

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

I would like to start by thanking all of you for your continued support. These Investor Updates are six monthly publications designed to complement the interim and final accounts. This issue provides an update for the nine months reporting to 31 December 2013.



Investment Rates Continue to Climb

The improved economic climate has led to increased confidence amongst business owners. This has led them to significantly increase investment in their businesses which, in turn, has increased demand for equity investment provided by VCTs.

Not only does your VCT have a strong pipeline of further investments but it has completed three new investments totalling £5.7 million in the last four months with a further investment of £2.5 million in January. With still two months to go, and £1.7 million of follow-on investments, this will bring investment in the current financial year to almost £10 million. Investments are co-invested with British Smaller Companies VCT2 plc (BSC2), and together the VCTs will have invested a little over £17 million between May 2013 and January 2014. This is equivalent to an annualised rate of £25 million.

The average amount invested by BSC into a new "first-time" investment is approaching £2 million. Encouragingly there seems no sign of this abating with a strong pipeline of potential investments lining up for completion over the coming months.

In this issue you will find:

- An update on the financial performance of BSC, including Total Return and dividend history
- A portfolio update highlighting the valuation movements during the period
- An introduction to the dividend re-investment scheme, explaining what the benefits are and how to join.

Investor Workshop

The next Investor Workshop will be held on 12 February 2014 at Westminster Central Hall. There will be presentations from two businesses – one that was sold in the last year, Fishawack Communications, and one which typifies the type of businesses in which

we invest and are seeking to add to the portfolio, President Engineering. There will also be a presentation from the fund manager, YFM, and after lunch a dedicated panel session will cover in detail any specific areas you would like to discuss. As ever we value all your feedback.

Fundraising

The strong investment rate coupled with the increasing pipeline of prospective investments has meant that your VCT has recently launched a fundraising offer. Having completed £10 million of investment over the last eight months, and even assuming no further investments between now and the year end, the cash available for new and follow-on investment will at most be £6-7 million. In order to meet this increasing demand from the UK's small growing businesses BSC and BSC2 have launched a joint offer to raise £30 million. **This Investor Update is not the prospectus relating to the joint offer but an advertisement and investors should not subscribe for any Shares under the joint offer except on the basis of information set out in the prospectus, which can be found at www.yfmep.com/bscvctoffers2014**

Results to 31 December 2013

The nine months results delivered a strong set of results with further increase in the Net Asset Value to 101.5 pence per share, an increase of 4.5 pence per share over the period, taking Total Return to 190.2 pence per share.

Communication

Many of you have requested information by email and on the back page you will see details on how you can register for this new service. As always, we encourage your feedback on our Updates. Please speak to Tracey Nice on 0113 294 5055 or email tracey.nice@yfmep.com with any suggestions.

David Hall
Managing Director, YFM Equity Partners

Change of Auditor

For information only – no action is required to be taken

The Board has recently carried out a competitive tender process for the provision of audit services and, as a result, Grant Thornton LLP has resigned as the Company's auditor. The Board has appointed BDO LLP to fill the casual vacancy until the Company's Annual General Meeting, when Shareholders will have the opportunity to vote on their appointment.

If you have sold or transferred all of your shares in the Company please inform the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Grant Thornton LLP has deposited with the Company a statement of the circumstances connected with its resignation. A copy of this statement is enclosed with this Investor Update and is being sent to Shareholders for information only, as required by section 520(2) of the Companies Act 2006.

Total Return by Fundraising Round

The Company has raised funds at a number of different times since its inception. We thought it would be helpful to show the returns on each fundraising round as many investors have made multiple investments. The last column of this table shows the illustrative overall return as if the DRIS had operated since inception.

Tax year	Offer price	Offer price net of tax	Net Asset Value at 31 December 2013	Cumulative dividends paid since Fundraising*	Total Return since Fundraising	Overall return**	Overall return (in DRIS)***
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 & 1996/97	100.00	80.00	101.50	88.70	190.20	210.20	252.16
1996/97 & 1997/98	100.00	80.00	101.50	87.64	189.14	209.14	251.84
1997/98 & 1998/99	105.00	84.00	101.50	84.14	185.64	206.64	261.71
2004/05 & 2005/06 (C share***)	100.00	60.00	111.57	60.95	172.52	202.45	242.36
2005/06	99.50	59.70	101.50	58.25	159.75	199.55	249.75
2006/07 & 2007/08	102.50	71.75	101.50	53.75	155.25	186.00	229.35
2007/08 & 2008/09	106.25	74.38	101.50	48.75	150.25	182.13	218.92
2009/10 & 2010/11	97.25	68.08	101.50	38.75	140.25	169.43	193.19
2010/11 & 2011/12	128.00	89.60	101.50	32.50	134.00	172.40	189.55
2011/12	99.75	69.83	101.50	9.50	111.00	140.93	145.41
2012/13 & 2013/14	95.75	67.03	101.50	4.50	106.00	134.73	136.62

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

** NAV plus cash dividends paid plus tax relief on the initial subscription.

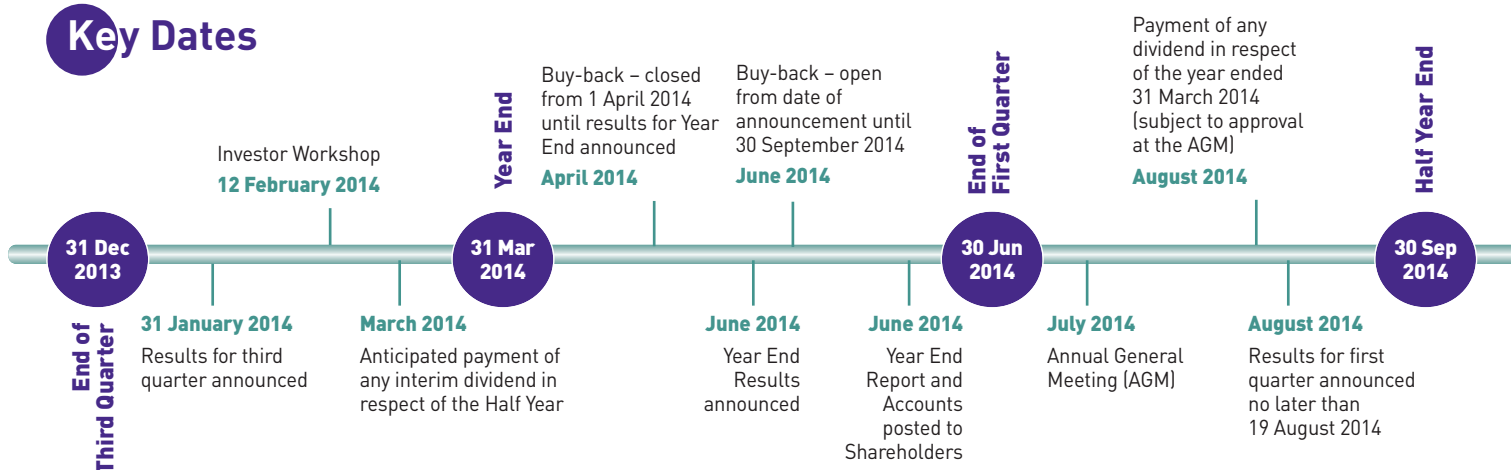
*** NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming that all dividends since inception were invested under terms of the current DRIS.

For your Records – Dividends Paid and Date

The table below displays the dates when the BSC dividends have been paid and we hope you find it useful in keeping and checking your records.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
Combined to 2004	25.65	16 November 2007	2.00	22 August 2011	3.00
28 February 2005	1.10	8 August 2008	3.00	22 August 2011	18.00
5 August 2005	2.20	11 February 2009	2.00	20 January 2012	2.00
10 January 2006	1.50	13 August 2009	3.00	17 August 2012	3.00
11 August 2006	3.00	7 January 2010	2.00	14 January 2013	2.00
6 November 2006	1.50	28 September 2010	4.25	13 August 2013	4.50
8 August 2007	3.00	7 January 2011	2.00	Cumulative at 31 Dec 2013	88.70

Key Dates



Portfolio Update

Over the nine months to 31 December 2013 the portfolio has grown by £9.64 million to £37.20 million. The underlying value growth over this period was £4.88 million after netting off the £7.57 million invested and £2.82 million of receipts from disposals and loan repayments. The most significant investments have been the further investments of £0.98 million into Seven Technologies (June 2013) to fund the strategic acquisition of Datong plc and £0.59 million into Bagel Nash (July 2013) to fund its investment in a new bakery. New investments have been made to fund the management buy-outs of Douglas Gill (£2.5 million in September 2013); GTK (£1.75 million in October 2013) and Leengate Valves (£1.40 million in December 2013).

The majority of the value growth occurred in the top 10 investments listed below which accounted for value growth of £4.14 million. It is particularly pleasing to note general increases across the portfolio with several businesses recording further improvements in trading results. The quoted portfolio also saw value growth of £1.20 million over the period, with the established investment in Pressure Technologies representing the largest gain at £0.70 million.

In the nine months to 31 December 2013, the capital value gain in the portfolio was offset by a small P&L loss giving an overall NAV increase from operating activities of 9.6 pence per share, before payment of dividends totalling 4.5 pence per share. This was slightly diluted by the share allotments in April which raised £5.91 million net of costs, resulting in an overall NAV per share increase of 4.5 pence to 101.5 pence per share. The Total Return (which includes cumulative dividends paid to date) therefore rose by 9.0 pence to 190.2 pence per share.

	Website	Investment valuation at 31 March 2013 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Investment valuation at 31 December 2013 £000	% Net Asset Value
Unquoted Investments							
GO Outdoors Limited	gooutdoors.co.uk	4,955	-	24	↑ 1,151	6,130	12.1
DisplayPlan Holdings Limited	displayplan.com	3,042	-	-	↑ 935	3,977	7.9
President Engineering Group Ltd	pegl.co.uk	3,281	(100)	-	↑ 795	3,976	7.9
Seven Technologies Holdings Limited	seventechnologies.co.uk	2,335	(1,302)	984	↑ 711	2,728	5.4
Douglas Gill International Limited	gillmarine.com	-	-	2,500	↔ -	2,500	4.9
Waterfall Services Limited	waterfall-services.co.uk	1,736	(667)	-	↑ 883	1,952	3.9
GTK (UK) Limited	gtk.co.uk	-	(14)	1,750	↔ -	1,736	3.4
Deep-Secure Ltd	deep-secure.com	1,940	-	-	↓ (260)	1,680	3.3
Leengate Valves Limited	leengatevalves.co.uk	-	-	1,401	↑ -	1,401	2.8
Bagel Nash Group Limited	bagelnash.com	600	(20)	598	↓ (78)	1,100	2.1
Top 10 total		17,889	(2,103)	7,257	↑ 4,137	27,180	53.7
Remainder of unquoted portfolio*		6,556	(104)	90	↓ (457)	6,089	12.0
Total unquoted portfolio		24,449	(2,207)	7,347	↑ 3,680	33,269	65.7
Quoted portfolio*		3,115	(610)	224	↑ 1,200	3,929	7.8
Total portfolio		27,564	(2,817)	7,571	↑ 4,880	37,198	73.5

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

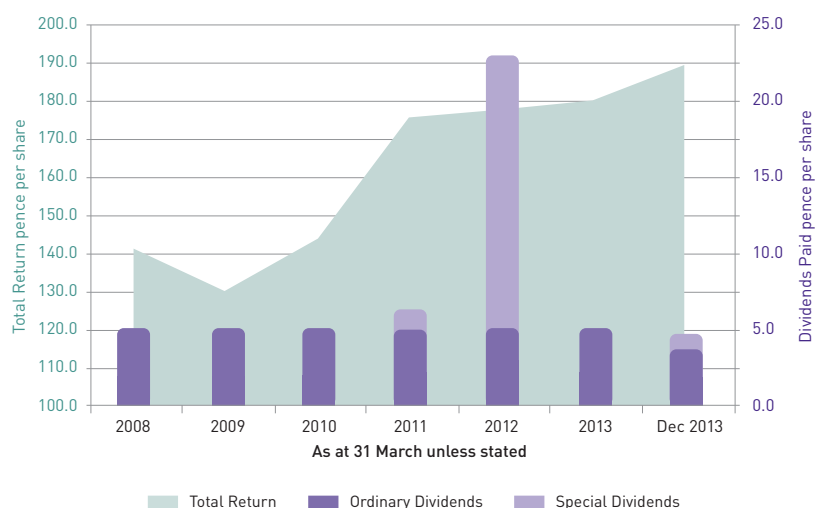
Total Shareholder Return

Figure 1 opposite shows the Total Return of BSC since 2008, plus the nine months to 31 December 2013. Total Return is the Net Asset Value plus cumulative dividends paid.

Over the period Total Return increased by 33.9 per cent to 190.2 pence per share. Dividends average 5.4 pence per share* over the same period. This equates to a cash yield of 5.2 per cent based on the current offer price (for advised/direct applications) of 103.0 pence per share. The return for Shareholders subscribing in each of the different fundraisings can be found in the table on page 2.

* Including the special dividend of 18.0 pence per share paid in August 2011, the average dividend over the same period is 8.5 pence per ordinary share.

Fig.1 – Total Shareholder Return and Dividends Paid

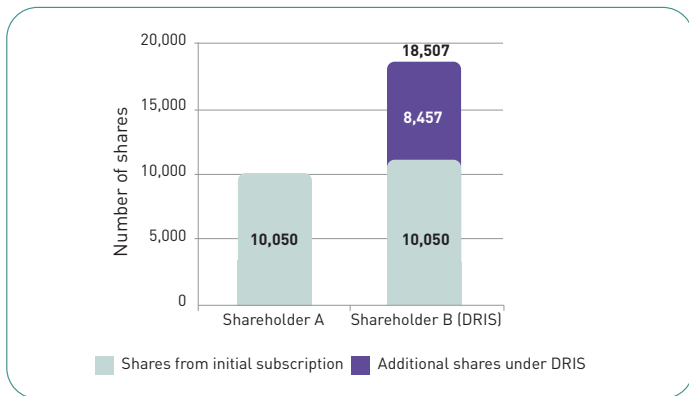


Dividend Re-investment Scheme

BSC's dividend re-investment scheme ("DRIS") is a great way of building up your shareholding in a tax efficient* way by re-investing your cash dividends in the Company. HMRC has also recently effectively confirmed its ongoing commitment to support dividend re-investment schemes by specifically excluding them from proposed changes, following its consultation on enhanced buy backs. Under the scheme, new shares are acquired at a 5 per cent discount to the most recently announced NAV, with the added benefit that those shares attract 30 per cent tax relief*, just like subscribing to a new Offer.

To illustrate the benefits of DRIS, Figures 2 and 3 below compare the number of shares held and the effective return on dividends for two investors, Shareholder A and Shareholder B, each investing £10,000 in the 2005/06 Offer, being the first opportunity Shareholders would have had to re-invest their dividends.

Fig.2 – Number of shares as at 31 December 2013



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

Chart Assumptions

At the time of investment the tax relief given was not also invested in shares of BSC. The tax relief on the initial subscription was 40%. Tax relief on all subsequent issues under the terms of DRIS was at 30% (following the reduction in tax relief that came into force on 6 April 2006). Assuming all dividends invested under the terms of the current DRIS. Shareholder B re-invested the 18.0 pence per share dividend paid in August 2011.

Risk Warning

Past performance is no guide to future performance and may not be repeated. The value of an investment in BSC and BSC2 (the Companies) may go down as well as up and you may not get back the full amount invested. An investment in a VCT is higher risk than investing in other securities listed on the London Stock Exchange official list. You should regard an investment in the Companies as a long term investment. The Companies invest in mostly unquoted companies which are small and which by their nature carry a heightened level of risk. In the past there has been limited liquidity in VCT shares listed on the London Stock Exchange. It may therefore be difficult to realise shares in the Companies in the future and the share price may not reflect the underlying Net Asset Value. Tax rules and regulations can change over time and any benefit will depend on individual circumstances, on investors retaining their investments for the relevant period and on the companies invested in retaining their qualifying status. Please refer to the HM Revenue and Customs website for guidance on the tax relief available on VCT investments. A full list of risk factors is set out in the Joint Offer Prospectus issued by the Companies on 14 January 2014 (the Prospectus). This Investor Update is not an offer to invest in the Companies. Any decision to invest must be based on information contained in the Prospectus. We recommend that you seek independent financial advice from an appropriately authorised independent financial adviser as to whether an investment in the Companies is suitable for you as well as your personal entitlement to tax reliefs associated with the Companies' linked share offer.

Financial Highlights for the Third Quarter to 31 December 2013

Net Asset Value increased by **2.3 per cent***

Total Return increased to **190.2 pence per share****

New investments totalling **£3.15 million** in the quarter

* from 99.2 pence per share at 30 September 2013 to 101.5 pence per share

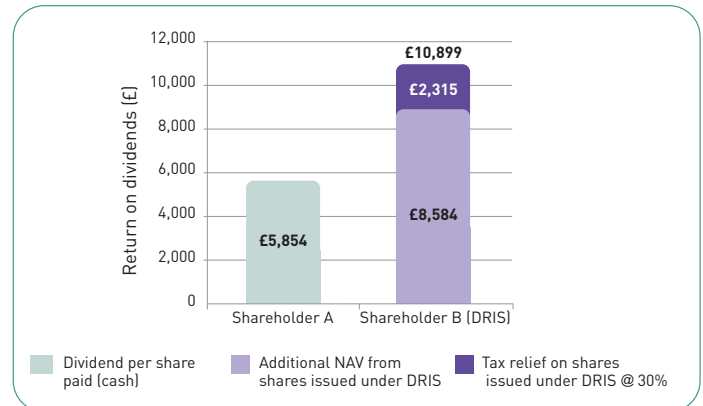
** from 187.9 pence per share at 30 September 2013

As a result of joining DRIS, Shareholder B has exchanged £5,854 of dividends for additional shares, thereby increasing their shareholding by 84 per cent from 10,050 to 18,507 shares as shown in Fig. 2.

The increased £8,584 Net Asset Value and additional £2,315 tax relief[†] Shareholder B receives as a result of their increased shareholding is worth 86 per cent more than the £5,854 cash dividends they would otherwise have received, had they not been in DRIS (as shown in Fig. 3).

[†]Including £559 tax relief on additional dividends from amounts re-invested.

Fig.3 – Return on dividends as at 31 December 2013



The additional NAV results from holding an increased number of shares that consequently receive increasing dividends to be re-invested.

To participate in DRIS, you can either:

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

Fund Updates by Email



If you would like to receive the latest fund updates by email, such as the latest deal news as it happens, you can subscribe to this new service by emailing or calling Tracey Nice (below).

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