

British Smaller Companies VCT2 plc (BSC2)

INVESTOR UPDATE

nine months to 30 September 2014

I would like to start by thanking all of you for your continued support. These Investor Updates are six monthly publications designed to complement the interim and final accounts. This issue provides an update for the nine months to 30 September 2014.

Investment Rate Continues to be Strong

The improved economic climate has led to a continuation of the high level of demand for investment funds mentioned in the last Update. As a result I am pleased to report a strong nine months of investment activity, with £7.6 million invested in the period and a further £6 million invested since 30 September 2014.

We have continued to invest in established profitable businesses with potential for growth located in the UK regions. Listed below are the principal new investments completed in the period and since 30 September 2014:

NEW INVESTMENTS

Mangar Health	Presteigne	£1.64m
Intelligent Office	Alloa	£1.96m
Macro Art	Cambridgeshire	£0.84m
Intamac Systems	Northampton	£0.75m
Heritage Window Company	London	£1.27m
Cambrian Park and Leisure Homes	Porthmadog	£1.20m
Springboard Research	Milton Keynes	£1.18m
ACC Aviation	Reigate	£1.38m
Business Collaborator	Reading	£1.34m
Wakefield Acoustics (Malvar Engineering Ltd)	Cleckheaton	£0.72m

Exits

I am delighted to report that after the period, and just before Christmas, your VCT sold its investment in Waterfall Services Limited, a leading independent mid-sized contract catering company. The realisation resulted in total cash proceeds of £1.33 million which represents 5.3x on the VCT's original investment of £0.25 million.

Fundraising

Your VCT has invested £13.5 million since 1 January 2014. With the market for new investment continuing to be buoyant BSC2 has launched in conjunction with British Smaller Companies VCT plc (BSC), a £30 million offer, with the Companies seeking to raise £12 million and £18 million respectively.

Loyalty bonus shares: for existing shareholders and their spouses we are offering a 0.75% bonus paid in shares for subscriptions received on or before 28 March 2015. At the time of writing applications totalling £13.1 million of investment have already been received.

Full details of the offers can be found at www.bscfunds.com.

Results to 30 September 2014

The results for the third quarter saw a marginal increase in the net asset value to 63.3 pence per share and total return to 104.8 pence per share. The 2.0 pence per share interim dividend was paid on 7 October 2014.

Communications

The programme of providing information by email is up and running and working well. Please see the back page for more details on how we are looking to extend the provision of information electronically.

As always, we encourage your feedback on our Updates. Please contact our Investment Services Manager, Tracey Nice (see back page) with your suggestions of how we can improve these communications.

David Hall
Managing Director, YFM Equity Partners



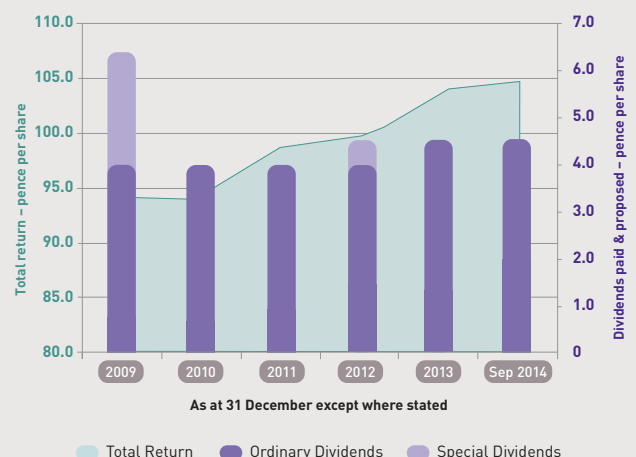
TOTAL SHAREHOLDER RETURN

The chart opposite shows the total return of BSC2 for the five years and nine months to 30 September 2014 and the dividends paid in each of the last five calendar years. Total return is the net asset value plus cumulative dividends paid.

Over that period total return increased by 12.8 per cent to 104.8 pence per share. The average dividend for the period was 4.8 pence per share, which includes the interim dividend for the period to 30 June 2014 paid on 7 October 2014. This equates to a yield of 7.6 per cent based on the current net asset value of 63.3 pence per share.

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 & Dividends Paid



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. Additionally 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 2014	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	63.30	41.50	104.80	124.80	151.18
2001/02 and 2002/03	100.00	80.00	63.30	41.50	104.80	124.80	151.18
December 2005 issue of shares on acquisition of British Smaller Technology Companies	69.00	n/a	43.46	27.56	71.03	91.03	139.03
2009/10 and 2010/11	77.25	54.08	63.30	19.50	82.80	105.98	115.86
2010/11 and 2011/12	70.25	49.18	63.30	15.50	78.80	99.88	107.24
2012	70.50	49.35	63.30	11.50	74.80	95.95	100.94
2012/13 and 2013/14	68.00	47.60	63.30	7.00	70.30	90.70	93.47
2013/14 and 2014/15	68.00	47.60	63.30	2.50	65.80	86.20	87.06

* 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

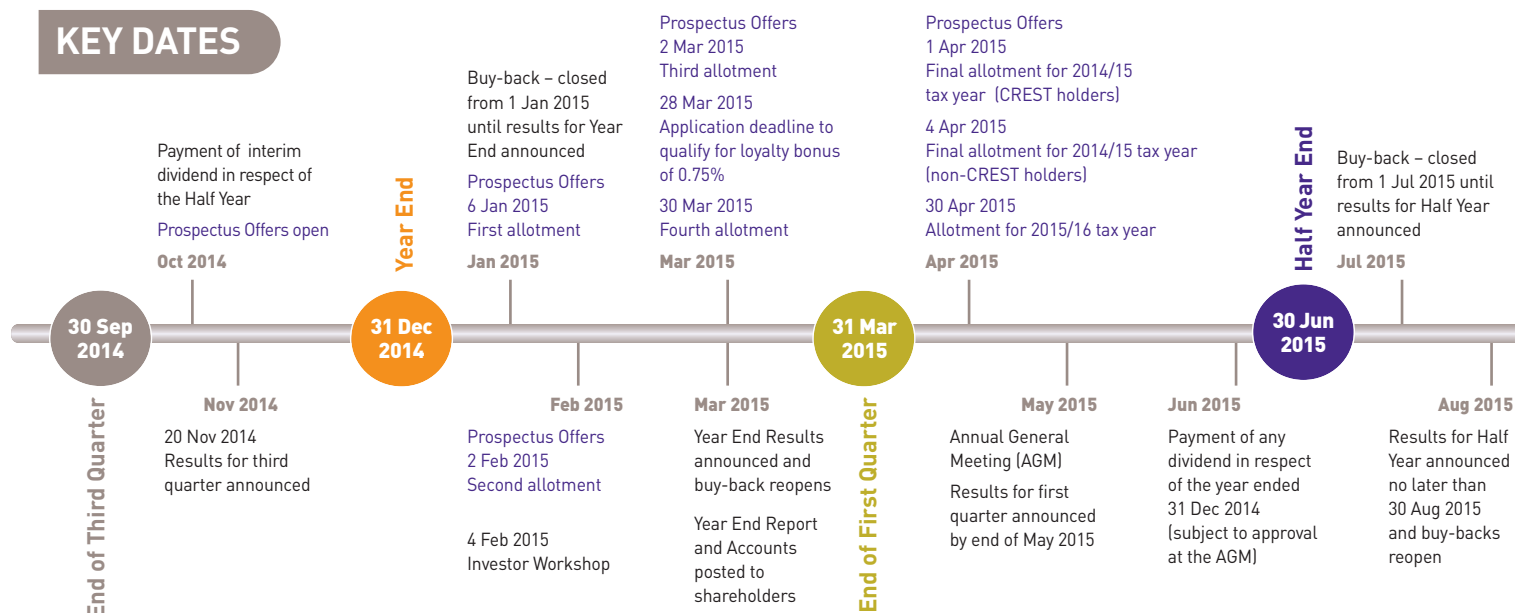
*** NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming that all dividends since inception were invested under terms of the current DRIS

FOR YOUR RECORDS – DIVIDENDS PAID AND DATE

The table below displays the dates when 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 2014 BSC2 has paid and proposed annual average dividends of 4.8 pence per share to its shareholders. The 2.0 pence per share interim dividend was paid on 7 October 2014.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
Cumulative to 31 December 2008	16.0	10 June 2011	2.0	27 September 2013	2.0
19 May 2009	2.0	8 September 2011	2.0	27 June 2014	2.5
30 October 2009	4.0	22 May 2012	2.0	Cumulative at 30 Sep 2014	41.5
21 May 2010	2.0	26 October 2012	2.5	7 October 2014	2.0
30 September 2010	2.0	5 June 2013	2.5		

KEY DATES



PORTFOLIO UPDATE

Over the nine months to 30 September 2014 the investment portfolio including deferred proceeds has increased by £6.3 million to £22.7 million. However, the underlying value gain over this period was £0.08 million (a gain of 0.5 per cent on the 31 December opening value) after adjusting for investments and realisations in the period. This equates to a value gain of 0.2 pence per share based on the issued shares at 31 December 2013.

The unquoted portfolio, which makes up 90 per cent of the overall investment portfolio, experienced a value drop of £0.28 million with the top ten seeing a value gain of £0.10 million. The fall in underlying value was dominated by two investments, Seven Technologies (down £0.78 million) and Deep-Secure (down £0.39 million), which both experienced public budget cuts in the defence sector. If these two are excluded the remaining unquoted portfolio has seen a value gain of £0.89 million (8.0 per cent of the opening December 2013 value) with the largest movements being Waterfall Services (up £0.46 million), Callstream (up £0.22 million), GTK (up £0.21 million) and Mangar Health Limited (up £0.20 million). The quoted portfolio saw a small increase in underlying value of £0.05 million. A value gain of £0.30 million was also seen following receipt of deferred proceeds from former portfolio business Sirigen.

Investment activity has been strong with a total of £7.6 million invested in the nine months to 30 September 2014, with new investments including: Mangar Health (£1.64 million) world leading producer of inflatable lifting equipment of elderly patients, Intelligent Office (£1.96 million) provider of outsourcing services to legal practices, Heritage Windows (£1.27 million) manufacturer of aluminium windows, Macro Art (£0.84 million) provider of large area printing services and Intamac (£0.75 million) provider of platform software for the Internet of Things. Realisations in this period totalled £1.38 million and delivered a profit on opening value of £0.40 million which was dominated by the Sirigen deferred consideration.

The total return per ordinary share increased by 0.2 pence over the nine months. After the issue of new shares related to the fundraising which closed in May 2014 (£10.18 million net of costs) the NAV finished at £39.4 million or 63.3 pence per share, an increase of 0.2 pence per share prior to the payment of dividends totalling 2.5 pence per share.

Company	Website	Investment valuation at 31 Dec 2013 (£000)	Proceeds (£000)	Additions (£000)	Valuation gains (losses) including profits on disposal (£000)	Investment valuation at 30 Sep 2014 (£000)	% Net asset value
DisplayPlan Holdings Limited	displayplan.com	2,142	(229)	-	140	2,053	5.3%
Intelligent Office UK Limited	intelligentofficeuk.com	-	-	1,956	-	1,956	5.1%
Mangar Health Limited	mangar.co.uk	-	-	1,640	203	1,843	4.8%
Gill Marine Holdings Limited	gillmarine.com	1,870	-	-	(165)	1,705	4.4%
Harvey Jones Holdings Limited	harveyjones.com	441	-	804	31	1,276	3.3%
The Heritage Windows Company Holdco Limited	theheritagewindowcompany.co.uk	-	-	1,268	-	1,268	3.3%
GTK (UK) Limited	gtk.co.uk	1,141	(84)	-	205	1,262	3.3%
Immunobiology Limited	immbio.com	987	-	-	-	987	2.6%
Waterfall Services Limited	waterfall-services.co.uk	489	-	-	459	948	2.5%
Seven Technologies Holdings Limited	seventechnologies.co.uk	1,711	-	-	(776)	935	2.4%
Top 10 total		8,781	(313)	5,668	97	14,233	37.0%
Deferred proceeds		132	(345)	-	304	91	0.2%
Remainder of unquoted portfolio		5,007	(102)	1,599	(374)	6,130	16.0%
Total unquoted portfolio		13,920	(760)	7,267	27	20,454	53.3%
Quoted portfolio		2,467	(622)	318	53	2,216	5.8%
Total portfolio		16,387	(1,382)	7,585	80	22,670	59.1%

CASE STUDY – HERITAGE WINDOWS

The Company

Heritage Windows is an established and profitable manufacturer of high quality aluminium windows located in South London. Founded in 2000, the business sells aluminium windows to the consumer, house building and commercial property markets, principally through its three showrooms in the South of England. The company has been featured on Channel 4's Grand Designs as shown in the picture opposite.

Background Investment Rationale and Strategy

This was a Management Buyout from the founder who wanted to retire. The deal was introduced by one of our corporate finance contacts at WK Corporate Finance. As part of the investment, YFM introduced a new Chairman who had previously been CEO of Anglian Windows. Having established a good local presence and strong reputation for high levels of service, the strategy is to roll out the proposition through additional showrooms across the UK.



Grand Designs: Art Deco House Project

£30 MILLION OFFERS

British Smaller Companies VCT plc
British Smaller Companies VCT2 plc

£13.1 Million Raised as at 9 January 2015

Loyalty bonus shares:

0.75% for applications received on or before 28 March 2015

Closing dates:

4 April 2015 (for 2014/15 tax year) and 30 April 2015 (for 2015/16 tax year)

Minimum investment:

£6,000 (across both VCTs)

Maximum investment:

£200,000 (per tax year)

Offer terms:

For full details of the Offer terms, please refer to the Securities Note page 7



ELECTRONIC COMMUNICATIONS

Many of you have now registered to receive Updates by Email and have recently had information on the latest deals, including Cambrian, Heritage Windows, ACC and Business Collaborator.

With this Investor Update is a letter explaining that we will now be able to give you the opportunity to choose how you receive documents and information, for example the Annual Report.

The letter details the options available and explains what you need to do.

Please note: if you wish to continue receiving your documents in hard copy then you do not need to do anything.

If you have any queries or need further assistance please contact Tracey Nice (see below).



IMPORTANT NOTICE

Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT plc and British Smaller Companies VCT2 plc ("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 higher risk, 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 the tax reliefs available are dependent on the Companies maintaining HM Revenue & Customs approval, on individual circumstances and on investors retaining their shares for a five year period. 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' share offer.

A full list of risk factors is set out in the Offer Prospectus issued by the Companies dated 20 October 2014 ("the Prospectus"). This document is not an offer to invest in the Companies. It is an advertisement and is not a prospectus. Any decision to invest in the Companies must be based on information contained in the Prospectus.

This Update has been issued and approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by YFM Private Equity Limited ('YFM'), which is authorised and regulated by the Financial Conduct Authority (FRN: 122120). YFM is the Investment Adviser to the Companies.

YFM Private Equity Limited is ultimately owned by YFM Equity Partners LLP which is registered in England and Wales No: OC384467. Registered Office: 5th Floor, Valiant Building, 14 South Parade, Leeds LS1 5QS.

FINANCIAL HIGHLIGHTS

for third quarter to 30 Sept 2014

2.0 pence interim dividend

Net asset value 63.3 pence per share

Total return 104.8 pence per share

£30 MILLION OFFERS

HOW TO INVEST

For further details about the VCT Offers please speak to your financial adviser or contact Tracey Nice for a copy of the Securities Note.

Tracey Nice

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