

British Smaller Companies VCT plc (BSC)

INVESTOR UPDATE

reporting to 31 December 2014

Once again thank you for your continued support. The Investor Updates are six monthly publications and this issue provides an update for the nine months to 31 December 2014. This edition is slightly later than usual as we have been very busy closing out this year's fundraising.



Strong Investment Rates

For the nine month period to 31 December 2014 your Company has invested £16.8 million which includes £15 million into the nine new unquoted investments listed below:

NEW INVESTMENTS

Intelligent Office	Alloa	£2.93m
Macro Art	Cambridgeshire	£1.26m
Intamac Systems	Northampton	£0.25m
Heritage Window Company	London	£1.90m
Cambrian Park and Leisure Homes	Porthmadog	£1.80m
Springboard Research	Milton Keynes	£1.78m
ACC Aviation	Reigate	£2.07m
Business Collaborator	Reading	£2.01m
Wakefield Acoustics	Cleckheaton	£1.08m

Exits

I am delighted to report that just before Christmas your Company sold its investment in Waterfall Services Limited, a leading independent mid-sized contract catering company. Total cash proceeds on realisation were £3.85 million, generating a profit over cost of £3.75 million. Over the life of the investment total proceeds were £5.3 million, delivering a total return of 5.3x the original cost of £1.0 million.

Portfolio

Following this activity your portfolio now comprises 37 investments (29 unquoted and 8 quoted) with a combined value of £52.5 million. We are continuing to diversify the portfolio and have recently completed a £1.5 million investment into womenswear brand Ness. More details of the portfolio can be found on page 3.

Dividends

On 7 January 2015 your Company paid an interim dividend of 2.0 pence per share and, following the realisation of the investment in Waterfall,

made a further dividend payment of 2.5 pence per share on 3 March 2015. This takes the total dividends paid in the current financial year to 8.0 pence per share.

Fundraising

With £16.8 million invested since 1 April 2014 your Company, in conjunction with BSC2, launched a prospectus offer in October 2014 to increase its investment capacity. I am delighted to report that there was strong demand for the offers which meant that they closed early and were fully subscribed before the end of March 2015, raising £40 million in aggregate.

The strategy is to raise sufficient funding for the anticipated investments/cash demands over the coming year. Whilst there is always a degree of estimation in the forecasts, the total cash utilisation by the British Smaller Companies VCTs in the calendar year to 31 December 2014 was £33.4 million.

I would personally like to welcome all of our new shareholders and thank existing investors for their continued support.

Results to 31 December 2014

The results for the third quarter saw total return increase by 1.7 pence per share to 195.0 pence per share. Net asset value at the end of the period stood at 100.8 pence per share prior to the subsequent payment of the dividends in January and March.

Communications

The programme of providing information by email is up and running, although we are keen to increase the number of shareholders with whom we can communicate electronically.

As always, we encourage your feedback on our Updates. Please contact Investment Services Manager, Tracey Nice (contact details are on the back page) with any suggestions.

David Hall
Managing Director
YFM Equity Partners

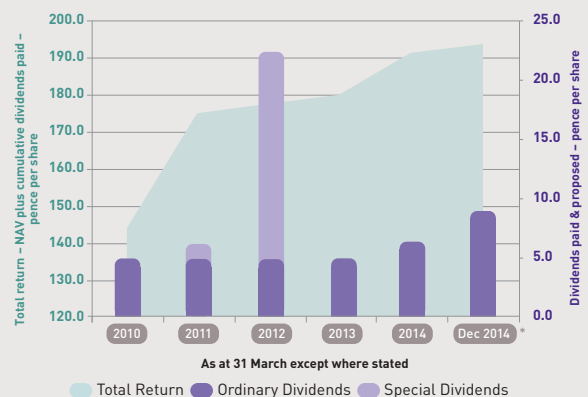
TOTAL SHAREHOLDER RETURN

The graph opposite shows the total return of BSC for the five years and nine months to 31 December 2014 and the dividends paid in each of the last five financial years. Total return is the net asset value plus cumulative dividends paid.

Over the period total return increased by 49.3 per cent to 195.0 pence per share. Dividends average 6.2 pence per share* over the same period. This equates to a cash yield of 6.2 per cent based on the December net asset value of 100.8 pence per share. The return for shareholders subscribing in each of the different fundraisings can be found in the table on page 2.

* Including the special dividend of 18.0 pence per share paid in August 2011, the average dividend over the same period is 9.4 pence per share.

Total Return & Dividends Paid



* Including the 2.0p interim and 2.5p second interim dividend paid on 7 January 2015 and 3 March 2015 respectively

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 column of this table shows the illustrative overall return as if the DRIS had operated since inception.

Tax year	Offer price	Offer price net of tax	Net asset value at 31 December 2014	Cumulative dividends paid since Fundraising*	Total return since Fundraising*	Overall return (not in DRIS)**	Illustrative overall return (in DRIS)***
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 and 1996/97	100.00	80.00	100.80	94.20	195.00	215.00	265.73
1996/97 and 1997/98	100.00	80.00	100.80	91.20	192.00	212.00	264.83
1997/98 and 1998/99	105.00	84.00	100.80	87.45	188.25	209.25	264.70
2004/05 and 2005/06 (C share****)	100.00	60.00	113.37	67.14	180.50	220.51	267.57
2005/06	99.50	59.70	100.80	63.75	164.55	204.35	262.55
2006/07 and 2007/08	102.50	71.75	100.80	59.25	160.05	190.80	241.55
2007/08 and 2008/09	106.30	74.38	100.80	54.25	155.05	186.93	230.48
2009/10 and 2010/11	97.30	68.08	100.80	44.25	145.05	174.23	203.51
2010/11 and 2011/12	128.00	89.60	100.80	38.00	138.80	177.20	193.85
2011/12	99.75	69.83	100.80	15.00	115.80	145.73	153.12
2012/13 and 2013/14	95.75	67.03	100.80	10.00	110.80	139.53	143.93
2013/14 and 2014/15	100.75	70.53	100.80	3.50	104.30	134.53	134.79

* 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.

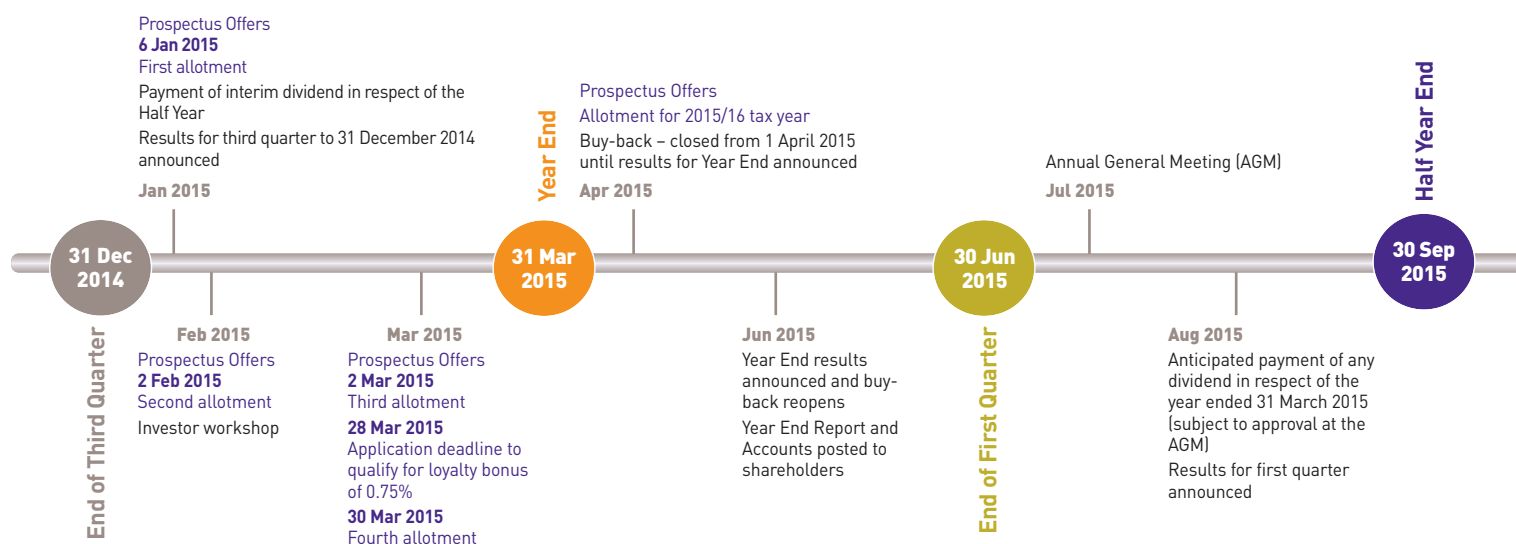
**** All figures have been adjusted for conversion of C Shares into ordinary shares in May 2007

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.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
Combined to 31 March 2005	26.75	11 February 2009	2.0	17 August 2012	3.0
5 August 2005	2.2	13 August 2009	3.0	14 January 2013	2.0
10 January 2006	1.5	7 January 2010	2.0	13 August 2013	4.5
11 August 2006	3.0	28 September 2010	4.25	21 March 2014	2.0
6 November 2006	1.5	7 January 2011	2.0	1 August 2014	3.5
8 August 2007	3.0	22 August 2011	3.0	Cumulative at 31 December 2014	94.2
16 November 2007	2.0	22 August 2011	18.0	7 January 2015	2.0
8 August 2008	3.0	20 January 2012	2.0	3 March 2015	2.5

KEY DATES



PORTFOLIO UPDATE

Over the nine months to 31 December 2014 the investment portfolio including deferred proceeds has increased by £12.67 million to £52.54 million, making up 80 per cent of the net asset value. However the underlying value gain over this period was £1.41 million (a gain of 3.5 per cent on the 31 March 2014 opening value) after adjusting for investments and realisations. This equates to a value gain of 2.1 pence per share based on the issued shares at 31 December 2014. The value gain across the portfolio translated into an increase in total return over the period of 2.3 pence per share to 195.0 pence with the net asset value per share down 1.2 pence to 100.8 pence after the 3.5 pence dividend paid in August.

The unquoted portfolio (94 per cent of the overall investment portfolio) saw a value gain of £2.16 million. This was underpinned by the realised gain of £1.48 million on the sale of Waterfall Services in December which also crystallised a 5.3x cash return over the life of this investment since 2007. Of the remaining £0.68 million value gain, the top 10 saw a gain of £1.86 million offset by a £1.18 million value fall across the wider portfolio, dominated by two investments, Seven Technologies (down £1.12 million) and Deep-Secure (down £0.90 million) as both experienced public budget cuts in the defence sector. If these two are excluded the unquoted portfolio has seen a value gain of £4.18 million in total (13.2 per cent of the relevant opening March 2014 values) with the largest movements being the realised gain on Waterfall Services (up £1.48 million) and unrealised gains from GTK (up £0.68 million), Mangar (up £0.66 million) and Intelligent Office (up £0.60 million).

The quoted portfolio saw a value fall over the nine months of £0.75 million dominated by a fall of £0.43 million from Pressure Technologies due to the sharp fall in oil prices.

Investment activity has been very strong with a total of £16.86 million invested in the nine months to 31 December 2014. Key investments include; Intelligent Office (£2.93 million) provider of outsourcing services to legal practices, ACC (£2.07 million) broker of commercial aircraft leases, Business Collaborator (£2.01 million) software supplier to the construction sector, Heritage Windows (£1.90 million) manufacturer of aluminium windows, Cambrian (£1.80 million) manufacturer of holiday lodges, Springboard (£1.78 million) provider of retail data services, Macro Art (£1.26 million) provider of large area printing services and Wakefield Acoustics (£1.08 million) provider of industrial acoustic solutions. Realisations in this period totalled £5.60 million and delivered a profit on opening value of £1.54 million which was dominated by the sale of Waterfall Services mentioned above.

Company	Website	Investment valuation at 31 Mar 2014 (£000)	Proceeds (£000)	Additions (£000)	Valuation gains (losses) including profits on disposal (£000)	Investment valuation at 31 Dec 2014 (£000)	% Net asset value
GO Outdoors TopCo Limited	gooutdoors.co.uk	6,371	(412)	33	83	6,075	9.2%
President Engineering Group Limited	conflow.com/bestobellvalves.com	4,078	(200)	-	268	4,146	6.3%
DisplayPlan Holdings Limited	displayplan.com	3,854	-	-	(125)	3,729	5.6%
Intelligent Office UK Limited	intelligentofficeuk.com	-	-	2,934	598	3,532	5.3%
Mangar Health Limited	mangar.co.uk	2,460	-	-	660	3,120	4.7%
Gill Marine Holdings Limited	gillmarine.com	2,500	-	-	(184)	2,316	3.5%
GTK (UK) Limited	gtk.co.uk	1,693	(299)	-	680	2,074	3.1%
ACC Aviation (via New Acc (2014) Limited)	flyacc.com	-	-	2,068	-	2,068	3.1%
Business Collaborator Limited	groupbc.com	-	-	2,010	-	2,010	3.0%
Harvey Jones Holdings Limited	harveyjones.com	900	-	1,207	(121)	1,986	3.0%
Top 10 total		21,856	(911)	8,252	1,859	31,056	46.8%
Remainder of unquoted portfolio		11,677	(256)	8,098	(1,180)	18,339	27.8%
Waterfall Services Limited		2,372	(3,854)	-	1,482	-	0.0%
Deferred proceeds		3	-	-	-	3	0.0%
Total unquoted portfolio		35,908	(5,021)	16,350	2,161	49,398	74.8%
Quoted portfolio		3,957	(576)	509	(753)	3,137	4.8%
Total portfolio		39,865	(5,597)	16,859	1,408	52,535	79.6%

CASE STUDY – PRESIDENT ENGINEERING LIMITED (“PEGL”)

The Company

PEGL is a niche engineering business specialising in dust suppression products for the mining industry and cryogenic valves for the industrial gas sector.

Background

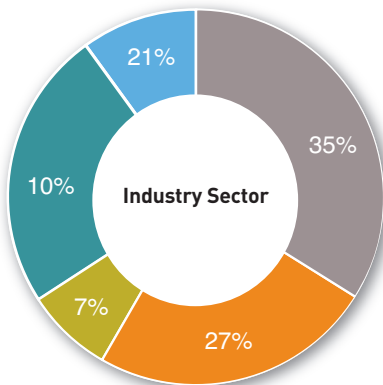
This was a management buyout of an established and profitable business from a UK Corporate. The deal was introduced by one of YFM's Sheffield based Corporate Finance contacts. As part of the investment we appointed a Chairman whom we already knew from his involvement with one of the VCT's other portfolio businesses.

Post Investment Developments

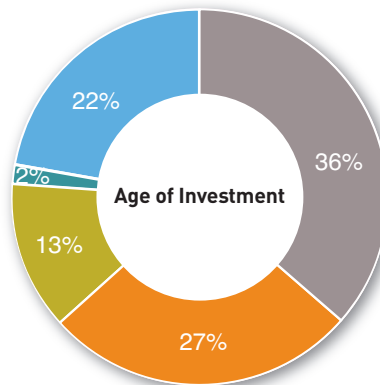
Following our investment, the business has taken advantage of its strong market position and strengthened its brand, which had been neglected by the previous owner. As a result, trading has been significantly ahead of plan and PEGL has remained the leader in the market niches it operates in. We hope this will make the company an attractive acquisition for potential buyers.



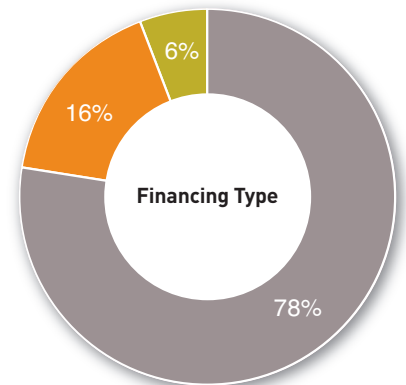
PORTFOLIO AT A GLANCE



- Business Services
- Manufacturing and Industrial
- Retail and Brands
- Software, IT and Telecommunications
- Healthcare



- Less than 1 year
- Between 1 and 3 years
- Between 3 and 5 years
- Greater than 5 years
- Greater than 7 years



- MBO/MBI
- Development Capital
- AIM

Data source: Based on BSC VCT Valuations at 31 December 2014

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: 0C384467. Registered Office: 5th Floor, Valiant Building, 14 South Parade, Leeds LS1 5QS.

FINANCIAL HIGHLIGHTS

for third quarter to 31 Dec 2014

4.5 pence interim and further interim dividend
Net asset value 100.8 pence per share
Total return 195.0 pence per share

CONTACT US

For further information, including how to register for email communications please call or email:



Tracey Nice
Investment Services Manager

T: 0113 261 6478
E: tracey.nice@yfmep.com
W: bscfunds.com