for each such Application Form at the rates specified in paragraph 7 under "Notes on the Application Form" on page x. Authorised financial advisers may agree to waive part or all of their initial 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 these Offers 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 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 Companies 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 Companies reserve the right, at their absolute discretion, for them 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 Companies reserve the right at their 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 Companies 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 Offers or not in all respects complying with the Notes on the Application Form. In particular, but without limitation, the Companies may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Companies 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.parker@yfmgroup.co.uk 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 each individual tax year. 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 "BSC plc and BSC2 plc" and crossed "A/C Payee only". Your payment must relate solely to this application. Cheques may be presented for payment on receipt. Subscription 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 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) in Section 2 your full name, full address including the post code, 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 VCT plc and British Smaller Companies VCT2 plc in accordance with the Terms and Conditions as set out on pages 59 to 61 of the Prospectus dated 8 December 2010.

Administration of Shareholder Account

The dividends paid by the Companies 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 Companies' 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 Companies directly to your bank or building society account, please complete Section 5 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 post code: Please sign and date the Administration of Shareholder Account section of the Application Form. Please also include your post code 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 Advisers' 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 advisers' obligations to advise their clients of the risk factors set out on pages 7 to 8 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. Authorised financial intermediaries can waive some or all of the commission and have it invested in New 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 of 0.5% for four years will be paid.
 - 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.

Application Form

British Smaller Companies VCT plc & British Smaller Companies VCT2 plc

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**

Make your cheque or bankers draft out to ("BSC plc and 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 2011 in respect of the 2010/2011 Offers or 11:00 am on 29 April 2011 in respect of the 2011/2012 Offers. If you post your Application Form you are recommended to use first class post and allow at least four days for delivery.

1. SUBSCRIPTION DETAILS

For subscriptions up to £25,000

A 2010/2011 Offers (income tax year 2010/2011) £ B 2011/2012 Offers (income tax year 2011/2012) £

Total (A+B) Total (A+B) to be not less than £5,000 (multiples of £1,000 thereafter) £

For subscriptions over £25,000

I would like the first £25,000 of my subscription applied:

A 2010/2011 Offers (income tax year 2010/2011) £ B 2011/2012 Offers (income tax year 2011/2012) £

Total (A+B) £

I would like the element of my subscription that is over £25,000 applied as follows

	British Smaller Companies VCT plc	British Smaller Companies VCT2 plc	Total
C 2010/2011 Offers (income tax year 2010/2011)	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
D 2011/2012 Offers (income tax year 2011/2012)	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
Total (C+D)	£ <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
The total of (A+B) plus the total of (C+D) should equal the amount on the cheque (or banker's draft attached to the application (multiples of £1,000)			£ <input type="text"/>

2. PERSONAL DETAILS

Title Full Name:

Address:

Postcode:

Daytime Telephone Number:

Date of Birth: National Insurance Number:

3. SIGNATURE

Signature: Date:

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 details below. The Companies cannot accept responsibility if any details provided by you are incorrect.

Account name:	<input type="text"/>	Account number (please quote all digits and zeros):	<input type="text"/>
Sort Code:	<input type="text"/>	Name of Bank or Building Society:	<input type="text"/>
Branch:	<input type="text"/>		
Branch Address:	<input type="text"/>	Post Code:	<input type="text"/>

5. DIVIDEND PAYMENT AUTHORISATION

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 Companies to the account noted above.

Full Name:	<input type="text"/>	Signature:	<input type="text"/>
Date:	<input type="text"/>	Post Code:	<input type="text"/>

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 8 of this document.

Firm Name:	<input type="text"/>	Contact:	<input type="checkbox"/>	Adviser	<input type="checkbox"/>	Administrator	(please tick):
E-mail address:	<input type="text"/>	FSA Number:	<input type="text"/>				
Telephone No:	<input type="text"/>	Fax No:	<input type="text"/>				
Address:	<input type="text"/>	Post Code:	<input type="text"/>				

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

7A

Introductory commission of 3%.

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

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

7B

Introductory commission of 2.25% plus trail commission.

1 To receive 2.25% plus annual trail commission of 0.5% for 4 years place an 'X' in this box

2 Insert the amount of the 2.25% introductory commission that you wish to be waived and reinvested in additional new 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 details below. The Companies and The City Partnership (UK) Limited cannot accept responsibility if any details provided by you are incorrect.

Account name:	<input type="text"/>	Account number (please quote all digits and zeros):	<input type="text"/>		
Sort Code:	<input type="text"/>	Name of Bank or Building Society:	<input type="text"/>	Branch:	<input type="text"/>
Branch Address:	<input type="text"/>	Post Code:	<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 Companies.

Signature:	<input type="text"/>	Date:	<input type="text"/>
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**British Smaller Companies VCT plc
and British Smaller Companies VCT2 plc**

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

