KINGS ARMS YARD VCT PLC

Registered in England and Wales 03139019
Registered Office: 1 King's Arms Yard, London EC2R 7AF
All correspondence to 1 King's Arms Yard, London

26 August 2011

Dear Shareholder

Proposals for a merger of the Company and Kings Arms Yard VCT 2 PLC

On 16 May 2011, the Board announced that it was in preliminary discussions with Kings Arms Yard VCT 2 PLC to merge the companies. I am pleased to advise that discussions have now concluded and enclosed with this letter is a circular to shareholders and a prospectus setting out the proposals, along with the Half-Yearly Financial Report for the six months ended 30 June 2011.

The merger will be completed by the Company acquiring all of the assets and liabilities of Kings Arms Yard VCT 2 PLC in consideration for new shares in the Company being issued to the shareholders of Kings Arms Yard VCT 2 PLC and will be completed on a relative net asset basis. As an illustration, had the merger taken place on 30 June 2011 Kings Arms Yard VCT 2 PLC shareholders would have received 1.3152 new shares in the Company for each existing Kings Arms Yard VCT 2 PLC share. The actual merger ratio will be calculated on the calculation date of the merger, being after the close of business on 29 September 2011. The merger is expected to deliver cost savings and strategic benefits to both sets of shareholders.

The circular contains notice of a general meeting to be held on 23 September 2011 to approve resolutions in connection with the merger, as well as other ancillary matters. **I would be grateful if you could return your proxy forms in accordance with the instructions set out thereon.**

If you require any further information please contact Albion Ventures on 020 7601 1850. Please note that Albion can give no financial, tax or investment advice.

Yours faithfully

Robin Field

Chairman