

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you should consult your own independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your Ordinary Shares in the Company, please send this document at once to the purchaser, transferee, the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Directors and the Company, whose names appear on page 5, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who or which 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.

British Smaller Companies VCT plc

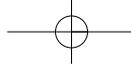
(Incorporated in England and Wales under the Companies Act 1985 with registered number 3134749)

DIVIDEND REINVESTMENT SCHEME IN RELATION TO THE COMPANY'S ORDINARY SHARES AND RECOMMENDED PROPOSAL TO ADOPT NEW ARTICLES OF ASSOCIATION

Your attention is drawn to the letter from the Chairman of the Company set out on pages 5 to 7 of this document which contains a recommendation to vote in favour of the resolutions to be proposed at the General Meeting referred to below.

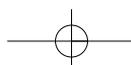
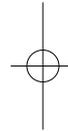
A notice convening a General Meeting of the Company to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 15 January 2009 at 11.00 am is set out at the end of this document. A Form of Proxy is attached to this document. To be valid, Forms of Proxy for use at the General Meeting must be completed and returned so as to be received by Capita Registrars Proxy Department, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 11.00 am on 13 January 2009. The completion and depositing of a Form of Proxy will not preclude you from attending and voting in person at the meeting should you wish to do so.

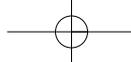
Your attention is also drawn to the Dividend Reinvestment Scheme Mandate Form enclosed with this document which should be returned to the address printed on the reverse.



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Part I

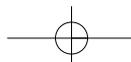
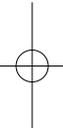
Important Notice

This document, which constitutes a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000, has been approved, for the purposes of that section only, by YFM which is authorised and regulated by the Financial Services Authority in the United Kingdom pursuant to the Financial Services and Markets Act 2000 ("the Act").

In approving this document YFM is acting solely for the Company and no-one else and will not be responsible to anyone other than the Company for providing the protections afforded by the 1985 Act and the 2006 Act (to the extent in force) or for providing financial advice in relation to the subject of this document.

There is no guarantee that the Company's investment objective will be attained. If you are in any doubt as to what action to take, you should contact an independent financial adviser. The levels and bases of reliefs from taxation described in this document are those currently available. These may change and their value depends on an investor's individual circumstances.

No person has been authorised to issue any advertisements or give any information, or make any representations in connection with the Dividend Reinvestment Scheme, other than those contained in this document and, if issued, given or made such advertisements, information or representations must not be relied upon as having been authorised by the Company.



Part I

Risk Factors

The Directors draw the attention of Shareholders who may be considering an investment in the Company under the Scheme to the following risk factors, which may affect the performance of the Company and/or the availability of tax reliefs:

- Investment in the Company should be regarded as long-term in nature and may not be suitable for all individuals. If they are in any doubt potential investors should consult their professional advisers about the Scheme.
- Investment in unquoted companies and AiM companies by its nature, involves a higher degree of risk than investment in a quoted portfolio. Unquoted and AiM investments may be difficult to realise.
- The market price of the Ordinary Shares may not fully reflect their underlying net asset value. Past performance is not a guide to the future and the value of an investment in the Company, and the income derived from it may go down as well as up and an investor may not get back the amount invested.
- Although the Shares will be listed on the Official List of the UK Listing Authority it is possible that there may not be a liquid market in the Shares and Shareholders may have difficulty in selling their Shares.
- Any realised losses on a disposal of Shares will not be allowable losses, for the purposes of capital gains tax, and will therefore not be capable of set off against any capital gains.
- There can be no guarantee that the Company will maintain full VCT qualifying status. If the Company ceases to retain approval as a VCT, before Participating Shareholders have held their shares for five years, any income tax relief will have to be repaid. Following a loss of VCT status, Shareholders will be taxed on dividends paid by the Company and, in addition, a liability to capital gains tax may arise on any subsequent disposal of the Shares.
- Where full approval as a VCT is withdrawn the Company will also lose its exemption from corporation tax on capital gains. If at any time VCT status is lost, dealings in the Ordinary Shares will normally be suspended until such time as the Company has published proposals either to continue as an investment company or to be wound up.
- Should a VCT not qualify as a VCT, or if it qualifies but the Shares fall outside the qualifying limit of the Shareholder, the Shareholder will generally be liable to income tax on the aggregate amount of the dividend and the notional tax credit equal to 1/9th of the dividend. The notional tax credit will discharge the income tax liability of a basic rate taxpayer. Shareholders who also pay tax at the higher rate can use the notional credit to offset against their higher rate tax liability.
- The information in this document is based on existing legislation. The tax reliefs described are those currently available. The tax rules or their interpretation in relation to an investment in the Company and/or rates of tax may change during the life of the Company.
- The investments made by the Company may be difficult to realise. The fact that a Share is traded on AiM does not guarantee its liquidity. The spread between the buying and selling price of such Shares may be wide and thus the price used for valuation may not be achievable.
- The Company's ability to obtain maximum value from its investment (for example, through a sale or takeover) may be limited by requirements imposed in order to maintain its VCT status (such as the condition that not less than 70% by value of a VCT's total investments must be in shares in, or securities of, an unquoted (including AiM quoted) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of the Income Tax Act 2007.

Part II – Chairman’s Letter

British Smaller Companies VCT plc

(Registered in England No. 3134749)

Directors:

Ms Helen Sinclair
Philip Cammerman
Richard Last
Robert Pettigrew

Registered Office:

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

16 December 2008

Dear Shareholder

INTRODUCTION

The Company is an established VCT originally launched in February 1996, which combines the opportunity to take advantage of the potentially attractive returns available from investing in a portfolio of smaller, unquoted UK companies with good growth prospects, with the benefit of the substantial tax reliefs available to investors in a VCT. The Manager is a specialist venture capital fund manager, which has been established for some 20 years.

As at 30 September 2008, the Company’s unaudited net asset value was 95.8 pence per Ordinary Share. The Company currently has approximately £9.9 million invested in 27 investments, with a current valuation of approximately £12.7 million. The balance of the net assets of the Company comprise investments in interest bearing securities.

BACKGROUND

The purpose of this document is to offer Shareholders the opportunity to elect to reinvest their dividends (including the 2008 Interim Dividend) by subscribing for New Ordinary Shares in the Company.

In addition the directors are recommending the adoption of New Articles.

DIVIDEND REINVESTMENT SCHEME

At the Annual General Meeting of the Company held on 6 August 2008 the Directors were authorised by special resolution to establish a dividend reinvestment scheme for the Company’s Shareholders.

Dividend reinvestment enables Shareholders to increase their total holding in the Company without incurring dealing costs, issue costs or stamp duty. Subject to individual circumstances, these Shares should qualify for income tax relief (currently at 30 per cent) that is applicable to subscriptions for new shares in Venture Capital Trusts. The terms and conditions of the Scheme in relation to the 2008 Interim Dividend (and future dividends as may be declared), which will apply only to holders of Ordinary Shares in respect of their Ordinary Shares are set out at Part III of this document.

Shares subscribed for via the Scheme will form part of each Shareholder’s annual limit for investing in Venture Capital Trusts and qualifying for tax reliefs.

The New Ordinary Shares issued under the Scheme will rank *pari passu* in all respects with the Ordinary Shares then in issue. Subject to individual circumstances these Shares should qualify for the VCT tax reliefs that are available to subscriptions for new shares in Venture Capital Trusts (a summary of which can be found at Part IV of this document).

Part II – Chairman’s Letter

The terms of the Scheme only permit a Shareholder to join if all dividends on the Ordinary Shares registered in their name at the Record Date for the dividend are mandated to the Scheme. If you elect to receive New Ordinary Shares in respect of your total holding of Ordinary Shares, any residual cash balance arising representing a fractional entitlement will be carried forward to the next dividend.

The terms and conditions of the Scheme as set out in Part III of this document are as approved by the Directors pursuant to the authority granted by the Shareholders on 6 August 2008.

The entitlement to New Ordinary Shares instead of cash in respect of the 2008 Interim Dividend has been determined on the basis of the interim dividend of 2p per Ordinary Share and the unaudited net asset value per Ordinary Share announced by the Company on 20 November 2008 as adjusted for the interim dividend (being 93.8p) less 5%.

If no Shareholders were to elect to reinvest the 2008 Interim Dividend under the Scheme and it is paid entirely in cash, it would result in a total amount of £615,049 being paid by the Company by way of cash dividends. If the Scheme were to be taken up in full, it would result in the allotment of a maximum of 690,213 New Ordinary Shares (ignoring any reduction in respect of fractions) representing approximately 2.2% of the issued Ordinary Share capital as at the date of this circular.

Shareholders who elect to take the 2008 Interim Dividend in the form of New Ordinary Shares and to participate in the Scheme will increase their holdings by acquiring these without incurring dealing expenses or stamp duty.

If you elect to join the Scheme, the mandate given in the Mandate Form will remain in force for all dividends up to 6 August 2013 unless and until you give notice to terminate your participation in the Scheme in accordance with the terms of the Scheme. Those Shareholders not electing to join the Scheme at this time will be able to do so in respect of dividends declared for later periods.

Shareholders who elect to reinvest the 2008 Dividend under the Scheme should be eligible to claim income tax relief on the amounts subscribed provided the New Ordinary Shares are issued in the name of the Shareholder and not in the name of the nominee. Further details regarding the availability of tax reliefs can be found in Part III and Part IV of this document. If you are in doubt regarding your personal tax position, or whether you should participate in the Scheme, you should contact your professional adviser immediately.

A Mandate Form to participate in the Scheme has been included with this document, and must be returned on or prior to 3 pm on 13 January 2009 to enable you to receive the 2008 Interim Dividend under the Scheme. Further details of the Financial Calendar applicable are set out below.

Financial Calendar for the 2008 Interim Dividend

Ordinary Shares quoted ex-dividend	26 November 2008
The Record Date for the 2008 Interim Dividend	28 November 2008
Posting of Mandate Forms	16 December 2008
Deadline for receipt of Mandate Forms in order to be effective in relation to the 2008 Interim Dividend	3pm on 13 January 2009
2008 Interim Dividend warrants despatched for payment	10 February 2009
Payment Date and CREST Accounts credited and dealings expected to commence in New Ordinary Shares	11 February 2009
Definitive share certificates and Statements of Entitlement despatched	Within 10 Business Days of Payment Date

Part II – Chairman’s Letter

NEW ARTICLES OF ASSOCIATION

The Directors are recommending the adoption of the New Articles in order to update the Company’s Current Articles primarily to take account of the changes in English company law brought about by the 2006 Act which came into force on 1 October 2008.

The principal changes introduced in the New Articles are summarised at Part V of this document: other changes, which are of a minor or technical nature and also some changes which are made by way of clarification only, have not been noted.

A copy of the New Articles, together with a copy marked-up to show the differences between the New Articles and the Current Articles, are available for inspection at the Company’s registered office and also at YFM’s office at New City Court, 20 St. Thomas Street, London, SE1 9RS during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this document until the close of the General Meeting and will be available for inspection at the place of the General Meeting itself from 10.00 am until the close of the General Meeting.

Action to be taken

The adoption of the New Articles requires Shareholders’ approval.

Shareholders will find at Part VI of this document the Notice convening the General Meeting which will be held at 11.00 am on 15 January 2009 at 23 Berkeley Square, Mayfair, London, W1J 6HE at which the following Special Resolution will be proposed:

(1) To adopt the New Articles.

FORM OF PROXY FOR SHAREHOLDERS

Shareholders will find attached a Form of Proxy for the General Meeting. Whether or not you propose to attend the Meeting, you are requested to complete and return the Form of Proxy so as to be received in each case by Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for holding the relevant Meeting. Completion and return of a Form of Proxy will not prevent you from attending and voting in person at the relevant meeting should you wish to do so.

DIVIDEND MANDATE FORM

A Mandate Form is also enclosed with this document. If you wish to participate in the Scheme for the 2008 Interim Dividend you should ensure that the completed Mandate Form is returned no later than 3 pm on 13 January 2009. Mandate Forms received after that date will not be valid in respect of such dividend, but will be valid for any subsequent dividends declared. If you wish to receive your dividends in cash you need take no further action.

RECOMMENDATION

The Board considers that the adoption of the New Articles is, and therefore the passing of the resolution to be proposed at the General Meeting is, in the best interests of the Company and the Shareholders as a whole.

The Board unanimously recommends to vote in favour of the resolution to be proposed at the General Meeting regarding the adoption of the New Articles as they intend to do in respect of their own holdings of 102,445 Ordinary Shares, representing approximately 0.3 per cent of the issued share capital of the Company.

Yours sincerely



Helen Sinclair
Chairman

Part III – Terms and Conditions of the Dividend Reinvestment Scheme

1. Shareholders on the register of members at the close of business on the relevant Record Date may elect to receive New Ordinary Shares, credited as fully paid, instead of receiving the dividend in cash for the relevant financial period ("the full cash dividend"). The election may only be made by Shareholders in respect of the whole (and not part only) of their shareholdings and shall operate as a mandate in respect of the 2008 Interim Dividend and all future dividends declared in respect of Ordinary Shares prior to 6 August 2013 unless and until the Shareholder gives notice to terminate his or her participation in the Scheme in accordance with the terms of the Scheme.
2. Shareholders may only join the Scheme if all dividends on the Ordinary Shares registered in their name are mandated to the Scheme. The number of Ordinary Shares held by such Participating Shareholder which are mandated to the Scheme shall be altered immediately following any change to the number of Ordinary Shares in respect of which such Shareholder is the registered holder as entered onto the register of members of the Company from time to time.
3. The Company shall invest the monies held within the Scheme (being dividends paid on Ordinary Shares by, or on behalf of, Participating Shareholders) in the subscription of New Ordinary Shares in the Company. The Company shall not have the discretion to vary such investments and Shareholders may not instruct the Company or the Scheme Administrator to make any other investments.
4.
 - (a) On or as soon as practicable after a day on which any dividend is paid to Shareholders (a "Reinvestment Day"), the funds held by the Company on behalf of each Participating Shareholder shall be applied on behalf of that Shareholder in the subscription for the maximum number of New Ordinary Shares as can be acquired with those funds.
 - (b) The number of New Ordinary Shares issued to a Participating Shareholder pursuant to condition 4(a) above shall be calculated by dividing the aggregate value of the dividends paid on the Ordinary Shares to which the Participating Shareholder is entitled by the greater of (i) the net asset value per Ordinary Share being the most recently announced financial year end or half yearly net asset value per Ordinary Share (as adjusted for the relevant dividend in question) less 5%; and (ii) the nominal value per Ordinary Share.
 - (c) No fractions of New Ordinary Shares will be issued under the Scheme and subject to condition 4(d) below the election may only be made by Shareholders in respect of the whole and not part of their shareholdings. Any balance of cash remaining with the Company after the subscription shall be held by the Company on behalf of the Participating Shareholder to whom it relates and added to the cash available in respect of that Shareholder for the subscription of New Ordinary Shares on the next Reinvestment Day. No interest shall accrue or be payable by the Company in favour of any Shareholder on any such cash balances.
 - (d) The Scheme involves the reinvestment of the whole dividend paid on each shareholding each time a dividend is paid by the Company, together with any cash residue brought forward from the previous dividend. Partial reinvestment of dividends is only permitted by nominees, who need to lodge a Mandate Form for each Reinvestment Day quoting the number of Ordinary Shares in respect of which their election is made. Shareholders will remain in the Scheme so that all future dividends will be reinvested in the same way, until they give notice in writing to the Scheme Administrator that they wish to terminate their participation in the Scheme.
5. The Scheme Administrator shall on the relevant Reinvestment Day take all necessary steps to ensure that the Participating Shareholders are entered onto the share register of the Company as the registered holders of the New Ordinary Shares (as the case may be), issued to them under the Scheme, and that share certificates in respect of such shares issued are posted to the Participating Shareholders at their own risk as soon as is reasonably practical, unless such shares are to be uncertificated.
6. To assist Participating Shareholders with their tax returns, the Scheme Administrator will attach to the new share certificates a Statement of Entitlement, or if shares are held in uncertificated form, a Statement of Entitlement will be sent to a Participating Shareholder separately, detailing the following:- (i) the total dividend payable; (ii) the subscription price per New Ordinary Share; (iii) the number of New Ordinary Shares allotted to a Participating Shareholder; (iv) the residual cash balance (if any) representing an entitlement to a fraction of a New Ordinary Share to be carried forward to the next dividend; and (v) the cash equivalent of the New Ordinary Shares issued, together with any such other information as shall be required under the Listing Rules of the UK Listing Authority.

Part III – Terms and Conditions of the Dividend Reinvestment Scheme

7. Application to join the Scheme can be made at any time by returning a completed Mandate Form. However, Mandate Forms need to have been received by the Scheme Administrator Capita Registrars Limited, New Issues, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU at least 20 Business Days prior to the payment of a dividend which is to be reinvested. Mandate Forms received after that date shall be effective in relation to any future dividends in respect of which the Directors offer a dividend reinvestment alternative.
8. If, prior to the day on which the Ordinary Shares became ex-dividend, a Shareholder has sold all or some of his or her holdings in Ordinary Shares, the Shareholder should consult his or her stockbroker or agent without delay.
9. An application will be made to the UK Listing Authority for admission of the New Ordinary Shares to the Official List and to the London Stock Exchange plc for admission to trading on the London Stock Exchange plc's market for listed securities (together "Admission"). On issue, the New Ordinary Shares will rank *pari passu* in all respects with the existing issued Ordinary Shares and will rank for future dividends. Subject to Admission, definitive share certificates for the New Ordinary Shares will be posted as soon as practicable following Admission at the risk of the persons entitled to them. Where New Ordinary Shares are issued as uncertificated shares, as soon as practicable following Admission the Company will arrange for the relevant Participating Shareholders' stock accounts in CREST to be credited with their entitlement to New Ordinary Shares and a Statement of Entitlement will be posted to them. New Ordinary Shares will be allotted as and when the Directors determine it appropriate, with Admission and Dealings expected within 10 Business Days of allotment.

In the event that Admission does not become effective, Mandate Forms will be disregarded in respect of the dividend and the full cash dividend will be paid as soon as possible in the usual way.

10. Further copies of this document and/or Mandate Forms may be obtained from the Scheme Administrator Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
11. All costs and expenses incurred by the Scheme Administrator in administering the Scheme will be borne by the Company.
12. Each Shareholder applying to participate in the Scheme will be deemed to warrant to the Scheme Administrator and the Company in the Mandate Form that (i) save in the case of a Shareholder holding his or her Ordinary Shares as nominee, during the continuance of his or her participation in the Scheme he or she will remain the sole beneficial owner of the Ordinary Shares mandated to the Scheme free from encumbrances or security interests; and (ii) all information set out in the Mandate Form is correct and, to the extent any of the information changes, he or she will notify the changes to the Scheme Administrator.
13. Each Participating Shareholder acknowledges that neither the Company, the Scheme Administrator nor YFM is providing a discretionary manager service. Neither the Scheme Administrator, YFM nor the Company shall be responsible for any loss or damage to Participating Shareholders as a result of their participation in the Scheme unless due to the negligence or default of the Scheme Administrator or the Company (respectively), its servants or agents.
14. The financial calendar and procedure for future dividends both as to any final and/or interim dividend will be notified in writing to Shareholders and/or published through a RIS.
15. The Participating Shareholder may at any time, by notice to the Scheme Administrator of not less than 20 Business Days prior to the relevant Reinvestment Day, terminate his or her participation in this Scheme. If a Participating Shareholder shall at any time cease to hold any Ordinary Shares in the Company, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme in respect of such shares. If a Shareholder in whose name Ordinary Shares are held on behalf of a Participating Shareholder shall at any time cease to hold any such shares on behalf of that Participating Shareholder, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme.
16. The Company and the Scheme Administrator shall be entitled, at any time and from time to time, to suspend the operation of the Scheme and/or to terminate the Scheme without notice to the Participating Shareholders. Circumstances under which the Directors might suspend or terminate the Scheme include, but are not limited to changes in legislation governing Venture Capital Trusts (including changes in available tax reliefs) and adverse market conditions in the public markets.

Part III – Terms and Conditions of the Dividend Reinvestment Scheme

17. All notices and instructions to be given to the Scheme Administrator shall be in writing and delivered or posted to Capita Registrars Limited, New Issues, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. Applications to participate in the Scheme will be made by way of a mandate form in the prescribed form as provided by the Scheme Administrator.
18. Subject to the prior agreement of the Scheme Administrator, the Directors shall be entitled to amend the Scheme terms and conditions on giving one month's notice in writing to all Participating Shareholders. If such amendments have arisen as a result of any change in statutory or other regulatory requirements, notice of such amendment will not be given to Participating Shareholders unless in the Scheme Administrator's opinion, the change materially affects the interests of Participating Shareholders. Amendments to the Scheme Terms and Conditions which are of a formal, minor or technical nature, or made to correct a manifest error and which do not adversely affect the interests of Participating Shareholders, may be effected without notice.
19. By completing and delivering a mandate form, the Participating Shareholder will (i) agree to provide the Company with any information which it may request in connection with such application and to comply with legislation relating to Venture Capital Trusts or other relevant legislation (as the same may be amended from time to time); and (ii) declare that no loan has been made to the Participating Shareholder or any associate, which would not have been made, or not have been made on the same terms but for the Participating Shareholder offering to subscribe for, or acquiring, Ordinary Shares, and that the shares are being acquired for bona fide commercial purposes and not as part of a scheme or arrangement, the main purpose of which is the avoidance of tax.
20. Subscriptions for Venture Capital Trust shares only attract tax reliefs if in any tax year subscriptions to all Venture Capital Trusts do not exceed £200,000 (including subscriptions pursuant to dividend reinvestment schemes). Where shares are held by a nominee as at the relevant Record Date, that nominee's beneficiary will not be entitled to receive the tax reliefs otherwise available to Participating Shareholders under the Scheme. Participating Shareholders under the Scheme are responsible for ascertaining their own tax status and liabilities and neither the Scheme Administrator nor the Company can accept any liability in the event they do not receive any Venture Capital Trust tax reliefs, or such reliefs are reduced or restricted in any way.
21. Since dividends on Ordinary Shares acquired in excess of £200,000 in any tax year will not be exempted from income tax in the same way as Ordinary Shares acquired within this limit, Participating Shareholders will generally be liable to tax on such dividends.
22. The election to receive New Ordinary Shares in place of the cash dividend is not being offered to, or for the benefit of, any citizen of the United States, Canada or Australia, any corporation, partnership or other entity created or organised in, or under the laws of the United States, Canada or Australia or any political sub-division thereof or with a registered office in any of these countries or any estate or trust, the income of which is subject to United States Federal, or Canadian, or Australian income taxation regardless of its source. "United States" means United States of America (including the District of Columbia). References to the United States, Canada and Australia include their territories, possessions and all areas subject to their jurisdiction.

No person receiving a copy of this circular and/or Mandate Form in any territory other than the United Kingdom may treat it as constituting an invitation to him or her unless in the relevant territory such an invitation could lawfully be made to him or her without complying with any registration or other legal requirements. **It is the responsibility of the Shareholder outside the United Kingdom wishing to elect to receive New Ordinary Shares to satisfy himself or herself as to the full observance of the laws of the relevant territory in connection with the offer, including obtaining any governmental or other consents which may be necessary and observing any other formalities requiring to be observed in such territory.**
23. The Company shall not be required to issue New Ordinary Shares hereunder if the Directors so decide.
24. These Scheme terms and conditions shall be governed by, and construed in accordance with, English law and each Participating Shareholder submits to the jurisdiction of the English courts and agrees that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with the Scheme in any other manner permitted by law or in any court of competent jurisdiction.

Shareholders in any doubt about their tax position should consult their independent adviser.

Part IV – Taxation

The following information is based on the law and practice currently in force in the United Kingdom. It assumes that an investor (including an existing Shareholder participating in the Scheme) 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.

1. Tax Reliefs for Individual Investors

Investors must be individuals subscribing in their own name and aged 18 or over to be eligible for the respective tax reliefs. Tax reliefs will only be given in relation to an individual's total investments in VCTs in any tax year not exceeding £200,000.

Income Tax Relief

Relief on investment

An investor subscribing for new ordinary shares (including by way of reinvestment of dividends) in VCTs during any tax year will be entitled to claim income tax relief on amounts subscribed up to the permitted maximum of £200,000. The relief is given for the tax year in which the shares are issued and is currently at the rate of 30 per cent. The relief is restricted to the amount which reduces the investor's income tax liability to nil.

If the shares are sold or otherwise disposed of (other than to the investor's spouse) within five years of their issue then some or all of the income tax relief obtained will have to be repaid. Shares may be transferred into the name of a nominee, provided the nominee holds them for the investor's benefit.

Relief on dividends

An investor who either subscribes for or purchases ordinary shares in a VCT, up to a maximum of £200,000 in any given tax year, will not be liable to UK income tax on dividends paid by the VCT.

Capital Gains Tax Relief

Any gain or loss accruing to investors on a disposal of ordinary shares in a company which was a VCT at the time he or she acquired the shares, and which has remained a VCT throughout his or her period of ownership, will neither be a chargeable gain, nor an allowable loss, for the purposes of capital gains tax.

2. Obtaining Tax Relief

Income tax relief on investment

The company will give each investor a certificate which he or she can use to claim the income tax relief, either (where applicable) immediately by obtaining an adjustment to his or her tax coding from the HM Revenue & Customs or by waiting until the end of the tax year and claiming the relief on his or her tax return.

3. Loss or Clawback of Tax Reliefs

The Company

If the company loses approval as a VCT, it will lose its exemption from corporation tax on chargeable gains. Loss of approval takes effect either on the date when notice is given to the company by the HM Revenue & Customs or, if earlier and at the HM Revenue & Customs's discretion, from the beginning of the company's accounting period in which the notice is given.

Investors

Withdrawal or clawback of investors' tax reliefs can occur as a result of the company losing full approval as a VCT or as a result of actions taken by the investors themselves.

Income tax relief on investment

If the company loses approval as a VCT within five years from the time when an investor acquired the ordinary shares by subscription, the income tax relief will be clawed back by an assessment to income tax for the year of assessment in respect of which the relief was given.

Income tax relief on dividends

If the company loses approval as a VCT then shares acquired by an investor after loss of approval are not capable of generating tax free dividends and any dividend paid in respect of profits or gains arising to the company in any accounting period ending at a time when the company was not a VCT will likewise not be exempt from income tax.

Exemption from capital gains tax on disposal

If the company loses approval as a VCT, then investors will be deemed to have disposed of and reacquired the ordinary shares at market value immediately before withdrawal of approval of the company as a VCT, and so any accrued gain or loss to that date will not be taxable or allowable. Investors subsequently disposing of the ordinary shares will be treated as making a chargeable gain or an allowable loss (as the case may be).

Any investor acquiring ordinary shares in the company after it has lost VCT approval will likewise make a chargeable gain or an allowable loss on subsequent disposal.

4. Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or (unless Shares are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax should be payable on the issue of 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 investment in a VCT should consult an appropriately qualified professional adviser.

Part V – Amendments to the Company’s Articles of Association

The principal changes introduced by the New Articles are summarised below.

Specific references to the 1985 Act in the Current Articles

Where provisions of the 1985 Act have already been repealed or replaced in their entirety by new provision in the 2006 Act references to “the Act” (i.e. the 1985 Act) have been updated to refer to the 2006 Act.

Conflicts of Interest

The 2006 Act sets out directors’ general duties which largely codify the existing law but with some changes. Under the 2006 Act from 1 October 2008 a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company’s interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision for dealing with directors’ conflicts of interest to avoid breach of duty. The New Articles give the Directors’ authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only those Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company’s success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Exercise of Shareholders’ rights

The 2006 Act provides for indirect investors who hold their shares through intermediaries to exercise certain membership rights. One of those rights is that shareholders of a company (for instance, nominees) will be able to nominate another person (for instance, the beneficial holder of shares) to receive all of the information that those nominating shareholders are entitled to receive as shareholders as if the nominated person was himself or herself a shareholder. The New Articles provide for the nomination process and include associated provisions relating to the Company’s maintenance of records of nominations made. The Directors believe that relatively few Shareholders will wish to make use of nomination rights but any Shareholders wishing to do so should contact the Company Secretary.

Directors’ indemnities and loans to fund expenditure

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, the existing exemption allowing a company to provide money for the purpose of funding a director’s defence in court proceedings now expressly covers regulatory proceedings. The New Articles reflect this and have been redrafted for clarity.

General

The New Articles have been updated to be consistent with CREST and certain provisions of the New Articles have therefore been redrafted to include appropriate references to the CREST system. In addition various references to statutes have been amended and updated.

Part VI – Notice of General Meeting

No: 3134749

BRITISH SMALLER COMPANIES VCT PLC

NOTICE IS HEREBY GIVEN that a GENERAL MEETING of the Company will be held at 23 Berkeley Square, Mayfair, London, W1J 6HE, on 15 January 2009 at 11.00 am for the following purposes:

To consider and, if thought fit, pass the following resolution, which shall be proposed as a Special Resolution.

SPECIAL RESOLUTION

- (1) That the existing Articles of Association of the Company be deleted in their entirety and the new Articles of Association produced to the meeting and for the purpose of identification signed by the Chairman of the meeting be adopted in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary

16 December 2008

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

Notes:

- (1) A Shareholder of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a Shareholder of the Company.
- (2) A Shareholder may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or you may photocopy the Form of Proxy. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- (3) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of appointment for holding the Meeting.
- (4) In accordance with Regulation 41 of The Uncertified Securities Regulations 2001, only those Shareholders entered on the Company's register of members not later than 11.00 am on 13 January 2009, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the Meeting.
- (5) Completion and return of a form of proxy will not preclude a Shareholder of the Company from attending and voting in person at the Meeting if he wishes to do so.
- (6) Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the 2006 Act are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Company directly. In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting are hereby informed, in accordance with Section 149 (2) of the 2006 Act, that they may have a right under an agreement with the registered Shareholder by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the Shareholder as to the exercise of voting rights. Nominated persons should contact the registered Shareholder by whom they were nominated in respect of these arrangements.

Part VII – Definitions

“2006 Act”	the Companies Act 2006
“1985 Act”	the Companies Act 1985
“Admission”	the admission of the New Ordinary Shares to the official list maintained by the UK Listing Authority and to trading on the London Stock Exchange plc’s market for listed securities
“Board” or “Directors”	the board of directors of the Company
“Business Day”	a day (excluding Saturday and Sunday and public holidays in England and Wales) when the banks are generally open for business in London
“Company”	British Smaller Companies VCT plc
“Dealings”	buying, selling subscribing for or underwriting of securities in the Company or offering or agreeing to do so, either as principal or agent
“Current Articles”	the articles of association of the Company as in force at the date of this document
“Form of Proxy”	the form of proxy attached to this document
“General Meeting”	the general meeting of the Company to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 15 January 2009 at 11 am
“2008 Interim Dividend”	the interim dividend on Ordinary Shares declared for the half year ended 30 September 2008
“Mandate Form”	the form enclosed with this document which enables Shareholders to participate in the Scheme
“New Articles”	the new articles of association proposed for adoption by the Company as described in this document
“New Ordinary Shares”	the new Ordinary Shares to be issued from time to time under the Scheme
“Ordinary Shares”	ordinary shares of 10 pence each in the capital of the Company
“Participating Shareholder(s)”	those Shareholders who elect to participate in the Scheme
“Record Date”	the date set out in the dividend procedure timetable published by the London Stock Exchange plc by which a Shareholder must hold Ordinary Shares to be entitled to a dividend declared by the Company
“RIS”	a regulatory information service that is on the list of Regulatory Information Services maintained by the Financial Services Authority
“Scheme” or “Dividend Reinvestment Scheme”	the dividend reinvestment scheme the terms and conditions of which are described in this document
“Scheme Administrator”	Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
“Shares”	Ordinary Shares
“Shareholders”	the holders of Ordinary Shares
“Venture Capital Trust” or “VCT”	a company which is, for the time being, approved as a venture capital trust under section 259 of the Income Tax Act 2007
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“YFM” or “the Manager”	YFM Private Equity Limited, Company number: 2174994, whose registered office is at Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ

No. 3134749

British Smaller Companies VCT plc Form of Proxy

To be used at the General Meeting of the Company
to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 15 January 2009 at 11.00 am

I/We being a member/members of the above named
Company entitled to attend and vote at the General Meeting of the Company hereby appoint the Chairman of the
Meeting or (see note a)..... of
..... as my/our proxy
to vote for me/us on my/our behalf at the General Meeting of the Company to be held on 15 January 2009 at 11.00 am and at
any adjournment thereof.

Number of Ordinary shares proxy is appointed over.....

Please also tick here if you are appointing more than one proxy.

My/our proxy is to vote as indicated below.

SPECIAL RESOLUTIONS

FOR AGAINST WITHHELD

1. To adopt new Articles of Association

Signature..... Dated2008/2009*
(*delete as appropriate)

NOTES

- (a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialling the deletion) "the Chairman of the Meeting or". A proxy need not be a Shareholder of the Company. You may attend and vote at the Meeting instead of any proxy appointed by you if you so wish.
- (b) You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or you may photocopy this form. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- (c) Please indicate by inserting "X" in the appropriate box the way in which your proxy is to vote. If you do not do so, your proxy may vote or abstain as he thinks fit. Your proxy will have the authority to vote at his discretion on any amendment or other motion proposed at the Meeting, including any motion to adjourn the Meeting. This proxy will only be used in the event of a poll being directed or demanded.
- (d) This form of proxy must be signed by the appointor or his attorney duly authorised in writing or if the appointor is a corporation this proxy must be given under its Common Seal or be signed by an officer or attorney duly authorised in writing. To be valid, this form of proxy duly completed and any power of attorney or other authority (if any) under which it is notorially certified, or office copy of such power or authority, must be deposited at the office of the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.
- (e) The resolutions are set out in full in the Notice of General Meeting.
- (f) In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting are hereby informed, in accordance with Section 149 (2) of the 2006 Act, that they may have a right under an agreement with the registered Shareholder by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the Shareholder as to the exercise of voting rights. Nominated persons should contact the registered Shareholder by whom they were nominated in respect of these arrangements.





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Business Reply Service
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**CAPITA REGISTRARS
PROXY DEPARTMENT
PO BOX 25
BECKENHAM
KENT
BR3 4BR**

Second fold

First fold

