

Welcome to the second edition of Investor Update for investors in British Smaller Companies VCT plc

Your second Investor Update follows on from the interim accounts and covers the performance information for the nine month results to 31 December 2012.

Your portfolio comprises UK based businesses that have plans for continued growth and expansion across a broad range of sectors. The majority of the investments are held for between five and ten years although on occasion some have been held for even longer. For over fifteen years this policy has delivered both returns to the shareholders and economic returns to the UK as a whole. The smaller and medium sized businesses in which we invest are well placed to continue this contribution and will no doubt have a significant role to play in re-invigorating the growth in the UK economy.

This Update highlights the financial performance of the Company as a whole and will provide you with the dividend history. We recognise that shareholders have invested at different points in the Company's life so we also include an analysis of the returns on each of the individual fundraising rounds. It also sets out the key dates for your diaries.

Investor Workshop 2013

Of the 18 workshops we have hosted, the one at Lord's on 6 February this year had the highest attendance yet with nearly 200 shareholders making the trip. Martin Churchill provided much needed clarity on the Retail Distribution Review and CP12/19, along with interesting presentations from Scott Morris and Wayne Blakemore, the CEOs of investee companies DisplayPlan and Selima, whose case study is highlighted in this edition. I provided an update of the Fund's performance and fed back the results of the Shareholder Survey. A copy of my presentation is available on our website, along with further details about the workshop and some photographs – www.bscfunds.com.

After lunch, more than 50 of the attendees were treated to a fabulous tour of Lord's Cricket Ground, with the other attendees opting to partake in the "meet the manager" sessions which are proving ever more popular.

There is no doubt that your comments, ideas and responses are essential for us to keep improving the Investor Update, so please keep them coming.

David Hall
Managing Director, YFM Equity Partners

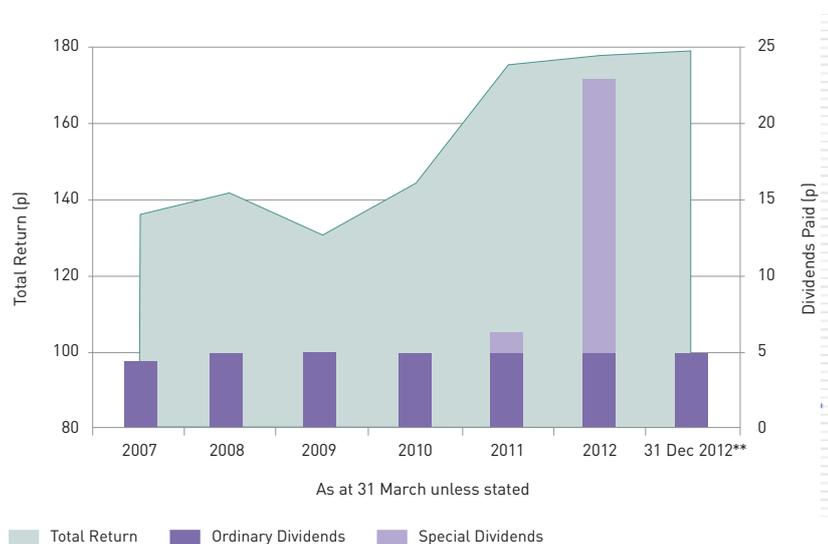


Total Shareholder Return & Dividends Paid

The Total Return is calculated by reference to the Net Asset Value per ordinary share plus cumulative dividends paid per ordinary share. Over the five years and nine months to 31 December 2012 Total Return has increased by 31.7% to 179.4 pence per ordinary share. Dividends average 5.4 pence per ordinary share* over the same period. This would equate to a cash yield of 5.6% based on the current Offer price.

* Excluding 18.0 pence per ordinary share special dividend paid on August 2011, but including 2.0 pence per ordinary share interim dividend paid 14 January 2013. Including the special dividend, the average dividend over the same period is 8.6 pence per ordinary share.

Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT plc may go down as well as up and you may not get back the full amount invested.



** Including 2.0 pence per ordinary share interim dividend paid 14 January 2013

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.

Tax year	Offer price	Offer price net of tax	Net Asset Value at 31 December 2012	Cumulative dividends paid since Fundraising*	Total Return since Fundraising*	Total Return since Funds invested with participation in the DRIS ***
	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 & 1996/97	100.00	80.00	97.20	82.20	179.40	197.13
1996/97 & 1997/98	100.00	80.00	97.20	81.14	178.34	196.06
1997/98 & 1998/99	105.00	84.00	97.20	77.64	174.84	192.56
2004/05 and 2005/06 (C share***)	99.50	59.70	109.32	53.64	162.96	175.38
2005/06	100.00	60.00	97.20	51.75	148.95	162.66
2006/07 & 2007/08	102.50	71.75	97.20	47.25	139.45	155.20
2007/08 & 2008/09	106.25	74.38	97.20	42.25	139.45	147.44
2009/10 & 2010/11	97.25	68.08	97.20	32.25	129.45	132.71
2010/11 & 2011/12	128.00	89.60	97.20	26.00	123.20	123.20
2011/12	99.75	69.83	97.20	3.00	100.20	100.20

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

** Assuming that all dividends were invested under the terms of the current DRIS

*** NAV has been adjusted for conversion of C Shares into ordinary shares in May 2007

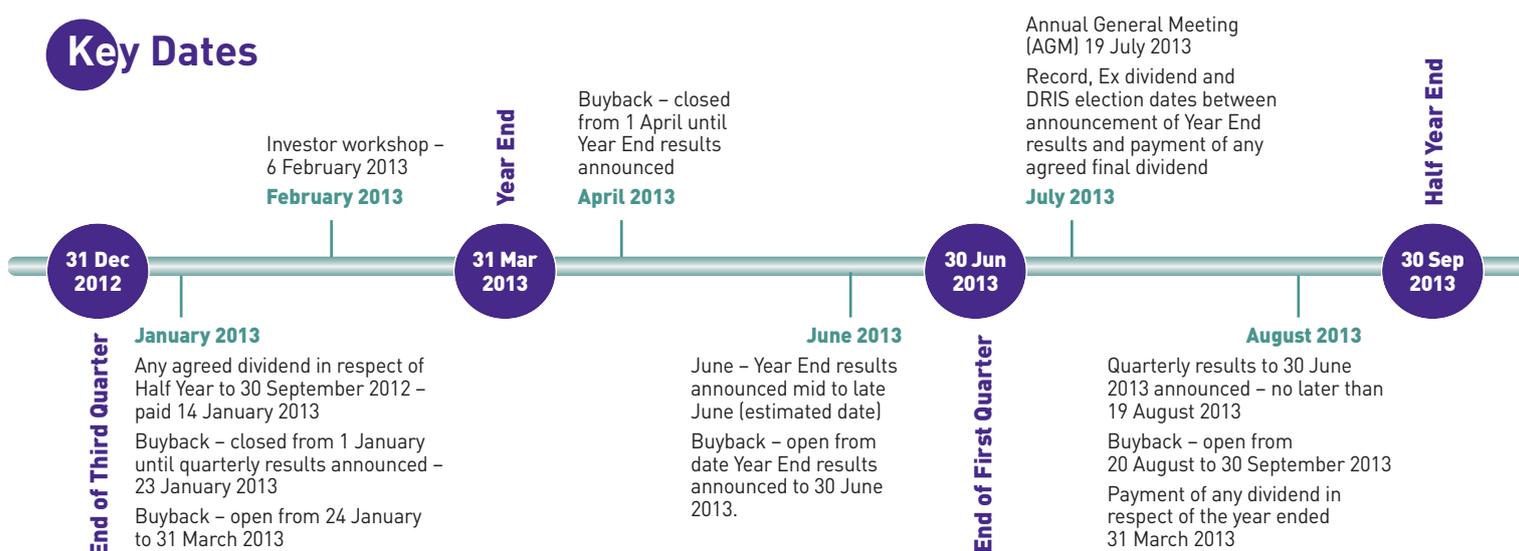
For your Records – Dividends Paid and Date

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	Cumulative at 31 Dec 2012*	82.20
6 November 2006	1.50	28 September 2010	4.25	14 January 2013	2.00
8 August 2007	3.00	7 January 2011	2.00		

* Excludes 2012 year end dividend of 2.0p per ordinary share paid on 14 January 2013. Further details on request.

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Key Dates



Portfolio Update

In the 9 months to 31 December 2012 the portfolio has delivered a value increase of £320K. Included within this was the realisation of Primal Pictures Limited, via a trade sale, which delivered a premium of £186K over opening value.

Within the portfolio the value of recent investment DisplayPlan Holdings Limited has been increased following strong performance ahead of plan. There were also increases from good trading results at President Engineering Group Limited and Fishawack Limited. This was partially offset by GO Outdoors Limited and Deep-Secure both of which saw value decreases together with an overall fall in the value of the quoted holdings, albeit that this more reflects the changes in the pricing multiples used to value the investments which are linked to specific stock exchange sectors.

	Website	Investment valuation at 31 March 2012 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Investment valuation at 31 December 2012 £000	% Net Asset Value
Unquoted Investments							
GO Outdoors Limited	gooutdoors.co.uk	5,504	-	-	↓ (632)	4,872	11.6
President Engineering Group Ltd	pegl.co.uk	2,687	-	-	↑ 980	3,667	8.7
DisplayPlan Holdings Limited	displayplan.com	1,300	-	-	↑ 1,488	2,788	6.6
Seven Technologies Holdings Limited	seventechnologies.co.uk	-	(127)	2,524	↔ -	2,397	5.7
Deep-Secure Ltd	deep-secure.com	2,298	-	-	↓ (424)	1,874	4.4
Waterfall Services Limited	waterfall-services.co.uk	1,503	-	-	↑ 42	1,545	3.7
Fishawack Limited	fishawack.com	896	-	-	↑ 437	1,333	3.2
Insider Technologies (Holdings) Limited	insidertech.co.uk	-	-	1,170	↔ -	1,170	2.8
Harvey Jones Holdings Limited	harveyjones.com	783	-	-	↑ 45	828	2.0
Harris Hill Holdings Limited	harrishill.co.uk	653	-	-	↑ 58	711	1.7
Top 10 total *		15,624	(127)	3,694	↑ 1,994	21,185	50.3
Primal Pictures Limited	primalpictures.com	406	(592)	-	↑ 186	-	-
Remainder of unquoted portfolio		4,449	-	1,088	↓ (1,247)	4,290	10.2
Total unquoted portfolio		20,479	(719)	4,782	↑ 933	25,475	60.4
Quoted portfolio		3,721	(121)	341	↓ (614)	3,327	7.9
Total portfolio		24,200	(840)	5,123	↑ 319	28,802	68.3

* Excluding acquisition vehicle Fairlight Bridge Limited

Case Study

The Company

Selima is a specialist HR, payroll and expenses software business that addresses the complex requirements of its public sector client base, helping them make substantial costs savings.

Background and Investment Rationale

The opportunity was introduced to YFM Equity Partners' (YFM) Leeds office by a serial software entrepreneur whom we had successfully backed twice before. This was an opportunity to invest behind an experienced MBI team to acquire an established and profitable business with high levels of recurring revenue. The strategy is to professionalise the business, improve the focus on sales and marketing and extend the client base into adjacent niches via a combination of organic growth and targeted acquisitions.

Post Investment Developments

Since the £900,000 investment from British Smaller Companies VCT plc and British Smaller Companies VCT2 plc the new team has spent the first year putting their stamp on all aspects of the business and positioning it for growth:

- Recruiting a new sales team
- Improving account and project management
- Refining the product roadmap
- Improving financial management and reporting.



Marketing of VCTs – (CP12/19)

As you may be aware the **Financial Services Authority (FSA)**, which is soon to be replaced by the **Financial Conduct Authority (FCA)**, is consulting on how VCTs should be marketed to private investors such as yourself. The Consultation is known as **CP12/19** and has caused a lot of controversy as it is suggesting that if implemented, new VCT offers will only be able to be marketed to certified High Net Worth or Sophisticated Investors. Many in the industry are concerned that if the rules in **CP12/19** are implemented, many current VCT shareholders will no longer be able to invest in new VCT share issues and possibly may not even be allowed to be told about them. This involves yet further debate of what characteristics and experience are necessary to qualify as a sophisticated investor.

We are working with a number of people in the VCT industry to compile more information on the views and opinions (both good and bad!) of current VCT shareholders on their experiences of being sold VCT shares, holding them and selling them. The latest news (12 February) is that the FSA may well exclude VCTs and EIS schemes, but we may yet require your help with lobbying.

If you are willing to take part in an online survey with questions about your experiences or you are able to attend a meeting at the FSA, chaired by a neutral individual, at which you will have the opportunity to pass your views directly to the team organising the Consultation, please contact Tracey Nice – tracey.nice@yfmeop.com or telephone **0113 294 5055**.

Fundraising

At the time of writing funds raised are already in excess of £8.8 million in respect of the Linked Offer for British Smaller Companies VCT plc and British Smaller Companies VCT2 plc.

The Offers close at 11:00am on 5 April 2013 for the 2012/13 Tax year and 30 April 2013 for the 2013/14 Tax year. There is still time if you have not yet invested and wish to do so. We have enclosed a copy of the Investor Guide with this Update for your convenience.

For a copy of the Prospectus contact Tracey Nice (details below) or visit www.bscfunds.com.



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 or British Smaller Companies VCT2 plc ('the Companies'). Any decision to invest must be based on the information contained in the VCT Linked Offer Prospectus issued by the Companies on 16 November 2012 ('the Prospectus'). 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 quarter to 31 December 2012

Net Asset Value increased by **3.1%***

Total Return increased to **179.4 pence** per ordinary share**

Increased and resilient performance generates increase in unrealised valuation of **4.7%*****

* From 94.2 pence per ordinary share as 30/09/12 to 97.2 pence per ordinary share

** From 176.4 pence per ordinary share as at 30/09/12

*** Quarter to 31/12/12



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