

## Welcome to British Smaller Companies VCT2 plc (BSC2) Investor Update

I hope you find the latest Investor Update interesting and informative. I can't quite believe that this issue covers the nine months to 30 September 2013. This has been a busy year, with a high level of deal flow received, two new investments completed, and with several more new investments expected in the coming months. Not content with backing other management teams, I am also delighted to report that YFM, Fund Manager for the British Smaller Companies VCTs, has recently completed its own buy-out, which I see as a really positive development.



BSC2 invests in established UK businesses that have plans for continued growth and expansion across a broad range of sectors. This strategy is reflected in the latest investment, Douglas Gill International Limited – a Nottingham-based manufacturer and supplier of technical sailing clothing and accessories. You can read more about Gill in the case study on page 3.

In this issue you will find:

- An update on the financial performance of BSC2, including Total Return and dividend history
- A portfolio update highlighting the valuation movements during the period
- A case study profile for Douglas Gill International Limited
- A quick overview of this year's joint Offers

### Pipeline

Never has the pipeline of investment opportunities been so buoyant. This increased activity in the market reflects higher levels of business confidence translating into increased investment in capital equipment by small businesses.

The Investment team has been busy evaluating a wide variety and large number of opportunities that fit BSC2's investment criteria. At the time of writing, BSC and BSC2 have invested almost £13 million in the last nine months and, given the strength of the pipeline, they are on track to invest in excess of £20 million by March 2014.

### Fundraising

This year BSC and BSC2 (the Companies) are together seeking to raise £30 million of new investment funds to fulfil the pipeline of deals currently being reviewed and those expected to be made over the coming months. The Offer opened in January 2014, with Investors having a free choice over which VCT they invest in. **There is a summary of the Offer on the back page.**

### Change of Ownership

On 30 September 2013, YFM Equity Partners spun out from its parent company, Greater London Enterprise Limited. Being independent and owner-managed simplifies our business and gives us more time to invest and make good returns for our investors. As Shareholders in BSC2, you will know that we are passionate about investing in fast growing British businesses and we will continue this focus from our regional office network.

### Communication

Many of you have requested information by email and this is the first Investor Update that has been sent out electronically! **If you haven't yet signed up for this service, the details of how you can do this are on the back page.** Please keep your feedback and suggestions coming in as we find these really helpful.

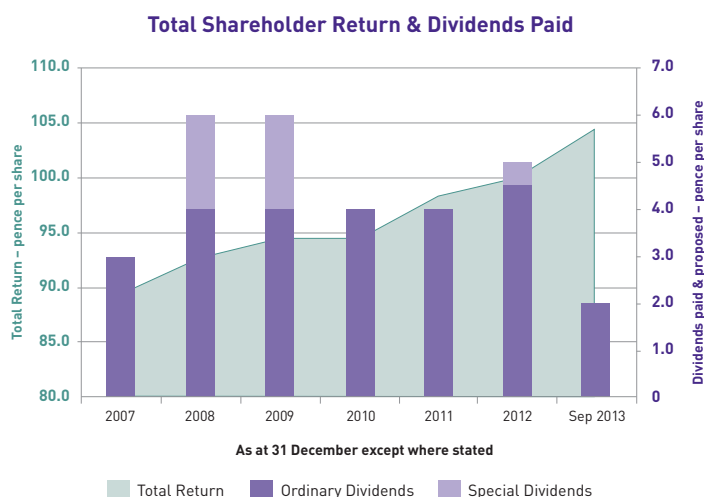
### David Hall

Managing Director, YFM Equity Partners

## Total Shareholder Return

The chart opposite shows the Total Return of BSC2 since 31 December 2007, plus the nine months to 30 September 2013. Total Return is the Net Asset Value plus cumulative dividends paid.

Over the period Total Return increased by **16.0 per cent** to 104.6 pence per share. Dividends average 5.0 pence per share over the same period. This equates to a cash yield of 7.6 per cent based on the current Net Asset Value of 65.6 pence per share. This return is for Shareholders who subscribed when the Company was launched in 2001. The return for Shareholders subscribing in each of the different fundraisings, and those who originally subscribed for shares in British Smaller Technology Companies VCT plc, can be found in the table on page 2.



## Total Return by Fundraising Round

The Company has raised funds at a number of different times since its inception. We thought it would be helpful to show the returns on each fundraising round as many investors have made multiple investments. The last two columns of this table show the difference in the overall return where Shareholders are subscribed to the Dividend Re-investment Scheme (DRIS), compared to those who are not.

Tax year	Offer price	Offer price net of tax	Net Asset Value at 30 September 2013	Cumulative dividends paid since Fundraising*	Total Return since Fundraising*	Overall return (not in DRIS)**	Overall return (in DRIS)***
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02	100.00	80.00	65.60	39.00	104.60	124.60	149.30
2001/02 and 2002/03	100.00	80.00	65.60	39.00	104.60	124.60	149.30
December 2005 issue of shares on acquisition of British Smaller Technology Companies	69.00	n/a	45.04	25.85	70.90	n/a	n/a
2009/10 and 2010/11	77.25	54.08	65.60	17.00	82.60	105.80	114.50
2010/11 and 2011/12	70.25	49.18	65.60	13.00	78.60	99.70	105.90
2012	70.50	49.35	65.60	9.00	74.60	95.80	99.70
2012/13 and 2013/14	68.00	47.60	65.60	4.50	70.10	90.50	92.30

\* This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.

\*\* NAV plus cash dividends paid plus tax relief on the initial subscription.

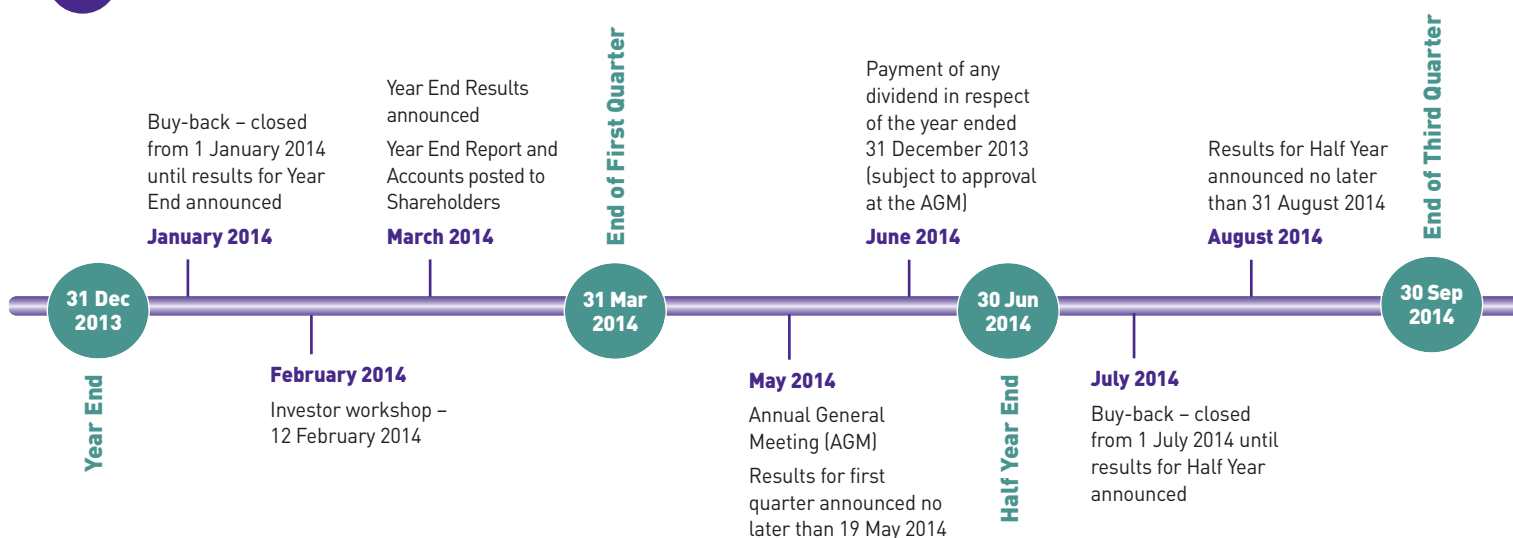
\*\*\* NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming that all dividends since inception were invested under terms of the current DRIS.

## For your Records – Dividends Paid and Date

The table below displays the dates when the BSC2 dividends have been paid and we hope you find it useful in keeping and checking your records. In the five years and nine months to 30 September 2013, BSC2 has paid or proposed annual average dividends of 5.0 pence per share to its Shareholders.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
<b>Cumulative to 25 May 2007</b>	<b>9.0</b>	30 October 2009	4.0	22 May 2012	2.0
30 November 2007	1.5	21 May 2010	2.0	26 October 2012	2.5
16 May 2008	1.5	30 September 2010	2.0	5 June 2013	2.5
26 September 2008	4.0	10 June 2011	2.0	27 September 2013	2.0
19 May 2009	2.0	8 September 2011	2.0	<b>Cumulative at 30 Sept 2013</b>	<b>39.0</b>

## Key Dates



## Portfolio Update

Over the nine months to 30 September 2013 the portfolio value has increased by a little over £3 million to £14.60 million. However the underlying value growth over this period has been £2.31 million (a gain of 20.0 per cent on the 31 December 2012 portfolio value) after adjusting for investments and realisations in the period. This equates to a value gain from the portfolio of 5.0 pence per share.

£1.90 million of the £2.31 million value gain has come from the unquoted portfolio with the top 10 investments representing £1.41 million of this. Strong value gains were seen on DisplayPlan (up £0.62 million), Seven Technologies (up £0.31 million), Bluebell Telecom (up £0.23 million) and Waterfall Services (up £0.20 million) which all saw a continuation of strong trading results. Below the top 10 the biggest value gain was from Digital Healthcare where the Company achieved a realised gain over valuation of £0.37 million via the trade sale to Emis plc in August. The unquoted portfolio also recorded a strong value gain bringing the year-to-date value gain to £0.41 million. The largest movements were Pressure Technologies plc (up £0.33 million) which reported a return to strong historic profit levels and Iomart Group plc (up £0.17 million) which continued its recent growth trend.

The Total Return per ordinary share increased by 4.6 pence over the nine months to 30 September 2013 to 104.6 pence, with the capital gain from the portfolio being slightly offset by a small P&L loss. After payment of dividends of 4.5 pence per share the Net Asset Value per share rose by 0.1 pence.

Company	Website	Investment valuation at 31 December 2012 (£000)	Proceeds (£000)	Additions (£000)	Valuation gains (losses) including profits on disposal (£000)	Investment valuation at 30 September 2013 (£000)	% Net Asset Value
DisplayPlan Holdings Limited	displayplan.com	1,501	-	-	618	2,119	6.9%
Douglas Gill International Limited	gillmarine.com	-	-	1,870	-	1,870	6.1%
Seven Technologies Holdings Limited	seventechnologies.co.uk	1,199	(698)	738	309	1,548	5.1%
Deep-Secure Ltd	deep-secure.com	937	-	-	63	1,000	3.3%
Immunobiology Limited	immbio.com	987	-	-	-	987	3.2%
Insider Technologies (Holdings) Limited	insidertech.co.uk	780	-	-	26	806	2.6%
Bagel Nash Group Limited	bagelnash.com	400	-	392	(35)	757	2.5%
Bluebell Telecom Group Limited	bluebelltelecom.com	520	(24)	-	226	722	2.4%
Waterfall Services Limited	waterfall-services.co.uk	386	-	-	201	587	1.9%
PowerOasis Limited	power-oasis.com	500	-	67	-	567	1.9%
<b>Top 10 total</b>		<b>7,210</b>	<b>(722)</b>	<b>3,067</b>	<b>1,408</b>	<b>10,963</b>	<b>35.9%</b>
Deferred proceeds		198	(125)	-	58	131	0.4%
Digital Healthcare Limited		913	(1,285)	-	372	-	
Remainder of unquoted portfolio		1,040	-	-	61	1,101	3.6%
<b>Total unquoted portfolio</b>		<b>9,361</b>	<b>(2,132)</b>	<b>3,067</b>	<b>1,899</b>	<b>12,195</b>	<b>39.9%</b>
<b>Quoted portfolio</b>		<b>2,200</b>	<b>(557)</b>	<b>349</b>	<b>411</b>	<b>2,403</b>	<b>7.9%</b>
<b>Total portfolio</b>		<b>11,561</b>	<b>(2,689)</b>	<b>3,416</b>	<b>2,310</b>	<b>14,598</b>	<b>47.8%</b>

## Case Study – Douglas Gill International Limited

### The Company

Gill was founded by Nick Gill in 1975 when he began designing and manufacturing technical clothing for dinghy sailing from his father's lace factory in Nottingham. Since then, the business has grown to become one of the four leading international players in the market, with revenues of £12 million, and exports to over 35 countries.

### Background and Investment Rationale

The business was introduced to YFM Equity Partners by Clearwater Corporate Finance in Nottingham. The opportunity was to support the management buy-out from the founder, who wanted to retire from the business. This is an opportunity to invest in a market leading technical brand with a global footprint, backing an experienced management team that has consistently delivered sales and profit growth, even in the current challenging retail environment. As part of the deal YFM introduced a Chairman with significant experience in growing brands – ex CEO of Interflora and Manchester United Merchandising.

### The Strategy is based on:

- Growing market share in identified overseas territories
- Selectively broadening the product range
- Developing Gill's direct to consumer online sales proposition



## Joint Offers – British Smaller Companies VCT plc and British Smaller Companies VCT2 plc

We are pleased to announce the joint Offers to raise a combined total of £30 million for BSC and BSC2. This year you will have the choice to invest in either VCT or a combination of the two. Existing Shareholders and their partners investing before 28 March 2014 will benefit from a 1.5 per cent loyalty bonus.

The key highlights of the Offers are set out below:

- **8.4% per annum tax free dividend yield:** based on each VCT's target dividend policy, the initial Offer Prices less 30% income tax relief and assuming a 60:40 investment allocation between BSC and BSC2.
- **Strong historical performance and consistent dividend history:** since 2004, based on the initial Offer Prices, BSC and BSC2 have achieved annual tax free dividend yields of 10.0% and 9.0% respectively, equivalent to a blended rate of 9.6% assuming a 60% shareholding in BSC and a 40% shareholding in BSC2. If an investment had been made over the same period, BSC and BSC2 would have produced a total return over the net cost to investors of 229.6% and 97.6% respectively, equivalent to an annual return of 19.5% and 10.1%.
- **Venture capital trust tax relief:** 30% income tax relief on the value of the Offer Shares subscribed for, providing they are held for a minimum of five years. Dividends and capital gains from venture capital trusts are also tax-free.
- **Mature and diversified portfolios:** collectively the two VCTs have aggregate Net Assets of £80 million and a combined portfolio of 38 investments, spread across a range of sectors, which diversifies risk and underpins each VCT's future dividend stream.
- **Experienced and proven Fund Manager:** the Fund Manager, YFM Private Equity Limited, is a subsidiary of YFM Equity Partners LLP ("YFM"), and has a 30-year history of investing in fast-growing UK businesses and has been managing venture capital trusts since 1996.
- **Successful investment strategy:** both VCTs invest predominantly in established unquoted businesses across a broad range of sectors, where the Fund Manager believes there are good prospects for

significantly expanding the size of those businesses, making them attractive for potential buyers or a stock market listing. YFM has realised 29 of its venture capital trust investments since 2004, generating an aggregate return of 2.4 times cost.

- **Positive outlook for investment:** YFM is continuing to see a high level and quality of investment opportunities, in part driven by the recent changes to the venture capital trust rules, which has widened the addressable market by increasing the amount that can be invested into a business in any one year and the size of businesses in which venture capital trusts can invest.
- **Dividend Re-investment Scheme:** compounding investor returns through the tax efficient re-investment of dividends.
- **Share buy-back policy providing improved liquidity:** each of the VCTs has a policy of buying back Shares in the market at a discount of no more than 10% to the latest published Net Asset Value, subject to liquidity, applicable rules and regulations and market conditions.

### How to invest:

1. Review the three **Prospectus documents:**
  - 1.1. **Securities Note – received with this issue of Update**
  - 1.2. **Registration Document – available online at [bscfunds.com](http://bscfunds.com)**
  - 1.3. **Summary document – available online at [bscfunds.com](http://bscfunds.com)**
2. Complete the **Application Form** – at the back of the **Securities Note**
3. Please contact your authorised financial adviser if you have any questions regarding making an investment.
4. For any questions regarding the application, please call **Tracey Nice** at YFM on **0113 294 5055**. No investment advice can be given by YFM.

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

### Risk Warning

Past performance is no guide to future performance and may not be repeated. The value of an investment in the Companies may go down as well as up and you may not get back the full amount invested. An investment in a VCT is higher risk than investing in other securities listed on the London Stock Exchange official list. You should regard an investment in the Companies as a long term investment. The Companies invest in mostly unquoted companies which are small and which by their nature carry a heightened level of risk. In the past there has been limited liquidity in VCT shares listed on the London Stock Exchange. It may therefore be difficult to realise shares in the Companies in the future and the share price may not reflect the underlying Net Asset Value. Tax rules and regulations can change over time and any benefit will depend on individual circumstances, on investors retaining their investments for the relevant period and on the companies invested in retaining their qualifying status. Please refer to the HM Revenue and Customs website for guidance on the tax relief available on VCT investments. A full list of risk factors will be set out in the Joint Offer Prospectus to be issued by the Companies in January 2014 (the Prospectus). This Investor Update is not an offer to invest in the Companies. Any decision to invest must be based on information contained in the Prospectus. We recommend that you seek independent financial advice from an appropriately authorised independent financial adviser as to whether an investment in the Companies is suitable for you as well as your personal entitlement to tax reliefs associated with the Companies' linked share offer.

### Financial Highlights for the third quarter to 30 September 2013

Interim dividend of **2.0 pence** per share paid 27 September 2013

Total Return increased by **2.3 pence** per share over the last quarter

Four investments totalling **£3.62 million** made since 30 June 2013\*

### Fund Updates by Email



If you would like to receive the latest fund updates by email, such as the latest deal news as it happens, you can subscribe to this new service by emailing or calling Tracey Nice (below).

### Contact Us

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\* Follow-on investments totalling £0.6 million into Hargreaves Services plc and Bagel Nash Group Limited. New investments into Douglas Gill International Limited of £1.87 million, and £1.15 million into GTK Group Limited.