

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to consult an appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your Shares in King Arms Yard VCT PLC you should at once forward this document to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected, for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States, Canada, Australia or Japan or any other jurisdictions if to do so would constitute a violation of the relevant laws of such jurisdiction.

KINGS ARMS YARD VCT PLC

(Incorporated and Registered in England and Wales – registered number 3139019)

Introduction of a Dividend Reinvestment Scheme for Ordinary Shares

**To enable Shareholders to reinvest their dividends in
New Ordinary Shares in the Company
and to benefit from the related income tax relief.**

The Dividend Reinvestment Scheme is not available to Shareholders resident in the United States, Canada, Australia or Japan and the Mandate Form cannot be accepted from or within the United States, Canada, Australia or Japan.

If you wish to participate in the Dividend Reinvestment Scheme, you should complete and return the accompanying Mandate Form to Capita Registrars Limited, New Issues Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (using the accompanying reply paid envelope) by not later than 10 a.m. on 9 June 2011.

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EXPECTED TIMETABLE OF EVENTS

	2011
Announcement of the annual results for the year ended 31 December 2010	20 April
Record date for entitlement of Final Dividend for the year ended 31 December 2010 (providing approved by shareholders)	27 May
Latest time for receipt of the Mandate Form	10 a.m. on 9 June
Date of payment of Final Dividend in relation to the year ended 31 December 2010 and first allotment of New Ordinary Shares under the Dividend Reinvestment Scheme (providing approved by shareholders)	24 June
Commencement of dealings in respect of the first New Ordinary Shares allotted under the Dividend Reinvestment Scheme	27 June
Despatch of share certificates, crediting of CREST accounts and an account statement in respect of the New Ordinary Shares	15 July

RISK FACTORS

Shareholders should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 before investing in the New Ordinary Shares.

- There is no assurance the Company will continue to meet its investment objectives.
- It is the intention of the Directors and the Manager that the Company will continue to be managed so as to qualify as a VCT. A failure to meet the qualifying requirements for a VCT could result in adverse tax consequences for the Company and/or Shareholders.
- The Company's investments will generally be in companies whose securities are not publicly traded or freely marketable and may therefore be difficult to realise and there can be no assurance that appreciation in value will occur.
- The market price of the Ordinary Shares can fluctuate and there is no guarantee that the market price of the New Ordinary Shares will reflect fully their underlying net asset value.
- New Ordinary Shares issued in the name of a nominee will not be eligible for the initial 30 per cent. tax relief. In order to obtain the income tax relief it is necessary for UK shareholders to subscribe for the New Ordinary Shares in their own name.

In making their decision whether or not to participate in the Dividend Reinvestment Scheme, shareholders should note that from time to time, shares in the Company trade in the stock market at a discount approaching or greater than the current income tax relief of 30 per cent.

DEFINITIONS

“Board” or “Directors”	The board of directors of the Company
“Albion Ventures” or “the Manager”	Albion Ventures LLP, the manager of Kings Arms Yard VCT PLC, which is authorised and regulated by the Financial Services Authority
“Company” or “Kings Arms Yard VCT”	Kings Arms Yard VCT PLC
“Dividend Reinvestment Scheme” or “Scheme”	The scheme, whose terms are set out in this document, whereby Shareholders may elect to receive New Ordinary Shares instead of cash by way of dividend
“Final Dividend”	The final dividend for the year to 31 December 2010 of 0.67 pence per Share payable to those Shareholders on the share register on the Record Date
“London Stock Exchange”	London Stock Exchange plc
“Mandate Form”	The form, enclosed with this document, that enables Shareholders to participate in the Dividend Reinvestment Scheme
“New Shares” or “New Ordinary Shares”	New Ordinary Shares to be issued, from time to time, under the Scheme
“New VCT Funds”	Funds raised in respect of any VCT subsequent to 6 April 2010
“Ordinary Shares”	Ordinary Shares of 5p each in the Company
“Participant”	Those Shareholders who elect to participate in the Scheme
“Record Date”	27 May 2011
“Reinvestment Day”	The day upon which New Ordinary Shares are acquired under the Scheme
“Scheme Administrator”	Capita Registrars Limited
“Shareholders”	Holders of the Ordinary Shares
“Shareholding”	A holding of Ordinary Shares
“Shares”	Ordinary Shares of 5p each in the Company
“UK Listing Authority”	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“VCT”	Venture Capital Trust

PART I

KINGS ARMS YARD VCT PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 3139019)

Directors:

Robin Field (*Chairman*)
David Adams
Martin Fiennes
Patrick Reeve

Registered Office:

1 King's Arms Yard
London
EC2R 7AF

19 April 2011

Dear Shareholder,

Introduction of a Dividend Reinvestment Scheme to enable Shareholders to reinvest their dividends in New Ordinary Shares in the Company and to benefit from the related income tax relief.

Introduction

It is your Company's policy to maintain a strong, and where possible a predictable dividend stream, paid out of realised capital and revenue profits. The Final Dividend in respect of the year ending 31 December 2010 of 0.67 pence per Ordinary Share will be paid on 24 June 2011 (subject to approval by shareholders at the forthcoming Annual General Meeting.

Given this dividend policy, your Board considers it appropriate to introduce a Dividend Reinvestment Scheme whereby Shareholders may elect to reinvest the whole of the dividend received by subscribing for New Ordinary Shares, depending on the nature of their shareholding, for cash. The Scheme is being made available to all Shareholders in respect of their entire holdings. In doing this, Shareholders will also be eligible for the income and capital gains tax advantages available to shareholders in venture capital trusts in respect of the New Ordinary Shares subscribed under the Scheme. In particular, investors who participate in the Dividend Reinvestment Scheme will be entitled to income tax relief at the rate of 30 per cent. on the amount subscribed for New Ordinary Shares, so long as their total investment in venture capital trusts, including these New Ordinary Shares, does not exceed £200,000 in the relevant tax year.

This means that, under current tax legislation and if a dividend policy of 0.67 pence per Ordinary Share per annum is maintained, Ordinary Shareholders who participate in the Scheme and who are eligible for VCT reliefs will, in addition to the annual payment of 0.67 pence received in the form of shares, be entitled to a further 0.20 pence in income tax relief, taking the total return to 0.87 pence per annum.

New Ordinary Shares issued in the name of a nominee will not be eligible for the initial 30 per cent. tax relief. In order to obtain the income tax relief it is necessary for UK shareholders to subscribe for the New Ordinary Shares in their own name.

In making their decision whether or not to participate in the Dividend Reinvestment Scheme, shareholders should note that from time to time, shares in the Company trade in the stock market at a discount approaching or greater than the current income tax relief of 30 per cent.

Further details of the tax provisions relating to a venture capital trust are given in Part II of this document.

From now on, and for so long as the Dividend Reinvestment Scheme is in operation, on each occasion that a Ordinary Shares' dividend is paid by the Company, it is intended that Shareholders will have the opportunity to subscribe for New Ordinary Shares in respect of that dividend. A Mandate Form, a copy of which is enclosed, should be completed. This may be cancelled at any time by notice in writing to Capita Registrars. Shareholders will, therefore, be able to increase their shareholding simply and without incurring dealing costs or stamp duty. The Dividend Reinvestment Scheme provides for any fractional entitlement of less than the value of one New Ordinary Share to be accumulated, at no interest, on behalf of the Shareholder and to be added to the amount to be reinvested in New Ordinary Shares in respect of the next dividend paid by the Company.

Statements to enable a claim for income tax relief at the rate of 30 per cent. on the amount subscribed for the first New Ordinary Shares are expected to be dispatched on 15 July 2011.

Final Dividend for year to 31 December 2011

The Final Dividend for the current year of 0.67 pence per Ordinary Share is due to be paid on 24 June 2011 to those Shareholders on the register on the Record Date. The dividends payable to those Shareholders who elect to participate in the Scheme will not be sent to the Participants but will be held in trust on their behalf by the Company and reinvested in New Ordinary Shares (in respect of holders of Ordinary Shares) or as the case may be.

The New Ordinary Shares will be issued at the most recently announced net asset value per Ordinary Share, as adjusted for the dividend in question. The price, therefore, at which New Ordinary Shares will be issued to those Shareholders who elect to participate in the Dividend Reinvestment Scheme in respect of the Final Dividend will be 15.93 pence per New Ordinary Share, being the net asset value per Ordinary Share at 31 December 2010 of 16.60 pence, as reduced by the Final Dividend of 0.67 pence per Ordinary Share. This compares to the current offer share price of 5.25 pence at 19 April 2011, being the most practicable date prior to the publication of this document, although shareholders should note that, unlike the subscription for new shares under the dividend reinvestment scheme, purchasers of existing shares on the stock market will not be eligible for the upfront income tax relief of 30 per cent. **Shareholders who elect to participate in the Dividend Reinvestment Scheme will therefore receive approximately one New Ordinary Share for every 24 Ordinary Shares registered in their name on the Record Date.**

Status of the New Shares

The New Ordinary Shares issued in respect of the Final Dividend will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all future dividends.

Shareholders wishing to receive their cash entitlement to the Final Dividend need to take no further action.

If all Shareholders elect to participate in the Dividend Reinvestment Scheme in respect of the Final Dividend, a maximum of 4,642,059 New Ordinary Shares would be issued, representing 4.2 per cent. of the enlarged issued Ordinary Share capital. If no Shareholders elect to participate in the Dividend Reinvestment Scheme, the Final Dividend payable in cash will amount to £739,480 in respect of the Ordinary Shares.

Mandate Form and action to be taken

If you wish to participate in the Dividend Reinvestment Scheme, you should complete and sign the enclosed Mandate Form and return it no later than 10 a.m. on 9 June 2011 to Capita Registrars Limited, New Issues Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The terms and conditions of the Dividend Reinvestment Scheme are set out in Part III of this document. The Mandate Form will remain valid for all dividends paid to you by the Company until such time as you give notice in writing to Capita Registrars that you no longer wish to participate in the Dividend Reinvestment Scheme.

Yours sincerely

Robin Field
Chairman

PART II

TAXATION RELIEFS FOR INDIVIDUAL INVESTORS

Participants should note that the summary set out below of the relevant provisions of the UK taxation legislation is in relation to tax years commencing on or after 6 April 2010. The following paragraphs are intended as a general guide only and are based on current legislation and HM Revenue & Customs practice, which is subject to change. If you are in any doubt as to your tax position or you are subject to tax in a jurisdiction outside the UK, you should consult an appropriate professional adviser without delay.

Individuals must be aged 18 or over to qualify for the tax reliefs below.

Relief from income tax

A tax paying investor subscribing up to £200,000 in the current tax year for new shares in a VCT, whether through the Dividend Reinvestment Scheme or otherwise, will be entitled to claim income tax relief on the investment, in the year in which the investment is made, at the rate of 30 per cent., (regardless of the rate at which the investor pays income tax for that year) although this relief would be withdrawn in whole or in part should the shares be sold within five years. Relief is given by way of a deduction from the investor's income tax liability and is restricted to the amount which reduces that liability to nil.

An investor who disposes of shares in a VCT will be exempt from tax on gains arising on their disposal while any loss will not be an allowable capital loss. This treatment applies to shares however acquired up to the permitted maximum which is £200,000 in the current tax year.

Subscriptions for VCT shares must be made in an individual's name and not through a nominee, in order to get the 30 per cent. tax relief.

Non-resident shareholders should seek their own professional advice as to the consequences of making an investment in the Company as they may be subject to tax in another jurisdiction.

Loss of tax reliefs

If the Company loses approval as a VCT, the Company will be liable to pay corporation tax on chargeable gains which are realised after such approval is lost.

For investors, the withdrawal of formal approval as a VCT may (depending upon the timing of such withdrawal) result in:

- clawback of the 30 per cent. tax relief on subscription for new VCT shares;
- income tax becoming payable on subsequent payments of dividends by the Company; and
- a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the VCT, except that any part of the gain attributable to the period for which the VCT was approved would be exempt.

PART III

TERMS AND CONDITIONS OF THE DIVIDEND REINVESTMENT SCHEME

1. The Company shall invest the monies held within the Scheme (being dividends paid on Ordinary Shares held by, or on behalf of, Shareholders participating in the Scheme) in the subscription of New Ordinary Shares in the Company. The Company shall not have the discretion to vary such investments and Shareholders may not instruct the Company or the Scheme Administrator to make any other investments. The number of Ordinary Shares held by any such Shareholder which are mandated to the Scheme shall be altered immediately following any change to the number of Ordinary Shares in respect of which such Shareholder is the registered holder as entered onto the register of members of the Company from time to time.
2.
 - (a) On or as soon as practicable after a day on which any dividend is paid to Shareholders (a “Reinvestment Day”), the funds held by the Company on behalf of each Shareholder shall be applied on behalf of that Shareholder in the subscription for the maximum number of New Ordinary Shares as can be acquired with those funds.
 - (b) The number of New Ordinary Shares issued to a Shareholder pursuant to condition 2 (a) above shall be calculated by dividing the aggregate value of the dividends paid on the Ordinary Shares to which that Shareholder is entitled by the greater of (i) the net asset value per Ordinary Share being the most recently announced net asset value per Ordinary Share (as adjusted for the relevant dividend in question); and (ii) the nominal value per Ordinary Share.
 - (c) No fractions of New Ordinary Shares will be issued under the Scheme. Any balance of cash remaining with the Company after the subscription shall be held by the Company on behalf of the Shareholder to whom it relates and added to the cash available in respect of that Shareholder for the subscription of New Ordinary Shares on the next Reinvestment Day. No interest shall accrue or be payable by the Company in favour of any Shareholder on any such cash balances.
 - (d) The Scheme involves the reinvestment of the whole dividend paid on each Shareholding each time a dividend is paid by the Company, together with any cash residue brought forward from the previous dividend. Partial reinvestment of dividends is only permitted by nominees, who need to lodge an application for each Reinvestment Day quoting the number of Ordinary Shares in respect of which their election is made. Shareholders will remain in the Scheme so that all future dividends will be reinvested in the same way, until they give notice in writing to the Scheme Administrator that they wish to terminate their participation in the Scheme.
3. If you hold your Ordinary Shares through the “CREST” system, New Ordinary Shares will be credited to your CREST account and you will receive a CREST statement.
4. The Scheme Administrator shall immediately after the subscription of New Ordinary Shares in accordance with condition 2 hereof take all necessary steps to ensure that Shareholders are entered onto the register of members of the Company as the registered holders of the New Ordinary Shares issued to them in accordance with condition 2(b) above, and that share certificates in respect of such New Ordinary Shares are issued and delivered to Shareholders at their own risk as soon as is reasonably practicable (unless such shares are to be held through CREST), Shareholders will receive with their share certificates (if any) a statement detailing:
 - (a) the dividend available for reinvestment;
 - (b) the price per New Ordinary Share subscribed and the date of issue;
 - (c) the number of New Ordinary Shares issued and the total cost; and
 - (d) the cash to be carried forward for investment on the next Reinvestment Day.
5. Application to join the Scheme can be made at any time. However, applications to join the Scheme need to have been received by the Scheme Administrator at least 15 calendar days prior to the payment of a dividend which is to be reinvested.

6. All costs and expenses incurred by the Scheme Administrator in administering the Scheme will be borne by the Company.
7. By completing and delivering a Mandate Form, each Shareholder warrants to the Company and the Scheme Administrator that:
 - (a) during the continuance of his or her participation in the Scheme, he or she will remain the sole owner of the Ordinary Shares mandated to the Scheme free from encumbrances or security interests;
 - (b) all information set out in the Mandate Form for participation in the Scheme is correct and to the extent any of the information changes he or she will notify the changes to the Scheme Administrator; and
 - (c) during the continuance of his or her participation in the Scheme, he or she will comply with the provisions of condition 8 below.
8. The right to participate in the Scheme will not normally be available to any person who has a registered address in any jurisdiction outside the United Kingdom. It is the responsibility of any Shareholder wishing to participate in the Scheme to be satisfied as to the observance of the laws of the relevant jurisdiction(s) in connection therewith, including obtaining any governmental or other consents which may be required and observing any other formalities needing to be observed in any such jurisdiction(s). No such person receiving a copy of the Scheme documents may treat them as offering such a right unless an offer could properly be made without such compliance.
9. The Shareholder acknowledges that the Company and the Scheme Administrator are not providing a discretionary management service. Neither the Scheme Administrator, Albion Ventures nor the Company shall be responsible for any loss or damage to Shareholders as a result of their participation in the Scheme unless due to the negligence or default of the Scheme Administrator, Albion Ventures or the Company, their employees or their respective agents.
10. A Shareholder may at any time by notice to the Scheme Administrator terminate his or her participation in the Scheme and withdraw any monies held by the Company on his or her behalf in relation thereto. If a Shareholder shall at any time cease to hold any Ordinary Shares in the Company, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme.
11. If a Shareholder withdraws from the Scheme and a cash balance remains of less than £1 that balance will not be repaid, but will be donated to a recognised registered charity.
12. The Company and the Scheme Administrator shall be entitled, at any time to suspend the operation of the Scheme and/or to terminate the Scheme without notice to the Shareholders and/or to refuse to reinvest dividends due on Ordinary Shares held by a nominee where the Scheme Administrator is unable to obtain confirmation as to the identity and shareholdings of beneficial holders. In the event of termination, the Scheme Administrator shall, subject to condition 11 above, pay to each Shareholder all of the monies held by the Company on his or her behalf.
13. All notices and instructions to be given to the Scheme Administrator shall be in writing and delivered or posted to Capita Registrars Limited, New Issues Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
14. The Company and the Scheme Administrator shall be entitled to amend the Scheme and its terms and conditions on giving one month's notice in writing to all participating Shareholders. If such amendments have arisen as a result of any change in statutory or other regulatory requirements, notice of such amendment will not be given to Shareholders unless, in the Company's and the Scheme Administrator's opinion, the change materially affects the interests of Shareholders. Amendments to the Scheme terms and conditions which are of a minor or technical nature, or made to correct a manifest error and which do not adversely affect the interests of Shareholders, may be effected without notice.

15. By completing and delivering the Mandate Form, the Shareholder:
- (a) agrees to provide the Company with any information which it may request in connection with such application and to comply with legislation relating to venture capital trusts or any other relevant legislation (as the same may be amended from time to time); and
 - (b) declares that a loan has not been made to the Shareholder or any associate which would not have been made or has not been made on the same terms but for the Shareholder offering to subscribe for, or acquiring, New Ordinary Shares and that the New Ordinary Shares are being acquired for bona fide commercial purposes and not as part of a scheme or arrangement, the main purpose of which is the avoidance of tax.
16. Subscriptions for venture capital trust shares only attract tax reliefs if in any tax year subscriptions or purchases of shares in all venture capital trusts do not exceed £200,000 (including subscriptions pursuant to dividend reinvestment schemes). Investors are responsible for ascertaining their own tax status and liabilities and neither the Scheme Administrator, the Company nor Albion Ventures can accept any liability in the event investors do not receive any venture capital trust tax relief.
17. In respect of dividends on Ordinary Shares acquired in excess of £200,000 in any tax year, these dividends will not be exempt for income tax in the same way as Ordinary Shares acquired within this limit. The Scheme Administrator will nevertheless advise the Company to invest the whole of such dividends under the Scheme unless notified to the contrary in writing by the Shareholder at least 15 calendar days before a Reinvestment Day.
18. The Company shall not be required to issue New Ordinary Shares hereunder if the Directors so decide.
19. These Scheme terms and conditions shall be governed by, and construed in accordance with, English Law and each Shareholder submits to the jurisdiction of the English courts and agrees that nothing shall limit the right of the Company to bring an action, suit or proceeding arising out of or in connection with the Scheme in any other manner permitted by law or in any court of competent jurisdiction.

Shareholders in any doubt about their tax position should consult their independent professional adviser.

