

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, you should consult your own independent professional adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your Ordinary Shares in the Company, please send this document at once to the purchaser/transferee, the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Directors of the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who or which have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

British Smaller Companies VCT2 plc

Incorporated in England and Wales under the Companies Act 1985 with registered number 04084003

APPROVED DIVIDEND RE-INVESTMENT SCHEME IN RELATION TO THE COMPANY'S ORDINARY SHARES

Contents

	Page
Part I: Important Notice	3
Risk Factors	3-4
Part II: Chairman's Letter	5-6
Part III: Terms and Conditions of the BSC2 Dividend Re-investment Scheme	7-10
Part IV: Taxation	11-12
Part V: Definitions	13-14
Mandate Form	

Part I:

Important Notice

This document, which constitutes a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000 ("the Act"), has been approved, for the purposes of that section only, by YFM Private Equity Limited ("YFM") which is authorised and regulated by the Financial Conduct Authority in the United Kingdom (FRN: 122120) pursuant to the Act.

In approving this document YFM is acting solely for the Company and no-one else and will not be responsible to anyone other than the Company for providing the protections afforded by the Companies Act 2006 or for providing financial advice in relation to the subject of this document. YFM has given its written consent to the Company to the inclusion of its name in this Circular in the form and context stated and used and that consent has not been withdrawn.

There is no guarantee that the Company's investment objective will be attained. If you are in any doubt as to what action to take, you should contact an independent professional adviser. The levels and bases of reliefs from taxation described in this document are those currently available. These may change and their value depends on an investor's individual circumstances.

No person has been authorised to issue any advertisements or give any information, or make any representations in connection with the Dividend Re-investment Scheme ("the Scheme"), other than those contained in this document, and if issued, given or made such advertisements, information or representations must not be relied upon as having been authorised by the Company.

Risk Factors

The Directors draw the attention of Shareholders who may be considering an investment in the Company under the Scheme to the following risk factors, which may affect the performance of the Company and/or the availability of tax reliefs:

- Your capital is at risk if you invest in the Company and you may lose some or all of your capital. Past performance of the Company is no guarantee of future returns and may not be repeated.
- Investment in the Company should be regarded as long-term in nature and may not be suitable for all Shareholders. If you are in any doubt you should consult your independent professional adviser about the Scheme.
- The market price of the Ordinary Shares may not fully reflect their underlying net asset value. Past performance is not a guide to the future and the value of an investment in the Company, and the income derived from it may go down as well as up and an investor may not get back the amount invested.
- Although the Shares will be listed on the Official List of the UK Listing Authority there is a limited secondary market for Venture Capital Trust shares and Shareholders may have difficulty in selling their Shares.
- Any realised losses on a disposal of Shares will not be allowable losses, for the purposes of capital gains tax, and will therefore not be capable of set off against any capital gains.
- There can be no guarantee that the Company will maintain full VCT qualifying status. If the Company ceases to retain approval as a VCT, before Participating Shareholders have held their shares for five years from the date of purchase, any income tax relief will have to be repaid. Following a loss of VCT status, Shareholders will be taxed on dividends paid by the Company and, in addition, a liability to capital gains tax may arise on any subsequent disposal of their Shares.
- Where full approval as a VCT is withdrawn the Company will also lose its exemption from corporation tax on capital gains. If at any time the Company's VCT status is lost, dealings in its Shares will normally be suspended until such time as the Company has published proposals either to continue as an investment company or to be wound up.
- Should the Company not qualify as a VCT, or if it qualifies but the Shares fall outside the qualifying limit of the Shareholder, the Shareholder will generally be liable to income tax on the aggregate amount of the dividend paid by the Company and the notional tax credit equal to 1/9th of that dividend. The notional tax credit will discharge the income tax liability of a basic rate taxpayer. Shareholders who also pay tax at the higher rate can use the notional credit to offset against their higher rate tax liability.
- The information in this document is based on existing legislation. The tax reliefs described are those currently available. The tax rules or their interpretation in relation to an investment in the Company and/or rates of tax may change during the life of the Company and may apply retrospectively.

- As a result of the restrictions regarding Qualifying Companies set out in the VCT Regulations, the Company's investments are likely to be in relatively small companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining the value of smaller companies or the risks to which they are exposed may also not be available. Furthermore an investment in an unquoted or AIM-traded company, by its nature, involves a higher degree of risk than investment in the main market of the London Stock Exchange.
- The Company's ability to obtain maximum value from its investments (for example, through a sale or takeover) may be limited by requirements imposed in order to maintain its VCT status (such as the condition that not less than 70 per cent by value of its total investments must be in shares in, or securities of, an unquoted (including AIM quoted) company carrying on a qualifying trade satisfying the conditions in Chapter 4 of the Income Tax Act 2007).
- The Alternative Investment Fund Managers Directive, 2011/61/EU ("AIFMD"), became effective across the European Union on 22 July 2013. The AIFMD regulates managers of alternative investment funds, such as the Company, which are marketed or managed in the EU. The Company has applied to the Financial Conduct Authority for registration as a small registered Alternative Investment Fund Manager. Although it is too early to be definitive as to the impact of the AIFMD, it is possible that the AIFMD will result in burdens being placed on the Company and YFM, which may create additional compliance costs for the Company.
- The Finance Act 2014 brought in restrictions to income tax relief on subscription for shares in VCTs after 5 April 2014, where, within six months of the subscription, the investor disposes of the shares he/she has acquired in a VCT. However shares acquired under dividend re-investment schemes are not affected by this rule.
- The Finance Act 2014 also restricts the ability of VCTs to pay tax-free dividends from reserves created after 5 April 2014 from the cancellation of share premium accounts and similar reserves.

Part II: Chairman's Letter

British Smaller Companies VCT2 plc

Directors:

Richard Last
Robert Pettigrew
Peter Waller

Registered Office:

5th Floor, Valiant Building
14 South Parade
Leeds
LS1 5QS

11 October 2014

Dear Shareholder

Background

At the Annual General Meeting of the Company held on 11 January 2011 the Directors were authorised by special resolution to establish a dividend re-investment scheme for the Company's Shareholders.

Recently the Directors, in conjunction with Capita Asset Services (who administer the Scheme), have agreed changes to the Scheme's terms and conditions to allow the Company to give Participating Shareholders the opportunity to dis-apply their mandate in respect of a particular special interim dividend and instead receive that dividend in cash. Furthermore paragraph 20 of the terms and conditions of the Scheme (regarding tax reliefs available for investors subscribing for VCT shares via a nominee) has been modified to reflect the enactment of the Finance Bill on 17 July 2014.

Dividend re-investment enables Shareholders to increase their total holding in the Company without incurring dealing costs, issue costs or stamp duty. Subject to individual circumstances, New Ordinary Shares acquired via the Company's dividend re-investment scheme should qualify for income tax relief (currently at 30 per cent) which is applicable to subscriptions for new shares in Venture Capital Trusts.

By choosing to join the Scheme, Shareholders' tax free dividends are re-invested at a 5 per cent discount to the most recently announced net asset value as at the date the dividend is paid and as adjusted for any relevant dividend, with the added benefit that the newly acquired Shares should attract 30 per cent tax relief, just like subscribing to a new offer.

Usually, the Company will notify Shareholders of the opportunity to re-invest dividends in New Ordinary Shares under the Scheme via a RIS or in writing.

The terms and conditions of the Scheme, which apply to all Shareholders holding Ordinary Shares and participating in the Scheme in respect of their Ordinary Shares, are set out in Part III of this document and are available (together with a copy of this Circular) from the Company's website at www.bscfunds.com.

Dividend Re-investment Scheme

Shares subscribed for via the Scheme will form part of each Shareholder's annual limit for investing in Venture Capital Trusts and qualifying for tax reliefs.

The New Ordinary Shares issued under the Scheme will rank *pari passu* in all respects with the Ordinary Shares then in issue. Subject to individual circumstances, these New Ordinary Shares should qualify for the VCT tax reliefs that are available for subscriptions for new shares in Venture Capital Trusts (a summary of which can be found in Part IV of this document).

Generally, the terms of the Scheme only permit a Shareholder to join if all dividends on the Ordinary Shares registered in their name at the relevant Record Date are mandated to the Scheme although the Directors may, at their discretion, allow Shareholders to make a partial re-investment of dividends where they are acting on behalf of more than one beneficial holder, for example, through a nominee shareholding made in CREST. If you elect to receive New Ordinary Shares in respect of your total holding of Ordinary Shares, any residual cash balance arising representing a fractional entitlement will be carried forward to the next dividend.

The terms and conditions of the Scheme as set out in Part III of this document are as approved by the Directors pursuant to the authority granted by the Shareholders on 11 January 2011 (and as subsequently amended in accordance with paragraph 18 of the terms and conditions of the Scheme in May 2013, May 2014 and August 2014).

If you do not hold your Ordinary Shares through CREST and elect to join the Scheme, and correctly complete and return the Mandate Form to Capita Asset Services (in accordance with the terms and conditions of the Scheme), the mandate given in the Mandate Form will remain in force in respect of all Ordinary Shares you hold (now and in the future) and for all future dividends to which the Scheme is applied after the date you have joined the Scheme unless and until you give notice to terminate your participation in the Scheme in accordance with the terms of the Scheme. The Company may from time to time and at any time grant Participating Shareholders (who do not hold their Ordinary Shares through CREST) the opportunity to dis-apply their Mandate Form in relation to a particular special interim dividend (as may from time to time be declared by the Company) and instead receive the special interim dividend in cash.

Shareholders holding their Ordinary Shares through CREST should note that any election made to participate in the Scheme which must be done via a CREST Dividend Election Input Message, will only apply to the dividend in question and not to any subsequent dividends in respect of which the Directors offer a dividend re-investment alternative. Such CREST Shareholders will need to make a separate election, using the CREST Dividend Election Input Message, each time the Directors offer a dividend re-investment alternative for a particular dividend.

If at any time a Shareholder who does not hold their Ordinary Shares through CREST and who has elected to join the Scheme wishes to terminate their participation in the Scheme they must notify Capita Asset Services. Further details on how to do this and when the termination will take effect is set out in paragraph 16 of the Scheme's terms and conditions in Part III of this document.

Those Shareholders not electing to join the Scheme at this time will (for so long as the Scheme is operated by the Company) be able to do so at any time in the future in respect of dividends declared for later periods.

The Directors retain the right to suspend or terminate the Scheme at any time.

Shareholders who elect to re-invest dividends under the Scheme should, subject to individual circumstances, be eligible to claim income tax relief on the amounts subscribed. From 17 July 2014, investors can subscribe for VCT shares via a nominee. Further details regarding the availability of tax reliefs can be found in Part III and Part IV of this document. If you are in any doubt regarding your personal tax position, or whether you should participate in the Scheme, you should contact your independent professional adviser immediately.

Action to be taken

If you are already participating in the Scheme and you do not hold your Shares in CREST you do not need to take any action unless the Company grants Participating Shareholders (who do not hold their Ordinary Shares through CREST) the opportunity to dis-apply their Mandate Form in relation to a particular special interim dividend (as may from time to time be declared by the Company). In this case the Company will contact you giving details of how you can receive the special interim dividend in cash.

If you are already participating in the Scheme and you hold your Ordinary Shares in CREST you do not need to take any action. Please note you will need to submit a CREST Dividend Election Input Message each time you wish to participate in a dividend re-investment alternative offered by the Company. A CREST Dividend Election Input Message must be received by the Company's registrars by 5.00 pm on the Election Date for the relevant dividend to be effective. If no such CREST Dividend Election Input Message is received by the Company's registrars by 5.00 pm on the Election Date your dividend will be paid in cash.

If you are not currently participating in the Scheme and do not hold your Ordinary Shares in CREST but wish to join the Scheme, you must complete and return the Mandate Form which can be found at the back of this document, to the Company's registrars, Capita Asset Services. If a dividend has recently been declared by the Company, and you wish your participation in the Scheme to commence with that dividend payment, the Mandate Form must be returned by 5.00pm on the Election Date announced by the Company for that dividend. The Election Date will usually be a date 10 Business Days prior to the payment date of the dividend.

Further Information

If you have any queries regarding this Circular or the Scheme in general, please contact Capita Asset Services:

By telephone: 0871 6640324 (lines are open from 9.00am to 5.30pm Monday to Friday and calls to this number cost 10p per minute plus network extras) or 0208 639 3399 for Shareholders overseas.

OR

By post: Corporate Actions, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Yours faithfully



Richard Last, Chairman

Part III: Terms and Conditions of the BSC2 Dividend Re-investment Scheme

1 Shareholders on the register of members of the Company at the close of business on the relevant Record Date may elect to receive New Ordinary Shares, credited as fully paid, instead of receiving the dividend in cash for the relevant financial period ("the full cash dividend"). The election may, subject to conditions 4(d) and 4(e) below, only be made by Shareholders in respect of the whole (and not part only) of their holding of Ordinary Shares and shall, subject to conditions 7 and 16 below, operate as a mandate in respect of all future dividends declared in respect of their Ordinary Shares after the date on which the Shareholder joins the Scheme whilst the Scheme continues to be operated by the Company, unless and until the Shareholder gives notice to terminate his or her participation in the Scheme in accordance with the terms of the Scheme.

2 Shareholders may only join the Scheme if all dividends on the Ordinary Shares registered in their name are mandated to the Scheme. Any additional Ordinary Shares which the Participating Shareholder buys, and which are registered in their name prior to the relevant Record Date for any dividend they are entitled to, will be covered by the Mandate Form they have submitted and such Participating Shareholder will receive New Ordinary Shares instead of cash dividends for their entire holding of Ordinary Shares.

If a Shareholder buys Ordinary Shares on or after the ex-dividend date for any relevant dividend, that Shareholder will not be entitled to receive that dividend in respect of those Ordinary Shares.

3 The Company shall invest the monies held within the Scheme (being dividends paid on Ordinary Shares by, or on behalf of, Participating Shareholders) in the subscription of New Ordinary Shares in the Company. The Company shall not have the discretion to vary such investments and Shareholders may not instruct the Company to make any other investments.

4 (a) On or as soon as practicable after a day on which any dividend is paid to Shareholders (a "Re-investment Day"), the funds held by the Company on behalf of each Participating Shareholder shall be applied on behalf of that Shareholder in the subscription for the maximum number of New Ordinary Shares as can be acquired with those funds.

(b) The number of New Ordinary Shares issued to a Participating Shareholder pursuant to condition 4(a) above shall be calculated by dividing the aggregate value of the dividends paid on the Ordinary Shares to which the Participating Shareholder is entitled by the greater of (i) the net asset value per Ordinary Share being the most recently announced net asset value per Ordinary Share as at the date the dividend is paid (as adjusted for the relevant dividend in question if this has not already been recognised in the most recently announced net asset value) less 5 per cent; and (ii) the nominal value per Ordinary Share.

(c) No fractions of New Ordinary Shares will be issued under the Scheme and subject to conditions 4(d) and 4(e) below the election may only be made by Shareholders in respect of the whole and not part of their shareholdings. Any balance of cash remaining with the Company after the subscription shall be held by the Company on behalf of the Participating Shareholder to whom it relates and added to the cash available in respect of that Shareholder for the subscription of New Ordinary Shares on the next Re-investment Day. No interest shall accrue or be payable by the Company in favour of any Shareholder on any such cash balances.

(d) The Scheme involves the re-investment of the whole dividend paid on each shareholding each time a dividend is paid by the Company, together with any cash residue brought forward from the previous dividend. The Directors may, at their discretion, allow Shareholders to make a partial re-investment of dividends, where they are acting on behalf of more than one beneficial holder, for example, through a nominee shareholding made in CREST or other custodians, nominees or trustees. A CREST Dividend Election Input Message must contain the number of Ordinary Shares for which the election is being made. A cash dividend will automatically be paid on any Ordinary Shares which are not specified in a CREST Dividend Election Input Message.

(e) Shareholders holding Ordinary Shares in certificated form who might wish to make a partial election should contact Capita Asset Services to find out how to divide their holding so that they can make a re-investment election on the required number of Ordinary Shares.

5 The Company shall on the relevant Re-investment Day take all necessary steps to ensure that the Participating Shareholders are entered onto the share register of the Company as the registered holders of the New Ordinary Shares (as the case may be), issued to them under the Scheme, and that share certificates in respect of such Shares issued are posted to the Participating Shareholders at their own risk as soon as is reasonably practical. CREST members who have validly elected to receive New Ordinary Shares will have their CREST accounts credited directly with the relevant New Ordinary Shares.

- 6 To assist Participating Shareholders with their tax returns, attached to the new share certificates will be a Statement of Entitlement, or if shares are held in uncertificated form (that is CREST), a Statement of Entitlement will be sent to the Participating Shareholder's nominee separately, detailing the following:- (i) the total dividend payable; (ii) the subscription price per New Ordinary Share; (iii) the number of New Ordinary Shares allotted to a Participating Shareholder; (iv) the residual cash balance (if any) representing an entitlement to a fraction of a New Ordinary Share to be carried forward to the next dividend; and (v) the cash equivalent of the New Ordinary Shares issued, together with any such other information as shall be required under the Listing Rules of the UK Listing Authority.
- 7 Application to join the Scheme can be made at any time. If you hold your Shares in certificated form this can be done by returning a completed Mandate Form so as to be received by the Company's registrars Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 5.00pm on the Election Date of a dividend which is to be re-invested. Mandate Forms received by that time on an Election Date shall be effective in relation to the dividend to which the Election Date relates and any future dividends in respect of which the Directors offer a dividend re-investment alternative. Mandate Forms received after 5.00pm on an Election Date shall not be effective in relation to the dividend to which the Election Date relates but shall be effective in respect of any future dividends in respect of which the Directors offer a dividend re-investment alternative. Please note that no acknowledgement of receipt of Mandate Forms will be issued by the Company or by Capita Asset Services.

Shareholders who hold their Ordinary Shares in CREST can only elect to receive relevant dividends in the form of New Ordinary Shares by use of the CREST Dividend Election Input Message. A CREST Dividend Election Input Message must be received by 5.00pm on the Election Date for the relevant dividend to be effective. Shareholders holding their Ordinary Shares through CREST should note that any election made to participate in the Scheme via a CREST Dividend Election Input Message will only apply to the dividend in question and not to any subsequent dividends in respect of which the Directors offer a dividend re-investment alternative. Such Shareholders will need to make a separate election using the CREST Dividend Election Input Message each time the Directors offer a dividend re-investment alternative for a particular dividend.

- 8 If, prior to the day on which the Ordinary Shares became ex-dividend, a Shareholder has sold all or some of his or her holdings in Ordinary Shares, the Shareholder should consult his or her stockbroker or agent without delay.
- 9 An application will be made to the UK Listing Authority for admission of the New Ordinary Shares to the Official List and to the London Stock Exchange plc for admission to trading on the London Stock Exchange plc's market for listed securities (together "Admission"). On issue, the New Ordinary Shares will rank *pari passu* in all respects with the existing issued Ordinary Shares and will rank so for future dividends. Subject to Admission, definitive share certificates for the New Ordinary Shares will be posted as soon as practicable following Admission at the risk of the persons entitled to them. Where New Ordinary Shares are issued as uncertificated shares, as soon as practicable following Admission, the Company will arrange for the relevant Participating Shareholders' stock accounts in CREST to be credited with their entitlement to New Ordinary Shares and a Statement of Entitlement (as detailed in condition 6) will be posted to their nominee. New Ordinary Shares will be allotted as and when the Directors determine it appropriate, with Admission and Dealings expected within 10 Business Days of allotment.

In the event that Admission does not become effective, Mandate Forms and/or CREST Dividend Election Input Messages will be disregarded in respect of the dividend and the full cash dividend will be paid as soon as possible in the usual way.

- 10 Further copies of this document and/or Mandate Forms and/or instructions for submitting a CREST Dividend Election Input Message may be obtained from Corporate Actions Department, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or from the Company's website at www.bscfunds.com.
- 11 All costs and expenses incurred in administering the Scheme will be borne by the Company.
- 12 Each Shareholder applying to participate in the Scheme will be deemed to warrant to the Company in the Mandate Form or CREST Dividend Election Input Message that (i) during the continuance of his or her participation in the Scheme he or she will remain the sole beneficial owner of the Ordinary Shares mandated to the Scheme free from encumbrances or security interests; and (ii) all information set out in the Mandate Form or CREST Dividend Election Input Message is correct and, to the extent any of the information changes, he or she will notify the changes to the Company.

- 13 Each Participating Shareholder acknowledges that neither the Company nor Capita Asset Services nor YFM is providing a discretionary management service. Neither Capita Asset Services, nor YFM nor the Company shall be responsible for any loss or damage to Participating Shareholders as a result of their participation in the Scheme unless due to the wilful negligence or default of the Company, its servants or agents.
- 14 The financial calendar and procedure for future dividends (and any dividend re-investment alternative offered under the Scheme) both as to any final and/or interim dividend and/or special interim dividend will be notified in writing to Shareholders and/or published through a RIS.
- 15 A Participating Shareholder who does not hold their Ordinary Shares in CREST may at any time, by giving written notice to Capita Asset Services by 5.00pm on the Election Date prior to the relevant Re-investment Day, terminate his or her participation in the Scheme. A Participating Shareholder who holds their Ordinary Shares in CREST may cancel a CREST Dividend Election Input Message by no later than 5.00pm on the Election Date. If a Participating Shareholder shall at any time cease to hold any Ordinary Shares in the Company, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme in respect of such shares. If a Shareholder in whose name Ordinary Shares are held on behalf of a Participating Shareholder shall at any time cease to hold any such shares on behalf of that Participating Shareholder, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme.
- 16 The Company shall be entitled, at any time and from time to time, to suspend the operation of the Scheme in whole or in part and/or to terminate the Scheme without notice to the Participating Shareholders. Circumstances under which the Company, acting by its Directors, might suspend or terminate the Scheme include, but are not limited to, changes in legislation governing Venture Capital Trusts (including changes in available tax reliefs) and adverse market conditions in the public markets. The Directors shall also be entitled, at any time and from time to time, to give each Participating Shareholder the opportunity to choose to dis-apply their mandate in respect of a particular special interim dividend, as may at any time and from time to time be declared by the Company, to which the Participating Shareholder is entitled, and to instead receive the full cash dividend.
- 17 All notices and instructions to be given to the Company shall be in writing and delivered or posted to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Applications to participate in the Scheme will be made by way of a Mandate Form in the prescribed form (as may be amended from time to time) as provided by the Company.
- 18 The Company shall be entitled to amend the Scheme's terms and conditions on giving one month's notice in writing to all Participating Shareholders. If such amendments have arisen as a result of any change in statutory or other regulatory requirements, notice of such amendment will not be given to Participating Shareholders unless in the Company's opinion, the change materially affects the interests of Participating Shareholders. Amendments to the Scheme's terms and conditions which are of a formal, minor or technical nature, or made to correct a manifest error and which do not adversely affect the interests of Participating Shareholders, may be effected without notice.
- 19 By completing and delivering a Mandate Form and/or a CREST Dividend Election Input Message the Participating Shareholder will (i) be deemed to have agreed to provide the Company with any information which it may request in connection with such application and to comply with legislation relating to Venture Capital Trusts or other relevant legislation (as the same may be amended from time to time); and (ii) be deemed to have declared that no loan has been made to the Participating Shareholder or any associate, which would not have been made, or not have been made on the same terms but for the Participating Shareholder offering to subscribe for, or acquiring, New Ordinary Shares, and that the Shares are being acquired for bona fide commercial purposes and not as part of a scheme or arrangement, the main purpose of which is the avoidance of tax.
- 20 Subscriptions for Venture Capital Trust shares only attract tax reliefs if in any tax year subscriptions to all Venture Capital Trusts do not exceed £200,000 (including subscriptions pursuant to dividend re-investment schemes). From 17 July 2014, investors can subscribe for VCT shares via a nominee and obtain income tax relief for their subscription. Participating Shareholders under the Scheme are responsible for ascertaining their own tax status and liabilities and the Company cannot and does not accept any liability in the event they do not receive any Venture Capital Trust tax reliefs, or such reliefs are reduced or restricted in any way.
- 21 Since dividends on Venture Capital Trust shares (including subscriptions pursuant to dividend re-investment schemes) acquired in excess of £200,000 in any tax year will not be exempted from income tax in the same way as VCT shares acquired within this limit, Participating Shareholders will generally be liable to tax on such dividends.

- 22 The election to receive New Ordinary Shares in place of the cash dividend is not being offered to, or for the benefit of, any citizen of the United States, Canada or Australia, any corporation, partnership or other entity created or organised in, or under the laws of the United States, Canada or Australia or any political sub-division thereof or with a registered office in any of these countries or any estate or trust, the income of which is subject to United States Federal, or Canadian, or Australian income taxation regardless of its source. "United States" means United States of America (including the District of Columbia). References to the United States, Canada and Australia include their territories, possessions and all areas subject to their jurisdiction.

No person receiving a copy of this Circular and/or the Mandate Form and/or the CREST Dividend Election Input Message in any territory other than the United Kingdom may treat it as constituting an invitation to him or her unless in the relevant territory such an invitation could lawfully be made to him or her without complying with any registration or other legal requirements. **It is the responsibility of the Shareholder outside the United Kingdom wishing to elect to receive New Ordinary Shares to satisfy himself or herself as to the full observance of the laws of the relevant territory in connection with the offer, including obtaining any governmental or other consents which may be necessary and observing any other formalities requiring to be observed in such territory.**

- 23 The Company shall not be required to issue New Ordinary Shares hereunder if the Directors so decide.
- 24 These Scheme terms and conditions shall be governed by, and construed in accordance with, English law and each Participating Shareholder submits to the jurisdiction of the English courts and agrees that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with the Scheme in any other manner permitted by law or in any court of competent jurisdiction.

Shareholders in any doubt about their tax position should consult their independent professional adviser.

Part IV: Taxation

The following information is based on the law and practice currently in force at the date of this document in the United Kingdom. It assumes that an investor (including an existing Shareholder participating in the Scheme) is resident or ordinarily resident in the UK and not in any other jurisdiction. If potential investors are in any doubt as to their tax position, they should consult their independent professional advisers.

1 Tax Reliefs for Individual Investees

Investors must be individuals aged 18 or over to be eligible for the respective tax reliefs. Tax reliefs will only be given in relation to an individual's total investments in VCTs in any tax year not exceeding £200,000.

Income Tax Relief

Relief on investment

An investor subscribing for New Ordinary Shares (including by way of re-investment of dividends) in VCTs during any tax year will be entitled to claim income tax relief on amounts subscribed up to the permitted maximum of £200,000. The relief is given for the tax year in which the shares are issued and (at the date of this document) is currently at the rate of 30 per cent. The relief is restricted to the amount which reduces the investor's income tax liability to nil. There are restrictions on the ability to claim income tax relief on subscription for shares in a VCT after 5 April 2014 where the investor has disposed of shares (other than to a spouse) in the same VCT within six months of the date of subscription whether before or after. This restriction does not apply to shares subscribed for under a dividend re-investment scheme and so will not apply to New Ordinary Shares subscribed for under this Scheme.

If the shares are sold or otherwise disposed of (other than to the investor's spouse) within five years of their issue then some or all of the income tax relief obtained will have to be repaid. Shares may be transferred into the name of a nominee, provided the nominee holds them for the investor's benefit.

Relief on dividends

An investor who either subscribes for or purchases ordinary shares in a VCT, up to a maximum of £200,000 in any given tax year, will not be liable to UK income tax on dividends paid by the VCT.

Capital Gains Tax Relief

Any gain or loss accruing to investors on a disposal of ordinary shares in a company which was a VCT at the time he or she acquired the shares, and which has remained a VCT throughout his or her period of ownership, will neither be a chargeable gain, nor an allowable loss, for the purposes of capital gains tax.

2 Obtaining Tax Relief

Income tax relief on investment

The Company will give each investor a certificate which he or she can use to claim the income tax relief, either (where applicable) immediately by obtaining an adjustment to his or her tax coding from HM Revenue & Customs or by waiting until the end of the tax year and claiming the relief on his or her tax return.

3 Loss or Clawback of Tax Reliefs

The Company

If the Company loses approval as a VCT, it will lose its exemption from corporation tax on chargeable gains. Loss of approval takes effect either on the date when notice is given to the Company by HM Revenue & Customs or, if earlier and at HM Revenue & Customs' discretion, from the beginning of the Company's accounting period in which the notice is given.

Investors

Withdrawal or clawback of investors' tax reliefs can occur as a result of the Company losing full approval as a VCT or as a result of actions taken by the investors themselves.

Income tax relief on investment

If the Company loses approval as a VCT within five years from the time when an investor acquired their Ordinary Shares by subscription (including under a dividend re-investment scheme), the income tax relief will be clawed back by an assessment to income tax for the year of assessment in respect of which the relief was given.

Income tax relief on dividends

If the Company loses approval as a VCT then Ordinary Shares acquired by an investor after loss of approval are not capable of generating tax free dividends and any dividend paid in respect of profits or gains arising to the Company in any accounting period ending at a time when the Company was not a VCT will likewise not be exempt from income tax.

Exemption from capital gains tax on disposal

If the Company loses approval as a VCT, then investors will be deemed to have disposed of and reacquired their Ordinary Shares at market value immediately before withdrawal of approval of the Company as a VCT and so any accrued gain or loss to that date will not be taxable or allowable. Investors subsequently disposing of the Ordinary Shares will be treated as making a chargeable gain or an allowable loss (as the case may be).

Any investor acquiring Ordinary Shares in the Company after it has lost VCT approval will likewise make a chargeable gain or an allowable loss on subsequent disposal.

4 Stamp Duty and Stamp Duty Reserve Tax

No stamp duty or (unless Ordinary Shares are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax should be payable on the issue of Ordinary Shares by the Company.

This is only a brief summary of the current law concerning the tax position of individual investors in VCTs. Any potential investor in doubt as to the taxation consequences of investment in a VCT should consult an appropriately qualified independent professional adviser.

Part V: Definitions

The definitions set out in this Part V shall apply throughout this document including to Part III which sets out the Terms and Conditions of the BSC2 Dividend Re-investment Scheme.

"Admission"	the admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange plc market for listed securities
"Business Day"	a day (excluding Saturday and Sunday and public holidays in England and Wales) when the banks are generally open for business in London
"BSC2" or "the Company"	British Smaller Companies VCT2 plc (registered in England and Wales under company number 04084003)
"Capita Asset Services"	a trading name of Capita Registrars Limited, the Company's registrars
"CREST"	the computerised settlement system operated by Euroclear UK & Ireland Limited which facilitates the title of securities in uncertificated form
"Dealings"	buying, selling, subscribing for or underwriting of securities in the Company or offering or agreeing to do so, either as principal or agent
"Directors"	the board of directors of the Company
"Election Date"	the day by which Mandate Forms must be received by Capita Asset Services, as announced by the Company as the applicable deadline for the dividend concerned and expected to be at least 10 Business Days before the payment date of a dividend which is to be re-invested
"Listing Rules"	the listing rules issued by the UK Listing Authority, as amended from time to time
"Mandate Form"	the mandate form in a form provided by the Company which enables non CREST Shareholders to participate in the Scheme
"New Ordinary Shares"	the new Ordinary Shares to be issued from time to time under the Scheme
"Official List"	the definitive record issued and maintained by the Financial Conduct Authority listing all companies with securities listed on the main market of the London Stock Exchange plc
"Ordinary Shares"	ordinary shares of 10 pence each in the capital of the Company
"Participating Shareholder(s)"	those Shareholders who elect to participate in the Scheme
"Qualifying Company"	an unquoted (including AIM-traded) company carrying on a qualifying trade satisfying the conditions in Chapter 4 of Part 6 of the Income Tax Act 2007, as amended from time to time
"Record Date"	the date set out in the dividend procedure timetable published by the London Stock Exchange plc by which a Shareholder must hold Ordinary Shares to be entitled to a dividend declared by the Company

"RIS"	a regulatory information service that is on the list of Regulatory Information Services maintained by the Financial Conduct Authority
"Scheme" or "Dividend Re-investment Scheme"	the dividend re-investment scheme of the Company, the terms and conditions of which are set out in Part III of this document (as amended from time to time)
"Shares"	Ordinary Shares
"Shareholders"	the holders of Ordinary Shares
"Venture Capital Trust" or "VCT"	a venture capital trust as defined in Section 259 of the Income Tax Act 2007, as amended from time to time
"VCT Regulations"	the Venture Capital Trust (Winding Up and Mergers) (Tax) Regulations 2004, as amended from time to time
"UK Listing Authority"	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended from time to time
"YFM"	The Company's investment adviser, YFM Private Equity Limited, (registered in England and Wales under company number 02174994) whose registered office is at 5th Floor, Valiant Building, 14 South Parade, Leeds LS1 5QS

British Smaller Companies VCT2 plc

(Registered in England and Wales No. 0484003)

DIVIDEND RE-INVESTMENT SCHEME MANDATE FORM

THIS MANDATE FORM IS NOT TRANSFERABLE

Name and address

IVC code:

If you wish to participate in the Company's dividend re-investment scheme (the "Scheme") in respect of your current and future holding of Ordinary Shares, please sign and return this Mandate Form to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU **no later than 5.00pm on the Election Date before the payment of a dividend by the Company**. All enquiries concerning this Mandate Form should be made to Capita Asset Services, at the above address or by telephone: 0871 6640324 (calls cost 10p per minute plus network extras. Lines are open 9.00am - 5.30pm Mon-Fri) or 0208 639 3399 for Shareholders overseas.

If your holding of Ordinary Shares in British Smaller Companies VCT2 plc is held in more than one account you must complete a separate Mandate Form for each account. You may obtain further copies of this Mandate Form from Capita Asset Services.

To: the Company

I/We, the undersigned, confirm that I/we have read and understood the terms and conditions of the Company's Scheme and that (subject to my/our retaining the right to exercise any rights as may be granted by the Company to dis-apply my/our mandate in respect of a particular special interim dividend ("Opt-Out")) I/we wish to participate in the Scheme for each future dividend paid on my/our Ordinary Shares and to which the Scheme is applied. I/We agree that subject to the terms and conditions of the Scheme, including the exercise of any right of Opt-Out, future dividends paid on my/our Ordinary Shares will be re-invested in New Ordinary Shares.

All Shareholders named above must sign.

Signature(s):

Date:

Signature(s):

Date:

Signature(s):

Date:

Signature(s):

Date:

Daytime telephone number:

In the case of joint holders, all must sign in the boxes above. In the case of a corporation this Mandate Form must be executed under its common seal or be signed by a duly authorised official, whose capacity should be stated in accordance with Section 44 of the Companies Act 2006.

If this Mandate Form is not completed or signed correctly it will not be processed and will be returned to you for completion.

If you decide to participate in the Scheme you will be deemed to have agreed that any mandate which you may have previously given for the payment of cash dividends directly to your Bank or Building Society account shall be suspended in respect of all future dividends declared by the Company to which the Scheme applies, for so long as you remain a participant in the Scheme.

Shareholders in any doubt about their tax position should consult their independent professional adviser.



British Smaller Companies VCT2 plc

5th Floor, Valiant Building
14 South Parade
Leeds LS1 5QS

T: 0113 244 1000
F: 0113 243 3060
E: info@yfmepl.com