

Welcome to British Smaller Companies VCT plc (BSC) Investor Update

I would like to start by welcoming all of our new investors and also to thank those existing Shareholders who helped make this year's fundraising such a great success. For those of you who are new investors, the Investor Updates are six monthly publications designed to complement the interim and final accounts. This issue provides an update for the three months to 30 June 2013.



The strategy of British Smaller Companies VCT plc ("BSC") is to invest in UK businesses that have plans for continued growth and expansion across a broad range of sectors. We particularly look for businesses that have the potential to become a leader in their market niche; are innovators in their market; are developing a brand and rolling out a retail concept; or have their own proprietary technologies. Because of this, the success of the BSC portfolio of companies is generally more linked to the individual performance of those businesses in their niche market than by macro-economic conditions as a whole, which is clearly an advantage in a low growth environment.

We have a strong pipeline of investment opportunities for the second half of 2013. Why not sign up for "Fund Updates by Email" to hear news of these as and when they happen? See the back page for details of how to subscribe to this service.

In this issue you will find:

- An update on the financial performance of BSC, including Total Return and dividend history
- A portfolio update highlighting the valuation movements during the period

- A case study for a recent BSC realisation, Fishawack
- An introduction to the dividend re-investment scheme, explaining what the benefits are and how to join.

Investor Workshop

Included with this Update is a letter with details of, and an invitation to, the next Investor Workshop which will be held on 12 February 2014 at Westminster Central Hall.

Communications

Many of you have requested information by email and on the back page you will see details on how you can register for this new service.

As always, we encourage your feedback on our Updates. Please speak to Tracey Nice on 0113 294 5055 or email tracey.nice@yfmeop.com with any suggestions.

David Hall

Managing Director
YFM Equity Partners

Total Shareholder Return

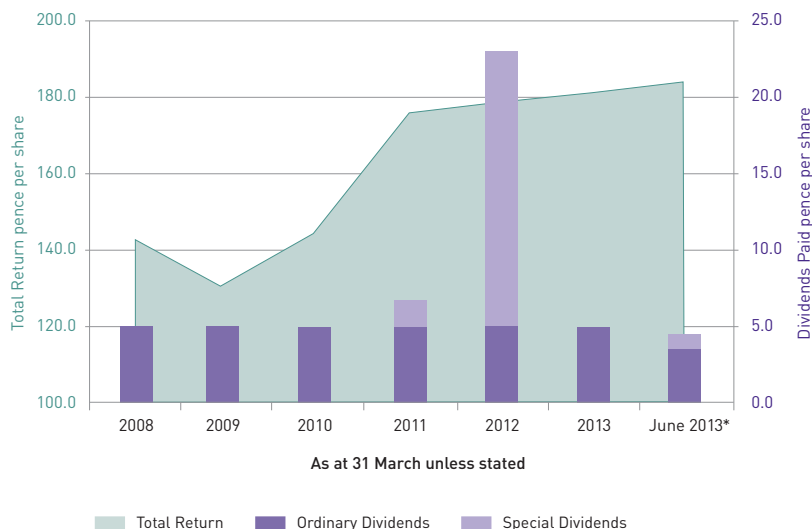
Figure 1 opposite shows the Total Return growth of BSC since 2008, plus the quarter to 30 June 2013. Total Return is the Net Asset Value plus cumulative dividends paid.

Over the period Total Return increased by **29.5 per cent** to 183.9 pence per share. Including the special dividend of 18.0 pence per share, the average annual dividend has been 9.3 pence per share* over the same period. This equates to a cash yield of 9.3 per cent based on the current Net Asset Value of 99.7 pence per share. The Total Return is for Shareholders who subscribed when the Company was launched in 1995. The Return for Shareholders subscribing in each of the different fundraisings can be found in the table on page 2.

* Including 3.5 pence per share final dividend and 1.0 pence per share special dividend paid 13 August 2013.

Excluding the special dividend of 18.0 pence per share paid in August 2011, the average dividend over the same period is 5.86 pence per share.

Fig.1 - Total Shareholder 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. 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 June 2013	Dividends paid since Fundraising*	Total Return since Fundraising*	Overall return (not in DRIS)**	Overall return (in DRIS)***
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 & 1996/97	100.00	80.00	99.70	84.20	183.90	203.90	237.22
1996/97 & 1997/98	100.00	80.00	99.70	83.14	182.84	202.84	236.90
1997/98 & 1998/99	105.00	84.00	99.70	79.64	179.34	200.34	246.15
2004/05 and 2005/06 [C share****]	100.00	60.00	112.13	55.89	168.02	195.59	228.31
2005/06	99.50	59.70	99.70	53.75	153.45	193.25	235.36
2006/07 & 2007/08	102.50	71.75	99.70	49.25	148.95	179.70	215.65
2007/08 & 2008/09	106.25	74.38	99.70	44.25	143.95	175.82	205.92
2009/10 & 2010/11	97.25	68.08	99.70	34.25	133.95	163.12	181.60
2010/11 & 2011/12	128.00	89.60	99.70	28.00	127.70	166.10	178.75
2011/12	99.75	69.83	99.70	5.00	104.70	134.62	136.75

* 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 the terms of the current DRIS

**** All figures have been adjusted for conversion of C Shares into ordinary shares in May 2007

For your Records – Dividends Paid and Date

The table below displays the dates when the BSC dividends have been paid and we hope you find it useful in keeping and checking your records. In the five years and three months to 30 June 2013 BSC has paid or proposed annual average dividends of 9.3 pence per share to its Shareholders, this includes the special dividend of 18.0 pence per share paid on 22 August 2011 and 4.5 pence per share paid 13 August 2013.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
Combined to 2004	25.65	16 November 2007	2.00	22 August 2011	3.00
28 February 2005	1.10	8 August 2008	3.00	22 August 2011	18.00
5 August 2005	2.20	11 February 2009	2.00	20 January 2012	2.00
10 January 2006	1.50	13 August 2009	3.00	17 August 2012	3.00
11 August 2006	3.00	7 January 2010	2.00	14 January 2013	2.00
6 November 2006	1.50	28 September 2010	4.25	Cumulative at 30 June 2013*	84.20
8 August 2007	3.00	7 January 2011	2.00	13 August 2013	4.50

* Excludes 2013 year end dividend of 3.5 pence per share and 1.0 pence per share special dividend paid 13 August 2013. Further details available on request.

Key Dates

Payment of 3.5 pence final dividend in respect of the year ended 31 March 2013 and 1.0 pence special dividend
13 August 2013

Half Year End

Buy-back - closed from 1 October 2013 until results for Half Year announced
October 2013

Buy-back - open from 1 December 2013 until 31 March 2014
December 2013

Payment of any interim dividend in respect of the Half Year
January 2014

Investor Workshop
12 February 2014

Year End

30 Jun 2013

End of First Quarter

July 2013

Annual General Meeting (AGM)
19 July 2013
All resolutions passed and results for first quarter announced
19 July 2013

30 Sep 2013

November 2013

Results for Half Year announced no later than 30 November 2013

31 Dec 2013

End of Third Quarter

February 2014

Results for third quarter announced no later than 19 February 2014

31 Mar 2014

Portfolio Update

In the 3 months to 30 June 2013, the portfolio grew by £1.54 million to £29.10 million. However the underlying value growth over this period was £1.57 million after netting off the £1.27 million of investments and £1.30 million of loan repayments in the period. The most significant investment was a further £0.98 million into Seven Technologies Holdings Limited to fund the strategic acquisition of Datong plc, which also resulted in a refinancing of £1.30 million of non-qualifying loans.

The majority of the value growth occurred on the top 10 investments listed below which accounted for value growth of £1.71 million. It is particularly pleasing to note general increases across the portfolio with several businesses recording further improvements in trading results. The quoted portfolio also saw value growth of £0.13 million over the period, with the new investment into AB Dynamics plc representing the largest gain at £0.09 million.

The capital value gain in the portfolio was offset by a small loss on gilts and small P&L profit to result in an overall NAV increase from operating activities of 3.2 pence per share. This was slightly diluted by the share allotments in April which raised £5.91 million net of costs giving an overall NAV increase of 2.7 pence to 99.7 pence per share. The Total Return (which includes cumulative dividends paid to date) also rose by 2.7 pence to 183.9 pence per share.

	Website	Investment valuation at 31 March 2013 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Investment valuation at 30 June 2013 £000	% Net Asset Value
Unquoted Investments							
GO Outdoors Limited	gooutdoors.co.uk	4,955	-	24	295	5,274	10.7
President Engineering Group Ltd	pegl.co.uk	3,281	-	-	383	3,644	7.4
DisplayPlan Holdings Limited	displayplan.com	3,042	-	-	364	3,406	6.9
Seven Technologies Holdings Limited	seventechnologies.co.uk	2,335	(1,302)	984	180	2,197	4.5
Deep-Secure Ltd	deep-secure.com	1,940	-	-	58	1,998	4.1
Waterfall Services Limited	waterfall-services.co.uk	1,736	-	-	273	2,009	4.1
Insider Technologies (Holdings) Limited	insidertech.co.uk	1,208	-	-	18	1,226	2.5
Harvey Jones Holdings Limited	harveyjones.com	836	-	-	45	881	1.8
RMS Group Holdings Limited	rms-humber.co.uk	726	-	-	51	777	1.6
Harris Hill Holdings Limited	harrishill.co.uk	701	-	-	62	763	1.4
Top 10 total		20,760	(1,302)	1,008	1,709	22,175	45.0
Primal Pictures Limited	primalpictures.com	4	-	-	-	4	0.0
Remainder of unquoted portfolio*		3,685	-	38	(273)	3,450	7.0
Total unquoted portfolio		24,449	(1,302)	1,046	1,436	25,629	52.0
Quoted portfolio		3,115	-	224	133	3,472	7.0
Total portfolio		27,564	(1,302)	1,270	1,569	29,101	59.1

* Cambridge Cognition was included at a valuation of £192k within the Unquoted portfolio at 31 March 2013. Subsequently in April 2013 the company listed on AIM. To assist comparison the Quoted and Unquoted portfolio sub-totals have been restated in the table above so that the company is included in the Quoted portfolio at 31 March 2013.

Case Study – Fishawack

FISHAWACK
communications

The Company

Fishawack is a full service medical communications agency, providing marketing, communication and education services to large pharmaceutical companies.

Background and Investment Rationale

The opportunity was introduced to YFM Equity Partners by a Liverpool based corporate finance firm. The proposal was to back the management buyout of an established and highly profitable business, with a plan to grow the value of existing accounts and extend the customer base, looking to treble the size of the business.

Post Investment Developments

During the period of our investment and in the face of a tightening market we strengthened the management team and changed the strategy to include a buy-and-build. BSC supported acquisitions in USA, Switzerland and UK, trebling the size of the business and creating an international niche player. Given this was a pre-recession investment which needed further funding to support acquisitions, we were pleased to exit to a secondary MBO for a 2x total return and allow the team to continue their successful buy-and-build strategy.

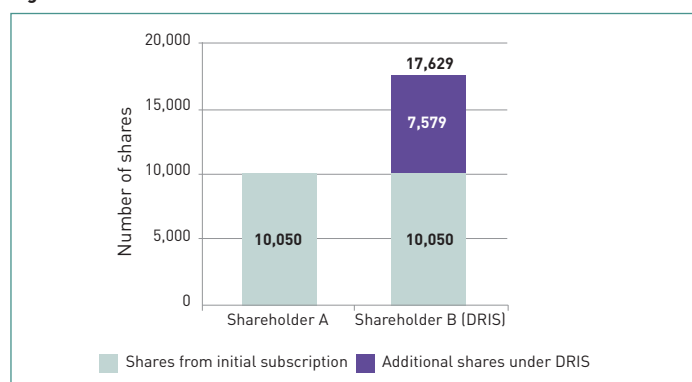


Dividend Re-investment Scheme

BSC's dividend re-investment scheme ("DRIS") is a great way of building up your shareholding in a tax efficient* way by re-investing your cash dividends in the Company. Under the scheme, new shares are acquired at a 5 per cent discount to the most recently announced NAV, with the added benefit that those shares attract 30 per cent tax relief*, just like subscribing to a new Offer.

To illustrate the benefits of DRIS, Figures 2 and 3 below compare the number of shares held and the effective return on dividends for two investors, Shareholder A and Shareholder B, each investing £10,000 in the 2005/06 Offer.

Fig.2 – Number of shares as at 30 June 2013



As a result of joining DRIS, Shareholder B has exchanged £5,402 of dividends for additional shares, thereby increasing their shareholding by 75 per cent from 10,050 to 17,629 shares (as shown in fig.2).

NB Figs 2 and 3 assume that Shareholder B re-invested the 18.0 pence per share special dividend paid in August 2011.

*Tax relief may not be available to all Shareholders in BSC. If you are in any doubt as to your tax position you should consult with an appropriately qualified professional adviser.

Chart Assumptions

At the time of investments the tax relief given was not also invested in shares of BSC. The tax relief on the initial subscription was at 40%. Tax relief on all subsequent issues under the terms of DRIS were at 30% (following the reduction in tax relief that came into force on 6 April 2006). Assuming all dividends invested under the terms of the current DRIS.

Important Notice

Past performance is no guide to future performance and may not be repeated. The value of investments may go down as well as up and you may not get back the full amount invested. This investor update is not an offer to invest in British Smaller Companies VCT plc. 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. You are recommended to seek specialist independent tax and financial advice before investing in a VCT investment.

Financial Highlights for the First Quarter to 30 June 2013

Increased year end dividend and special dividend totalling **4.5 pence** per share paid 13 August 2013*

Net Asset Value increased by **2.8 per cent****

Total Return increased to **183.9 pence** per share***

* 3.5 pence per share year end dividend approved at AGM (increase from 3.0 pence) and 1.0 pence per share special dividend

** From 97.0 pence per share at 31 March 2013 to 99.7 pence per share

*** From 181.2 pence per share at 31 March 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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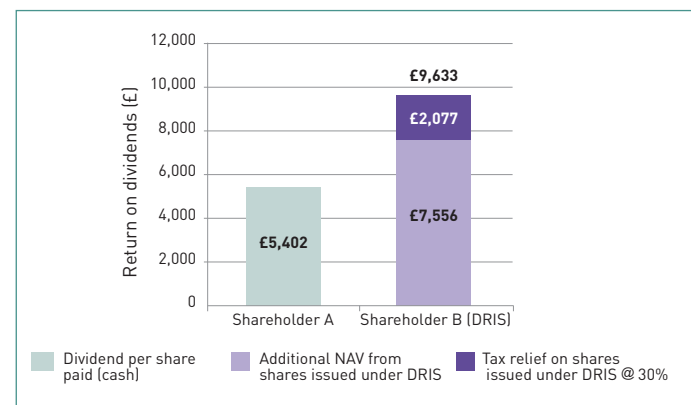
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The increased £7,556 Net Asset Value and additional £2,077 tax relief† Shareholder B receives as a result of their increased shareholding is worth 78 per cent more than the £5,402 cash dividends they would otherwise have received, had they not been in DRIS (as shown in fig. 3).

†Including £457 tax relief on additional dividends from amounts re-invested.

Fig.3 – Return on dividends as at 30 June 2013



To participate in DRIS, you can either:

- Download the Terms & Conditions from the website, which has a mandate form at the back – www.bscfunds.com
- Contact Tracey Nice (below) who will be happy to send you the mandate form together with full terms and conditions of DRIS