

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the action to be taken, you should immediately consult your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000 (FSMA).

If you have sold or otherwise transferred all of your Shares in Kings Arms Yard VCT PLC (the Company), please send this document and accompanying documents, as soon as possible, to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for delivery to the purchaser or transferee.

This document, which comprises a prospectus relating to the Company dated 25 August 2011, has been prepared in accordance with the prospectus rules made under Part VI of FSMA.

The Company, the Directors and the Proposed Directors, whose names appear on page 11 of this document, accept responsibility for the information contained herein. To the best of the knowledge and belief of the Company, the Directors and the Proposed Directors (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.

Brewin Dolphin Limited, which is authorised and regulated in the United Kingdom by the FSA, is acting as sponsor for the Company and no-one else and will not be responsible to any other person for providing the protections afforded to customers of Brewin Dolphin Limited (subject to the responsibilities and liabilities imposed by FSMA and the regulatory regime established thereunder) in providing advice or in relation to any matters referred to in this document.

Martineau, which is regulated in the United Kingdom by the Solicitors Regulation Authority, is acting as legal adviser to the Company and Kings Arms Yard VCT 2 PLC and no-one else and will not be responsible to any other person for providing advice in connection with any matters referred to in this document.

KINGS ARMS YARD VCT PLC

(Registered in England and Wales with registered number 03139019)

Prospectus

relating to the issue of up to 130 million New Shares in connection with the scheme of reconstruction of Kings Arms Yard VCT 2 PLC

The existing Shares issued by the Company are listed on the premium segment of the Official List of the UKLA and traded on the London Stock Exchange's main market for listed securities. Application has also been made to the UKLA for the New Shares to be listed on the premium segment of the Official List and will be made to the London Stock Exchange for such New Shares to be admitted to trading on its main market for listed securities. It is expected that such admission will become effective and that trading in the New Shares will commence within three days of the allotment of such New Shares. The New Shares will rank *pari passu* with the existing issued Shares from the date of issue.

The attention of Shareholders of the Company who are resident in, or citizens of, territories outside the United Kingdom is drawn to the information under the heading "Overseas Shareholders" in paragraph 5 of Part IX of this document. In particular, the New Shares to be issued pursuant to the Scheme have not and will not be registered under the United States Securities Act 1933 or the United States Investment Company Act 1990.

Persons receiving this document should carefully consider the risk factors on pages 7 to 9 of this document.

CONTENTS

SUMMARY	3
RISK FACTORS	7
EXPECTED TIMETABLES	10
CORPORATE INFORMATION	11
DEFINITIONS	12
PART I MERGER OF THE COMPANY AND KAY 2	15
PART II INFORMATION ON THE COMPANY	21
PART III THE INVESTMENT MANAGER	29
PART IV FINANCIAL INFORMATION ON THE COMPANY AND KAY 2	31
PART V PRO FORMA FINANCIAL INFORMATION	33
PART VI INVESTMENT PORTFOLIOS AND PRINCIPAL INVESTMENTS OF THE COMPANY AND KAY 2	36
PART VII TAX POSITION OF SHAREHOLDERS	40
PART VIII TAX POSITION OF THE COMPANY	41
PART IX ADDITIONAL INFORMATION	43

SUMMARY

This summary should be read as an introduction to this Prospectus. Any decision to invest in the transferable securities of the Company should be based on consideration of the Prospectus as a whole by such investors. 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 this Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Background

The Company and KAY 2 announced on 16 May 2011 that they were in preliminary discussions on terms for a merger to create a single, larger VCT (completing the amalgamation of the original five Quester VCTs). The aim is to achieve strategic benefits and reductions in the annual running costs for both sets of shareholders and establish a platform from which the revised investment mandate can be better operated.

Merger with KAY 2

The merger, subject to approval of Shareholders, will result in the creation of an enlarged company and should result in savings in running costs and simpler administration.

The Board considers that this merger will bring a number of benefits to both groups of shareholders through:

- a reduction in annual running costs for the Enlarged Company compared to the total annual running costs of the separate companies;
- the creation of a single VCT of a more economically efficient size with a greater capital base over which to spread administration, regulatory and management costs;
- participation in a larger VCT with the longer term potential for a more diversified portfolio thereby spreading the portfolio risk across a broader range of investments and allowing for further investment in the pursuit of the new investment policy; and
- enhancing the ability of the Enlarged Company to raise new funds and pay dividends in the future.

The Scheme

The Scheme will be effected by KAY 2 being placed into members' voluntary liquidation and for all of its assets and liabilities being transferred to the Company in consideration for New Shares being issued directly to KAY 2 Shareholders. The merger will be completed on a relative net asset value basis with the benefits being shared by both sets of shareholders, with the costs split proportionately based on the merger NAVs.

Scheme Illustration

As at 30 June 2011, the unaudited NAV per Share of the Company (taken from the Half-Yearly Report) was 16.0 pence. The Merger Value of a Share (had the merger been completed on that date and calculated in accordance with the terms of the Scheme) would have been 15.9 pence.

As at 30 June 2011, the unaudited NAV of a KAY 2 Share (taken from the KAY 2 Half-Yearly Report) was 21.1 pence. The Roll-Over Value of a KAY 2 Share (had the merger been completed on that date and calculated in accordance with the terms of the Scheme) would have been 20.9 pence (assuming no dissenting KAY 2 Shareholders).

The number of New Shares that would have been issued to KAY 2 Shareholders would then have been calculated by multiplying the number of KAY 2 Shares in issue by the Merger Ratio, this being the Roll-

Over Value of a KAY 2 Share divided by the Merger Value per Share. The New Shares would have been issued to all KAY 2 Shareholders pro-rata to their holdings in KAY 2 (assuming no dissenting KAY 2 Shareholders). Had the merger been completed on 30 June 2011, every KAY 2 Share in issue would have been exchanged for 1.3152 New Shares. The Directors do not expect the actual Roll-Over Value and the Merger Value to be materially different from the Scheme illustration, unless an unforeseen event (e.g. an exit opportunity in respect of an investment) requires a revaluation of a holding.

The Board

The directors of the Company are Robin Field (Chairman), Martin Fiennes and Patrick Reeve (Patrick Reeve being the managing partner at Albion). It has been agreed that, following the merger, Patrick Reeve will step down as a Director of the Company and Thomas Chambers and Alan Lamb (directors of KAY 2) will be appointed as directors to the Company.

Management and Administration Fees

Albion is the investment manager of the Company and of KAY 2 and also provides administration services to both Companies. Albion will continue to provide investment management and administration services to the Enlarged Company following the merger on the existing annual fee basis, so that fees to 31 December 2011 for the Enlarged Company will continue to be waived and thereafter annual investment management fees will be an amount equivalent to 2 per cent. of the net assets of the Enlarged Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any).

Investment Objective and Investment Policy

The Company intends to, over time, rebalance its portfolio such that approximately 50 per cent. of the portfolio comprises an asset-based portfolio of lower risk, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors with the potential for high capital growth (the "Asset-Based Portfolio"). The balance of the portfolio, other than funds retained for liquidity purposes, will be invested in a portfolio of higher growth businesses across a variety of sectors of the UK economy. These will range from lower risk, income producing businesses to a limited number of higher risk technology companies (the "Growth Portfolio").

In neither category would portfolio companies normally have any external borrowing with a charge ranking ahead of the Company. Up to two thirds of qualifying investments by cost will comprise loan stock secured with a first charge on the portfolio company's assets.

The Company's investment portfolio will thus be structured to provide a balance between income and capital growth for the longer term. The Asset-Based Portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth. The Growth Portfolio is intended to provide highly diversified exposure through its portfolio of investments in unquoted UK companies.

Funds held pending investment or for liquidity purposes will be held as cash on deposit or in floating rate notes or similar instruments with banks or other financial institutions with a Moody's rating of 'A' or above.

The Company's investment allocation and risk diversification policies are substantially driven by the relevant HMRC rules and it is the intention of the Company to apply the following policies in this respect:

- the Company's income will be derived wholly or mainly from shares and securities;
- at least 70 per cent. of the value of its investments will be represented throughout the year by shares of securities that are classified as 'qualifying holdings';
- at least 30 per cent. by value of its total qualifying holdings will be represented through the year by holdings of 'eligible shares';
- at no time in the year will the Company's holdings in any one company exceed 15 per cent. by VCT Value of its investments;

- the Company will not retain more than 15 per cent. of its income earned in the year from shares and securities; and
- eligible shares will comprise at least 10 per cent. by value of the total of the shares and securities that the Company holds in any one portfolio company.

These tests drive a spread of investment risk through disallowing holdings of more than 15 per cent. in one portfolio company.

‘Qualifying holdings’ for the Company include shares or securities (including loans with a five year or greater maturity period) in companies which operate a ‘qualifying trade’ wholly or mainly in the United Kingdom.

‘Qualifying trade’ excludes, amongst other sectors, dealing in property or shares and securities, insurance, banking and agriculture. The Company may not control a portfolio company.

There is an annual investment limit of £1 million in each portfolio company.

Gearing will not normally be employed. As defined by the Company’s articles of association, the Company’s maximum exposure in relation to gearing is restricted to the amount equal to the adjusted capital and reserves.

Share Capital

The number of Shares in issue at the date of this document is 110,417,392. The maximum number of New Shares to be issued pursuant to the merger is 130,000,000.

Dividend Policy

In view of Albion’s track record of generating deal flow of the sort of opportunities the Company is now targeting and, given the Board’s intention to build up a portfolio of income yielding securities, it is intended that a greater proportion of cash available from disposals should be devoted to new investments rather than to dividends.

The Board’s intention is to establish a sustainable and progressive dividend stream to Shareholders, with the prospect of a gradual recovery in capital value.

The current annual dividend target is 0.67 pence per Share per annum, but it is hoped this will increase over time as exits are achieved and the new investment policy is fully implemented.

Buybacks

In order to maintain resources for dividends and the implementation of the new investment policy, the Board does not intend to buyback any shares in the financial year to 31 December 2011. However, it intends to implement a share buyback policy to make purchases in the market in the region of a 10 to 15 per cent. discount to net asset value, (so far as market conditions, liquidity and reserves permit) once the fruits of the new investment policy have begun to show. Such buybacks, are subject to the overall constraint that such purchases are in the interests of the Company, including the maintenance of sufficient resources for investment in existing and new investee companies and the continued payment of dividends.

Summary Risk Factors

An investment in the Company is subject to a number of risks, which could materially and adversely affect its value and a summary of the material risks is set out below:

Scheme related risk factors

- Completion of the Scheme is dependent upon a number of conditions precedent being fulfilled, including the approval of Shareholders.
- Shareholders may be adversely affected by the performance of the investments, whether acquired from KAY 2 or made by the Company, which may restrict the ability of the Company following the

merger to distribute any capital gains and revenue received on the investments transferred from KAY 2 to the Company (as well as the investments of the Company).

- Shareholders may be adversely affected by a change in the VCT status of the Company if a number of the investments acquired from KAY 2, or the investments of the Company, are or become unable to meet VCT requirements and the Enlarged Company could also be adversely affected by the VCT investment restrictions which currently allow the Company and KAY 2 to co-invest, in aggregate, larger amounts of funds.

General risk factors

- The value of Shares can fluctuate and Shareholders may not get back the amount they invested.
- Although the existing Shares have been (and it is anticipated that the New Shares to be issued pursuant to the Scheme will be) admitted to the premium segment of 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 and Shareholders may find it difficult to realise their investment. An investment in the Company should, therefore, be considered as a long-term investment.
- The past performance of the Company, KAY 2 and/or Albion is no indication of future performance.
- The Company's investments may be difficult, and take time, to realise.
- It can take a period of years for the underlying value or quality of the businesses of smaller companies, such as those in which the Company invests, to be fully reflected in their market values.
- Investment in AIM-traded, PLUS market-traded, NASDAQ-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies listed on the Official List which could result in the value of such investment, and interest income and dividends therefrom reducing.
- Whilst it is the intention of the Board that the Company will continue to be managed so as to qualify as a VCT, there can be no guarantee that such status will be maintained. Failure to continue to meet the qualifying requirements could result in Shareholders losing the tax reliefs available for VCT shares, resulting in adverse tax consequences.
- If a Shareholder disposes of his or her Shares within five years of issue (three years if such Shares were issued on or between 6 April 2000 and 5 April 2006), he or she will be subject to clawback by HMRC of any income tax reliefs originally claimed. Any realised losses on the disposal of Shares cannot be used to create an allowable loss for capital gains tax purposes.
- If at any time VCT status is lost for the Company, dealings in its Shares will normally be suspended until such time as proposals to continue or to be wound-up have been announced.
- Any change in governmental or political policy could materially affect the operation of the Company and/or the value of and returns from Shares, as well as the ability to maintain VCT status.
- The tax rules, or their interpretation, in relation to an investment in the Company and/or the rates of tax may change during the life of the Company and may apply retrospectively which may affect tax reliefs obtained by Shareholders and the VCT status of the Company.
- Any purchaser of existing Shares in the secondary market will not qualify for the then (if any) available tax reliefs afforded to subscribers of new VCT shares on the amount invested.

Taxation

It is the intention of the Board to continue to comply with the requirements of ITA 2007 following implementation of the Scheme so as to continue to qualify as a VCT.

The effective exchange of existing KAY 2 Shares for New Shares should not constitute a disposal of the existing KAY 2 Shares for the purposes of UK taxation. Instead, the new holding of New Shares should be treated as having been acquired at the same time and at the same cost as the existing KAY 2 Shares from which they are derived. Any capital gains tax deferral relief obtained on subscription of the existing KAY 2 Shares should not, therefore, be crystallised for payment but will be transferred to the New Shares.

RISK FACTORS

Shareholders and prospective Shareholders should consider carefully 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 the Company's business, financial condition or results of operations. The risks and uncertainties described below (such as changes in legal, regulatory or tax requirements) are not the only ones the Company, the Board or Shareholders will face. Additional risks not currently known to the Company or the Board, or that the Company or the Board currently believe are not material, may also adversely affect the Company's business, financial condition or results of operations. The value of the Shares could decline due to any of the risk factors described below and Shareholders could lose part or all of their investment. Shareholders and prospective Shareholders should consult an independent financial adviser authorised under FSMA. References to the Company should be taken as including the Enlarged Company.

Scheme related risk factors

Completion of the Scheme is dependent upon a number of conditions precedent being fulfilled, including the approval of Shareholders. Whilst the Board has identified a number of potential benefits for the Enlarged Company, there is no certainty that these benefits will lead to improved prospects for the Enlarged Company. If the merger is not approved and effected, the benefits of the merger will not be realised.

Shareholders may be adversely affected by the performance of the investments, whether acquired from KAY 2 or made by the Company. The performance of the investments acquired from KAY 2 as well as the investments of the Company, may restrict the ability of the Company following the merger to distribute any capital gains and revenue received on the investments transferred from KAY 2 to the Company (as well as the investments of the Company). Any gains (or losses) made on the investments of the Company will, following the Scheme, be shared amongst all the Shareholders *pro rata* to the number of Shares then in issue.

Shareholders may be adversely affected by a change in the VCT status of the Company if a number of the investments acquired from KAY 2, or the investments of the Company, are, or become, unable to meet VCT requirements. In addition, as VCT investment restrictions are assessed per VCT, the Enlarged Company could be adversely affected by the VCT investment restrictions which currently allow the Company and KAY 2 to co-invest, in aggregate, larger amounts of funds.

General risk factors

The value of Shares can fluctuate and Shareholders may not get back the amount they invested. In addition, there is no certainty that the market price of Shares will fully reflect their underlying NAV or that any dividends will be paid, nor should Shareholders rely upon any Share buyback policy to offer any certainty of selling their Shares at prices that reflect the underlying NAV.

Although the existing Shares have been (and it is anticipated that the New Shares to be issued pursuant to the Scheme will be) admitted to the premium segment of 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 (which may be partly attributable to the fact that initial tax reliefs are not available for VCT shares generally bought in the secondary market and because VCT shares usually trade at a discount to NAV) and Shareholders may find it difficult to realise their investment. An investment in the Company should, therefore, be considered as a long-term investment.

The past performance of the Company, KAY 2 and/or Albion is no indication of future performance. The return received by Shareholders will be dependent on the performance of the underlying investments. The value of such investments, and interest income and dividends therefrom, may rise or fall and Shareholders may not get back the full amount invested.

Although the Company may receive customary venture capital rights in connection with some of its unquoted investments, as a minority investor it may not be in a position to fully protect its interests.

A number of the Company's investments are and will be in companies whose securities are not publicly traded or freely marketed and may, therefore, be difficult, and take time, to realise. There may also be constraints imposed on the realisation of investments in order to maintain the VCT tax status of the Company.

It can take a period of years for the underlying value or quality of the businesses of smaller companies, such as those in which the Company invests, to be fully reflected in their market values and their market values are often also materially affected by general market sentiment, which can be negative for prolonged periods.

Investment in AIM-traded, PLUS market-traded, NASDAQ-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies listed on the Official List which could result in the value of such investment, and interest income and dividends therefrom reducing. In particular, small companies often have limited product lines, markets or financial resources and may be dependent for their management on a small number of key individuals and may be more susceptible to political, exchange rate, taxation and other regulatory changes. In addition, the market for securities in smaller companies is usually less liquid than that for securities in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such securities. Investment returns will, therefore, be uncertain and involve a higher degree of risk than investment in a company listed on the Official List.

Technology related risks are likely to be greater in early, rather than later, stage technology investments, including the risks of the technology not becoming generally accepted by the market or the obsolescence of the technology concerned, often due to the greater financial resources available to competing companies.

The success of some investments may be based on the ability of investee companies to establish, protect and enforce intellectual property rights, those rights being broad enough to protect proprietary interests and the rights not infringing third party patents.

The leisure sector, where a number of the Company's asset-based investment may be made, is sensitive to any further down turn in the economic environment which may impact on the success of investments.

A charge given to the Company over an asset will not always provide full capital protection for an investment. The Company may not, therefore, recover the full amount invested in any one investee company.

Whilst it is the intention of the Board that the Company will continue to be managed so as to qualify as a VCT, there can be no guarantee that such status will be maintained. Failure to continue to meet the qualifying requirements could result in Shareholders losing the tax reliefs available for VCT shares, resulting in adverse tax consequences including, if the holding has not been held for the relevant holding period, a requirement to repay the tax reliefs obtained. Furthermore, should the Company lose its VCT status, dividends and gains arising on the disposal of Shares would become subject to tax and the Company would also lose its exemption from corporation tax on its capital gains.

Any change of governmental, economic, fiscal, monetary or political policy could materially affect directly or indirectly, the operation of the Company and/or the performance of the Company and the value of and returns from Shares and/or their ability to achieve or maintain VCT status.

If a Shareholder disposes of his or her Shares within five years of issue (three years if such Shares were issued on or between 6 April 2000 and 5 April 2006), he or she will be subject to clawback by HMRC of any income tax reliefs originally claimed. For these purposes, the date of issue of the New Shares issued pursuant to the Scheme will be the original date of issue of the KAY 2 Shares in respect of which such New Shares are issued. Any realised losses on the disposal of Shares cannot be used to create an allowable loss for capital gains tax purposes.

If at any time VCT status is lost for the Company, dealings in its Shares will normally be suspended until such time as proposals to continue as a VCT or to be wound-up have been announced.

The tax rules, or their interpretation, in relation to an investment in the Company and/or the rates of tax may change during the life of the Company and may apply retrospectively which may affect tax reliefs obtained by Shareholders and the VCT status of the Company.

Any purchaser of existing Shares in the secondary market will not qualify for the then (if any) available tax reliefs afforded to subscribers of new VCT shares on the amount invested.

EXPECTED TIMETABLES

EXPECTED TIMETABLE FOR THE COMPANY

Latest time for receipt of forms of proxy for the General Meeting.....	4.00 p.m. on 21 September 2011
General Meeting	4.00 p.m. on 23 September 2011
Calculation Date.....	after 5.00 p.m. on 29 September 2011
Effective Date for the transfer of the assets and liabilities of KAY 2 to the Company and the issue of New Shares pursuant to the Scheme*	30 September 2011
Announcement of the results of the Scheme.....	30 September 2011
Admission of and dealings in New Shares issued pursuant to the Scheme to commence	3 October 2011
CREST accounts credited with New Shares issued pursuant to the Scheme	3 October 2011
Certificates for New Shares issued pursuant to the Scheme dispatched	10 October 2011
Expected completion of the cancellation of share capital and reserves.....	October/November 2011
(*this will, therefore, be the final expected date of trading of the KAY 2 Shares.)	

EXPECTED TIMETABLE FOR KAY 2

Date from which it is advised that dealings in KAY 2 Shares should only be for cash settlement and immediate delivery of documents of title.....	9 September 2011
Latest time for receipt of forms of proxy for the KAY 2 First General Meeting.....	2.00 p.m. on 21 September 2011
KAY 2 First General Meeting	2.00 p.m. on 23 September 2011
Latest time for receipt of forms of proxy for the KAY 2 Second General Meeting	3.00 p.m. on 28 September 2011
Record Date for KAY 2 Shareholders' entitlements under the Scheme	29 September 2011
KAY 2 Register of Members closed.....	29 September 2011
Calculation Date.....	after 5.00 p.m. on 29 September 2011
Dealings in KAY 2 Shares suspended	7.30 a.m. on 30 September 2011
KAY 2 Second General Meeting.....	3.00 p.m. on 30 September 2011
Effective Date for the transfer of the assets and liabilities of KAY 2 to the Company and the issue of New Shares pursuant to Scheme*	30 September 2011
Announcement of the results of the Scheme.....	30 September 2011
Cancellation of the KAY 2 Shares' listing	8.00 a.m. on 3 October 2011
(*see the timetable for the Company with regard to admission, CREST accounts being credited and certificates being dispatched.)	

CORPORATE INFORMATION

Directors	Robin Anthony Field (Chairman) Martin Guy Fiennes Patrick Harold Reeve (all of the registered office)
Proposed Directors	Thomas William Chambers Alan Peter Mackenzie Lamb
Registered Office	1 King's Arms Yard London EC2R 7AF Telephone: 020 7601 1850 Website: www.albion-ventures.co.uk
Company Number	03139019
Investment Manager, Administrator and Company Secretary	Albion Ventures LLP 1 King's Arms Yard London EC2R 7AF
Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Solicitors	Martineau No. 1 Colmore Square Birmingham B4 6AA
Sponsor	Brewin Dolphin Limited 45 St Vincent Street Glasgow G2 5TS
Registrars	Capita Registrars Northern House Penistone Road Fenay Bridge Huddersfield HD8 0GA
Reporting Accountant	Scott-Moncrieff Exchange Place 3 Semple Street Edinburgh EH3 8BL

DEFINITIONS

“AIM”	The Alternative Investment Market, a market operated by the London Stock Exchange
“Albion”	Albion Ventures LLP, the investment manager to the Company and KAY 2, of 1 King’s Arms Yard, London EC2R 7AF
“Articles”	the articles of association of the Company, as amended from time to time
“Board”	the board of directors of the Company
“Brewin Dolphin”	Brewin Dolphin Limited, which is authorised and regulated by the FSA, is a UKLA registered sponsor and is a member of the London Stock Exchange
“CA 1985”	Companies Act 1985, as amended from time to time
“CA 2006”	Companies Act 2006, as amended from time to time
“Calculation Date”	the date on which the Roll-Over Value and the Merger Value will be calculated, this being after the close of business on 29 September 2011
“Capita Registrars”	a trading name for Capita Registrars Limited
“Circular”	the circular to Shareholders dated 25 August 2011
“Companies Acts”	CA 1985 and CA 2006
“Company” or “KAY”	Kings Arms Yard VCT PLC
“Directors”	the directors of the Company (and each a “Director”)
“Disclosure & Transparency Rules”	the disclosure and transparency rules of the FSA
“EEA States”	the member states of the European Economic Area
“Effective Date”	the date on which the Scheme will be completed, anticipated as being 30 September 2011
“Enlarged Company”	the Company, following implementation of the Scheme
“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000, as amended
“General Meeting”	the general meeting of the Company to be held on 23 September 2011 at 4.00 p.m.
“Half-Yearly Report”	the half-yearly report of the Company for the six month period ended 30 June 2011
“HMRC”	Her Majesty’s Revenue & Customs
“IA 1986”	Insolvency Act 1986, as amended
“IPEVC Guidelines”	the International Private Equity and Venture Capital Guidelines
“ITA 2007”	Income Tax Act 2007, as amended

“KAY 2”	Kings Arms Yard VCT 2 PLC, registered in England and Wales under number 04063505, whose registered office is at 1 King’s Arms Yard, London EC2R 7AF
“KAY 2 Board”	the board of directors of KAY 2
“KAY 2 Circular”	the circular to KAY 2 Shareholders dated 25 August 2011
“KAY 2 First General Meeting”	the general meeting of KAY 2 to be held on 23 September 2011 at 2.00 p.m.
“KAY 2 Half-Yearly Report”	the half-yearly report of KAY 2 for the six month period ended 30 June 2011
“KAY 2 Meetings”	the KAY 2 First General Meeting and the KAY 2 Second General Meeting
“KAY 2 Second General Meeting”	the general meeting of KAY 2 to be held on 30 September 2011 at 3.00 p.m
“KAY 2 Shareholders”	holders of KAY 2 Shares (and each a “KAY 2 Shareholder”)
“KAY 2 Shares”	ordinary shares of 1 pence each in the capital of KAY 2 (and each a “KAY 2 Share”)
“Liquidators”	William Duncan and Sarah Louise Burge of RSM Tenon Limited, Unit 1, Calder Close, Calder Park, Wakefield WF4 3BA, being the proposed liquidators for KAY 2
“Listing Rules”	the listing rules of the UKLA
“London Stock Exchange”	London Stock Exchange PLC
“Merger Ratio”	the Roll-Over Value divided by the Merger Value
“Merger Regulations”	Venture Capital Trusts (Winding-up and Mergers) (Tax) Regulations 2004
“Merger Value”	the value of a Share calculated in accordance with the formula set out on page 17 of Part I of this document
“NAV” or “net asset value”	net asset value
“New Shares”	the Shares to be issued by the Company to KAY 2 Shareholders in accordance with the Scheme (and each a “New Share”)
“Official List”	the official list of the UKLA
“PLUS”	a prescribed market for the purposes of Section 118 of FSMA and a recognised investment exchange operated by PLUS Markets Group PLC
“Proposed Directors”	Thomas Chambers and Alan Lamb
“Prospectus”	this document
“Prospectus Rules”	the prospectus rules of the UKLA
“Qualifying Company”	a company satisfying the requirements of Chapter 4 of Part 6 of ITA 2007
“Record Date”	the record date to which entitlements will be allocated pursuant to the Scheme, this being 29 September 2011

“Resolutions”	the resolutions to be proposed at the General Meeting (and each a “Resolution”)
“Roll-Over Value”	the value of a KAY 2 Share calculated in accordance with the formula set out on page 17 of Part I of this document
“Scheme”	the proposed merger of the Company with KAY 2 by means of placing KAY 2 into members’ voluntary liquidation pursuant to Section 110 of IA 1986 and the acquisition by the Company of all of KAY 2’s assets and liabilities in consideration for New Shares, further details of which are set out in Part I of this document
“Shareholders”	holders of Shares (and each a “Shareholder”)
“Shares”	ordinary shares of 5 pence each in the capital of the Company (and each a “Share”)
“Statutes”	means every statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning companies insofar as it applies (as may be applicable)
“TCGA 1992”	Taxation of Chargeable Gains Act 1992, as amended
“Transfer Agreement”	the agreement between the Company and KAY 2 (acting through the Liquidators) for the transfer of all of the assets and liabilities of KAY 2 by the Liquidators to the Company pursuant to the Scheme
“UK”	the United Kingdom
“UKLA” or “UK Listing Authority”	the UK Listing Authority, being 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
“VCT” or “venture capital trust”	a company satisfying the requirements of Chapter 3 of Part 6 of ITA 2007 for venture capital trusts
“VCT Value”	the value of an investment calculated in accordance with Section 279 of ITA 2007

PART I

MERGER OF THE COMPANY AND KAY 2

Introduction

The Board considers that the interests of the shareholders of the Company and KAY 2 will be better served by a single, larger VCT. The most cost-effective way to achieve this is to complete a merger with KAY 2 by placing KAY 2 into members' voluntary liquidation and for all of its assets and liabilities to be transferred to the Company in exchange for the issue of New Shares to holders of KAY 2 Shares. The New Shares to be issued pursuant to the Scheme are not being offered to the existing Shareholders of the Company or the public save as may be the case in connection with the Scheme.

Background

VCTs are required to be listed on the premium segment of the Official List, which involves a significant level of listing costs as well as related fees to ensure they comply with all relevant legislation. As a VCT becomes fully invested, its running costs can become a proportionally greater burden which may have an adverse effect on the returns which could be generated for shareholders. A larger VCT should be better placed to spread such running costs across a larger asset base, reduce the amount required to be retained for liquidity purposes and, as a result, may be able to maximise investment opportunities and pay a higher level of dividends to shareholders over its life.

In September 2004, the Merger Regulations were introduced allowing VCTs to be acquired by, or merge with, each other without prejudicing the VCT tax reliefs obtained by their shareholders. A number of VCTs (including the Company and KAY 2 in the past) have taken advantage of these regulations to create larger VCTs for economic and administration efficiencies.

With the above in mind, the Board entered into discussions with KAY 2 and Albion to consider a merger of the Company and KAY 2 to create a single, larger VCT (completing the amalgamation of the original five Quester VCTs). The aim of the Board is to achieve strategic benefits and reductions in the annual running costs for both sets of shareholders and establish a platform from which the revised investment mandate can be better operated.

Merger with KAY 2

The merger with KAY 2 will be completed, subject to the approval of Shareholders.

The merger will result in the creation of an enlarged company and should result in savings in running costs and simpler administration.

The Board considers that this merger will bring a number of benefits to both groups of shareholders through:

- a reduction in annual running costs for the Enlarged Company compared to the total annual running costs of the separate companies;
- the creation of a single VCT of a more economically efficient size with a greater capital base over which to spread administration, regulatory and management costs;
- participation in a larger VCT with the longer term potential for a more diversified portfolio thereby spreading the portfolio risk across a broader range of investments and allowing for further investment in the pursuit of the new investment policy; and
- enhancing the ability of the Enlarged Company to raise new funds and pay dividends in the future.

The Scheme

The mechanism by which the merger will be completed is as follows:

- KAY 2 will be placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110 IA 1986; and
- all of the assets and liabilities of KAY 2 will be transferred to the Company in consideration for the issue of New Shares (which will be issued directly to KAY 2 Shareholders).

The merger will be completed on a relative net asset value basis, which will be calculated on the net asset values of each company as at 30 June 2011, adjusted for portfolio valuation movements and other balance sheet movements and each company's allocation of the merger costs being split proportionately based on the merger NAVs (ignoring merger costs).

The merger will result in the creation of an Enlarged Company and should result in savings in running costs and simpler administration. As both companies have the same investment policies, investment manager and other main advisers, this is achievable without major additional cost or disruption to the companies and their combined portfolio of investments.

Following the transfer, the listing of the KAY 2 Shares will be cancelled and KAY 2 will be wound up.

The Scheme is conditional upon:

- the passing of Resolution 1 to be proposed at the General Meeting;
- notice of dissent not having been received from KAY 2 Shareholders holding more than 10 per cent. in nominal value of its issued share capital under Section 111, IA 1986 (this condition may be waived by the KAY 2 Board); and
- the passing of the resolutions to be proposed at the KAY 2 Meetings.

Subject to the above, the Scheme shall become effective immediately after the passing of the special resolution for the winding up of KAY 2 to be proposed at the KAY 2 Second General Meeting. If it becomes effective, the Scheme shall be binding on all Shareholders and all persons claiming through or under them.

Terms of the Scheme

On or immediately prior to the Effective Date, Albion (on the instruction of the Liquidators) shall calculate the Merger Value and the Roll-Over Value in accordance with the formulae set out below.

On the Effective Date, the Liquidators shall receive all the cash, undertakings and other assets and liabilities of KAY 2 and shall deliver to the Company:

- particulars of all of the assets and liabilities of KAY 2;
- a list certified by the registrars of the names and addresses of, and the number of shares held by, each of the KAY 2 Shareholders on the register at 5.30 p.m. on the Record Date;
- an estimate of the winding-up costs of KAY 2 which will form part of the costs of the Scheme; and
- the amount estimated to be required to purchase the holdings of any dissenting shareholders in KAY 2.

On the Effective Date, the Company and the Liquidators (on behalf of KAY 2) will enter into the Transfer Agreement (subject to such modifications as may be agreed between the parties thereto) pursuant to which the Liquidators will procure the transfer of all of the assets and liabilities of KAY 2 to the Company in exchange for the issue of New Shares (fully paid) to the KAY 2 Shareholders on the basis set out in the formulae below.

In further consideration of such transfer of assets and liabilities of KAY 2 to the Company, the Company will, pursuant to the Transfer Agreement, undertake to pay all liabilities incurred by the Liquidators including,

but not limited to, the implementation of the Scheme, the winding up of KAY 2 and the purchase for cash of any holdings of dissenting KAY 2 Shareholders.

For the purposes of calculating the Merger Value and the Roll-Over Value and the number of New Shares to be issued, the following provisions will apply:

KAY 2

The Roll-Over Value will be calculated as:

$$\frac{(A + B + C) - (D + E)}{F}$$

where:

A = the unaudited net asset value of KAY 2 as at 30 June 2011 (taken from the KAY 2 Half-Yearly Report);

B = any (i) increase/decrease in the valuation of an investment held by KAY 2 where there has been an event in the period between 30 June 2011 and the Calculation Date which requires a revaluation of the investment in accordance with Financial Reporting Standards 26 'Financial Instruments: Measurement' (IAS39) and using International Private Equity and Venture Capital Valuation Guidelines and (ii) any material increase/decrease in the cash position and/or debtors and/or the creditors of KAY 2 between 30 June 2011 and the Calculation Date;

C = any adjustment that both the KAY 2 Board and the Board consider appropriate to reflect any other actual or contingent benefit or liability of KAY 2;

D = KAY 2's pro rata proportion (by reference to the relative aggregate Roll-Over Value of all the KAY 2 Shares and the aggregate Merger Value of all Shares, but ignoring merger costs) of the costs of the merger plus £10,000 (representing an amount of contingency to cover any unforeseen additional costs attributable to KAY 2 incurred by the Company, which will indemnify the Liquidators in respect of all costs of KAY 2 following the transfer on the Effective Date);

E = the amount estimated to be required to purchase the holdings of KAY 2 Shares from dissenting KAY 2 Shareholders; and

F = the number of KAY 2 Shares in issue as at close of business on the Record Date (save for any KAY 2 Shares held by dissenting KAY 2 Shareholders).

The Company

The Merger Value will be calculated as follows:

$$\frac{(G + H + I) - J}{K}$$

where:

G = the unaudited net asset value of the Company as at 30 June 2011 (taken from the Half-Yearly Report);

H = any (i) increase/decrease in the valuation of an investment held by the Company where there has been an event in the period between 30 June 2011 and the Calculation Date which requires a revaluation of the investment in accordance with Financial Reporting Standards 26 'Financial Instruments: Measurement' (IAS39) and using International Private Equity and Venture Capital Valuation Guidelines and (ii) any material increase/decrease in the cash position and/or debtors and/or the creditors of the Company between 30 June 2011 and the Calculation Date;

- I = any adjustment that both the Board and the KAY 2 Board considers appropriate to reflect any other actual or contingent benefit or liability of the Company;
- J = the Company's pro rata proportion (by reference to the relative aggregate Roll-Over Value of all the KAY 2 Shares and the aggregate Merger Value of all Shares, but ignoring merger costs) of the costs of the merger; and
- K = the number of Shares in issue as at close of business on the Record Date.

New Shares to be issued to KAY 2 Shareholders

The number of New Shares to be issued to KAY 2 Shareholders (save for any dissenting KAY 2 Shareholders) will be calculated as follows:

$$\left(\frac{L}{M} \right) \times N$$

where:

L = the Roll-Over Value ;

M = the Merger Value; and

N = the number of KAY 2 Shares in issue as at close of business on the Record Date (save for any KAY 2 Shares held by dissenting KAY 2 Shareholders).

The number of New Shares to be issued pursuant to the Scheme will not be greater than 130,000,000 and will be issued directly to KAY 2 Shareholders pro-rata to their existing holdings (disregarding KAY 2 Shares held by dissenting KAY 2 Shareholders) on the instruction of the Liquidators.

The merger ratio will be rounded to four decimal places and entitlements will be rounded down to the nearest whole number. Any fractional entitlements (which, in each case, will not exceed £1) will be sold in the market and the proceeds retained for the benefit of the Enlarged Company.

KAY 2 Shareholders who do not vote in favour of the resolution to be proposed at the KAY 2 First General Meeting are entitled to dissent and have their shareholding purchased by the Liquidators at break value price of the KAY 2 Shares. The break value price is expected to be at a significant reduction to the net asset value of a KAY 2 Share.

Where KAY 2 Shareholders hold their KAY 2 Shares in certificated form, they will receive a new certificate for the New Shares issued and existing certificates will no longer be valid. Where KAY 2 Shareholders hold their KAY 2 Shares in uncertificated form, their CREST accounts will be credited with the replacement holding in New Shares.

Dividend payment mandates provided for KAY 2 Shares will, unless a KAY 2 Shareholder advises otherwise, be transferred to the Company.

An application has been made to the UKLA for the New Shares to be listed on the premium segment of the Official List and will be made to the London Stock Exchange for such New Shares to be admitted to trading on its market for listed securities. The New Shares will rank pari passu with the existing issued Shares from the date of issue.

Scheme Illustration

As at 30 June 2011, the unaudited NAV per Share of the Company (taken from the Half-Yearly Report) was 16.0 pence. The Merger Value of a Share (had the merger been completed on that date and calculated in accordance with the formulae above) would have been 15.9 pence.

As at 30 June 2011, the unaudited NAV of a KAY 2 Share (taken from the KAY 2 Half-Yearly Report) was 21.1 pence. The Roll-Over Value of a KAY 2 Share (had the merger been completed on that date and calculated in accordance with the formulae above) would have been 20.9 pence (assuming no dissenting KAY 2 Shareholders).

The number of New Shares that would have been issued to KAY 2 Shareholders would then have been calculated by multiplying the number of KAY 2 Shares in issue by the Merger Ratio, this being the Roll-Over Value of a KAY 2 Share divided by the Merger Value per Share. The New Shares would have been issued to all KAY 2 Shareholders pro-rata to their holdings in KAY 2 (assuming no dissenting KAY 2 Shareholders). Had the merger been completed on 30 June 2011, every KAY 2 Share in issue would have been exchanged for 1.3152 New Shares, 101,751,528 New Shares in aggregate. The Directors do not expect the actual Roll-Over Value and the Merger Value to be materially different from the Scheme illustration, unless an unforeseen event (e.g. an exit opportunity in respect of an investment) requires a revaluation of a holding.

Should the Scheme not become effective, the Company will continue in its current form and the Board will continue to keep the future of the Company under review.

Further information is set out in Part V of this document on the expected financial position of the Enlarged Company had the merger by way of the Scheme been implemented as at 30 June 2011.

Taxation

The following paragraphs apply to the Company and to persons holding Shares as an investment in the Company who are the absolute beneficial owners of such Shares (or, as the case may be, New Shares) and are resident in the UK. They may not apply to certain classes of persons, such as dealers in securities. The following information is based on current UK law and practice, is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice.

If you are in any doubt about your position, or if you may be subject to tax in a jurisdiction other than the UK, you should consult your independent financial adviser.

The Company and Shareholders

The implementation of the Scheme should not affect the status of the Company as a VCT or the tax reliefs obtained by Shareholders on subscription for existing Shares. It is the intention of the Board to continue to comply with the requirements of ITA 2007 following implementation of the Scheme so as to continue to qualify as a VCT.

KAY 2 Shareholders

The effective exchange of existing KAY 2 Shares for New Shares should not constitute a disposal of the existing KAY 2 Shares for the purposes of UK taxation. Instead, the new holding of New Shares should be treated as having been acquired at the same time and at the same cost as the existing KAY 2 Shares from which they are derived. Any capital gains tax deferral relief obtained on subscription of the existing Shares in the Company should not, therefore, be crystallised for payment but will be transferred to the New Shares.

For KAY 2 Shareholders holding (together with their associates) more than 5 per cent. of the KAY 2 Shares in issue, clearance has been obtained from HMRC in terms of Section 138 of TCGA 1992 that the treatment described above for persons who (together with their associates) own less than 5 per cent. of the KAY 2 Shares should also apply to them.

Shareholders in the Company as a VCT, should be afforded the usual tax reliefs available to shareholders in VCTs. Qualifying shareholders should continue to receive tax-free dividends and should not be subject to UK taxation on any capital gains on the disposal of Shares.

Dissenting KAY 2 Shareholders whose holdings are purchased for cash at the break value price shall be treated as having disposed of their existing KAY 2 Shares. KAY 2 should still be able to claim the benefit

of VCT status and the dissenting KAY 2 shareholder should not be subject to any UK taxation in respect of any capital gains arising on disposal. However, the purchase will constitute a disposal of the existing holding in KAY 2 and a dissenting KAY 2 shareholder will be liable to pay any capital gains tax for which such dissenting KAY 2 shareholder obtained deferral relief on subscription.

If the dissenting KAY 2 shareholder has disposed of KAY 2 Shares within the holding period required to retain upfront tax relief, income tax relief on those subscriptions will also be repayable. As KAY 2 should still be able to claim the benefit of VCT status whilst in liquidation under the Merger Regulations the dissenting KAY 2 shareholder should not be subject to any UK taxation in respect of any capital gains arising from the disposal.

Although the Company will be required to pay UK stamp duty or stamp duty reserve tax on the transfer to it of the assets and liabilities of KAY 2 (which form part of the merger costs being allocated to both the Company and KAY 2), no UK stamp duty or stamp duty reserve tax will be payable by KAY 2 Shareholders as a result of the implementation of the Scheme.

Clearance has been obtained from HMRC in respect of the Scheme under Section 701 ITA 2007 and Section 138 TCGA 1992. With regard to the former, the receipt of New Shares should not, except in the case of dealers, fail to be regarded as an income receipt for the purposes of UK taxation.

Clearance has also been obtained from HMRC that the Scheme meets the requirements of the Merger Regulations and as such the receipt by Shareholders of New Shares should not prejudice tax reliefs obtained by Shareholders on existing Shares in the Company and should not be regarded as a disposal.

PART II

INFORMATION ON THE COMPANY

Constitution and Status

The Company was incorporated and registered in England and Wales under CA 1985 as a public company with limited liability on 18 December 1995 with registered number 03139019 and the name Quester VCT PLC. The Company changed its name to SPARK VCT PLC on 23 July 2008 and to Kings Arms Yard VCT PLC on 11 February 2011.

The Company was issued with a trading certificate under Section 117 of CA 1985 (now Section 761 of CA 2006) on 15 February 1996.

The Company operates under the Companies Acts and the regulations made thereunder.

VCTs are unregulated, but are required to manage their affairs to obtain and maintain approval as a VCT under the provisions of chapter 3 of Part 6 of ITA 2007. HMRC has granted approval of the Company as a VCT under Section 259 of ITA 2007.

The business of the Company has been, and it is intended will be, carried on so as to continue to comply with that section to maintain full approval.

The Company is not authorised and/or regulated by the FSA or an equivalent overseas regulator. The Company's Shares are listed on the premium segment of the Official List.

Share Capital

The share capital of the Company comprises ordinary shares of 5 pence each of which 110,417,392 are currently in issue (as at 24 August 2011).

At the General Meeting, the Board propose, so as to enhance the Company's ability to support the future payment of dividends, to restructure the Company's balance sheet through 4 pence of the amount paid up on each issued Share being cancelled and extinguished. Resolution 3 to be proposed at the General Meeting seeks, amongst other things, the approval of this cancellation of share capital, subject to the sanction of the Court. If this resolution is approved, the Board intend to apply to Court to sanction the cancellation (which is not conditional on the merger being completed). It is expected that the completion of the cancellation will take place before the end of the year. Share certificates for shares (including New Shares issued pursuant to the merger, if approved) will continue to be valid and will not be replaced as the cancellation will not affect the number of shares held.

Selected Financial Information

Certain selected financial information is set out below:

	Unaudited six months ended (£'000) 30 June 2011	Audited year ended 31 December (£'000)	2010	2009	2008
Investment Income and deposit interest	£77	£132	£220	£784	
Total profit/(loss) on ordinary activities before taxation	£35	£(1,214)	£(4,623)	£4,237	
Total net asset value return per share (pence)					
<i>Quester VCT PLC/SPARK VCT PLC/KAY</i>	75.3p	75.3p	76.4p	80.5p	
<i>Quester VCT 2 PLC</i>	61.3p	61.2p	62.3p	66.5p	
<i>Quester VCT 3 PLC</i>	35.1p	35.1p	36.1p	40.1p	
Dividends paid per share (pence)					
<i>Quester VCT PLC/SPARK VCT PLC/KAY</i>	0.7p	5.0p	–	2.8p	
<i>Quester VCT 2 PLC</i>	0.7p	5.1p	–	2.9p	
<i>Quester VCT 3 PLC</i>	0.7p	4.9p	–	2.7p	
Net assets	£17,695	£18,283	£25,030	£29,731	
NAV per share (pence)					
<i>Quester VCT PLC/SPARK VCT PLC/KAY</i>	16.0p	16.6p	22.7p	26.8p	
<i>Quester VCT 2 PLC</i>	16.4p	17.0p	23.3p	27.5p	
<i>Quester VCT 3 PLC</i>	15.7p	16.3p	22.3p	26.3p	

The Board of Directors

The Board has three non-executive directors; Robin Field (Chairman), Martin Fiennes and Patrick Reeve.

The Board and the KAY 2 Board have considered what the size and future composition of the Enlarged Company's board should be following the merger and it has been agreed that Patrick Reeve will step down as a Director of the Company and that Thomas Chambers and Alan Lamb (directors of KAY 2) will be appointed as directors of the Company. This will result in reducing the aggregate number of directors from six across both companies to four for the Enlarged Company resulting, in aggregate, in an annual cost saving of over £20,000.

The Directors

Robin Field, (59) (Chairman), appointed 21 January 2009, began his commercial career with Jardine Matheson & Co. in the Far East where he fulfilled a number of managerial roles, including that of general manager of the largest independent shipping agency in Taiwan. He then gained a MBA with distinction at INSEAD before serving as a strategy consultant with the LEK Partnership. He was chief executive of Filofax Group PLC when the company floated on the London Stock Exchange in 1996. He is a non-executive director of Artemis VCT PLC and a non-executive director of a number of private companies.

Martin Fiennes (50), appointed 5 April 2011. Martin is a self-employed corporate finance adviser. He trades as Gatehouse Capital, a technology corporate finance business based in Oxford which specialises in fund-raisings and M&A for UK technology companies. Prior to starting Gatehouse Capital, Martin worked for nine years with Top Technology Ventures where he was responsible for making investments in early stage UK technology companies. Martin has wide experience in marketing and management roles, and as an executive director in a start-up in the leisure sector and was, until its sale in 2011, a non-executive director of Focus Solutions Group PLC. Martin is also a Trustee of the HDH Wills 1965 Charitable Trust.

Patrick Reeve (51), appointed 1 January 2011, qualified as a chartered accountant with Deloitte Haskins & Sells before joining Cazenove & Co where he spent three years in the corporate finance department. He joined Close Brothers Group PLC in 1989, initially in the development capital subsidiary, where he was a

director specialising in the financing of smaller unquoted companies. He joined the corporate finance division in 1991, where he was also a director. He established Albion Ventures LLP (formerly Close Ventures Limited) with the launch of Albion Venture Capital Trust PLC (formerly Close Brothers Venture Capital Trust PLC) in the spring of 1996. He is the managing partner of Albion Ventures LLP and is director of Albion Technology & General VCT PLC, Albion Income & Growth VCT PLC, Albion Prime VCT PLC and Albion Enterprise VCT PLC, all managed by Albion Ventures LLP. He is also a director of Healthcare & Leisure Property Fund Limited, for whom Albion Ventures LLP acts as an investment advisor.

Patrick Reeve, being an unpaid Director to the Company, has agreed, subject to the Scheme becoming effective, to step-down as a Director without compensation.

Proposed Directors

Thomas Chambers (50), appointed to KAY 2 on 13 January 2010, has over ten years operational experience at mobile operating systems provider Symbian Limited (now part of Nokia Oyj) and at ADSL/fixed line phone provider First Telecom plc. Since 2002 Thomas has had a range of industry, venture capital and government non-executive and advisory roles giving Thomas insight into, in particular, the technology and communications sectors. As CFO of Symbian he played a significant leadership role in the creation of the first Smartphones. He was also CFO of Robert Walters plc which he took through its listing on the London Stock Exchange in 1996. He spent six years in corporate finance at Dresdner Kleinwort Benson Limited after a five year career with Price Waterhouse. He is currently a council member of the University of Surrey, sits on the advisory board of Green Square Partners LLP and is an associate of the TheInfluence.info.

Alan Lamb (61), appointed to KAY 2 on 30 October 2000, has broad experience as a manager and entrepreneur in technology businesses from early stage through to being part of a large public company. He founded Flexion Inc. in 1998 to provide new generation communication systems for smaller businesses. Previously, he founded Airtech Computer Security that grew to become a highly profitable group delivering secure electronic payments solutions. Having sold Airtech to Racal Electronics PLC in 1994, he was divisional managing director responsible for banking and communications security business in Europe and the USA. In the last ten years he has focused on developing spin-out companies from UK universities as a mentor, chairman and non-executive director. He formed Blaze Photonics which was sold to Crystal Fibre, and Identum which was sold to Trend Micro. He is currently on the board of Promethean Particles, a supplier of specialist nano-particles, and TTE Systems, which provides high-reliability processors and matched development tools to the aerospace and automotive markets.

Corporate Governance

The Financial Services Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (formerly the Combined Code) ("the Code") issued by the Financial Reporting Council ("FRC") in May 2010 for all companies who are now operating in financial years on or after 29 June 2010.

The Board has also considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

For the year ended 31 December 2010 and as at the date of this document, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the Code, except where noted below. There are certain areas of the Code that the AIC does not consider relevant to investment

companies and with which the Company does not specifically comply, of which the AIC Code provides dispensation.

The areas and reasons for non-compliance are as follows:

- in light of the responsibilities retained by the Board and its committees and of the responsibilities delegated to Albion, the Company has not appointed a chief executive officer or executive directors;
- due to the size of the Board, the size of the business and its lack of complexity, the Board have decided it is inappropriate for the time being to appoint a senior independent director or deputy chairman; and
- the Board as a whole is responsible for the appointment and remuneration of Directors and, given the small size of the Board, separate remuneration and nomination committees are not considered appropriate.

The company has not, therefore, reported further in respect of these provisions.

Further details on the Company's corporate governance including the constitution of the Board, various committees and other internal controls are set out in Paragraph 7 of Part IX of this document.

Investment Manager

The Company's investment manager is Albion Ventures LLP. Albion (telephone 020 7601 1850), was incorporated and registered in England and Wales on 6 November 2008 as a limited liability partnership with registered number OC341254. Albion's registered office and principal place of business is at 1 King's Arms Yard, London EC2R 7AF. Albion is authorised and regulated by the FSA to provide investment management services. The principal legislation under which Albion operates is the provisions of the Limited Liability Partnership Act 2000 and Companies Acts (and regulations made thereunder).

Investment Policy

The Company intends to, over time, rebalance its portfolio such that approximately 50 per cent. of the portfolio comprises an asset-based portfolio of lower risk, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors (the "Asset-Based Portfolio"). The balance of the portfolio, other than funds retained for liquidity purposes, will be invested in a portfolio of higher growth businesses across a variety of sectors of the UK economy. These will range from lower risk, income producing businesses to a limited number of higher risk technology companies (the "Growth Portfolio").

In neither category would portfolio companies normally have any external borrowing with a charge ranking ahead of the Company. Up to two thirds of qualifying investments by cost will comprise loan stock secured with a first charge on the portfolio company's assets.

The Company's investment portfolio will thus be structured to provide a balance between income and capital growth for the longer term. The Asset-Based Portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth. The Growth Portfolio is intended to provide highly diversified exposure through its portfolio of investments in unquoted UK companies.

Funds held pending investment or for liquidity purposes will be held as cash on deposit or in floating rate notes or similar instruments with banks or other financial institutions with a Moody's rating of 'A' or above.

The Company's investment allocation and risk diversification policies are substantially driven by the relevant HMRC rules and it is the intention of the Company to apply the following policies in this respect:

- The Company's income will be derived wholly or mainly from shares and securities;
- At least 70 per cent. of the value of its investments will be represented throughout the year by shares or securities that are classified as 'qualifying holdings';

- At least 30 per cent. by value of its total qualifying holdings will be represented through the year by holdings of 'eligible shares';
- At no time in the year will the Company's holdings in any one company exceed 15 per cent. by VCT Value of its investments;
- The Company will not retain more than 15 per cent. of its income earned in the year from shares and securities; and
- Eligible shares will comprise at least 10 per cent. by value of the total of the shares and securities that the Company holds in any one portfolio company.

These tests drive a spread of investment risk through disallowing holdings of more than 15 per cent. in one portfolio company.

'Qualifying holdings' for the Company include shares or securities (including loans with a five year or greater maturity period) in companies which operate a 'qualifying trade' wholly or mainly in the United Kingdom.

'Qualifying trade' excludes, amongst other sectors, dealing in property or shares and securities, insurance, banking and agriculture. The Company may not control a portfolio company.

There is an annual investment limit of £1 million in each portfolio company.

Gearing will not normally be employed. As defined by the Company's articles of association, the Company's maximum exposure in relation to gearing is restricted to the amount equal to the adjusted capital and reserves.

The Listing Rules require the Company to invest its assets in accordance with the investment policy of the Company (as amended from time to time).

Investment Portfolios

As at 30 June 2011, the Company had unaudited net assets of £17.7 million (16.0p per Share) and, in aggregate, investments in 21 companies with a carrying value. As at 30 June 2011, KAY 2 had unaudited net assets of £16.3 million (21.1p per KAY 2 Share) and, in aggregate, investments in 24 companies with a carrying value. There are a number of common investments between the Company's investment portfolio and KAY 2's investment portfolio as a result of co-investment strategies over the years.

Dividends and Returns

The total return to Shareholders for every £1 invested is set out below:

per share (pence)	Unaudited six months ended		Audited year ended	
	30 June 2011	31 December 2010	31 December 2009	31 December 2008
Total net asset value return				
to Shareholders of the Company (formerly SPARK VCT PLC/Quester VCT PLC) ⁽¹⁾	75.3	75.3	76.4	80.5
Total net asset return including tax benefits ⁽²⁾	95.3	95.3	96.4	100.5
Total net asset value return				
to former shareholders of Quester VCT 2 PLC) ⁽³⁾	61.3	61.2	62.3	66.5
Total net asset return including tax benefits ⁽²⁾	81.3	81.2	82.3	86.5
Total net asset value return				
to former shareholders of Quester VCT 3 PLC) ⁽⁴⁾	35.1	35.1	36.1	40.1
Total net asset return including tax benefits ⁽²⁾	55.1	55.1	56.1	60.1

Notes:

1. Net asset value plus cumulative dividends per Share to Shareholders since the launch of the Company in April 1996 (then called Quester VCT PLC).
2. Return after 20 per cent. income tax relief, but excluding capital gains deferral.
3. Total return to original shareholders in Quester VCT 2 PLC, launched in March 1998, which was merged with the Company in June 2005. The share exchange ratio for former shareholders in Quester VCT 2 PLC was 1.0249. The total return stated is applicable only to subscribers of shares in Quester VCT 2 PLC at the time of launch of Quester VCT 2 PLC in 1998. It does not represent the return to subsequent subscribers or purchasers of shares.
4. Total return to original shareholders in Quester VCT 3 PLC, launched in February 2000, which was merged with the Company in June 2005. The share exchange ratio for former shareholders in Quester VCT 3 PLC was 0.9816. The total return stated is applicable only to subscribers of shares in Quester VCT 3 PLC at the time of launch of Quester VCT 3 PLC in 2000. It does not represent the return to subsequent subscribers or purchasers of shares.

The total return to KAY 2 Shareholders for every £1 invested is set out below:

per share (pence)	Unaudited six months ended		Audited year ended		
	30 June 2011	31 December 2010	31 December 2009	31 December 2008	
Total net asset value return					
to shareholders of KAY 2 (formerly SPARK VCT 2 PLC/Quester VCT 4 PLC) ⁽¹⁾	30.0	31.5	37.9	43.3	
Total net asset return including tax benefits ⁽²⁾	50.0	51.5	57.9	63.3	
Total net asset value return					
to former shareholders of SPARK VCT 3 PLC/Quester VCT 5 PLC) ⁽³⁾	37.3	39.4	48.8	56.7	
Total net asset return including tax benefits ⁽²⁾	57.3	59.4	68.8	76.7	

Notes:

1. Net asset value plus cumulative dividends per KAY 2 Share to shareholders in KAY 2 since launch in November 2000 (then called Quester VCT 4 PLC).
2. Return after 20 per cent. income tax relief, but excluding capital gains deferral.
3. Total return to original shareholders in SPARK VCT 3 PLC, launched in December 2001 (under the name Quester VCT 5 PLC), which was merged with KAY 2 in November 2008. The share exchange ratio for former shareholders in SPARK VCT 3 PLC was 1.4613. The total return stated is applicable only to subscribers of shares in Quester VCT 5 PLC at the time of launch of Quester VCT 5 PLC in 2001. It does not represent the return to subsequent subscribers or purchasers of shares.

Dividend Policy

In view of Albion's track record of generating deal flow of the sort of opportunities the Company is now targeting and, given the Board's intention to build up a portfolio of income yielding securities, it is intended that a greater proportion of cash available from disposals should be devoted to new investments rather than to dividends.

The Board's intention is to establish a sustainable and progressive dividend stream to Shareholders, with the prospect of a gradual recovery in capital value.

The current annual dividend target is 0.67 pence per Share per annum, but it is hoped this will increase over time as exits are achieved and the new investment policy is fully implemented.

Share Buybacks

In order to maintain resources for dividends and the implementation of the new investment policy, the Board does not intend to buy back any shares in the financial year to 31 December 2011. However, the Board intends to implement a share buyback policy to make purchases in the market in the region of a 10 to 15 per cent. discount to net asset value, (so far as market conditions, liquidity and reserves permit) once the fruits of the new investment policy have begun to show. Such buybacks are subject to the overall

constraint that such purchases are in the interests of the Company, including the maintenance of sufficient resources for investment in existing and new investee companies and the continued payment of dividends.

Investment Management and Administration Arrangements

Albion is the investment manager of the Company and of KAY 2 and also provides administration services to both companies.

In respect of the Company, Albion has agreed to waive its investment management and administration fees until the end of December 2011. Thereafter, Albion will be entitled to an annual investment management fee of an amount equivalent to two per cent. of the net assets of the Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any). The normal annual running costs of the Company (including investment management and administration fees due to Albion, directors' remuneration, registrars' fees, stockbrokers' fees, company secretarial fees, fees of the Company's auditors and irrecoverable VAT) will, for accounting periods after 31 December 2011, be capped at an amount equivalent to three per cent. of net asset value of the Company, with any excess being paid by Albion or refunded by a reduction to Albion's above fees. Albion's appointment is for an initial period to 31 December 2013, thereafter terminable on 12 months' notice. The same arrangements and level of fees are in place with KAY 2.

The Company has no performance or incentive fee arrangements. The Company has agreed with Albion that no performance or incentive fees will be payable to Albion for any periods prior to 31 December 2012, and thereafter, the Board intends to discuss an appropriate incentive arrangement with Albion, which would be subject to approval by Shareholders. The same applies to KAY 2.

Albion will continue to provide investment management and administration services to the Enlarged Company following the merger on the same annual fee basis as above (i.e. fees to 31 December 2011 for the Enlarged Company will continue to be waived and thereafter, annual investment management fees will be an amount equivalent to two per cent. of the net assets of the Enlarged Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any) and the normal annual running costs will be capped as set out above). No performance or incentive fees will be payable to Albion by the Enlarged Company for any periods prior to 31 December 2012.

The Company's termination of its appointment of SPARK Venture Management Limited as the investment manager to the Company took effect on 1 January 2011. Under the termination agreement between the Company and SPARK Venture Management Limited, the Company has agreed to pay SPARK Venture Management Limited its management and administration fee under its investment management agreement for the period until 30 November 2011 (calculated by reference to the net asset value of the Company as at 31 December 2010, subject to appropriate adjustments in respect of dividends or realisations made during the period until 30 November 2011). Equivalent termination arrangements apply between KAY 2 and SPARK Venture Management Limited in respect of the termination of SPARK Venture Management Limited as the investment manager to KAY 2. The Enlarged Company will continue to pay SPARK Venture Management Limited on the same fee basis as above and will take on the equivalent responsibility of KAY 2.

Cost Savings

Normalised annual running costs, excluding investment management fees, for the Company and KAY 2 are approximately £220,000 per VCT or £440,000 in total. These annualised costs represent approximately 1.2 per cent. of the Company's unaudited net asset value and 1.3 per cent. of KAY 2's unaudited net asset value, in each case as at 30 June 2011. The Board and the KAY 2 Board consider that the level of continued administrative annual running costs can be materially reduced through the merger resulting in benefits to both groups of shareholders.

The aggregate anticipated cost of undertaking the merger is approximately £235,000, including VAT, legal and professional fees, stamp duty and the costs of winding up KAY 2. The costs of the merger will be split proportionately between the Company and KAY 2 by reference to their respective Merger Value and Roll-Over Value.

On the assumption that the NAV of the Enlarged Company will remain the same immediately after the merger, annual cost savings for the Enlarged Company are estimated to be at least £80,000 per annum (taking into account the 3 per cent. cap on normal annual expenses). This would represent 0.25 per cent. per annum of the expected net assets of the Enlarged Company. On this basis, and assuming that no new funds are raised or investments realised to meet annual costs, the Board believes that the costs of the merger would be recovered within three years.

Custodian

UBS Global Asset Management (UK) Limited (incorporated in England and Wales on 19 February 1981 with registered number 01546400 and authorised and regulated by the FSA) act as the custodian to the Company's quoted assets and, in that capacity, is responsible for ensuring safe custody and dealing and settlement arrangements. Albion is responsible for ensuring safe custody and dealing and settlement arrangements for the unquoted investments.

VCT Status Monitoring

Grant Thornton UK LLP is the Company's VCT status adviser. It carries out reviews of the Company's investment portfolio to ensure compliance and, when requested to do so by the Board or Albion Ventures, reviews prospective investments to ensure that they are qualifying investments.

The VCT tax implications of the merger have been advised upon by Martineau.

Duration of the Company

The Articles provide for a resolution to be proposed for the continuation of the Company as a VCT at the annual general meeting of the Company in 2015, and at five-yearly intervals thereafter.

Investor Communications

The Board places a great deal of importance on communications with its Shareholders and supports open communication with Shareholders. In addition to the announcement and publication of the annual report and accounts and the half-yearly results for the Company as detailed below, the Company also publishes interim management statements as required by the Disclosure and Transparency Rules.

Reporting Dates

<i>Year End</i>	<i>31 December</i>
Announcement and publication of annual report and accounts to Shareholders	April
Announcement and publication of half-yearly results	August

Valuation Policy

The Company's unquoted investments are valued at fair value through profit or loss in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out recommendations, intended to represent current best practice on the valuation of venture capital investments. These investments are valued on the basis of forward looking estimates and judgements about the business itself, its market and the environment in which it operates, together with the state of the mergers and acquisitions market, stock market conditions and other factors. In making these judgements the valuation takes into account all known material facts up to the date of approval of the financial statements by the Board.

The Company's quoted investments are valued at their bid prices.

PART III

THE INVESTMENT MANAGER

Albion Ventures LLP is authorised and regulated by the Financial Services Authority and is the Manager of both the Company and Kings Arms Yard VCT 2 PLC. In addition to the Company and KAY 2, Albion manages a further seven venture capital trusts and currently has total funds under management of approximately £224 million.

Management Team

The following are specifically responsible for the management and administration of the VCTs managed by Albion Ventures LLP, including the Company:

Patrick Reeve, MA, ACA, (51), details included on page 22 of Part II.

Will Fraser-Allen, BA (Hons), ACA, (40), qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 and then joined their Corporate Finance Team providing corporate finance advice to small and medium sized businesses. He joined Albion Ventures in 2001 since when he has focused on leisure and healthcare investing. Will became deputy managing partner of Albion Ventures in 2009. Will has a BA in History from Southampton University.

Isabel Dolan, BSc (Hons), ACA, MBA, (46), qualified as a chartered accountant with Moore Stephens. From 1993 to 1997 she was Head of Recoveries at the Specialised Lending Services of the Royal Bank of Scotland PLC and from 1997 to 2001 she was at 3i PLC, latterly as a portfolio director. She joined Albion in 2005, having previously been finance director for a number of unquoted companies. Isabel became operations partner at Albion Ventures in 2009. She has a BSc in Biochemistry with Pharmacology from Southampton University and an MBA from London Business School.

Dr Andrew Elder, MA, FRCS, (40), joined Albion Ventures in 2005 and became a partner in 2009. He initially practised as a surgeon for six years, specialising in neurosurgery, before joining the Boston Consulting Group (BCG) as a consultant in 2001. Whilst at BCG he specialised in healthcare strategy, gaining experience with many large, global clients across the full spectrum of healthcare including biotechnology, pharmaceuticals, service and care providers, software and telecommunications. He has an MA plus Bachelors of Medicine and Surgery from Cambridge University and is a Fellow of the Royal College of Surgeons (England).

Emil Gigov, BA (Hons), ACA, (41), graduated from the European Business School, London, with a BA (Hons) Degree in European Business Administration in 1994. He then joined KPMG in their financial services division and qualified as a chartered accountant in 1997. Following this he transferred to KPMG Corporate Finance where he specialised in the leisure, media and marketing services sectors acting on acquisitions, disposals and fundraising mandates. He joined Albion in 2000 and has since made and exited investments in a number of industry sectors, including healthcare, education, technology, leisure and engineering. Emil became a partner in Albion in 2009.

David Gudgin, BSc (Hons), ACMA, (39), qualified as a management accountant with ICL before spending 3 years at the BBC. In 1999 he joined 3i PLC as an investor in European technology based in London and Amsterdam. In 2002 he moved to Foursome Investments (now Frog Capital) as the lead investor of an environmental technology and a later stage development capital fund. David joined Albion Ventures in 2005 and became a partner in 2009. David has a BSc in Economics from Warwick University.

Michael Kaplan, BA, MBA, (35). Prior to joining Albion Ventures in 2007, Michael was a Project Leader with the Boston Consulting Group (BCG) where he focused on the retail and financial services sectors. More recently, Michael was part of BCG's growing Private Equity practice – which provides strategic due diligence to some of the world's biggest PE funds. Prior to his time with BCG, Michael was the chief financial officer for Widevine Technologies, a security software company based in Seattle. Michael has a

BA from the University of Washington and an MBA from INSEAD. He became a partner in Albion Ventures in 2010.

Ed Lascelles, BA (Hons) (35), joined Albion Ventures in 2004. He previously worked for ING Barings in the corporate finance department, focusing on smaller UK companies. Prior to ING Barings, Ed worked in the corporate broking department of Charterhouse Securities where he assisted in equity fund raisings and other corporate transactions for quoted UK companies. Ed graduated from UCL with a first class degree in Philosophy. He became a partner in Albion Ventures in 2009.

Henry Stanford, MA, ACA, (46), qualified as a chartered accountant with Arthur Andersen before joining the corporate finance department of Close Brothers Group in 1992, becoming an assistant director in 1996. He moved to Albion in 1998. Henry became a partner in Albion in 2009. He holds an MA degree in Classics from Oxford University.

Robert Whitby-Smith, BA (Hons), MSI, ACA, (36). After graduating in History at Reading University, Robert qualified as a chartered accountant at KPMG and subsequently worked in corporate finance at Credit Suisse First Boston and ING Barings. Since joining in 2005, Robert has assisted in the workout of three VCT portfolios (Murray VCT PLC, Murray VCT 2 PLC and Murray VCT 3 PLC now renamed Crown Place VCT PLC) formerly managed by Aberdeen Murray Johnson and is responsible for investments in the manufacturing and technology sectors. Robert became a partner in Albion in 2009.

Marco Yu, MPhil, MA, MRICS, (34), spent two and a half years at Bouygues (UK), developing cost management systems for PFI schemes, before moving to EC Harris in 2005 where he advised senior lenders on large capital projects. He joined Albion Ventures in 2007 and became an investment manager in Albion Ventures in 2009. Marco graduated from Cambridge University with a first class degree in economics and is a Chartered Surveyor.

PART IV

FINANCIAL INFORMATION ON THE COMPANY AND KAY 2

Audited financial information on the Company is published in the annual reports for the years ended 31 December 2008, 2009 and 2010. Unaudited financial information on the Company is published in the Half-Yearly Report for the six month period ended 30 June 2011.

Audited financial information on KAY 2 is published in the annual reports for the years ended 31 December 2008, 2009 and 2010. Unaudited financial information on KAY 2 is published in the KAY 2 Half-Yearly Report for the six month period ended 30 June 2011.

The annual reports for the Company for the years ended 31 December 2008, 2009 and 2010 were audited by Grant Thornton UK LLP of 30 Finsbury Square, London EC2P 2YU (a member of the Institute of Chartered Accountants) and were reported on without qualification and contained no statements under Section 237(2) or (3) of CA 1985 or Section 495 to Section 497A of CA 2006 (as applicable).

The annual reports for KAY 2 for the years ended 31 December 2008, 2009 and 2010 were audited by Grant Thornton UK LLP of 30 Finsbury Square, London EC2P 2YU (a member of the Institute of Chartered Accountants) and were reported on without qualification and contained no statements under Section 237(2) or (3) of CA 1985 or Section 495 to Section 497A of CA 2006 (as applicable).

The annual reports referred to above were prepared in accordance with UK generally accepted accounting practice (GAAP), the fair value rules of the Companies Acts and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

The annual reports and half-yearly reports contain a description of the relevant company's financial condition, changes in financial condition and results of operation for each relevant financial year. The annual reports and half-yearly reports are incorporated by reference (which contain the information as detailed below) and can be accessed at the following website:

www.albion-ventures.com/ourfunds/

and are also available for inspection through the national storage mechanism, which can be accessed at the following website:

www.hemscott/nsm.do

The Company

Description	2008 Annual Report	2009 Annual Report	2010 Annual Report	2011 Half-Yearly Report
Balance Sheet	Page 26	Page 26	Page 31	Page 10
Income Statement (or equivalent)	Page 25	Page 25	Page 30	Page 9
Statement showing all changes in equity (or equivalent note)	Page 28	Page 28	Page 32	Page 11
Cash Flow Statement	Page 27	Page 27	Page 33	Page 12
Accounting Policies and Notes	Page 29	Page 29	Page 34	Page 13
Auditors' Report	Page 40	Page 41	Page 29	n/a

This information has been prepared in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to accounting standards and policies and legislation applicable to those financial statements.

The annual report also includes operating/financial reviews as follows:

<i>Description</i>	<i>2008 Annual Report</i>	<i>2009 Annual Report</i>	<i>2010 Annual Report</i>	<i>2011 Half-Yearly Report</i>
Objective	inside cover	inside cover	Page 3	Page 3
Performance Summary, Results and Dividends	Page 1	Page 1	Page 4	Page 4
Chairman's Statement	Page 2	Page 2	Page 5	Page 5
Manager's Review	Page 5	Page 7	Page 8	n/a
Portfolio Summary	Page 4	Page 6	Page 12	Page 8
Investment Policy	Page 15	Page 15	Page 16	Page 3
Valuation Policy	Page 29	Page 29	Page 34	Page 13

As at 30 June 2011, the date to which the most recent unaudited half-yearly financial information on the Company has been published, the Company had unaudited net assets of £17,695,000.

KAY 2

<i>Description</i>	<i>2008 Annual Report</i>	<i>2009 Annual Report</i>	<i>2010 Annual Report</i>	<i>2011 Half-Yearly Report</i>
Balance Sheet	Page 27	Page 25	Page 32	Page 10
Income Statement (or equivalent)	Page 26	Page 24	Page 31	Page 9
Statement showing all changes in equity (or equivalent note)	Page 29	Page 27	Page 33	Page 11
Cash Flow Statement	Page 28	Page 26	Page 34	Page 12
Accounting Policies and Notes	Page 30	Page 28	Page 35	Page 13
Auditors' Report	Page 42	Page 39	Page 30	n/a

This information in the annual reports has been prepared in a form consistent with that which will be adopted in KAY 2's next published annual financial statements having regard to accounting standards and policies and legislation applicable to those financial statements.

Such information also includes operating/financial reviews as follows:

<i>Description</i>	<i>2008 Annual Report</i>	<i>2009 Annual Report</i>	<i>2010 Annual Report</i>	<i>2011 Half-Yearly Report</i>
Objective	inside cover	inside cover	Page 3	Page 3
Performance Summary, Results and Dividends	Page 1	Page 1	Page 4	Page 4
Chairman's Statement	Page 2	Page 2	Page 6	Page 5
Manager's Review	Page 6	Page 6	Page 9	n/a
Portfolio Summary	Page 5	Page 5	Page 13	Page 8
Investment Policy	Page 16	Page 15	Page 17	Page 3
Valuation Policy	Page 30	Page 28	Page 35	Page 13

As at 30 June 2011, the date to which the most recent unaudited half-yearly financial information on KAY 2 has been published, KAY 2 had unaudited net assets of £16,316,000.

PART V

PRO FORMA FINANCIAL INFORMATION

ACCOUNTANT'S REPORT ON THE PRO FORMA FINANCIAL INFORMATION

The Directors and Proposed Directors

Kings Arms Yard VCT PLC
1 King's Arms Yard London
EC2R 7AF

25 August 2011

Dear Sirs

Kings Arms Yard VCT PLC ("the Company")

We report on the pro forma financial information ("the pro forma financial information") set out in Part V of the prospectus dated 25 August 2011 ("Prospectus"), which has been prepared on the basis described, for illustrative purposes only, to provide information about how the Scheme (as defined in the Prospectus) might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the half-yearly report ended 30 June 2011. This report is required by paragraph 20.2 of Annex I of the Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I to the Commission Regulation (EC) 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of the Company to prepare the pro forma financial information in accordance with item 20.2 of Annex I of the Commission Regulation (EC) 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Commission Regulation (EC) 809/2004.

Yours faithfully

Scott-Moncrieff

PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information of the Company has been prepared for illustrative purposes only, to show the impact of the Scheme on the Company's unaudited net assets as at 30 June 2011 on the basis that the Scheme and the acquisition of the investment portfolio and all of the other assets and liabilities of KAY 2 by the Company had been completed on that date. This pro forma financial information has been prepared in a manner consistent with the accounting policies of the Company and KAY 2 as adopted in their last published accounts.

The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results:

			<i>Adjustments</i>
	<i>Acquisition of the assets and liabilities</i>	<i>Expenses of the Scheme</i>	<i>Enlarged Company pro forma</i>
	<i>Company (£'000)</i>	<i>KAY 2 (£'000)</i>	<i>(£'000)</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>
Investments (at fair value)	12,948	11,644	24,592
Debtors	472	239	711
Other current assets	989	989	1,978
Cash at bank and in hand	3,367	3,544	6,911
Creditors: amounts falling due within one year	<u>(81)</u>	<u>(100)</u>	<u>(235)</u> <u>(416)</u>
Net current assets	<u>4,747</u>	<u>4,672</u>	<u>(235)</u> <u>9,184</u>
Net assets	<u>17,695</u>	<u>16,316</u>	<u>(235)</u> <u>33,776</u>

Notes:

1. The financial information on the Company has been extracted without material adjustment from the Company's unaudited Half-Yearly Report for the six month period ended 30 June 2011 as incorporated into this Prospectus in Part IV of this document.
2. The acquired assets and liabilities of KAY 2 are the assets and liabilities of KAY 2 as extracted without material adjustment from KAY 2's unaudited Half-Yearly Report for the six month period ended 30 June 2011 as incorporated into this Prospectus in Part IV of this document.
3. Total costs of approximately £235,000 (inclusive of VAT) are expected to be incurred in relation to the Scheme and will be borne by both the Company and KAY 2.
4. The pro forma statement of net assets of the Company does not take account of any transactions of the Company or KAY 2 or other changes in the value of the assets and liabilities of the Company and KAY 2 since 30 June 2011.
5. Other than the costs of the Scheme, which are estimated to be approximately £122,265 (inclusive of VAT) in respect of the Company alone, the acquisition is expected to have an earning enhancing impact on the earnings of the Company had the acquisition occurred on 1 January 2011.

PART VI

INVESTMENT PORTFOLIOS AND PRINCIPAL INVESTMENTS OF THE COMPANY AND KAY 2

The following unaudited information represents all the investments of the Company and KAY 2 (with a carrying value or an accounting cost) as at the date of this document.

Investment information (being investment amounts, holdings and valuations) in this Part VI has been sourced from the Company's and KAY 2's respective unaudited half-yearly financial statement for the period to 30 June 2011. In respect of the information on investee companies' sales, profits and losses and net assets, these have been taken from the latest financial year end accounts published by those investee companies as referred to in this Part VI. The investment information of KAY 2 and the information on the investee companies is, for the purpose of this paragraph, "Third Party Information". The Third Party Information has been accurately reproduced and that, as far as the Company is aware and is able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Save for the change to the value of Allergy Therapeutics plc from £58,000 and £115,000 to £39,700 and £79,400 respectively and Celldex Therapeutics plc from £48,000 and £189,000 to £35,100 and £139,200 respectively as at 23 August 2011 (the latest practicable date prior to publication of this document), as at the date of this document, there has been no material change in the valuations set out in this Part VI since 30 June 2011.

Investments	Company		KAY 2	
	Value (£'000s)	%	Value (£'000s)	%
Unquoted investments				
Abcodia Limited	110	0.6	125	0.8
Academia Networks Limited	103	0.6	44	0.3
Antenova Limited	193	1.1	235	1.5
Atego Group Limited	479	2.8	—	—
Celoxica Holdings plc	—	—	377	2.3
Cluster Seven Ltd	1,017	5.9	650	4.0
Elateral Holdings Limited	2,101	12.1	1,235	7.6
Haemostatix Limited	901	5.2	557	3.4
Imagesound plc	2,195	12.7	500	3.1
Lab M Holdings Limited	495	2.8	—	—
Level Four Software Holdings Limited	1,128	6.5	1,050	6.4
Oxford Immunotec Limited	—	—	1,305	8.1
Oxonica Limited	7	0.0	3	0.0
Perpetuum Limited	374	2.5	239	1.5
Sift Limited	644	3.7	254	1.6
Skinkers Limited	—	—	—	—
Symetrica Limited	108	0.6	44	0.3
TeraView Limited	25	0.1	25	0.2
UniServity Limited	1,644	9.5	2,302	14.2
Vivacta Limited	530	3.0	340	2.1
We7 Limited	114	0.7	46	0.3
Workshare Limited	674	3.9	1,316	8.1
Xention Limited	—	—	608	3.8
Xtera Limited	—	—	85	0.5
Quoted investments				
Allergy Therapeutics plc	58	0.3	115	0.7
Celldex Therapeutics, Inc	48	0.3	189	1.2
Total fixed asset investments	12,948	74.9	11,644	72.0
Current asset investment	989	5.7	989	6.1
Cash at bank	3,367	19.4	3,544	21.9
Gross assets	17,304	100.0	16,177	100.0

Largest investments of the Company and KAY 2

Set out below are further details of the largest fixed asset investments of the Company and KAY 2 representing more than 50 per cent. of the gross assets of each of the Company and KAY 2 (including investments representing 5 per cent. of each of the gross assets of the Company and KAY 2) as at the date of this document.

Imagesound plc

Provider of digital media in the form of audio or video to the corporate sector.

Accounts for the year ended 31 December 2010
£'000

Profit before tax				31
Retained profit				270
Net assets				8,573

Holding		Equity	Accounting	Percentage of gross assets
		Percentage (%)	cost ⁽¹⁾ (£'000)	
KAY	Equity	11.7	1,845	6.9
	Loan stock	–	1,000	6.6
KAY 2	Equity	0.5	39	0.3
	Loan Stock	–	450	2.8

Elateral Holdings Limited

Development and sale of brand marketing automation software.

Accounts for the year ended 31 March 2010
£'000

Profit before tax				854
Retained profit				1,005
Net assets				591

Holding		Equity	Accounting	Percentage of gross assets
		Percentage (%)	cost ⁽¹⁾ (£'000)	
KAY	Equity	23.4	1,009	12.1
	Equity	13.3	479	7.6

UniServity Limited

Learning platform solution provider for schools and local authorities.

Accounts for the year ended 31 July 2010
£'000

Profit before tax				595
Retained profit				658
Net liabilities				(883)

Holding		Equity	Accounting	Percentage of gross assets
		Percentage (%)	cost ⁽¹⁾ (£'000)	
KAY	Equity	20.5	1,208	9.5
	Equity	28.7	1,692	14.2

Level Four Software Limited

Specialist provider of ATM software solutions.

Accounts for the year
ended 30 June 2010
£'000

Loss before tax				(598)
Retained loss				(570)
Net liabilities				(430)

Holding		Equity	Accounting	Valuation (£'000)	Percentage of gross assets
		Percentage (%)	cost ⁽¹⁾ (£'000)		(%)
KAY	Equity	12.9	738	796	4.6
	Loan stock	–	246	332	1.9
KAY 2	Equity	12.0	687	741	4.5
	Loan stock	–	229	309	1.9

Cluster Seven Limited

Design and development of spreadsheet management software
for risk control and compliance.

Accounts for the year
ended 31 December 2009
£'000

Loss before tax				(51)
Retained profit				123
Net liabilities				(3,272)

Holding		Equity	Accounting	Valuation (£'000)	Percentage of gross assets
		Percentage (%)	cost ⁽¹⁾ (£'000)		(%)
KAY	Equity	9.0	743	–	–
	Loan stock	–	826	1,017	5.0
KAY 2	Equity	5.8	317	–	–
	Loan stock	–	528	650	4.0

Haemostatix Limited

Biopharmaceutical company developing platelet replacement and
haemostatic therapies for blood clotting disorders.

Abbreviated accounts for the year
ended 31 March 2010
£'000

Net liabilities				(3,185)
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Holding		Equity	Accounting	Valuation (£'000)	Percentage of gross assets
		Percentage (%)	cost ⁽¹⁾ (£'000)		(%)
KAY	Equity	13.0	584	901	5.2
	Loan stock	8.1	363	558	3.4

Oxford Immunotec Limited

Development and sale of T-Cell measurement diagnostic products.

Accounts for the year ended 31 December 2010
£'000

Loss before tax		(8,669)
Retained loss		(8,506)
Net assets		6,952

Holding	Equity Percentage (%)	Accounting cost ⁽¹⁾ (£'000)	Valuation (£'000)	Percentage of gross assets (%)
KAY	—	—	—	—
KAY 2	Equity 7.8	2,937	1,305	8.1

Workshare Limited

Development, marketing, selling and supporting document comparison and collaboration software.

Accounts for the year ended 31 March 2010
£'000

Profit before tax		20
Retained profit		319
Net liabilities		(3,551)

Holding	Equity Percentage (%)	Accounting cost ⁽¹⁾ (£'000)	Valuation (£'000)	Percentage of gross assets (%)
KAY	Equity 1.8	696	674	3.9
KAY 2	Equity 9.5	2,947	1,316	8.1

Xention Limited

Ion channel drug discovery focussed in specific areas in cardiology, urology and auto-immune disease. The company split into two separate companies in December 2010 and is presented as one for comparison purposes.

Abbreviated accounts for the year ended 31 October 2010
£'000

Net assets		1,864
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Holding	Equity Percentage (%)	Accounting cost ⁽¹⁾ (£'000)	Valuation (£'000)	Percentage of net assets (%)
KAY	—	—	—	—
KAY 2	6.9	2,438	608	3.8

Notes:

(1) Amounts shown as accounting cost represent the acquisition cost in the case of investments originally made by the Company and/or the valuation attributed to the investments acquired from Quester VCT 2 PLC and Quester VCT 3 PLC at the date of that merger in 2005 and from Kings Arms Yard VCT 2 PLC at the date of this merger in 2011, plus any subsequent acquisition cost.

PART VII

TAX POSITION OF SHAREHOLDERS

The following paragraphs apply to the Company and to persons holding Shares as an investment who are the absolute beneficial owners of such Shares and are resident in the UK. They may not apply to certain classes of persons, such as dealers in securities. The following information is based on current UK law and practice, is subject to changes therein, is given by way of general summary and does not constitute legal or tax advice.

If you are in any doubt about your position, or if you may be subject to a tax in a jurisdiction other than the UK, you should consult your independent financial adviser.

The tax reliefs set out below are available to individuals aged 18 or over who receive Shares under the Scheme.

The Company

The Company has obtained approval as a VCT under Chapter 3 of Part 6 ITA 2007.

The Board considers that the Company has conducted its affairs and will continue to do so to enable it to qualify as a VCT.

The Scheme

The effective exchange of existing KAY 2 Shares for New Shares will not constitute a disposal of such shares for the purposes of UK taxation. Instead, the new holding of New Shares will be treated as having been acquired at the same time and at the same cost as the existing KAY 2 Shares from which they are derived. Any capital gains tax deferral relief obtained on subscription of the existing KAY 2 Shares will not, therefore, be crystallised for payment, but will be transferred to the New Shares.

For KAY 2 Shareholders holding (together with their associates) more than 5 per cent. in the VCT 5 Shares, clearance has been obtained from HMRC in terms of Section 138 of TCGA 1992 that the treatment described above for persons who (together with their associates) own less than 5 per cent. of the KAY 2 Shares in issue will also apply to them.

The implementation of the Scheme will not affect the VCT status of the Company as a VCT or the reliefs obtained by Shareholders on subscription for existing Shares. Although the Company will be required to pay UK stamp duty or stamp duty reserve tax on the transfer to it of the assets and liabilities of KAY 2 (which form part of the merger costs being allocated to both the Company and KAY 2), no UK stamp duty or stamp duty reserve tax will be payable directly by Shareholders as a result of the implementation of the Scheme.

Shareholders not resident in the UK

Shareholders not resident in the UK should seek their own professional advice as to the consequences of making and holding an investment in a VCT as they may be subject to tax in other jurisdictions as well as in the UK.

PART VIII

TAX POSITION OF THE COMPANY

1. Qualification as a VCT

To qualify as a VCT, a company must be approved as such by HMRC. To obtain such approval it must:

- (a) not be a close company;
- (b) have each class of its ordinary share capital listed on a regulated market;
- (c) derive its income wholly or mainly from shares or securities;
- (d) have at least 70 per cent. by VCT Value of its investments in shares in Qualifying Investments, 30 per cent. of which must be eligible shares (70 per cent. for funds raised after 5 April 2011);
- (e) have at least 10 per cent. by VCT Value of each Qualifying Investment in eligible shares;
- (f) not have more than 15 per cent. by VCT Value of its investments in a single company or group (other than a VCT or a company which would, if its shares were listed, qualify as a VCT); and
- (g) not retain more than 15 per cent. of its income derived from shares and securities in any accounting period.

The term 'eligible shares' means ordinary shares which carry no preferential rights to voting, dividends and assets on a winding up and no rights to be redeemed or, for funds raised after 5 April 2011, shares which do not carry any rights to be redeemed or a preferential right to assets on a winding-up or dividends (in respect of the latter, where the right to the dividend is cumulative or, where the amount or dates of payment of the dividend may be varied by the company, a shareholder or any other person).

2. Qualifying Investments

A Qualifying Investment consists of shares or securities first issued to the VCT (and held by it ever since) by a company satisfying the conditions set out in Chapters 3 and 4 of Part 6 of ITA 2007 and for which not more than £1 million was subscribed in any one company in any one tax year (nor more than £1 million in any period of six months straddling two tax years).

The conditions are detailed, but include that the company must be a Qualifying Company, have gross assets not exceeding £15 million immediately before and £16 million immediately after the investment, apply the money raised for the purposes of a qualifying trade within certain time periods and not be controlled by another company. In certain circumstances, an investment in a company by a VCT can be split into a part which is a qualifying holding and a part which is a non-qualifying holding.

For funds raised after 5 April 2006, the gross assets test was amended to £7 million immediately before and £8 million immediately after investment. In addition for funds raised after 5 April 2007, to be qualifying holdings, investments must be in companies which have fewer than 50 full-time (equivalent) employees and do not obtain more than £2 million of investment from VCTs (where funds were raised after 5 April 2007) and individuals claiming relief under the Enterprise Investment Scheme in any rolling 12 month period. As the Company's funds were raised prior to 5 April 2006, these more restrictive tests do not generally apply to investments made by the Company.

The Government announced in March 2011 that, subject to EU State Aid approval being received, legislation will be introduced in forthcoming tax years to increase the above mentioned limits. The gross assets test referred to above is proposed to be increased back to £15 million immediately before and £16 million immediately after the investment. In addition, the number of permitted employees for an investee company is proposed to be increased from 50 to 250 and the amount of investment obtained by companies from VCTs or under the Enterprise Investment Scheme is proposed to be increased to £10 million in any rolling 12 month period. Such revised limits may, however, be lower than this once agreed

with the EU implemented by the Government. These provisions may apply to the Company, as applicable, to the extent such provisions are introduced to apply to VCTs generally.

3. Qualifying Companies

A Qualifying Company must be unquoted (for VCT purposes this includes companies whose shares are traded on PLUS and AIM) and must carry on a qualifying trade. For this purpose certain activities are excluded (such as dealing in land or shares or providing financial services). The qualifying trade must either be carried on by, or be intended to be carried on by, the Qualifying Company or by a qualifying subsidiary at the time of the issue of shares or securities to the VCT (and at all times thereafter).

The company must have a permanent establishment in the UK, but the company need not be UK resident. A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter.

A Qualifying Company may have no subsidiaries other than qualifying subsidiaries which must, in most cases, be at least 51 per cent. owned.

4. Approval as a VCT

A VCT must be approved at all times by HMRC. Approval has effect from the time specified in the approval.

A VCT cannot be approved unless the tests detailed above are met throughout the most recent complete accounting period of the VCT and HMRC is satisfied that they will be met in relation to the accounting period of the VCT which is current when the application is made. However, where a VCT raises further funds, VCTs are given grace periods to invest those funds before such further funds become subject to the tests.

However, to aid the launch of a VCT, HMRC may give provisional approval if satisfied that conditions (b), (c), (f) and (g) in paragraph 1 above will be met throughout the current or subsequent accounting period and condition (d) in paragraph 1 above will be met in relation to an accounting period commencing no later than three years after the date of provisional approval.

The Company has obtained approval as a VCT from HMRC.

5. Withdrawal of approval

Approval of a VCT (full or provisional) may be withdrawn by HMRC if the various tests set out above are not satisfied. The exemption from corporation tax on capital gains will not apply to any gain realised after the point at which VCT status is lost.

Withdrawal of approval generally has effect from the time when notice is given to the VCT but, in relation to capital gains of the VCT only, can be backdated to not earlier than the first day of the accounting period commencing immediately after the last accounting period of the VCT in which all of the tests were satisfied.

Withdrawal of provisional approval has effect as if provisional approval had never been given (including the requirement to pay corporation tax on prior gains).

The above is only a summary of the conditions to be satisfied for a company to be treated as a VCT.

PART IX

ADDITIONAL INFORMATION

1. THE COMPANY

- 1.1 The Company was incorporated and registered in England and Wales under CA 1985 as a public company with limited liability on 18 December 1995, with registered number 03139019 and the name Quester VCT PLC. The Company changed its name to SPARK VCT PLC on 23 July 2008 and to Kings Arms Yard VCT PLC on 11 February 2011. The principal legislation under which the Company operates is the Companies Acts (and regulations made thereunder). The legal and commercial name of the Company is Kings Arms Yard VCT PLC. The Company is domiciled in England. The Company is not regulated by the FSA or an equivalent European Economic Area regulator, but it is subject to regulation by HMRC under the VCT rules in order to qualify as a VCT.
- 1.2 On 15 February 1996, the Registrar of Companies issued the Company with a trading certificate under Section 117 of CA 1985 (now Section 761 of CA 2006) entitling it to commence business.
- 1.3 The Company's registered office is at 1 King's Arms Yard, London EC2R 7AF. The Company is domiciled in England. Save for Quester VCT 2 PLC and Quester VCT 3 PLC, which became wholly-owned subsidiaries of the Company for a short period in June 2005 following their respective mergers with the Company pursuant to Section 425 of CA 1985 (now Section 895 of CA 2006), the Company does not have, nor has it had since incorporation, any subsidiaries or employees.
- 1.4 The Company revoked its status as an investment company under Section 266 of CA 1985 (now Section 833 of CA 2006) on 21 September 1999.
- 1.5 The International Securities Identification Number of the Shares is GB0007174294.

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 2 ordinary shares of £1 each were issued fully paid to the subscribers to the memorandum of association of the Company.
- 2.2 On 1 February 1996 the ordinary shares of £1 each were subdivided into Shares of 5 pence each and the authorised share capital was increased from £50,000 to £875,000 by the creation of 15,500,000 Shares and 50,000 redeemable preference shares of £1 each.
- 2.3 On 8 February 1996 the authorised share capital was increased from £875,000 to £1,000,000 by the creation of 2,500,000 Shares.
- 2.4 On 14 February 1996, so as to enable the Company to obtain a trading certificate under Section 117 CA 1985, the Company issued 50,000 redeemable preference shares of £1 each at par paid up as to one quarter. The redeemable preference shares were redeemed by the Company out of the proceeds of the original offer for subscription. The unissued share capital thereby created was subdivided into 1,000,000 Shares.
- 2.5 On 10 February 1997 the authorised share capital was increased from £1,000,000 to £1,855,000 by the creation of 17,100,000 Shares.
- 2.6 On 25 May 2000, the Company resolved that the share premium account of the Company be cancelled, such cancellation being confirmed by the Court on 1 November 2000 and registered at Companies House on 3 November 2000.
- 2.7 On 28 May 2002 the authorised share capital was increased from £1,855,000 to £2,200,000 by the creation of 6,900,000 Shares.
- 2.8 On 13 June 2005 the authorised share capital was increased from £2,200,000 to £10,000,000 by the creation of 156,000,000 Shares.

2.9 On 28 June 2005 the Company (then called Quester VCT PLC) completed a merger with Quester VCT 2 plc and Quester VCT 3 PLC pursuant to a scheme of arrangement under Section 425 CA 1985 (now Section 895 CA 2006).

2.10 On 20 June 2006, the Company resolved that the share premium account of the Company be cancelled, such cancellation being confirmed by the Court on 12 July 2006 and registered at Companies House on 24 July 2006.

2.11 On 7 May 2010 the Company adopted new articles of association, removing the authorised share capital limitation. Consequently, the Company is no longer restricted by an authorised share capital.

2.12 There are no other shares or loan capital in the Company under option or agreed, conditionally or unconditionally, to be put under option nor does the Company hold any share capital in treasury.

2.13 As at 24 August 2011 (this being the latest practicable date prior to publication of this document) the Company had 110,417,392 Shares in issue (all fully paid up).

2.14 The following resolutions were passed at the annual general meeting of the Company held on 16 May 2011:

2.14.1 the Directors were generally and unconditionally authorised in accordance with Section 551 of CA 2006 to allot shares up to a maximum aggregate nominal amount of £551,850 provided that this authority shall expire on the earlier of 16 November 2012 or the conclusion of the next annual general meeting but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted after the expiry of such period and the Directors may allot shares pursuant to such an offer or agreement as if the authority had not expired;

2.14.2 subject to and conditional on the passing of the resolution in paragraph 2.14.1 above, the Directors were empowered, pursuant to Section 570 of CA 2006, to allot equity securities (within the meaning of Section 560 of CA 2006) for cash pursuant to the authority conferred by the resolution in paragraph 2.12.1 above as if Section 561(1) of CA 2006 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of rights issue;
- (b) in connection with any Dividend Reinvestment Scheme introduced and operated by the Company; and
- (c) otherwise than pursuant to paragraphs (a) and (b) above, up to an aggregate nominal amount of £551,850,

and shall expire on the earlier of 16 November 2012 or at the conclusion of the next annual general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

In this resolution, "rights issue" meant an offer of equity securities open for acceptance for a period fixed by the Directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

The power conveyed applies in relation to a sale of treasury shares which is an allotment of equity securities by virtue Section 560(2)(b) of CA 2006 as if in the first paragraph of the

resolution the words “pursuant to the authority conferred by the resolution in paragraph 2.14.1 above” were omitted in relation to such a sale.

2.14.3 the Company was generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of CA 2006) of shares, on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in Section 727 of CA 2006, provided that:

- (a) the maximum number of shares hereby authorised to be purchased is 14.99 per cent. of the issued share capital of the Company as at the date of the passing of this resolution;
- (b) the minimum price, exclusive of any expenses, which may be paid for a share is 5 pence;
- (c) the maximum price, exclusive of any expenses, which may be paid for each share is an amount equal to the higher of (a) 105 per cent. of the average of the middle market quotations for the share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;
- (d) the authority conferred shall, unless previously revoked or varied, expire on 16 November 2012 or, if earlier, at the conclusion of the next annual general meeting; and
- (e) the Company may make a contract or contracts to purchase 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 shares in pursuance of any such contract or contracts as if the authority conferred had not expired.

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the “Regulations”), shares purchased by the Company out of distributable profits can be held as treasury shares, which may then be cancelled or sold for cash. The authority sought by the special resolution set out in this paragraph 2.14.3 is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

2.14.4 The Directors were empowered to sell treasury shares at the higher of the prevailing current share price and the price bought in at.

2.15 The following resolutions of the Company will be proposed at the General Meeting of the Company to be held on 16 September 2011:

2.15.1 that, subject to the Scheme becoming unconditional:

- (i) the acquisition of the assets and liabilities of KAY 2 on the terms set out in the Circular be and hereby is approved; and
- (ii) in addition to existing authorities, to the extent unused, the Directors be and hereby are generally and unconditionally authorised in accordance with Section 551 of CA 2006 to exercise all the powers of the Company to allot shares in the Company up to an aggregate nominal amount of £6,500,000 in connection with the Scheme, provided that the authority conferred shall expire on the date falling 18 months from the date of the passing of this resolution (unless renewed, varied or revoked by the Company in a general meeting).

2.15.2 that:

- (i) in addition to existing authorities and the authority conferred by paragraph (ii) of the resolution set out in paragraph 2.15.1 above, to the extent unused, the Directors be and hereby are generally and unconditionally authorised in accordance with Section 551 of CA 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,202,100, provided that, the authority conferred shall expire on the date falling 18 months from the date of the passing of this resolution (unless renewed, varied or revoked by the Company in a 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 shares to be allotted or rights to be granted after such expiry;
- (ii) in addition to existing authorities, the Directors be and hereby are empowered pursuant to Sections 570 and 573 of CA 2006 to allot or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 560(1) of CA 2006) for cash pursuant to the authority given pursuant to paragraph (i) of this resolution or by way of a sale of treasury shares, as if Section 561(1) of CA 2006 did not apply to such allotment, provided that the power shall expire on the conclusion of the annual general meeting of the Company to be held in 2012 and provided further that this power shall be limited to the allotment and issue of shares up to an aggregate nominal value representing 10 per cent. of the issued share capital of the Company from time to time, where the proceeds may in whole or part be used to purchase shares; and
- (iii) in addition to existing authorities, the Company be and hereby is empowered to make one or more market purchases within the meaning of Section 693(4) of CA 2006 of its own shares (either for cancellation or for the retention as treasury shares for future re-issue or transfer) provided that:
 - (a) the aggregate number of shares which may be purchased shall not exceed 36,038,500 (representing approximately 14.99 per cent. of the maximum expected share capital following implementation of the Scheme);
 - (b) the minimum price which may be paid per share is the nominal value thereof;
 - (c) the maximum price which may be paid per share is an amount equal to the higher of (i) 105 per cent. of the average of the middle market quotation per share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such share is to be purchased; and (ii) the amount stipulated by Article 5(1) of the Buy Back and Stabilisation Regulation 2003;
 - (d) the authority conferred shall expire on the date falling 18 months from the date of the passing of this resolution (unless renewed, varied or revoked by the Company in a general meeting); and
 - (e) the Company may make a contract to purchase shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of such shares.

2.15.3 that:

- (i) the share capital of the Company (subject to the sanction of the Court) be reduced by cancelling and extinguishing 4 pence of the amount paid up or credit as paid up on each of the ordinary shares of 5 pence each in the capital of the Company which

are in issue at 6.00 p.m. on the day before the date on which an order is made confirming such cancellation by the Court;

- (ii) the amount standing to the credit of the share premium account of the Company, at the date an order is made confirming such cancellation by the Court, be cancelled;
- (iii) the amount standing to the credit of any merger reserve of the Company, at the date an order is made confirming such cancellation by the Court, be cancelled; and
- (iv) the amount standing to the credit of the capital redemption reserve of the Company, at the date an order is made confirming such cancellation by the Court, be cancelled.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION

In this paragraph 3, reference to 'Directors' means the directors of the Company from time to time, reference to the 'Board' means the board of directors of the Company from time to time and reference to 'Act' means CA 2006.

Memorandum

The Memorandum, which, by virtue of Section 28 of CA 2006, is now treated as being part of the Articles, provides that the Company's principal object and purpose is to carry on the business of a VCT. The objects of the Company are set out in full in clause 4 of the Memorandum.

Articles

The following is a summary of the current Articles. Statutory references are subject to as updated from time to time.

3.1 Share Capital

- (1) Subject to the provisions of the Act unissued share of the Company will be at the disposal of the Board.
- (2) The Company may issue shares which are liable to be redeemed on such terms and conditions as the Board may determine.
- (3) The Board shall be entitled to make calls for the sums, if any, remaining unpaid on any shares, subject to the terms of allotment of such shares. If any call remains unpaid then the Board may, after giving not less than 14 clear days' notice, forfeit such share and sell or transfer such forfeited shares on such terms as the Board may determine.

3.2 General Meetings

(i) Convening of General Meetings

The Board shall convene annual general meetings and may convene other general meetings whenever it thinks fit. A general meeting shall also be convened on such requisition or in default may be convened by such requisitionists as provided by the Act. At any meeting convened on such requisition or by such requisitionists no business shall be transacted except that stated by the requisition or proposed by the Board. If there are not within the UK sufficient members of the Board to convene a general meeting, any Director may call a general meeting. The Board may make arrangements to ensure the orderly conduct of general meetings and to preserve the security of attendees.

(ii) Notice of General Meeting

General meetings shall be convened by the minimum period of notice required by the Act.

Every notice convening a general meeting shall specify:

- (1) whether the meeting is an annual general meeting if it is convened in an annual general meeting;
- (2) the place, the day and the time of the meeting;
- (3) the general nature of the business to be transacted;
- (4) if the meeting is convened to consider a special resolution the text of the resolution and the intention to propose the resolution as such; and
- (5) with reasonable prominence 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.

(iii) ***Omission to Send Notice***

The accidental omission to send a notice of meeting or, in cases where it is intended that it be sent out with the notice, an instrument of proxy or any other document, to, or the non-receipt of either by, any person entitled to receive the same shall not invalidate the proceedings at that meeting.

(iv) ***Quorum at General Meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the choice or appointment of a chairman which shall not be treated as part of the business of the meeting. Two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, shall be a quorum.

If within 30 minutes (or such longer interval as the chairman in his absolute discretion thinks fit) from the time appointed for the holding of a general meeting a quorum is not present, or if during a meeting such a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case, the meeting shall stand adjourned to such time and place, as the Board may determine, being not less than 14 and not more than 28 days thereafter. If at such adjourned meeting a quorum is not present within 15 minutes from the time appointed for holding the meeting one member present in person or by proxy or (being a corporation) by a duly authorised representative shall be a quorum.

(v) ***Method of Voting***

At any general meeting a resolution put to a vote of the meeting shall be decided on a show of hands unless (before or immediately after the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. Subject to the provisions of the Act, a poll may be demanded by:

- (1) the chairman of the meeting; or
- (2) at least five members present in person or by proxy having the right to vote at the meeting; or
- (3) a member or members present in person or by proxy representing not less than one tenth of the voting rights of all the members having the right to vote at the meeting; or
- (4) a member or members present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

(vi) ***Votes of Members***

Subject to the provisions of the Act and to any special terms as to voting on which any shares may have been issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles, at any general meeting every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall on a show of hands have one vote and on a poll shall have one vote for each share of which he is the holder.

(vii) ***Variation of Class Rights***

Subject to the provisions of the Act, if at any time the share capital of the Company is divided into shares of different classes any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be or be about to be in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three fourths of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of the class.

All the provisions in the Articles as to general meetings shall mutatis mutandis apply to every meeting of the holders of any class of shares save that the quorum at every such meeting shall be not less than two persons holding or representing by proxy at least one-third of the issued shares of the class; every holder of shares of the class present in person or by proxy may demand a poll; each such holder shall on a poll be entitled to one vote for every share of the class held by him; and at any adjourned meeting of such holders, one person holding shares of the class who is present in person or by proxy shall be a quorum.

(viii) ***Consolidation and Subdivision***

The Company may from time to time by ordinary resolution:

- (1) consolidate and divide all or any of its share capital into shares of larger nominal amount than its existing shares; and
- (2) subject to the provisions of the Act, sub-divide its shares or any of them into shares of smaller nominal value and may by such resolution determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares, but so that the proportion between the amount paid up and the amount (if any) not paid up on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

3.3 Disclosure of Interest in Shares

- (i) If any shareholder, or any other person appearing to the Directors to be interested in any shares in the capital of the Company held by such shareholder, has been duly served with a notice under Section 793 CA 2006 and is in default for a period of 14 days from the date of service of the notice in supplying to the Company the information thereby required, then the Company may (at the absolute discretion of the Directors) at any time thereafter by notice (a "restriction notice") to such shareholder direct that, in respect of the shares in relation to which the default occurred (the "restricted shares" which expression shall include any further shares which are issued in respect of any restricted shares), the shareholder shall not, nor shall any transferee to which any of such shares are transferred other than pursuant to a permitted transfer, be entitled to be present or to vote on any question, either in person or by

proxy, at any general meeting of the Company or separate general meeting of the holders of any class of shares of the Company.

(ii) Where the restricted shares represent at least 0.25 per cent. in nominal value of the issued shares of the same class as the restricted shares (excluding any shares of that class held as treasury shares) the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on the restricted shares shall be retained by the Company without liability to pay interest; any election by such member to receive shares instead of cash in respect of any dividends on such restricted shares will not be effective; and no transfer of any of the shares held by the shareholder shall be registered unless the shareholder is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares which are the subject of the transfer are restricted shares.

3.4 **Transfer of Shares**

(i) ***Form of Transfer***

Except as may be provided by any procedures implemented for shares held in uncertificated form, each member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the Register in respect of it.

(ii) ***Right to Refuse Registration***

The Board may in its absolute discretion refuse to register any share transfer (as to which it shall provide reasons) unless:

- (1) it is in respect of a share which is fully paid up provided that in the case of part paid shares such discretion may not be exercised in such a way as to prevent dealings in shares admitted to the Official List from taking place on an open and proper basis;
- (2) it is in respect of only one class of shares;
- (3) it is in favour of a single transferee or not more than four joint transferees;
- (4) it is duly stamped (if so required); and
- (5) it is delivered for registration to the registered office of the Company, or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or if the transfer is executed by some other person on his behalf, the authority of that person to do so.

(iii) ***Shares in uncertificated form***

the Board may permit the holding of Shares of any class in uncertificated form and the transfer of Shares of that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

3.5 **Dividends and Other Payments**

(i) ***Declaration of Dividends***

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare that, out of profits available for distribution, dividends be paid to members according to their respective rights and interests in the profits of the Company available for distribution. However, no dividend shall exceed the amount recommended by the Board. The Board may also pay interim dividends.

(ii) ***Entitlement to Dividends***

- (1) Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. Subject as aforesaid, all dividends shall be apportioned and paid pro rata according to the amounts paid up or credited as paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date or be entitled to dividends declared after a particular date it shall rank for or be entitled to dividends accordingly.
- (2) All dividends and interest shall be paid (subject to any lien of the Company) to those members whose names shall be on the register at the date at which such dividend shall be declared or at the date at which such interest shall be payable respectively, or at such other date as the Company by ordinary resolution or the Board may determine, notwithstanding any subsequent transfer or transmission of shares.
- (3) The Board may pay the dividends or interest payable on shares in respect of which any person is by transmission entitled to be registered as holder to such person upon production of such certificate and evidence as would be required if such person desired to be registered as a member in respect of such shares.
- (4) The Board may with the sanction of an ordinary resolution of the Company offer members the right to elect to receive Shares credited as fully paid up in lieu of a cash dividend.
- (5) Except as provided by the rights, and restrictions, attached to any class of Shares the holders of the Company's Shares will under general law be entitled to participate in any surplus assets in a winding up in proportion of their shareholding.

3.6 **Borrowing Powers**

- (i) Subject as provided in the Articles, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
- (ii) The Board shall restrict the borrowings of the Company and exercise all voting and other rights and powers of control exercisable by the Company in respect of its subsidiaries so as to procure (as regards its subsidiaries in so far as it can procure by such exercise) that the aggregate outstanding borrowings of the group shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to the Adjusted Capital and Reserves (as defined below);

“Adjusted Capital and Reserves” means a sum equal to the aggregate from time to time of:

- (1) the amount paid up (or credited as paid up) on the issued share capital of the Company;

- (2) the amount standing to the credit of the reserves, (including, without limitation, share premium account or capital redemption reserve), and any amount standing to the credit of the profit and loss account and the whole of any amount set aside for tax equalisation; and
- (3) the amounts standing to the credit of government grants deferred revenue account or similar accounts
- (4) making such adjustments as may be appropriate to reflect:
 - (4a) any variation in the amount of the paid up share capital and the amount standing to the credit of any of such reserves since the date of the relevant balance sheet and so that for the purpose of making such adjustments, if any proposed allotment of shares by the Company for cash has been underwritten, then such shares shall be deemed to have been allotted and the amount (including the premium) of the subscription monies payable in respect thereof (not being monies payable later than six months after the date of allotment) shall be deemed to have been paid up to the extent so underwritten on the date when the issue of such shares was underwritten (or, if such underwriting was conditional, the date on which it became unconditional);
 - (4b) any variation since the date of the relevant balance sheet in respect of the companies comprising the group;
 - (4c) any revaluation of the property or assets by an independent professional adviser;
 - (5) excluding (so far as not already excluded):
 - (5a) amounts attributable to the proportion of the issued equity share capital of any subsidiary undertaking which is not attributable, directly or indirectly, to the Company;
 - (5b) any sum set aside for taxation (other than deferred taxation);
 - (6) deducting:
 - (6a) the amount of any distribution declared, recommended or made by any group company to a person other than a group company out of profits accrued up to and including the date of (and not provided for in) the relevant balance sheet; and
 - (6b) any debit balance on profit and loss account.

“borrowings” shall include not only borrowings but also the following except in so far as otherwise taken into account:

- (1) the nominal amount of any issued share capital and the principal amount of any debenture or borrowings of any person, the beneficial interest in which or right to repayment to which is not for the time being owned by a group company, but the payment or repayment of which is the subject of a guarantee or indemnity by a group company or is secured on the assets of a group company;
- (2) the principal amount raised by any group company by acceptances or under any acceptance credit opened on its behalf by any bank or acceptance house;
- (3) the principal amount of any debenture (whether secured or unsecured) of any group company owned otherwise than by a group company;
- (4) the principal amount of any preference share capital of any subsidiary undertaking owned otherwise than by a group company; and
- (5) any fixed or minimum premium payable on final repayment of any borrowing or deemed borrowing.

but do not include:

- (6) monies borrowed by any group company for the purpose of repaying, within six months of being first borrowed, the whole or any part of any monies borrowed and then outstanding of that or any other group company pending their application for such purpose within that period;
- (7) borrowings for the purpose of financing any contracting in respect of which any part of the price receivable by any member of the Group is guaranteed or insured by the ECGD or any other governmental department with a similar function.

“relevant balance sheet” means the latest published audited consolidated balance sheet of the group but, where the Company has no subsidiary undertakings, it means the balance sheet and profit and loss account of the Company and, where the Company has subsidiary undertakings, but there are no consolidated accounts of the group, it means the respective balance sheets and profit and loss accounts of the companies comprising the group;

- (iii) when the aggregate amount of borrowings required to be taken into account for the purposes of the Articles on any particular date is being ascertained any such moneys denominated or repayable in a currency other than sterling shall be converted for the purpose of calculating the sterling equivalent at the rate of exchange prevailing on such date in London provided that any such moneys shall be converted at the rate of exchange prevailing in London six months before such date if thereby such aggregate amount would be less (and so that for this purpose the rate of exchange shall be taken as the middle market rate as at the close of business).
- (iv) A report or certificate of the auditors of the Company as to the amount of Adjusted Capital and Reserves or the amount of borrowings falling to be taken into account for the purposes of this article or to the effect that the limit imposed by this article has not been or will not be exceeded at any particular time or times or as a result of any particular transaction or transactions shall be conclusive evidence of the amount or of that fact.
- (v) No debt incurred or security given in respect of monies borrowed in excess of the limit imposed by this article shall be invalid or ineffectual except in the case of express notice to the lender or recipient of the security at the time when the debt was incurred or security given that the limit had been or would thereby be exceeded, but no lender or other person dealing with the Company shall be concerned to see or enquire whether such limit is observed.

3.7 **Directors**

- (i) Unless otherwise determined by the Company the maximum number of Directors shall be eight and the minimum shall be two. The Board may meet, adjourn and regulate its meetings as it sees fit. The quorum for meetings of the Board shall be two and if a Board Meeting is inquorate it shall stand adjourned for one week to the same time and place, the Chairman shall not have a second or casting vote on a tie.
- (ii) The Directors shall be entitled to be paid fees for their services as Directors on such sums as the Board may determine from time to time, but not exceeding £80,000 (or such larger amount as the Company may determine by ordinary resolution) per annum.
- (iii) Each Director may appoint as an alternate director either another Director or a person approved by the Board and terminate such appointment.
- (iv) Directors may be appointed by ordinary resolution or by the Board. A director appointed by the Board shall hold office only until the next following annual general meeting.
- (v) At every annual general meeting, there shall retire from office any Director who shall have been a Director at each of the preceding two annual general meetings and who was not appointed or re-appointed by the Company in general meeting at, or since, either such

meeting. A retiring Director shall be eligible for re-appointment. A Director retiring at a meeting shall, if he is not re-appointed at such meeting, retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of such meeting.

3.8 **Directors' Interests**

(i) Conflicts of Interest Requiring Board Authorisation

The Board may, provided the quorum and voting requirements set out below are satisfied, authorise any matter that would otherwise involve a Director breaching his duty under the Act to avoid conflicts of interest except that the Director concerned and any other Director with a similar interest:

- (1) shall not count towards the quorum at the meeting at which the conflict is considered; and
- (2) the resolution will only be valid if it would have been agreed to if his vote had not been counted.

(ii) Where the Board gives authority in relation to such a conflict:

- (1) the Board may (whether at the time of giving the authority or at any time or times subsequently) impose such terms upon the Director concerned and any other Director with a similar interest as it may determine, including, without limitation, the exclusion of that Director and any other Director with a similar interest from the receipt of information, or participation in discussion (whether at meetings of the Board or otherwise) related to the conflict;
- (2) the Director concerned and any other Director with a similar interest will be subject to any terms imposed by the Board from time to time in relation to the conflict;
- (3) any authority given by the Board in relation to a conflict may also provide that where the Director concerned and any other Director with a similar interest obtains information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence;
- (4) the Board may withdraw such authority at any time.

(iii) Directors are obliged to declare any material interest which they may have in any transaction or arrangement involving the Company. Such Directors shall not vote or be counted in the quorum in relation to any resolution to any transaction or arrangement in which he is to his knowledge materially interested save that a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- (1) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (2) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (3) any proposal concerning an offer of securities of or by the Company or any of its subsidiary undertakings in which offer he is, or may be entitled to, participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

- (4) any contract, arrangement, transaction concerning any other body corporate in which he, or any other person connected with him is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he or any person connected with him do not hold an interest in 1 per cent. or more of the equity share capital or voting rights of the relevant body corporate;
- (5) any contract, arrangement, transaction or other proposal for the benefit of employees of the Company which does not accord him any privilege or benefit not generally accorded to the employees to whom the scheme relates; and
- (6) any contract, arrangement or transaction concerning any insurance which the Company is to purchase and/or maintain for, or for the benefit of, any Directors or persons including Directors.

If any question shall arise at any meeting as to an interest or as to the entitlement of any Director to vote such question shall be referred to the chairman of the meeting and his ruling in relation to any Director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.

(iv) Director may have Interests

Subject to the provisions of the Act and further provided that a Director declares his interest, a Director, notwithstanding his office:

- (1) may be a party to or otherwise be interested in any transaction or arrangement with the Company or in which the Company is otherwise interested, either in regard to his tenure of any office or place of profit or as vendor, purchaser or otherwise;
- (2) may hold any other office or place of profit under the Company in conjunction with the office of Director and may act by itself or through his firm in a professional capacity for the Company and in any such case on such terms as to remuneration and otherwise as the remuneration committee may arrange either in addition to or in lieu of any remuneration provided for by any other article;
- (3) may be a member of or a director or other officer, or employed by, or a party to any transaction or arrangement with or otherwise interested in, any body corporate promoted by or promoting the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and
- (4) shall not, by reason of his office, be liable to account to the Company for any dividend, profit, remuneration, superannuation payment or other benefit which he derives from any such office, employment, contract, arrangement, transaction or proposal or from any interest in any such body corporate; and no such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

3.9 Untraced Members

- (i) The Company shall be entitled to sell at the best price reasonably obtainable any share of a member or any share to which a person is entitled by transmission if and provided that:
 - (1) during the period of 12 years prior to the date of the publication of the advertisements referred to below (or if published on different dates, the earlier or earliest of them) the Company has paid at least three dividends and no dividend has been claimed in respect of such Shares;
 - (2) on or after expiry of the said period of 12 years the Company has given notice of its intention to sell such share by advertisements in both a national daily newspaper

published in the UK and in a newspaper circulating in the area in which the last known address of such member or person appeared;

- (3) the said advertisements, if not published on the same day, shall have been published within 30 days of each other; and
- (4) during the further period of three months following the date of publication of the said advertisements (or, if published on different dates the later or latest of them) and prior to the exercise of the power of sale the Company has not received any indication of the whereabouts or the existence of such member or person.

(ii) The Company may also sell any additional shares issued by way of right during such 12 year term. To give effect to any sale of shares pursuant to this article the Board may authorise some person to transfer the shares in question and may enter the name of the transferee in respect of the transferred shares in the register notwithstanding the absence of any share certificate being lodged in respect of it and may issue a new certificate to the transferee. An instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of, or the person entitled by transmission to, the shares. The purchaser shall not be bound to see to the application of the purchase monies nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

3.10 **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 833 of the 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 thereof) 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 notwithstanding any other provision of these Articles 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 or be applied in paying dividends on any shares in the Company. 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 or be applied in paying dividends on any shares in the Company.

3.11 **Transfer or Sale under Section 110, Insolvency Act 1986**

A special resolution sanctioning a transfer or sale to another company duly passed pursuant to Section 110, Insolvency Act 1986 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the members otherwise than in accordance with their existing rights and any such determination shall be binding on all the members, subject to the right of dissent and consequential rights conferred by the said section.

3.12 Duration of the Company

The Board shall at the annual general meeting of the Company to be held in 2015, and thereafter at five yearly intervals, propose an ordinary resolution to the effect that the Company should continue as a VCT and if such resolution is not carried the Board shall within nine months of that meeting convene a general meeting to propose:

- (i) a special resolution for the reorganisation or reconstruction of the Company; and
- (ii) to wind up the Company voluntarily, provided that if the special resolution referred to at paragraph (i) is not passed the shareholders voting in favour of this resolution shall be deemed to have such number of additional votes as are required to pass such resolution to wind up.

3.13 Uncertificated Shares

The Board may make such arrangements as it sees fit, subject to the Act, to deal with the transfer, allotment and holding of shares in uncertificated form and related issues.

3.14 Indemnity and Insurance

The Company shall indemnify the Directors to the extent permitted by law and may take out and maintain insurance for the benefit of the Directors.

4. DIRECTORS AND THEIR INTERESTS

- 4.1 As at 24 August 2011 (this being the latest practicable date prior to publication of this document), the Company is not aware of any person who, immediately following the issue of the New Shares pursuant to the Scheme, directly or indirectly, has or will have an interest in the Company's capital or voting rights which is notifiable under UK law (under which, pursuant to CA 2006 and the Listing Rules and the Disclosure & Transparency Rules of the FSA, a holding of 3 per cent. or more must be notified to the Company).
- 4.2 As at 24 August 2011 (this being the latest practicable date prior to publication of this document), the interests of the Directors (and their immediate families) and the directors of KAY 2 (which includes the Proposed Directors) in the issued share capital of the Company and KAY 2 were as follows:

Director	Company		KAY 2	
	Shares	% of issued Share capital	KAY 2 Shares	% of KAY 2 issued Share capital
Robin Field	98,993	0.09	–	–
Martin Fiennes	83,300	0.08	–	–
Patrick Reeve	80,686	0.07	–	–
Robert Wright	–	–	290,049	0.37
Thomas Chambers	–	–	174,747	0.23
Alan Lamb	–	–	69,341	0.09

- 4.3 As at 24 August 2011 (this being the latest practicable date prior to publication of this document) save as disclosed above, no Director, his family or any person connected to the Director within the meaning of s.252 CA 2006 has any interest in the share or loan capital of the Company.
- 4.4 Aggregate Directors' emoluments for the current year (assuming the merger does not take place) are expected to be £40,000 (excluding applicable employers National Insurance Contributions). Details of the Directors' appointments are as follows:

<i>Director</i>	<i>Date of appointment</i>	<i>Date of appointment letter*</i>	<i>Annual remuneration**</i> (£)	<i>31 December 2010 remuneration***</i> (£)
Robin Field (Chairman)	21 January 2009	4 June 2009	22,500	22,500
Martin Fiennes (Audit Committee chairman)	5 April 2011	5 April 2011	17,500	–
Patrick Reeve	1 January 2011	1 January 2011	nil	–
David Adams (<i>former Director</i>)	–	–	–	16,621
Gregory Lockwood (<i>former Director</i>)	–	–	–	6,154

* Robin Field has been appointed pursuant to a service agreement which can be terminated by either party on not less than three months' notice. Martin Fiennes and Patrick Reeve have been appointed pursuant to appointment letters which do not require either party to give any form of notice before termination of the appointment (respectively). Assuming the merger is effected, the Directors' service agreements will be terminated, with the terms of their appointment continuing to be governed pursuant to an appointment letter subject to no termination notice period.

** no arrangements have been entered into by the Company, entitling the Directors to compensation for loss of office nor have any amounts been set aside to provide pension, retirement or similar benefits.

*** exclusive of applicable employers National Insurance Contributions.

Assuming the merger is effected, the Proposed Directors will be appointed pursuant to appointment letters on the following terms:

- Alan Lamb – an annual fee of £15,000, subject to no termination notice period; and
- Thomas Chambers – an annual fee of £17,500, subject to no termination notice period.

Further it has been agreed, subject to the merger becoming effective that Martin Fiennes will step down as Audit Committee chairman and Thomas Chambers will be appointed in his place.

4.5 Patrick Reeve, a director of the Company, is the managing partner and employee of Albion and as such is interested in the arrangements with Albion as set out in paragraph 6.1.1 below. No fees have been paid to Albion either in this year or any previous year. Save as disclosed in this paragraph 4.5, there are no potential conflicts of interest between the duties of any Director and their private interests and/or duties nor are any such conflicts envisaged on the appointment of the Proposed Directors should the Scheme become effective.

4.6 No loan or guarantee has been granted or provided to or for the benefit of any of the Directors.

4.7 The Company has taken out directors' and officers' liability insurance for the benefit of its Directors, which is renewable on an annual basis.

4.8 The Directors and the Proposed Directors are currently or have been within the last five years, a member of the administrative, management or supervisory bodies or partners of the companies and partnerships mentioned below:

<i>Director</i>	<i>Current</i>	<i>Past five years</i>
Robin Field	Artemis VCT plc Debate Mate Limited Kings Arms Yard VCT plc Wall Luxury Essentials Limited Zola Hotels Limited Zola Hotels (Amersham) Limited	Artemis AIM VCT plc Belgravia Mews Hotel (Tophams) Limited GLTC Limited Mform Limited Mform.co.uk Limited Mform Holdings Limited Metal Bulletin Limited

<i>Director</i>	<i>Current</i>	<i>Past five years</i>
Robin Field continued		Ora Telecom Limited The Unanimis Group Limited Unanimis Holdings Limited Zola (Development) Limited
Martin Fiennes	The HDH Willis 1965 Charitable Trust Kings Arms Yard VCT plc M.D. Hamilton (Farms) Limited	Arieso Limited Fiennes Farming Company Limited Focus Solutions EBT Trustee Limited Focus Solutions Group Limited Foviance Group Limited Oxford Immunotec Limited
Patrick Reeve	Albion Enterprise VCT plc Albion Income & Growth VCT plc Albion Prime VCT plc Albion Technology and General VCT plc Albion Ventures LLP Bamboo Investments Limited Bamboo Investments (No. 2) Limited The British Private Equity and Venture Capital Association C Ventures Limited Evolutions Group Limited Evolutions Television Limited Ferard-Reeve Publishing Limited Kings Arms Yard VCT plc UCL Business plc	Albion Investment Properties Limited Geronimo Inns VCT I Limited Geronimo Inns VCT II Limited I Kings Arms Yard Albion Protected VCT Limited I Kings Arms Yard Development Limited I Kings Arms Yard Technology and General Limited I Kings Arms Yard Albion Limited Jewson Associates Limited Smiles Brewing Company Limited
Thomas Chambers	Kings Arms Yard VCT 2 plc Wine Equals Friends Limited	Symbian Limited Symbian Software Limited System C Healthcare plc
Alan Lamb	Gyrometric Systems Limited Kings Arms Yard VCT 2 plc Oxford Heyderum Limited Promethean Particles Limited TTE Systems Limited	Data Perspective Limited Trend Micro (Encryption) Limited Voxent Systems Limited

4.9 None of the Directors or Proposed Directors have any convictions in relation to fraudulent offences during the previous five years.

4.10 Save as disclosed in this paragraph, there were no bankruptcies, receiverships or liquidations of any companies or partnership where any of the Directors (or Proposed Directors) were acting as (i) a member of the administrative, management or supervisory body, (ii) a partner with unlimited liability, in the case of a limited partnership with a share capital, (iii) a founder where the company had been established for fewer than five years or (iv) a senior manager during the previous five years.

Robin Field

- Artemis AIM VCT plc was placed in members voluntary liquidation in April 2009 pursuant to a solvent scheme of reconstruction in which all of the assets and liabilities were transferred to Artemis VCT plc. Artemis AIM VCT plc was subsequently dissolved in October 2010. Ora Telecom Limited was placed in administration in November 2001 when the company had an estimated deficiency as regards creditors of £10.912 million with the Company being dissolved in March 2009. The Unanimis Group Limited and Zola (Development)

Limited, were placed into members voluntary liquidation in March 2007 and June 2007 respectively. All creditors of both companies were satisfied in full. Mform Holdings Limited, Mform.co.uk Limited and Mform Limited both ceased trading in February 2009 when administrators were appointed seeking offers for the businesses and assets. There were insufficient funds to enable a distribution to any class of creditor leaving estimated final deficiencies as regards creditors of £3.4 million, £210,000 and £nil respectively. Both Mform Holdings Limited and Mform Limited dissolved in September 2010, whilst Mform.co.uk Limited dissolved in January 2011.

Strategy Ventures Limited and Confire Limited were voluntarily struck off the register of companies in April 2009 and May 2009 respectively.

Martin Fiennes – FOL Networks Limited was placed in members' voluntary liquidation in November 2001. As at 27 February 2007, the date of the last liquidators' receipts and payments, there was £490,594.42 owing to creditors. FOL Networks Limited was struck off the register of Companies in June 2007.

Fiennes Farming Company Limited was voluntarily struck off the register of companies in 2007.

Patrick Reeve – The following were all companies which were voluntarily struck off the register of companies on the date stated. I Kings Arms Yard Albion Protected VCT Limited, in July 2010; I Kings Arms Yard Development Limited, in February 2011; I Kings Arms Yard Technology and General Limited, in July 2010; I Kings Arms Yard Albion Limited, in February 2011 and Vealnamco (123) Limited which is in liquidation.

Alan Lamb – Voxent Systems Limited was placed in members' voluntary liquidation in October 2004. As at 22 September 2006, the date of the last liquidators' receipts and payments, there was £250,412.62 owing to creditors and £47,559.00 to its shareholders. Voxent Systems Limited was struck off the register of companies in March 2007. Data Perspective Limited was voluntarily struck off the register of companies in 2009.

4.11 There have been no official public incriminations and/or sanctions of any Director or Proposed Director by statutory or regulatory authorities (including designated professional bodies) and no Director or Proposed Director has ever been disqualified by a court from acting as a 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 during the previous five years.

5. OVERSEAS SHAREHOLDERS

5.1 The issue of New Shares to be issued pursuant to the merger to persons resident in or citizens of jurisdictions outside the UK may be affected by the laws of the relevant jurisdiction. Such Company shareholders should inform themselves about and observe any legal requirements, in particular:

5.2 none of the New Shares to be issued pursuant to the merger have been or will be registered under the United States Securities Act 1933, as amended, or qualify under applicable United States state statute and the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada, Australia, Japan, South Africa or New Zealand;

5.3 the Company is not registered under the United States Investment Company Act of 1940, as amended and investors are not entitled to the benefits of that Act; and

5.4 no offer is being made, directly, under the merger, in or into or by the use of emails, or by means of instrumentality (including, without limitation, facsimile, transmission, telex or telephone) or interstate or foreign commerce, or of any facility in a national securities exchange, of the United States, Canada, Australia, Japan, South Africa or New Zealand. It is the responsibility of KAY 2 Shareholders

with registered addresses outside the UK to satisfy themselves as to the observance of the laws of the relevant jurisdiction in connection with the issue of New Shares pursuant to the Scheme, including the obtaining of any government or exchange control or other consents which may be required, the compliance with any other necessary formalities which need to be observed and the payment of any issue, transfer or other taxes or duties due in such jurisdiction.

6. MATERIAL CONTRACTS

6.1 Save as disclosed in this paragraph 6.1, the Company has not entered, other than in the ordinary course of business, into any contract which is or may be material to the Company within the two years immediately preceding the publication of this document or into any contract containing provisions under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

6.1.1 An investment management agreement dated 8 December 2010 between the Company (1) and Albion (2), pursuant to which Albion provides investment management services and administration services to the Company. Albion has agreed to waive investment management and administration fees until the end of December 2011, thereafter Albion will be entitled to an investment management fee payable quarterly in arrears of an amount equivalent to 2 per cent. per annum (exclusive of VAT, if any) of the NAV of the Company calculated in accordance with the Company's normal accounting policies and an annual administration fee payable quarterly in arrears of £50,000 (exclusive of VAT, if any).

The normal annual running costs of the Company (including investment management and administration fees due to Albion, directors' remuneration, registrars' fees, stockbrokers' fees, company secretarial fees, auditors fees and irrecoverable VAT) will, for accounting periods after 31 December 2011, be capped at an amount equivalent to 3 per cent. of net asset value of the Company, with any excess being paid by Albion or refunded by a reduction to Albion's above management and administration fees.

No performance or incentive fee will be payable to Albion for any periods prior to 31 December 2012, thereafter the Board intends to discuss an appropriate incentive arrangement with Albion, which would be subject to the approval by Shareholders.

Albion's appointment is for an initial period expiring on 31 December 2013, subject to immediate termination in the event of (i) a material or persistent breach by Albion or (ii) the Company fails to become, or ceases to be, a VCT for tax purposes. Thereafter the appointment is terminable on 12 months' notice (i.e. such notice only being given after 31 December 2013) to be served by either party, subject to earlier termination by either party in the event of, inter alia, (i) a party having a receiver, administrator or liquidator appointed or (ii) the Company fails to become, or ceases to be, a VCT for tax purposes or (iii) Albion ceases to be authorised by the FSA or (iv) Albion commits an act of fraud.

The agreement contains provisions indemnifying Albion against any liability not due to its default, gross negligence, fraud or breach of the FSMA.

Albion will continue to provide investment management and administration services to the Company following the merger on the same annual fee basis as above (ie fees to 31 December 2011 will continue to be waived and thereafter annual investment management fees will be an amount equivalent to 2 per cent. of the enlarged net assets of the Company (exclusive of VAT, if any) and an annual administration fee of £50,000 (exclusive of VAT, if any)). No performance or incentive fees will be payable to Albion by the Enlarged Company for any periods prior to 31 December 2012.

6.1.2 A termination agreement dated 8 December 2010 between the Company (1) and SPARK Venture Management Limited (2) in respect of the termination of the appointment of SPARK Venture Management as the investment manager to the Company. Pursuant to this agreement the Company has agreed to pay SPARK Venture Management Limited its

management and administration fee under its investment management agreement for the period until 30 November 2011 (calculated by reference to the net asset value of the Company as at 31 December 2010, subject to appropriate adjustments in respect of dividends or realisations made during the period until 30 November 2011). The arrangements under the termination agreement are in full and final settlement of any claims between the parties in respect of the original appointment of SPARK Venture Management as the investment manager to the Company.

6.1.3 A letter of engagement dated 24 May 2011 between the Company and Brewin Dolphin, pursuant to which Brewin Dolphin will act as sponsor to the Company for the purposes of the merger. The agreement may be terminated if any statement in the Prospectus is untrue, any material omission from the Prospectus arises or any breach of warranty occurs.

6.2 The following contracts will be entered into, subject, *inter alia*, to the approval by Shareholders of Resolution 1 and the Scheme becoming effective:

- (a) A transfer agreement between the Company and KAY 2 (acting through the Liquidators) pursuant to which all of the assets and liabilities of KAY 2 will be transferred to the Company (subject only to the consent required to transfer such assets and liabilities) in consideration for New Shares in accordance with Part IV of this document. The Liquidators will further agree under this agreement that all sale proceeds and/or dividends received in respect of the underlying assets of KAY 2 will be transferred on receipt to the Company as part of the Scheme. This agreement will be entered into as part of the Scheme.
- (b) An indemnity from the Company to the Liquidators pursuant to which the Company will indemnify the Liquidators for expenses and costs incurred by them in connection with the Scheme. A liquidation fee has been agreed (including an amount representing contingency) and taken into account in the merger calculations. This agreement will be entered into as part of the Scheme.

7. CORPORATE GOVERNANCE

7.1 *Board of Directors*

Mr Robin Field, Chairman, and Mr Martin Fiennes, chairman of the Audit Committee, are considered independent Directors. Mr Patrick Reeve, who was appointed on 1 January 2011, is not considered an independent Director as he is the managing partner of Albion. The majority of the Board will continue to act independently of Albion and the Directors consider that the size of the Board is adequate to meet the Company's future needs.

The Board has considered whether it is appropriate to appoint a senior independent director and has concluded that, due to the size of the Board, the size of the business and its lack of complexity, it is inappropriate for the time being. The appointment of a senior independent director is reviewed annually.

The Articles require that all Directors be subject to re-election procedures by rotation at the annual general meeting. All Directors, in accordance with the UK Corporate Governance Code ("Code"), will submit themselves for re-election at least once every three years. Directors appointed since the last annual general meeting will retire and be subject to election at the next annual general meeting. Directors not considered to be independent or who have served for longer than nine years, will be subject to annual re-election. The Board does not have a policy of limiting the tenure of any Director as the Board does not consider that a Director's length of service reduces his ability to act independently of the Manager. Mr Patrick Reeve and Mr Martin Fiennes offered themselves for election at 2011 annual general meeting. Mr Patrick Reeve is subject to annual re-election as he is not considered to be an independent Director.

Under the terms of appointment of all Directors, the liability of the Company on termination of a directorship is limited to any unpaid fees due at the date of termination.

Information regarding the terms of appointment of the non-executive Directors is available on request.

The Directors have a range of business and financial skills which are relevant to the Company. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by Albion. The Board has access to secretarial advice and compliance services by Albion, who is responsible for ensuring that Board procedures are followed and applicable procedures complied with. All Directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the Code, the Company has in place Directors' & Officers' Liability Insurance.

The Board met six times during the financial year ended 31 December 2010 as part of its regular programme of Board meetings. The Board also met to discuss and approve the change of investment manager to Albion.

Robin Field, as the chairman of the Company, ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. The Board receives and considers reports regularly from Albion and other key advisers, and ad hoc reports and information are supplied to the Board as required. The Board has a formal schedule of matters reserved for it and the agreement between the Company and Albion sets out the matters over which Albion has authority and limits beyond which Board approval must be sought.

The Manager has authority over the management of the investment portfolio, the organisation of custodial, accounting, secretarial and administrative services. The main issues reserved for the Board include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- the consideration and approval of portfolio valuations;
- consideration of corporate strategy;
- application of the principles of the Code, corporate governance and internal control;
- review of sub-committee recommendations, including the recommendation to shareholders for the appointment and remuneration of auditors;
- recommendation of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of Albion;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price;
- share buyback and treasury share policy; and
- monitoring shareholder profile and considering shareholder communications.

7.2 **Committees and Directors' performance evaluation**

Performance of the Board and the Directors is assessed on the following bases:

- attendance at Board and committee meetings;
- the contribution made by individual Directors at, and outside of, Board and committee meetings; and
- completion of a detailed internal assessment process and annual performance evaluation conducted by the chairman of the Company. The Audit Committee chairman reviews the Company's chairman's annual performance evaluation.

The Board believes that it has the right balance of independence, skills, experience and knowledge for the effective governance of the Company. The Board considers any skills gaps in existence and takes action to remedy these where necessary.

Directors are offered training, both at the time of joining the Board and on other occasions where required. The Board also undertakes a proper and thorough evaluation of its committees on an annual basis.

7.3 **Remuneration and Nomination Committees**

Since the Company has no executive directors, the detailed Directors' remuneration disclosure requirements set out in Listing Rules as they relate to Code's provisions are not relevant.

The Board as a whole is responsible for the appointment and remuneration of Directors and, given the small size of the Board, separate Remuneration and Nomination Committees are not considered appropriate.

7.4 **Audit Committee**

The Audit Committee consists of Mr Martin Fiennes, who is Audit Committee Chairman (it being proposed, however, that Thomas Chambers will become Audit Committee chairman upon the Scheme becoming effective) and Mr Robin Field. In accordance with the Code, at least one member of the Audit Committee has recent and relevant financial experience.

Written terms of reference have been constituted for the Audit Committee as follows:

- the Committee be comprised of independent non-executive directors;
- the Chairman of the Audit Committee to be appointed by the Board and be one of the independent non-executive Directors;
- the Manager and representatives from the external auditors and any other relevant party may attend meetings at the invitation of the Committee;
- representatives of the external Auditors will attend at least one meeting per year;
- the company secretary shall be secretary of the Committee;
- the Committee shall meet at least twice per year, the meetings being scheduled to coincide with the Company's reporting timetable. The external Auditors may request a meeting if they consider that one is necessary;
- the Committee is authorised by the Board to investigate any activity within its terms of reference, seek any information that it requires from any employee of the Manager and obtain independent legal or professional advice and such advisers may attend the meetings as necessary;
- to consider the appointment and independence of the external Auditor;
- to consider the level of audit fee and to monitor the level of any fees in respect of non-audit services provided by the external Auditors to ensure that the provision of non-audit services does not impair the external Auditor's independence or objectivity;
- to consider, before the external audit commences, and together with, or through, the Manager the nature and scope of the audit;
- to review the external Auditor's management letter and management's response;
- to review the Manager's regulatory standing with the FSA, including a review of any correspondence from the FSA and to consider annually the requirement for an internal audit function;

- to review the Company's procedures for handling allegations from whistle blowers;
- to review management's reports on the effectiveness of the Company's systems and controls, including the quarterly report on the review of internal controls and the perceived greatest risks;
- to consider and review the valuation process supporting the investment valuations to be reported in the half-yearly and annual reports;
- at least one member of the Committee must attend the Board meeting at which the accounts are approved;
- copies of the minutes should be circulated to all members of the Board;
- the terms of reference should be reviewed at least annually by the Committee and recommendations should be made to the Board if appropriate;
- duties and activities shall be disclosed in the Annual Report and Financial Statements; and
- at least one member of the Audit Committee, preferably the chairman, shall attend the annual general meeting and answer questions on the Committee's activities and responsibilities.

During the year ended 31 December 2010, the Audit Committee discharged the responsibilities described above. Its activities included:

- formally reviewing the final annual report and financial statements, the half-yearly report, the quarterly interim management statements and the associated announcements, with particular focus on the main areas requiring judgement and on critical accounting policies;
- reviewing the effectiveness of the internal controls system and examination of the Internal Controls Report produced by Albion;
- meeting with the external Auditors and reviewing their findings; and
- reviewing the performance of Albion and making recommendations regarding their re-appointment to the Board.

The Audit Committee reviews the performance and continued suitability of the Company's external Auditors on an annual basis. They assess the external Auditors' independence, qualification, extent of relevant experience, effectiveness of audit procedures, as well as the robustness of their quality assurance procedures. In advance of each audit, the Audit Committee obtains confirmation from the external Auditors that they are independent and of the level of non-audit fees earned by them and their affiliates. Where non-audit fee levels are considered significant, the Committee considers the appropriateness of the independence safeguards put in place by the Auditors. The Audit Committee considers Grant Thornton UK LLP to be independent of the Company and that the provision of non-audit services does not threaten the objectivity and independence of the audit. As part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation and the audit feedback documentation. Based on the assurance obtained, the Audit Committee recommended to the Board that Grant Thornton UK LLP be reappointed and a resolution to this effect was passed at the annual general meeting in 2011.

7.5 ***Internal control***

In accordance with principles of the UK Corporate Governance Code ("the Code"), the Board has an established process for identifying, evaluating and managing the significant risks faced by the Company. This process is in place throughout each financial year and continues to be subject to regular review by the Board in accordance with the Internal Control Guidance for Directors in the Code published in September 1999 and updated in 2005 (the "Turnbull guidance"). The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage, rather than eliminate, the risks of failure to achieve

the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board's monitoring covers all controls, including financial, operational and compliance controls, and risk management. The Board receives each year from Albion a formal report, which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of Albion, and which reports the details of any known internal control failures. Steps are, and continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers, and to deal with areas of improvement which come to the Albion's and the Board's attention.

The main features of the internal control system with respect to financial reporting, implemented throughout each year are:

- segregation of duties between the preparation of valuations and recording into accounting records;
- reviews of valuations and financial reports are carried out by Albion;
- bank and stock reconciliations are carried out monthly by Albion in accordance with the FSA requirements;
- all published financial reports are reviewed by Albion's compliance department;
- the Board reviews financial information; and
- a separate Audit Committee of the Board reviews published financial information.

Following the appointment of Albion, the Board has access to Littlejohn LLP, which, as the internal auditor for Albion, undertakes periodic examination of the business processes and controls environment at Albion and ensures that any recommendations to implement improvements in controls are carried out. Littlejohn LLP reports formally to the Board on an annual basis. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended.

8. TAXATION

- 8.1 The following paragraphs, which are intended as a general guide only and are based on current legislation and HMRC practice, summarise advice received by the Board as to the position of the Company's Shareholders who hold Shares other than for trading purposes. Any person who is in any doubt as to his taxation position or may be subject to taxation in any jurisdiction other than the United Kingdom should consult his professional advisers.
- 8.2 Taxation of dividends – under current law, no tax will be withheld by the Company when it pays a dividend.
- 8.3 Stamp duty and stamp duty reserve tax – the Company has been advised that no stamp duty or stamp duty reserve tax will be payable on the issue of the New Shares to be issued pursuant to the merger. The Company has been advised that the transfer of New Shares will, subject to any applicable exemptions, be liable to ad valorem stamp duty at the rate of 0.5 per cent. of the consideration paid. An unconditional agreement to transfer such New Shares if not completed by a duly stamped stock transfer will be subject to stamp duty reserve tax generally at the rate of 50p per £100 (or part thereof) of the consideration paid.
- 8.4 Close company – the Board believes that the Company is not, and expects that following completion of the Scheme it will not be, a close company within the meaning of ITA 2007. If the Company was a close company in any accounting period, approval as a VCT for the Company would be withdrawn.

9. RELATED PARTY TRANSACTIONS

Save for the fees paid to the Directors as detailed in paragraph 4.4 above and the fees paid to SPARK Venture Management Limited (as the former manager of the Company) of £799,000, £615,000, £480,000 and £217,000 during the years ended 31 December 2008, 2009 and 2010 and to the date of this document in the current financial year, there were no related party transactions paid by the Company during the years ended 31 December 2008, 2009 and 2010 or to the date of this document in the current financial year.

10. GENERAL

Working Capital Statement

10.1 The Company is of the opinion that its working capital is sufficient for its present requirements, that is for at least the twelve month period from the date of this document.

Capitalisation and Indebtedness Statement

10.2 As at 24 August 2011 (the latest practicable date prior to publication of this document), the Company has no indebtedness, whether guaranteed, unguaranteed, secured, unsecured, direct and/or contingent and there is no current intention of incurring any such indebtedness for at least the twelve month period from the date of this document.

10.3 The capitalisation of the Company as at 30 June 2011 (extracted from the Half-Yearly Report), is set out below. There has been no material change in the capitalisation of the Company between 30 June 2011, the date of the Half-Yearly Report and 24 August 2011, the latest practicable date before the date of publication of this document.

<i>Shareholders' Equity</i>	£'000
Called-up Share Capital	5,521
Share premium account	155
Other reserves	12,019
Total	17,695

Other

10.4 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Company is aware) which may have, or have had in the 12 months immediately preceding the date of this document, a significant effect on the financial position or profitability of the Company.

10.5 There has been no significant change in the financial or trading position of the Company since 30 June 2011, the date of the Half-Yearly Report, to the date of this document.

10.6 There has been no significant change in the financial or trading position of KAY 2 since 30 June 2011, the date of the KAY 2 Half-Yearly Report, to the date of this document.

10.7 There have been no important events so far as the Company and the Directors (and the Proposed Directors) are aware relating to the development of the Company or its business.

10.8 There have been no significant factors, whether governmental, economic, fiscal, monetary or political, including unusual or infrequent events or new developments nor any known trends, uncertainties, demands, commitments or events that are reasonably likely to have an effect on the Company's prospects or which have materially affected the Company's income from operations so far as the Company and the Directors (and the Proposed Directors) are aware.

10.9 There are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year, so far as the Company, the Directors and the Proposed Directors are aware.

10.10 Scott-Moncrieff (a member of the Institute of Chartered Accountants) has given and has not withdrawn its written consent to the inclusion in this document of its report set out in Part V of this document in the form and context in which it is included and has authorised the contents of its report for the purposes of Rule 5.5.3(2)(f) of the Prospectus Rules.

10.11 Brewin Dolphin and the Liquidators have given and not withdrawn their written consent to the issue of this document and the inclusion of their names and the references to them in this document in the form and context in which they appear.

10.12 Shareholders will be informed, by means of the half-yearly and/or annual report or through a Regulatory Information Service announcement if the investment restrictions which apply to the Company as a VCT detailed in this document are breached.

10.13 The Company's capital resources are restricted insofar as they may be used only in putting into effect the investment policies in this document. There are no firm commitments in respect of the Company's principal future investments.

10.14 All Shareholders have the same voting rights in respect of the share capital of the Company. The Company is not aware of any person who, directly or indirectly, exercises or could exercise control over the Company, nor of any arrangements, the operation of which, may be at a subsequent date result in a change of control of the Company.

10.15 The Company has no employees or subsidiaries.

10.16 The typical investor for whom investment in the Company is designed is an individual retail investor aged 18 or over who is resident and a tax payer in the United Kingdom.

10.17 The Company does not have any material shareholders with different voting rights.

10.18 The Company is subject to the investment restrictions relating to a venture capital trust in ITA 2007, as more particularly detailed in Part IX of this document, and in the Listing Rules which specify that (i) the Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy as set out in pages 24 and 25 of this document; (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and (iii) the Company may not invest more than 10 per cent., in aggregate, of the value of the total assets of the issuer at the time an investment is made in other listed closed-ended investment funds. Any material change to the investment policy of the Company will require the approval of Shareholders pursuant to the Listing Rules. The Company intends to direct its affairs in respect of each of its accounting periods so as to qualify as a venture capital trust and accordingly:

- 10.18.1 the Company's income is intended to be derived wholly or mainly from shares or other securities, as this phrase is interpreted by HMRC;
- 10.18.2 the Company will not control the companies in which it invests in such a way as to render them subsidiary undertakings;

10.19 The Company and its Shareholders are subject to the provisions of the City Code on Takeovers and Mergers and the Companies Acts, which require shares to be acquired/transferred in certain circumstances.

10.20 Had the Scheme been implemented on 30 June 2011, being the latest practicable date before the date of publication of this document, based on the relative unaudited net asset values of the Company and KAY 2 as at that day, 101,751,528 New Shares would have been issued to KAY 2 Shareholders representing 92.2 per cent. of the issued share capital of the Company.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the Effective Date at the offices of Martineau, 35 New Bridge Street, London EC4V 6BW and also at the registered office of the Company:

- 11.1 the memorandum and articles of association of the Company;
- 11.2 the audited report and accounts of the Company for the financial years ended 31 December 2008, 2009 and 2010;
- 11.3 the Half-Yearly Report of the Company (for the six month period ended 30 June 2011);
- 11.4 the audited report and accounts of KAY 2 for the financial years ended 31 December 2008, 2009 and 2010;
- 11.5 the KAY 2 Half-Yearly Report (for the six month period ended 30 June 2011);
- 11.6 the material contracts referred to in paragraph 6 above (the contracts referred to at paragraph 6.2 being subject to non-material amendment);
- 11.7 the consents referred to at paragraphs 10.11 and 10.12 above;
- 11.8 the KAY 2 Circular dated 25 August 2011;
- 11.9 the Circular dated 25 August 2011; and
- 11.10 this document.

