

KINGS ARMS YARD VCT 2 PLC

*Registered in England and Wales 04063505
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 PLC

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

The merger will be completed by Kings Arms Yard VCT PLC acquiring all of the assets and liabilities of the Company in consideration for the issue of new shares in Kings Arms Yard VCT PLC to the shareholders of the Company and will be completed on a relative net asset basis. As an illustration, had the merger taken place on 30 June 2011 shareholders would have received 1.3152 new Kings Arms Yard VCT PLC shares for each existing share held in the Company. 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. Enclosed with this letter is a circular to shareholders setting out the merger proposals and a prospectus issued by Kings Arms Yard VCT PLC in relation to the shares it will issue pursuant to the merger.

The circular contains notices of two general meetings to be held on 23 September 2011 and 30 September 2011 to approve resolutions in connection with the merger. **I would be grateful if you could return your proxy forms in accordance with the instructions set out thereon.**

If the resolutions to approve the proposals are passed by shareholders, new share certificates for the replacement holding in Kings Arms Yard VCT PLC will be issued to shareholders.

A copy of the Kings Arms Yard VCT PLC Half-Yearly Financial Report for the six months ended 30 June 2011 has been uploaded on to the Albion Ventures website (www.albion-ventures.co.uk) should shareholders wish to review this.

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

Robert Wright

Chairman