

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

I would like to start by thanking all of you for your continued support of British Smaller Companies VCT. These Investor Updates are provided six monthly complementing the interim and final accounts.

Investment Rates Continue to Climb

As the economic climate improves, business owners are continuing to invest in their businesses which has led to increased demand for equity investment provided by VCTs. As a result I am pleased to report a strong three months of investment activity, with £4.7 million invested in the period. This continues the very strong investment activity with a total of £13.6 million invested in the year to June 2014.

Demand for investment continues to be strong and at the time of writing your Board has approved a further £7.4 million of investment in five businesses, maintaining the current investment activity rate.

We have continued to invest in established businesses with potential for growth located in the UK. Of the seven principal new investments completed in the last year, three were in the Midlands; two were in the South East and one each in Wales and Scotland.

Since March 2013 the size of the investment portfolio has grown from £27.6 million to £44.3 million. Current and anticipated investment rates will see this grow further in 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 one of the recent new investments, Macro Art
- Details of the Shareholder Survey 2014
- Details of the 2015 Investor Workshop

Fundraising

In the last Offer BSC along with its sister company British Smaller Companies VCT2 plc (BSC2) raised a total of £26.9 million, with £16.2 million for BSC. As demand for investment remains high these new funds will ensure BSC can take advantage of the near term opportunities in the pipeline. With £12.1 million of investments made and approved at the time of writing it will be advantageous to raise further funds in 2014/15 to satisfy demand beyond that.



Communication

The programme of providing information electronically by email is up and running. Please see the back page for more details of how to register for this service.

Shareholder Survey

In May 2012 several hundred BSC and BSC2 Shareholders completed a short survey, with the results reported at the 2013 Investor Workshop. With more than 1,000 new shareholders added since, we would like to conduct a follow-up survey to make sure we stay in touch with the views of our shareholders. **A copy of the survey is enclosed with this Update or, if you are also a shareholder in BSC2, you will have received it with your Interim Report.**

Investor Workshop

I am pleased to announce that the next Investor Workshop will be held on 4 February 2015 at Freemasons' Hall – information is provided on the back page and a reply form is enclosed.

As always, we encourage your feedback on our Updates. Please contact Tracey Nice with any suggestions. Thank you again for your continued support and investment.

David Hall

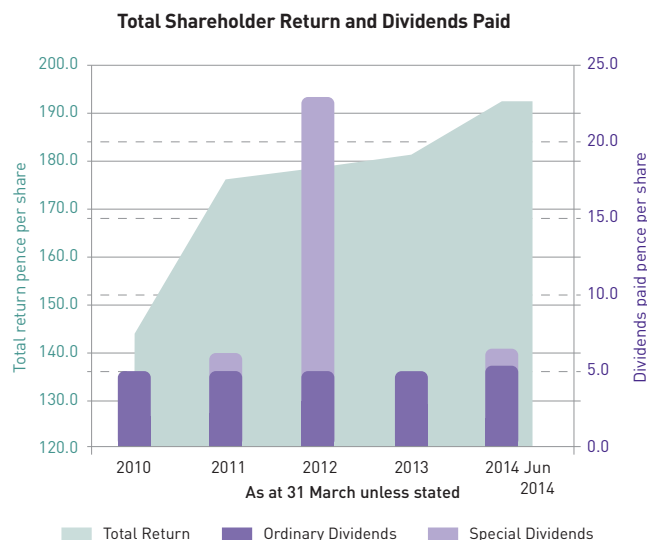
Managing Director, YFM Equity Partners

Total Shareholder Return

Figure 1 opposite shows the total return of BSC for the five years and three months to 30 June 2014 and the dividends paid in each of the last five financial years. Total return is the net asset value plus cumulative dividends paid.

Over the period total return increased by 47.5 per cent to 192.7 pence per share. Dividends averaged 5.3 pence per share* over the same period. This equates to a cash yield of 5.2 per cent based on the current net asset value of 102.0 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 8.7 pence per share.



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 30 June 2014	Cumulative dividends paid since fundraising*	Total return since fundraising*	Overall return (not in DRIS)**	Overall return (in DRIS)***
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 & 1996/97	100.00	80.00	102.00	90.70	192.70	212.70	258.51
1996/97 & 1997/98	100.00	80.00	102.00	87.70	189.70	209.70	257.61
1997/98 & 1998/99	105.00	84.00	102.00	83.95	185.95	206.95	257.49
2004/05 & 2005/06 (C share****)	100.00	60.00	114.72	63.20	177.92	217.92	260.96
2005/06	99.50	59.70	102.00	60.25	162.25	202.05	255.74
2006/07 & 2007/08	102.50	71.75	102.00	55.75	152.75	188.50	235.07
2007/08 & 2008/09	106.25	74.38	102.00	50.75	152.75	184.63	224.33
2009/10 & 2010/11	97.25	68.08	102.00	40.75	142.75	171.93	198.03
2010/11 & 2011/12	128.00	89.60	102.00	34.50	136.50	174.90	194.06
2011/12	99.75	69.83	102.00	11.50	113.50	143.43	149.03
2012/13 & 2013/14	95.75	67.03	102.00	6.50	108.50	137.23	140.04
2013/14 & 2014/15	100.75	70.53	102.00	0.00	102.00	132.23	132.23

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

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

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

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

For your Records – Dividends Paid and Date

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

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
Combined to 31 March 2005	26.75	8 August 2008	3.0	22 August 2011	18.0
5 August 2005	2.2	11 February 2009	2.0	20 January 2012	2.0
10 January 2006	1.5	13 August 2009	3.0	17 August 2012	3.0
11 August 2006	3.0	7 January 2010	2.0	14 January 2013	2.0
6 November 2006	1.5	28 September 2010	4.25	13 August 2013	4.5
8 August 2007	3.0	7 January 2011	2.0	21 March 2014	2.0
16 November 2007	2.0	22 August 2011	3.0	Cumulative at 30 June 2014	90.71
				1 August 2014	3.5

Key Dates

Annual General Meeting (AGM)
July 2014

Half Year End

Buy-back – closed from 1 October 2014 until results for Half Year announced
October 2014

End of Third Quarter

Investor Workshop
4 February 2015

Year End

30 Jun 2014

End of First Quarter

August 2014

Payment of any final dividend in respect of the year ended 31 March 2014 (approved at the AGM)
Results for first quarter announced

30 Sep 2014

November 2014

Results for Half Year announced no later than 30 November 2014 (Buy-back open)

31 Dec 2014

Jan 2015

Payment of any interim dividend in respect of the Half Year

February 2015

Results for third quarter announced no later than 19 February 2015

31 Mar 2015

Portfolio Update

Over the three months to 30 June 2014 the portfolio has grown by £4.46 million to £44.32 million. The underlying value growth over this period was £0.15 million after netting off the £4.71 million invested and £0.40 million of receipts from disposals and loan repayments. The most significant investments have been the MBO of Intelligent Office, provider of outsourced services to legal practices (£2.9 million in May 2014); the MBO of Macro Art, niche wide format printer for the retail and exhibition markets (£1.3 million in June 2014); and growth capital funding for Intamac, a cloud platform for the connected home market (£0.3 million in June 2014).

Good value growth was seen from many of the top 10 investments listed below, most notably Waterfall Services which completed another strong year and President Engineering which is seeing a rapidly increasing order pipeline for its LNG products, offset by Seven Technologies which suffered from public sector budgetary constraints in its core US and UK markets last year, now showing signs of easing. It was pleasing to see an overall value gain of £0.41 million from the unquoted portfolio over the period, although this was offset by a fall of £0.26 million from the quoted investments in line with the general market trend.

In the three months to 30 June 2014, the capital value gain in the portfolio together with a small revenue profit resulted in an overall NAV increase from operating activities of 0.3 pence per share. This was slightly diluted by the share allotments in April and May which raised £4.06 million net of costs, resulting in the NAV per share remaining flat over the 3 months at 102.0 pence per share. The total return (which includes cumulative dividends paid to date) also remained flat at 192.7 pence per share.

	Website	Investment valuation at 31 March 2014 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Investment valuation at 30 June 2014 £000	% Net asset value
Unquoted Investments							
GO Outdoors Limited	gooutdoors.co.uk	6,371	-	-	↑ 102	6,473	9.7
President Engineering Group Ltd	conflow.com	4,078	(100)	-	↑ 393	4,371	6.6
DisplayPlan Holdings Limited	displayplan.com	3,854	-	-	↓ (24)	3,830	5.7
Waterfall Services Limited	waterfall-services.co.uk	2,372	-	-	↑ 792	3,164	4.7
Intelligent Office UK Ltd	intelligentofficeuk.com	-	-	2,934	↔ -	2,934	4.4
Gill Marine Holdings Limited	gillmarine.com	2,500	-	-	↔ -	2,500	3.8
Mangar Health Limited	mangar.co.uk	2,460	-	-	↔ -	2,460	3.7
Seven Technologies Holdings Limited	seventechnologies.co.uk	2,596	-	-	↓ (612)	1,984	3.0
GTK (UK) Ltd	gtk.co.uk	1,693	(43)	-	↔ -	1,650	2.5
Leengate Valves Limited	leengatevalves.co.uk	1,401	-	-	↔ -	1,401	2.1
Top 10 total		27,325	(143)	2,934	↑ 651	30,767	46.2
Deferred proceeds		3	-	-	↔ -	3	0.0
Remainder of unquoted portfolio		8,580	(30)	1,515	↓ (245)	9,820	14.7
Total unquoted portfolio		35,908	(173)	4,449	↑ 406	40,590	60.9
Quoted portfolio		3,957	(225)	257	↓ (258)	3,731	5.6
Total portfolio		39,865	(398)	4,706	↑ 148	44,321	66.5

Case Study – Macro Art

The Company

Founded in 1992 and based in St Neots, Cambridgeshire, Macro Art is a wide format digital printer. Responsible for the UK's first building wrap, the company specialises in tension fabric displays and structures for events and exhibitions and retail environments.

Background, investment rationale and strategy

This was a management buyout from the founder, backing a team who had been running the business since 2012. The deal was introduced by a Non Executive Director from one of the VCT's other portfolio businesses.

Macro Art is a well-established and profitable business in a niche but growing market. The strategy is based on organic growth; investing in new machinery and technologies and providing highly effective display solutions. This has enabled Macro Art to develop an enviable client list including Lockheed Martin, GKN and Burberry.



Investor Workshop 2015 Freemasons' Hall

We are delighted to announce that the next investor workshop will take place at Freemasons' Hall, 60 Great Queen Street, London, WC2B 5AZ on Wednesday 4 February 2015. The Hall is a very short walk from Holborn Tube Station.

Freemasons' Hall is the headquarters of the United Grand Lodge of England and was built between 1927-1932 as a memorial to the Freemasons who died in the First World War. It is one of the finest Art Deco buildings in England.

The stunning corridors, Grand Temple and distinctive exteriors of Freemasons' Hall have played a crucial supporting role on screen, where scenes from Poirot, Sherlock Holmes, Spooks and Hitchhikers Guide to the Galaxy, to name but a few, have been filmed.

Registration is at 10.30 am with tea and coffee available from 10.00 am. The presentations will start at 11.00 am. You will be given the opportunity to meet



the Investment Adviser Team and hear presentations from some of the investee companies, Lunch will be provided at around 1.00 pm.

After lunch there will be a presentation from David Hall, Managing Director of YFM Private Equity Limited. After this there will be a **Question and Answer Session** or, if you prefer, the opportunity to **take a tour** of this iconic location. If you would like to attend the Q&A Session but also be included in the tour, we have arranged for a second tour, after the Q&A Session has finished. Please indicate your preference on the reply form.

Please indicate on the reply form enclosed whether you are able to attend. Alternatively please contact Tracey Nice, whose details are below.

If you are also a shareholder in BSC2 you will have received a reply form with your Interim Report.

Shareholder Survey

With more than 1,000 new shareholders on the register since the last survey we would like to hear your views. Your feedback is very useful so we do hope you will be able to complete and return the enclosed survey, either by post or via the link, if you would prefer to complete it online.

If you are also a shareholder in BSC2, you will have received the survey with your Interim Report.



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' Joint share offer.

Financial Highlights for the First Quarter to 30 June 2014

Net asset value steady
at **102.0 pence** per share

Overall gain of **£0.41 million** from
the unquoted portfolio

New investments totalling
£4.7 million in the quarter

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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