

£30 million Offers for Subscription

British Smaller Companies VCT plc and
British Smaller Companies VCT2 plc

27 November 2018

**2018/19
tax year**

Summary

Summaries are made up of disclosure requirements known as 'Elements'. The Elements are numbered in Sections A—E (A.1—E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted into the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.

Section A: Introduction and Warnings

Element	Disclosure requirement	Disclosure
A. 1	Warning	This summary should be read as an introduction to the Prospectus, which is comprised of this Summary, a Registration Document and a Securities Note, each dated 27 November 2018. Any decision to invest in the securities of the VCTs being offered should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the securities being offered.
A. 2	Use of Prospectus by financial intermediaries	The VCTs and their directors consent to the use of the Prospectus and accept responsibility for the contents of the Prospectus, with respect to subsequent resale or final placement of securities by financial intermediaries from the date of the Prospectus until the close of the Offers. The Offers are expected to close on or before 5 April 2019. There are no conditions attaching to this consent. Information on the terms and conditions of the Offer by any financial intermediary is to be provided at the time of the Offer by the financial intermediary.

Section B – Issuers

Element	Disclosure requirement	Disclosure																														
B.1	Legal and commercial name	British Smaller Companies VCT plc (“BSC”) and British Smaller Companies VCT2 plc (“BSC2”).																														
B.2	Domicile and legal form	<p>BSC was incorporated and registered in England and Wales on 6 December 1995 as a public company limited by shares under the Companies Act 1985 with registered number 03134749.</p> <p>BSC2 was incorporated and registered in England and Wales on 4 October 2000 as a public company limited by shares under the Companies Act 1985 with registered number 04084003.</p> <p>The VCTs operate under the Companies Act 2006 (the “Act”) and regulations made under the Act.</p> <p>Each of the VCTs is registered by the Financial Conduct Authority as a Small Registered Alternative Investment Fund Manager.</p>																														
B.5	Group description	Not applicable. The VCTs are not part of a group.																														
B.6	Major shareholders	<p>Neither VCT is aware of any person who has as at the date of this document, or who immediately following the issue of the Offer Shares under the Offers (assuming full subscription under the Offers), will or could have, directly or indirectly, voting rights representing 3% or more of the issued share capital of that VCT or who can, or could following the Offers, directly or indirectly exercise control over that VCT.</p> <p>There are no different voting rights for any Shareholders.</p>																														
B.7	Selected key financial information	<table border="1"> <thead> <tr> <th>BSC</th> <th>30 Sept 2018</th> <th>30 Sept 2017</th> <th>31 March 2018*</th> <th>31 March 2017*</th> <th>31 March 2016*</th> </tr> </thead> <tbody> <tr> <td>Net Assets £000</td> <td>85,218</td> <td>83,974</td> <td>86,137</td> <td>88,072</td> <td>95,723</td> </tr> <tr> <td>Net Asset Value per Share (p)</td> <td>78.6p</td> <td>77.0p</td> <td>79.6p</td> <td>82.3p</td> <td>100.0p</td> </tr> <tr> <td>Total Return per Share (p)</td> <td>219.0p</td> <td>213.4p</td> <td>216.0p</td> <td>213.0p</td> <td>208.7p</td> </tr> <tr> <td>Cumulative dividend paid per Share (p)</td> <td>140.4p</td> <td>136.4p</td> <td>136.4p</td> <td>130.7p</td> <td>108.7p</td> </tr> </tbody> </table> <p><i>*Audited</i></p> <p>Net proceeds of £23.4 million, £3.6 million and £4.1 million were raised by BSC under offers for subscription which opened on 20 October 2014, 2 February 2016 and 10 February 2017 respectively and a dividend of 16.5 pence per Share was paid on 18 January 2017 (14.5 pence of which arose from the realisation of GO Outdoors). Save in respect of these matters, there have been no significant changes in the financial condition and operating results of BSC during or subsequent to the period covered by the historical financial information set out above.</p>	BSC	30 Sept 2018	30 Sept 2017	31 March 2018*	31 March 2017*	31 March 2016*	Net Assets £000	85,218	83,974	86,137	88,072	95,723	Net Asset Value per Share (p)	78.6p	77.0p	79.6p	82.3p	100.0p	Total Return per Share (p)	219.0p	213.4p	216.0p	213.0p	208.7p	Cumulative dividend paid per Share (p)	140.4p	136.4p	136.4p	130.7p	108.7p
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		BSC2	30 Sep 2018	30 Jun 2018	30 Jun 2017	31 Dec 2017*	31 Dec 2016*	31 Dec 2015*
		Net Assets £000	62,501	63,234	59,375	59,056	56,109	54,850
		Net Asset Value per Share (p)	58.1p	58.8p	59.0p	58.8p	59.7p	62.9p
		Total Return per Share (p)	116.6p	115.8p	113.0p	114.3p	112.2p	110.9p
		Cumulative dividend paid per Share (p)	58.5p	57.0p	54.0p	55.5p	52.5p	48.0p
		<p><i>*Audited</i></p> <p>Net proceeds of £14.7 million, £3.5 million, £4.1 million and £4.3 million were raised by BSC2 under offers for subscription which opened on 20 October 2014, 8 December 2015, 3 January 2017 and 11 January 2018 respectively. Save in respect of these matters, there have been no significant changes in the financial condition and operating results of BSC2 during or subsequent to the period covered by the historical financial information set out above.</p>						
B.8	Selected key pro forma financial information	Not applicable. There is no pro forma financial information in this document.						
B.9	Profit forecast	Not applicable. No profit forecast or estimate made.						
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. The audit reports on the historical financial information contained within this document are not qualified.						
B.11	Working capital	Not applicable. The VCTs are of the opinion that the working capital available to the VCTs is sufficient for the VCTs' present requirements (that is, for at least the next twelve months from the date of this document).						
B.34	Investment policy	<p>The investment policy of BSC is as follows:</p> <p>BSC's investment policy is to create a portfolio that blends a mix of businesses operating in established industries with those that offer opportunities in the application and development of innovation. Investing across a range of companies and sectors reduces exposure to particular markets and individual companies. The changes to the venture capital trust legislation in November 2015 and those announced in the November 2017 Budget mean that there is greater emphasis on earlier stage growth businesses focussing on the application and development of innovation.</p> <p>To this end, BSC will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain BSC's venture capital trust status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments. In order to limit the risk to the portfolio that is derived from any particular investment, at the point of investment no more than 15 per cent of BSC by value will be in any one investment.</p>						

Borrowing

BSC funds the investment programmes out of its own resources and has no borrowing facilities for this purpose.

Co-investment

BSC and BSC2 have in aggregate priority in all investment opportunities meeting the venture capital trust qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's co-investment funds and two thirds to BSC and BSC2. Where there are opportunities for BSC and BSC2 to co-invest with each other the basis for allocation is 60 per cent to BSC and 40 per cent to BSC2. The Board of BSC has discretion as to whether to take up its allocation, or where BSC2 does not take up its allocation, to increase its allocation in such co-investment opportunities.

Asset mix

Pending investment in venture capital trust qualifying securities, surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts and investment funds listed on a recognised stock exchange (including FCA authorised and regulated UCITS funds). Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes most AIM investments in this category.

The investment policy of BSC2 is as follows:

BSC2's investment policy is to create a portfolio that blends a mix of businesses operating in established industries with those that offer opportunities in the application and development of innovation. Investing across a range of companies and sectors reduces exposure to particular markets and individual companies. The changes to the venture capital trust legislation in November 2015 and those announced in the November 2017 Budget mean that there is greater emphasis on early stage growth businesses focussing on the application and development of innovation.

To this end, BSC2 will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain BSC2's venture capital trust status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments. In order to limit the risk to the portfolio that is derived from any particular investment, at the point of investment no more than 15 per cent of BSC2 by value will be in any one investment.

		<p>Borrowing</p> <p>BSC2 funds the investment programmes out of its own resources and has no borrowing facilities for this purpose.</p> <p>Co-investment</p> <p>BSC2 and BSC have in aggregate priority in all investment opportunities meeting the venture capital trust qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's co-investment funds and two thirds to BSC2 and BSC. Where there are opportunities for BSC2 and BSC to co-invest with each other the basis for allocation is 40 per cent to BSC2 and 60 per cent to BSC. The Board of BSC2 has discretion as to whether to take up its allocation, or where BSC does not take up its allocation, to increase its allocation in such co-investment opportunities.</p> <p>Asset mix</p> <p>Pending investment in venture capital trust qualifying securities, surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts. Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes most AIM investments in this category.</p>
B.35	Borrowing limits	The Articles restrict the borrowings of the VCTs and their subsidiaries (together the "group") so that the aggregate amount at any time outstanding in respect of money borrowed by the group (excluding intra-group borrowings), does not without the previous sanction of an ordinary resolution of that VCT exceed a sum equal to the paid up share capital and the amount standing to the credit of the consolidated revenue reserves of the group as shown by the latest audited consolidated balance sheet of the group adjusted as specified in that VCT's Articles.
B.36	Regulatory status	The VCTs are not regulated entities. The VCTs were registered by the Financial Conduct Authority as Small Registered Alternative Investment Fund Managers.
B.37	Typical investor	A typical investor for whom the Offers are designed is a UK income taxpayer aged 18 or over, who is professionally advised, with an investment range of between £3,000 and £200,000, who may already have a portfolio of non-venture capital trust investments such as unit trusts/OEICS, investment trusts and direct shareholdings in listed companies, who is willing to invest over the medium to long term and who, having regard to the risk factors specific to the VCTs, their industry and the securities, key information on which is set out in this document, considers the investment policy of the VCTs to be attractive. That is to say, an investment policy with potential returns and associated risks that may be higher than investment in the FTSE All-Share Index. This may include retail and sophisticated investors and high net-worth individuals.
B.38	Investment of 20% or more in a single underlying asset or investment company	Not applicable. The VCTs will not invest more than 20 per cent in a single underlying asset or investment company.

B.39	Investment of 40% or more in a single underlying asset or investment company.	Not applicable. The VCTs will not invest more than 40 per cent in a single underlying asset or investment company.
B.40	Applicant's service providers	<p>The VCTs</p> <p>Under an offer agreement dated 27 November 2018 ("the Offer Agreement") between the VCTs (1), the Directors (2) and the Investment Adviser (3), the Investment Adviser has undertaken, as agent of the VCTs, to use its reasonable endeavours to procure subscribers under the Offers. As is usual in contracts of this type, the Investment Adviser has agreed to indemnify the VCTs against the costs of the Offers, excluding trail commission, exceeding the Offer Costs Percentage and will receive a percentage of the value of the gross proceeds relating to each Applicant under the Offers that is equal to the Offer Costs Percentage relating to that Applicant's subscription. The Investment Adviser will be responsible for all costs and expenses arising from the Offers, including any initial Intermediary commission payable, but excluding trail commission. Under the Offer Agreement, which may be terminated by the VCTs, the Directors and the Investment Adviser in certain circumstances, warranties have been given by each party to the other parties, subject to certain limitations. The warranties are in the usual form for a contract of this type.</p> <p>BSC</p> <p>By an administration and investment advisory agreement (the "IAA") dated 28 February 1996 between BSC and YFM Private Equity, as varied by agreements dated 16 November 2012, 17 October 2014 and 24 August 2015, YFM Private Equity agreed to provide administrative, company secretarial and investment advisory services to BSC in relation to BSC's qualifying portfolio. The IAA took effect on 4 April 1996 for an initial period of 3 years and thereafter is terminable by either party on not less than 12 months' notice or, inter alia, on the others' breach or insolvency. Following the Financial Conduct Authority's registration of BSC as a Small Registered Alternative Investment Fund Manager, BSC has retained responsibility for the custody of its investments.</p> <p>The Investment Adviser is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the BSC Board regarding potential investments. Once approved, further due diligence is carried out as necessary and HM Revenue & Customs clearance is obtained as the BSC Board deems necessary for approval as a qualifying VCT investment.</p> <p>The BSC Board reserves the right to take all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and where the decision is required urgently, in which case the chairman of the investment committee, if appropriate, may act in consultation with the Investment Adviser.</p> <p>The BSC Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from the Investment Adviser as to the trading and financial position of each investee company and members of the Investment Team regularly attend the BSC Board meetings. Monitoring reports are also received at each BSC Board meeting on compliance with VCT investment targets so that the BSC Board can monitor that its venture capital trust status is maintained and take corrective action where appropriate.</p> <p>Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2 per cent of Net Assets of BSC (as determined</p>

on 31 March and 30 September each year), payable quarterly in advance on 1 January, 1 April, 1 July and 1 October in each year together with an annual secretarial fee of £35,000 (subject to annual adjustment and currently £65,000). The Investment Adviser is also entitled to all arrangement, syndication and monitoring fees payable in respect of unquoted investments. BSC indemnifies the Investment Adviser against all things lawfully and properly done under the IAA. The total remuneration payable by BSC to YFM Private Equity in the period to 31 March 2018 was £1,782,000. Pursuant to the deed of variation dated 17 October 2014, the Investment Adviser shall bear the annual operating costs of BSC to the extent that those costs exceed 2.9 per cent of the Net Asset Value of BSC, a reduction from the previous level of 3.25 per cent. Subject to the approval of BSC's Shareholders to the revisions to BSC's incentive agreement referred to below, the Investment Adviser's fee for BSC on surplus cash (defined as cash in excess of £15 million until the next incentive fee is paid and in excess of £7.5 million thereafter) will reduce to 1 per cent per annum.

When BSC makes investments into its unquoted portfolio the Investment Adviser charges that investee an arrangement fee, calculated by applying a percentage to the investment amount. With effect from 1 October 2013 if the average of relevant fees exceed 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on holdings over BSC's financial year this excess will be rebated to BSC. As at 31 March 2018, BSC was due a rebate from the Investment Adviser of £nil. Monitoring and directors' fees the Investment Adviser receives from investee companies are limited to a maximum of £40,000 (excluding VAT) per annum per company. Under the IAA, the Investment Adviser is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. The Investment Adviser is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 March 2018 the fees receivable by the Investment Adviser from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £680,000.

An incentive agreement (the "Incentive Agreement") dated 7 July 2009 as varied by deeds of variation dated 15 August 2014, 13 October 2014 and, subject to Shareholder approval, 27 November 2018, between BSC and the Investment Adviser under which, with effect from 1 April 2009 ("Effective Date") the Investment Adviser is entitled to receive a fee, calculated by reference to each accounting period of BSC, equal to 20 per cent of the amount by which dividends paid to Shareholders exceed 4 pence per Share per accounting period (as increased or decreased, as applicable, in each accounting period by the percentage increase or decrease (if any) in the retail prices index in the previous accounting period) ("Target Rate"), once cumulative dividends per Share of 10 pence or more have been paid to Shareholders. The Target Rate is further adjusted by reference to any cumulative shortfall in dividends paid per Share from any previous accounting period after the Effective Date. The Target Rate at 31 March 2018 was 5.1 pence, and the calculation was verified by independent auditors. The payment is also conditional upon the Net Asset Value per Share in the relevant accounting period being not less than 94.0 pence per Share, as adjusted for the impact of share issues and buy-backs. The adjusted Net Asset Value per Share at 31 March 2018 was 92.2 pence per ordinary share. With effect from 1 April 2014 the amount of the incentive payment paid to the Investment Adviser for any one year shall, when taken with all other relevant costs, ensure that the Total Expenses Ratio, that is the total costs incurred by BSC in any year as a percentage of its net asset value at the relevant year end, is no

greater than 5 per cent of the net asset value at the end of the financial year (as adjusted for all realised gains that have been distributed during that year). Any unpaid incentive payment will be carried over to subsequent financial years and be included in the calculation of the Total Expenses Ratio. A compensatory payment is due if the Incentive Agreement is terminated without cause or if BSC is taken over. The compensatory payment is calculated as a percentage of the fee that would otherwise be payable under the Incentive Agreement by reference to the accounting period following the Incentive Agreement being so terminated; 80 per cent is payable in the first accounting period after such event, 55 per cent in the second, 35 per cent in the third, and nil thereafter. The maximum fee payable in any 12 month period cannot exceed an amount which would represent 25 per cent or more of the net asset value or market capitalisation of BSC at such time. The total incentive payment to YFM Private Equity in respect of the year to 31 March 2018 was £nil (in respect of the year to 31 March 2017: £3,648,873 and in respect of the year to 31 March 2016: £983,025). Pursuant to a deed of variation dated 15 August 2014 the Incentive Agreement was varied so that the recipient was changed from YFM Private Equity Carried Interest Trust to YFM Private Equity.

The BSC Board has convened a general meeting for 7 January 2019 to approve revisions to the incentive agreement between BSC and YFM. The major proposed revisions are:

- the incentive fee will be subject to achieving a target level of total return, replacing the current requirement to achieve an average adjusted Net Asset Value (NAV) per Ordinary Share;
- an incentive fee will be payable once a total return of at least 228.6 pence per Ordinary Share has been achieved. This is 12.6 pence per Ordinary Share higher than the Total Return at 31 March 2018 (216.0 pence per Ordinary Share) and represents 15.8 per cent of NAV at 31 March 2018;
- there will be an annual increase to the total return per Ordinary Share that must be achieved in order for an incentive fee to be paid. This is the minimum level of dividends required in order to pay an incentive fee under the current arrangements, as set out below;
- if the required total return is achieved the incentive fee can only be paid if the actual dividends paid exceed the minimum requirement, calculated on the same basis as the existing scheme; The minimum requirement is annual dividends of at least 4.0 pence per Ordinary Share, as increased or decreased by the percentage increase or decrease (if any) in RPI. For the year ending 31 March 2019 the requirement is 5.3 pence per Ordinary Share;
- as a result of the above the total return hurdle for the year ending 31 March 2019 is 233.9 pence per Ordinary Share while the total return at 30 September 2018 was 219.0 pence per Ordinary Share.

Under the terms of a letter of engagement dated 26 November 2016 between BSC and Panmure Gordon (UK) Limited ("Panmure Gordon"), Panmure Gordon agreed to act as brokers to BSC, and, inter alia, to act as a market maker in the Shares of BSC and to carry out share purchases on BSC's behalf. Panmure Gordon is entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in advance on 1 January, 1 April, 1 July and 1 October. BSC indemnifies Panmure Gordon against losses arising out of Panmure Gordon's appointment except where such losses arise from Panmure Gordon's breach of agreement, negligence or wilful default.

BSC2

YFM Private Equity has acted as Investment Adviser and performed investment advisory, administrative and secretarial duties for BSC2 under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014 and 7 August 2015 (the "IAA"). This agreement may be terminated by not less than twelve months' notice given by either party at any time. Following the Financial Conduct Authority's registration of BSC2 as a Small Registered Alternative Investment Fund Manager, BSC2 has retained responsibility for the custody of its investments.

The Investment Adviser is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the BSC2 Board regarding potential investments. Once approved, further due diligence is carried out as necessary and HM Revenue & Customs clearance is obtained as the BSC2 Board deems necessary for approval as a qualifying VCT investment.

The BSC2 Board reserves the right of the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and where the decision is required urgently, in which case the Chairman, if appropriate, may act in consultation with the Investment Adviser.

The BSC2 Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from the Investment Adviser as to the trading and financial position of each investee company and members of the Investment Team regularly attend the BSC2 Board meetings. Monitoring reports are also received at each BSC2 Board meeting on compliance with VCT investment targets so that the BSC2 Board can monitor that its venture capital trust status is maintained and take corrective action where appropriate.

YFM Private Equity receives an Investment Adviser's fee, payable quarterly in advance, at the rate of 2.5 per cent of net assets up to a value of £16 million, calculated at half-yearly intervals as at 30 June and 31 December. Pursuant to a deed of variation dated 26 October 2011 the Investment Adviser's fee will be reduced to 1.25 per cent per annum in respect of any Net Asset Value of BSC2 in excess of £16 million and up to £26.667 million and to 2.0 per cent in respect of any Net Asset Value of BSC2 in excess of £26.667 million. Pursuant to the deed of variation dated 17 October 2014, YFM Private Equity shall bear the annual operating costs of BSC2 (including the Investment Adviser's fee set out above but excluding any payment of the performance incentive fee details of which are set out below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the Net Asset Value of BSC2, a reduction from the previous level of 3.25 per cent. Under the IAA, YFM Private Equity also provides administrative and secretarial services to BSC2 for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index (currently £66,000). When BSC2 makes investments into its unquoted portfolio the Investment Adviser charges that investee an arrangement fee, calculated by applying a percentage to the investment amount. With effect from 1 October 2013 if the average of relevant fees exceed 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on holdings over BSC2's financial year this excess will be rebated to BSC2. As at 31 December 2017, BSC2 has received no rebate from the Investment Adviser. Monitoring and directors fees the Investment Adviser receives from investee companies are limited to a maximum of £40,000 (excluding

		<p>VAT) per annum per company. The total remuneration payable to YFM Private Equity in the period to 31 December 2017 was £1,218,000.</p> <p>It is proposed that the Investment Advisor's fee be varied for BSC2. The new fees will be 1 per cent per annum on all Surplus Cash, defined as all cash above £10 million, unless the hurdle has been met triggering an incentive payment in which case the amount determined to be surplus will be the excess over £5 million. The fee on all other assets will be 2 per cent per annum.</p> <p>Under the Subscription Rights Agreement dated 23 November 2001 between BSC2, YFM Private Equity Limited and Chord Capital Limited ("Chord" formerly Generics Asset Management Limited), as amended by an agreement between those parties dated 31 October 2005, YFM Private Equity Limited and Chord have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue by BSC2 of ordinary shares) equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the five dealing days prior to that day, exceeds 120 pence per ordinary share, multiplied by the number of ordinary shares issued and the ordinary shares under option (if any) (the "Hurdle"). Under the terms of the Subscription Rights Agreement, once the Hurdle has been exceeded it is reset at that value going forward, which becomes the new Hurdle. Any subsequent exercise of these rights will only occur once the new Hurdle has been exceeded. The subscription rights are exercisable in the ratio 95:5 between the Investment Adviser and Chord Capital Limited. Mr Cammerman, a former Director of BSC, is, as a former employee of YFM Private Equity, one of the beneficiaries of that Trust.</p> <p>By a Deed of Assignment dated 19 December 2003 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity Limited subscription right was assigned to YFM Private Equity Limited Carried Interest Trust (the "Trust"), an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Pursuant to a deed of variation dated 16 November 2012 between BSC2, the trustees of the Trust and Chord, the Subscription Rights Agreement was varied so that the subscription rights will be exercisable in the ratio of 95:5 between the trustees of the Trust and Chord. Pursuant to a deed of variation dated 5 August 2014 the Subscription Rights Agreement was varied so that the recipient was changed from the Trust to YFM Private Equity Limited.</p> <p>As at 31 December 2017 the total of cumulative cash dividends paid and mid-market price was 110.50 pence per ordinary share. No shares have been issued under this agreement.</p> <p>The BSC2 Board have agreed to amend the incentive agreement such that the amount received by YFM and Chord will be paid in cash instead of shares.</p> <p>Under the terms of a letter of engagement dated 26 November 2016 between BSC2 and Panmure Gordon (UK) Limited ("Panmure Gordon"), Panmure Gordon agreed to act as brokers to BSC2, and, inter alia, to act as a market maker in the Shares of BSC2 and to carry out share purchases on BSC2's behalf. Panmure Gordon is entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in advance on 1 January, 1 April, 1 July and 1 October. BSC2 indemnifies Panmure Gordon against losses arising out of Panmure Gordon's appointment except where such losses arise from Panmure Gordon's breach of agreement, negligence or wilful default.</p>
B.41	Regulatory status of the Manager	The Investment Adviser is authorised and regulated by the Financial Conduct Authority.

B.42	Calculation of Net Asset Value	<p>The Net Asset Value of a Share is calculated by each VCT in accordance with that VCT's accounting policies and will be published at least quarterly through a Regulatory Information Service.</p> <p>The calculation of the Net Asset Value per Share will only be suspended in circumstances where the underlying data necessary to value the investments of the VCTs cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.</p>
B.43	Cross liability	Not applicable. The VCTs are not umbrella collective investment undertakings and as such there is no cross liability between classes or investment in another collective investment undertaking.
B.44	No financial statements have been made up	Not applicable. The VCTs have commenced operations and historical financial information is included within this document.
B.45	Portfolio	The VCTs' portfolios comprise predominantly established unquoted UK companies. The VCTs invest in a broad range of companies and sectors in the UK, in a combination of mature businesses operating in traditional industries, including Software, IT and Telecommunications, Business Services, Manufacturing and Industrial Services, Retail and Brands and Healthcare, as well as a smaller proportion of businesses offering opportunities in the application and development of innovation. As at 30 September 2018, BSC's portfolio comprised, by value, £66.8 million (unaudited) and BSC2's portfolio comprised, by value, £47.4 million (unaudited).
B.46	Net Asset Value	As at 30 September 2018, the unaudited Net Asset Value per BSC Ordinary Share was 78.6 pence and the unaudited Net Asset Value per BSC2 Ordinary Share was 58.1 pence.

Section C: Securities

Element	Disclosure requirement	Disclosure
C.1	Types and class of securities	The VCTs will issue Offer Shares under the Offers. The ISIN and SEDOL of the BSC Ordinary Shares are GB0001403152 and 0140315 respectively. The ISIN and SEDOL of the BSC2 Ordinary Shares are GB00050001796 and 0500179 respectively.
C.2	Currency	Sterling.
C.3	Number of securities to be issued	On the basis that the Offers are fully subscribed at an Indicative Offer Price of 80.615 pence for BSC and 59.590 pence for BSC2, that the over-allotment facility is used in full and an allocation of 60 per cent to BSC and 40 per cent to BSC2, a maximum of 26,049,743 Offer Shares will be issued by BSC and a maximum of 23,493,875 Offer Shares will be issued by BSC2.
C.4	Description of the rights attaching to the securities	<p>As Regards Income:</p> <p>The holders of the Shares shall be entitled to receive such dividends as the Directors resolve to pay out of the realised profits (including net income and profits on sale of investments) attributable to the Shares held by them, in accordance with the VCTs' articles of association.</p> <p>As Regards Capital:</p> <p>On a return of capital on a winding up the surplus capital and assets attributable to the Shares shall be divided amongst the holders of Shares pro rata according to the nominal capital paid up on their respective holdings of Shares, in accordance with the VCTs' articles of association.</p>

		<p>As Regards Voting and General Meetings:</p> <p>Each holder of Shares present in person or by proxy shall on a poll have one vote for each such Share of which he is the holder, subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to beneficial ownership.</p> <p>As Regards Redemption:</p> <p>The Shares are not redeemable.</p>
C.5	Restrictions on the free transferability of the securities	There are no restrictions on the free transferability of the Offer Shares.
C.6	Admission	An application has been made to the UK Listing Authority for the Offer Shares to be admitted to the premium segment of the Official List and will be made to the London Stock Exchange for the Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that such admissions will become effective, and that dealings in the Offer Shares will commence within 10 business days of their allotment.
C.7	Dividend policy	Generally, a venture capital trust must distribute by way of dividend such amount as to ensure that it retains not more than 15 per cent of its income from shares and securities. The Directors of each of the VCTs aim to maximise tax free distributions to Shareholders of income or realised gains.

Section D: Risks

Element	Disclosure requirement	Disclosure
D.1	Key information on the key risks specific to the Company or its industry	<ul style="list-style-type: none"> The past performance of the Investment Adviser or of the VCTs is no indication of their future performance. Investments made in unquoted companies, such as those in which the VCTs predominantly invest, carry a higher degree of risk than those made in quoted companies. There can be no guarantees that the VCTs will meet their objectives or that suitable investment opportunities will be identified. Although the VCTs may agree conventional venture capital rights in connection with some of their investments, as minority investors they may not be in a position fully to protect their interests. These factors may adversely affect the performance of the VCTs. Whilst it is the intention that each of the VCTs will be managed so as to continue to qualify as a venture capital trust, there can be no guarantee that such status, and the associated tax relief, will be maintained. It is possible for Investors to lose their tax reliefs by Investors taking or not taking certain steps. Levels and bases of, and relief from, taxation are subject to change. Changes in legislation concerning venture capital trusts, Qualifying Investments and qualifying trades may restrict or adversely affect the VCTs' ability to meet their objectives and reduce the level of returns. The VCTs will only pay dividends on the Shares to the extent that they have distributable reserves and cash available for that purpose. Venture capital trust status will be withdrawn if, in respect of shares issued on or after 6 April 2014, a dividend is paid (or other forms of

		<p>distribution or payments are made to investors) from capital within three years of the end of the accounting period in which shares were issued to investors. This may reduce the amount of distributable reserves available to the VCTs to fund dividends and share buybacks.</p> <ul style="list-style-type: none"> Income tax relief on a subscription for shares in a venture capital trust after 5 April 2014 is restricted where, within 6 months, whether before or after the subscription, the investor had disposed of shares in that venture capital trust or a venture capital trust which at any time merges with that venture capital trust and where, in the case of a merger taking place after the subscription, it was known at the time of the subscription that the venture capital trusts were intending to merge.
D.3	Key information on the key risks specific to the securities	<ul style="list-style-type: none"> The levels and bases of reliefs from taxation may change and could apply retrospectively, which may adversely affect the Shares. The VCTs' objectives have been set on the basis that all Investors obtain 30 per cent income tax relief on their subscription, and hold their Shares for five years to retain this initial income tax relief. The Shares will be listed on the Official List and traded on the London Stock Exchange. However, there is a limited secondary market for VCT shares and most trade below their underlying Net Asset Values. It may be difficult for Shareholders to sell their Shares.

Section E: Offer

Element	Disclosure requirement	Disclosure
E.1	Net proceeds and costs of the issue	<p>On the basis that £35,000,000 is raised under the Offers, including the over-allotment facility, that the costs of the Offers are 4.5 per cent of gross funds raised and an allocation of 60 per cent to BSC and 40 per cent to BSC2, the costs and expenses relating to the Offers payable by BSC will be £945,000 and by BSC2 will be £630,000. The total net proceeds of the Offers, on the above assumptions, will be £20,055,000 as to BSC and £13,370,000 as to BSC2.</p> <p>The expenses charged to investors are 4.5 per cent of gross funds raised for each VCT in respect of applications received through execution only brokers and 2.5 per cent of gross funds raised for each VCT in respect of applications received through intermediaries offering financial advice or received directly from Applicants.</p>
E.2a	Reasons for the Offers and use of proceeds	<p>The Investment Adviser receives a high level of investment opportunities from its national network of offices and the Offers will provide the VCTs with additional funds to capitalise on these opportunities, helped by the perceived reluctance of UK banks to lend to small and medium-sized businesses.</p> <p>The Offers will enable new and existing Shareholders to invest in a mature and diversified portfolio of businesses that will be supplemented with new investments in line with the VCTs' proven investment strategy.</p> <p>VCTs can now invest larger amounts into qualifying businesses – up to £5 million each year per investment (£10 million for Knowledge Intensive Companies), which is one of the reasons for further increasing investment capacity.</p> <p>An increase in the size of each of the VCTs will enable the fixed element of each of the VCTs' running costs to be spread over a wider capital base.</p>

<p>E.3</p>	<p>Terms and conditions of the Offer</p>	<p>The Offers are seeking to raise £30 million, in aggregate, through the issue of new Ordinary Shares in each of the VCTs. If the Offers are over subscribed, they may be increased at the discretion of the VCTs by a further £5 million. Existing Shareholders will have priority until 4 January 2019 to invest in the Offers. After this date, if not fully subscribed, new Investors will also be able to apply for New Shares under the Offers.</p> <p>Subject to the Offers remaining open for both VCTs, Investors will have the option to invest in either of the VCTs or a combination of the two and if no preference is given, each Investor's subscription will be allocated 60 per cent to BSC and 40 per cent to BSC2, broadly reflecting the relative sizes of each fund.</p> <p>Subscription monies received from an Applicant who has chosen that those monies are allocated to a VCT for which the Offer has closed, will either be returned to the Applicant or will be allocated to the other Offer if still open, as indicated by the Applicant. The minimum investment under the Offers is £3,000.</p> <p>The Offer Prices are based on the latest reported NAV at the date of allotment, adjusted for dividends declared but not yet paid and grossed up for the offer costs.</p> <p>The Indicative Offer Prices are, therefore, as follows:</p> <p>For applications through execution only brokers:</p> <ul style="list-style-type: none"> • for BSC, an Indicative Offer Price of 82.226 pence per Offer Share; and • for BSC2, an Indicative Offer Price of 60.780 pence per Offer Share. <p>For applications through Financial Advisers (assuming no facilitated Adviser Charge) or for direct applications:</p> <ul style="list-style-type: none"> • for BSC, an Indicative Offer Price of 80.615 pence per Offer Share; and • for BSC2, an Indicative Offer Price of 59.590 pence per Offer Share. <p>The Indicative Offer Price for BSC is based on the unaudited Net Asset Value of 78.6 pence per Share at 30 September 2018, adjusted for dividends declared and subsequently paid and the costs of the Offers by either 4.5 per cent for applications through execution only brokers or 2.5 per cent for applications through Financial Advisers or for direct applications.</p> <p>The Indicative Offer Price for BSC2 is based on the unaudited Net Asset Value of 58.1 pence per Share at 30 September 2018, adjusted for dividends declared and subsequently paid and the costs of the Offers by either 4.5 per cent for applications through execution only brokers or 2.5 per cent for applications through Financial Advisers or for direct applications.</p> <p>In the event of a facilitated Adviser Charge the Offer Price will effectively be increased by dividing the Offer Price by $[100\% - A]$ where A is the amount of the facilitated Adviser Charge as a percentage of the amount subscribed, expressed as a number.</p> <p>The Offers open on 27 November 2018 and will close no later than 5 April 2019 or earlier should the Offers become fully subscribed. The Directors may make allotments at any time prior to the close of the Offers. Details of such allotments will be announced through a Regulatory Information Service provider by no later than the Business Day following the allotment.</p>
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E.4	Material interests	Not applicable. No interest is material to the Offers.
E.5	Name of person selling securities	Not applicable. No person or entity is offering to sell the security as part of the Offers. There are no lock up agreements.
E.6	Dilution	The maximum number of Offer Shares, assuming a subscription of £35,000,000, including the over-allotment facility, an Indicative Offer Price of 80.615 pence per Share and of 59.590 pence per Share for BSC and BSC2 respectively and an allocation of 60 per cent to BSC and 40 per cent to BSC2, will be 26,049,743 for BSC and 23,493,875 for BSC2. This represents a dilution to existing Shareholders of 19.4 per cent in BSC and 17.9 per cent in BSC2.
E.7	Expenses charged to the investor	<p>The costs of the Offers are 4.5 per cent of gross funds raised for each VCT in respect of applications received through execution only brokers and 2.5 per cent of gross funds raised for each VCT in respect of applications received through intermediaries offering financial advice or received directly from Applicants.</p> <p>Execution only brokers may receive annual trail commission provided that the Intermediary continues to act for the Investor and the Investor continues to be the beneficial owner of the Offer Shares, subject to applicable laws and regulations, amounting to up to 2 per cent in aggregate of their client Investors' gross subscriptions, paid as to 0.5 per cent over a period of four years or 0.4 per cent over 5 years, as agreed with the Investment Adviser. This trail commission will be paid annually (commencing in 2020) by the relevant VCT.</p>

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc



YFM Equity
Partners

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

Telephone 0113 244 1000
Email info@yfmepl.com



RAM
Capital Partners

Promoter to the Offers
T 020 3006 7530
www.ramcapital.co.uk