YFM Equity Partners

Prospective investors should carefully consider the following risk factors in addition to the other information presented in this document. If any of the risks described below were to occur, it could have a material effect on either of the Companies' business, financial condition or results of operations. The risks and uncertainties described below are the only known material risks which the Companies or their Shareholders will face. Further risks, unknown by the Companies, may exist. Any decision to invest under the Offers should be based on consideration of the prospects document as a whole.

Risk factors relating to the Shares

The market price of the New Shares may not fully reflect their underlying Net Asset Value. The value of an investment in the Companies, and the income derived from it, may go down as well as up. VCTs exist to address a market failure, providing funding where the risk profile of returns is not sufficient for there to be active market participants; an Investor may not get back the full amount invested, even taking into account the available tax reliefs.

Although the existing Shares have been (and it is anticipated that the New Shares will be) admitted to the Official List and are (or will be) traded on the London Stock Exchange's market for listed securities, the secondary market for VCT shares is generally illiquid. Therefore, there may not be a liquid market for the Shares, which may be partly attributable to the fact that the initial income tax relief is not available for VCT shares generally bought in the secondary market and because VCT shares usually trade at a discount to their net asset value, the price of the Shares may be volatile and Shareholders may find it difficult to realise their investment. An investment in the Companies should, therefore, be considered as a long-term investment.

The disposal of New Shares within five years of their issue will result in some or all of the 30 per cent income tax relief available on investment becoming repayable. On this basis, investing in New Shares should be considered a long-term investment. The availability of income tax relief on an application for shares issued in a VCT is restricted where the application is "linked" to a sale of shares in the same VCT or another VCT which is known to be merging with that VCT. For these purposes, linked means i) the sale of shares in the VCT was conditional on the application for shares in the same VCT (or vice versa) or ii) the application and sale are within six months of each other (irrespective of which comes first). If the application is "linked", the amount on which the upfront income tax relief can be claimed will be reduced by the amount of consideration of any linked revenue. In addition, if a VCT makes a payment to its shareholders which amounts to a repayment of share capital (including the payment of a dividend or a distribution), other than for the purpose of redeeming or repurchasing such shares, before the end of the third accounting period following the accounting period in which the shares were issued, the VCT status of the VCT will be withdrawn.

The Companies will only pay dividends on their Shares to the extent that they have distributable reserves and cash available for that purpose. A reduction in income received, or in capital gains realised, from the Companies' investments may adversely affect the dividends payable to Shareholders.
The tax rules, or their interpretation, in relation to an investment in Shares and/or the rates of tax may change during the life of the Companies and may apply retrospectively, which may adversely affect the performance of the Companies.

Risk factors relating to the Companies

There can be no guarantee that each Company's investment objective will be achieved or that suitable investment opportunities will be available.

An investment in unquoted companies, by its nature, involves a higher degree of risk than investment in companies traded on the main market for listed securities of the London Stock Exchange. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals.

Despite a falling inflation rate in the first half of 2024, and wage inflation now being in excess of Consumer Price Index (CPI) inflation, market commentators anticipate that the cost of living crisis will continue to put pressure on customers and businesses in the near term, resulting in spending hesitancy. This may have an adverse impact on the performance of the Companies' portfolio investments, reducing their value, and in turn, the future investment returns of the Companies

Any change in government and/or of governmental, economic, fiscal, monetary or political policy, in particular government spending reviews and political party policies may affect levels of unemployment, stock market volatility, consumer confidence and interest rates. There may also be an impact on these factors from global instability, including current conflicts in Ukraine and the Middle East. Resultant negative impacts on these metrics may have an adverse impact on the performance of the Companies' portfolio investments, reducing their value, and in turn, the future investment returns of the Companies.

Government policy uncertainty and continuing long term challenges for the UK economy, such as heightened trade barriers between the UK and EU, and continued low productivity growth due to low levels of public and private investment, may have an adverse effect on the future investment returns of the Companies.

British Smaller Companies VCT plc (Co No 03134749) and British Smaller Companies VCT2 plc (Co No 04084003) registered in England and Wales
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