

**Kings Arms Yard VCT PLC**  
(formerly SPARK VCT plc)

**ALBION VENTURES**

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# Company information

<b>Company Number</b>	3139019
<b>Directors</b>	R A Field, Chairman D Y Adams M G Fiennes P H Reeve
<b>Manager, company secretary and registered office</b>	Albion Ventures LLP 1 King's Arms Yard London, EC2R 7AF Tel: 020 7601 1850 Fax: 020 7601 1875 Website: <a href="http://www.albion-ventures.co.uk">www.albion-ventures.co.uk</a>
<b>Registrar</b>	Capita Registrars Limited Northern House Penistone Road Fenay Bridge Huddersfield HD8 0GA
<b>Auditor and Taxation adviser</b>	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
<b>Legal adviser</b>	Travers Smith LLP 10 Snow Hill London EC1A 2AL

Kings Arms Yard VCT PLC is a member of The Association of Investment Companies.

<b>Shareholder information</b>	For help relating to dividend payments, shareholdings and share certificates please contact Capita Registrars Limited: Tel: 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30am – 5.30pm, Mon – Fri) Email: <a href="mailto:ssd@capitaregistrars.com">ssd@capitaregistrars.com</a> Website: <a href="http://www.capitaregistrars.com">www.capitaregistrars.com</a>  Shareholders can access holdings and valuation information regarding any of their shares held with Capita Registrars by registering on Capita's website.  For enquiries relating to the performance of the Fund please contact Albion Ventures LLP: Tel: 020 7601 1850 (lines are open 9.00am – 5.30pm, Mon – Fri, calls may be recorded) Email: <a href="mailto:info@albion-ventures.co.uk">info@albion-ventures.co.uk</a> Website: <a href="http://www.albion-ventures.co.uk">www.albion-ventures.co.uk</a>
<b>IFA information</b>	Independent Financial Advisers with questions please contact Albion Ventures LLP: Tel: 020 7601 1850 (lines are open 9.00am – 5.30pm, Mon – Fri, calls may be recorded) Email: <a href="mailto:info@albion-ventures.co.uk">info@albion-ventures.co.uk</a> Website: <a href="http://www.albion-ventures.co.uk">www.albion-ventures.co.uk</a>

# Investment policy

The Company is a Venture Capital Trust. The new investment policy, approved by shareholders at the General Meeting held on 10 February 2011, is intended to produce a regular and predictable dividend stream with an appreciation in capital value as set out below.

- The Company intends to achieve its strategy by adopting an amended investment policy for new investments which over time will rebalance the 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 VCT. 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.

# Financial calendar

Annual General Meeting	16 May 2011
Ex-Dividend date for dividend (providing approved by shareholders)	25 May 2011
Record date for dividend (providing approved by shareholders)	27 May 2011
Payment date of dividend (providing approved by shareholders)	24 June 2011
Announcement of interim results for the six months ended 30 June 2011	August 2011

# Financial highlights

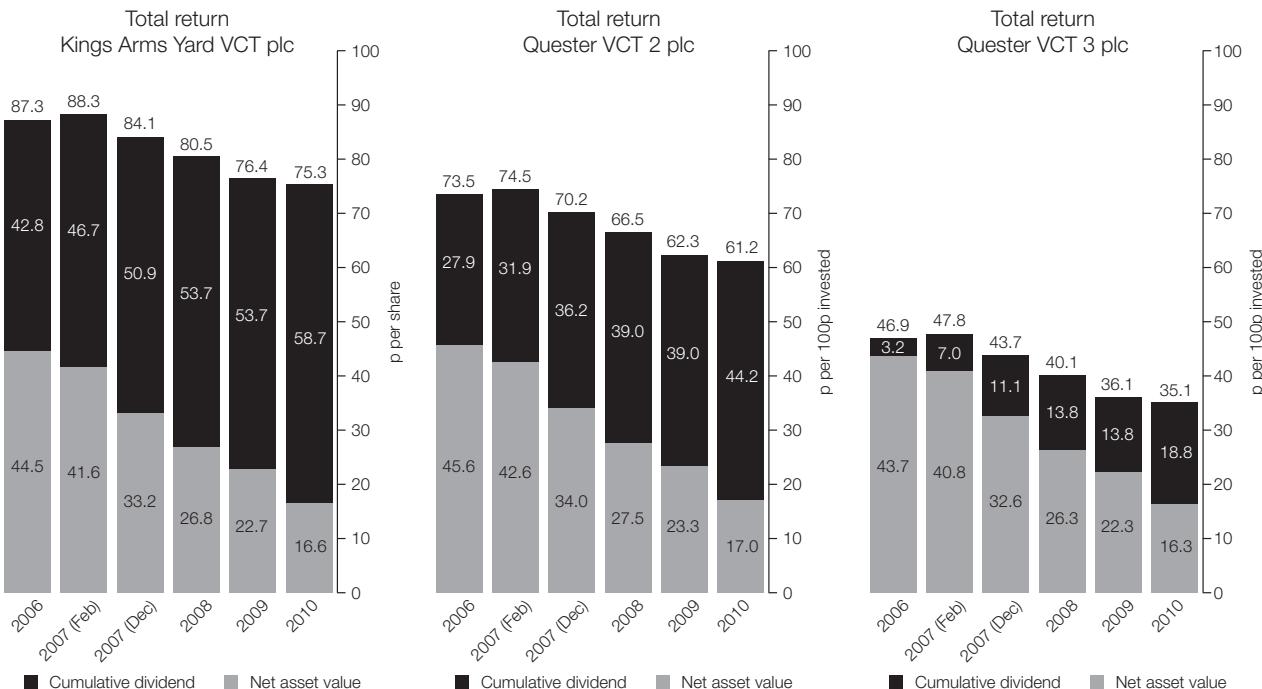
	31 December 2010 (pence per share)	31 December 2009 (pence per share)	31 December 2008 (pence per share)
<b>Net asset value</b>	<b>16.6</b>	<b>22.7</b>	<b>26.8</b>
<b>Dividends</b>			
Dividends paid during the year	<b>5.0</b>	—	2.8
Cumulative dividend paid to 31 December 2010	<b>58.7</b>	<b>53.7</b>	<b>53.7</b>
<b>Total net asset value return<sup>(1)</sup></b>			
To shareholders of Kings Arms Yard VCT PLC (formerly SPARK VCT plc)	<b>75.3</b>	76.4	80.5
Total net asset value return including tax benefits <sup>(2)</sup>	<b>95.3</b>	<b>96.4</b>	<b>100.5</b>
<b>Total net asset value return to former shareholders of:</b>			
Quester VCT 2 plc, per 100p invested in shares of that company <sup>(3)</sup>	<b>61.2</b>	62.3	66.5
Total net asset value return including tax benefits <sup>(2)</sup>	<b>81.2</b>	<b>82.3</b>	<b>86.5</b>
Quester VCT 3 plc, per 100p invested in shares of that company <sup>(4)</sup>	<b>35.1</b>	36.1	40.1
Total net asset value return including tax benefits <sup>(2)</sup>	<b>55.1</b>	<b>56.1</b>	<b>60.1</b>

(1) Net asset value plus cumulative dividend per share to ordinary shareholders in the Company (then called Quester VCT plc) in April 1996.

(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 (then called Quester VCT plc) in June 2005, the share exchange ratio for former shareholders in Quester VCT 2 plc being 1.0249.

(4) Total return to original shareholders in Quester VCT 3 plc, launched in February 2000, which was merged with the Company (then called Quester VCT plc) in June 2005, the share exchange ratio for former shareholders in Quester VCT 3 plc being 0.9816.



Source: Albion Ventures LLP

## Proposed final dividend for the year ended 31 December 2010

The Directors propose a final dividend of 0.67 pence per share for the year ended 31 December 2010, to be approved by shareholders at the Annual General Meeting.

# Chairman's statement

## Introduction

2010 was a very active year for the Company. In February 2010 the Board announced the conclusion of a major strategic review and the intention to move investment policy away from high risk early stage technology investments towards lower risk opportunities where investee companies would be able to provide positive cash flow towards the payment of dividends.

At that time the Board was constrained in the extent to which this policy could be accelerated both by the Continuation Vote and by the investment focus of our then Managers, SPARK Venture Management Limited.

The Continuation Vote was held at the Company's Annual General Meeting on 7 May 2010 and gained the participation of an unprecedented number of shareholders with over 64 per cent. voting in favour.

Following this confirmation of the Company's continuation the Board was able to embark on a process of selecting the most suitable managers to implement, subject to shareholder approval, a radical shift in investment strategy. An exhaustive exercise of selection was narrowed to formal proposals from four possible managers, all with excellent credentials, of whom Albion Ventures LLP ("Albion") were eventually selected as announced to shareholders in December 2010.

At a General Meeting on 10 February 2011 the change in the Company's name to Kings Arms Yard VCT PLC (being the address of our new Managers) was agreed and the new investment strategy, which mirrors that successfully followed by other VCTs managed by Albion, was approved by over 80 per cent. of shares voted.

Meanwhile our new Managers, who assumed this role formally on 1 January 2011, have been very active both in getting to grips with the Company's existing portfolio and in proposing new investments in accordance with this strategy.

## Performance

The movement in net assets is summarised in the table below:

	Investments £'000	Bonds and net current assets £'000	Total £'000	pence per share
Net asset value at 31 December 2009	14,870	10,160	25,030	22.7
Net gains on disposal	1,576	–	1,576	1.4
Income net of operating expenses	–	(581)	(581)	(0.5)
Net loss on valuation of investments	(2,209)	–	(2,209)	(2.0)
Net investment	(1,887)	1,887	–	–
Net assets before dividends	12,350	11,466	23,816	21.6
Dividends paid	–	(5,533)	(5,533)	(5.0)
Net asset value at 31 December 2010	<u>12,350</u>	<u>5,933</u>	<u>18,283</u>	<u>16.6</u>

In the year to 31 December 2010 net assets per share fell from 22.7 pence to 16.6 pence chiefly as a result of the payment of aggregate dividends during the year of 5 pence per share.

Particular attention was again paid to the carrying values of the unquoted venture capital portfolio and, although some improvements were recorded in the value of certain investments, the overall effect was negative.

The most significant reduction in attributed value has been that of Sift Limited, the developer of virtual communities for the professional services sector, where there had been a very real expectation in the last quarter of 2010 of an imminent and satisfactory exit. As this has not yet been achieved we have considered it prudent to reduce the value of this investment. We have also considered it necessary to reduce the carrying value of Vivacta Limited, a medical diagnostics company with a patented technology for rapid blood analysis. Whilst Vivacta is making good progress, it remains an early stage, pre revenue company. The third significant mark down has been in Cluster Seven Ltd which fell behind target in the second half of the year.

Further details on individual investments are given in the Portfolio companies information on page 13.

# Chairman's statement (continued)

Two successful exits were made during the year from the unquoted portfolio. The first, Secerno Limited, the database security software business, was sold to Oracle Corporation in June 2010, realising a gain over carrying value of £655,000. Net cash proceeds of £917,000 have already been received and a further £293,000 is due to be received, subject to any warranty claims, in June 2012.

In October 2010, Community Internet Group Limited, an Internet Service Provider, was sold to a private equity backed vehicle for a gain of £914,000 over its carrying value, with £790,000 already received and a further £335,000 expected during the course of 2011.

Limited realisations, amounting to £56,000 in total, were made from the small AIM quoted portfolio, but the remaining valuations have continued to deteriorate.

As a result of the various disposals, and despite the Company's significant dividend payments, cash and liquid investments at the end of the year exceeded £5,446,000, giving the new Managers satisfactory liquidity to make new investments within the strategy recently agreed by shareholders but no new investments have yet been made.

## **VCT qualifying status**

On 31 December 2010, 80 per cent. of total investments were in qualifying holdings. It is anticipated that this margin of compliance will be enhanced if the dividend recommended below is approved by shareholders. The Board remains very conscious of the necessity of ensuring that qualifying investments comfortably exceed the minimum threshold of 70 per cent. required for the Company to continue to enjoy VCT tax status and the Board will continue to monitor the position carefully.

## **Annual General Meeting**

The Annual General Meeting of the Company will be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS at 2 pm on Monday 16 May 2011. Full details of the business to be conducted at the Annual General Meeting are given in the Notice of the Meeting on page 46 and an explanation for the approvals sought are given on page 49. Your Board welcomes your attendance at the meeting as it gives an opportunity for shareholders to ask questions of the Board and Investment Manager. If you are unable to attend the Annual General Meeting in person, we would encourage you to make use of your proxy votes.

## **Board composition**

On 1 January 2011, as part of the change of Manager to Albion Ventures LLP, Patrick Reeve, the Managing Partner of Albion, was appointed to the Board of Directors, and Andrew Carruthers, Managing Director of SPARK Venture Management Limited, resigned from the Board. The Board wishes to express its thanks to Andrew for his contribution during his tenure.

Following the successful outcome of the Board's strategic review, the Company's change of management and the adoption by shareholders of the new investment policy, David Adams indicated that he wished to stand down and will be leaving the Board today. David has played a significant role in assessing and redirecting the Company and the Board would like to thank him for his very valuable contribution.

The Board are pleased to welcome Mr Martin Fiennes, who was appointed a Director on 5 April 2011 and who will be proposed for election at the next Annual General Meeting. Mr Fiennes is a corporate finance adviser specialising in fund-raising and mergers and acquisitions for UK technology companies. Martin worked for 9 years with Top Technology Ventures where he was responsible for making investments in early stage UK companies. Prior to entering the venture capital sector Martin had wide experience in marketing and management roles, and as an executive director in a start up in the leisure sector.

## **Dividends**

As stated in the shareholder circular issued on 19 January 2011, it is the Board's intention to establish a sustainable and progressive dividend stream to shareholders. The Board therefore proposes a final dividend of 0.67 pence per share in respect of the year ended 31 December 2010 which will be subject to shareholder approval at the forthcoming Annual General Meeting.

# Chairman's statement (continued)

## Dividend reinvestment scheme

Enclosed with this Report is an explanatory circular and a form allowing shareholders to participate in a dividend reinvestment scheme whereby a shareholder may receive dividends in the form of new Ordinary shares which are eligible for up-front tax relief. Additional copies of the circular and form can be found on the Company's web page at [www.albion-ventures.co.uk/Our Funds/Kings Arms Yard VCT PLC/Dividend reinvestment scheme](http://www.albion-ventures.co.uk/Our Funds/Kings Arms Yard VCT PLC/Dividend reinvestment scheme).

## Share buy-backs

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, it intends to implement a similar share buy-back policy to that practised by the other Albion managed VCTs once the effect of the new investment policy has begun to show.

In general, the other Albion managed VCTs have a share buy-back policy of making 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. Such buy-backs are subject to the overall constraint that such purchases are in the Company's interest, including the maintenance of sufficient resources for investment in existing and new investee companies and the continued payment of dividends.

It is hoped that this approach, together with the dividend policy, will encourage a more active secondary market in the Company's shares.

## Costs

Management and administration fees will be reduced as a consequence of the change of Manager to Albion Ventures LLP. Albion has agreed to waive its management and administration fees for the first year to 31 December 2011 and SPARK Venture Management Limited will be paid a management fee until 30 November 2011 based on the Company's net asset value at 31 December 2010, adjusted by dividends paid and by any realisations made above or below the 31 December 2010 net asset value. Thereafter, Albion will be entitled to an annual management fee of 2 per cent. of net asset value, along with an administration fee of £50,000 per annum. This represents no change in the management fee and a reduction in the administration fee. Furthermore, under the terms of the Investment Management Agreement with Albion, the aggregate fees payable for management and administration (including the management and administration fees due to Albion, directors' remuneration, registrars' fees, stockbrokers' fees, company secretarial fees and the fees of the Company's auditors) are subject to an aggregate annual cap of 3 per cent. of net asset value. This is a reduction from the previous aggregate cap of 3.25 per cent.

## Outlook

The Board is very conscious that the long term performance of the Company has been far from satisfactory and have been very active in attempting to address this. The majority of the Company's assets are still invested in businesses that do not pay regular dividends. Nevertheless, the Board believes that the Company already has enough liquid assets to start its new investment policy. In addition, there remain opportunities to add to these resources by selective exits from the existing portfolio in line with the Board's strategy to realise as much of the existing portfolio as soon as suitable exits are available. By shifting the portfolio towards assets that offer an immediate yield we believe that the Company will be able to offer investors a gradual recovery in capital value and a sustainable long term dividend.

## Robin Field

Chairman

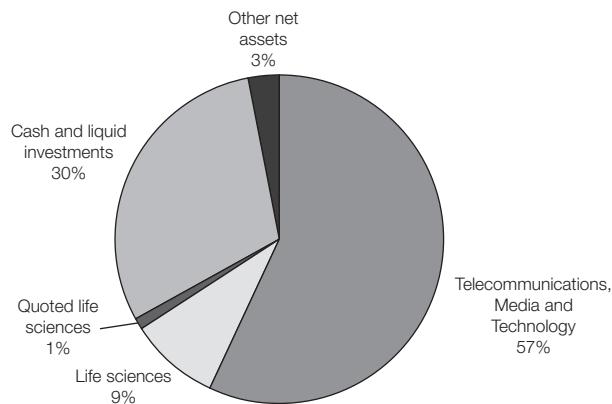
19 April 2011

# Manager's report

## Portfolio review

A number of developments took place in the portfolio during the last year. Some companies have begun to perform strongly including Level Four and UniServity. Against that, trading at Sift has deteriorated and whilst progress at Vivacta has been positive, it remains pre-commercial revenue.

The distribution of assets by sector is shown in the pie chart below:



Source: Albion Ventures LLP

An overview showing the holding period and the revenue profile of each of the top ten investments in the unquoted portfolio (as at 31 December 2010) and which comprise nearly 90 per cent. of the unquoted portfolio, is set out below.

	Valuation £'000	% of total unquoted portfolio	Date of first investment	Revenue profile	Basis of valuation
Elateral Holdings Limited	2,064	17.2%	1999	£5m-£10m	Revenue multiple
UniServity Limited	1,640	14.1%	2007	£3m-£5m	Revenue multiple
ImageSound plc	1,632	13.6%	2005	£5m-£10m	Earnings multiple
Level Four Software Limited	1,321	11.0%	2005	£1m-£3m	Revenue multiple
Cluster Seven Ltd	965	7.2%	2005	£1m-£3m	Revenue multiple
Haemostatix Limited	870	6.7%	2006	Pre revenue	Price of recent investment
Workshare Limited	618	5.1%	2006	£10m-£15m	Revenue multiple
Sift Limited	611	5.1%	1999	£5m-£10m	Earnings multiple
Lab M Holdings Limited	440	3.7%	1998	£3m-£5m	Earnings multiple
Vivacta Limited	415	3.4%	2006	Pre revenue	Cost renewed for recent performance
Total	10,576	87.1%			

Since our appointment on 1 January 2011, we have been actively engaged in portfolio management. To date, Albion partners have joined the boards of Elateral, Lab M and UniServity.

# Manager's report (continued)

## Valuation changes

The changes in the valuation of the unquoted and quoted portfolios are set out in note 11. Key changes in valuation were driven by a number of factors, primarily performance in 2010 against plan, along with the level of third party offers received for those investments which were marketed during the year.

We have valued all investments in line with International Private Equity and Venture Capital Valuation ('IPEVCV') guidelines and have valued most investments in the portfolio using either:

- the price of recent third party investment impaired in the event of any underperformance against plan; or
- an estimate of maintainable revenues or earnings, multiplying this by the trading multiples of comparable quoted companies and applying a discount to reflect the difference in marketability between a listed company and an unquoted company.

## Realisations

The successful sale of Community Internet Group Limited and Secerno Limited realised a profit on disposal of £1,545,000. A number of companies in the portfolio are currently being marketed and should result in successful realisations in 2011.

## New investments

No investments were made in new companies in 2010. Follow-on investments in the year amounted to £536,000 (as set out in note 11). Since the year end, the Company has invested further funds in Perpetuum (£160,812) and Vivacta (£180,902).

We hope to achieve a number of exits during 2011 and to make investments in a combination of lower risk, yielding investments as well as a small number of smaller investments in earlier stage companies with the prospect of substantial capital gains. We expect to make our first investment in May 2011.

## Albion Ventures LLP

Manager

19 April 2011

# The Board of Directors

The following are the Directors of the Company, all of whom operate in a non-executive capacity.

## **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.

**David Adams, (55) (Chairman of the Audit Committee), appointed 30 March 2009**, is an independent consultant providing strategic and transaction advice to corporate clients, private investors and family owned businesses. He has over 25 years of experience as a corporate lawyer, including 19 years as a corporate partner at leading London law firm, Travers Smith. David retired from the legal profession in June 2006 and is currently the non-executive chairman of a private property company, a non-executive Director of Core IV VCT PLC and sits on the management board of FRP Advisory LLP, the independent restructuring and solvency firm.

**Patrick Reeve, (50), 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 adviser.

**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 9 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.

During the year ended 31 December 2010, all the Directors were non-executive and independent of the Manager, SPARK Venture Management Limited, with the exception of Andrew Carruthers, who is managing director of SPARK Venture Management Limited. Andrew Carruthers resigned on 1 January 2011. Greg Lockwood resigned on 7 May 2010.

Since 1 January 2011 all the Directors have been non-executive and independent of the Manager, Albion Ventures LLP, with the exception of Patrick Reeve, who is Managing Partner of Albion Ventures LLP.

At the Annual General Meeting, Patrick Reeve and Martin Fiennes, who were appointed since the last Annual General Meeting, will retire and be subject to election. No Directors are due to retire from the Board by rotation in accordance with the Company's Articles of Association and Companies Act 2006.

# The Manager

Albion Ventures LLP is authorised and regulated by the Financial Services Authority and is the Manager of Kings Arms Yard VCT PLC. In addition to Kings Arms Yard VCT PLC, Albion Ventures LLP manages a further eight venture capital trusts and currently has total funds under management of approximately £230 million. Albion Ventures LLP was awarded “VCT Manager of the Year” at the “Unquote” British Private Equity Awards 2009 and “VCT of the Year” for Albion Development VCT PLC at the 2009 Investor AllStar Awards.

The following are specifically responsible for the management and administration of the VCTs managed by Albion Ventures LLP, including Kings Arms Yard VCT PLC:

**Patrick Reeve, MA, ACA, (50)**, details included in the Board of Directors section.

**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 Ventures 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 Ventures 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 Ventures in 2009.

**David Gudgin, BSc (Hons), ACMA, (38)**, 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, (34)**. 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 fundraisings 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, (45)**, 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 Ventures in 1998. Henry became a partner in Albion Ventures 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 Ventures in 2009.

**Marco Yu, MPhil, MA, MRICS, (33)**, 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.

# Portfolio of investments

	Industry sector	Equity % held	Equity % held by AVL <sup>(1)</sup>	Accounting cost <sup>(2)</sup> £'000	Valuation £'000	% of fund by value	Change in value for the year £'000
<b>Unquoted investments</b>							
Elateral Holdings Limited	TMT	23.4%	36.7%	1,009	2,064	11.4%	74
UniServity Limited	TMT	20.5%	49.2%	1,208	1,640	9.3%	433
ImageSound plc	TMT	11.7%	12.2%	2,848	1,632	9.0%	(288)
Level Four Software Limited	TMT	12.9%	24.9%	984	1,321	7.3%	337
Cluster Seven Ltd	TMT	9.0%	14.8%	1,569	965	4.8%	(234)
Haemostatix Limited	Life sciences	13.0%	21.1%	584	870	4.4%	285
Workshare Limited	TMT	1.8%	11.3%	696	618	3.4%	(312)
Sift Limited	TMT	22.5%	31.4%	2,658	611	3.4%	(1,171)
Lab M Holdings Limited	Life sciences	26.4%	26.4%	690	440	2.4%	–
Vivacta Limited	Life sciences	8.0%	13.1%	1,391	415	2.3%	(911)
Antenova Limited	TMT	5.3%	12.3%	1,307	406	2.2%	62
Perpetuum Limited	TMT	7.0%	11.4%	686	382	2.1%	155
Atego Group Limited	TMT	11.3%	11.3%	120	281	1.6%	161
We7 Limited	TMT	9.2%	13.0%	816	167	0.9%	(167)
Symetrica Limited	TMT	2.4%	3.4%	108	114	0.6%	–
Academia Networks Limited	TMT	4.1%	5.8%	103	103	0.6%	(176)
Skinkers Limited	TMT	4.0%	5.2%	1,178	54	0.3%	–
Teraview Limited	Life sciences	4.8%	9.6%	1,172	24	0.1%	(76)
Oxonica Limited	Life sciences	1.5%	2.1%	205	19	0.1%	(8)
Isango! Limited	TMT	15.3%	15.8%	1,000	12	0.1%	(236)
<b>Total unquoted investments</b>				20,332	12,138	66.2%	(2,072)
<b>Quoted investments</b>							
MediGene AG (Frankfurt)	Life sciences	0.1%	0.5%	316	83	0.5%	(77)
Allergy Therapeutics plc (AIM)	Life sciences	0.3%	0.9%	772	72	0.4%	(54)
Celldex Therapeutics Inc (NASDAQ)	Life sciences	0.2%	0.5%	504	57	0.3%	(6)
<b>Total quoted investments</b>				1,592	212	1.2%	(137)
<b>Total investments</b>				21,924	12,350	67.5%	(2,209)
<b>Cash and other net assets</b>				5,933	5,933	32.5%	
<b>Net assets</b>				27,857	18,283	100.0%	

(1) Equity held by Albion Ventures LLP managed companies.

(2) 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 the merger in 2005, plus any subsequent acquisition costs, as reduced in certain cases by amounts written off as representing an impairment in value.

Details of movements in valuation of investments over the twelve months to 31 December 2010 are set out in note 11 of the Financial Statements.

# Portfolio companies

The top ten fixed asset investments by total aggregate value of equity and loan stock are as follows:

<b>Elateral Holdings Limited</b>				Website: <a href="http://www.elateral.com">www.elateral.com</a>
Development and sale of brand marketing automation software.				
<b>Audited results for year ended</b>		<b>31 March</b>	<b>31 March</b>	<b>Investment information:</b>
		<b>2010</b>	<b>2009</b>	<b>£'000</b>
Turnover	£'000	£'000	£'000	
Profit before tax	5,977	5,127	Income recognised in the year	–
Profit after tax	854	158	Accounting cost <sup>(i)</sup>	1,009
Net assets/(liabilities)	1,005	168	Valuation	2,064
	591	(405)	Equity held	23.4%
			Basis of valuation	Revenue multiple
History – Quester funds joined an expansion round in 1999, post 3i seed funding.				
Co-investment – Kings Arms Yard VCT 2 PLC				

<b>UniServity Limited</b>				Website: <a href="http://www.uniservity.com">www.uniservity.com</a>
Learning platform solution provider for schools and local authorities.				
<b>Audited results for year ended</b>		<b>31 July</b>	<b>31 July</b>	<b>Investment information:</b>
		<b>2010</b>	<b>2009</b>	<b>£'000</b>
Turnover	£'000	£'000	£'000	
Profit/(loss) before tax	3,273	3,422	Income recognised in the year	–
Profit/(loss) after tax	595	(2,269)	Accounting cost <sup>(i)</sup>	1,208
(Net liabilities)	658	(1,745)	Valuation	1,640
	(883)	(2,042)	Equity held	20.5%
			Basis of valuation	Revenue multiple
History – Early stage investment in 2007, including loan stock from angel investors.				
Co-investment – Kings Arms Yard VCT 2 PLC				

<b>Imagesound plc</b>				Website: <a href="http://www.imagesound.co.uk">www.imagesound.co.uk</a>
Provider of digital media in the form of audio or video to the corporate sector.				
<b>Audited results for year ended</b>		<b>31 December</b>	<b>31 December</b>	<b>Investment information:</b>
		<b>2009</b>	<b>2008</b>	<b>£'000</b>
Turnover	£'000	£'000	£'000	
Profit/(loss) before tax	7,757	9,146	Income recognised in the year	50
Profit/(loss) after tax	291	(451)	Accounting cost <sup>(i)</sup>	2,848
Net assets	352	(268)	Valuation	1,632
	8,303	7,894	Equity held	11.7%
			Basis of valuation	Earnings multiple
History – Initial investment by Quester VCTs 2 & 3 in 2000, expansion finance.				
Co-investment – Kings Arms Yard VCT 2 PLC				

<b>Level Four Software Limited</b>				Website: <a href="http://www.levelfour.com">www.levelfour.com</a>
Specialist provider of ATM software solutions.				
<b>Audited results for year ended</b>		<b>30 June</b>	<b>30 June</b>	<b>Investment information:</b>
		<b>2010</b>	<b>2009</b>	<b>£'000</b>
Turnover	£'000	£'000	£'000	
(Loss) before tax	2,675	2,000	Income recognised in the year	–
(Loss) after tax	(598)	(803)	Accounting cost <sup>(i)</sup>	984
(Net liabilities)	(570)	(754)	Valuation	1,321
	(430)	(3,709)	Equity held	12.9%
			Basis of valuation	Revenue multiple
History – Early stage investment by Quester funds in 2005.				
Co-investment – Kings Arms Yard VCT 2 PLC and Quester Venture Partnership				

<b>Cluster Seven Ltd</b>				Website: <a href="http://www.clusterseven.com">www.clusterseven.com</a>
Design and development of spreadsheet management software for risk control and compliance.				
<b>Audited results for year ended</b>		<b>31 December</b>	<b>31 December</b>	<b>Investment information:</b>
		<b>2009</b>	<b>2008</b>	<b>£'000</b>
Turnover	£'000	£'000	£'000	
(Loss) before tax	2,080	1,483	Income recognised in the year	–
(Loss) after tax	(51)	(1,683)	Accounting cost <sup>(i)</sup>	1,569
(Net liabilities)	123	(1,529)	Valuation	965
	(3,272)	(3,422)	Equity held	9.0%
			Basis of valuation	Revenue multiple
History – Quester funds investment in 2005 institutional round, early stage.				
Co-investment – Kings Arms Yard VCT 2 PLC and Quester Venture Partnership				

# Portfolio companies (continued)

<b>Haemostatix Limited</b>				
Biopharmaceutical company developing platelet replacement and haemostatic therapies for blood clotting disorders.				
<b>Abbreviated audited results for year ended</b>	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>Investment information:</b>	Website: <a href="http://www.haemostatix.com">www.haemostatix.com</a>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
(Net liabilities)	(3,185)	(2,404)	Income recognised in the year	—
			Accounting cost <sup>(1)</sup>	584
			Valuation	870
			Equity held	13.0%
			Basis of valuation	Price of recent investment
History – Lachesis originally invested in 2002, Quester followed in 2005.				
Co-investment – Kings Arms Yard VCT 2 PLC, Quester Venture Partnership, Lachesis Seed Fund Limited Partnership.				

<b>Workshare Limited</b>				
Development, marketing, selling and supporting document comparison and collaboration software, providing risk management and security.				
<b>Audited results for year ended</b>	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>Investment information:</b>	Website: <a href="http://www.workshare.com">www.workshare.com</a>
	<b>\$'000</b>	<b>\$'000</b>		<b>£'000</b>
Turnover	20,707	25,983	Income recognised in the year	—
Profit/(loss) before tax	20	(2,634)	Accounting cost <sup>(1)</sup>	696
Profit/(loss) after tax	319	(2,316)	Valuation	618
(Net liabilities)	(3,551)	(4,295)	Equity held	1.8%
			Basis of valuation	Revenue multiple
History – Expansion finance in 2006, Quester sole investor in 2002.				
Co-investment – Kings Arms Yard VCT 2 PLC and Quester Venture Partnership.				

<b>Sift Limited</b>				
Web based provision of online business and community management solutions.				
<b>Audited results for year ended</b>	<b>31 December 2009</b>	<b>31 December 2008</b>	<b>Investment information:</b>	Website: <a href="http://www.sift.com">www.sift.com</a>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
Turnover	6,893	7,223	Income recognised in the year	22
(Loss)/profit before tax	(36)	520	Accounting cost <sup>(1)</sup>	2,658
Profit after tax	35	616	Valuation	611
Net assets	1,172	610	Equity held	22.5%
			Basis of valuation	Earnings multiple
History – Development capital, Quester co-led, 1999.				
Co-investment – Kings Arms Yard VCT 2 PLC.				

<b>Lab M Holdings Limited</b>				
Range of microbiological testing products.				
<b>Abbreviated audited results for year ended</b>	<b>30 April 2010</b>	<b>30 April 2009</b>	<b>Investment information:</b>	Website: <a href="http://www.labm.com">www.labm.com</a>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
(Net liabilities)	(27)	(2)	Income recognised in the year	19
			Accounting cost <sup>(1)</sup>	690
			Valuation	440
			Equity held	26.4%
			Basis of valuation	Earnings multiple
History – Original investment by Quester VCT in 1998.				

<b>Vivacta Limited</b>				
Medical diagnostics company developing and commercialising a patented technology for the rapid quantitative detection of immunoassay markers of disease from whole blood at the point of care.				
<b>Audited results for year ended</b>	<b>31 July 2010</b>	<b>31 July 2009</b>	<b>Investment information:</b>	Website: <a href="http://www.vivacta.com">www.vivacta.com</a>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
Turnover	—	—	Income recognised in the year	—
(Loss) before tax	(4,095)	(4,186)	Accounting cost <sup>(1)</sup>	1,391
(Loss) after tax	(3,653)	(3,781)	Valuation	415
Net assets	1,116	4,750	Equity held	8.0%
			Basis of valuation	Cost renewed for recent performance
History – Industrial spin-out, Quester sole investor in 2006, start-up.				
Co-investment – Kings Arms Yard VCT 2 PLC and Quester Venture Partnership				

(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 the merger in 2005, plus any subsequent acquisition cost.

(2) The dates of the audited accounts for portfolio companies are those of accounts as filed at Companies House.

# Directors' report and business review

The Directors present their Annual Report and the audited Financial Statements on the affairs of Kings Arms Yard VCT PLC (the "Company") for the year ended 31 December 2010.

## Principal activity and status

The principal activity of the Company during the year is that of a venture capital trust making investments, mainly in unquoted companies. The Company has received approval by HM Revenue & Customs ("HMRC") as a Venture Capital Trust. In the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to comply with HMRC rules in order to maintain its status under Venture Capital Trust legislation. The Company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Income and Corporation Taxes Act 1988.

The Company's ordinary shares of 5 pence are listed on the London Stock Exchange.

Under current tax legislation, shares in the Company provide tax-free capital growth and income distribution, in addition to the income and capital gains tax relief some investors would have obtained when they invested in the original share offers.

## Statement of corporate governance

The Statement of corporate governance, which is required by DTR 7.2 is set out on pages 22 to 26 and forms part of this Report.

## Capital structure

Details of the Company's share capital is shown in note 15.

The Company's share capital comprises Ordinary shares which carry a right to receive discretionary dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to Ordinary shareholders in proportion to their shareholdings.

Every shareholder who is present in person or by a duly authorised representative, and every proxy for any shareholder (regardless of the number of shareholders for whom he is a proxy), shall have one vote on a show of hands. On a poll, every shareholder present in person or by proxy or by representative shall have one vote for each share of which he is the holder, proxy or representative. Instruments appointing a proxy to vote at a general meeting of the Company have to be executed in accordance with the Company's Articles of Association and delivered to the Company or such other place specified in the Notice

convening the meeting, not less than 48 hours before the time that the meeting is to commence.

The Company's Articles of Association can be amended only by a special resolution of the members, requiring a majority of not less than 75 per cent. of such members as vote in person or by proxy.

## Substantial interests and shareholder profile

As at 31 December 2010 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent. of any class of the issued share capital and there have been no disclosures in accordance with Disclosure and Transparency Rule 5 made to the Company during the year ended 31 December 2010, and up to the date of this report.

The table below shows the shareholder profile, including nominee accounts, as at 15 April 2011 for the Company's Ordinary shares of 5 pence:

Number of shares held	% shareholders	% share capital
1 – 10,000	47.5	10.1
10,001 – 50,000	43.0	37.4
50,001 – 100,000	6.6	18.7
100,001 – 500,000	2.6	16.6
500,001 – 1,000,000	0.2	6.0
1,000,001 – 5,000,000	0.1	11.2

## Financial results and dividends

During the year the Company paid total dividends of 5 pence per Ordinary share, being a final dividend of 4 pence per Ordinary share for the year ended 31 December 2009 and an interim dividend of 1 penny per Ordinary share for the year ended 31 December 2010. No dividends were paid during the year ended 31 December 2009.

The Directors recommend a final dividend of 0.67 pence per share in respect of the year ended 31 December 2010, which will be subject to shareholder approval at the Annual General Meeting on 16 May 2010.

The key performance indicators of the Company show, in the Income statement on page 30 of the Financial Statements, that investment income has decreased to £132,000 (2009: £220,000) due to the reduced receipts from listed fixed interest securities and lower interest on cash deposits and investments held in cash funds.

The net loss attributable to shareholders for the year ended 31 December 2010 was £1,214,000 (2009: loss of £4,623,000) as a result of losses on investments and the expenses of the Company.

# Directors' report and business review (continued)

As at 31 December 2010, the Company had accumulated investment holding losses (net of gains) of £9,574,000 (2009: £7,941,000) and retained a balance on its profit and loss account of £899,000 (2009: £3,852,000). During the year, a transfer of £2,161,000 has been made from the special reserve to the profit and loss account to offset capital losses arising in the year on disposals, being current year losses and unrealised losses of prior years now treated as written off and to fund the payment of the dividend from the special reserve.

The balance sheet on page 31 of the Financial Statements shows that the net asset value per Ordinary share has decreased over the last year to 16.6 pence per share (2009: 22.7 pence per share) as a result of the loss for the year and the payment of a dividend of 5.0 pence per share during the year.

The cash flow for the business has been negative for the year due to dividends paid, general running costs and investments made, partially offset by proceeds of the sale of investments.

After adjusting for non-recurring costs, irrecoverable VAT and dividends of 5.0 pence per share paid during the year, the Company's total expense ratio for the year end 31 December 2010 was 3.0 per cent. (2009: 3.55 per cent.).

The Company continues to comply with HMRC rules in order to maintain its status under Venture Capital Trust legislation.

## Investment policy

The Company is a Venture Capital Trust. The new investment policy, approved by shareholders at the General Meeting held on 10 February 2011, is intended to produce a regular and predictable dividend stream with an appreciation in capital value as set out below.

- The Company intends to achieve its strategy by adopting an amended investment policy for new investments which over time will rebalance the 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 VCT. 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:
  - (1) The Company's income will be derived wholly or mainly from shares and securities;
  - (2) At least 70 per cent. of the HMRC value of its investments will be represented throughout the year by shares or securities that are classified as 'qualifying holdings';
  - (3) At least 30 per cent. by HMRC value of its total qualifying holdings will be represented throughout the year by holdings of 'eligible shares';
  - (4) At no time in the year will the Company's holdings in any one company exceed 15 per cent. by HMRC value of its investments;
  - (5) The Company will not retain more than 15 per cent. of its income earned in the year from shares and securities; and
  - (6) 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.

# Directors' report and business review (continued)

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

The Company will co-invest with the other eight VCTs managed by Albion Ventures LLP and allocation to new investments between the Albion Ventures LLP VCTs will be in accordance with the ratio of funds available for investment, subject to the investment policy of each VCT and a limited number of provisions to protect each participating company.

## Gearing

As defined by the Articles of Association, the Company's maximum exposure in relation to gearing is restricted to the amount equal to the Adjusted Capital and Reserves. Gearing will not normally be employed. As at 31 December 2010, the Company had no exposure and its actual short term and long term gearing at this date was £nil (2009: £nil). The Directors do not currently have any intention to utilise long term gearing.

## Current portfolio sector allocation

Details of investments made by the Company and their relevant sectors are shown in the Portfolio of investments and Portfolio companies sections on pages 12 to 14.

## Valuation of investments

As described in note 1 of the Financial Statements, 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.

## Review of business and future changes

The detailed review of the Company's business during the year and future prospects are included in the Directors' report by reference and can be found in the Chairman's statement on page 5 and Manager's Report on page 8. Details of significant events which have occurred since the end of the financial year are listed in note 22. Details of related party transactions are shown in note 23. The Directors do not foresee any major changes in the activity

undertaken by the Company in the current year. The Company continues with its objective to invest in unquoted companies throughout the United Kingdom with a view to providing both capital growth and a reliable dividend income to shareholders over the long term.

## Financial instruments

Information on the Company's objectives and policies in relation to financial risk and its management and exposure of market risk, liquidity and credit risk is provided in note 19 to the Financial Statements.

## Principal risks and uncertainties

The Board considers that the Company faces the following major risks and uncertainties:

### 1. *Investment risk*

This is the risk of investment in poor quality assets which reduces the capital and income returns to shareholders, and negatively impacts on the Company's reputation. By nature, smaller unquoted businesses, such as those that qualify for venture capital trust purposes, are more fragile than larger, long established businesses.

To reduce this risk, the Board places reliance upon the skills and expertise of the Manager and its strong track record for investing in this segment of the market. In addition, the Manager operates a formal and structured investment process, which includes an investment committee, comprising investment professionals from the Manager and at least one external investment professional. The Manager also invites comments from non-executive Directors of the Company on investments discussed at the investment committee meetings. Investments are actively and regularly monitored by the Manager (investment managers normally sit on investee company boards) and the Board receives detailed reports on each investment as part of the Manager's report at quarterly Board meetings.

### 2. *Venture Capital Trust approval risk*

The Company's current approval as a venture capital trust allows investors to take advantage of tax reliefs on initial investment and ongoing tax free capital gains and dividend income. Failure to meet the qualifying requirements could result in investors losing the tax relief on initial investment and loss of tax relief on any tax-free income or capital gains received. In addition, failure to meet the qualifying requirements could result in a loss of listing of the shares.

# Directors' report and business review (continued)

To reduce this risk, the Board has appointed the Manager, who has a team with significant experience in venture capital trust management, used to operating within the requirements of the venture capital trust legislation. In addition, to provide further formal reassurance, the Board has appointed Grant Thornton UK LLP as its taxation advisers. Grant Thornton UK LLP report annually to the Board to independently confirm compliance with the venture capital trust legislation, to highlight areas of risk and to inform on changes in legislation.

## 3. *Compliance risk*

The Company is listed on the London Stock Exchange and is required to comply with the rules of the UK Listing Authority, as well as with the Companies Act, Accounting Standards and other legislation. Failure to comply with these regulations could result in a delisting of the Company's shares, or other penalties under the Companies Act or from financial reporting oversight bodies.

Board members and the Manager have experience of operating at senior levels within quoted businesses. In addition, the Board and the Manager receive regular updates on new regulation from the Company's Auditors, lawyers and other professional bodies.

## 4. *Internal control risk*

Failures in key controls, within the Board or within the Manager's business, could put assets of the Company at risk or result in reduced or inaccurate information being passed to the Board or to shareholders.

The Audit Committee will meet with Albion Ventures LLP's internal auditors, Littlejohn LLP, at least once a year, receiving a report regarding the last formal internal audit performed on the Manager and providing the opportunity for the Audit Committee to ask specific and detailed questions. The Manager has a comprehensive business continuity plan in place in the event that operational continuity is threatened. Further details regarding the Board's management and review of the Company's internal controls through the implementation of the Turnbull guidance are detailed on page 24.

Measures are in place to mitigate information risk in order to ensure the integrity, availability and confidentiality of information used within the business.

## 5. *Reliance upon third parties risk*

The Company is reliant upon the services of Albion Ventures LLP for the provision of investment

management and administrative functions. There are provisions within the Investment Management Agreement for the change of Manager under certain circumstances (for more information, see the Investment Management Agreement details in note 4). In addition, the Manager has demonstrated to the Board that there is no undue reliance placed upon any one individual within Albion Ventures LLP.

## 6. *Financial risks*

By its nature, as a venture capital trust, the Company is exposed to investment risk (which comprises investment price risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's policies for managing these risks and its financial instruments are outlined in full in note 19 to the Financial Statements.

All of the Company's income and expenditure is denominated in sterling and there are two foreign currency quoted portfolio investments whose total value at 31 December 2010 is £140,000. The Company is financed through equity and does not have any borrowings. The Company does not use derivative financial instruments for speculative purposes.

## Environment

The management and administration of the Company is undertaken by the Manager. Albion Ventures LLP recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption as is shown in the financial statements of Albion Ventures LLP.

## Directors

The Directors of the Company, who served during the year and their interests in the issued Ordinary shares of 5 pence each of the Company at 31 December 2010, were as follows:

	31 December 2010	31 December 2009
RA Field (Chairman)	48,993	10,911
DY Adams	38,082	—
GK Lockwood (resigned 7 May 2010)	—	—
AB Carruthers (resigned 1 January 2011)	38,082	—

# Directors' report and business review (continued)

There have been no changes to the share holdings of Robin Field and David Adams since 31 December 2010.

Patrick Reeve, who was appointed on 1 January 2011 holds 29,448 Ordinary shares.

Martin Fiennes, who was appointed on 5 April 2011 does not hold any shares.

All of the Directors' share interests shown above were held beneficially and no right to subscribe for shares in the Company was granted to, or exercised by, any Director during the year.

Andrew Carruthers is a Director of SPARK Venture Management Limited which was the Manager until 1 January 2011. Save for the Investment Management Agreement and the Termination Agreement as detailed in note 4, no contracts existed during or at the end of the year in which any Director was materially interested. Patrick Reeve is the managing partner of Albion Ventures LLP which has been the Manager since 1 January 2011. Save for the Investment Management Agreement with Albion Ventures LLP dated 8 December 2010, no contracts existed during or at the end of the year in which any Director was materially interested. Disclosures required by Financial Reporting Standard (FRS) 8, "Related Party Disclosures" are set out in note 23 of the Financial Statements.

Information about the appointment of Directors, their terms and period of appointment and their re-election are given in the Statement of corporate governance on page 22.

## Re-election of Directors

Directors' retirement and re-election is subject to the Company's Articles of Association and the Combined Code on Corporate Governance. At the Annual General Meeting, Patrick Reeve and Martin Fiennes, who have been appointed since the last Annual General Meeting, will resign and offer themselves for election. Patrick Reeve is not considered to be independent as he is the managing partner of the Manager, Albion Ventures LLP, and as such will retire on an annual basis. All other independent Directors will retire and offer themselves for re-election every three years, until they have served for longer than nine years, when they will retire on an annual basis.

## Insurance

As provided for in the Company's Articles of Association, the Company has continued to maintain Directors' and Officers' liability insurance up to an indemnity limit of £5 million.

## Employees

The Company is managed by Albion Ventures LLP and hence has no employees other than its Directors.

## Change of manager

The Board's strategy is to realise as much of the existing portfolio as soon as suitable exits are available and to focus new investment on relatively low risk opportunities in more developed investee companies. SPARK Venture Management Limited, a specialist technology investor, decided to move its fund management focus away from retail funds towards regional and institutional funds. The Board believes that the appointment of a new Manager with expertise of growing more mature businesses across a broad range of sectors would provide a sustainable future for the Company whilst delivering a steady annual yield.

On 1 January 2011, Albion Ventures LLP was appointed as Manager to the Company. Albion Ventures LLP is one of the largest and most long established VCT managers. The business was started in 1996, and prior to taking over the management of two venture capital trusts from SPARK Venture Management Limited, managed seven VCTs, totaling just under £200 million of funds, with a broad policy of balancing income generating, asset-based investments with higher growth companies.

The Board wishes to thank SPARK Venture Management Limited for its efforts in stabilising the portfolio and starting the work in realising investments. A number of potential exits from the existing investment portfolio are in progress and SPARK Venture Management Limited has agreed to work alongside Albion Ventures LLP during the termination notice period in order to assist with these investments.

## Investment manager

The principal terms of the Company's Investment Management Agreement as applicable during the period ended 31 December 2010 and the Termination Agreement between the Company and SPARK Venture Management Limited which was dated 8 December 2010 and which became effective 1 January 2011, are set out in note 4 of the Financial Statements.

Albion Ventures LLP signed an Investment Management Agreement with the Company on 8 December 2010, which came into effect on 1 January 2011. Details of this agreement are also set out in note 4.

During the year, OLIM Limited acted as adviser to the Company in respect of investments in listed equities and fixed interest securities and had limited discretion to manage this portfolio. This arrangement has now ended.

# Directors' report and business review (continued)

## Performance incentive fee

As at 31 December 2010, the date of termination of the Investment Management Arrangement, SPARK Venture Management Limited's management performance incentive arrangements had not been implemented. Accordingly, no performance incentive payments were paid or fall due.

The Company has agreed with Albion Ventures LLP that no performance or incentive fee will be payable to Albion Ventures LLP for any years prior to 31 December 2012.

## Evaluation of the Manager

The Board will continue to review the progress made by SPARK Venture Management Limited in its task to complete those exit processes begun prior to the change of Manager.

In respect of Albion Ventures LLP, the Board will evaluate future returns generated from new investee companies, together with the long term prospects of those investments currently held which do not form part of exit processes currently being handled by SPARK Venture Management Limited. Additionally the Board will review the continued achievement of the requirements for Venture Capital Trust status, the terms of the Management Agreement and the services provided therein, and will benchmark the performance of the Manager to other service providers.

The Board believes that it is in the interests of shareholders as a whole, and of the Company, to continue the appointment of Albion Ventures LLP for the forthcoming year.

## Directors' indemnity

Each Director has entered into a deed of indemnity with the Company which indemnifies each Director, subject to the provisions of the Companies Act 2006 and the limitations set out in each deed, against any liability arising out of any claim made against him in relation to the performance of his duties as a Director of the Company. A copy of each deed of indemnity entered into by the Company for each Director is available at the registered office of the Company.

## Operational arrangements

During the year to 31 December 2010, the Company delegated the investment management of the portfolio to SPARK Venture Management Limited, which is authorised and regulated by the Financial Services Authority. SPARK Venture Management Limited also provided company secretarial and other accounting and administrative support to the Company. From 1 January 2011, the Company has delegated all the above management and services to Albion Ventures LLP, which is also authorised and regulated by the Financial Services Authority. Further details regarding the terms of engagement of the Manager are shown in note 4.

## Auditor

The current auditors, Grant Thornton UK LLP, have indicated their willingness to continue as Auditors to the Company. A resolution to re-appoint Grant Thornton UK LLP as Auditors will be proposed at the Annual General Meeting on 16 May 2011.

## Supplier payment policy

The Company's payment policy is to ensure settlement of supplier invoices in accordance with their standard terms.

The Company's policy is to pay all supplier invoices within 30 days of the invoice date, or as otherwise agreed. As at 31 December 2010, trade creditors totalled £5,000 (2009: £7,000). Creditor days as at 31 December 2010 were 2 days (2009: 3 days).

## Annual General Meeting

The Annual General Meeting will be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS at 2 pm on Monday 16 May 2011. The Notice of Annual General Meeting is at the end of this document.

The proxy form enclosed with this Annual Report and Financial Statements permits shareholders to disclose votes 'for', 'against' and 'withheld'. A 'vote withheld' is not a vote in law and will not be counted in the proportion of the votes for and against the resolution. Summary of proxies lodged at the Annual General Meeting will be published at [www.albion-ventures.co.uk](http://www.albion-ventures.co.uk) within the 'Our Funds' section by clicking on Kings Arms Yard VCT PLC.

Patrick Reeve and Martin Fiennes, having been appointed to the Board of Directors since the Company's last Annual General Meeting will retire and offer themselves for election.

Resolutions relating to items of special business, for which shareholder approval is required in order to comply either with the Companies Act or the Listing Rules of the Financial Services Authority, will be proposed at the Annual General Meeting, and are explained on page 49.

## Recommendation

Your Board believes that the passing of the resolutions proposed at the Annual General Meeting is in the best interests of the Company and its Shareholders as a whole, and unanimously recommends that you vote in favour of all the proposed resolutions, as the Directors intend to do in respect of their own beneficial shareholdings.

# Directors' report and business review (continued)

## Statement of Directors' responsibility

The Directors are responsible for preparing the Directors' report and business review, the Directors' remuneration report and the Financial Statements in accordance with applicable law and regulations. They are also responsible for ensuring the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of corporate and financial information included on the Company's web page on the Manager's website ([www.albion-ventures.co.uk](http://www.albion-ventures.co.uk)). The maintenance and integrity of the Manager's website is, so far as it relates to the Company, the responsibility of the Manager.

The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website

and, accordingly, the Auditor accepts no responsibility for any changes that have occurred to the Financial Statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

Under applicable law and regulations, the Directors are responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors confirm to the best of their knowledge that:

- the Financial Statements, prepared in accordance with applicable UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the management report included within the Chairman's statement, Manager's report and Directors' report and enhanced business review includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

The names and functions of all the Directors are stated on page 10.

## Disclosure of information to Auditors

In the case of the persons who are Directors of the Company at the date of approval of this report:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This disclosure is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

By order of the Board

## Albion Ventures LLP

Company Secretary  
19 April 2011

# Statement of corporate governance

## Background

The Financial Services Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code issued by the Financial Reporting Council ("FRC") in July 2003 ("the Code") and updated in June 2006 and June 2008.

The Board of Kings Arms Yard VCT PLC 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 Section 1 of the Combined 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, will provide better information to shareholders than reporting under the Code alone.

## Application of the Principles of the Code

The Board attaches importance to matters set out in the Code and applies its principles. However, as a venture capital trust company, most of the Company's day-to-day responsibilities are delegated to third parties and the Directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

## Board of Directors

The Board consists solely of non-executive directors. Since all Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive Officer.

Mr Robin Field, Chairman, and Mr David Adams, Chairman of the Audit Committee and Mr Martin Fiennes, are considered independent Directors. Mr Andrew Carruthers, who resigned on 1 January 2011, was not considered an independent Director as he is managing director of SPARK Venture Management Limited, the previous Manager. Mr Patrick Reeve, who was appointed on 1 January 2011, is not considered an independent Director as he is the managing partner of Albion Ventures LLP, the Manager. The majority of the Board will continue to act independently of the Manager 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 of Association require that all Directors be subject to re-election procedures by rotation at the Annual General Meeting. All Directors, in accordance with the Combined Code, will submit themselves for re-election at least once every three years. Directors appointed since an 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, having been appointed since the last Annual General Meeting, will retire and offer themselves for election. Mr Patrick Reeve will be 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; these are described in the Board of Directors section of this Report, on page 10. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by the Manager. The Board has access to secretarial advice and compliance services by the Manager, 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 2010 as part of its regular programme of Board meetings. The Board also met to discuss and approve the change of Manager.

# Statement of corporate governance (continued)

	Scheduled Board Audit meetings	Scheduled Committee meetings	
R A Field (Chairman)	6/6	2/2	
D Y Adams (Audit Committee Chairman)	6/6	2/2	
A B Carruthers (resigned 1 January 2011)	6/6	n/a	
G K Lockwood (resigned 7 May 2010)	3/6	1/2	

The Chairman ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. The Board receives and considers reports regularly from the Manager 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 its Manager sets out the matters over which the Manager 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 Combined 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 the Manager;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price;
- share buy-back and treasury share policy; and
- monitoring shareholder profile and considering shareholder communications.

## 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. The Audit Committee Chairman reviews the 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.

In light of the structured performance evaluation, Mr Patrick Reeve and Mr Martin Fiennes are considered to be effective and to demonstrate strong commitment to the role, and the Board believes it to be in the best interest of the Company that they continue in their positions.

## 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 Combined Code 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.

## Audit Committee

The Audit Committee consists of Mr David Adams, who is Audit Committee Chairman, Mr Robin Field and Mr Martin Fiennes (with effect from 5 April 2011). In accordance with the Code, at least one member of the Audit Committee has recent and relevant financial experience. Mr Martin Fiennes will become Audit Committee Chairman when Mr David Adams steps down from the Board.

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;

# Statement of corporate governance (continued)

- 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 interim 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 under review, the Committee discharged the responsibilities described above. Its activities included:

- formally reviewing the final Annual Report and Financial Statements, the Half-yearly Report, the 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 the Manager;
- meeting with the external Auditors and reviewing their findings; and
- reviewing the performance of the Manager and making recommendations regarding their re-appointment to the Board.

The 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 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. Note 6 details the total fees paid to Grant Thornton UK LLP in the financial year to 31 December 2010. The 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 Committee has recommended to the Board that Grant Thornton UK LLP is reappointed and that a resolution to this effect be proposed at the Annual General Meeting.

## Internal control

In accordance with principle C.2 of the Code, the Board has an established process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and continues to be subject to regular review by the Board in accordance with the Internal Control Guidance for Directors in the Code

# Statement of corporate governance (continued)

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 the Manager a formal report, which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, 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 Manager's and the Board's attention.

The Board has performed a specific assessment for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the year. The Audit Committee assists the Board in discharging its review responsibilities.

The main features of the internal control system with respect to financial reporting, implemented throughout the 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 the Manager;
- bank and stock reconciliations are carried out monthly by the Manager in accordance with the FSA requirements;
- all published financial reports are reviewed by the Manager'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 Ventures LLP, the Board will have access to Littlejohn LLP, which, as Internal Auditor for Albion Ventures LLP undertakes periodic examination of the business processes and controls environment at Albion Ventures LLP, and ensures that any recommendations to implement improvements in controls are carried out. Littlejohn LLP will report 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.

## Going concern

In accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 issued by Financial Reporting Council, the Board has assessed the Company's operation as a going concern. The Company has significant cash and liquid resources, and the major cash outflows of the Company (namely investments and dividends) are within the Company's control. Accordingly, after making diligent enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the accounts.

The Board's assessment of liquidity risk and details of the Company's policies for managing its capital and financial risks are shown in note 19. The Company's business activities, together with details of its performance are shown in this Directors' report and business review.

## Conflicts of interest

Directors review the disclosure of conflicts of interest annually, with any changes reviewed and noted at the beginning of each Board meeting. A Director who has conflicts of interest refers to an independent Director to authorise those conflicts. Procedures to disclose and authorise conflicts of interest have been adhered to throughout the year.

## Capital structure and Articles of Association

Details regarding the Company's capital structure, substantial interests and Directors' powers to buy and issue shares are detailed in full on pages 15 of the Directors' report and business review. Details regarding the Directors' powers to buy and issue shares are shown on page 49. The Company is not party to any significant agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid.

Any amendments to the Company's Articles of Association are by way of a special resolution subject to ratification by shareholders.

## Relationships with shareholders

The Company's Annual General Meeting on 16 May 2011 will be used as an opportunity to communicate with investors. The Board, including the Chairman of the Audit Committee, will be available to answer questions at the Annual General Meeting.

At the Annual General Meeting, the level of proxies lodged on each resolution, the balance for and against the resolution, and the number of votes withheld, are announced after the resolution has been voted on by a show of hands.

# Statement of corporate governance (continued)

The Annual General Meeting will also include a presentation from the Manager on the portfolio and on the Company, and an Albion Venture investment manager will make a presentation on the strategy for environmental investment.

Shareholders are able to access the latest information on the Company via the Albion Ventures LLP website [www.albion-ventures.co.uk](http://www.albion-ventures.co.uk) under the "Our Funds" section.

Any enquiries relating to shareholdings and share certificates or changes to personal details can be directed to Capita Registrars Limited:

Tel: 0871 664 0300  
(calls cost 10p per minute plus network extras; lines are open 8.30 am – 5.30 pm, Mon – Fri)  
Email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

Specific enquiries relating to the performance of the Fund should be directed to Albion Ventures LLP:

Tel: 020 7601 1850  
(calls may be recorded; lines are open 9.00 am – 5.30 pm;  
Mon – Fri)  
Email: [info@albion-ventures.co.uk](mailto:info@albion-ventures.co.uk)

The Company's shares are quoted on the London Stock Exchange and should investors, after due consideration of their personal tax position, wish to sell their shares they should approach a broker to undertake the sale. Banks may be able to assist shareholders with a referral to a broker within their banking group.

## Statement of compliance

The Directors consider that, with the exception of the requirement for the appointment of a Senior Independent Director and the appointment of separate Remuneration and Nomination Committees, the Company has complied throughout the year ended 31 December 2010 with all the relevant provisions set out in Section 1 of the Code and with the AIC Code. The Company continues to comply with the Code as at the date of this report.

## By order of the Board

Albion Ventures LLP  
Company Secretary  
19 April 2011

# Directors' remuneration report

## Introduction

This report is submitted in accordance with Section 420 of the Companies Act 2006. The report also meets the relevant rules of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to the Directors' remuneration.

The Company's Auditor is required to report on certain information contained within this report (see below). The Auditor's opinion is included within the Auditor's report on page 29.

As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

## UNAUDITED INFORMATION

### Remuneration Committee

Since the Company's Board consists solely of non-executive Directors and there are no executive employees, a Remuneration Committee is not considered necessary.

### Directors' remuneration policy

The Company's policy is that fees payable to non-executive Directors should reflect their expertise, responsibilities and time spent on Company matters and should be sufficient to enable candidates of high calibre to be recruited. In determining the level of non-executive remuneration, market equivalents are considered in comparison to the overall activities and size of the Company.

The Company's Articles of Association limit fees payable to the Directors to £80,000 in aggregate and amendment to this is by way of a special resolution subject to ratification by shareholders. Directors' fees payable during the year totalled £45,000 (2009: £70,000) as set out below and in note 7 to the Financial Statements.

No Director's or former Director's remuneration is performance related and Directors are not eligible for bonuses, retirement benefits, share options, long term incentive schemes or other benefits, nor does the Company make a contribution to any pension scheme on behalf of Directors. It is the intention of the Board that the above remuneration policy will continue to apply in the forthcoming financial year and in subsequent years.

### Service Contracts

There is no notice period stipulated in the service contracts with any of the Directors. No compensation is payable to Directors on leaving office.

The Company's Articles of Association provide for the resignation and, if approved, re-election of the Directors every three years at the Annual General Meeting. In accordance with the recommendations of the AIC Code, Directors who have served the Company for longer than nine years are subject to annual re-election, and any non-independent Directors are also subject to annual re-election.

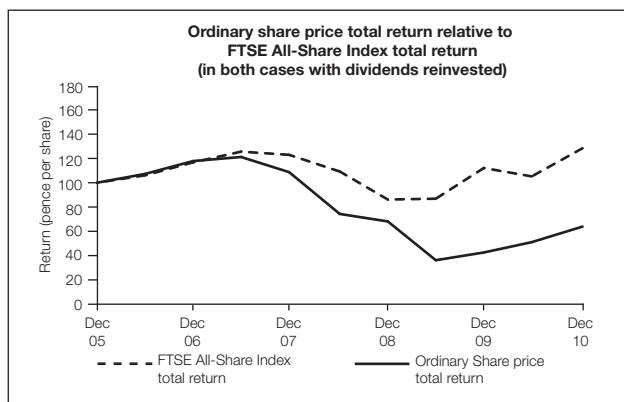
Mr David Adams will step down from the Board on 19 April 2011.

At the Annual General Meeting to be held on 16 May 2011, Patrick Reeve and Martin Fiennes, who were appointed since the last Annual General Meeting will retire from the Board and be subject to election.

### Performance

The Directors consider that total return (defined as the net asset value per share of the Company plus cumulative dividends paid) to ordinary shareholders since the date of launch of the Company is the most appropriate indicator of the performance of the Company. The total return (excluding tax benefits of 20p per share) of 75.3p, which is given on page 4, can be compared against the issue price of 100p at the date of launch of the fund.

The graph below shows the Company's shares total return against the FTSE All-Share Index total return, in both cases, with dividends reinvested, since 2005. The Directors consider the FTSE All-Shares Index to be the most appropriate benchmark for the Company. Investors should, however, be reminded that shares in VCTs generally trade at a discount to the actual net asset value of the Company.



Source: Albion Ventures LLP

# Directors' remuneration report (continued)

## AUDITED INFORMATION

### Directors' remuneration

The following table shows an analysis of the remuneration of individual Directors who served during the year, exclusive of national insurance or VAT:

	<b>Year ended</b> <b>31 December</b>	<b>Year ended</b> <b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
R A Field (Chairman)	22,500	23,171
D Y Adams <sup>(1)</sup>	16,621	12,015
A B Carruthers <sup>(2)</sup>	–	–
G K Lockwood		
(resigned 7 May 2010) <sup>(1)</sup>	6,154	14,130
J D Birney		
(resigned 8 May 2009)	–	8,597
T P Sooke		
(resigned 8 May 2009)	–	6,733
C J B Wright		
(resigned 8 May 2009)	–	5,312
	<hr/> 45,275	<hr/> 69,958

(1) Amounts of £793 and £1,621 included in the totals above were paid to GK Lockwood and DY Adams respectively in their capacity as Audit Committee Chairman.  
 (2) A B Carruthers waived his entitlement to Directors' fees for all accounting periods ended on, or prior to, 31 December 2010.

In addition to Directors' remuneration, the Company pays an annual premium in respect of Directors' & Officers' Liability Insurance of £7,000 (2009: £29,000).

An ordinary resolution for the approval of this report will be put to shareholders at the Annual General Meeting on 16 May 2011.

The Directors' remuneration report was approved by the Board of Directors and signed on its behalf by order of the Board.

### Albion Ventures LLP

Company Secretary  
 1 King's Arms Yard  
 London EC2R 7AF

19 April 2011

# Independent Auditor's report to the Members of Kings Arms Yard VCT PLC

We have audited the Financial Statements of the Company for the year ended 31 December 2010 which comprise the Income statement, Balance sheet, Cash flow statement, Reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' responsibility statement set out on page 21, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and to express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

## Scope of the audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on page 25, in relation to going concern;
- the part of the Statement of corporate governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on Directors remuneration.

**Julian Bartlett** (Senior Statutory Auditor)

For and on behalf of Grant Thornton UK LLP, Statutory Auditor Chartered Accountants

19 April 2011

# Income statement

	Note	Year ended 31 December 2010			Year ended 31 December 2009		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on valuation of investments at fair value through profit and loss	11	–	(2,209)	(2,209)	–	(3,933)	(3,933)
Profit/(loss) on disposals of investments at fair value through profit or loss	11	–	1,576	1,576	–	(40)	(40)
Investment income	2	132	–	132	220	–	220
Recoverable VAT	3	49	–	49	21	–	21
Investment management fees	4	(412)	–	(412)	(549)	–	(549)
Other expenses	6	(350)	–	(350)	(342)	–	(342)
Loss on ordinary activities before tax		(581)	(633)	(1,214)	(650)	(3,973)	(4,623)
Tax on ordinary activities	8	–	–	–	–	–	–
Loss on ordinary activities after tax		(581)	(633)	(1,214)	(650)	(3,973)	(4,623)
Basic and diluted loss per share (pence)	10	(0.5)	(0.6)	(1.1)	(0.6)	(3.6)	(4.2)

The accompanying notes on pages 34 to 45 form an integral part of these Financial Statements.

The 'Total' column of this Income statement represents the profit and loss account of the Company. The supplementary revenue return and capital columns have been prepared in accordance with The Association of Investment Companies' Statement of Recommended Practice.

All revenue and capital items in the above statement derive from continuing operations.

The Company has only one class of business and derives its income from investments made in shares and securities and from bank deposits.

There are no recognised gains or losses other than the results for the year disclosed above. Accordingly a statement of total recognised gains and losses is not required.

The difference between the reported loss on ordinary activities before tax and the historical cost profit/(loss) is due to the fair value movements on investments. As a result, a note on historical cost profits and losses has not been prepared.

# Balance sheet

	Note	31 December 2010 £'000	31 December 2009 £'000
<b>Fixed asset investments</b>	11	<b>12,350</b>	14,870
<b>Current assets</b>			
Trade and other debtors	13	<b>686</b>	457
Current asset investments	13	<b>3,230</b>	6,713
Cash at bank and in hand		<b>2,216</b>	3,190
		<b>6,132</b>	10,360
<b>Creditors: amounts falling due within one year</b>	14	<b>(199)</b>	(200)
<b>Net current assets</b>		<b>5,933</b>	10,160
<b>Net assets</b>		<b>18,283</b>	25,030
<b>Capital and reserves</b>			
Called-up share capital	15	<b>5,519</b>	5,519
Share premium		<b>150</b>	150
Capital redemption reserve		<b>765</b>	765
Special reserve		<b>20,524</b>	22,685
Investment holding losses		<b>(9,574)</b>	(7,941)
Profit and loss account		<b>899</b>	3,852
<b>Total equity shareholders' funds</b>		<b>18,283</b>	25,030
Basic and diluted net asset value per share (pence)	16	<b>16.6</b>	22.7

The accompanying notes on pages 34 to 45 form an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors and authorised for issue on 19 April 2011 and were signed on its behalf by:

**Robin Field**

Chairman

Company number: 3139019

## Reconciliation of movements in shareholders' funds

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Investment holding losses £'000	Profit and loss account £'000	Total £'000
<b>At 31 December 2008</b>	5,553	150	731	23,751	(4,842)	4,388	29,731
Shares purchased for cancellation	(34)	–	34	(78)	–	–	(78)
Realisation of prior years' net recognised losses on investments	–	–	–	–	834	(834)	–
Transfer from special reserve to profit and loss account	–	–	–	(988)	–	988	–
Investment holding loss on valuation of investments	–	–	–	–	(3,933)	3,933	–
Loss on ordinary activities after taxation	–	–	–	–	–	(4,623)	(4,623)
<b>At 31 December 2009</b>	5,519	150	765	22,685	(7,941)	3,852	25,030
Realisation of prior years' net recognised losses on investments	–	–	–	–	576	(576)	–
Transfer from special reserve to profit and loss account	–	–	–	(2,161)	–	2,161	–
Investment holding loss on valuation of investments	–	–	–	–	(2,209)	2,209	–
Loss on ordinary activities after taxation	–	–	–	–	–	(1,214)	(1,214)
Dividends	–	–	–	–	–	(5,533)	(5,533)
<b>At 31 December 2010</b>	<b>5,519</b>	<b>150</b>	<b>765</b>	<b>20,524</b>	<b>(9,574)</b>	<b>899</b>	<b>18,283</b>

The accompanying notes on pages 34 to 45 form an integral part of these Financial Statements.

The special reserve is a distributable reserve, created by the cancellation of the share premium account. This allows the Company, amongst other things, to fund the buy-back of its Ordinary shares and to pay dividends to shareholders earlier than would otherwise have been possible. Transfers can be made from this reserve to the profit and loss account to offset losses on disposal of investments and, for investments that have been fair valued to zero with no chance of recovering the cost of these investments.

A transfer of £2,161,000 (comprises £34,000 representing losses on disposal of investments during the year, £127,000 representing losses of previous years now treated as recognised or written off and £2,000,000 for dividend purposes) has been made from the special reserve to the profit and loss account.

Other unrealised gains and losses arising on investments held at fair value are transferred to the investment holding losses reserve.

The total distributable reserves are £11,849,000 (2009: £18,596,000), comprising the special reserve and the profit and loss account, less net investment holding losses.

# Cash flow statement

	Notes	Year ended 31 December	
		2010 £'000	2009 £'000
<b>Net cash flow from operating activities</b>	18	<b>(524)</b>	529
<b>Taxation</b>			
UK corporation tax recovered/(paid)		–	–
<b>Financial investments</b>			
Purchase of fixed asset investments	11	<b>(536)</b>	(854)
Purchase of current asset investments		–	(118)
Disposal of current asset investments		<b>3,480</b>	–
Disposal of fixed asset investments		<b>2,139</b>	2,397
<b>Net cash flow from investing activities</b>		<b>5,083</b>	1,425
Equity dividends paid	9	<b>(5,533)</b>	–
<b>Net cash flow before financing</b>		<b>(974)</b>	1,954
<b>Financing</b>			
Purchase of own shares	15	–	(78)
<b>Net cash flow from financing</b>		–	(78)
<b>Cash flow in the year</b>	17	<b>(974)</b>	1,876

The accompanying notes on pages 34 to 45 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently in current and prior periods, is set out below:

### Basis of accounting

The Financial Statements have been prepared in accordance with the historical cost convention, except for the measurement of fair value of investments, and in accordance with applicable UK law and accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ("SORP") issued by The Association of Investment Companies ("AIC") in January 2009. As disclosed in the Statement of corporate governance on page 25, the accounts are prepared on a going concern basis.

### Fixed asset investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment policy, and information about the portfolio is provided internally on that basis to the Board.

Upon initial recognition (using trade date accounting) investments are designated by the Company as 'at fair value through profit or loss' and are included at their initial fair value, which is cost (excluding expenses incidental to the acquisition which are written off to the profit and loss account).

Subsequently, the investments are valued at 'fair value', which is measured as follows:

- Investments listed on recognised exchanges are valued at their bid prices at the end of the accounting period or otherwise at fair value based on published price quotations;
- Unquoted investments, where there is not an active market, are valued using an appropriate valuation technique in accordance with the IPEVCV guidelines. Indicators of fair value are derived using established methodologies including earnings multiples, prices of recent investment rounds, net assets and industry valuation benchmarks. Where the Company has an investment in an early stage enterprise, the price of a recent investment round is often the most appropriate approach to determining fair value. In situations where a period of time has elapsed since the date of the most recent transaction, consideration is given to the circumstances of the investee company since that date in determining fair value. This includes consideration of whether there is any evidence of deterioration or strong definable evidence of an increase in value. In the absence of these indicators, the investment in question is valued at the amount reported at the previous reporting date. Examples of events or changes that could indicate a diminution include:
  - the performance and/or prospects of the underlying business are significantly below the expectations on which the investment was based;

- a significant adverse change either in the investee company's business or in the technological, market, economic, legal or regulatory environment in which the business operates; or
- market conditions have deteriorated, which may be indicated by a fall in the share prices of quoted businesses operating in the same or related sectors.

It is not the Company's policy to exercise control or significant influence over investee companies. Therefore, in accordance with the exemptions under FRS 9 "Associates and Joint Ventures", those undertakings in which the Company holds more than 20 per cent., but less than 50 per cent., of the equity of an investment company, and the investment company is not a subsidiary, are not regarded as associated undertakings.

### Current asset investments

In accordance with FRS 26, units held in funds used for cash management are designated as fair value through profit and loss. These investments are classified as current asset investments as they are investments held for the short term and comparative classification in the Balance sheet and Cash flow statements have been restated accordingly.

### Gains and losses on investments

Gains and losses arising from changes in the fair value of the investments are included in the Income statement for the year as a Capital item and are allocated to Investment holding losses.

### Investment Income

Dividends receivable on quoted equity shares are recognised into account on the ex-dividend date. Income receivable on unquoted equity and non-equity shares and loan notes is recognised when the Company's right to receive payment and expect settlement is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis (including amortisation of any premium or discount to redemption) so as to reflect the effective interest rate, provided there is no reasonable doubt that payment will be received in due course. Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

### Expenses

All expenses, including expenses incidental to the acquisition or disposal of an investment, are accounted for on an accruals basis and are charged wholly to the profit and loss account. Costs associated with the issue of shares are charged to the share premium account. Costs associated with the buy back of shares are charged to the special reserve.

All other expenses, including management fees, are presented within the Revenue column of the Income statement.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### Taxation

Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the period. The Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments as these items are not subject to tax whilst the Company maintains its Venture Capital Trust status. The Company intends to continue to meet the conditions required for it to hold approved Venture Capital Trust status for the foreseeable future. Deferred tax assets in respect of surplus management expenses are only recognised to the extent that such assets are likely to be recoverable against future taxable profits of the Company.

### Foreign exchange

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds Sterling ("Sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each Balance sheet date, monetary items and non-monetary assets and liabilities that are measured at fair value, which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Exchange differences arising on settlement of monetary items and from retranslating at the Balance sheet date of investments and other financial instruments measured at fair value through profit or loss, and other monetary items, are included in the Profit and loss account. Exchange differences relating to investments and other financial instruments measured at fair value are subsequently included in the transfer to the Investment holding losses.

### Dividends

Dividends payable to equity shareholders are recognised when they are paid, or have been approved by shareholders at an Annual General Meeting.

## 2 Investment income

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Interest receivable		
– Listed fixed interest securities	3	103
– Loans to venture capital investee companies	91	50
– Bank deposits	16	8
Other income (The Royal Bank of Scotland Global Treasury Fund plc)	22	59
	<u>132</u>	<u>220</u>

## 3 Recoverable VAT

HM Revenue and Customs ("HMRC") issued a business briefing on 24 July 2008, which permitted the recovery of historic VAT that had been charged on management fees, and which made these fees exempt from VAT with effect from 1 October 2008.

In 2009, the Manager paid to the Company an amount of £322,000 that it had received from HMRC for the repayment of historic VAT. It is possible that additional amounts of VAT will be recoverable in due course and a claim has been submitted. However, the Directors are unable at this stage to quantify the sums involved.

During the year ended 31 December 2010 an amount of £49,000 (2009: £21,000) was received from OLIM Limited in respect of VAT previously charged on their management fees and which had also become exempt from VAT following the above decision.

## 4 Investment management fees

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Investment management fees	<u>412</u>	<u>549</u>

During the year to 31 December 2010, SPARK Venture Management Limited provided investment management services to the Company under an amended and restated agreement dated 20 May 2005. SPARK Venture Management Limited is a wholly owned subsidiary of SPARK Venture Management Holdings Limited, a company of which Andrew Carruthers is an executive director and in which he is a beneficial shareholder. Andrew Carruthers is also an executive director of SPARK Venture Management Limited.

SPARK Venture Management Limited was entitled to receive a management fee, determined quarterly in arrears, at the annual rate of 2.0 per cent. on the value of the Company's net assets at the end of each quarter. This fee is capped to ensure that the Company's running costs do not exceed 3.25 per cent. of closing net asset value. There was no reduction in the management fee in respect of the cap for the year ended 31 December 2010 (2009: £4,000).

# Notes to the Financial Statements (continued)

## 4 Investment management fees (continued)

SPARK Venture Management Limited also provided administrative and secretarial services to the Company for which it was entitled to a fee of £68,000 for the year (2009: £66,000).

The Company and SPARK Ventures Management Limited entered into a Termination Agreement on 8 December 2010, pursuant to which the Company has agreed to pay SPARK Venture Management Limited the management and administration fees due under the Investment Management Agreement for the period until 30 November 2011. Under the Termination Agreement, the management fee shall be 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 2011. SPARK Venture Management Limited and the Company have agreed that the Termination Agreement is in settlement of all claims against each other.

Albion Ventures LLP signed an Investment Management Agreement with the Company on 8 December 2010, which came into effect on 1 January 2011. Albion Ventures LLP will provide investment management, company secretarial and administrative services to the Company. Albion Ventures LLP has agreed to waive its management and administration fees for the first year to 31 December 2011. Thereafter Albion Ventures LLP will be entitled to an annual management fee of 2 per cent. of net asset value, along with an annual administration fee of £50,000. This represents no change in the management fee, but a reduction in the administration fee.

Under the terms of the Investment Management Agreement with Albion Ventures LLP, the aggregate payable for management and administration (normal running costs) are subject to an aggregate annual cap of 3 per cent. of the year end closing net asset value, commencing the year ending 31 December 2012. This is a reduction from the previous aggregate annual cap of 3.25 per cent.

The Investment Management Agreement is for an initial period expiring on 31 December 2013. Thereafter it can be terminated by either party on 12 months' notice and is subject to earlier termination in the event of certain breaches or on the insolvency of either party.

The Manager is entitled to arrangement fees payable by investee companies (up to a maximum of 2 per cent. of the amount invested) and to fees charged for the monitoring of investments (up to a maximum of £15,000 per annum). The maximums are increased by the Retail Prices Index each year.

## 5 Performance incentive fee

As at the year ended 31 December 2010, the Company had no performance incentive fee arrangements.

The Company has agreed with Albion Ventures LLP that no performance or incentive fee will be payable to Albion Ventures LLP for any years prior to 31 December 2012.

## 6 Other expenses

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Administrative and secretarial services	68	66
Directors' remuneration (note 7)	49	70
Auditor's remuneration		
– Fees payable for audit of the financial statements	18	17
– Fees payable for other services relating to tax	9	8
Legal and professional expenses	89	47
Insurance	19	28
Management fees payable to OLIM Limited	1	11
Irrecoverable VAT	35	30
Other expenses	62	65
	<hr/> 350	<hr/> 342

## 7 Directors' fees

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Amount payable to Directors	45	67
National insurance	4	3
	<hr/> 49	<hr/> 70

Further information regarding Directors' remuneration can be found in the Directors' remuneration report on page 27.

# Notes to the Financial Statements (continued)

## 8 Tax on ordinary activities

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
UK Corporation tax payable	—	—

## Reconciliation of loss on ordinary activities to taxation charge

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Loss on ordinary activities before taxation	<b>(1,214)</b>	(4,623)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28% (2009: 28%)	<b>340</b>	1,294
Effects of:		
Non taxable items – UK dividends and net losses on investments	<b>(177)</b>	(1,112)
Unutilised management expenses	<b>(163)</b>	(182)
	—	—

The Company has excess trading losses of £8,642,000 (2009: £8,061,000) that are available for offset against future profits. A deferred tax asset of £2,420,000 (2009: £2,257,000) has not been recognised in respect of those losses as they will be recoverable only to the extent that the Company has sufficient future taxable profits.

## 9 Dividends

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Final dividend of 4 pence per share paid on 11 June 2010 in respect of the year ended 31 December 2009	<b>4,430</b>	—
Interim dividend of 1 penny per share paid on 24 September 2010 in respect of the year ended 31 December 2010	<b>1,103</b>	—
	<b>5,533</b>	—

The Directors propose a final dividend of 0.67 pence per share for the year ended 31 December 2010, to be approved at the Annual General Meeting, which will amount to approximately £739,000.

## 10 Earnings per share

The revenue loss per share of 0.5 pence (2009: loss 0.6 pence) is based on the revenue loss on ordinary activities after tax of £581,000 (2009: loss £650,000) and on the number of ordinary shares in issue during the year of 110,370,135 (2009: 110,631,989).

The capital loss per share of 0.6 pence (2009: loss 3.6 pence) is based on the capital loss on ordinary activities after tax of £633,000 (2009: loss £3,973,000) and on the number of ordinary shares in issue during the year of 110,370,135 (2009: 110,631,989).

The total loss per share of 1.1 pence (2009: loss 4.2 pence) is based on the loss on ordinary activities after tax of £1,214,000 (2009: loss £4,623,000) and on the number of ordinary shares in issue during the year of 110,370,135 (2009: 110,631,989).

There is no dilution effect in respect of the year ended 31 December 2010 (2009: nil).

# Notes to the Financial Statements (continued)

## 11 Fixed asset investments

### Summary of fixed asset investments

	31 December 2010 £'000	31 December 2009 £'000
Unquoted equity	9,784	12,366
Unquoted loan stock	2,354	2,074
Quoted equity	212	430
	<b>12,350</b>	<b>14,870</b>

### Movements in fixed asset investments

	£'000
Cost at 1 January 2010	22,811
Investment holding losses at 1 January 2010	(7,941)
Valuation at 1 January 2010	14,870
Purchases at cost	536
Disposal proceeds	(2,423)
Realised gains	1,576
Unrealised losses	(2,209)
<b>Valuation at 31 December 2010</b>	<b>12,350</b>
Cost at 31 December 2010	21,924
Investment holding losses at 31 December 2010	(9,574)
<b>Valuation at 31 December 2010</b>	<b>12,350</b>

Amounts shown as cost represent the acquisition cost in the case of investments made by the Company and/or the valuation attributable to the investments acquired from Quester VCT 2 and Quester VCT 3 at the date of merger in 2005, plus any subsequent acquisition cost.

### Losses on fixed asset investments

The overall loss on investments at fair value through profit or loss disclosed in the Income statement is analysed as follows:

	31 December 2010 £'000	31 December 2009 £'000
Loss on valuation of investments at fair value through profit and loss		
Net loss on valuation of investments	(2,209)	(3,933)
Loss on disposal of investments at fair value through profit and loss:		
Net gains/(losses) on disposals	1,544	(132)
Recoveries made in respect of investments previously written off	32	92
	<b>1,576</b>	<b>(40)</b>
	<b>(633)</b>	<b>(3,973)</b>

"Net gains/(losses) on disposals" represents the difference between proceeds received and the carrying values of these investments sold during the year.

### Movements in unrealised losses

	£'000
Opening accumulated unrealised losses	(7,941)
Transfer of previously unrealised losses to realised reserve on disposal of investments	576
Movement in unrealised (losses)	(2,209)
<b>Accumulated unrealised losses at 31 December 2010</b>	<b>(9,574)</b>

# Notes to the Financial Statements (continued)

## 11 Fixed asset investments (continued)

### Historic cost basis

	£'000
Opening book cost	22,811
Purchases at cost	536
Sales at cost	(1,423)
<b>Book cost at 31 December 2010</b>	<b>21,924</b>

### Fixed asset investment valuation methodologies

Unquoted investments are valued in accordance with the IPEVCV guidelines as follows:

	31 December 2010 £'000	31 December 2009 £'000
Revenue multiple	7,152	5,965
Earnings multiple	2,963	1,920
Price of recent investment	1,679	4,814
Cost reviewed for recent performance	325	1,741
Bid price	212	430
Expected distribution	19	-
	<b>12,350</b>	14,870

The valuation will be the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the September 2009 IPEVCV Guidelines. The Directors believe that the methods used are the most appropriate methods of valuation as at 31 December 2010.

Change in valuation methodology (2009 to 2010)	Value as at 31 December 2010 £'000	Explanatory note
Price of recent investment to revenue multiple	3,367	More relevant industry benchmarks available
Price of recent investment to earnings multiple	281	More relevant industry benchmarks available
Cost reviewed for recent performance to recent price of investment	395	New investment made within the past year
Cost reviewed for recent performance to earnings multiple	440	More relevant industry benchmarks available
Revenue multiple to earnings multiple	611	Company making profits
Cost reviewed for recent performance to revenue multiple	138	Company making profits

### Fair value hierarchy

The amended FRS 29 'Financial Instruments: Disclosures' requires the Company to disclose the inputs to the valuation methods applied to its investments at fair value through profit or loss in a fair value hierarchy according to the following definitions:

Fair value hierarchy	Definition
Level 1	Unadjusted quoted (bid) prices applied where an active market exists
Level 2	Inputs to valuation are from observable sources and are directly or indirectly derived from prices
Level 3	Inputs to valuations not based on observable market data

Fixed asset investments at fair value through profit or loss as at 31 December 2010 are categorised in accordance with FRS 29 as follows:

	31 December			
	2010 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Unquoted equity	9,784	-	-	9,784
Unquoted loan stock	2,354	-	-	2,354
Quoted equity	212	212	-	-
	<b>12,350</b>	<b>212</b>	<b>-</b>	<b>12,138</b>

# Notes to the Financial Statements (continued)

## 11 Fixed asset investments (continued)

Fixed asset investments at fair value through profit or loss as at 31 December 2009 are categorised in accordance with FRS 29 as follows:

	31 December 2009 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Unquoted equity	12,366	–	–	12,366
Unquoted loan stock	2,074	–	–	2,074
Quoted equity	430	430	–	–
	<u>14,870</u>	<u>430</u>	<u>–</u>	<u>14,440</u>

### Level 3 reconciliation

	31 December 2010 £'000	31 December 2009 £'000
Valuation as at 31 December 2009	<b>14,440</b>	17,965
Purchases at cost	536	848
Disposal proceeds	(2,335)	(396)
Realised net gains/(losses) on disposal	1,569	(132)
Investment holding losses	(2,072)	(3,845)
Valuation as at 31 December 2010	<b>12,138</b>	14,440

FRS29 requires the Directors to consider the impact of changing one or more of the inputs used as part of the valuation process. The valuation methodology applied to 80 per cent. of the unquoted portfolio (level 3) is neither price of recent investment nor cost. The Directors believe that changes to reasonable possible alternative assumptions for the valuation of this part of portfolio could result in an increase of £0.7m or a decrease of £0.5m in the valuation of the unquoted investments.

## 12 Significant holdings

The principal activity of the Company is to select and hold a portfolio of investments in quoted and unquoted securities. Although the Company, through the Manager, will, in some cases, be represented on the board of the investee company, it will not take a controlling interest or become involved in the management. The size and structure of companies with unquoted securities may result in certain holdings in the portfolio representing a participating interest without there being any partnership, joint venture or management consortium agreement.

The Company has interests of greater than 20 per cent. of the nominal value of any class of the allotted shares in the investee companies as at 31 December 2010 as described below. All of the companies are incorporated in Great Britain.

Company	Class of share	Number of shares held	Proportion of class held
Elateral Holdings Limited	Ordinary shares	14,423,285	21.8%
	Preference shares	81,699,667	28.5%
Lab M Holdings Limited	A Ordinary shares	2,280,000	100.0%
	B Ordinary shares	600	60.0%
	Cumulative redeemable preference shares	600,000	60.0%
Sift Limited	Preferred ordinary shares	389,940	52.3%
	Ordinary shares	12,434,074	22.0%
	A Ordinary shares	2,441,184	21.7%
	B Ordinary shares	2,977,480	25.9%
UniServity Limited	Ordinary shares	10,255	6.5%
	A Ordinary shares	35,896	41.7%
	B Ordinary shares	18,540	41.7%

As permitted by FRS 9, the investments listed above are held as part of an investment portfolio, and their value to the Company is as part of a portfolio of investments. Therefore, these investments are not considered to be associated undertakings.

# Notes to the Financial Statements (continued)

## 13 Current assets

**Current assets include:**  
**Trade and other debtors**

	<b>31 December</b>	31 December
	<b>2010</b>	2009
	<b>£'000</b>	£'000
Other debtors	628	349
Prepayments and accrued income	58	108
	<hr/>	<hr/>
	<b>686</b>	457
	<hr/>	<hr/>

The Directors consider that the carrying amount of debtors is not materially different to their fair value.

### Current asset investments

	<b>31 December</b>	31 December
	<b>2010</b>	2009
	<b>£'000</b>	£'000
The Royal Bank of Scotland Global Treasury Funds plc	3,230	5,710
KFW Corporate bond 5.5% 25/1/2010	–	1,003
	<hr/>	<hr/>
	<b>3,230</b>	6,713
	<hr/>	<hr/>

Current asset investments represent money held for investment. The units can be converted into cash within five working days.

## 14 Creditors: amounts falling due within one year

	<b>31 December</b>	31 December
	<b>2010</b>	2009
	<b>£'000</b>	£'000
Trade creditors	5	7
Accruals	76	85
Other creditors	118	108
	<hr/>	<hr/>
	<b>199</b>	200
	<hr/>	<hr/>

The Directors consider that the carrying amount of creditors is not materially different to their fair value.

## 15 Called up share capital

	<b>31 December</b>	31 December
	<b>2010</b>	2009
	<b>£'000</b>	£'000
<b>Authorised:</b>		
200,000,000 (2009: 200,000,000) ordinary shares of 5 pence	10,000	10,000
<b>Allotted, issued and fully paid:</b>		
110,370,135 (2009: 110,370,135) ordinary shares of 5 pence	5,519	5,519
	<hr/>	<hr/>

No shares were bought back for cancellation by the Company during the year ended 31 December 2010 (2009: 691,004 shares representing 0.6 per cent. of the opening issued share capital, at a cost of £78,289).

## 16 Net asset value per share

The net asset value per share as at 31 December 2010 of 16.6 pence (2009: 22.7 pence) is based on net assets of £18,283,000 (2009: £25,030,000) divided by the 110,370,135 ordinary shares in issue at that date (2009: 110,370,135).

## 17 Analysis of changes in cash during the year

	<b>31 December</b>	31 December
	<b>2010</b>	2009
	<b>£'000</b>	£'000
Opening cash balances	3,190	1,314
Net cash flow	(974)	1,876
	<hr/>	<hr/>
Closing cash balances	<b>2,216</b>	3,190
	<hr/>	<hr/>

# Notes to the Financial Statements (continued)

## 18 Reconciliation of operating loss to net cash flow from operating activities

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Loss on ordinary activities before tax	(1,214)	(4,623)
Loss on investments at fair value through profit or loss	633	3,973
Decrease in debtors	58	1,479
Decrease in creditors	(1)	(303)
Amortisation of fixed interest investments	-	3
Cash flow from operating activities	<b>(524)</b>	<b>529</b>

## 19 Capital and financial instruments risk management

The Company's capital comprises Ordinary shares as described in note 15. The Company is permitted to buy-back its own shares for cancellation and this is described in more detail on page 49.

The Company's financial instruments comprise equity and loan stock investments in unquoted and quoted companies, cash balances and liquid cash instruments, and short term debtors and creditors which arise from its operations. The main purpose of these financial instruments is to generate cashflow, revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short term creditors. The Company does not use any derivatives for the management of its balance sheet.

The principal risks arising from the Company's operations are:

- investment (or market) risk (which comprises investment price and cash flow interest rate risk);
- credit risk; and
- liquidity risk.

The Board regularly reviews and agrees policies for managing each of these risks. There have been no changes in the nature of the risks that the Company has faced during the past year, and apart from where noted below, there have been no changes in the objectives, policies or processes for managing risks during the past year. The key risks are summarised below.

### Investment risk

As a venture capital trust, it is the Company's specific nature to evaluate and control the investment risk of its portfolio in unquoted and quoted investments, details of which are shown on pages 12 to 14. Investment risk is the exposure of the Company to the revaluation and devaluation of investments. The main driver of investment risk is the operational and financial performance of the investee company and the dynamics of market quoted comparators. The Manager receives management accounts from investee companies, and members of the investment management team often sit on the boards of unquoted investee companies; this enables the close identification, monitoring and management of investment risk.

The Manager and the Board formally review investment risk (which includes market price risk), both at the time of initial investment and at quarterly Board meetings.

The Board monitors the prices at which sales of investments are made to ensure that profits to the Company are maximised, and that valuations of investments retained within the portfolio appear sufficiently prudent and realistic compared to prices being achieved in the market for sales of unquoted investments.

The maximum investment risk as at the balance sheet date is the value of the fixed and current asset investment portfolio which is £15,580,000 (2009: £21,583,000). Investments form 85 per cent. of the net asset value as at 31 December 2010 (2009: 86 per cent.).

More details regarding the classification of investments are shown in notes 11 and 13.

# Notes to the Financial Statements (continued)

## 19 Capital and financial instruments risk management (continued)

### Investment price risk

Investment price risk is the risk that the fair value of future investment cash flows will fluctuate due to factors specific to an investment instrument or to a market in similar instruments. As a venture capital trust the Company invests in unquoted and quoted companies in accordance with the investment policy set out on page 16. The management of risk within the venture capital portfolio is addressed through careful investment selection, by diversification across different industry segments, by maintaining a wide spread of holdings in terms of financing stage and by limitation of the size of individual holdings. The Directors monitor the Manager's compliance with the investment policy, review and agree policies for managing this risk and monitor the overall level of risk on the investment portfolio on a regular basis.

Valuations are based on the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the IPEVCV guidelines. Details of the sectors in which the Company is currently invested are shown in the pie chart on page 8 of the Manager's report.

As required under FRS 29 "Financial Instruments: Disclosures", the Board is required to illustrate by way of a sensitivity analysis the degree of exposure to market risk. The Board considers that the value of the fixed asset investment portfolio is sensitive to a 10 per cent. change based on the current economic climate. The impact of a 10 per cent. change has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and future expectations.

The sensitivity of a 10 per cent. increase or decrease in the valuation of the fixed asset investment portfolio (keeping all other variables constant) would increase or decrease the net asset value and return for the year by £1,235,000 (2009: £1,487,000).

### Foreign currency risk

The Company is unlikely to be significantly affected by currency fluctuations. Revenue received in currencies other than sterling is converted into sterling on or shortly after the date of receipt as are any proceeds from the disposal of foreign currency investments.

At the year ended 31 December 2010, the Company held investments denominated in currencies other than sterling of £140,000 (2009: £239,000).

### Cash flow interest rate risk

It is the Company's policy to accept a degree of interest rate risk on its financial assets through the effect of interest rate changes. On the basis of the Company's analysis, it is estimated that a rise of one percentage point in all interest rates would have increased total return before tax for the year by approximately £82,000 (2009: £108,000). Furthermore, it is considered that a fall of interest rates below current levels during the year would have been unlikely.

The weighted average interest rate applied to the Company's fixed rate assets during the year was approximately 3.3 per cent. (2009: 2.7 per cent.). The weighted average period to maturity for the fixed rate assets is approximately 2.2 years (2009: 2.8 years).

The Company's financial assets and liabilities as at 31 December 2010, denominated in pounds sterling, consist of the following:

	31 December 2010				31 December 2009			
	Non-		Total	Non-	Non-		Total	
	Fixed	Floating	interest	bearing	interest	bearing		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Unquoted equity	–	–	9,784	9,784	–	–	12,366	12,366
Quoted equity	–	–	212	212	–	–	430	430
Unquoted loan stock	1,246	143	965	2,354	1,000	–	1,074	2,074
Debtors	–	–	686	686	–	–	457	457
Current liabilities	–	–	(199)	(199)	–	–	(200)	(200)
Cash and liquid investments	–	5,446	–	5,446	1,003	8,900	–	9,903
Total net assets	1,246	5,589	11,448	18,283	2,003	8,900	14,127	25,030

### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company is exposed to credit risk through its debtors, investment in unquoted loan stock, cash held on deposit, cash funds held with banks and through quoted corporate bonds.

The Manager evaluates credit risk on loan stock instruments prior to investment and as part of its ongoing monitoring of investments. In doing this, it takes into account the extent and quality of any security held. In the past loan stock may or may not have a fixed or floating charge, which may or may not have been subordinated, over the assets of the investee company. However, for the future typically Albion Ventures LLP loan stock instruments have a first fixed charge or a fixed and floating charge over the assets of the investee company in order to mitigate the gross credit risk.

# Notes to the Financial Statements (continued)

## 19 Capital and financial instruments risk management (continued)

The Manager receives management accounts from investee companies, and members of the investment management team often sit on the boards of unquoted investee companies; this enables the close identification, monitoring and management of investment specific credit risk.

The Manager and the Board formally review credit risk (including debtors) and other risks, both at the time of initial investment and at quarterly Board meetings.

The Company's total gross credit risk at 31 December 2010 was limited to £2,354,000 (2009: £2,074,000) of unquoted loan stock instruments, £3,230,000 units held in The Royal Bank of Scotland Global Treasury Funds plc (2000: £5,710,000) and £2,216,000 (2009: £3,190,000) cash deposits on deposit with banks. The quoted corporate bond matured during the year.

As at the balance sheet date, the cash and liquid funds held by the Company are held with the Royal Bank of Scotland plc and the Royal Bank of Scotland Global Treasury Funds plc. Credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to regulatory supervision, with Moody's credit ratings of at least 'A' or equivalent as assigned by international credit-rating agencies.

### Liquidity risk

Liquid assets are held as cash on current account, cash on deposit or as units in short term money market funds. Under the terms of its Articles, the Company has the ability to borrow an amount equal to its adjusted capital and reserves of the latest published audited balance sheet.

The Company has no committed borrowing facilities as at 31 December 2010 (2009: £nil).

There are no externally imposed capital requirements other than the minimum statutory share capital requirements for public limited companies.

The main cash outflows are for new investments, share buy-backs and dividend payments, which are within the control of the Company. The Manager formally reviews the cash requirements of the Company on a monthly basis, and the Board on a quarterly basis as part of its review of management accounts and forecasts. The Company's financial liabilities as at 31 December 2010 are short term in nature and total £199,000 (2009: £200,000).

The carrying value of loan stock investments as analysed by expected maturity dates is as follows:

	31 December 2010			31 December 2009		
	Fully	Past due	Total	Fully	Past due	Total
	performing	loan stock	£'000	performing	loan stock	£'000
Less than one year	—	—	—	—	—	—
1-2 years	1,796	—	1,796	188	—	188
2-3 years	169	—	169	886	—	886
3-5 years	246	143	389	1,000	—	1,000
Total	2,211	143	2,354	2,074	—	2,074

Loan stock categorised as past due has capital and interest which is past due by more than 3 months.

In view of the factors identified above, the Board considers that the Company is subject to low liquidity risk.

### Fair values of financial assets and financial liabilities

All the Company's financial assets and liabilities as at 31 December 2010 are stated at fair value as determined by the Directors. There are no financial liabilities other than creditors. The Company's financial liabilities are all non-interest bearing. It is the Directors' opinion that the book value of the financial liabilities is not materially different to the fair value and all are payable within one year.

## 20 Commitments and guarantees

As at 31 December 2010, there were no legal commitments (2009: £nil) in respect of further funding to be provided to existing investee companies.

There were no contingent liabilities or guarantees given by the Company as at 31 December 2010 (2009: £nil).

# Notes to the Financial Statements (continued)

## 21 Co-investment

The Company has venture capital investments in companies in which other funds managed by SPARK Venture Management Limited have also invested.

For the purpose of this note, the following abbreviations apply:

KAY2	Kings Arms Yard VCT 2 PLC (formerly SPARK VCT 2 plc)
SPK	SPARK Ventures plc
QVP	Quester Venture Partnership
ICF	Isis College Fund Limited Partnership and Second Isis College Fund Limited Partnership
Lachesis	Lachesis Seed Fund Limited Partnership
Co-investors	Company
KAY2, SPK and ICF	Academia Networks Limited
KAY2	Allergy Therapeutics plc
KAY2 and QVP	Antenova Limited
KAY2 and QVP	Celldex Therapeutics, Inc
KAY2 and QVP	Cluster Seven Ltd
KAY2	Elateral Holdings Limited
KAY2, QVP and Lachesis	Haemostatix Limited
KAY2	Imagesound plc
KAY2 and SPK	Isango! Limited
KAY2 and QVP	Level Four Software Limited
KAY2, QVP and ICF	MediGene AG
KAY2 and ICF	Oxonica Limited
KAY2 and QVP	Perpetuum Limited
KAY2	Sift Limited
KAY2 and SPK	Skinkers Limited
KAY2	Symetrica Limited
KAY2	TeraView Limited
KAY2	UniServity Limited
KAY2 and QVP	Vivacta Limited
KAY2	We7 Limited
KAY2 and QVP	Workshare Limited

With effect from 1 January 2011, the Company will be investing in companies in which other funds managed by Albion Ventures LLP have also invested. At the date these accounts were signed no such investments have yet been made.

## 22 Post balance sheet events

Since the year end, the Company has had the following post balance sheet events all being additional investments in:

- Perpetuum Limited of £161,000 in February 2011; and
- Vivacta Limited of £181,000 in March 2011.

## 23 Related party disclosures

During the year to 31 December 2010, the previous Manager, SPARK Venture Management Limited, was considered to be a related party. Andrew Carruthers, who was a Director of the Company, is also a director of the previous manager who was party to an Investment Management Agreement as disclosed in note 4 of this Report. During the year, services of a total value of £412,000 (2009: £549,000) were purchased by the Company from SPARK Venture Management Limited.

As at 31 December 2010, an amount of £6,000 is reflected in prepayments, due from SPARK Venture Management Limited.

SPARK Investors Limited, (a fellow subsidiary of SPARK Venture Management Limited) was, from time to time, eligible to receive transaction fees and Directors' fees from investee companies. During the year ended 31 December 2010, fees of £40,000 attributable to the investments of the Company were received pursuant to these arrangements (2009: £26,000).

With effect from 1 January 2011, the Manager, Albion Ventures LLP, is considered to be a related party by virtue of the fact that Patrick Reeve, a Director of the Company, is also Managing Partner of the Manager. The Manager is party to an Investment Management agreement from the Company as disclosed in note 4 of this Report. Albion Ventures LLP is, from time to time, eligible to receive transaction fees and Directors' fees from investee companies.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Kings Arms Yard VCT PLC (the "Company") will be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS on 16 May 2011 at 2 pm for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 8 will be proposed as ordinary resolutions and numbers 9 to 12 as special resolutions.

## Ordinary Business

1. To receive and adopt the Company's Annual Report and Accounts for the year ended 31 December 2010 together with the report of the Directors and Auditors.
2. To approve the Directors' remuneration report for the year ended 31 December 2010.
3. To approve a final dividend of 0.67p per share in respect of the year ended 31 December 2010.
4. To elect Mr Patrick Reeve as a Director of the Company.
5. To elect Mr Martin Fiennes as a Director of the Company.
6. To re-appoint Grant Thornton UK LLP as Auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which the accounts are to be laid.
7. To authorise the Directors to agree the Auditors' remuneration.

## Special Business

### 8. Authority to allot shares

That the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to allot Ordinary shares of nominal value 5 pence per share in the Company 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.

### 9. Authority for the disapplication of pre-emption rights

That, subject to and conditional on the passing of resolution number 8, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution number 8 as if section 561(1) of the Act 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" means 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.

This power applies in relation to a sale of treasury shares which is an allotment of equity securities by virtue of section 560(2)(b) of the Act as if in the first paragraph of the resolution the words "pursuant to the authority conferred by resolution number 8" were omitted in relation to such a sale.

# Notice of Annual General Meeting (continued)

## 10. Authority to purchase own shares

That, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares of 5 pence each in the capital of the Company ("Ordinary 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 the Act, provided that:

- (a) the maximum number of shares hereby authorised to be purchased is 14.99 per cent. of the issued Ordinary 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 hereby 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 hereby 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 this special resolution number 10 is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

## 11. Authority to sell treasury shares

That the Directors be empowered to sell treasury shares at the higher of the prevailing current share price and the price bought in at.

## 12. Notice of general meetings

That a general meeting of the Company other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the Board

### Albion Ventures LLP

Company Secretary

Registered office

1 King's Arms Yard  
London, EC2R 7AF

19 April 2011

Registered in England and Wales with number 3139019

# Notice of Annual General Meeting (continued)

## Notes

1. Members entitled to attend, speak and vote at the Annual General Meeting ("AGM") may appoint a proxy or proxies (who need not be a member of the Company) to exercise these rights in their place at the meeting. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. Proxies may only be appointed by completing and returning the Form of Proxy enclosed with this Notice to Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU.

Return of the Form of Proxy will not preclude a member from attending the meeting and voting in person. A member may not use any electronic address provided in the Notice of this meeting to communicate with the Company for any purposes other than those expressly stated.

To be effective the Form of Proxy must be completed in accordance with the instructions and received by the Registrars of the Company by 2 pm on 14 May 2011.

In accordance with good governance practice, the Company is offering shareholders use of an online service, offered by the Company's registrar, Capita Registrars, at [www.capitashareportal.com](http://www.capitashareportal.com). Shareholders can use this service to vote or appoint a proxy online. The same voting deadline of 2 pm on 14 May 2011 applies as if you were using your Personalised Voting Form to vote or appoint a proxy by post to vote for you. Shareholders will need to use the unique personal identification Investor Code that is printed in their Form of Proxy. Shareholders should not show this information to anyone unless they wish to give proxy instructions on their behalf.

2. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 ('the Act') to enjoy information rights (a "Nominated Person") may, under an agreement between him or her and the member by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of rights of members in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by members of the Company.
3. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 2 pm on 14 May 2011 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
5. Copies of contracts of service and letters of appointment between the Directors and the Company will be available for inspection at the Registered Office of the Company during normal business hours from the date of this Notice until the conclusion of the meeting, and at the place of the meeting for at least 15 minutes prior to the meeting until its conclusion. In addition, a copy of the Articles of Association will be available for inspection at the Company's registered office from the date of this Notice until the conclusion of the meeting, and at the place of the meeting for at least 15 minutes prior to the meeting until its conclusion.
6. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid in accordance with section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.
7. A copy of this Notice, and other information regarding the meeting, as required by section 311A of the Act, is available from [www.albion-ventures.co.uk](http://www.albion-ventures.co.uk), Our Funds, Kings Arms Yard VCT PLC.
8. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
9. As at 19 April 2011 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital comprises 110,370,135 Ordinary shares. Therefore, the total voting rights in the Company as at 19 April 2011 are 110,370,135.

# Explanation of proposed resolutions

## **Authority to allot shares (Resolution 8 – ordinary resolution)**

This resolution proposes to renew the Directors' authority to allot additional shares of the Company up to an aggregate nominal amount of £551,850, which represents approximately 10 per cent. of the issued ordinary share capital of the Company. The Directors have no present intention to exercise this authority with the exception of the divided reinvestment scheme.

## **Authority for the disapplication of pre-emption rights (Resolution 9 – special resolution)**

This resolution proposes to renew the Directors' authority to allot equity securities for cash up to an aggregate nominal amount of £551,850 (being 10 per cent. of the Company's current issued share capital) without first being required to offer such securities to existing shareholders. This will include the sale on a non pre-emptive basis of any shares the Company holds in treasury for cash. The Directors consider that it may in certain circumstances be in the best interests of the Company to allot shares for cash otherwise than pro rata to existing shareholders.

## **Authority to purchase own shares (Resolution 10 – special resolution)**

This resolution proposes to renew the existing power of the Company to purchase its own shares up to a maximum number of 14.99 per cent. of the total number of shares currently in issue at or between the minimum and maximum prices specified in resolution 10.

The Board considers that it may, in certain circumstances, be advantageous for the Company to be able to purchase its own shares; occasional market purchases by the Company of its own shares can enhance the net asset value per share for the Company's remaining shareholders, and the power will be exercised only if, in the opinion of the Board, a purchase by the Company of its own shares would be in the interests of the Company's shareholders and would enhance the Company's net assets per share.

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, in time the Board intends to implement the share buy-back policy practised by the other Albion Ventures LLP managed VCTs once the effects of the new investment policy have begun to show.

No shares were bought back by the Company in the year ended 31 December 2010.

Shares that are bought back under this authority may be cancelled and up to 10 per cent. of shares in issue can be held in treasury.

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 these resolutions is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

Resolutions numbered 8 to 10 replace the authorities given to the Directors at the Annual General Meeting on 7 May 2010.

## **Treasury shares (Resolution 11 – special resolution)**

The resolution proposes to permit Directors to sell treasury shares at the higher of the prevailing current share price and the price bought in at.

The above authorities sought at the Annual General Meeting will expire 18 months from the date these resolutions are passed or at the conclusion of the next Annual General Meeting of the Company, whichever is the earlier.

## **Notice of general meeting (Resolution 12 – special resolution)**

This resolution seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the Articles of Association of the Company and the Companies Act 2006. However, pursuant to The Companies (Shareholders' Rights) Regulations 2009, specific shareholder approval is required annually in order to retain this ability. The Directors believe that there may be circumstances in which it will be important for the Company to be able to call meetings at such short notice. Accordingly, the Directors believe that it is important for the Company to retain this flexibility.

The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

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Kings Arms Yard VCT PLC (formerly SPARK VCT plc)

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