

BRITISH SMALLER COMPANIES VCT PLC (“the Company”)

INTERIM MANAGEMENT STATEMENT For the quarter ended 31 December 2008

British Smaller Companies VCT plc presents its interim management statement for the quarter ended 31 December 2008. This constitutes the Company's second interim management statement for the financial year ending 31 March 2009, as required by the UK Listing Authority's Disclosure and Transparency Rule 4.3. A copy of this interim management statement can be found at www.yfmgroup.co.uk.

The unaudited net asset value per Ordinary share as at 31 December 2008 was 88.4p (30 September 2008: 95.8p). The net asset value is stated after taking account of the interim dividend of 2.0p per Ordinary share in respect of the period ended 30 September 2008, which will be paid on 11 February 2009.

The total return at 31 December 2008, calculated by reference to the net asset value per Ordinary share and the cumulative dividends paid and proposed, was 133.4p per Ordinary share compared to 138.8p at 30 September 2008.

The number of Ordinary shares in issue at 31 December 2008 was 30,752,447. In addition, the Company held 1,050,955 shares in Treasury. There were no shares purchased or issued by the Company during the quarter.

Net assets at 31 December 2008 comprised the following:

	£000	% of net assets
Unquoted investments at fair value	6,919	25.4%
Quoted investments at bid price	3,607	13.3%
Total venture capital investments	10,526	38.7%
Cash and cash equivalents	16,643	61.2%
Other net current assets	31	0.1%
Net assets	27,200	100.0%

The ten largest investments by valuation at 31 December 2008 were as follows:

	£000	% of net assets
GoOutdoors Limited	1,491	5.5%
Waterfall Services Limited	1,272	4.7%
Connaught plc	1,107	4.1%
Elffin Home Care Limited	769	2.8%
Pressure Technologies plc	680	2.5%
Sheet Piling Limited	679	2.5%
RMS Group Holdings Limited	678	2.5%
Mattioli Woods plc	506	1.9%
Fishawack Limited	500	1.8%
Harvey Jones Limited	494	1.8%
Top ten investments	8,176	30.1%
Other investments	2,350	8.6%
Total venture capital investments	10,526	38.7%

Quoted investments are carried at bid price at 31 December 2008. Unquoted investment are carried at fair value as at 31 December 2008 as determined by the directors.

In general the performance of the portfolio has been relatively robust, the widely reported fall in equity markets and consequent reduction in price earnings ratios has tended to feed through to the portfolio which has had a consequential impact on the valuation of the portfolio.

During the three months ended 31 December 2008 the following significant investment transactions took place (all companies are unquoted except where otherwise indicated):

Follow-on Investments:

Name of company:	Business activity:	Amount invested £000
Ellfin Home Care Limited	Domiciliary care business	119

Disposals:

Name of company:	Sale proceeds £000	Original cost £000	Carrying value at 30 Sept 2008 £000
RMS Group Holdings Limited	9	9	9
Denison Mayes Limited	5	5	5
	14	14	14

Disposals during the quarter relate to scheduled loan repayments.

During the quarter, the movement in net asset value comprised the recognition of an interim dividend of 2.0 pence per share and an underlying decrease in its investment portfolio of 5.4 pence per share. The total return was 133.4 pence per share (30 September 2008: 138.8 pence per share), which includes cumulative dividends of 45 pence per share.

The net asset value currently comprises 61.2% in cash and gilts and as such the Company is well placed to take advantage of selective investment opportunities as they arise. It is pleasing to report a marked increase in the number of these opportunities being presented.

Shareholder Relations

Dividend Re-investment Scheme

The Company recently introduced a dividend re-investment scheme. The first dividend eligible to be re-invested is payable on 11 February. The board is pleased that approximately 10% of shareholders have taken the option to re-invest their dividends.

Share Buy Back Policy

The board of directors continually monitors the share buy back policy of the Company. Whilst there remains a need to provide support to those shareholders wishing to dispose of their shares, in these uncertain times the board have reviewed carefully the appropriate level of share buybacks to the advantage of the shareholder base as a whole. Consequently for the foreseeable future they have determined that shares will be acquired at a discount of 15% to the net asset value which is more in line with current market practice. This is effective from the date of this announcement.

Shareholder Workshop

The Company's next shareholder workshop is being held at the Imperial War Museum at 11.00 am on 29 January 2009.

20 January 2009

For further information please contact:

David Hall YFM Private Equity
David Hart Teathers

Tel: 0161 832 7603
Tel: 020 7426 9000

BRITISH SMALLER COMPANIES VCT PLC**(Registered in England No. 3134749)****DIVIDEND REINVESTMENT SCHEME MANDATE FORM****THIS MANDATE FORM IS NOT TRANSFERABLE****Dividend reinvestment scheme mandate form**

If you wish to participate in the dividend reinvestment scheme (the "Scheme") in respect of your holding of Ordinary Shares, please sign and return this form to the Scheme Administrator Capita Registrars Limited, New Issues, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 20 Business Days before the payment of a dividend by the Company. All enquiries concerning this form should be made to Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (Telephone: 0870 162 3100).

If your British Smaller Companies VCT plc Ordinary Shares are held in more than one account you must complete a separate form for each account. You may obtain further copies of this form from Capita Registrars Limited.

To: the Scheme Administrator and the Company

I/We, the undersigned, confirm that I/we have read and understood the terms and conditions of the Scheme and that I/we wish to participate in that Scheme for each future dividend paid on the Ordinary Shares and to which the scheme is applied. I/We agree that future dividends paid on Ordinary Shares will be reinvested in Ordinary Shares.

All shareholders named above must sign.

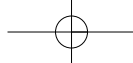
Signature(s)	Date
Signature(s)	Date
Signature(s)	Date
Signature(s)	Date
Daytime telephone number	

In the case of joint holders all must sign. In the case of a corporation this 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 2006 Act.

If this form is not completed to the satisfaction of the Scheme Administrator 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 given for the payment of cash dividends directly to your Bank or Building Society account shall be suspended 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.



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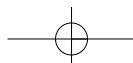
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CAPITA REGISTRARS
NEW ISSUES
PO BOX 25
BECKENHAM
KENT
BR3 4BR

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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 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 and the Company, whose names appear on page 5, 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 VCT plc

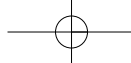
(Incorporated in England and Wales under the Companies Act 1985 with registered number 3134749)

DIVIDEND REINVESTMENT SCHEME IN RELATION TO THE COMPANY'S ORDINARY SHARES AND RECOMMENDED PROPOSAL TO ADOPT NEW ARTICLES OF ASSOCIATION

Your attention is drawn to the letter from the Chairman of the Company set out on pages 5 to 7 of this document which contains a recommendation to vote in favour of the resolutions to be proposed at the General Meeting referred to below.

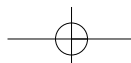
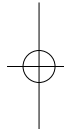
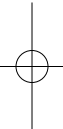
A notice convening a General Meeting of the Company to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 15 January 2009 at 11.00 am is set out at the end of this document. A Form of Proxy is attached to this document. To be valid, Forms of Proxy for use at the General Meeting must be completed and returned so as to be received by Capita Registrars Proxy Department, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 11.00 am on 13 January 2009. The completion and depositing of a Form of Proxy will not preclude you from attending and voting in person at the meeting should you wish to do so.

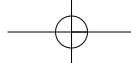
Your attention is also drawn to the Dividend Reinvestment Scheme Mandate Form enclosed with this document which should be returned to the address printed on the reverse.



Contents

Part I – Important Notice	3
Risk Factors	4
Part II – Chairman’s Letter	5
Part III – Terms and Conditions of the Dividend Reinvestment Scheme	8
Part IV – Taxation	11
Part V – Summary of proposed amendments to the Company’s Articles of Association	12
Part VI – Notice of General Meeting	13
Part VII – Definitions used	14
Proxy Form	15





Part I

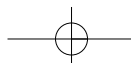
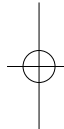
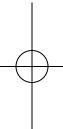
Important Notice

This document, which constitutes a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000, has been approved, for the purposes of that section only, by YFM which is authorised and regulated by the Financial Services Authority in the United Kingdom pursuant to the Financial Services and Markets Act 2000 ("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 1985 Act and the 2006 Act (to the extent in force) or for providing financial advice in relation to the subject of this document.

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 financial 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 Reinvestment 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.



Part I

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:

- Investment in the Company should be regarded as long-term in nature and may not be suitable for all individuals. If they are in any doubt potential investors should consult their professional advisers about the Scheme.
- Investment in unquoted companies and AiM companies by its nature, involves a higher degree of risk than investment in a quoted portfolio. Unquoted and AiM investments may be difficult to realise.
- 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 it is possible that there may not be a liquid market in the 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, 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 the 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 VCT status is lost, dealings in the Ordinary 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 a VCT 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 and the notional tax credit equal to 1/9th of the 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.
- The investments made by the Company may be difficult to realise. The fact that a Share is traded on AiM does not guarantee its liquidity. The spread between the buying and selling price of such Shares may be wide and thus the price used for valuation may not be achievable.
- The Company's ability to obtain maximum value from its investment (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% by value of a VCT's total investments must be in shares in, or securities of, an unquoted (including AiM quoted) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of the Income Tax Act 2007.

Part II – Chairman’s Letter

British Smaller Companies VCT plc

(Registered in England No. 3134749)

Directors:

Ms Helen Sinclair
Philip Cammerman
Richard Last
Robert Pettigrew

Registered Office:

Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

16 December 2008

Dear Shareholder

INTRODUCTION

The Company is an established VCT originally launched in February 1996, which combines the opportunity to take advantage of the potentially attractive returns available from investing in a portfolio of smaller, unquoted UK companies with good growth prospects, with the benefit of the substantial tax reliefs available to investors in a VCT. The Manager is a specialist venture capital fund manager, which has been established for some 20 years.

As at 30 September 2008, the Company’s unaudited net asset value was 95.8 pence per Ordinary Share. The Company currently has approximately £9.9 million invested in 27 investments, with a current valuation of approximately £12.7 million. The balance of the net assets of the Company comprise investments in interest bearing securities.

BACKGROUND

The purpose of this document is to offer Shareholders the opportunity to elect to reinvest their dividends (including the 2008 Interim Dividend) by subscribing for New Ordinary Shares in the Company.

In addition the directors are recommending the adoption of New Articles.

DIVIDEND REINVESTMENT SCHEME

At the Annual General Meeting of the Company held on 6 August 2008 the Directors were authorised by special resolution to establish a dividend reinvestment scheme for the Company’s Shareholders.

Dividend reinvestment enables Shareholders to increase their total holding in the Company without incurring dealing costs, issue costs or stamp duty. Subject to individual circumstances, these Shares should qualify for income tax relief (currently at 30 per cent) that is applicable to subscriptions for new shares in Venture Capital Trusts. The terms and conditions of the Scheme in relation to the 2008 Interim Dividend (and future dividends as may be declared), which will apply only to holders of Ordinary Shares in respect of their Ordinary Shares are set out at Part III of this document.

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 Shares should qualify for the VCT tax reliefs that are available to subscriptions for new shares in Venture Capital Trusts (a summary of which can be found at Part IV of this document).

Part II – Chairman’s Letter

The terms of the Scheme only permit a Shareholder to join if all dividends on the Ordinary Shares registered in their name at the Record Date for the dividend are mandated to the Scheme. 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 6 August 2008.

The entitlement to New Ordinary Shares instead of cash in respect of the 2008 Interim Dividend has been determined on the basis of the interim dividend of 2p per Ordinary Share and the unaudited net asset value per Ordinary Share announced by the Company on 20 November 2008 as adjusted for the interim dividend (being 93.8p) less 5%.

If no Shareholders were to elect to reinvest the 2008 Interim Dividend under the Scheme and it is paid entirely in cash, it would result in a total amount of £615,049 being paid by the Company by way of cash dividends. If the Scheme were to be taken up in full, it would result in the allotment of a maximum of 690,213 New Ordinary Shares (ignoring any reduction in respect of fractions) representing approximately 2.2% of the issued Ordinary Share capital as at the date of this circular.

Shareholders who elect to take the 2008 Interim Dividend in the form of New Ordinary Shares and to participate in the Scheme will increase their holdings by acquiring these without incurring dealing expenses or stamp duty.

If you elect to join the Scheme, the mandate given in the Mandate Form will remain in force for all dividends up to 6 August 2013 unless and until you give notice to terminate your participation in the Scheme in accordance with the terms of the Scheme. Those Shareholders not electing to join the Scheme at this time will be able to do so in respect of dividends declared for later periods.

Shareholders who elect to reinvest the 2008 Dividend under the Scheme should be eligible to claim income tax relief on the amounts subscribed provided the New Ordinary Shares are issued in the name of the Shareholder and not in the name of the 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 doubt regarding your personal tax position, or whether you should participate in the Scheme, you should contact your professional adviser immediately.

A Mandate Form to participate in the Scheme has been included with this document, and must be returned on or prior to 3 pm on 13 January 2009 to enable you to receive the 2008 Interim Dividend under the Scheme. Further details of the Financial Calendar applicable are set out below.

Financial Calendar for the 2008 Interim Dividend

Ordinary Shares quoted ex-dividend	26 November 2008
The Record Date for the 2008 Interim Dividend	28 November 2008
Posting of Mandate Forms	16 December 2008
Deadline for receipt of Mandate Forms in order to be effective in relation to the 2008 Interim Dividend	3pm on 13 January 2009
2008 Interim Dividend warrants despatched for payment	10 February 2009
Payment Date and CREST Accounts credited and dealings expected to commence in New Ordinary Shares	11 February 2009
Definitive share certificates and Statements of Entitlement despatched	Within 10 Business Days of Payment Date

Part II – Chairman’s Letter

NEW ARTICLES OF ASSOCIATION

The Directors are recommending the adoption of the New Articles in order to update the Company’s Current Articles primarily to take account of the changes in English company law brought about by the 2006 Act which came into force on 1 October 2008.

The principal changes introduced in the New Articles are summarised at Part V of this document: other changes, which are of a minor or technical nature and also some changes which are made by way of clarification only, have not been noted.

A copy of the New Articles, together with a copy marked-up to show the differences between the New Articles and the Current Articles, are available for inspection at the Company’s registered office and also at YFM’s office at New City Court, 20 St. Thomas Street, London, SE1 9RS during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this document until the close of the General Meeting and will be available for inspection at the place of the General Meeting itself from 10.00 am until the close of the General Meeting.

Action to be taken

The adoption of the New Articles requires Shareholders’ approval.

Shareholders will find at Part VI of this document the Notice convening the General Meeting which will be held at 11.00 am on 15 January 2009 at 23 Berkeley Square, Mayfair, London, W1J 6HE at which the following Special Resolution will be proposed:

(1) To adopt the New Articles.

FORM OF PROXY FOR SHAREHOLDERS

Shareholders will find attached a Form of Proxy for the General Meeting. Whether or not you propose to attend the Meeting, you are requested to complete and return the Form of Proxy so as to be received in each case by Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for holding the relevant Meeting. Completion and return of a Form of Proxy will not prevent you from attending and voting in person at the relevant meeting should you wish to do so.

DIVIDEND MANDATE FORM

A Mandate Form is also enclosed with this document. If you wish to participate in the Scheme for the 2008 Interim Dividend you should ensure that the completed Mandate Form is returned no later than 3 pm on 13 January 2009. Mandate Forms received after that date will not be valid in respect of such dividend, but will be valid for any subsequent dividends declared. If you wish to receive your dividends in cash you need take no further action.

RECOMMENDATION

The Board considers that the adoption of the New Articles is, and therefore the passing of the resolution to be proposed at the General Meeting is, in the best interests of the Company and the Shareholders as a whole.

The Board unanimously recommends to vote in favour of the resolution to be proposed at the General Meeting regarding the adoption of the New Articles as they intend to do in respect of their own holdings of 102,445 Ordinary Shares, representing approximately 0.3 per cent of the issued share capital of the Company.

Yours sincerely



Helen Sinclair
Chairman

Part III – Terms and Conditions of the Dividend Reinvestment Scheme

1. Shareholders on the register of members 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 only be made by Shareholders in respect of the whole (and not part only) of their shareholdings and shall operate as a mandate in respect of the 2008 Interim Dividend and all future dividends declared in respect of Ordinary Shares prior to 6 August 2013 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. The number of Ordinary Shares held by such Participating Shareholder which are mandated to the Scheme shall be altered immediately following any change to the number of Ordinary Shares in respect of which such Shareholder is the registered holder as entered onto the register of members of the Company from time to time.
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 or the Scheme Administrator 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 "Reinvestment 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 financial year end or half yearly net asset value per Ordinary Share (as adjusted for the relevant dividend in question) less 5%; and (ii) the nominal value per Ordinary Share.
 - (c) No fractions of New Ordinary Shares will be issued under the Scheme and subject to condition 4(d) 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 Reinvestment 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 reinvestment 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. Partial reinvestment of dividends is only permitted by nominees, who need to lodge a Mandate Form for each Reinvestment Day quoting the number of Ordinary Shares in respect of which their election is made. Shareholders will remain in the Scheme so that all future dividends will be reinvested in the same way, until they give notice in writing to the Scheme Administrator that they wish to terminate their participation in the Scheme.
5. The Scheme Administrator shall on the relevant Reinvestment 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, unless such shares are to be uncertificated.
6. To assist Participating Shareholders with their tax returns, the Scheme Administrator will attach to the new share certificates a Statement of Entitlement, or if shares are held in uncertificated form, a Statement of Entitlement will be sent to a Participating Shareholder 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.

Part III – Terms and Conditions of the Dividend Reinvestment Scheme

7. Application to join the Scheme can be made at any time by returning a completed Mandate Form. However, Mandate Forms need to have been received by the Scheme Administrator Capita Registrars Limited, New Issues, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU at least 20 Business Days prior to the payment of a dividend which is to be reinvested. Mandate Forms received after that date shall be effective in relation to any future dividends in respect of which the Directors offer a dividend reinvestment alternative.
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 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 will be posted to them. 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 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 may be obtained from the Scheme Administrator Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
11. All costs and expenses incurred by the Scheme Administrator 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 Scheme Administrator and the Company in the Mandate Form that (i) save in the case of a Shareholder holding his or her Ordinary Shares as nominee, 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 is correct and, to the extent any of the information changes, he or she will notify the changes to the Scheme Administrator.
13. Each Participating Shareholder acknowledges that neither the Company, the Scheme Administrator nor YFM is providing a discretionary manager service. Neither the Scheme Administrator, 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 negligence or default of the Scheme Administrator or the Company (respectively), its servants or agents.
14. The financial calendar and procedure for future dividends both as to any final and/or interim dividend will be notified in writing to Shareholders and/or published through a RIS.
15. The Participating Shareholder may at any time, by notice to the Scheme Administrator of not less than 20 Business Days prior to the relevant Reinvestment Day, terminate his or her participation in this Scheme. 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 and the Scheme Administrator shall be entitled, at any time and from time to time, to suspend the operation of the Scheme and/or to terminate the Scheme without notice to the Participating Shareholders. Circumstances under which the 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.

Part III – Terms and Conditions of the Dividend Reinvestment Scheme

17. All notices and instructions to be given to the Scheme Administrator shall be in writing and delivered or posted to Capita Registrars Limited, New Issues, 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 provided by the Scheme Administrator.
18. Subject to the prior agreement of the Scheme Administrator, the Directors shall be entitled to amend the Scheme 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 Scheme Administrator's opinion, the change materially affects the interests of Participating Shareholders. Amendments to the Scheme 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, the Participating Shareholder will (i) agree 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) declare 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, 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 reinvestment schemes). Where shares are held by a nominee as at the relevant Record Date, that nominee's beneficiary will not be entitled to receive the tax reliefs otherwise available to Participating Shareholders under the Scheme. Participating Shareholders under the Scheme are responsible for ascertaining their own tax status and liabilities and neither the Scheme Administrator nor the Company can 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 Ordinary Shares acquired in excess of £200,000 in any tax year will not be exempted from income tax in the same way as Ordinary 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 Mandate Form 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 adviser.

Part IV – Taxation

The following information is based on the law and practice currently in force 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 professional advisers.

1. Tax Reliefs for Individual Investors

Investors must be individuals subscribing in their own name and 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 reinvestment 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 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.

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 the 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 the HM Revenue & Customs or, if earlier and at the HM Revenue & Customs's 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 the ordinary shares by subscription, 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 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 the 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 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 shares.

This is only a brief summary of the 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 professional adviser.

Part V – Amendments to the Company’s Articles of Association

The principal changes introduced by the New Articles are summarised below.

Specific references to the 1985 Act in the Current Articles

Where provisions of the 1985 Act have already been repealed or replaced in their entirety by new provision in the 2006 Act references to “the Act” (i.e. the 1985 Act) have been updated to refer to the 2006 Act.

Conflicts of Interest

The 2006 Act sets out directors’ general duties which largely codify the existing law but with some changes. Under the 2006 Act from 1 October 2008 a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company’s interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision for dealing with directors’ conflicts of interest to avoid breach of duty. The New Articles give the Directors’ authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only those Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company’s success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Exercise of Shareholders’ rights

The 2006 Act provides for indirect investors who hold their shares through intermediaries to exercise certain membership rights. One of those rights is that shareholders of a company (for instance, nominees) will be able to nominate another person (for instance, the beneficial holder of shares) to receive all of the information that those nominating shareholders are entitled to receive as shareholders as if the nominated person was himself or herself a shareholder. The New Articles provide for the nomination process and include associated provisions relating to the Company’s maintenance of records of nominations made. The Directors believe that relatively few Shareholders will wish to make use of nomination rights but any Shareholders wishing to do so should contact the Company Secretary.

Directors’ indemnities and loans to fund expenditure

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, the existing exemption allowing a company to provide money for the purpose of funding a director’s defence in court proceedings now expressly covers regulatory proceedings. The New Articles reflect this and have been redrafted for clarity.

General

The New Articles have been updated to be consistent with CREST and certain provisions of the New Articles have therefore been redrafted to include appropriate references to the CREST system. In addition various references to statutes have been amended and updated.

Part VI – Notice of General Meeting

No: 3134749

BRITISH SMALLER COMPANIES VCT PLC

NOTICE IS HEREBY GIVEN that a GENERAL MEETING of the Company will be held at 23 Berkeley Square, Mayfair, London, W1J 6HE, on 15 January 2009 at 11.00 am for the following purposes:

To consider and, if thought fit, pass the following resolution, which shall be proposed as a Special Resolution.

SPECIAL RESOLUTION

- (1) That the existing Articles of Association of the Company be deleted in their entirety and the new Articles of Association produced to the meeting and for the purpose of identification signed by the Chairman of the meeting be adopted in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary

16 December 2008

Registered Office:
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

Notes:

- (1) A Shareholder of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a Shareholder of the Company.
- (2) A Shareholder may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or you may photocopy the Form of Proxy. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- (3) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of appointment for holding the Meeting.
- (4) In accordance with Regulation 41 of The Uncertified Securities Regulations 2001, only those Shareholders entered on the Company's register of members not later than 11.00 am on 13 January 2009, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the Meeting.
- (5) Completion and return of a form of proxy will not preclude a Shareholder of the Company from attending and voting in person at the Meeting if he wishes to do so.
- (6) Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the 2006 Act are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Company directly. In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting are hereby informed, in accordance with Section 149 (2) of the 2006 Act, that they may have a right under an agreement with the registered Shareholder by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the Shareholder as to the exercise of voting rights. Nominated persons should contact the registered Shareholder by whom they were nominated in respect of these arrangements.

Part VII – Definitions

“2006 Act”	the Companies Act 2006
“1985 Act”	the Companies Act 1985
“Admission”	the admission of the New Ordinary Shares to the official list maintained by the UK Listing Authority and to trading on the London Stock Exchange plc’s market for listed securities
“Board” or “Directors”	the board of directors of the Company
“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
“Company”	British Smaller Companies VCT plc
“Dealings”	buying, selling subscribing for or underwriting of securities in the Company or offering or agreeing to do so, either as principal or agent
“Current Articles”	the articles of association of the Company as in force at the date of this document
“Form of Proxy”	the form of proxy attached to this document
“General Meeting”	the general meeting of the Company to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 15 January 2009 at 11 am
“2008 Interim Dividend”	the interim dividend on Ordinary Shares declared for the half year ended 30 September 2008
“Mandate Form”	the form enclosed with this document which enables Shareholders to participate in the Scheme
“New Articles”	the new articles of association proposed for adoption by the Company as described in this document
“New Ordinary Shares”	the new Ordinary Shares to be issued from time to time under the Scheme
“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
“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 Services Authority
“Scheme” or “Dividend Reinvestment Scheme”	the dividend reinvestment scheme the terms and conditions of which are described in this document
“Scheme Administrator”	Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
“Shares”	Ordinary Shares
“Shareholders”	the holders of Ordinary Shares
“Venture Capital Trust” or “VCT”	a company which is, for the time being, approved as a venture capital trust under section 259 of the Income Tax Act 2007
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“YFM” or “the Manager”	YFM Private Equity Limited, Company number: 2174994, whose registered office is at Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ

No. 3134749

**British Smaller Companies VCT plc
Form of Proxy**

To be used at the General Meeting of the Company
to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 15 January 2009 at 11.00 am

I/We being a member/members of the above named
Company entitled to attend and vote at the General Meeting of the Company hereby appoint the Chairman of the
Meeting or (see note a)..... of
..... as my/our proxy
to vote for me/us on my/our behalf at the General Meeting of the Company to be held on 15 January 2009 at 11.00 am and at
any adjournment thereof.

Number of Ordinary shares proxy is appointed over.....

Please also tick here if you are appointing more than one proxy.

My/our proxy is to vote as indicated below.

SPECIAL RESOLUTIONS

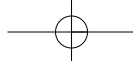
	FOR	AGAINST	WITHHELD
1. To adopt new Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature..... Dated2008/2009*
(*delete as appropriate)

NOTES

- (a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialling the deletion) "the Chairman of the Meeting or". A proxy need not be a Shareholder of the Company. You may attend and vote at the Meeting instead of any proxy appointed by you if you so wish.
- (b) You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or you may photocopy this form. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- (c) Please indicate by inserting "X" in the appropriate box the way in which your proxy is to vote. If you do not do so, your proxy may vote or abstain as he thinks fit. Your proxy will have the authority to vote at his discretion on any amendment or other motion proposed at the Meeting, including any motion to adjourn the Meeting. This proxy will only be used in the event of a poll being directed or demanded.
- (d) This form of proxy must be signed by the appointor or his attorney duly authorised in writing or if the appointor is a corporation this proxy must be given under its Common Seal or be signed by an officer or attorney duly authorised in writing. To be valid, this form of proxy duly completed and any power of attorney or other authority (if any) under which it is notorially certified, or office copy of such power or authority, must be deposited at the office of the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.
- (e) The resolutions are set out in full in the Notice of General Meeting.
- (f) In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting are hereby informed, in accordance with Section 149 (2) of the 2006 Act, that they may have a right under an agreement with the registered Shareholder by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the Shareholder as to the exercise of voting rights. Nominated persons should contact the registered Shareholder by whom they were nominated in respect of these arrangements.





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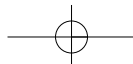
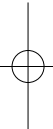
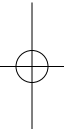
Business Reply Service
Licence No MB122



**CAPITA REGISTRARS
PROXY DEPARTMENT
PO BOX 25
BECKENHAM
KENT
BR3 4BR**

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BRITISH SMALLER COMPANIES VCT PLC

**INTERIM REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2008
AND CIRCULAR TO SHAREHOLDERS**

Further to the announcement of its unaudited half year statements for the 6 months to 30 September 2008 on 20 November 2008, British Smaller Companies VCT plc (“the Company”) has today published its interim report for the period ended 30 September 2008 (“Interim Report”).

In addition, and further to existing authorities, the Directors are pleased to announce that the Company has issued a circular to its shareholders setting out the terms and conditions of a dividend reinvestment scheme (“the Scheme”) and giving the shareholders of the Company the opportunity to join the Scheme (“the Circular”) including in respect of the 2008 Interim Dividend.

The Circular also contains a notice convening a general meeting of the Company on 15 January 2009 at which a special resolution will be proposed to adopt new articles of association of the Company, primarily to recognise amendments necessitated by the implementation of the Companies Act 2006.

Copies of the Interim Report and Circular have been forwarded to the FSA for publication through the document viewing facility in accordance with LR 9.6.1.

Copies of the Interim Report and Circular can be obtained from the Company Secretary at the Company’s Registered Office address: Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ.

For further information, please contact:

David Hall
David Hart

YFM Private Equity Limited
Teathers

Tel: 0161 832 7603
Tel: 020 7131 3000

BRITISH SMALLER COMPANIES VCT PLC

UNAUDITED HALF YEAR STATEMENTS FOR

THE 6 MONTHS TO 30 SEPTEMBER 2008

British Smaller Companies VCT plc ("the Company") today announces its unaudited half year results for the six months to 30 September 2008.

CHAIRMAN'S STATEMENT

The first six months of this trading year has been characterised by increasingly challenging economic conditions. Latterly this was heightened by banking failures and further pressure on liquidity which have severely restricted the supply of capital. Whilst, following the end of our half year, a variety of largely Governmentally supported rescue plans have been implemented, the impact of the severe disruption to the supply of credit is now beginning to ripple through to demand and consequently affect the real economy.

Clearly these challenging conditions will impact upon all the companies in the portfolio. However, our approach has been to encourage companies to take appropriate levels of debt to minimise their financing risks. This will not mean that they will be immune from possible covenant breaches but more prudent levels of debt should help to protect the investments from the volatile behaviour exhibited by some banks.

On a more positive note, for an investment company these circumstances can provide real opportunity. Over recent years, British Smaller Companies VCT has taken the opportunity to both realise investments and raise money. This has enabled your Company to both deliver increasing dividend return and build its investment capacity. As at 30 September 2008, the total net assets were £29.4 million of which 57% was held in gilts, cash and net current assets and 43% was invested (of which approximately two thirds was in unquoted investments and one third in quoted investments).

The high level of liquid funds has achieved both some insulation against the current market volatility, which has seen total return reduce 2.3% over the six month period, and also allows the Company to take advantage of buying opportunities as they arise over the next 12-24 months.

As a measure of your Board's confidence in the long term position of the Company, we are proposing to maintain the interim dividend at 2.0 pence per share. The dividend will be paid on 11 February 2009 to shareholders on the register at 28 November 2008.

Interim Management Report

The first and second quarter of this financial year were markedly different. Investment and divestment activity were both confined to the first quarter. Your Company completed three investments totalling £0.99 million. The first into Darwin Rhodes Limited (£0.44 million) was an all equity financing into an un-gearred business that provides recruitment services across Western and Central Europe and the Far East. These services are targeted at the financial sector, with an increasing demand seen in respect of compliance and regulatory posts. The second investment (£0.4 million) was into AiM listed K3 Technology. This business has recently expanded away from its core global retail base into supply chain management assisting businesses to deliver further efficiency and cost savings. The third investment (£0.15 million) was by way of a predominantly mezzanine loan into the existing portfolio business RMS Europe Limited.

During the period your Company also realised a further £0.16 million of its residual holding in Connaught plc compared to a cost of £0.013 million realising a profit of £0.147 million.

In the second quarter, both Caterplus Services Limited (to be known as Waterfall Services Limited in future (Waterfall)) and Ellfin Home Care Limited have pursued their acquisition strategies. Waterfall acquired the north east based Taylor Shaw, a supplier of catering services to the education sector. This acquisition will help to diversify the company's catering services offering both geographically and by sector. Shortly after the end of the period, Ellfin Home Care Limited completed its acquisition of Accrington-based Elmwood Limited. This continues its strategy of focussing on building a tightly focussed group in the community care sector.

Financial Results

The operating profit for the period was £0.33 million equivalent to 1.07 pence per share. However, after taking account of the movement in investment values, the loss for the period was £0.746 million equivalent to 2.42 pence per share. The operating results have benefited from the estimated recovery of VAT of £0.27 million. The claim has been submitted to HMRC on the Company's behalf by its fund manager, YFM Private Equity Limited, with payment anticipated in due course.

The movement in the investment values is as a result of unrealised valuation movements resulting in the main from a combination of reductions in the value of some of the quoted investments and a reduction in the earnings multiple applied to derive the valuations of unquoted investments.

The resultant net asset value per share as at 30 September 2008 was 95.8 pence per share.

Shareholder Relations

Fundraising

The period has seen the successful closing of the Company's latest share offers. These were concluded on 4 and 30 April respectively and raised a total of £5.2 million net of expenses. This was a little higher than the original target of £5 million, with the additional demand being met from a small top up issue.

Dividend Re-investment Scheme

Each year our fund manager holds Investor Workshops. This year the venue was the Tower of London and there were nearly 150 attendees - the highest ever total. One of the areas your Board has kept under review for some time is a dividend re-investment scheme. After due consideration and taking shareholder feedback in to account, the Board resolved to seek the authority of shareholders to establish a Dividend Re-investment Scheme ("the Scheme"). This authority was given by shareholders at the Annual General Meeting on 6 August 2008. Accordingly, the Board will shortly be publishing the terms and conditions of the Scheme which will enable shareholders to elect to receive dividends in the form of shares. The first dividend for which shareholders will be able to elect to receive shares instead of dividends will be in respect of the interim dividend for 2008, payment of which is expected to be made in February 2009.

Share Buy Backs

As you know, the market for your Company's shares had been made by Landsbanki Securities following its acquisition of Teather & Greenwood, the London stockbroking firm. Following the administration of Landsbanki in October 2008, there has been a short period when our broker has been unable to make a market and as a consequence there has been some downward bidding pressure on the share price. This is a fluid situation that is under review. Your Board believes that there may be a greater number of market makers for the Company's shares over the coming months.

During the six month period to 30 September 2008, your Company acquired 298,153 shares at a cost of £0.265 million. This compares to 448,445 shares at a cost of £0.389 million in the same period last year. Whilst the level of buy back is reduced, your Board continues to keep the Company's share buy back policy under review.

Your Board continues to believe that 2009-10 may offer a strong flow of good investment opportunities. However, after careful consideration your Board has determined that the Company does not need to raise further funds in the immediate future in order to take advantage of these opportunities. We will continue to review this position throughout 2009.

Outlook

There is little doubt that during this first half of the financial year, a series of events have created volatile market conditions and uncertainty in the economy. History suggests that immediately following such periods is an attractive time to make new investments as assets are cheaper. It may well be that in the short term there is more pressure on valuations as the economy deteriorates. In the medium term we should benefit from our relative liquidity as attractive investment opportunities appear.

At the end of my first Chairman's statement I would like to thank all our shareholders for their continued support.

Helen Sinclair

20 November 2008

INCOME STATEMENT

For the 6 months ended 30 September 2008

		Unaudited 6 months ended 30 September 2008	Unaudited 6 months ended 30 September 2007	Audited Year ended 31 March 2008
		£000	£000	£000
	Notes			
Income	2	628	489	1,035
Administrative expenses:				
Fund management fee		(364)	(299)	(610)
Estimated VAT recovery		272	-	-
Other expenses		(206)	(106)	(195)
		(298)	(405)	(805)
Operating profit		330	84	230
Gains on realisation of investments (net)		85	642	2,318
Unrealised (losses) gains on investments held at fair value (net)		(1,161)	1,162	(343)
Net movement on investments		(1,076)	1,804	1,975
(Loss) profit on ordinary activities before taxation		(746)	1,888	2,205
Taxation	3	-	-	-
(Loss) profit for the period from continuing operations		(746)	1,888	2,205
Basic and diluted (loss) earnings per share	5	(2.42) p	7.37p	8.51p

BALANCE SHEET

As at 30 September 2008

	Unaudited 6 months ended 30 September 2008	Unaudited 6 months ended 30 September 2007	Audited Year ended 31 March 2008
	£000	£000	£000
Notes			
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	12,688	14,699	12,947
Current assets			
Trade and other receivables	709	631	1,114
Cash and cash equivalents	16,312	11,504	12,356
	17,021	12,135	13,470
Liabilities			
Current liabilities			
Trade and other payables	(235)	(155)	(219)
Net current assets	16,786	11,980	13,251
Net assets	29,474	26,679	26,198
Shareholders' equity			
Share capital	3,180	2,641	2,642
Share premium account	15,183	10,504	10,502
Capital redemption reserve	221	221	221
Treasury share reserve	(931)	(389)	(666)
Special reserve	2,408	2,408	2,408
Retained earnings	9,413	11,294	11,091
Total Shareholders' equity	29,474	26,679	26,198
Net asset value per Ordinary share	6	95.8p	102.7p
Total return per Ordinary share	7	138.8p	140.7p
		102.1p	142.1p

UNAUDITED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the 6 months ended 30 September 2008

	Share Capital	Share premium account	Capital redemption reserve	Treasury reserve	Special reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2007	2,148	1,813	221	-	2,408	10,198	16,788
Issue of Ordinary shares	980	8,723	-	-	-	-	9,703
Issue costs	-	(525)	-	-	-	-	(525)
C share conversion	(487)	493	-	-	-	-	6
Purchase of own shares	-	-	-	(389)	-	-	(389)
Dividends	-	-	-	-	-	(792)	(792)
Profit for the period	-	-	-	-	-	1,888	1,888
Balance at 30 September 2007	2,641	10,504	221	(389)	2,408	11,294	26,679
Purchase of own shares	1	(2)	-	(277)	-	-	(278)
Dividends	-	-	-	-	-	(520)	(520)
Profit for the period	-	-	-	-	-	317	317
Balance at 31 March 2008	2,642	10,502	221	(666)	2,408	11,091	26,198
Issue of Ordinary shares	538	4,978	-	-	-	-	5,516
Issue costs	-	(297)	-	-	-	-	(297)
Purchase of own shares	-	-	-	(265)	-	-	(265)
Dividends	-	-	-	-	-	(932)	(932)
Loss for the period	-	-	-	-	-	(746)	(746)
Balance at 30 September 2008	3,180	15,183	221	(931)	2,408	9,413	29,474

CASH FLOW STATEMENT

For the 6 months ended 30 September 2008

	Unaudited 6 months ended 30 September 2008	Unaudited 6 months ended 30 September 2007	Audited Year ended 31 March 2008
	£000	£000	£000
Net cash inflow (outflow) from operating activities	49	(182)	(26)
Cash flows (used in) from investing activities			
Purchase of fixed asset investments	(996)	(2,705)	(4,770)
Proceeds from sale of fixed asset investments	927	1,605	4,878
Net cash (used in) from investing activities	(69)	(1,100)	108
Cash flows from (used in) financing activities			
Cost of C share issue	-	-	-
Issue of Ordinary shares	5,436	9,703	9,784
Cost of Ordinary share issue	(244)	(520)	(579)
Purchase of own Ordinary shares	(171)	(515)	(721)
Dividends paid	(932)	(792)	(1,312)
Net cash from (used in) financing activities	4,089	7,876	7,172
Net increase (decrease) in cash and cash equivalents	4,069	6,594	7,254
Cash and cash equivalents at the beginning of the period	12,356	4,867	4,867
Effect of market value changes in cash equivalents	(113)	43	235
Cash and cash equivalents at the end of the period	16,312	11,504	12,356

NOTES TO THE FINANCIAL STATEMENTS

For the 6 months ended 30 September 2008

1. These half year statements, which have been approved by the directors whose names appear at note 8, each of whom has confirmed that to the best of his knowledge the Interim Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure Rules and the Transparency Rules.

The half year statements are unaudited, nor have they been reviewed by the auditors pursuant to the Auditing Practices Board (ASB) guidance on Review of Interim Financial Information. They do not constitute full financial statements as defined in section 240 of the Companies Act 1985. The comparative figures for the year ended 31 March 2008 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 March 2008. Those accounts were reported upon without qualification by the auditors and have been delivered to the Registrar of Companies.

The half year statements comply with IAS 34 'Interim financial reporting' and the accounting policies and methods of computation followed in the half year statements are the same as those adopted in the preparation of the audited financial statements for the year ended 31 March 2008.

The financial statements for the year ended 31 March 2008 were prepared in accordance with the International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Accounting Standards Committee (IASC) as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

There has been no change to the principal risks and uncertainties facing the Company since the publication of the financial statements for the year ended 31 March 2008. In summary, the principal risks are:

- Investment and strategic;
- Loss of approval as a Venture Capital Trust;
- Regulatory;
- Reputational;
- Operational;
- Financial;
- Market risk, and
- Liquidity risk.

Full details of the principal risks can be found in the financial statements for the year ended 31 March 2008 on page 21. A copy of which can be found at www.yfmgroup.co.uk.

2. Income

	Unaudited 6 months ended 30 September 2008	Unaudited 6 months ended 30 September 2007	Audited Year ended 31 March 2008
	£000	£000	£000
Income from investments:			
Dividends from unquoted companies	-	42	53
Dividends from AIM quoted companies	34	27	51
	34	69	104
Interest on loans to unquoted companies	183	88	216
Fixed interest Government securities	385	313	643
Income from investments held at fair value through profit or loss	602	470	963
Other income	-	-	11
Interest on deposits	26	19	61
	628	489	1,035

3. Taxation

	Unaudited 6 months ended 30 September 2008	Unaudited 6 months ended 30 September 2007	Audited Year ended 31 March 2008
	£000	£000	£000
(Loss) profit on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 21% (September 2007: 19% and March 2008: 20%)	(156)	359	441
Effect of:			
UK dividends received	(7)	(13)	(21)
Non taxable profits on investments	226	(343)	(395)
Excess management expenses	(63)	(3)	(25)
Current tax charge for the period	-	-	-

The Company has no provided, or unprovided, deferred tax liability in either year.

Deferred tax assets in respect of losses have not been recognised as management currently believe that there will not be sufficient taxable profits against which the assets can be recovered.

Due to the Company's status as a venture capital trust, and the continued intention to meet the conditions required to comply with Chapter 3 of Part 6 of the Income Tax Act 2007, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or realisation of investments.

4. Dividends

	Unaudited 6 months ended 30 September 2008	Unaudited 6 months ended 30 September 2007	Audited Year ended 31 March 2008
	£000	£000	£000
Interim - 2.0p per Ordinary share; paid 16 November 2007	-	-	520
Final - 3.0p per Ordinary share; paid 8 August 2007	-	792	792
Final - 3.0p per Ordinary share; paid 8 August 2008	932	-	-
Dividends paid	932	792	1,312

An interim dividend of 2.0p per share in respect of the period to 30 September 2008, amounting to £615,000, is proposed. This has not been recognised in the period ended 30 September 2008 as the obligation did not exist at the balance sheet date.

5. The (loss) earnings per share is based on the net loss from ordinary activities after tax attributable to shareholders of £746,000 (30 September 2007: net profit of £1,888,000 and 31 March 2008: net profit of £2,205,000) and on 30,865,000 shares (30 September 2007: 26,608,000 and 31 March 2008: 25,915,000), being the weighted average number of shares in issue during the period.

The Company has also repurchased 1,050,955 of its own shares and these shares are held in treasury. The 1,050,955 treasury shares have been excluded in calculating the number of Ordinary shares in issue at 30 September 2008 (30 September 2007: 448,445 and 31 March 2008: 752,802). The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per share are the same.

6. The net asset value per share is calculated on attributable assets of £29,474,000 and 30,752,447 shares in issue at the period end (30 September 2007: assets of £26,679,000 and 25,975,718 shares, 31 March 2008: assets of £26,198,000 and 25,671,361 shares).

The Company has also repurchased 1,050,955 of its own shares and these shares are held in treasury. The 1,050,955 treasury shares have been excluded in calculating the number of Ordinary shares in issue at 30 September 2008 (30 September 2007: 448,445 and 31 March 2008: 752,802). The Company has no securities that would have a dilutive effect and hence basic and diluted net asset values per share are the same.

7. Total return per share is calculated on cumulative dividends paid of 43 pence per Ordinary share (30 September 2007: 38 pence per Ordinary share and 31 March 2008: 40 pence per Ordinary share plus the net asset value at those dates as calculated per note 6.

8. The directors of the Company are: H Sinclair, Mr PS Cammerman, Mr RM Pettigrew and Mr R Last.

For further information, please contact:

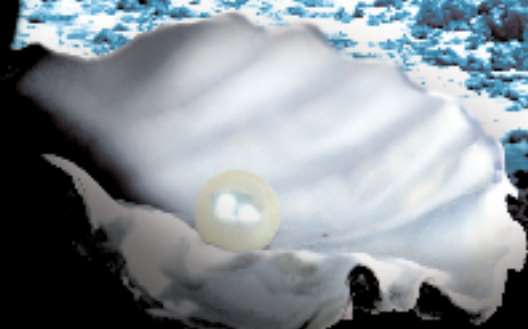
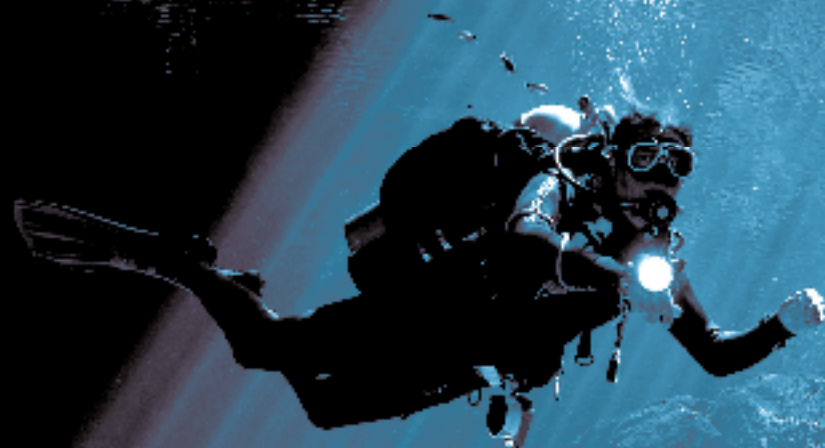
David Hall, YFM Private Equity Limited

Tel: 0161 819 3195

British Smaller Companies VCT plc

Prospectus with application form for additional investment

Sponsored by Howard Kennedy



Pearls

Pearls have been regarded as precious for thousands of years. They were a favourite of Julius Caesar, Cleopatra dissolved a pearl in wine and drank it to prove her love to Marc Antony. The Roman general Vitellius is said to have financed an entire military campaign by selling just one of his mother's pearl earrings. The Greeks considered the pearl the ultimate symbol of love and marriage. The dark ages saw maidens of nobility gifting pearls to gallant knights as a protection in battle. In the New World of America the discovery of pearls in Central America caused their demise in the 17th century due to over harvesting of this natural resource. The famous jeweller, Jacques Cartier bought his New York store in 1916 by trading two pearl necklaces for the building.

Natural pearls are found in only one of every 100 animals, and only one in ten of those are of good quality.

A natural pearl begins as a foreign object, such as a parasite or piece of sand that has lodged itself in the oyster's soft inner body where it cannot be expelled. In an effort to ease this irritant and to protect itself, the oyster's body takes defensive action and coats the intruding object with nacre. Nacre is a crystalline substance that builds up over time, resulting in a shimmering, iridescent creation. The oyster continues to secrete nacre around the irritant, layer upon layer as long as it remains within its body. After a few years, the irritant will be totally encased by the silky crystalline coatings. The result is the lustrous pearl.

One of the most famous pearls in the world is called La Peregrina ("the incomparable") found in the Americas. It is pear shaped and the size of a pigeon's egg. Famous owners of this pearl have included Philip II of Spain, Mary Tudor of England and Napoleon III. The last owner is believed to be Elizabeth Taylor.

The most commonly eaten type of oyster do not produce pearls and are not as closely related to pearl oysters as their name implies. Edible oysters sometimes create pearls made of calcium carbonate, but these pearls do not contain nacre so they resemble small white marbles. Oysters and freshwater mussels, the animals that create pearls, are all from the mollusc family. Molluscs live in saltwater, freshwater and even land. They include snails, clams, mussels, scallops, oysters, octopus, squid and more. These molluscs are edible but not tasty.

It can take anywhere from a few months to many years to form a pearl, depending upon its size. Different molluscs produce pearls at different rates. For example, the Black-lipped Pearl Oyster forms one to seven sheets of nacre per day.

To test if it is real, rub the pearl gently across your teeth. A real pearl will feel gritty, but an artificial pearl will feel smooth and slippery.



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult your bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in advising upon investment in shares and other securities without delay.

A copy of this prospectus (the "Prospectus") relating to British Smaller Companies VCT plc ("British Smaller Companies VCT"), prepared in accordance with the Prospectus Rules made under section 84 of the Financial Services and Markets Act 2000, has been approved by and filed with the Financial Services Authority. In subscribing for ordinary shares of 10p each in British Smaller Companies VCT ("Ordinary Shares") you will be treated as subscribing solely on the basis of this Prospectus.

The Directors, whose names appear on page 46, and 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 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.

Application will be made to the UK Listing Authority for all of the Ordinary Shares issued and to be issued pursuant to these offers for subscription (the "Offers") to be admitted to the Official List of the UK Listing Authority. Application will also be made to the London Stock Exchange for such Ordinary Shares to be admitted to trading on its market for listed securities. It is expected that Admission will become effective, and that trading in the Ordinary Shares will commence within 10 business days of the allotment of Ordinary Shares.

Persons receiving this document should note that, in connection with the Offers, Howard Kennedy is acting for the Company and no-one else and will not be responsible to any other person for providing the protections afforded to customers of Howard Kennedy or providing advice in connection with the Offers.

The whole of this document should be read. In particular, your attention is drawn to 'Risk Factors' set out on page 8 of this document.

British Smaller Companies VCT plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 3134749)
(ISIN number GB001403152)

Offers for Subscription of up to, in aggregate, 5,000,000 Ordinary Shares of 10p in the capital of the Company at an issue price of 106.25p¹ per share payable in full on application

Sponsor

Howard Kennedy

Aggregate share capital of the Company immediately following the Offers:

<i>Authorised</i>			<i>Issued and full paid</i>	
<i>Nominal Value</i>	<i>Number</i>		<i>Nominal Value</i>	<i>Number</i>
£16,500,000	165,000,000	Ordinary Shares of 10p each	£3,093,571.80	30,935,718 ²

¹ this assumes that there is no price adjustment, as detailed on page 26 under the heading "Pricing Mechanism"

² this assumes the Offers are fully subscribed, that no "free" shares are allotted to existing Shareholders or in respect of substantial investments and there is no price adjustment

5,000,000 Ordinary Shares are being offered to the public under the Offers, which open on 4 January 2008. The 2007/2008 Offer will close at 11.00 a.m. on 4 April 2008 and the 2008/2009 Offer will close at 11.00 a.m. on 30 April 2008, or such earlier date as fully subscribed, save that the 2008/2009 Offer may be extended by the Directors in their absolute discretion. Dealings will commence within 10 business days of each allotment. The Offers are not underwritten.

The terms and conditions of the application are set out in Part 8 of this document, together with the application procedure and an Application Form for use in connection with the Offers. The minimum subscription per Investor is £5,000. Completed Application Forms in respect of the Offers should be sent by post (in the enclosed reply paid envelope) or delivered by hand to Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Copies of this document are available for inspection during normal business hours at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, London E14 5HS following the date of publication and may be obtained free of charge for the duration of the Offers, by collection from the Company's registered office, or:

Howard Kennedy
19 Cavendish Square
London W1A 2AW

YFM Private Equity Limited
210-12 Chapeltown Road
Leeds LS7 4HZ

Contents

	Page No.
Expected Timetable and Offer Statistics	3
Summary	6
Risk Factors	8
Letter from the Chairman	9
<i>Part 1</i>	
About British Smaller Companies VCT	10
Tax Benefits for Investors	11
Performance and Portfolios	12
Our Team	20
Investment Policy	21
Management and Administration Arrangements	23
Policies and Practices	24
The Offers	25
Intermediary Commission	27
Working Capital and Capitalisation and Indebtedness Statements	27
Significant Gross Change Statement	28
Categories of Potential Investors	28
Availability of this Document	28
<i>Part 2</i>	
Taxation Considerations for Investors	29
<i>Part 3</i>	
Conditions to be met by Venture Capital Trusts	30
<i>Part 4</i>	
Financial Information on the Company	31
<i>Part 5</i>	
Additional Information	33
<i>Part 6</i>	
Definitions	45
<i>Part 7</i>	
Directors and Advisers	46
<i>Part 8</i>	
Terms and Conditions of Application	47
Application Procedure	49
Application Form	51

Expected Timetables and Offer Statistics

Expected Timetable

Offers open	4 January 2008
Period for additional shares to existing shareholders closes	5.00 p.m. on 21 March 2008
Deadline for receipt of applications under 2007/2008 Offer	11.00 a.m. on 4 April 2008 ¹
Deadline for receipt of applications under 2008/2009 Offer	11.00 a.m. on 30 April 2008 ¹
Allotments	as and when the directors decide is appropriate ²
First admission	within 10 business days of the first allotment
Dealings commence	within 10 business days of each allotment
Share and tax certificates sent out	within 15 business days of each allotment ³

¹ the deadline for receipt of applications under the 2008/2009 Offer may be extended by the Directors in their absolute discretion and the deadline for receipt of applications under both Offers is subject to the Offers not being fully subscribed by earlier dates.

² the Directors reserve the right to allot and issue Ordinary Shares under the 2007/2008 Offer at any time on or prior to 4 April 2008 and under the 2008/2009 Offer at any time after 5 April 2008. Details of any allotments will be announced via a Regulatory Information Service provider by no later than the end of the business day following the allotment.

³ definitive share and tax certificates will be despatched and CREST accounts credited as soon as practicable following allotments.

Offer Statistics

Offer Price per Ordinary Share	106.25p ¹
Number of Ordinary Shares in issue immediately following the Offers	30,935,718 ²
Initial net asset value per Ordinary Share issued under the Offers	100.4p
Initial issue costs per Ordinary Share issued under the Offers	5.8p
Percentage of enlarged Ordinary Share capital represented by Ordinary Shares issued under the Offers	16.1% ²
Percentage of enlarged Ordinary Share capital represented by existing Ordinary Shares	83.9% ²
Maximum net proceeds of the Offers, after costs, at full subscription	£5,017,950

¹ this assumes Ordinary Shares are allotted at the unaudited net asset value per Ordinary Share as at 30 September 2007 of 102.7p, less the interim dividend of 2.0p paid on 16 November 2007, plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence, and that there is no price adjustment, as detailed on page 26.

² this assumes the Offers are fully subscribed, that no “free” shares are allotted to existing Shareholders or in respect of substantial investments and there is no price adjustment.

Summary

This summary conveys the essential characteristics and risks associated with British Smaller Companies VCT and the Ordinary Shares and should be read as an introduction to the Prospectus. Any decision to invest should be based on consideration of the Prospectus as a whole by the Investor.

Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff Investor might, under the national legislation of the EEA states, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus.

Why invest in a Venture Capital Trust ("VCT")?

VCTs offer two distinct advantages over other investment products in the market. Firstly, the structure of a VCT provides you with a combination of **tax advantages** unmatched by any other kind of investment product in the UK. Secondly, VCTs provide you with the opportunity to enjoy the **potentially higher returns** associated with investing in UK smaller companies.

Background

VCTs were introduced by the UK Government in 1995 to encourage individuals to invest in UK smaller companies. The Government achieved this by offering VCT investors a series of very attractive tax benefits. As a result of these tax benefits, the total invested in VCTs between 1995 and 2007 was more than £3.1 billion (Source: PricewaterhouseCoopers LLP).

Tax Benefits

You will receive **30% upfront income tax relief** on your VCT investment provided you hold your shares for five years. This means that if you invest £20,000 in a VCT, your income tax bill for the current tax year will be reduced by £6,000. Your investment of £20,000 will, therefore, only cost you £14,000, providing you with an **immediate effective uplift** after initial costs of **35%**.

Why invest in British Smaller Companies VCT?

Strong Investment Performance - British Smaller Companies VCT is an established company with a net asset value of £26.7 million, invested in some 25 companies. It is advised by YFM Private Equity, the 2007 VCT Manager of the Year, whose dedicated investment team has delivered the strong investment performance that has seen British Smaller Companies VCT remain as one of the fastest growing VCTs with **a top 3 performance over 3 and 5 years**².

Consistent Tax Free Dividend Stream - British Smaller Companies VCT is managed so as to **maximise** the level of tax-free **dividends**. The Offers will allow a further expansion of the existing portfolio and, as well as sharing in the returns from new investments, you will also benefit from income and gains generated by the current portfolio, which has **consistently delivered dividends and growth**. For example, over the five financial years ended 30 September 2007, the Company has increased its net asset value by 57.2 pence per share (88%), of which 19.5 pence per share has been distributed by way of tax free dividends.

Unique Deal Flow - YFM Private Equity, part of the YFM Group, is the fund manager for British Smaller Companies VCT. Through its ten regional offices and over forty investment staff, YFM Group considers over **one thousand investment propositions** every year and is currently the **most active investor³ in the UK smaller company sector**. In the 12 months to 30 September 2007, the Company has invested £4.1 million in 7 companies. This level of deal flow enables British Smaller Companies VCT to be **highly selective**.

Lower Risk - Investors will gain access to a mature portfolio of existing investments. In addition, there may also be situations for British Smaller Companies VCT to make follow-on investments in companies already backed by one or more of the other funds managed by the YFM Group. These opportunities are expected to **reduce the investment risk** below that which is normally associated with VCTs.

Offer Price - The Offer price per Ordinary Share is **106.25p**, being the unaudited net asset value per Ordinary Share as at 30 September 2007 of 102.7p, less the interim dividend of 2.0p paid on 16 November 2007, plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence, subject to adjustment under the Pricing Mechanism.

Offer Procedure - The Offers are for subscriptions of Ordinary Shares of **up to £5.313m** over both the 2007/2008 and 2008/2009 tax years. Investors wishing to subscribe for Ordinary Shares should follow the Application Procedure and complete the Application Form set out at the back of this document. The Offers open on 4 January 2008, the 2007/2008 Offer will **close on 4 April 2008** and the 2008/2009 Offer will **close on 30 April 2008**, or such earlier date as fully subscribed, save that the closing date of the 2008/2009 Offer may be extended by the Directors in their absolute discretion. Application will be made for the Ordinary Shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities.

¹ Growth Company Investor Awards

² In terms of net asset value growth, out of 168 VCT share classes – source: Trustnet website 31 December 2007

³ Independent research by the VCR directory – comparing investment activity for the 36 months ended 30 June 2007

Further Reduction In Costs - The Offers will allow the costs of managing the Company to be spread over a wider asset base. If the Offers are fully subscribed, the costs are not anticipated to exceed 3.0% per annum of the net asset value excluding irrecoverable VAT, which is **below the market average** for VCTs.

Existing Shareholders - In recognition of the support that our current Shareholders have shown over the years, any applications received from holders of Ordinary Shares will be given **priority** until 21 March 2008 and, in that time, will be eligible to receive a further **25 free Ordinary Shares** for every 1,000 applied for under the Offers (or part thereof). Shareholders taking advantage of this early subscription increase the immediate effective return after initial costs to 38.6%.

Substantial Investment - New Investors who invest £50,000 or more, in aggregate, under the Offers will also be eligible to receive **25 free Ordinary Shares** for every 1,000 applied for under the Offers (or part thereof).

Liquidity - British Smaller Companies VCT maintains an **active share buy back policy** with shares acquired at a discount of 10% to the latest published net asset value. In the financial year ended 31 March 2007, 1,039,560 Ordinary Shares were bought in.

Investor Relations - Investors are kept informed through a series of investment seminars, newsletters, quarterly net asset value announcements and a full listing and disclosure of all investments in the interim and full year reports.

Potential Investors

A typical Investor for whom the Offers are designed is a UK income taxpayer over 18 years of age, who is professionally advised, with an investment range of between £5,000 and £200,000, who may already have a portfolio of non-VCT 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 set out at the front of this document, considers the investment policy of the Company 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, institutional and sophisticated investors and high net-worth individuals.

How to Invest

The application procedure is set out, and an application form is attached, at the end of this Prospectus. The **minimum investment is £5,000**. Although there is no maximum size of investment, tax reliefs are available on a maximum VCT investment of £200,000 per individual in any one tax year.

Fund Manager

British Smaller Companies VCT is a top 3 performing Venture Capital Trust over 3 and 5 years and is managed by **YFM Private Equity Limited**, the 2007 VCT Manager of the Year⁴, part of the YFM Group, which is the most active investor⁵ of equity in UK small and medium sized businesses with 10 UK office locations, in excess of 40 full time investment staff and approximately £300 million funds, focussed on investments of up to £8 million in MBOs, MBIs and development capital.

An Experienced Board

British Smaller Companies VCT benefits from a **highly experienced Board** of five non-executive Directors, four of whom are independent of the Fund Manager. The Chairman, Sir Andrew Hugh Smith, and the other Directors, Richard Last, Robert Pettigrew, Stephen Noar and Philip Cammerman, hold between them 132,055 Ordinary Shares, representing 0.57% of the current issued Ordinary Share capital, and also intend to subscribe for a further 14,116 Ordinary Shares under the Offers.

Key Risk Factors

Although the significant tax benefits available to Investors in British Smaller Companies VCT offset the risk of the investment, there are a number of key risk factors of which Investors should be aware:

- It is possible for investors to lose their tax reliefs by taking or not taking certain steps. For example, if an Investor disposes of his Ordinary Shares within five years of acquisition, HMRC will claw back some or all of any income tax relief obtained on subscription.
- There can be no guarantee that British Smaller Companies VCT will maintain its status as a venture capital trust which could lead to adverse tax consequences for Investors, including a requirement to repay the 30% income tax relief.
- Investors may find it difficult to realise their investment in British Smaller Companies VCT and the price at which the Ordinary Shares are traded may not reflect the net asset value of British Smaller Companies VCT. In addition, there can be no guarantee that British Smaller Companies VCT will maintain its existing share buy back policy.
- There can be no guarantee that British Smaller Companies VCT will continue to meet its objectives, identify suitable investment opportunities or be able to diversify its portfolio.
- Investments made by British Smaller Companies VCT will be in companies which generally have a higher risk profile than larger 'blue chip' companies and whose shares are not readily marketable and therefore may be difficult to realise.

⁴ Growth Company Investor Awards

⁵ Independent research by the VCR directory – comparing investment activity for the 36 months ended 30 June 2007

Risk Factors

Although the significant tax benefits available to Investors in British Smaller Companies VCT offset the risk of the investment, there are a number of risk factors of which Investors should be aware.

As with most investment products, prospective Investors should be aware that the value of Ordinary Shares, and the income from them, may go down as well as up and an Investor may not get back the amount originally invested. The price at which the Ordinary Shares are traded may not reflect the net asset value of the Company.

Having regard to the Company's investment objectives and the conditions upon which the tax reliefs are available, British Smaller Companies VCT should be considered as a long-term investment. Investing in British Smaller Companies VCT carries particular risks. All the material risk factors of which the Directors are aware are set out below:

- Past performance is no guide to future performance.
- Levels and bases of, and relief from, taxation are subject to change. Such changes could be retrospective.
- Any change of governmental, economic, fiscal, monetary or political policy could materially affect, directly or indirectly, the operation at the Company and/or its ability to achieve or maintain final VCT status.
- Investors must follow certain simple steps to receive the income tax relief. However, it is possible for Investors to lose their tax reliefs by taking or not taking certain steps. For example, if an Investor disposes of his Ordinary Shares within five years of acquisition, HMRC will claw back some or all of any income tax relief obtained on subscription. Investors are, therefore, advised to take their own independent financial advice on the tax aspects of their investment.
- There can be no guarantee that British Smaller Companies VCT will meet its objectives or that suitable investment opportunities will be identified.
- Whilst it is the intention of the Directors that British Smaller Companies VCT will be managed so as to maintain its qualification as a VCT, there can be no guarantee that such status will be maintained. A failure to meet the qualifying requirements could result in British Smaller Companies VCT losing the tax reliefs previously or prospectively obtained, resulting in adverse tax consequences for Investors, including a requirement to repay the 30% income tax relief.
- Investments made by British Smaller Companies VCT will be in companies whose shares are not readily marketable and, therefore, may be difficult to realise. The fact that a share is traded on AIM, Plus quoted or Plus traded markets or any other stock market does not guarantee its liquidity. The spread between the buying and selling price of such companies' shares may be wide.
- Whilst run as a VCT, British Smaller Companies VCT must hold at least 70% of its investments in Qualifying Holdings. To be regarded as Qualifying Holdings, the proceeds of the Offers must be invested in companies with gross assets of not more than £7 million prior to investment, with fewer than 50 full time equivalent employees and with total equity invested by VCT funds raised after 5 April 2007, Enterprise Investment Scheme investors or certain corporate funds not exceeding £2 million in any tax year. Individually, such companies generally have a higher risk profile than larger companies.
- The performance of British Smaller Companies VCT may be difficult to assess due to the frequency of British Smaller Companies VCT's net asset valuations. Prospective Investors should be aware that the net asset value of the Company will only be audited on an annual basis and, accordingly, the Ordinary Shares will frequently trade at a discount to net asset value. The unaudited net asset values will be reported at quarterly intervals and will include the audited full-year net asset value and the unaudited interim net asset values.
- Although the shares of the VCT are traded on the London Stock Exchange's market for listed securities, there is only a very limited secondary market for shares in a venture capital trust and, consequently, Investors may find it difficult to realise their investment in British Smaller Companies VCT.

Letter from the Chairman

British Smaller Companies VCT plc
Saint Martins House
210-212 Chapeltown Road
Leeds, LS7 4HZ

4 January 2008

Dear Investor,

I am delighted to once again be writing to you, this time in connection with the Offers to raise up to £5.313 million by the issue of Ordinary Shares in British Smaller Companies VCT plc in both the 2007/2008 and 2008/2009 tax years.

The previous offers from British Smaller Companies VCT, for the 2006/2007 and the 2007/2008 tax years, raised £9.7m and since those offers were launched in December 2006, investments have totalled £3.9 million and further investment opportunities are under consideration. In the six months to 30 September 2007, the Company has generated further investment profits of £1.8 million and paid dividends of £0.8 million. Consequently, to capitalise on the investment opportunities your Company sees and build on this growth, these further Offers are being announced.

I believe that VCTs continue to be one of the most attractive investment opportunities currently available, with two distinct advantages over other investment products. Firstly, investing in a VCT allows you to benefit from **upfront tax relief** of 30% on your investment. For example, if you invest £20,000 in British Smaller Companies VCT, your income tax bill for the current tax year will be reduced by £6,000. Secondly, investing in a VCT provides you with the opportunity to enjoy the **potentially higher tax free returns** associated with investing in UK private equity.

Continuing Strong Performance of British Smaller Companies VCT

British Smaller Companies VCT continues to be a **top three performer over three and five years**⁶. In the five financial years ending 30 September 2007, the Company has increased its net asset value by 57.2 pence per share (88%), of which 19.5 pence per share has been distributed by way of tax free dividends. This strong performance underpins the Board's commitment to maximising Shareholder dividends and has contributed to the total return, to date, of 140.7 pence per share, which includes 38.0 pence of **tax free dividends**.

Benefits of the Offers

Consistent Dividend Stream - the Offers give you immediate access to a mature portfolio that has **consistently delivered dividends and growth**. An investment in these Offers will be eligible to receive any final dividend declared in respect of the financial year ended 31 March 2008. Those investing in last year's offers have to date received 5.0 pence per share in dividends.

Unique Deal Flow - British Smaller Companies VCT will benefit from the **large number (over one thousand each year) of investment opportunities** generated by YFM Group's ten regional offices and over forty investment staff. This level of deal flow enables British Smaller Companies VCT to be highly selective. In addition, there may also be opportunities for the Company to participate in follow on investments in some of those companies already held within the substantial and rapidly growing portfolios managed within the YFM Group.

Further Reduction in Costs - following the reductions achieved in the current year, the costs of the Offers, if fully subscribed, are not expected to exceed 3.0% (excluding irrecoverable VAT) of net asset value per share, which is **below the market average**.

Offer Price - the price of the Offers is 106.25p per Ordinary Share, being the unaudited net asset value per Ordinary Share as at 30 September 2007 of 102.7p, less the interim dividend of 2.0p paid on 16 November 2007, plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence, subject to the Pricing Mechanism.

Free Shares - in recognition of the support that our Shareholders have demonstrated over the years, any applications under the Offers from existing Shareholders who were on the register of members at close of business on 4 January 2008 will be given priority until 21 March 2008 and, until that date, will be eligible to receive a further **25 free shares** for every 1,000 applied for under the Offers (or part thereof). In addition, new Investors who invest £50,000 or more, in aggregate, during the Offers, will be eligible to receive a further 25 free shares for every 1,000 applied for under the Offers (or part thereof).

Liquidity - to increase liquidity, British Smaller Companies VCT maintains an **active buy back policy** and, in the last full financial year ended 31 March 2007, purchased 1,039,560 Ordinary Shares.

I look forward to welcoming new Shareholders and thank all of our existing Shareholders for their continued support. After nearly 12 years as your Chairman and in line with good corporate governance it is my intention to retire shortly after the year end of March 2008.

Yours sincerely

Sir Andrew Hugh Smith
Chairman, British Smaller Companies VCT plc

⁶ In terms of net asset value growth, out of 168 VCT share classes - source: Trustnet website 31 December 2007

Part 1

About British Smaller Companies VCT

British Smaller Companies VCT is one of the three fastest growing VCTs over three and five years⁷. The Company is managed by YFM Private Equity Limited, part of the YFM Group, which has one of the largest investment teams in the UK and whose dedicated VCT team has substantial experience and a strong track record of successfully sourcing, acquiring and maximizing the value of investments. British Smaller Companies VCT offers Investors a number of advantages over other VCTs:

Strong Performance

British Smaller Companies VCT has generated a total return of 140.7 pence per Ordinary Share which includes 38 pence per Ordinary Share of tax free dividends. Dividends in respect of the last five financial years ending 30 September 2007 have averaged 3.9 pence per Ordinary Share. This equates to a tax-free yield of 7.6% based on the mid-market share price at 30 September 2007 of 85.5 pence per Ordinary Share. In the same period, net asset values of the Ordinary Shares have increased by 88% of which 19.5 pence per share has been distributed to Shareholders.

Access to a Mature Portfolio

The Offers give Investors immediate access to a mature portfolio (details of which are set out on pages 12 to 19 of this document) that has consistently delivered dividends and growth. An investment in these Offers will be eligible to receive any final dividend declared in respect of the financial year ended 31 March 2008.

Lower Risk

British Smaller Companies VCT will benefit from the existing high level of deal flow and access to the substantial and rapidly growing portfolio of investments generated by YFM Group's network of ten regional offices. In addition, British Smaller Companies VCT will be able to co-invest alongside other funds managed by the YFM Group where appropriate, and this will allow the Company to invest in lower risk companies than most other VCTs.

Investors have the added advantage that, after taking account of issue costs, the Offers are priced based on the net asset value of the existing Ordinary Share portfolio.

Unique Deal Flow

YFM Group is the most active investor⁸ of equity in UK small and medium sized businesses, with approaching £300 million of funds targeted at this sector. For example, in the twelve months ended 30 September 2007, YFM Group made 109 investments at a total cost of £36.9 million. With more than 40 investment managers, a portfolio approaching 250 companies, and working actively with over 100 appointed non-executive directors and mentors, it is uniquely placed to take advantage of investment opportunities arising from this network.

Offer Price

The Offers are priced at 106.25p, being the unaudited net asset value per Ordinary Share as at 30 September 2007 of 102.7p, less the interim dividend of 2.0p paid on 16 November 2007, plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence. However, if there is a movement in the net asset value of the Ordinary Share portfolio of more than 5% then the price of the Offers will be adjusted, as set out on page 26, and a supplementary prospectus will be published.

“Free” shares for existing Shareholders or substantial investment

In recognition of the support that all our current Shareholders have shown over the years, any applications received from existing Shareholders who were on the register of members at close of business on 4 January 2008 will be given priority up to 21 March 2008, will be eligible to receive a further 25 “free” Ordinary Shares for every 1,000 Ordinary Shares applied for under the Offers (or part thereof). In addition, new Investors who invest £50,000 or more, in aggregate, under the Offers, will be eligible to receive 25 “free” Ordinary Shares for every 1,000 Shares applied for under the Offers (or part thereof).

Liquidity

British Smaller Companies VCT maintains an active share buy back policy with shares acquired at a discount of 10% to the latest published net asset value. In the financial year ended 31 March 2007 British Smaller Companies VCT acquired 1,039,560 Ordinary Shares under this policy. This policy is subject to sufficiency of reserves, cash resources and regulation.

Regular Updates

Investors are kept informed through investment updates and investment seminars where open dialogue is encouraged and Investors have the opportunity to speak directly to one of the Company's directors and advisers responsible for investing their money. British Smaller Companies VCT publishes unaudited net asset values quarterly.

⁷ In terms of net asset value growth, out of 168 VCT share classes - source: Trustnet website 31 December 2007

⁸ Independent research by the VCR directory - comparing investment activity for the 36 months ended 30 June 2007

Tax Benefits for Investors

VCTs were introduced by the UK Government in 1995 to encourage individuals to invest in UK smaller companies. The Government achieved this by offering investors in VCTs a series of very attractive tax benefits. As a result of these tax benefits, the total invested in VCTs between 1995 and 2007 was more than £3.1 billion (source: PricewaterhouseCoopers LLP).

As a VCT, British Smaller Companies VCT offers Investors two distinct advantages in comparison to other investment products on the market.

i. High Returns Investing in UK smaller companies has, over the longer term, produced superior returns to investing in UK larger companies. A VCT provides a way for individuals to access what has historically been the UK's best performing asset class, but in a diversified way that helps to lower risk.

ii. Tax Benefits for Investors

The structure of a VCT provides Investors with a combination of tax advantages unmatched by any other investment product in the UK. To summarise, individual Investors are entitled to the following benefits:

- upfront income tax relief of 30% on amounts invested between £5,000 and £200,000 (provided that the Shares are held for at least five years).
- dividends paid out by British Smaller Companies VCT are free of income tax while the Company is structured as a VCT.
- capital gains on disposal of Shares in British Smaller Companies VCT are tax-free while the Company is structured as a VCT.

The following shows the effect of the tax reliefs for an individual who invests £20,000:

Initial Investment	£20,000
Less income tax relief	£6,000
Effective cost to Investor	£14,000

i.e. your investment of £20,000 effectively only costs you £14,000, providing you with an uplift after initial costs of 35%, which could be increased to 38.6% for existing Shareholders taking advantage of the "free" share offer.

The process for obtaining the income tax relief should be both quick and easy. First, you will be sent a share certificate and a tax certificate a few weeks after you make the investment. You then have two options on how to reclaim the tax relief:

Either

- You can write to your HMRC office and ask them to change your tax coding under the PAYE system (this is the system that calculates how much tax you pay each month). You will then receive your income tax relief on a monthly basis through your pay cheques; or
- You can wait until you fill in your tax return at the end of the year.

If you pay income tax by instalments and your expected income tax liability for the 2007/2008 tax year (taking into account the upfront income tax relief) is likely to be less than your income tax liability for the 2006/2007 tax year, you may apply to have your instalment payments reduced.

Investors should note that any realised losses on disposal of shares in British Smaller Companies VCT while structured as a VCT cannot be used to create an allowable loss for capital gains tax purposes.

The above information should be read in conjunction with the full text of this document, from which it is derived. A more detailed explanation of the taxation considerations for Investors is given in Part 2 on page 29 of this document. If in doubt about any of the above, you are strongly advised to seek your own independent professional advice.

Performance and Portfolios

Performance of British Smaller Companies VCT

The performance of the Ordinary Shares for the five years ending 30 September 2007 is: -

	30.09.07		30.09.06		30.09.05		30.09.04		30.09.03		30.09.02	
					restated	original	restated	original	restated	original	restated	original
NAV ¹	102.7p	n/a	98.5p	n/a	93.9p	93.9p	78.5p	77.0p	72.1p	72.1p	65.0p	65.0p
Dividends ²	38.0p	n/a	33.5p	n/a	29.0p	29.0p	24.2p	25.7p	19.4p	19.4p	18.5p	18.5p
Total Return	140.7p		132.0p		122.9p		102.7p		91.5p		83.5p	
Return on initial NAV: 48.1%												

Investment Portfolio

Investment Portfolio as at 30 September 2007

As at 30 September 2007 (being the end of the last financial period of the Company for which unaudited interim financial information has been published) the Company had made 25 investments, further details of which are set out on pages 13 to 19 below.

The changes to the investment portfolio since 30 September 2007 are set out on page 19 below. The Company is currently reviewing a number of other investment opportunities, but no binding commitments to invest have been made. If the Company completes any of the potential investments it is currently considering funds will be sourced from its existing cash resources.

A full list of all the active investments held by British Smaller Companies VCT as at 30 September 2007 (being the end of the last financial period of the Company for which unaudited interim financial information has been published) is set out below. The changes to the investment portfolio since 30 September 2007 are set out on page 19 below. This list is intended to demonstrate the types of companies in which British Smaller Companies VCT has invested. At the time of investment all of these investments would be classified as Qualifying Investments under ITA.

	Cost (£000)	Valuation (£000)
Top Ten Investments		
Cozart plc	451	2,240
Go Outdoors Limited	156	1,913
Connaught plc	113	1,392
Sheet Piling Limited	110	1,389
Cater Plus Services Limited	1,000	1,000
RMS Holdings Limited	900	900
Harvey Jones Holdings Limited	777	777
Mattioli Woods plc	325	691
Pressure Technologies plc	425	624
Harris Hill Limited	600	600
Sub-Total	4,857	11,526
Tikit plc	226	588
Straight plc	301	431
Primal Pictures Limited	500	266
Images at Work Limited	295	260
Cardpoint plc	120	239
Patsystems plc	203	204
Hexagon Human Capital plc	200	200
Hallco (1389) and (1390) Limited	200	200
Belgravium plc	200	178
Brulines (Holdings) plc	162	176
RMF Group Holdings Limited	90	171
Cambridge Cognition Limited	325	130
Denison Mayes Limited	75	75
Freshroast Limited	5	34
Landround plc	283	21
Sub-Total	3,185	3,173
Total	8,042	14,699

More details are given below of the Company's investments as at 30 September 2007. Brief details of the Company's additional investments and realisations since 30 September 2007 are set out on page 19 below. The turnover, profit/loss before tax, retained profit/loss and net assets of the companies are extracted without adjustment from the latest audited accounts of each of those companies.

Cozart plc (Healthcare)

Abingdon

www.cozart.co.uk

Investment date	May 2001	Year end	May
Equity held	3.64%	Turnover £000	16,900
Cost £000	451	Profit before tax £000	1,100
Equity £000	451	Retained losses £000	(1,400)
Non-equity £000	–	Net assets £000	12,600
Valuation £000	2,240	Audited accounts date	May 2007

Cozart plc is a medical diagnostics company specialising in the development and supply of testing devices for drugs of abuse. The portable Cozart RapiScan™ is suitable for on-site testing of motorists for evidence of use of drugs in an efficient, timely and accurate manner. The RapiScan™ product is currently used by a number of UK police forces for testing suspects charged with acquisitive crimes. The company has successfully completed a number of acquisitions in Europe expanding its geographical distribution. Cozart plc, in collaboration with Phillips, has launched its next generation of products. On 28 September 2007 the shareholders of Cozart plc approved an offer to acquire Cozart plc by Concateno of 57.5 pence per share. This valuation reflects that offer. The proceeds of £2.24 million were received on 19 October 2007.

Go Outdoors Limited (Consumer products)

Sheffield

www.gooutdoors.co.uk

Investment dates	May 1998, March 2002	Year end	January
Equity held	22.96%	Turnover £000	22,623
Cost £000	156	Profit before tax £000	519
Equity £000	156	Retained profits £000	1,435
Non-equity £000	–	Net assets £000	6,433
Valuation £000	1,913	Audited accounts date	January 2007

GO Outdoors is a retailer of outdoor clothing and equipment. The original investment of £500,000 in May 1998 supported the buy out from its previous owner. The second investment in March 2002 was made in support of the company's first acquisition. Stores were subsequently opened or acquired in Stockport, Coventry and Oxford and the company has continued its expansion with further store openings in Wigan and Loughborough in 2007. With eight stores in total the company is planning further expansion in the coming months with other stores opening around the UK.

Connaught Plc (Support services)

Sidmouth

www.connaught.co.uk

Investment dates	November 1998, July 1991, January 2001, June, September and November 2005 and March 2006	Year end	August
Equity held	0.08%	Turnover £000	299,750
Cost £000	113	Profit before tax £000	12,970
Equity £000	113	Retained profits £000	14,080
Non-equity £000	–	Net assets £000	41,120
Valuation £000	1,389	Audited accounts date	August 2007

Connaught operates as a facilities management and integrated property services group, engaged in building maintenance, light refurbishment, commercial fitting-out and electrical work. It has extended its offering through the establishment of a Compliance Services Division that is expanding rapidly through both organic and acquisitive growth. The preliminary results for the year ended 31 August 2007 showed turnover up 32% to £396 million and operating profit increasing by 36% to £19.2 million. In October Connaught announced that its shareholders approved a proposed expansion of its compliance division through the acquisition of National Britannia for £91 million.

Sheet Piling (UK) Limited (Construction)

Preston

www.sheetpilinguk.com

Investment date	June 2000	Year end	May
Equity held	36.00%	Turnover £000	11,367
Cost £000	110	Profit before tax £000	617
Equity £000	110	Retained profits £000	1,205
Non-equity £000	–	Net assets £000	1,568
Valuation £000	1,389	Audited accounts date	May 2006

From its headquarters in Preston, Sheet Piling is one of the UK's leading driven steel piling contractors carrying out contracts throughout the UK for a variety of sectors using its 'state of the art' equipment. The original investment supported the management buy-out from Allen plc, since when it has successfully more than doubled turnover. The diversification into supplying polymer piles for use in situations where the longevity of steel piles is insufficient, such as marine environments, has increased profitability further.

Cater Plus Services Limited (Healthcare services)

Watford

www.caterplus.co.uk

Investment date	February 2007	Year end	March
Equity held	26.67%	Turnover £000	
Cost £000	1,000		
Equity £000	100		
Non-equity £000	900		
Valuation £000	1,000	Audited accounts date	First set of audited results not yet due

Your Company invested to support the management buy-in/management buy-out of this specialist supplier of catering services to the residential and care home sector in February 2007. The company operates across the UK supplying both catering services and undertaking purchasing contracts on behalf of residential and care homes.

RMS Group Holdings Limited (Support services)

Goole

www.rms-europe.co.uk

Investment date	July 2007	Year end	December
Equity held	8.82%		
Cost £000	900		
Equity £000	180		
Non-equity £000	720		
Valuation £000	900	Audited accounts date	First set of audited results not yet due

Your Company invested to support the management buy-in/management buy-out of this group which provides a wide range of stevedoring, warehousing and distribution services. RMS operates from five sites on the Humber estuary handling in excess of 2 million tonnes of cargo a year.

Harvey Jones Holdings Limited (Consumer products)

London

www.harveyjones.com

Investment dates	May 2007	Year end	December
Equity held	6.88%		
Cost £000	777		
Equity £000	78		
Non-equity £000	699		
Valuation £000	777	Audited accounts date	First set of audited results not yet due

Harvey Jones is a fitted kitchen furniture specialist. We supported the MBO of the business from its private owner. The business has a manufacturing facility in the UK and 11 stores mostly in London and wealthy provincial towns in the South of England. It plans to roll out the number of stores organically and build brand recognition. Trading so far this year has been in line with expectations.

Mattioli Woods Plc (Pension consultants)

Leicester

www.mattioli-woods.com

Investment date	November 2005, February and March 2006	Year end	May
Equity held	1.43%	Turnover £000	9,000
Cost £000	325	Profit before tax £000	3,150
Equity £000	325	Retained profit £000	3,881
Non-equity £000		Net assets £000	11,857
Valuation £000	691	Audited accounts date	May 2007

Mattioli Woods provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional persons. The Group's key activities include complex pensions consultancy, the provision of self-invested personal pensions ("SIPP") and small self-administered pension schemes ("SSAS") and advice on related business affairs.

Pressure Technologies plc (Manufacturing)

Sheffield

www.pressuretechnologies.co.uk

Investment date	July 2007	Year end	September
Equity held	2.50%	Turnover £000	
Cost £000	425	Profit before tax £000	
Equity £000	425	Retained profit £000	
Non-equity £000		Net assets £000	
Valuation £000	624	Audited accounts date	First set of audited results not yet due

Pressure Technologies was admitted to the Alternative Investment Market in June 2007. Whilst no audited results are yet available, Pressure Technologies, which manufactures and designs high pressure seamless steel gas cylinders to the global energy markets, issued a strong trading statement stating that the advisers believe that the results for the year to 30 September 2007 will exceed expectations and that this is likely also to be the case for the following financial year.

Harris Hill Limited (Recruitment)

Kingston upon Thames

www.harrishill.co.uk

Investment date	June 2007	Year end	March
Equity held	9.29%	Turnover £000	
Cost £000	600	Profit before tax £000	
Equity £000	60	Retained profit £000	
Non-equity £000	540	Net assets £000	
Valuation £000	600	Audited accounts date	First set of audited results not yet due

Harris Hill is the UK's leading charity and 'non-profit' recruitment specialist. British Smaller Companies VCT Plc supported the previous CEO of Office Angels in a management Buy-in of Harris Hill in June 2007. The intention is to expand both organically and by acquisition creating a strong brand in this specialised recruitment sector.

Tikit Plc (Software)

London

www.tikit.co.uk

Investment date	June 2001	Year end	December
Equity held	1.56%	Turnover £000	23,520
Cost £000	226	Profit before tax £000	2,130
Equity £000	226	Retained profit £000	2,250
Non-equity £000		Net assets £000	6,200
Valuation £000	588	Audited accounts date	December 2006

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company also provides a range of document and knowledge management tools to a majority of the top 50 UK legal practices. Tikit has continued to perform well with the interim unaudited results to June 2007 delivering sales growth of 16% to £13.2 million with profit before tax up 17% to £1.5 million. Tikit is evolving its business model to software as a service, giving rise to longer term contract underpinning of sales.

Straight Plc (Industrial)

Leeds

www.straight.co.uk

Investment date	February 2004	Year end	December
Equity held	2.54%	Turnover £000	27,836
Cost £000	301	Profit before tax £000	1,685
Equity £000	301	Retained profit £000	2,849
Non-equity £000		Net assets £000	9,748
Valuation £000	431	Audited accounts date	December 2006

Straight plc supply container solutions predominantly manufactured from plastics, for the collection, storage or transportation of source separated waste. Straight's business has continued to grow. 2006 saw production problems in supporting this growth with corrective action taken in 2007 outsourcing the distribution albeit at short term one off cost. Unaudited interim results to 30 June 2007 showed that turnover was increased by 10.7% to £13.9 million, with operating profits reduced to £1.0 million before re-organisation costs of £0.3 million. The board of Straight restated their confidence in the prospects for the company.

Primal Pictures Limited (Healthcare)

London

www.primalpictures.com

Investment dates	March 2001	Year end	December
Equity held	3.78%	Turnover £000	2,015
Cost £000	500	Loss before tax £000	(249)
Equity £000	400	Retained loss £000	(5,321)
Non-equity £000	100	Net liabilities £000	(1,940)
Valuation £000	266	Audited accounts date	December 2006

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs replicating in electronic form an authentic anatomical model of the human body, aimed at healthcare professionals. The company is forecasting further growth in 2007 as a result of increased licensing of its technology.

Images At Work Limited (Support services)

Salisbury

www.iaw.co.uk

Investment date	March 1999	Year end	September
Equity held	33.33%	Turnover £000	4,461
Cost £000	295	Profit before tax £000	43
Equity £000	205	Retained profit £000	15
Non-equity £000	90	Net assets £000	708
Valuation £000	260	Audited accounts date	September 2006

Images at Work supplies and manages corporate contracts to a range of clients throughout the UK, adding value through a clothing management programme to several of the national and regional emergency services, police and fire brigades. Images at Work continues to operate successfully in a competitive market expanding its service offering wherever possible.

Cardpoint Plc (Consumer Products)

Lytham St Annes

www.cashcardservices.co.uk

Investment date	June 2002 and April 2005	Year end	September
Equity held	0.22%	Turnover £000	97,870
Cost £000	120	Profit before tax £000	(24,910)
Equity £000	120	Retained profit £000	(40,840)
Non-equity £000		Net assets £000	53,270
Valuation £000	230	Audited accounts date	September 2006

Cardpoint is one of the UK's leading providers of ATMs (cashpoints) and has grown rapidly by acquisition and organically. Following its acquisition of Moneybox in 2006 and subsequent management re-organisation the financial performance of Cardpoint has recovered. Unaudited Interim results to 31 March 2007 with underlying profit before tax of £3.9 million being delivered. In September 2007 Cardpoint announced it was in discussions with alphyra Holdings Limited, about combining the two businesses and this was completed on 5 December 2007, with the combined entity trading as Payzone plc.

Patsystems plc (software)

London

www.patsystems.com

Investment dates	September 2007	Period end	December
Equity held		Turnover £000	15,255
Cost £000		Profit before tax £000	1,626
Equity £000		Retained losses £000	(8,848)
Non-equity £000		Net assets £000	13,732
Valuation £000		Audited accounts date	December 2006

Patsystems specialises in providing electronic trading systems to the financial services industry. Its client base is international and to enhance its service delivery has recently expanded by the opening an office in Hong Kong. The Company acquired its investment in exchange for its investment in Tamesis Limited. Unaudited interim results for the half year to 30 June 2007 show turnover of £7.8 million (2006: £7.1 million) and profit before tax of £0.64 million (2006: £0.41 million).

Hexagon Human Capital plc (Recruitment)

London

www.hexagonhc.com

Investment date	February 2007	Period end	March
Equity held	0.67%	Turnover £000	10,600
Cost £000	200	Profit before tax £000	122
Equity £000	200	Retained losses £000	(615)
Non-equity £000		Net assets £000	14,247
Valuation £000	200	Audited accounts date	15 months to 31 March 2007

Hexagon is the UK's leading provider of interim executive management and one of the UK's leading executive search businesses. Hexagon was admitted to AIM in February 2007, raising £10 million. It has made a number of acquisitions since joining the Market, the most recent of which was of the fifth largest UK supplier in this market, Ardual Methiosim. Unaudited interim results for the half year to 30 September 2007 show net fee income of £8.7 million and earnings before interest and tax of £2.4 million.

Hallco (1389) and (1390) (formerly Tekton Group Limited) (Software)

Manchester

www.tekton-group.com

Investment date	December 2006	Year end	June
Equity held	4.13%	Turnover £000	
Cost £000	200	Profit before tax £000	
Equity £000	4	Retained profit £000	
Non-equity £000	196	Net assets £000	
Valuation £000	200	Audited accounts date	First set of audited results not yet due

Your Company realised the majority of its investment in Tekton Group through a secondary management buyout completing in December 2006. The opportunity was taken to invest a small proportion of the proceeds into the enlarged entity alongside the management. The company is continuing to pursue an expansion strategy which is predicated on growth by acquisition consolidating a number of fragmented suppliers within its industry sector.

Belgravium Technologies Limited (Software)

Bradford

www.belgravium.com

Investment dates	October 2005	Year end	December
Equity held	1.42%	Turnover £000	10,922
Cost £000	200	Profit before tax £000	1,380
Equity £000	200	Retained losses £000	(2,271)
Non-equity £000		Net assets £000	7,765
Valuation £000	178	Audited accounts date	December 2006

Belgravium is a designer and manufacturer of real time data capture systems particularly used in the logistics, fuel and aviation markets. The improvement delivered in 2006 has continued into the first half of 2007 with the unaudited interim results reporting turnover up 5% to £5.2 million and profit before interest and tax up 41% to £1.1 million. Whilst the sales pipeline has continued to grow, the phasing of new contracts has suffered from short term delay. The Board at Belgravium remain confident that the progress in performance is set to continue.

Brulines (Holdings) plc (Electronics)

Stockton-on-Tees

www.brulines.com

Investment date	October 2006	Year end	March
Equity held	0.55%	Turnover £000	16,756
Cost £000	162	Profit before tax £000	1,909
Equity £000	162	Retained profit £000	1,994
Non-equity £000		Net assets £000	11,249
Valuation £000	176	Audited accounts date	March 2007

Brulines is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK Licensed on-trade, in particular the tenanted pub sector. Brulines recently announced the proposed acquisition of its principal, but smaller competitor Nucleus Data Holdings Limited. Unaudited interim results to 30 September 2007 show turnover of £8 million (2006: £9.2 million) and pre-tax profits of £2.2 million (2006: £1.4 million).

RMF Engineering Limited (Industrial)

Dinnington

www.rmfe-engineering.co.uk

Investment date	February 1997	Year end	December
Equity held	25.00%	Turnover £000	3,262
Cost £000	90	Profit before tax £000	94
Equity £000	90	Retained profit £000	293
Non-equity £000		Net assets £000	816
Valuation £000	171	Audited accounts date	December 2006

RMF is a manufacturer of corrosion resistant chemical plants for the process industry. The company has successfully reduced its reliance on low margin high risk new plant manufacture focussing on the profitable business channel of repair, maintenance and modification to existing plant in Europe. RMF has responded well to the recent business challenges, which has seen it return to profitability. As a result, after attracting interest the company was sold on 19 October 2007 with the Company realising an initial £0.24 million for its investment. Further consideration could be due dependent on future performance.

Cambridge Cognition Limited (Software)

Cambridge

www.camcog.com

Investment dates	May 2002	Year end	December
Equity held	4.56%	Turnover £000	1,120
Cost £000	325	Loss before tax £000	(1,222)
Equity £000	325	Retained loss £000	(4,339)
Non-equity £000		Net assets £000	(1,577)
Valuation £000	130	Audited accounts date	December 2006

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions, especially Alzheimer's, schizophrenia and Attention Deficit Hyperactivity Disorder (ADHD). It supplies licenses and software to pharmaceutical, academic and medical customers throughout the world, having already sold its products into over 500 universities in 50 countries.

Denison Mayes Group Limited (Industrial Products)

Leeds

www.denisonmayesgroup.com

Investment date	August 1998	Year end	June
Equity held	0%	Turnover £000	1,449
Cost £000	75	Profit before tax £000	81
Equity £000	0	Retained loss £000	(1,009)
Non-equity £000	75	Net assets £000	(459)
Valuation £000	75	Audited accounts date	June 2006

Denison Mayes provides United Kingdom Accreditation Service (UKAS) accredited engineers throughout the world to support a range of material testing machines. Services include calibration, troubleshooting and training. The Company has realised its original equity investment with a residual loan being repaid quarterly.

Freshroast Coffee Co. Limited (Consumer products)

Elland

Investment date	July 1998	Year end	December
Equity held	12.97%	Turnover £000	
Cost £000	5	Loss before tax £000	
Equity £000	5	Retained loss £000	
Non-equity £000		Net assets £000	200
Valuation £000	34	Audited accounts date	December 2006

Freshroast Coffee processes, packages and markets coffee, tea and other beverages and beverage constituents, providing an own branding service to vendors. Freshroast has repaid its loan in full that has resulted in a small residual investment.

Landround Plc (Consumer products)

Chester

www.landround.com

Investment dates	August 1999	Year end	January
Equity held	1.03%	Turnover £000	9,730
Cost £000	283	Loss before tax £000	(2,070)
Equity £000	283	Retained loss £000	(3,670)
Non-equity £000		Net assets £000	1,120
Valuation £000	21	Audited accounts date	January 2007

Landround specialises in creating and servicing innovative low cost, high value, travel and holiday themed promotions for hundreds of leading companies. Following a period of uncertainty as a result of a number of negative trading statements, the company has undergone considerable management restructuring. The unaudited interim results to 31 July 2007 show losses significantly reduced and the business recovering to cash breakeven.

Changes to the Investment Portfolio since 30 September 2007

On 19 October 2007 the Company completed the divestment of Cozart plc, realising cash proceeds of £2.24 million and realised its investment in RMF Engineering Limited, receiving £0.24 million on completion with the potential for further deferred payments dependant on future performance.

On 22 October 2007 the Company completed a further investment of £0.22 million in Connaught plc, which was realised in full on 15 November 2007, generating total proceeds of £0.3 million.

On 7 December 2007 the Company completed an investment of £650,000 in to Cob co. 856 Limited (trading as Ellfin Domiciliary Care) in support of a management buy-in of a specialist domiciliary care business.

On 11 December 2007 the Company acquired £201,854 of shares in Hargreaves Services plc an AiM listed business specialising in minerals and support services.

Other than these transactions there have been no significant changes to the investment portfolio since 30 September 2007.

Our Team

Our team is made up of the Board of Directors and the investment team.

Investment Team

The Company's Fund Manager is YFM Private Equity Limited, part of the YFM Group, which is the most active investor⁹ of equity in UK small and medium sized businesses, with ten UK office locations, in excess of 40 full time investment staff and funds under management of approximately £300 million focussed on investments of up to £8m in MBOs, MBIs and development capital.

At date of this prospectus YFM Group (Holdings) Limited, the ultimate parent company of both YFM Group Limited and YFM Private Equity Limited, has received an approach to acquire its entire share capital. This approach may or may not result in a transaction. In the opinion of the directors of YFM Group (Holdings) Limited and the investment team it is not envisaged that there would be any change to either the members of the Company's investment team or the operation of YFM Group that would have any material effect in respect of its relationship with British Smaller Companies VCT or its ability to manage its investment portfolio.

The investment team comprises principally 4 key executives with extensive venture capital experience. This experience has enabled YFM Private Equity to establish strong networks of deal introducers, effective investment selection processes and strong portfolio management procedures.

David Hall (47) Managing Director. David became the managing director of YFM Private Equity in 2003 at which time he became responsible for the management of British Smaller Companies VCT. He was previously Head of Investment and a member of the management buy out team for AiM Listed Enterprise Plc. David trained as a Chartered Accountant with PricewaterhouseCoopers and qualified in 1986. He also holds a BA (Hons) in Economics from the University of Manchester.

David Gee (46) Investment Director. David has 18 years experience in the venture capital field with YFM Private Equity. Since 1996 he has been investment director on the board of YFM Private Equity Limited. He is a non-executive director of several companies including an investee of British Smaller Technology Companies VCT 2 Plc. He qualified as a Chartered Accountant with Grant Thornton, latterly specialising in corporate finance.

John Cook (66) Portfolio Director. John is a Chartered Engineer and as portfolio director on the board of YFM Private Equity, is responsible for undertaking post investment monitoring and divestments. He has had a number of roles over his 21 years in venture capital, including Investment Director. He holds several non executive directorships in a variety of portfolio companies. He also has experience of running his own property contracting and distribution businesses.

Nigel Barraclough (42) Fund Manager. Nigel joined YFM Private Equity in 1991, where he has been responsible for the appraisal, negotiation and conclusion of many deals in a varied range of sectors. He has been making venture capital investments since 1995 and led a number of the Company's investments. Nigel is a Chartered Accountant. After qualifying, he joined Ernst & Young as an investigating accountant.

The Board of Directors

The Board consists of five non-executive directors who are listed below, four of whom are independent of YFM Private Equity for the purposes of the Combined Code. The Board has overall responsibility for British Smaller Companies VCT, its investment policy and its administration and has appointed YFM Private Equity as the Fund Manager.

Sir Andrew Colin Hugh Smith, Chairman (76) following a career at the Bar and in industry, became a partner of Capel Cure Myers in 1970, senior partner in 1979 and left the firm in 1988 to become chairman of the London Stock Exchange. He retired from the Exchange in 1994. He was chairman of British Smaller Technology Companies VCT 2 plc until his retirement on 31 December 2007. Sir Andrew has indicated his wish to retire from the Board shortly after the Company's next year end in March 2008 and a suitable replacement is being sought.

Richard Last (50) qualified as a chartered accountant with PricewaterhouseCoopers. He is chairman of British Smaller Technology Companies VCT 2 plc, Xpertise Group plc, an AIM quoted IT training group, Knowledge Technology Solutions plc, an AIM listed IT software company, and is a non-executive director of Patsystems plc and Financial Payment Systems Limited, both AIM quoted IT software companies, and Lighthouse plc, an AIM quoted provider of financial services.

Robert Martin Pettigrew (63) has more than 20 years experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics group at the end of 2002 to pursue independent investment activities. He is an investor director on the board of a number of technology companies, including Sphere Medical Limited, Timberpost Limited, Digital Healthcare Limited and Acal Energy Limited (of which he is Chairman). He is also a non-executive director of British Smaller Technology Companies VCT 2 plc.

⁹ Independent research by the VCR directory - comparing investment activity for the 36 months ended 30 June 2007

Stephen John Noar (60) was appointed to the Board on 3 May 2005. A dentist by profession, he was the founder chairman and former chief executive of Denplan Limited until its successful trade sale in 1993 following its growth from start up to a turnover in excess of £70m. He was the New Business and Dental Director of PPP Limited (prior to the company's acquisition by Guardian Royal Exchange) responsible for developing dental and other services. In 1994 he was the winner of the Financial Times Venturer of the Year award. He is a non-executive director of British Smaller Technology Companies VCT 2 plc.

Philip Simon Cammerman (65) has over 20 years of industrial experience in engineering and hi-tech industries and has worked in both the USA and the UK. He has spent the last 22 years in the venture capital industry and is Chairman of YFM Private Equity and a director of YFM Group Limited. He has been responsible for a wide range of venture capital deals in a variety of industries including hi-tech, software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Technology Companies VCT 2 plc.

Corporate Governance

The Board meets regularly throughout the year (normally at least quarterly), and all necessary information will be supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings take place or other arrangements are made when Board decisions are required. The Board is committed to the principle and application of sound corporate governance and, other than as noted below, has taken appropriate steps to comply with the Combined Code.

The Company has a Nominations Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager, being Sir Andrew Hugh Smith, Richard Last, Stephen Noar and Robert Pettigrew, which will consider the appointments of new directors to the Board. The Board has not appointed a remuneration committee due to its size, the fact that it comprises wholly non-executive directors and, therefore, does not comply with the corporate governance regime for UK listed companies in this regard.

The Company has an Audit Committee which also consists of the directors who are considered by the Board to be independent of the Fund Manager, being Sir Andrew Hugh Smith (who is Chairman of the Committee), Richard Last, Stephen Noar and Robert Pettigrew. The Committee meets at least twice a year. The Audit Committee reviews the actions and judgments of management in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Fund Manager's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors.

Subscription for Ordinary Shares by the Directors and the Investment Team

The Directors have subscribed for 147,055 shares in the Company to date. YFM Group Limited, its directors and employees have subscribed for a total of 699,138 shares in the Company to date. The Directors intend to invest a further £15,000 in aggregate under the Offers, on the same terms as Investors.

Investment Policy

Investment Objectives

The principal investment objectives of British Smaller Companies VCT are:

- to achieve a total return greater than that available from direct investment in quoted businesses by investing in a portfolio of carefully selected smaller companies with excellent growth prospects;
- to minimise the risk of each investment and the portfolio as a whole;
- to maintain VCT status in order to secure the substantial tax benefits available for investment in a venture capital trust; and
- to achieve a consistent level of dividend. In the last five financial years ended 31 March 2007 the average tax free dividend has been 3.9 pence per Ordinary Share.

Asset Allocation

Non-Qualifying Investments

Prior to its investment in Qualifying Companies such funds will be invested by Brewin Dolphin Securities Limited in a range of cash or cash equivalent assets, with a targeted return of at least 5% per annum. In addition, up to 15% of cash and cash equivalent assets may be invested in UK quoted businesses known to the Fund Manager or the Board.

Qualifying Investments

British Smaller Companies VCT will continue to invest in a diversified portfolio of Qualifying Investments with a view to minimising risk to capital. In this respect, it is anticipated that a significant percentage of the Qualifying Investments will be into companies known to the team at YFM Private Equity where the fund managers are confident that there is a high level of capital security. These investments will be structured mostly as loans to the companies with a targeted return of at least 7% to 8% per annum.

Furthermore, British Smaller Companies VCT will benefit from the substantial existing deal flow generated by YFM Group's network of ten regional offices and over 40 investment managers and, where appropriate, will also be able to co-invest alongside other funds managed by the YFM Group. This will allow British Smaller Companies VCT greater opportunity to invest in lower risk companies than most other VCTs.

Investment Criteria and Risk Management

1. What kind of companies will British Smaller Companies VCT invest in?

The Directors intend to continue the strategy of investing in unquoted companies with high growth potential and will control the overall risk of the portfolio by ensuring that it has exposure to a diversified range of unquoted companies from a number of different sectors. It is important to note that the Directors and the Fund Manager believe that this strategy is unaffected by the recent changes in VCT legislation.

The Company's current investment portfolios, set out on pages 12 to 19 of this Prospectus, are anticipated to be indicative of the type and nature of investments that British Smaller Companies VCT will endeavour to make with the proceeds of these Offers. In order to limit the risk to the portfolio that is derived from any particular investment, no more than 20% of the proceeds of the Offers will be invested in any one unquoted company, the Company's policy being to invest between £250,000 and £1,000,000 in such companies.

2. How do we find these companies?

YFM Group receives in excess of 1,000 investment opportunities each year from its extensive network of contacts throughout the UK. The ability to generate such a strong flow of investment opportunities allows the YFM Group to be very selective in the transactions it chooses to pursue. In building this network, there has been a focus on individuals and firms with a track record of successfully developing businesses of the type targeted by British Smaller Companies VCT. This network includes over 100 appointed non-executive directors and mentors and YFM Group's proprietary non-executive director programme - Business Gurus.

YFM Group is very selective when considering potential investment opportunities. In the twelve months to 30 June 2007, for example, YFM Group received over 1,400 investment opportunities and only completed 109 investments (i.e. 1 in 14 investment proposals met our criteria).

3. How will we manage the investments?

The process does not end with the decision to invest. We constantly re-evaluate the portfolio and monitor every investment to ensure that it performs to our expectations. In the majority of cases we take a seat on the board of these companies and, in many cases, appoint the Chairman. Our own network and proprietary non-executive director programme is an invaluable part of this process.

4. What is the expected return?

In the short-term you will receive upfront income tax relief equivalent to 30% of the money that you invest. This means that if you invest £20,000, your income tax bill for this tax year will be reduced by £6,000, providing you with an effective return after initial costs of 35%. If you are an existing Shareholder and take advantage of the "free" share offer this effective return is increased to 38.6%.

The performance record of British Smaller Companies VCT for the five years ended 30 September 2007 is set out on page 12 of this Prospectus. In this period of time net asset values have increased by 88% out of which tax free dividends of 19.5 pence per Ordinary Share have been paid. The total return over the life of the Company as at 30 September 2007 is 140.7 pence per Ordinary Share compared to an initial net asset value, net of costs, of 95 pence per Ordinary Share.

The above information is not intended to be a dividend or profit forecast and none is implied or to be inferred.

Co-Investment Policy

The Fund Manager currently advises one other VCT and a number of other funds on behalf of institutional investors. The Directors believe that this provides Investors in British Smaller Companies VCT with a number of advantages, particularly in relation to deal flow and the opportunity for British Smaller Companies VCT to co-invest in larger deals (including possible co-

investment with these other funds) and, therefore, later stage companies. Furthermore, the Company acknowledges that investment opportunities may be suitable for other funds managed by the Fund Manager ("Relevant Funds"). The Fund Manager will consult the Board in relation to such investment opportunities, it being agreed that, in general for investment opportunities below £1m falling within the Company's investment criteria, the Company will be offered first refusal. Investment opportunities greater than £1m will be offered first to other Relevant Funds. In all such cases the proposed basis for the allocation will be presented in advance to the Directors. In the event of a conflict of interest on the part of the Fund Manager (which shall include where an investment is proposed in a company in which a Relevant Fund already has an interest) or where co-investments are proposed to be made other than on the above basis, such an investment will require the approval of those members of the Board who are independent of the Fund Manager.

Gearing

The Company is not intending to borrow money for the purposes of making investments.

VCT Regulations

In order to retain venture capital trust status, the Company must continue to be approved by HMRC. The conditions which must be satisfied to retain such status are set out in full in Part 3 and they include the following:

- (i) at least 70% by value of the Company's investments (including any un-invested funds held) must be represented by shares or securities in Qualifying Holdings, of which at least 30% by value are represented by holdings of ordinary shares carrying no preferential rights; additionally at least 10% by value of investments in single companies or groups must be in ordinary shares which carry no preferential rights;
- (ii) not more than 15% by value of the Company's investments can be held in a single company or group (other than a VCT) and the VCT must not control the companies in which it invests in such a way as to render them subsidiary undertakings;
- (iii) the Company is limited to investing up to £1 million per Income Tax Year per investee company.

The Company does not intend to vary its investment policy (including the above conditions), however, should a change be deemed appropriate this will be done with Shareholders' approval and in accordance with the Listing Rules.

Management and Administration Arrangements

Fund Manager

Under the administration and investment advisory agreements between the Company and YFM Private Equity dated 28 February 1996, YFM Private Equity provides administrative, financial, company secretarial and fund management services to the Company in relation to its unquoted portfolio. Further details of these agreements are set out on pages 42 to 43 of this document. Any material breach of these agreements will be notified to Shareholders through a Regulated Information Service.

In consideration for these services YFM Private Equity receives:

- (a) an annual management fee of 2% of the Gross Assets of the Company, payable quarterly in advance (plus VAT if applicable);
- (b) an annual accounting and administration fee of £47, 524 (exclusive of VAT and subject to annual increase in line with any increase in the Retail Price index); and
- (c) the benefit of the performance incentive arrangements, as set out below.

Total running costs are capped at 3.5% per annum of the Company's net asset value (excluding trail commissions). Any costs in excess of the cap will be borne by the Fund Manager.

Performance incentive arrangements

In order to recognise exceptional performance in its management of the Company, the Fund Manager is entitled to a performance related incentive, in the event that certain conditions are satisfied, as set out in the agreement summarised on pages 42 to 43 of this document. The Subscription Rights Agreement provides that, provided the mid-market price of an Ordinary Share on the last business day in April in any year exceeds an amount equal to £1 less the gross amount of distributions made by the Company and increased in line with the FTSE Actuaries All-Share Index from the date of issue of Ordinary Shares (calculated on the total return basis), then YFM Private Equity is to be granted rights to subscribe for such number of Ordinary Shares as have an exercise value equal to 10 per cent. of the amount by which the average mid-market price over the five dealing days prior to the last business day in April of that year plus the gross amount of distributions per Ordinary Share, exceeds £1 multiplied by the number of Ordinary Shares in issue, at a price of 10p per share (subject to adjustment for any reorganisation of the issued share capital). For this purpose, the exercise value is the average mid-market price of an Ordinary

Share over the five dealing days prior to the last business day in April of that year, less 10p (subject to adjustment for any reorganisation of the issued share capital).

No such Ordinary Shares would be issued if this would cause the Company either to lose its approval as a VCT or to have to issue listing particulars. If the Company has insufficient un-issued share capital or the Directors do not have authority to issue the Ordinary Shares, YFM Private Equity will be entitled to cash compensation from the Company. The subscription rights are exercisable either in whole or in part at any time up to nine months from the date of grant.

Fixed Interest Securities Adviser

Under the terms of a letter from Brewin Dolphin Securities Limited ("Brewin") to the Company dated 25 October 2004, Brewin acts as investment manager to the Company in relation to its portfolio of short-term government securities and to produce monthly portfolio valuations, in consideration for an annual management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly, subject to a maximum annual fee of £25,000 plus VAT. These costs are borne by the Fund Manager.

Stockbrokers

Under the terms of a letter dated 3 September 2004 between the Company and Landsbanki Securities (UK) Limited (formerly Teather & Greenwood Limited) ("Landsbanki"), Landsbanki act as brokers to the Company, and, inter alia, a market maker in the Shares and agrees to carry out share purchases on the Company's behalf, in consideration for an annual fee of £10,000 (plus VAT if applicable), payable quarterly in arrears, provided that the first payment is not due until the middle market price per Share quoted by Landsbanki is at a 10% discount (or such other level as may be agreed with the Company) to the most recently published net asset value.

Custodian

Share certificates and other documents of title relating to the Company's portfolio of investments are held by the Fund Manager, in accordance with the administration and investment advisory agreement dated 28 February 1996 between the Company and YFM Private Equity. The Fund Manager will not take legal ownership of the Company's assets.

Annual running costs and syndication fees

Assuming full subscription, annual running costs are estimated to be no more than 3.0% of net assets (excluding irrecoverable VAT). The running costs of British Smaller Companies VCT will include the management fees described above (excluding the performance related incentive fee), accounting and administration fees, Directors' fees, company secretarial fees, audit, taxation advice, sponsor's and registrar's fees and the costs of communicating with Shareholders. Total running costs will be capped at 3.5% per annum of net assets (excluding trail commissions).

The Fund Manager retains the right to charge upfront arrangement and syndication fees to the companies in which British Smaller Companies VCT invests. Such charges are in line with industry practice. The costs of all deals that do not proceed to completion will be borne by the Fund Manager and not by British Smaller Companies VCT. The Fund Manager may also receive ongoing Directors' fees and monitoring fees from the investee companies as appropriate and in line with market practice.

Policies and Practices

Valuation arrangements and policy

Valuation of listed investments and investments traded on AIM will be stated at closing bid prices. Where quoted investments are subject to restrictions, an appropriate discount to the latest market price is applied with regard to the International Private Equity and Venture Capital Guidelines. Investments not listed on a public stock market and investments traded on Plus quoted or Plus traded markets (formerly OFEX) will be stated at Directors' valuation. The Directors will value these investments in accordance with the International Private Equity and Venture Capital Guidelines. The Company will communicate net asset values to Shareholders quarterly through a Regulated Information Service. The Company also announces when there has been a major change to net asset value, for instance as a result of a disposal of an investment or if the Company undertakes a fundraising and needs to announce an interim valuation. The Directors do not anticipate any circumstances arising under which the valuations may be suspended.

Liquidity and share buy-back policy

British Smaller Companies VCT is structured as a venture capital trust, thereby enabling Investors to benefit from 30% upfront income tax relief and a subsequent stream of tax-free dividends. In addition to this, British Smaller Companies VCT maintains an active share buy back policy with shares acquired at a discount of 10% to the latest published net asset value, subject to sufficiency of reserves, cash resources and regulatory requirements. British Smaller Companies VCT is at the forefront of the VCT industry and publishes net asset values quarterly. In the financial year ended 31 March 2007, British Smaller Companies VCT acquired 1,039,560 Ordinary Shares.

Dividend Policy

Dividends will be paid to Shareholders based on the surplus income generated by the Company, as stipulated by VCT legislation and subject to the Company having available reserves. It is the Board's intention to achieve a consistent level of annual tax free dividend.

The amount of these dividends depends, amongst other things, on the amounts of funds received in the Offers, the performance of the Non-Qualifying Investments and the level of income generated by the Qualifying Investments. Dividend payments in respect of the five years ended 30 September 2007 have totalled 19.5 pence per Ordinary Share. Investors should note that this is not intended to be a dividend or profit forecast.

VCT Status Monitoring

British Smaller Companies VCT has retained PricewaterhouseCoopers LLP to advise on tax matters generally and, in particular, the maintenance of VCT status. PwC will assist the Fund Manager in establishing the status of investments as Qualifying Holdings.

Whilst it is the intention that British Smaller Companies VCT will continue to be managed so as to qualify as a VCT, there can be no guarantee that such status will be maintained. A failure to meet the qualifying requirements could result in British Smaller Companies VCT losing the tax reliefs previously obtained, resulting in adverse tax consequences for Investors, including a requirement to repay the 30% income tax relief.

Life of the Company

Although it is not intended that the Company should have a limited life, Shareholders will have the opportunity to review its future in 2012 and, thereafter, at five yearly intervals. However, the new Articles proposed to be adopted at the EGM will contain provisions requiring the Directors to propose a resolution at the Company's annual general meeting in 2013 to seek confirmation from Shareholders that it should continue as a VCT and, if passed, a similar resolution will be proposed at five yearly intervals thereafter. For the resolution to adopt the new Articles at the EGM, and the resolution to continue as a VCT in 2013 not to be passed, Shareholders holding more than 25 per cent of the Shares then in issue must vote (in person or by proxy) against such resolutions. If the resolution to adopt the new Articles is not passed at the EGM, Shareholders will review the Company's future in 2012. If the resolution to continue as a VCT is not passed in 2013, the Directors will, within the following six months, convene an extraordinary general meeting at which new proposals for the re-organisation, reconstruction or voluntary winding up of the Company will be submitted to Shareholders, as is deemed appropriate at that time.

Investor Workshops

The Directors believe that it is important to give Shareholders a good understanding of, and as much access as possible to, the investments made by the Company. One aspect of this strategy is the series of investor workshops that are held throughout the country which invite shareholders to meet not only with the Board but also the Fund Manager and the chief executives of investee companies.

Financial Calendar

Financial year end / accounting reference date	31 March
Preliminary results announcement and posting of annual reports	June
Annual General Meeting	July
Dividend	August
Interim results announcement	October
Posting of interim report	November

The Offers

It is proposed to allot pursuant to the Offers up to 5 million Ordinary Shares to the public in order to raise up to £5.313 million. The Directors have no present intention of expanding the Offers beyond this amount but retain the right to do so. The Offers will allow a further expansion of the existing portfolio, as well as sharing in the returns from new investments. The Offers are timed so as to allow Investors to invest in Ordinary Shares during both the 2007/2008 and 2008/2009 tax years. Investors may post-date their cheques to 6 April 2008 for applications in respect of the 2008/2009 Offer.

Duration and withdrawal

The Offers will be open on 4 January 2008. The 2007/2008 Offer will close at 11.00 a.m. on 4 April 2008 and the 2008/2009 Offer will close at 11.00 a.m. on 30 April 2008, or at any earlier date on which the maximum subscription is reached, save that the closing date of the 2008/2009 Offer may be extended by the Directors in their absolute discretion. Confirmation will be sent to applicants that applications have been received. Applicants should note that dealings may begin in those shares allotted to them prior to confirmation of receipt of the application. The Offers may not be withdrawn after dealings in the Ordinary Shares subject to the Offers have commenced. In the event of any requirement for the Company to publish a supplementary prospectus,

subscribers who have yet to be entered into the Company's respective register of members will be given two days to withdraw from their subscription. Investors should note, however, that such withdrawal rights are a matter of law that is yet to be tested in the courts of England and Wales and Investors should, therefore, rely on their own legal advice in this regard.

Pricing Mechanism

As the Company is currently trading and in order to be fair to both existing and new Shareholders, Ordinary Shares under the Offers will be allotted by reference to the net asset value of the existing Ordinary Shares. Therefore, the Company will allot such Ordinary Shares at 106.25p per Ordinary Share, being the unaudited net asset value per Ordinary Share as at 30 September 2007 of 102.7p, less the interim dividend of 2.0p paid on 16 November 2007, plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence, subject the paragraph below.

If, however, the net asset value of the Company on the last day of the month immediately preceding any allotment of Ordinary Shares under the Offers is more than 5% above or 5% below the current published net asset value of 102.7p, then such Ordinary Shares will be allotted at the relevant net asset value plus 5.5%, rounded to the nearest 0.1 pence. If the price at which the Ordinary Shares allotted under the Offers is amended under the terms of this pricing mechanism then the Company will publish a supplementary prospectus and announce the fact through a Regulated Information Service.

Investors should therefore indicate the total amount they wish to invest and the number of shares will be calculated in accordance with the principles set out above.

Minimum and maximum investment

The minimum subscription level under the Offers will be £5,000. Applications in excess of £5,000 may be made for any higher amount, subject to availability. There is no maximum investment, but the maximum investment on which income tax relief can be claimed is £200,000 in any Income Tax Year. Husbands and wives may claim income tax relief separately for up to £200,000 each.

Applicants may make multiple applications to the Offers provided that the investor guidelines for VCTs are followed as advised or the Investor takes appropriate independent advice.

"Free" shares for existing Shareholders or substantial investment

Any applications received from existing Shareholders who were on the registers of members at close of business on 4 January 2008 will be given priority until 21 March 2008 and will be eligible to receive a further 25 "free" Ordinary Shares for every 1,000 Ordinary Shares applied for under the Offers (or part thereof). New Investors who invest £50,000 or more, in aggregate, during the Offers, will be also eligible to receive a further 25 "free" Ordinary Shares for every 1,000 Ordinary Shares applied for under the Offers (or part thereof).

Allotment and Results of Offers

The Ordinary Shares will be issued on a fully paid up basis in registered form. Shares will be allotted and issued in respect of valid applications under the 2007/2008 Offer at any time on or prior to 4 April 2008 on which the Directors decide and under the 2008/2009 Offer at any time after 5 April 2008 on which the Directors decide. Details of any such allotments will be announced through a Regulatory Information Service by no later than the end of the business day following the allotment. The results of the Offers will also be announced through the Regulated Information Service.

Listing

It is intended that application will be made to the UK Listing Authority for the Ordinary Shares issued pursuant to the Offers to be admitted to the Official List within 10 business days of the first allotment. Application will also be made to the London Stock Exchange for admission of such Ordinary Shares to trading on the London Stock Exchange's market for listed securities.

Terms and Conditionality

The terms and conditions of the Offers are set out at the back of this document along with an Application Form, and details of the application procedure. The Offers are not conditional on a total minimum subscription being achieved, but is conditional on the passing of the Resolutions, details of which are set out on pages 34 to 35.

Launch costs

The expenses of the Offers will be guaranteed by the Fund Manager, whatever the level of subscription reached, not to exceed 5.5% of total funds subscribed. The Fund Manager will be responsible for paying all of the costs of the Offers, including listing expenses and any initial intermediary commissions. Any trail commission will be borne by the Company. The Offers are not underwritten.

Intermediary commission

Authorised financial intermediaries will usually be entitled to receive an initial commission of up to 2.25% on the amount invested by their clients. Additionally, provided that the intermediary continues to act for the client and the client continues to be the beneficial owner of the Ordinary Shares, intermediaries will be paid an annual trail commission of 0.5% of the then current net asset value. This trail commission will be payable for a maximum of four years. Alternatively, initial commission of up to 3.0% on the amount invested will be paid without any trail commission.

Working Capital and Capitalisation and Indebtedness Statements

Working Capital

In the opinion of the Company the working capital available to the Company is sufficient for its present requirements, that is for at least 12 months from the date of this document.

Statement of capitalisation and indebtedness

The following table shows the capitalisation and indebtedness of the Company as at 30 September 2007, the date to which the last unaudited interim financial information of the Company have been published.

	£'000
Total current debt	155
Guaranteed	-
Secured	-
Unguaranteed/secured	155
Total non-current debt	-
Guaranteed	-
Secured	-
Unguaranteed/secured	-
Shareholders' equity	
Share capital	2,641
Share premium	10,504
Other reserves	221
	13,521

There has been no material change in the capitalisation of the Company since 30 September 2007.

The following table shows the Company's net indebtedness as at 30 September 2007 and has been extracted without material adjustment from the unaudited interim accounts of the Company for the six months to 30 September 2007.

	£'000
A. Cash	1,019
B. Cash equivalents	10,485
C. Trading securities	-
D. Liquidity (A+B+C)	11,504
E. Current financial receivables	631
F. Current bank debt	-
G. Current position of non current debt	-
H. Other current financial debt	155
I. Current financial debt (F+G+H)	155
J. Net current financial indebtedness (I-E-D)	11,980
K. Non-current bank loans	-
L. Bonds issued	-
M. Other non-current loans	-
N. Non-current financial indebtedness (K+L+M)	-
O. Net financial indebtedness (J+N)	11,980

There is no contingent or indirect indebtedness.

Significant Gross Change

There has been no significant gross change since 30 September 2007, the date to which the last unaudited interim financial statements of the Company have been published, other than in respect of the Offers. The Offers will have a positive impact on the gross assets of the Company by increasing its gross assets by the same amount as the net funds raised namely 100.4p per Ordinary Share subscribed for under the Offers. The liabilities of the Company will increase by 5.8p for each Ordinary Share so subscribed and the Offers will be earning enhancing for the Company. The Offers will only dilute the net asset value of the Ordinary Shares to the extent that “free” shares are issued.

Category of Potential Investors

A typical Investor for whom the Offers are designed is a UK income taxpayer over 18 years of age who is professionally advised, with an investment range of between £5,000 and £200,000, who may already have a portfolio of non-VCT investments such as unit trusts/OEICS, investment trusts and direct shareholdings in listed companies and who, having regards to the risk factors set out at the front of this document, considers the investment policy as detailed in Part 1 of this document to be attractive. That is to say, the profile of a typical investor in the Company will be an individual who is seeking returns and the associated risks that in both cases may be higher than investment in the FTSE All-Share index and is willing to invest over the medium to long term, which may include retail, institutional and sophisticated investors and high net-worth individuals.

Investment in a VCT may not be suitable for all investors and should be considered as a long term investment. Before deciding whether to apply for Shares under the terms of the Offers you are recommended to consult a duly authorised independent financial adviser.

Availability of this Document

Copies of this document are available for inspection during normal business hours at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, London E14 5HS following the date of publication and may be obtained free of charge for the duration of the Offers, by collection from the Company's registered office, or:

**Howard Kennedy
19 Cavendish Square
London W1A 2AW**

**YFM Private Equity Limited
210-212 Chapeltown Road
Leeds LS7 4HZ**

Part 2

Taxation Considerations for Investors

1. Tax Reliefs For Investors The tax reliefs set out below are available to individuals aged 18 or over who invest in shares in a VCT, There is no specific limit on the amount an individual can invest in a VCT but tax reliefs will only be given to the extent that the total of an individual's subscription or other acquisitions of shares in VCTs in any tax year does not exceed £200,000. Investors who intend to invest more than £200,000 in VCTs in any one tax year should take independent advice on this.
2. Income Tax
 - (a) *Relief on subscription*

An investor subscribing for shares in a VCT will be entitled to claim income tax relief on amounts subscribed up to a maximum of £200,000 in any tax year. The relief is given at the rate of up to 30% on the amount subscribed, subject to an amount which reduces the investor's income tax liability to nil.
 - (b) *Dividend relief*

An investor who acquires, in any tax year, VCT shares up to a maximum of £200,000 will not be liable to income tax on dividends paid by the VCT on those shares.
 - (c) *Withdrawal of relief*

The income tax relief on subscription for shares in a VCT is withdrawn if the shares are disposed of (other than between spouses) within five years of issue or if the VCT loses its approval within this period.
3. Capital Gains Tax
 - (a) *Relief from capital gains tax on the disposal of shares*

Any gains made on shares held within a VCT are not subject to capital gains tax. Similarly, any losses on shares held within a VCT will not be treated as an allowable loss. Both of the above apply to the extent that the shares have been acquired in the limit of £200,000 for any tax year.
 - (b) *Purchasers in the market*

An individual purchaser of existing shares in the market will be entitled to claim relief from capital gains tax on disposal (as described in paragraph 3(a) above) while still a VCT.
 - (c) *Withdrawal of relief*

If a VCT which has been granted approval subsequently fails to comply with the conditions for approval, any gains on the shares after the date on which loss of VCT status takes effect will be taxable.
4. Obtaining Tax Reliefs
 - (a) *Income tax relief*

The Fund Manager will issue each Investor with a certificate which should be used to claim the income tax relief, either by obtaining from HMRC an adjustment to his/her tax coding under the PAYE system, or by waiting until the end of the tax year and using his/her Self Assessment Tax Return to claim relief.
 - (b) VCT reliefs may not be available if the Investor takes out a loan specifically to subscribe in the VCT.
 - (c) *Investors not resident in the UK*

Investors not resident in the UK should seek their own professional advice as to the consequences of making an investment in a VCT as they may be subject to tax in other jurisdictions as well as in the UK.
5. Consequences of Loss of VCT Status
 - (a) *For the VCT*

The exemption from corporation tax on capital gains will not apply to any gain realised after the time from which British Smaller Companies VCT ceases to meet the conditions for approval as a VCT. Should tax status be lost under section 274 of the ITA the FSA will be notified as soon as possible.
 - (b) *For Qualifying Subscribers*

If VCT approval is withdrawn before the Shares have been held for five years, the income tax relief on investment will be withdrawn by the making of an assessment for the year of assessment for which the relief was originally given on an amount equal to that relief. Interest on overdue tax may arise.
 - (c) *For Qualifying Subscribers and Qualifying Purchasers*
 - i. *Dividend income*

Dividend income will not be exempt from tax in respect of profits or gains arising or accruing in any accounting period during which VCT status has been lost. A notional tax credit equal to 1/9th of the net dividend paid will be available to offset against income tax due on the dividend.
 - ii. *Capital gains*

Gains and losses on shares in the VCT will be taxable and allowable in the ordinary way. If full VCT approval is withdrawn, the individual is treated as having disposed of his shares immediately before the status is lost, for market value at that time, and is treated as reacquiring them at that value immediately after the status is lost. Thus, any capital gains realised up to that date will be exempt from tax, but gains after that date will be taxable in the ordinary way.

Part 3

Conditions to be met by Venture Capital Trusts

The legislation relating to VCTs is contained in ITA which sets out the tests which a company has to satisfy to obtain the tax benefits for the VCT and its shareholders. Explanations of these tax benefits and the consequences of losing VCT status are set out in Part 2. These summaries are not intended to be comprehensive and intending investors are strongly advised to seek their own independent professional advice.

1. Qualifying as a VCT

A VCT must not be a close company and must be approved as a VCT by HMRC. The main conditions for approval are that throughout its most recent complete accounting period:

- (a) the Company's income has been derived wholly or mainly from shares or securities (including loans to companies with a five year or greater maturity period);
- (b) at least 70% by value of its investments (including any uninvested funds held) are represented by shares or securities in "Qualifying Holdings" (see below), of which at least 30% by value are represented by holdings of ordinary shares carrying no preferential rights: additionally at least 10% by value of investments in single companies or groups must be in ordinary shares which carry no preferential rights;
- (c) not more than 15% by value of its investments has been held in a single company or group (other than a VCT) and the VCT must not control the companies in which it invests in such a way as to render them subsidiary undertakings;
- (d) it has not retained more than 15% of the income derived in that period from shares and securities; and
- (e) each class of its ordinary share capital has been quoted on the London Stock Exchange.

Normally, HMRC cannot give approval of a VCT unless (a) to (e) above have all been met throughout the Company's most recent accounting period and HMRC is satisfied that they will be met throughout its current accounting period at the time of application for approval.

2. Qualifying Holdings

Qualifying Holdings comprise new shares or securities (including loans with a five-year or greater maturity period) issued by unquoted trading companies which exist wholly for the purpose of carrying on one or more Qualifying Trades and are limited to investments of up to £1 million per Income Tax Year per investee company. At least 10% of the investment in a Qualifying Holding must be in eligible ordinary shares and this minimum percentage must be maintained for qualifying status to be continued. Most trades are Qualifying Trades other than certain activities which are regarded as inappropriate. The company invested in must not be controlled by the VCT or any other company and, at the time of an investment made with the proceeds of these Offers, it must employ fewer than 50 full-time equivalent employees, its gross assets must not exceed £7 million immediately prior to the investment or £8 million immediately thereafter nor should it receive in excess of £2 million from VCTs, Enterprise Investment Scheme funds or corporate venturing vehicles.

Companies whose securities are traded on AIM or Plus quoted or Plus traded markets (formally OFEX) count as unquoted companies for the purposes of determining Qualifying Holdings. Shares in an unquoted company which subsequently become quoted may still be regarded as part of a Qualifying Holding for a further five years following quotation. The company must apply the money invested (either directly or via a Qualifying Subsidiary (see below) which is at least 90% directly held by the Company) for the purpose of a Qualifying Trade within certain time periods. It must also have no subsidiary companies other than Qualifying Subsidiaries, and must not itself be controlled by another company.

3. Qualifying Trades and Qualifying Subsidiaries

The company invested in must exist wholly for the purpose of carrying on one or more Qualifying Trades and/or be a holding company only of Qualifying Subsidiaries. The trade must either be carried on by, or be intended to be carried on by, the company invested in or by a Qualifying Subsidiary. In the case of a company intending to carry on a qualifying trade, the qualifying trade must begin within two years of the issue of shares or securities to a VCT and continue thereafter. The trade must be carried on wholly or mainly in the UK but the company need not be UK resident. Certain trades (for example, dealing in land or shares or providing financial services) are excluded. A subsidiary will be a Qualifying Subsidiary if the majority of its issued share capital is owned by the company invested in and certain other tests are also satisfied.

The company invested in, or a 90% directly held subsidiary of the company or a wholly owned Qualifying Subsidiary, must employ 80% of the money invested within 12 months and the remainder in the following 12 months.

4. Withdrawal of approval

Approval of a VCT may be withdrawn if the conditions set out in paragraph 1 above are not met. Withdrawal of approval generally has effect from the time when notice of withdrawal is given to a VCT. If provisional approval is withdrawn, approval is deemed never to have been given. The taxation consequences of approval being deemed never to have been given are set out in paragraph 5 of Part 2 of this document.

Part 4

Financial Information on the Company

1. Introduction

Audited statutory accounts of the Company for the years ended 31 March 2005 and 31 March 2006 in respect of which the Company's former auditors, PricewaterhouseCoopers LLP, registered auditor of Benson House, 33 Wellington Street, Leeds LS1 4JP, and 31 March 2007 in respect of which the Company's auditors, PKF (UK) LLP, registered auditor of Farringdon Place, 20 Farringdon Road, London EC1M 3AP, both members of the Institute of Chartered Accountants in England and Wales, both made unqualified reports under section 235 of the 1985 Act, have been delivered to the Registrar of Companies and such reports did not contain any statements under section 237(2) or (3) of the 1985 Act. Copies of these audited statutory accounts are available at Saint Martins House, 210-212 Chapeltown Road, Leeds LS7 4HZ.

Unaudited interim accounts of the Company for the six months ended 30 September 2006 and the six months ended 30 September 2007 are available at Saint Martins House, 210-212 Chapeltown Road, Leeds LS7 4HZ. These interim accounts have not been audited or reviewed by the Company's auditors.

These financial statements also contain a description of the Company's financial condition, changes in financial condition and results of operations for each of the above financial years. The effective date of transition to IFRS was 1 April 2004. The statutory accounts for the year ended 31 March 2006 were audited in accordance with IFRS and, as a result, the restated IFRS results for the year ended 31 March 2005 were also audited. The original statutory accounts for the year ended 31 March 2005 were audited in accordance with UK GAAP. The unaudited accounts for the periods ended 30 September 2006 and 30 September 2007 were prepared in accordance with IFRS.

2. Historic Financial Information

Historical financial information relating to the Company on the matters referred to below is included in the published annual report and audited statutory accounts of the Company for the years stated, and in the unaudited interim accounts for the six months to 30 September 2006 and the six months to 30 September 2007, as follows:

*Standard under which Accounts/
Reports originally prepared:*

	UK GAAP	IFRS	IFRS	IFRS	IFRS
	Audited Statutory Accounts for Year Ended 31 March 2005	Audited Statutory Accounts for Year Ended 31 March 2006	Unaudited Interim Reports for 6 Months Ended 30 September 2006	Audited Statutory Accounts for Year Ended 31 March 2007	Unaudited Interim Reports for 6 Months Ended 30 September 2007
<i>Nature of Information</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>	<i>Page No.</i>
Financial Highlights	1	1	i	3	i
Chairman's Statement	2 to 3	2 to 3	1 to 3	4 to 5	1 to 3
Investment Portfolio	-	-	5 to 8	-	4 to 7
Investment Adviser's Review	4 to 17	4 to 18	-	6 to 15	-
Valuation of Investments	18 to 19	19 to 20	-	16	-
Directors	20	21	-	17	13
Directors' Report	21 to 29	22 to 34	-	18 to 25	-
Directors' Remuneration Report	30 to 32	35 to 37	-	26 to 27	-
Independent Auditors' Report	33 to 34	38 to 39	-	28 to 29	-
Income Statement/Profit and Loss	35	40	9	30	8
Balance Sheet	36	41	10	31	9
Changes in Shareholders' Equity	-	42	11	32	10
Cash Flow Statement	37	43	11	33	11
Notes to the Financial Statements	38 to 53	44 to 68	12 to 13	34 to 46	12 to 13
Notice of the AGM	54	69 to 70	-	47 to 48	-
Form of Proxy and envelope	55 to 56	71 to 72	-	49 to 50	-
Financial Summary and Advisers	57	73	-	51	-

3. Operating and Financial Review

Ordinary Share Fund

	31 March 2005 (restated)* £000 (Unaudited)	31 March 2006 £000 (Audited)	30 Sept 2006 £000 (Unaudited)	31 March 2007 £000 (Audited)	30 Sept 2007 £000 (Unaudited)
Total net assets	13,090	15,260	15,379	15,394	26,679
Changes in net assets	997	1,279	119	15	11,285
Net asset value per share	86.6p	97.5p	98.5p	101.3p	102.7p
Dividends paid/proposed in the year/period	7.4p	3.7p	3.7p	1.5p	3.0p

Under UK GAAP dividends payable are recognised on an accruals basis, whereas under IFRS they are recognised only if the obligation exists at the balance sheet date.

'C' Share Fund

	31 March 2005 (restated)* £000 (Audited)	31 March 2006 £000 (Audited)	30 Sept 2006 £000 (Unaudited)	31 March 2007 £000 (Audited)	30 Sept 2007 £000 (Unaudited)
Total net assets	237	1,287	1,277	1,394	–
Changes in net assets	237	90	(10)	117	–
Net asset value per share	95.0p	102.2p	101.5p	95.0p	–
Dividends paid/proposed in the year/period	–	–	0.5p	–	–

The 'C' shares were converted into Ordinary Shares on 9 May 2007

* The financial statement for the year ended 31 March 2005 have been restated to show the position as it would have been under IFRS, having originally been prepared under UK GAAP.

A description of the changes in the performance of the Company, both capital and revenue, and changes to the Company's portfolio of investments:

- for the financial years ended 31 March 2005, 31 March 2006 and 31 March 2007 is set out in the sections headed "Chairman's Statement" and "Investment Adviser's Review" in the audited statutory accounts for the years ended 31 March 2005, 31 March 2006 and 31 March 2007; and
- for the six months ended 30 September 2007 is set out in the sections headed "Chairman's Statement" and "Investment Portfolio" in the unaudited interim accounts for the six months ended 30 September 2007.

	Audited Statutory Accounts for Year Ended 31 March 2005	Audited Statutory Accounts for Year Ended 31 March 2006	Audited Statutory Accounts for Year Ended 31 March 2007	Unaudited Interim Reports for 6 Months Ended 30 Sept 2007
Nature of Information	Page No.	Page No.	Page No.	Page No.
Chairman's Statement	2 to 3	2 to 3	4 to 5	1-2
Investment Portfolio	–	–	–	3
Investment Adviser's Review	4 to 17	4 to 18	6 to 15	–

4. No Significant Change

Since 30 September 2007 (being the end of the last financial period of the Company for which unaudited interim financial information has been published), there has been no significant change in the financial or trading position of the Company.

5. Historical Financial Information Incorporated by Reference

The audited statutory accounts for the years ended 31 March 2005, 31 March 2006 and 31 March 2007 and the unaudited interim accounts for the six months to 30 September 2006 and to 30 September 2007 are being incorporated by reference, as set out above.

Part 5

Additional Information

1. The Company

- 1.1 The Company was incorporated and registered in England and Wales under the Companies Act 1985 as a public company limited by shares on 6 December 1995, with registered number 3134749 under the name British Smaller Companies VCT plc, which is the current legal and commercial name of the Company. The principal legislation under which the Company operates is the 1985 Act and the 2006 Act and regulations made thereunder. The registered office and principal place of business of the Company is Saint Martins House, 210-212 Chapletown Road, Leeds, LS7 4HZ. The telephone number of the Company is 0113 294 5000.
- 1.2 On 23 February 1996, the Registrar of Companies issued the Company with a certificate under section 117 of the 1985 Act entitling it to commence business.
- 1.3 Since incorporation the Company has carried on business as a venture capital trust. On 11 July 2003 by ordinary resolution it was resolved that the Company shall continue as a venture capital trust until the Annual General Meeting to be held in 2008 when a similar resolution will be placed before Shareholders for the Company to so continue for a further five years. The Company is not regulated in the operation of its activities.
- 1.4 The Company has no subsidiaries or associated companies. The Company does not have any employees, does not own or occupy any premises and has not incurred any borrowings.
- 1.5 On 29 March 2004 the Directors determined that it was appropriate to revoke the Company's investment company status by giving notice in the prescribed form to the Registrar of Companies.

2. Share Capital

- 2.1 The authorised share capital of the Company on incorporation was £50,000 divided into 50,000 ordinary shares of £1 each, of which two ordinary shares of £1 each were issued, nil paid, to the subscribers to the Memorandum of Association.
- 2.2 By ordinary and special resolutions passed on 19 February 1996:
 - 2.2.1 each of the two issued ordinary shares and each of the 49,998 unissued ordinary shares of £1 each in the Company were sub-divided into ten Ordinary Shares;
 - 2.2.2 the authorised share capital of the Company was increased to £1,800,000 by the creation of 17,000,000 Ordinary Shares and 50,000 Redeemable Preference Shares of £1 each;
- 2.3 On 19 February 1996, the two ordinary shares issued to the subscribers to the Memorandum of Association (and which were each subdivided into ten Ordinary Shares on 19 February 1996) were transferred as to ten Ordinary Shares to JEP Gervasio and YFM Private Equity jointly and as to ten Ordinary Shares to YFM Private Equity and paid up in full.
- 2.4 On 19 February 1996, YFM Private Equity was allotted 50,000 Redeemable Preference Shares of £1 each, paid up as to one quarter, so as to enable the Company to obtain a certificate under section 117 of the 1985 Act. The Redeemable Preference Shares have been redeemed by the Company and the unissued share capital thereby created has been automatically subdivided into, and redesignated as, Ordinary Shares pursuant to the Articles.
- 2.5 By special resolution on 7 January 2005 the authorised share capital of the Company was increased to £15,000,000 by the creation of 7,000,000 Ordinary Shares and 25,000,000 'C' shares of 50p each.
- 2.6 By special resolution on 4 January 2007 the authorised share capital of the Company was increased to £16,500,000 by the creation of 15,000,000 Ordinary Shares.
- 2.7 On 9 May 2007 the 1,258,676 'C' shares of 50p each in the Company were sub-divided and converted into 1,415,585 Ordinary Shares and 4,877,795 deferred shares of 10p each in accordance with the Articles. The deferred shares were immediately purchased by the Company and cancelled.
- 2.8 The following allotments and repurchases of Ordinary Shares have taken place in the three years prior to the date of this document
 - on 14 February 2005 the Company repurchased 150,000 shares at a price of 72p per share;
 - on 22 March 2005 the Company repurchased 50,000 shares at a price of 72p per share;
 - on 23 June 2005 the Company repurchased 100,000 shares at a price of 76.5p per share;
 - on 15 August 2005 the Company repurchased 100,000 shares at a price of 75.5p per share;
 - on 16 August 2005 the Company issued 27,625 shares at a price of 76p per share;
 - on 29 September 2005 the Company repurchased 50,000 shares at a price of 75.5p per share;
 - on 10 January 2006 the Company issued 32,582 shares at a price of 77.25p per share;
 - on 14 February 2006 the Company repurchased 170,000 shares at a price of 83p per share;
 - on 22 March 2006 the Company issued 896,115 shares at a price of 99.5p per share;
 - on 4 April 2006 the Company issued 576,764 shares at a price of 99.5p per share;
 - on 25 May 2006 the Company repurchased 609,560 shares at a price of 87.75p per share;
 - on 30 January 2007 the Company repurchased 200,000 shares at a price of 90 pence per share;

- on 5 March 2007 the Company repurchased 90,000 shares at a price of 90 pence per share;
 - on 22 March 2007 the Company repurchased 140,000 shares at a price of 90 pence per share;
 - on 5 April 2007 the Company issued 9,333,427 shares at a price of 102.5 pence per share;
 - on 30 April 2007 the Company issued 468,813 shares at a price of 102.5 pence per share;
 - on 9 May 2007 the Company issued 1,414,585 shares in respect of 1,258,676 'C' shares;
 - on 29 June 2007 the Company repurchased and placed in to Treasury 300,000 shares at a price of 87 pence per share;
 - on 1 August 2007 the Company issued 14,974 shares for nil consideration;
 - on 8 August 2007 the Company repurchased and placed in to Treasury 67,968 shares at a price of 87.5 pence per share;
 - on 28 September 2007 the Company repurchased and placed in to Treasury 80,477 shares at a price of 85.5 pence per share;
 - on 30 November 2007 the Company repurchased and placed in to Treasury 40,000 shares at a price of 91 pence per share.
- 2.9 As at 30 September 2007 (being the end of the last financial period of the Company for which unaudited interim financial information has been published) there were 165,000,000 authorised and 25,975,718 issued Ordinary Shares, each ranking *pari passu*. All of the Ordinary Shares are listed on the Official List of the UK Listing Authority.
- 2.10 Save as disclosed in this paragraph 2 and in paragraph 5 below, since the date of its incorporation no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company or any subsidiary in connection with the issue or sale of any such capital.
- 2.11 No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option. Other than pursuant to the Offers, no material issue of Ordinary Shares (other than to shareholders *pro rata* to existing holdings) will be made within one year without the prior approval of shareholders in general meeting.
- 2.12 The Ordinary Shares issued under the Offers will be created under the 1985 Act, issued in registered form and temporary documents of title will not be issued. The ISIN of the Ordinary Shares is GB001403152.
- 2.13 Immediately following the close of the Offers, assuming full subscription, that no “free” shares are allotted to existing Shareholders, or in respect of substantial investment, the authorised share capital of the Company will be £16,500,000 divided into 165,000,000 Ordinary Shares, of which 30,935,718 Ordinary Shares will have been issued fully paid or credited as fully paid and there will remain authorised but un-issued a minimum of £13,406,428.20 of share capital divided into 134,064,282 Ordinary Shares.
- 2.14 The Company will be subject to the continuing obligations of the UK Listing Authority and the London Stock Exchange with regard to the issue of securities for cash and the provisions of section 89 of the 1985 Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) will apply to the balance of the authorised but un-issued share capital of the Company which is not subject to any dis-application of pre-emption rights conferred by authority of the shareholders.
- 2.15 On 27 November 1996 the Company resolved by a Directors' resolution that title to the Ordinary Shares in issue or to be issued, may be transferred by means of a relevant system as defined in relevant regulations (now the Uncertified Securities Regulations 2001). The resolution enabled the Ordinary Shares to join CREST and the shares have been traded in CREST since 10 March 1997.
- 2.16 The obligations of the Company to issue and allot Ordinary Shares under the Offers are in all respects conditional on the passing of the following resolutions, which will be proposed at the EGM to be convened on 6 February 2008:

Ordinary Resolution

- (1) THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (as defined in that Section) in connection with:
- (i) the Offers, up to an aggregate nominal amount of £500,000;
 - (ii) an offer of securities by way of rights;
 - (iii) the Subscription Rights Agreement; or
 - (iv) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) to (iii) above) of equity securities up to an aggregate nominal amount of 10% of the issued Ordinary Share capital of the Company immediately following the final closing of the Offers,

during the period commencing on the passing of this resolution and expiring on 5 February 2013 (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and that all previous authorities given to the Directors in accordance with Section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect;

Special Resolutions

(2) THAT in substitution for any existing power under the Section 95 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the earlier, (unless previously revoked, varied or extended by the Company in general meeting pursuant to Section 95 of the Act), to allot equity securities (as defined in Section 94(2) to Section 94(3A) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act, pursuant to resolution 1 above, as if Section 89(1) of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with:

- (i) the Offers;
- (ii) an offer of securities by way of rights;
- (iii) the Subscription Rights Agreement; and
- (iv) the allotment for cash (otherwise than pursuant to sub-paragraph (i), (ii) and (iii) above) of equity securities up to an aggregate nominal amount of 10 per cent. of the issued share capital of the Company immediately following the final closing of the Offers,

but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution 1 above" were omitted;

- (3) THAT, subject to the sanction of the High Court, the share premium account to be created upon the issue of the Ordinary Shares issued under the Offers be cancelled; and
- (4) THAT the Articles of Association produced to the meeting and initialled by the Chairman for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

3. Memorandum and Articles of Association

3.1 Memorandum of Association

The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of a venture capital trust. The objects of the Company are set out in full in clause 4 of the Memorandum of Association which is available for inspection at the address specified in paragraph 8 below.

3.2 Articles of Association

The Articles, which were adopted by Special Resolution passed on 19 February 1996 and were amended by Special Resolutions passed on 11 July 2003, 7 January 2005 and 4 January 2007, contain provisions, inter alia, to the following effect. Differences between the existing Articles and the provisions contained in the new articles of association proposed to be adopted at the EGM (the "New Articles") are noted.

3.2.1 Voting Rights

Subject to any disenfranchisement as provided in paragraph 3.2.4 below and subject to any special terms as to voting on which any shares may be issued, on a show of hands every member present in person (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder. Under the New Articles, every member present in person or by proxy (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

3.2.2 Transfer of Shares

The Ordinary Shares are in registered form and will be freely transferable. All transfers of shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer of a share shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The Directors may refuse to register any transfer of a partly-paid share, provided that such refusal does not prevent dealings taking place on an open and proper basis, and may also refuse to register any instrument of transfer unless:

- (a) it is duly stamped (if so required), is lodged with the Company's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) it is in respect of only one class of share; and
- (c) the transferees do not exceed four in number.

3.2.3 *Dividends*

The Company may in general meeting, by ordinary resolution, declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay such interim dividends as appear to them to be justified. No dividends or other monies payable in respect of a share shall bear interest as against the Company. There are no fixed dates on which entitlement to dividend arises.

All dividends unclaimed for a period of twelve years after being declared or becoming due for payment shall be forfeited and shall revert to the Company.

3.2.4 *Disclosure of interests in shares*

If any member or other person appearing to be interested in shares of the Company is in default in supplying within 14 days after the date of service of a notice requiring such a member or other person to supply the Company in writing all or any such information as is referred to in section 212 of the 1985 Act (or, under the New Articles, section 793 of the 2006 Act), the Directors may, for such period as the default shall continue, impose restrictions upon the relevant shares.

The restrictions available are the suspension of voting or other rights conferred by membership in relation to meetings of the Company in respect of the relevant shares and, additionally, in the case of a shareholder representing at least 0.25 per cent by nominal value of any class of shares of the Company then in issue, the withholding of payment of any dividends on, and the restriction of transfer of, the relevant shares.

3.2.5 *Distribution of assets on liquidation*

On a winding-up any surplus assets will be divided amongst the holders of the shares according to the respective number of shares held by them and in accordance with the provisions of the Act, subject to the rights of any shares which may be issued with special rights or privileges. The Articles provide that the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of the Company in such manner as he may determine. Under the New Articles the sanction of a special resolution will be required.

3.2.6 *Changes in share capital*

- (a) Without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, in the absence of such determination, as the Directors may determine. Subject to the Act, the Company may issue share which are, or at the option of the Company or the holder are liable, to be redeemed.
- (b) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares or any of them into shares of smaller amount or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount so cancelled or the amount of the reduction.
- (c) Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Act, purchase its own shares.

3.2.7 *Variation of rights*

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of such holders. Under the New Articles the sanction of a special resolution will be required.

3.2.8 *Directors' Interests*

- (a) A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the Company shall, at a meeting of the Directors declare, in accordance with the Act, the nature of his interest.
- (b) Provided that he has declared his interest in accordance with paragraph 3.2.8(a) above, a Director may be a party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is interested and may be a Director or other officer or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested. No Director so interested shall be accountable to the Company, by reason of his being a Director, for any benefit which he derives from such office or interest or any such transaction or arrangement.
- (c) A Director shall not vote at a meeting of the Directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the Company unless his interest arises only because the case falls within one or more of the specified paragraphs.
- (d) Where proposals are under consideration concerning the appointment of two or more Directors to offices or employment with the Company or any company in which the Company is interested the proposals may be divided and considered in relation to each Director separately and (if not otherwise precluded from voting)

each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

3.2.9 Remuneration of Directors

- (a) The ordinary remuneration of the Directors (other than an executive Director appointed under the Articles) shall be such amount as the Directors shall from time to time determine (provided that unless otherwise approved by the Company in general meeting the aggregate of the ordinary remuneration of such Directors shall not exceed £75,000 per year) to be divided among them in such proportions and manner as the Directors may determine. The Directors shall also be paid by the Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.
- (b) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the Directors may determine.
- (c) The emoluments and benefits of any executive Director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

3.2.10 Retirement of Directors

- (a) At each annual general meeting of the Company one-third of the Directors who are subject to retirement by rotation, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, or if their number is less than three then one of them, shall retire from office. A Director retiring at a meeting shall retain office until the dissolution of that meeting and shall be eligible for re-election.
- (b) A Director shall be capable of being appointed or reappointed a Director despite having attained the age of 70 or any other age and shall not be required to retire by reason of his having attained any particular age.

3.2.11 Borrowing Powers

The Directors may exercise all powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital.

The Directors shall restrict the borrowings of the Company and, by the exercise of the Company's voting and other rights or powers of control over its subsidiary undertakings (if any), secure that they restrict their borrowings, so that the aggregate amount at any time outstanding in respect of money borrowed by the group, being the Company and its subsidiary undertakings for the time being (excluding intra-group borrowings), shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to the aggregate of the amount paid up or credited as paid up on the allotted or issued 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 the Articles. Prior to the publication of an audited balance sheet of the Company such aggregate amount shall be limited to 90 per cent. of the amount paid up or credited as paid up (whether in respect of the nominal value or premium) on the allotted or issued share capital of the Company.

3.2.12 Distribution of realised capital profits

At any time when the Company has given notice in the prescribed form (which has not been revoked) to the Registrar of Companies of its intention to carry on business as an investment company ("a Relevant Period"), distribution of the Company's capital profits (within the meaning of section 266(2)(c) of the 1985 Act) shall be prohibited. The Board shall establish a reserve to be called the capital reserve. During a Relevant Period, all surpluses arising from the realisation or revaluation of investments and all other monies realised on or derived from the realisation, payment off of or other dealing with any capital asset in excess of the book value thereof and all other monies which are considered by the Board to be in the nature of accretion to capital shall be credited to the capital reserve. Subject to the Act, the Board may determine whether any amount received by the Company is to be dealt with as income or capital or partly one way and partly the other. During a Relevant Period, any loss realised on the realisation or payment off of or other dealing with any investments or other capital assets and, subject to the Act, any expenses, loss or liability (or provision therefor) which the Board considers to relate to a capital item or which the Board otherwise considers appropriate to be debited to the capital reserve shall be carried to the debit of the capital reserve. During a Relevant Period, all sums carried and standing to the credit of the capital reserve may be applied for any of the purposes for which sums standing to any revenue reserve are applicable except and provided that during a Relevant Period no part of the capital reserve or any other money in the nature of accretion to capital shall be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by section 263(2) of the 1985 Act) or applied in paying dividends on any shares in the Company otherwise than by way of redemption or purchase by the Company of its own shares in accordance with section 160 or 162 of the Act. In periods other than a Relevant Period any amount standing to the credit of the capital reserve may be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by section 263(2) of the 1985 Act) or be applied in paying dividends on any shares in the Company.

3.2.13 *Duration of the Company*

The Directors shall put an ordinary resolution to the annual general meeting of the Company in 2012 (although the new Articles proposed to be adopted by resolution 4 at the EGM proposes provide that this date be extended to 2013) and at every fifth annual general meeting thereafter, proposing that the Company should continue as a venture capital trust for a further five year period. If any such resolution is not passed, the Directors shall draw up proposals for the voluntary liquidation, reconstruction or other reorganisation of the Company for submission to the members of the Company at a general meeting to be convened by the Directors on a date not more than six months after such annual general meeting. Implementation of the proposals will require the approval of members by special resolution.

3.2.14 *General Meetings*

Annual General Meetings shall be held at such time and place as may be determined by the Directors and not more than fifteen months shall elapse between the date of one Annual General Meeting and that of the next. The Directors may, whenever they think fit, convene an Extraordinary General Meeting of the Company, and Extraordinary General Meetings shall also be convened on such requisition or in default may be convened by such requisitionists as are approved by the Statutes. Any meeting convened under this Article by requisitionists shall be convened in the same manner as nearly as possible as that in which meetings are to be convened by the Directors. Under the New Articles general meetings of the Company other than Annual General Meetings shall be called General Meetings.

An Annual General Meeting and an Extraordinary General Meeting called for the passing of a special resolution shall be called by not less than twenty-one days notice in writing, and all other Extraordinary General Meetings of the Company shall be called by not less than fourteen days notice in writing. Under the New Articles, Annual General Meetings shall be called on not less than twenty-one days notice in writing and General Meetings shall be called on not less than fourteen days notice in writing. The notice shall be exclusive of the day on which it is given and of the day of the meeting and shall specify the place, the day and hour of meeting, and in case of special business the general nature of such business. The notice shall be given to the Members, other than those who, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive notice from the Company, to the Directors and to the Auditors. A notice calling an Annual General Meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution or an extraordinary resolution as the case may be shall specify the intention to propose the resolution as such. Under the New Articles there will be no concept of an extraordinary resolution.

In every notice calling a meeting of the Company or any class of the Members of the Company there shall appear with reasonable prominence a statement that a Member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him, and that a proxy need not also be a Member. Under the New Articles, a Member entitled to attend and vote will be entitled to appoint one or more proxies to attend, to speak and vote instead of him.

If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened by or upon the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to such time (being not less than fourteen days and not more than twenty-eight days hence) and at such place as the Chairman shall appoint. At any such adjourned meeting the Member or Members present in person or by proxy and entitled to vote shall have power to decide upon all matters which could properly have been disposed of at the meeting from which the adjournment took place. The Company shall give not less than seven clear days notice of any meeting adjourned for the want of a quorum and the notice shall state that the Member or Members present as aforesaid shall form a quorum.

The Chairman may, with the consent of the meeting (and shall, if so directed by the meeting) adjourn any meeting from time to time and from place to place. No business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

4. Directors' and Other Interests in the Company

- 4.1 Save as disclosed in paragraph 4.5 below, the Company is not aware of any person who, as at the date of this document and immediately following the issue of the Ordinary Shares under the Offers, (assuming full subscription under the Offers) is or will, directly or indirectly, be interested in 3 per cent or more of the issued share capital of the Company. Further, as at the date of this document and immediately following the issue of such shares, (assuming full subscription under the Offers). The Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 4.2 The interests of the Directors and their immediate families in the share capital of the Company, all of which are beneficial, as at the date of this document, and of connected persons within the meaning of section 252 of the 2006 Act, are set out below together with the percentages which such interests represent of the Ordinary Shares in issue at the date of this document:

<i>Name</i>	Number of Ordinary Shares	% of issued Ordinary Shares prior to the Offers
Sir Andrew Hugh Smith	51,490	0.20%
Richard Last	36,490	0.14%
Philip Cammerman	30,916	0.12%
Stephen Noar	–	–
Robert Pettigrew	28,159	0.11%

- 4.3 The interests of the Directors and their immediate families in the share capital of the Company, all of which are beneficial, and (so far as is known or could with reasonable diligence be ascertained by the relevant Director) the interests of a person connected (within the meaning of section 252 of the 2006 Act) with a Director following the Offers assuming the Offers are fully subscribed and that no “free” shares are allotted will be as follows:

<i>Name</i>	Number of Ordinary Shares	% of issued Ordinary Shares following the Offers
Sir Andrew Hugh Smith	51,490	0.17%
Philip Cammerman	35,621	0.11%
Richard Last	45,901	0.15%
Stephen Noar	–	–
Robert Pettigrew	28,159	0.09%

- 4.4 Save as disclosed in paragraph 4.2, no Director, nor any person connected with any Director (within the meaning of section 252 of the 2006 Act) has any interest in the share capital or loan capital of the Company, whether beneficial or non-beneficial.
- 4.5 YFM Group Limited is the registered holder of 525,500 Ordinary Shares in the Company for which it subscribed for 460,000 shares in April 1996 at £1 per share, and the remaining 65,500 shares in January 1998, of which 65,000 shares were purchased at 82p per share and 500 shares at 88p per share. This holding represents 2.0% of the existing Ordinary Share capital of the Company as at the date of this document. The Company's major Shareholders (including YFM Group Limited) have the same voting rights as all the other Shareholders.
- 4.6 The Directors of the Company have committed to invest £15,000 in aggregate in the Company. Save as noted in this paragraph 4.6, no Ordinary Shares are being reserved for allocation to Shareholders, Directors or employees of the Company.
- 4.7 All the Directors are non-executive and none of the Directors therefore have a service contract with the Company, and no such contract is proposed. The services of each of the Directors are provided to the Company pursuant to letters of appointment, under which they are required to devote such time to the affairs of the Company as the Board reasonably requires consistent with their role as a non-executive Director. Each of Sir Andrew Hugh Smith, Philip Cammerman and Richard Last entered into such letters of appointment on 1 August 2007, and Robert Pettigrew and Stephen Noar entered into such letters of appointment on 28 November 2006 and 1 August 2006 respectively. The agreements are terminable on 3 months notice either side. Each Director is currently entitled to receive the following annual fee which is, subject to annual review: Sir Andrew Hugh Smith - £15,000, Philip Cammerman - £nil, Richard Last - £10,000, Robert Pettigrew - £10,000 and Stephen Noar - £10,000. No benefits are payable on termination.
- 4.8 No loan or guarantee has been granted or provided by the Company to any Director.
- 4.9 Except as listed in paragraph 4.10 below, none of the Directors has had any interest in any party which is related to the Company or has had any interest in any transactions since its incorporation which are or were unusual in their nature or conditions or significant to the business of the Company.
- 4.10 This paragraph 4.10 specifies (i) contracts made between the Company and parties to which a Director has an interest in and is related and (ii) Directors' interests in transactions of the Company since its incorporation which are or were unusual in their nature or conditions or significant to the business of the Company

Stephen Noar was a non-executive Director of Cozart plc, an investee company of the Company. The appointment was made pursuant to an agreement following the investment made in that company. During the year to 31 March 2007 he received remuneration of £20,000 from Cozart plc in respect of his services. Following the sale of Cozart plc he resigned from its board of directors.

Philip Cammerman, a Director of the Company, is also a director of YFM Private Equity and its parent, YFM Group Limited. YFM Private Equity is a party to certain of the agreements referred to in paragraph 5 of this Part 5 of this document and YFM Group Limited holds 2.0 per cent. of the issued share capital of the Company at the date of this document. Mr

Cammerman is also director of YFM Group (Holdings) Limited, the ultimate parent company of YFM Private Equity, in which he has a beneficial shareholding.

Save as disclosed in this paragraph above, no Director (i) has an interest in any transaction effected by the Company since its incorporation which is or was unusual in its nature or conditions or significant to the business of the Company or (ii) has any potential conflicts of interest between any duties they have to the Company and their private interests and/or other duties.

4.11 It is anticipated that the aggregate of fees paid or to be paid to the Directors by the Company for the twelve month period ending 31 March 2008 will not exceed £45,000 plus VAT or National Insurance (as applicable). This is in accordance with arrangements in force since 1997. The fees paid to the Directors by the Company for the 12 month period ending 31 March 2007 were £45,000 plus VAT or National Insurance (as applicable).

4.12 The Company has taken out Directors' and Officers' liability insurance for the benefit of the Directors.

4.13 The following are directorships (unless otherwise stated) and partnerships held by the Directors in the five years prior to the date of this document and the principal activities of the Directors outside the Company where these are significant with respect to the Company:

	<i>Current directorships/partnerships</i>	<i>Former directorship/partnerships (in last five years)</i>
Sir Andrew Colin Hugh Smith	Ardtornish Estate Co Limited Smith Trustee Company Limited British Smaller Companies VCT plc	Barloworld Limited (South Africa) Abingdon School VCT plc British Smaller Technology Companies VCT2 plc
Philip Simon Cammerman	Calibre Audio Library British Smaller Companies VCT plc British Smaller Technology Companies VCT 2 plc Clarendon Fund Managers Limited Clarendon Fund Nominees Limited Howmac plc JKN 138 GP Limited Nitech Venture Partners Limited YFM Group (Holdings) Limited YFM Group Limited YFM Venture Finance Limited YFM Private Equity Limited NI Venture Partners Limited Yorkshire Enterprise Finance Limited Yorkshire Enterprise Small Firms Fund Limited Yorkshire Enterprise Limited White Rose Nominee Investments Limited White Rose Investments Limited Chandos Fund GP Limited Yorkshire Fund Managers (Investment) Limited Yorkshire Fund Managers (General Partner) Limited YVF GP (Investment) Limited YVF GP (Development) Limited London Fund Managers Limited South West Ventures Limited London GP Limited South West GP Limited Yorkshire and Humber GP Limited PIF GP No 1 Limited PIF GP No 2 Limited PIF GP No 3 Limited PIF GP No 4 Limited YFM Workspace Limited NWBIS General Partner Limited Connect Yorkshire Yorkshire Enterprise Finance (Holdings) Limited	Catapult Venture Managers Limited Growth Capital Partners Limited Rivatech Limited British Smaller Technology Companies VCT plc GCC GP (Development) Ltd GCC GP (Investment) Limited GCC London Limited GCC South West Limited GCC Yorkshire Limited White Rose Ventures Limited PIF GP No 5 Limited

Richard Last	<p>Lynx Limited Lynx Group Limited Lynx Holdings Limited British Smaller Companies VCT plc British Smaller Technology Companies 2 plc Xpertise Group plc Xpertise Training Limited Shinx CST Networks Limited APD Communications Limited Sphinx Professional Services Limited Orsted Limited Lynx Overseas Investments Limited Lynxserv Limited Sphinx Group Limited Sphinx CST Limited Sphinx 110 Limited Overseas 110 Limited Transient 110 Limited Waste Management Systems Limited Lynx IT Communications Limited Switch Networks Ltd FS (UK) Limited Patsystems plc Signal Limited Sphinx CST (Ireland) Limited Xpertise Training Limited Power Education Limited APD Mobile Data Limited Lynx Financial Systems Pty Limited APD-s.COM Limited Transient 110 (No 2) Limited Knowledge Technology Solutions plc APD Aspire Limited Lighthouse Group plc MMI Automotive Limited Distal Holdings Limited Financial Payment Systems Limited GapAid</p>	<p>Power Education Limited Tietonator Attentiv Systems Limited Lynx Computer Services Limited Lihnet Limited British Smaller Technology Companies VCT plc Tamesis Limited Quantix Limited Quantix Holdings Limited NMM Limited Tietoenator (UK No.1) Limited Microgen Wealth Management Systems Limited Microgen Wealth Management Systems (Guernsey) Limited BT Lynx Limited Lynx Technology Holdings Limited Lynx Software Systems Inc Lynx Financial Systems (Cayman) Limited Lynx Wealth Management Systems (IOM) Limited</p>
Robert Martin Pettigrew	<p>British Smaller Technology Companies VCT 2 plc British Smaller Companies VCT plc Sphere Medical Holdings Limited Timberpost Limited Digital Healthcare Limited Acal Energy Limited Zinwave Inc</p>	<p>Westica Limited Voxar Limited Sphere Medical Limited Martello Partners LLP (partner) Genesis Consulting Limited Oxonica Materials Limited Zowie International Inc British Smaller Technology Companies VCT plc Cambridge Advanced Materials Limited Biowisdom Limited Zinwave Limited Oxonica plc</p>
Stephen John Noar	<p>Fielddaily Limited DPAS Limited British Smaller Technology Companies VCT 2 plc Waste Management Systems Limited Pegham Property Services Limited 46A Honeysuckle Road Management Company Limited British Smaller Companies VCT plc Pegham Services LLP (partner) Woven PP Recycline Limited</p>	<p>Cozart Bioscience Limited Purely Proteins Limited British Smaller Technology Companies VCT plc Cozart plc</p>

4.14 Westica Limited was placed into administrative receivership on 23 November 2004. The estimated deficiency as regards secured and unsecured creditors as at 22 May 2005 was £650,892. Robert Pettigrew has been a director of Westica Limited within the previous 5 years and resigned from the company on 16 August 2004.

A winding up order was made against NMM Limited in the Oxford County Court on 7 July 2005 when deficiency to trade creditors was £30,495. Richard Last has been a director of NMM Limited within the previous 5 years and resigned from the company on 21 January 2005.

4.15 Except as noted in paragraph 4.14 above, none of the Directors has:

- (i) any convictions in relation to fraudulent offences in the previous five years; or
- (ii) been a member of the administrative, management or supervisory bodies or senior manager of a company or partnership associated with any bankruptcy, receivership or liquidation within the previous 5 years; or
- (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including recognised or designated professional bodies) or been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for the previous five years.

4.16 Except as noted in paragraph 4.10 above, none of the Company's service providers have any conflict, or potential conflict, as between their duty to the Company and duties owed by them to third parties and other interests.

4.17 There are no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors or directors of the Fund Manager.

5. Material Contracts

The following are the summaries of the principal contents of contracts, not being contracts entered into in the ordinary course of business, which have been entered into by the Company within two years immediately preceding the publication of this document or contain any provisions under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

5.1 An offer agreement dated 4 January 2008 ("the Offer Agreement") between the Company (1), the Directors (2), Howard Kennedy ("HK") (3) and YFM Private Equity (4) under which HK agreed to act as Sponsor to the Offers. As is usual in contracts of this type YFM Private Equity has agreed to indemnify the Company against the costs of the Offers exceeding 5.5% of the aggregate value of accepted applications for Ordinary Shares received under the Offers, and the Company has agreed to pay commissions to authorised financial advisers as set out in this document. Howard Kennedy will receive a fee of £40,000 (plus disbursements and, if applicable, VAT) for acting as sponsor and proving legal services in relation to the Offers.

Under the Offer Agreement, which may be terminated by HK in certain circumstances of breach, YFM Private Equity, the Company and the Directors have given certain warranties which are subject to certain limitations. Warranty claims must be made no later than 1 month after the date of publication of the audited accounts of the Company for the year ending 31 March 2009. The Company has agreed to indemnify HK in respect of its role as Sponsor and under this Offer Agreement. The Offer Agreement may also be terminated, inter alia, if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

YFM Private Equity agrees to indemnify the Company to the extent that the total annual running costs of the Company, including the investment advisory fee, exceeds 3.5% (excluding trail commission) of the Gross Assets of the Company.

5.2 An offer agreement dated 8 December 2006 ("the 2006 Offer Agreement") between the Company (1), the Directors (2), Howard Kennedy ("HK") (3) and YFM Private Equity (4) under which HK agreed to act as Sponsor to the Ordinary Share offers made on 8 December 2006. YFM Private Equity agreed to indemnify the Company against the costs of the offers exceeding 5.5% of the aggregate value of accepted applications for Ordinary Shares received under the offers, and the Company agreed to pay commissions to authorised financial advisers. Howard Kennedy received a fee of £58,000 (plus disbursements and VAT) for acting as sponsor and proving legal services in relation to the offers.

Under the 2006 Offer Agreement, which may be terminated by HK in certain circumstances of breach, YFM Private Equity, the Company and the Directors have given certain warranties which are subject to certain limitations. Warranty claims must be made no later than 1 month after the date of publication of the audited accounts of the Company for the year ending 31 March 2008. The Company agreed to indemnify HK in respect of its role as Sponsor and under the 2006 Offer Agreement. The 2006 Offer Agreement may also be terminated, inter alia, if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

YFM Private Equity agrees to indemnify the Company to the extent that the total annual running costs of the Company, including the investment advisory fee, exceeds 3.5% (excluding trail commission) of the Gross Assets of the Company.

5.3 By an administration and investment advisory agreement dated 28 February 1996 between the Company (1) and YFM Private Equity (formerly Yorkshire Fund Managers Limited) (the "IAA"), YFM Private Equity agreed to provide administrative, company secretarial and investment advisory services to the Company in relation to the Company'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.

Under the IAA, YFM Private Equity is entitled to receive an annual investment advisory fee of 2% of the Gross Assets of the Company (as determined on 31 March and 30 October each year), plus VAT, 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 £47,524), plus VAT. The Fund Manager is also entitled to all arrangement, syndication and monitoring fees payable in respect of unquoted investments. The Company indemnifies the Fund Manager against all things lawfully and properly done under the IAA.

5.4 By a subscription rights agreement dated 28 February 1996 between the Company (1) and YFM Private Equity (2) (the

“Subscription Rights Agreement”), YFM Private Equity is entitled to a performance related incentive on the following terms. Provided that the mid-market price of an Ordinary Share on the last business day in April 2001 exceeded an amount equal to £1 less the gross amount of distributions made by the Company and increased in line with the FTSE Actuaries All-Share Index from the date of issue of Ordinary Shares, calculated on the total return basis, YFM Private Equity was to be granted rights to subscribe for such number of Ordinary Shares as have an exercise value equal to 10 per cent of the amount by which the average mid-market price over the five dealing days prior to the last business day in April 2001 plus the gross amount of distributions per Ordinary Share exceeds £1 multiplied by the number of Ordinary Shares in issue, at a price of 10p per share (subject to adjustment for any reorganisation of the issued share capital). For this purpose, the exercise value is the average mid-market price of an Ordinary Share over the five dealing days prior to the last business day in April 2001, less 10p (subject to adjustment for any reorganisation of the issued share capital).

This calculation is to be repeated on the last business day in April in each subsequent year and further subscription rights may be granted provided the Company has out-performed the FTSE Actuaries All-Share Index on a total return basis and including all previous subscription rights which have been granted.

No such Ordinary Shares would be issued if this would cause the Company either to lose its approval as a VCT or to have to issue listing particulars. If the Company has insufficient unissued share capital or the Directors do not have authority to issue the Ordinary Shares, YFM Private Equity will be entitled to cash compensation from the Company. The subscription rights are exercisable either in whole or in part at any time up to nine months from the date of grant.

- 5.5 Under the terms of a letter from Brewin to the Company dated 25 October 2004, Brewin agreed to act as investment manager to the Company in relation to its portfolio of short-term government securities and to produce monthly portfolio valuations. In return for such services, Brewin are entitled to receive a management fee based on an ad valorem charge of 0.2% per annum (plus VAT) of funds under management, payable quarterly, subject to a maximum annual fee of £25,000 plus VAT. This cost is borne by the Fund Manager.
- 5.6 By an agreement dated 3 September 2004 between the Company (1) and Landsbanki (2), Landsbanki agreed to act as brokers to the Company, and, inter alia, to act as a market maker in the Shares of the Company and to carry out share purchases on the Company's behalf. Landsbanki are entitled to receive an annual fee of £10,000, plus VAT if applicable, payable quarterly in arrears on 30 September, 31 December, 31 March and 30 June except that the first payment is not due until the middle market price per Share quoted by Landsbanki is at a 10% discount (or such other level as may be agreed with the Company) to the most recently published net asset value. Under this Agreement the Company indemnifies Landsbanki against losses arising out of Landsbanki's appointment except where such losses arise from Landsbanki's breach of agreement.

6. General

- 6.1 YFM Private Equity is or may be a promoter of the Company and will receive investment advisory fees and other payments from the Company under the agreements described in paragraph 5 above, save for which, no amount or benefit has been paid or given to the promoters and none is intended to be paid or given.

6.2 *Related Party Transactions*

The Company entered into the Offer Agreement on 4 January 2008, the 2006 Offer Agreement on 8 December 2006, an offer agreement between the Company, the Directors, HK and YFM Private Equity, an administration and investment advisory agreement between the Company and YFM Private Equity and an incentive agreement between the Company and YFM Private Equity, each in relation to an offer for 'C' shares on 26 November 2006, and the IAA and the Subscription Rights Agreement, each on 28 February 1996.

Stephen Noar was a non-executive Director of Cozart plc, an investee company of the Company prior to his resignation in October 2007. The appointment was made pursuant to an agreement following the investment made in that company and he resigned upon its sale. During the year to 31 March 2007 he received remuneration of £20,000 from Cozart plc in respect of his services.

Philip Cammerman, a Director of the Company, is also a director of YFM Private Equity and its parent, YFM Group Limited. YFM Private Equity is a party to certain of the agreements referred to in paragraph 5 of this Part 5 of this document and YFM Group Limited holds 2.0 per cent. of the issued share capital of the Company at the date of this document. Mr Cammerman is also director of YFM Group (Holdings) Limited, the ultimate parent company of YFM Private Equity, in which he has a beneficial shareholding.

For each of the financial periods ended 31 March 2005, 2006 and 2007 and for the current financial year to date, apart from the agreements referred to in this paragraph 6.2, the Company has not been a party to any related party transactions for the purposes of Regulation (EC) No. 1606 / 2002.

6.3 *Material Interests*

YFM Private Equity is paid an annual fund management fee equal to 2% per annum of the Gross Assets of the Company. In line with normal VCT practice, the Fund Manager will also be entitled to receive a performance related incentive fee. Further details of these arrangements are set out under the heading “Fund Manager” on pages 23 to 24 of this document and at paragraphs 5.3 and 5.4 of this Part 5 on pages 42 to 43 of this document.

Paragraph 4.10 above sets out the material interests of the Directors and paragraph 6.2 above sets out the Company's related party transactions.

- 6.4 The Company is not and has not since incorporation, been engaged in any governmental, legal or arbitration proceedings which may have or have had a significant effect on the Company's financial position or profitability and no governmental, legal or arbitration proceedings are known to the Company to be pending or threatened by or against the Company.
- 6.5 The costs and expenses of the Offers, including any irrecoverable VAT and all fees and commissions payable are expected to amount to £292,188 assuming subscription in full. The proceeds will be applied in accordance with the

Company's investment policy. On the basis that the Offers are fully subscribed the net proceeds are expected to be £5,020,313 million. The net proceeds will be applied in accordance with the Company's investment strategy.

- 6.6 PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP were appointed as auditors to the Company on 4 September 2006. Prior to that date PricewaterhouseCoopers LLP of Benson House, 33 Wellington House, Leeds LS1 4JP had been the only auditors of the Company since its incorporation. Both PKF (UK) LLP and PricewaterhouseCoopers LLP are members of the Institute of Chartered Accountants in England and Wales
- 6.7 YFM Private Equity was incorporated under the name Mossfire Limited in England on 7 October 1987 as a private company under the 1985 Act. The name of Mossfire Limited was changed to Yorkshire Fund Managers Limited on 14 December 1987. The name of Yorkshire Fund Managers Limited was changed to YFM Private Equity Limited on 7 October 2004. The registered number of YFM Private Equity is 2174994 and its registered office is at Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ (telephone number 0113 294 5000). YFM Private Equity is authorised and regulated by the Financial Services Authority to conduct Venture Capital business.
- 6.8 The Company does not assume responsibility for the withholding of tax at source.
- 6.9 A VCT must satisfy the UK Listing Authority that its directors and any Fund Manager have sufficient and appropriate experience in the management of assets on a scale and type in which the VCT proposes to invest. The VCT's board of directors must be able to demonstrate that it will act independently of any advisers of the VCT. A majority of the board (including the Chairman) must not be directors, employees, partners, officers or professional advisers of or to the Fund Manager or any other company in the same group as the Fund Manager or any investment entity managed by them. None of the Company's investments will represent more than 15% by value of all its investments at the time of investment, not will more than 20% of its gross assets be invested in the securities of property companies. The Company will continue to meet the above conditions. The Company must, at all times, invest and manage its assets in accordance with the investment policy set out on pages 21 to 23 and so as to comply with section 842 ITA. Any material change to the investment policy of the Company will only be made with Shareholder approval.
- 6.10 Howard Kennedy, sponsor to the Offers, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 6.11 YFM Private Equity Limited, the Company's fund manager, has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 6.12 The unaudited net asset value per Ordinary Share as at 30 September 2007 was 102.7 pence per Ordinary Share.
- 6.13 The Company had available as at 30 September 2007 cash at bank of £11.504 million which should be supplemented by the net proceeds of the Offers (source: unaudited management accounts prepared by the Company). As at the date of this document the Company had no loan capital outstanding, no other borrowings or indebtedness in the nature of borrowings and no contingent liabilities or guarantees.
- 6.14 The Company confirms that information set out in this document which has been sourced from a third party has been accurately re-produced and, so far as the Company is aware and it is able to ascertain from information published by those third parties, no facts have been omitted which would render such information inaccurate or misleading.
- 6.15 The existing issued Ordinary Shares will represent 83.8 per cent. of the enlarged Ordinary Share capital immediately following the Offers (assuming the Offers are fully subscribed and no "free" shares are allotted to existing Shareholders, or in respect of early or substantial investment). On this basis, existing Shareholders will therefore be diluted by 16.2 per cent. at full subscription under the Offers.
- 6.16 There have been no significant factors, including unusual or infrequent events or new developments, which have materially affected the Company's income from operations. There have been no governmental, economic, fiscal, monetary or political policies or factors that have materially affected the Company's operations, however levels and bases of, and relief from, taxation are subject to change and such changes could be retrospective and could materially affect the Company's operations.

7. Documents for Inspection

Copies of the following documents are available for inspection at the Company's registered office at Saint Martins House, 210-212 Chapeltown Road, Leeds, West Yorkshire LS7 4HZ and at Howard Kennedy at 19 Cavendish Square, London W1A 2AW, during normal business hours on any weekday (Saturdays and public holidays excepted) whilst the Offers remain open:

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the consent letters referred to in paragraph 6.10 and 6.11 of this Part 5 above;
- (iii) the Directors' letters of appointment referred to in paragraph 4.6 of this Part 5 above;
- (iv) the audited accounts of the Company for the periods ended 31 March 2005, 31 March 2006 and 31 March 2007 and the interim financial statements for the 6 month periods to 30 September 2006 and 30 September 2007; and
- (v) this document.

4 January 2008

Part 6

Definitions

In this document the following words and expressions have the following meanings:

“Act”	the 1985 and/or the 2006 Act, as the context requires;
“1985 Act”	the Companies Act 1985 (as amended and to the extent in force from time to time);
“2006 Act”	the Companies Act 2006 (as amended and to the extent in force from time to time);
“AIM”	the Alternative Investment Market of the London Stock Exchange;
“annual running costs”	the annual costs incurred by British Smaller Companies VCT plc in the ordinary course of its business (including irrecoverable VAT);
“Articles”	the articles of association of the Company (as amended from time to time);
“Board” or “Directors”	the Directors of the Company at the date of this document;
“Capita Registrars”	Capita Registrars Limited;
“Company” or “British Smaller Companies VCT”	British Smaller Companies VCT plc;
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company convened for 10.00 a.m. on 6 February 2008 at 23 Berkeley Square, London, W1J 6HE (and any adjournment thereof);
“FSA”	the Financial Services Authority;
“Gross Assets”	the aggregate of the gross assets of the Company including assets represented by any principal monies borrowed by the Company less all current liabilities of the Company (other than any principal moneys borrowed);
“HMRC”	HM Revenue & Customs;
“ITA”	Income Taxes Act 2007, as amended;
“IFRS”	International Financial Reporting Standards;
“London Stock Exchange”	London Stock Exchange plc;
“2007/2008 Offer”	the offer for subscription in respect of the 2007/2008 tax year;
“2008/2009 Offer”	the offer for subscription in respect of the 2008/2009 tax year;
“Offers”	the 2007/2008 Offer and the 2008/2009 Offer, being offers for subscription of up to 5,000,000 Ordinary Shares, details of which are set out in this document;
“Offer Price”	106.25p per Ordinary Share, being the unaudited net asset value per Ordinary Share as at 30 September 2007 of 102.7p, less the interim dividend of 2.0p paid on 16 November 2007, plus 5.5% (being the costs of the Offers), rounded up to the nearest quarter pence;
“Official List”	the Official List of the UK Listing Authority;
“Ordinary Shares” or “Shares”	ordinary shares of 10p each in the capital of the Company;
“Pricing Mechanism”	the basis on which the price at which Ordinary Shares will be allotted pursuant to the Offers, calculated in accordance with the procedure set out on page 26 of this document;
“Qualifying Company”	an unquoted (including AIM-traded) company carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of Part 6 ITA, which is summarised in Part 2 of this document;
“Qualifying Holdings” or “Qualifying Investments”	shares in, or securities of, a Qualifying Company held by a VCT which meets the requirements described in Chapter 4 of Part 6 ITA;
“Receiving Agent”	Capita Registrars;
“Resolutions”	the resolutions of the Company to be proposed at the EGM;
“Shareholder(s)”	holder(s) of Ordinary Shares;
“Subscription Rights Agreement”	the Subscription Rights Agreement dated 28 February 1996 made between the Company and the Fund Manager;
“UK Listing Authority”	the FSA acting in its capacity as the competent authority under the Financial Services and Markets Act 2000;
“VAT”	value added tax;
“venture capital trust” or “VCT”	a venture capital trust as defined in Section 259 Income Taxes Act 2007;
“YFM Private Equity” or “the Fund Manager”	YFM Private Equity Limited registered number 2174994, authorised and regulated by the FSA;
“YFM Group”	YFM Private Equity and YFM Venture Finance Limited (registered number 4195617 authorised and regulated by the FSA) and each, together with other companies, being subsidiary companies of YFM Group (Holdings) Limited.

Part 7

Directors and Advisers

Directors (all non-executive)

Sir Andrew Colin Hugh Smith
Richard Last
Robert Martin Pettigrew
Stephen John Noar
Philip Simon Cammerman

all of
Saint Martins House
210-212 Chapeltown Road
Leeds, West Yorkshire LS7 4HZ

Company Secretary

J E P Gervasio LLB

Registered Office

Saint Martins House
210-212 Chapeltown Road
Leeds, West Yorkshire LS7 4HZ

Fund Manager

YFM Private Equity Limited
Saint Martins House
210-212 Chapeltown Road
Leeds, West Yorkshire LS7 4HZ

Sponsor and Solicitors to the Offers

Howard Kennedy
19 Cavendish Square
London W1A 2AW

Stockbrokers

Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Fixed Interest Securities Adviser

Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

Registered Auditors

PKF (UK) LLP
Farringdon Place
20 Farringdon Place
London EC1M 3AP

Bankers

The Royal Bank of Scotland plc
27 Park Row
Leeds LS1 5QB

Receiving Agents

Capita Registrars
Corporate Actions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

VCT Advisers

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Part 8

Terms And Conditions of Application And Guide To Application Form

1. The contract created by the acceptance of applications for the Shares will be conditional upon the admission of the relevant Shares to the Official List of the UKLA and to trading on the London Stock Exchange.
2. The right is reserved by the Company to present all cheques and bankers' drafts for payment on receipt and to retain surplus application monies pending clearance of successful applicants' cheques. The Company also reserves the right to reject in whole or in part, or to scale down or limit, any application. If any application is not accepted in full or if any contract created by acceptance does not become unconditional, the application monies or, as the case may be, the balance thereof will be returned (without interest) by returning the relevant applicant's cheque or banker's draft or by crossed cheque in favour of the applicant, through the post at the risk of the person entitled thereto. In the meantime, application monies will be retained by Capita Registrars Limited (the "Receiving Agent") in a separate account.
3. By completing and delivering an Application Form, you (as the applicant):
 - 3.1 irrevocably offer to subscribe for the number of Ordinary Shares calculated in accordance with the Pricing Mechanism on the terms and conditions set out in this Prospectus and in the memorandum and articles of association of the Company;
 - 3.2 agree that in consideration of the Company agreeing that it will not prior to 30 April 2008 issue or allot any Shares to any person other than by means of the procedures referred to in this document, your application shall not be revoked until after 30 April 2008 and that this paragraph shall constitute a collateral contract between you and the Company which will become binding upon despatch by post to, or (in the case of delivery by hand) on receipt by, the Receiving Agent of your Application Form;
 - 3.3 warrant that your remittance will be honoured on first presentation and agree that if it is not so honoured you will not be entitled to receive a share certificate or have your CREST account credited in respect of the Shares applied for unless and until you make payment in cleared funds for such Shares and such payment is accepted by the Company in its absolute discretion (which acceptance may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and you agree that, at any time prior to the unconditional acceptance by the Company of such payment, the Company may (without prejudice to other rights) avoid the agreement to allot such Shares and may allot such Shares to some other person, in which case you will not be entitled to any payment in respect of such Shares;
 - 3.4 agree that, in respect of those Shares attached for which your application has been received and is not rejected, acceptance shall be constituted, at the election of the Company, either (i) by notification to the London Stock Exchange of the basis of allocation (in which case acceptance shall be on that basis) or (ii) by notification of acceptance thereof to the Receiving Agent;
 - 3.5 agree that any monies returnable to you may be retained by the Receiving Agent pending clearance of your remittance and that such monies will not bear interest;
 - 3.6 authorise the Receiving Agent to send (a) share certificate(s) or credit your CREST account in respect of the number of Shares for which your application is accepted and/or a crossed cheque for any monies returnable, by post, at the risk of the person entitled thereto, to the address of the person named as an applicant in the Application Form;
 - 3.7 declare that a loan has not been made to you or any associate, which would not have been made or not have been made on the same terms, but for you offering to subscribe for, or acquiring, 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. (Please note that obtaining the reliefs available under the VCT legislation does not of itself constitute tax avoidance);
 - 3.8 agree that all applications, acceptances of applications and contracts resulting therefrom shall be governed by and construed in accordance with English law, and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
 - 3.9 confirm that in making such application you are not relying on any information or representation in relation to the Company other than the information contained in this document and accordingly you agree that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof shall have any liability for any such other information or representation;
 - 3.10 authorise the Company, the Receiving Agent or any persons authorised by them, as your agent, to do all things necessary to effect registration of any Shares subscribed by you into your name or into the name of any person in whose favour the entitlement to any such Shares has been transferred and authorise any representatives of the Company to execute any document required and to enter your name on the register of members;
 - 3.11 agree that, having had the opportunity to read this document, you shall be deemed to have had notice of all information and representations concerning the Company contained therein;
 - 3.12 confirm and warrant that you have read and complied with paragraph 4 below;
 - 3.13 confirm that you have received the restrictions contained in paragraph 5 below and warrant as provided therein;
 - 3.14 warrant that you are not under the age of 18; and

- 3.15 agree that all documents and cheques sent by post to, by, or on behalf of the Company or the Receiving Agent, will be sent at the risk of the person entitled thereto.
4. No person receiving a copy of this document or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Forms unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
 5. The Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) and, subject to certain exceptions, the Shares may not be offered, sold, renounced, transferred or delivered, directly or indirectly, in the United States or to any person in the United States. Persons subscribing for Shares shall be deemed, and (unless the Company is satisfied that Shares can be allotted without breach of United States security laws) shall be required, to represent and warrant to the Company that they are not a person in the United States and that they are not subscribing for such Shares for the account of any such person and will not offer, sell, renounce, transfer or deliver, directly or indirectly, such Shares in the United States or to any such person. As used herein, "United States" means the United States of America (including each of the States and the District of Columbia) its territories or possessions or other areas subject to its jurisdiction. In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The Fund Manager will not be registered under the United States Investment Advisers Act of 1940, as amended.
 6. This application is addressed to the Company and the Sponsor. The rights and remedies of the Company under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to it, and the exercise or partial exercise of one will not prevent the exercise of others.
 7. Authorised financial advisers who, acting on behalf of their clients, return valid Application Forms bearing their stamp and FSA number will be paid commission on the amount payable in respect of Shares allocated for each such Application Form at the rates specified below. Authorised financial advisers may elect to be paid a trail commission and may agree to waive part or all of their commission in respect of an application. If this is the case, then such application will be treated as an application to apply for the number of Ordinary Shares stated in box 2 of the Application Form together with a number of additional Ordinary Shares equivalent to the amount of commission waived at 106.25 pence per Share (subject to the Pricing Mechanism), which waived commission will be applied in paying for such Shares (and which additional Shares will be treated as a pro rata application in respect of the tax year(s) indicated under box 2 of the Application Form). Financial advisers should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission
 8. Existing Shareholders whose Application Forms are received by 5.00 p.m. on 21 March 2008 will be able to subscribe for their Ordinary Shares at a 2.5 per cent. discount to the Offer price. The total value of the applicable discount will be reinvested in additional Ordinary Shares. Accordingly, if the minimum of £5,000 is subscribed for, existing Shareholders who return their duly completed and valid Application Forms before this date will receive 117 additional Ordinary Shares (subject to the Pricing Mechanism).
 9. Investors who subscribe for an amount equal to, or in excess of, £50,000 of Ordinary Shares under the Offers will receive a 2.5 per cent. discount to the Offer price. The total value of the applicable discount will be reinvested in additional Ordinary Shares. Accordingly, if £50,000 is subscribed for, existing Shareholders who return their duly completed and valid Application Forms before this date will receive 1,176 additional Ordinary Shares (subject to the Pricing Mechanism). This discount does not apply to Shareholders who take advantage of the discount referred to in paragraph 9 above.
 11. Save where the context otherwise requires, words and expressions defined in this document have the same meaning when used in the Application Form and any explanatory notes in relation thereto.

Conditionality of Investment

The contract created by the Company by accepting Application Forms as set out herein will be conditional on the Offer Agreement referred to in the Prospectus becoming unconditional and not being terminated in accordance with its terms and the Resolutions being passed.

Money Laundering

Important note for applications for 15,000 Euros (approximately £10,000) or more

The verification of identity requirements of the Money Laundering Regulations 2007 will apply and verification of the identity of the applicant may be required. If the value of the Shares applied for exceeds Euros 15,000 (approximately £10,000 as at the date of this document) payment should be made by means of a UK clearing bank cheque drawn in your name on an account your name. If this is not practicable and you use a building society cheque or banker's draft, you should ensure that the building society or bank has confirmed the name of the account holder by stamping or endorsing the building society cheque or banker's draft to such effect.

A failure to provide the necessary evidence of identity may result in the application being treated as invalid or in delay in confirming the application.

Application Procedure

It is essential that you complete all parts of the Application Form in accordance with the following instructions. Authorised Financial Intermediaries MUST read Points 4 and 5 of these notes.

If you have any queries regarding the procedure for application and payment please call the
Capita Registrars VCT Helpline on 0871 664 0435

Calls cost 10 pence per minute (including VAT) plus your service provider's network extras. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Offers or give any financial, legal or tax advice.

Please send the completed Application Form, together with your cheque or bankers' draft by post or (during normal business hours only) by hand to
Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
to arrive no later than **11.00 a.m. on 4 April 2008** for the 2007/2008 Offer or
no later than **11.00 a.m. on 30 April 2008** for the 2008/2009 Offer.

1. Personal Details

Please insert your full name, permanent address, daytime telephone number, date of birth, email address and national insurance number in Box 1. Your national insurance number, which you will find on your pay slip, is required to ensure you obtain your income tax relief. Joint applications are not permitted but husbands and wives may apply separately.

2. Application and Amount Payable

Specify the amount to be invested under the 2007/2008 Offer in Box A (state nil in appropriate)

Specify the amount to be invested under the 2008/2009 Offer in Box B (state nil in appropriate)

Specify the total amount to be invested under the Offers in Box C

Please note that the minimum investment is **£5,000**. The maximum investment, on which tax reliefs on investments in VCTs are available, is £200,000. The number of Shares allocated will be notified in writing to each Investor.

The Company, after consultation with Howard Kennedy, reserve the right to determine the number of Ordinary Shares which you will be allotted in accordance with the Pricing Mechanism as set out on page 26 of this document.

Payment

Cheques, which must be drawn on the personal account of the individual investor where they have sole or joint title to the funds, should be made payable to '**Capita Registrars Limited re: British Smaller** and crossed 'A/C Payee only'. Third party cheques will not be accepted with the exception of building society cheques or bankers' drafts where the building society or Bank has confirmed the name of the account holder by stamping or endorsing the building society cheque/bankers' draft to such effect. No receipt will be issued. Attach your cheque(s) or bankers' draft to the Application Form.

The account name should be the same as that shown on the application.

If you are applying under the 2007/2008 Offer and 2008/2009 Offer, you must submit a separate cheque or bankers' draft for each tax year. Cheques may be post-dated to 6 April 2008 for applications under the 2008/2009 Offer.

Money Laundering Regulations

Under the Money Laundering Regulations 2007, Capita may be required to check the identity of persons who subscribe for in excess of the sterling equivalent of €15,000 of Shares (approximately £10,000).

Capita may therefore undertake electronic searches for the purposes of verifying identity. To do so, Capita may verify the details against the Applicant's identity, but may also request further proof of identity. Capita reserve the right to withhold any entitlement (including any refund cheque) until such verification of identity is completed to its satisfaction.

3. Declaration and Signature

Sign and date Box 3.

The Application Form may only be signed by someone other than the applicant named in Box 1 if duly authorised to do so. In such cases the original Power of Attorney (or other relevant legal document) or duly certified copy therefore must be enclosed for inspection.

NOTES FOR AUTHORISED FINANCIAL INTERMEDIARIES ONLY

4. Financial Intermediaries Details

IFA's must complete (in BLOCK CAPITALS) and STAMP (giving their full name and address) and complete Box 4 in BLOCK CAPITALS, giving a contact name, telephone number, email address and details of their authorisation under the Financial Services and Markets Act 2000. The right is reserved to withhold any payment of commission if the Company is not, at their sole discretion, satisfied that the agent is authorised or is unable to identify the agent on the basis of the information provided.

Please note: Commission cheques will be made payable only to the IFA detailed in Box 4.

Money Laundering Regulations

If you complete and stamp Box 4 you are warranting that the applicant is known to you and that you have completed all the verification procedures as required by the relevant rules and guidance of the FSA, the Joint Money Laundering Steering Group Guidance Notes and other anti-money laundering laws and regulations as may be considered appropriate.

You also confirm that this information can be relied upon by the Receiving Agent and will, subject to reasonable notice, be made available to the Company or the Receiving Agent for inspection upon request.

In the event of delay or failure to produce such information, the Company may refuse to accept an application under the Offers.

5. Commission

Complete Box 5 to show the commission structure you wish to receive. If Box 5 is not completed or the election is unclear commission of 3% will be paid in cash.

IFA's must complete and stamp Box 4 and complete Box 5 in order to receive commission. Commission cheques will only be issued in accordance with the details submitted on the Application Form. No other form of instruction will be accepted.

Frequently asked questions

Q: Who should I make the cheque payable to?

A: Cheques should be made payable to 'Capita Registrars Limited re: British Smaller

Q: Where should I send my application?

A: Your application form and cheque should be sent to Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Q: What happens after I invest?

A: We will send you confirmation that we have received your application by return of post. You should expect to receive your share certificate within a few weeks of making your investment.

Please call the Capita Registrars VCT Helpline shown on page 49 of this prospectus or YFM Private Equity Limited on 0800 854057 at any time concerning your application.

Application Form – British Smaller Companies VCT

IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE YOU ARE RECOMMENDED TO CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 WHO SPECIALISES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES.

Before completing this Application form you should read the Terms and Conditions of Application and Application Procedure.

The Offers open on 4 January 2008 and close at 11 am on 4 April 2008 in respect of the 2007/2008 Offer and at 11.00 am on 30 April 2008 in respect of the 2008/2009 Offer, or such earlier date on which the Offers are fully subscribed, save that the Directors can extend the closing date of the 2008/2009 Offer in their absolute discretion.

Make your cheque payable to **Capita Registrars Limited re: British Smaller** (crossed A/C payee only) and return it together with this form by post or (during normal business hours only) by hand to Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you require assistance or have any queries regarding the completion of this application form please call the **Capita Registrars VCT Helpline on 0871 664 0435.**

Calls cost 10 pence per minute (including VAT) plus your service provider's network extras. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Offers or give any financial, legal or tax advice.

Box 1 - Personal Details PLEASE COMPLETE IN BLOCK CAPITALS ONLY and in BLACK INK

Title	<input type="text"/>	Surname	<input type="text"/>
First Name	<input type="text"/>		
Home Address	<input type="text"/>		
		Postcode	<input type="text"/>
Daytime Telephone Number	<input type="text"/>	Email Address	<input type="text"/>
National Insurance Number	<input type="text"/>	Date of Birth	<input type="text"/>

Box 2 - Application and Amount Payable (Applications must be for a minimum of £5,000)

2007/2008 Offer (2007/2008 Tax Year):	£	<input type="text"/>	Box A
2008/2009 Offer (2008/2009 Tax Year):	£	<input type="text"/>	Box B
Total:	£	<input type="text"/>	Box B

Box 3 - Declaration and Signature

By signing this form I HEREBY AND DECLARE THAT:

- (i) I have received and read the Prospectus dated 4 January 2008 and have read the Terms and Conditions of Application contained therein and agree to be bound by them:
- (ii) I will be the beneficial owner of the Shares in British Smaller Companies VCT plc issued to me pursuant to the Offers; and
- (iii) to the best of my knowledge and belief, the particulars I have given British Smaller Companies VCT plc are correct.

HM Revenue and Customs may inspect this application form. It is a serious offence to make a false declaration.

Signature	<input type="text"/>	Date	<input type="text"/>
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BOX 4 AND BOX 5 MUST BE COMPLETED BY AUTHORISED FINANCIAL INTERMEDIARIES ONLY

Box 4 - Financial Intermediaries Details

By completing and stamping Box 4 below you are deemed to have given the warranty and undertaking set out in Note 4 of the accompanying Application Procedure.

IFA STAMP <div style="border: 1px solid black; height: 150px; width: 100%;"></div>	Name of Firm	<input style="width: 90%;" type="text"/>
	FSA Number	<input style="width: 90%;" type="text"/>
	Signature	<input style="width: 90%;" type="text"/>
	Print Name	<input style="width: 90%;" type="text"/>
	Position	<input style="width: 90%;" type="text"/>
	Date	<input style="width: 90%;" type="text"/>
	Telephone No.	<input style="width: 90%;" type="text"/>

Box 5 - Commission

In order to receive commission you must complete and stamp Box 4 above and complete Box 5 below, clearly indicating the commission structure you wish to receive.

INSTRUCTIONS:

- Tick ONE OPTION only in Box A
- Indicate in Boxes B and C how much commission you wish to have paid or waived in favour of the applicant named in Box 1 above (expressed as a % of the TOTAL SUBSCRIPTION detailed in Box 2)
- Insert in Box D the total of Boxes B and C. This must equal the election made in Box A.

BOX A Commission	BOX B Pay to IFA	BOX C Waive & Reinvest	BOX D TOTAL	For Official Use Only
3% <input style="width: 40px;" type="text"/> <i>Example</i>	1.5 % <input style="width: 40px;" type="text"/> <i>Example</i>	1.5 % <input style="width: 40px;" type="text"/> <i>Example</i>	3 % <input style="width: 40px;" type="text"/>	<input style="width: 80px;" type="text"/> <i>Example</i>
3% <input style="width: 40px;" type="text"/>	<input style="width: 40px;" type="text"/> %	<input style="width: 40px;" type="text"/> %	<input style="width: 40px;" type="text"/> %	<input style="width: 80px;" type="text"/>
2.25% + Trail <input style="width: 40px;" type="text"/>	<input style="width: 40px;" type="text"/> %	<input style="width: 40px;" type="text"/> %	<input style="width: 40px;" type="text"/> %	<input style="width: 80px;" type="text"/>

If no election is made or the election is unclear a commission off 3% will be paid

If you have any queries regarding the procedure for application and payment please call the Capita Registrars VCT Helpline set out on the front of this application form

Return this form by post or (during normal business hours only) by hand to Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU to arrive no later than 11.00 a.m. on 4 April 2008 for the 2007/2008 Offer or no later than 11.00 a.m. on 30 April 2008 for the 2008/2009 Offer.

British Smaller Companies VCT plc (“the Company”)

Purchase of Own Securities and Total Voting Rights

The Company announces that on 30 September 2008 it purchased 188,072 Ordinary shares of 10 pence each at a price of 88.5 pence per share. These shares will be held in Treasury.

The Company’s issued share capital consists of 30,752,447 Ordinary Shares with voting rights. In addition, the company holds 1,050,955 shares in Treasury.

The above figure may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in the Company under the FSA’s Disclosure and Transparency Rules.

1 October 2008

BRITISH SMALLER COMPANIES VCT PLC (“the Company”)

ANNUAL GENERAL MEETING

HELD ON 6 AUGUST 2008

The directors are pleased to announce that at the Annual General Meeting of the Company held on 6 August 2008 all of the resolutions proposed as Ordinary Business and all of the Special Resolutions (as set out below) proposed at the Meeting were duly passed.

The Chairman stated that the Company’s performance was satisfactory in the context of the current economic climate. The Board believes that there are likely to be good investment opportunities arising over the next 12 months. The company has a strong un-gearred balance sheet that positions it to take advantage of these opportunities as they arise.

At the conclusion of the Meeting Helen Sinclair, the new Chairman, spoke on behalf of the board thanking Sir Andrew Hugh Smith for his considerable services to the Company since its establishment.

ORDINARY RESOLUTIONS

- (1) To receive the Annual Report and accounts for the year ended 31 March 2008.
- (2) To declare a final dividend for the year to 31 March 2008 of 3.0p per Ordinary Share.
- (3) To approve the Directors’ Remuneration Report.
- (4) To elect as a director Ms Helen Sinclair.
- (5) To re-elect as a director Mr P Cammerman.
- (6) To re-elect as a director Mr R Last.
- (7) That PKF (UK) LLP be re-appointed as independent auditors to the Company and that the directors be authorised to fix their remuneration.
- (8) That the directors be and are generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (“the Act”) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) in connection with any dividend reinvestment scheme, at such time and generally on such terms and conditions as the directors may determine during the period commencing on the passing of this Resolution and expiring on 6 August 2013, (unless previously renewed, varied or revoked by the Company in a general meeting) and the maximum nominal value of such relevant securities as aforesaid which may be allotted pursuant to such authority shall be £1 million being 7.5% of the authorised but unissued share capital of the Company at 31 May 2008 but so that the directors shall be entitled under the authority conferred or under the renewal hereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly.

SPECIAL RESOLUTIONS

(1) That Article 106 of the Company's Articles of Association (limit on directors' aggregate remuneration) be amended by the deletion therefrom of the number "£75,000" and by the insertion of the number "£115,000" in substitution therefor.

(2) That the directors be and are hereby empowered during the period commencing on the passing of this resolution and expiring on 6 August 2013 (unless previously revoked, varied or extended by the Company in general meeting pursuant to Section 95 of the Act) to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in Ordinary Resolution (8) above, as if Section 89(1) of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with a dividend reinvestment scheme but so that this authority shall allow the Company to make offers or agreements before the expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.

(3) That pursuant to Article 140 of the Company's Articles of Association, the Board is hereby authorised to offer holders of shares in the Company the right to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part to be determined by the Board) of all or any dividend declared in the period ending at the beginning of the annual general meeting in 2009 subject to the provisions of Articles 140.2 to 140.7 and on such other terms as may be approved by the Board.

(4) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary shares of 10p in the capital of the Company provided that:

- 4.1 the maximum aggregate number of Ordinary shares authorised to be purchased is 3,968,982 being 14.99% of issued Ordinary Shares as at 3 July 2008;
- 4.2 the maximum price which may be paid for an Ordinary share is an amount equal to maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
- 4.3 the minimum price which may be paid for an Ordinary share is its nominal value;
- 4.4 this authority shall take effect from 6 August 2008 and shall expire at the conclusion of the Company's next annual general meeting or on the expiry of 15 months following the passing of the resolution, whichever is the earlier; and
- 4.5 the Company may make a contract or contracts to purchase Ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.

For further information, please contact:

David Hall
YFM Private Equity Limited
Tel: 0161 832 7603