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Notes

1. Unless instructed otherwise, we will automatically produce a new level of blacklining and sequentially change the proof number at each stage.
2. If a proof is submitted and further corrections are then received on the same day, it is important that you clearly define your blacklining requirements whether you want us to add to the latest level or produce a new level.
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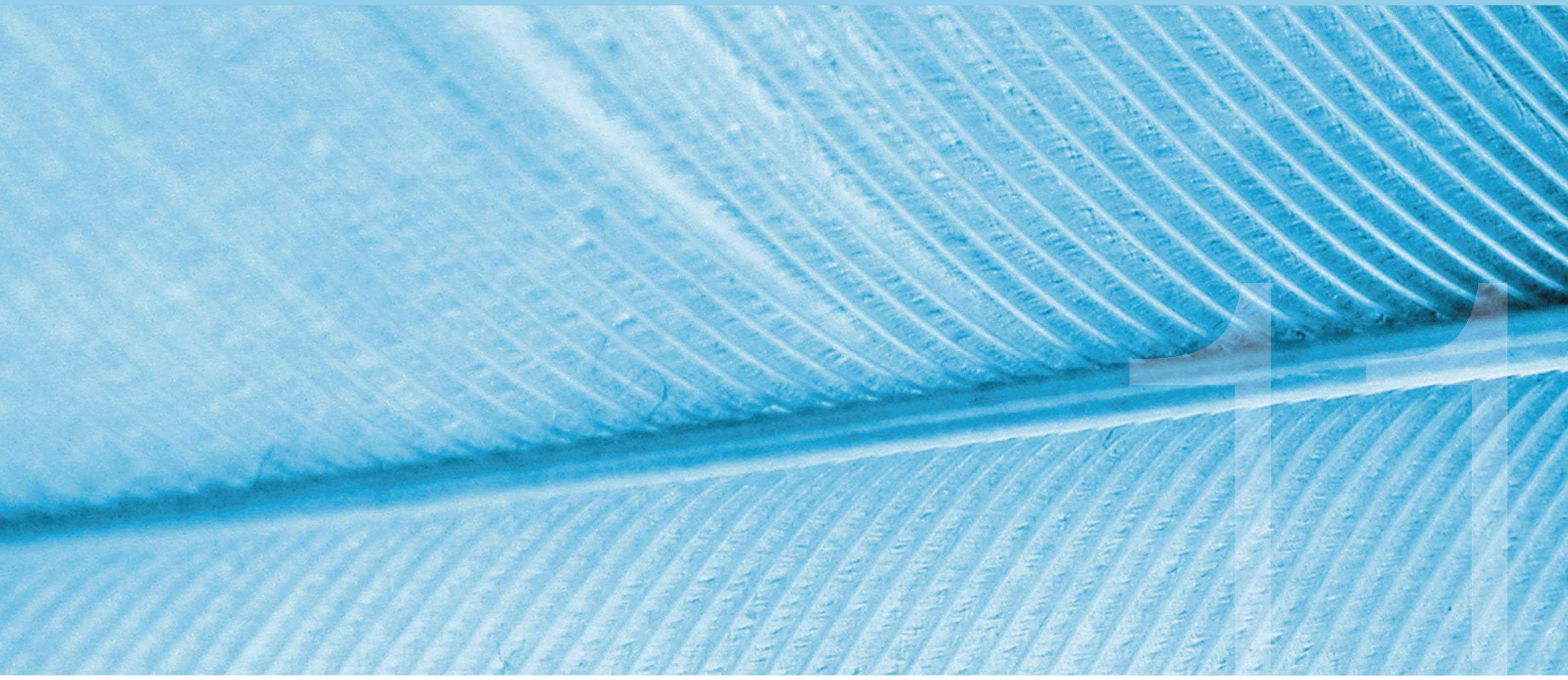
Proof No.	Blackline level	Date
1	0	03.04.2012
2	1	05.04.2012
3	2	10.04.2012
4	3	12.04.2012
5	4	13.04.2012
5	4	16.04.2012

Proof No.	Blackline level	Date

Job No.	224845
Proof No.	5
Date	16.04.2012

Clean Proof

Annual Report and Financial Statements for the year ended 31 December 2011



Kings Arms Yard VCT PLC

ALBION VENTURES

Contents

Company information

Company number	03139019
Directors	R A Field, Chairman T W Chambers M G Fiennes A P M Lamb
Manager, company secretary and registered office	Albion Ventures LLP 1 King's Arms Yard London EC2R 7AF Tel: 020 7601 1850 Fax: 020 7601 1875 Website: www.albion-ventures.co.uk
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ
Auditor and taxation adviser	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Legal adviser	Travers Smith LLP 10 Snow Hill London EC1A 2AL

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

Shareholder information	For help relating to dividend payments, shareholdings and share certificates please contact Computershare Investor Services PLC: Tel: 0870 873 5858 (UK National Rate call, lines are open 8.30am – 5.30pm; Mon – Fri; calls may be recorded) Website: www.computershare.co.uk Contact information and frequently asked questions: www-uk.computershare.com/Investor/contactus Shareholders can access holdings and valuation information regarding any of their shares held with Computershare by registering on Computershare's website.
IFA information	For enquiries relating to the performance of the Fund, and for IFA information please contact Albion Ventures LLP (details above) **Please note that these contacts are unable to provide financial or taxation advice.**

Investment objectives

The Company is a Venture Capital Trust. The 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 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.

Acquisition of the assets and liabilities of Kings Arms Yard VCT 2 PLC

On 30 September 2011, the Company acquired the assets and liabilities of Kings Arms Yard VCT 2 PLC ("KAY 2") in exchange for new shares in the Company ("the Merger"). On the same day KAY 2 was placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110 of the Insolvency Act 1986.

All of the assets and liabilities of KAY 2 totalling £16,379,000 were transferred to the Company in exchange for the issue of 99,050,205 new ordinary shares of nominal value 5 pence each in the capital of the Company at a deemed issue price of 16.5349 pence per share. Each KAY 2 shareholder received 1.2806 shares in the Company for each KAY 2 share that they held at the date of the Merger. The total number of shares receivable by each shareholder was rounded down to the nearest whole number of shares.

New share certificates were sent to all shareholders in the Company during October 2011.

Financial calendar

Ex-dividend date for first dividend	25 April 2012
Record date for first dividend	27 April 2012
Annual General Meeting	17 May 2012
Payment date of first dividend	25 May 2012
Announcement of half-yearly results for the six months ended 30 June 2012	August 2012
Payment date of second dividend (subject to Board approval)	November 2012

Financial summary

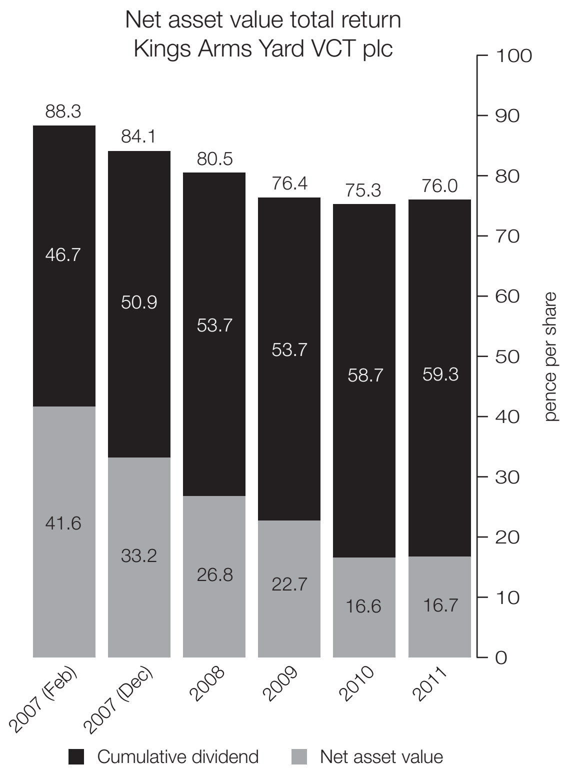
	31 December 2011 (pence per share)	31 December 2010 (pence per share)
Dividends paid during the year	**0.67**	5.00
Revenue return	**0.10**	(0.50)
Capital return/(loss)	**0.70**	(0.60)
Net asset value	**16.70**	16.60

Total shareholder net asset value return for Kings Arms Yard VCT PLC to 31 December 2011:	
Total dividends paid from incorporation to 31 December 2010 (the date Albion Ventures LLP became Manager)	**58.66**
Total dividends paid during the year ended 31 December 2011	**0.67**
Total dividends paid to 31 December 2011	**59.33**
Net asset value as at 31 December 2011	**16.70**
Total shareholder net asset return to 31 December 2011	**76.03**

The above financial summary is for the Company, Kings Arms Yard VCT PLC only. Details of the financial performance of the various Quester, SPARK and Kings Arms Yard VCT 2 PLC companies, which have been merged into the Company, can be found on page 50.

Proposed dividends for the year ended 31 December 2012

The Directors propose a first dividend of 0.5 pence per share for the year ended 31 December 2012, which will be paid on 25 May 2012 to shareholders on the register on 27 April 2012.



The bar chart shows the aggregate of the net aset value and cumulative dividends paid to date for Kings Arms Yard VCT PLC only.

Source: Albion Ventures LLP

Chairman's statement

Introduction

2011 was the first year for the Company under its new management and I am pleased to report that significant progress has already been made in implementing the new investment strategy that was approved by shareholders on 10 February 2011. This process has been enhanced by the benefits of the Merger with Kings Arms Yard VCT 2 PLC. Satisfactory exits have been achieved for two major and longstanding investments, the small quoted portfolio was again reduced and further exits are being actively pursued. Meanwhile new investments have been made in a number of sectors, particularly environmental and healthcare, and these are set out in more detail in the Manager's report.

Results

The overall effect of a very active year has been a net profit after taxation of £1,060,000 compared with a loss of £1,214,000 in the previous year. The net asset value of each Ordinary share rose from 16.6p on 31 December 2010 to 16.7p on 31 December 2011, following the payment of a dividend of 0.67 pence per share during the year.

The total net asset return (the aggregate of dividends paid to date and net asset value per share) has increased to 76.03 pence per share during 2011 (2010: 75.30 pence per share). The pro-forma combined income for the Company and Kings Arms Yard VCT 2 PLC during the year (see Manager's report for details) was £790,000, an increase of 225 per cent. on the previous year, generating a running yield on closing net assets of 2.3 per cent. This income yield is expected to increase further during the year ahead as the Manager invests in higher yield investments.

Further details on the top ten individual investments are given in the Portfolio companies information on page 12.

As a result of the various disposals, cash and liquid investments at the end of the year were £10,734,000, or 31 per cent. of net asset value, giving the Manager a wide scope for the continued implementation of the Company's new investment policy.

VCT qualifying status

On 31 December 2011, 89 per cent. of total investments were in qualifying holdings. The Board continues to monitor this position very carefully in order to ensure that qualifying investments comfortably exceed the minimum threshold of 70 per cent. required for the Company to continue to benefit from VCT tax status.

Dividend

As stated in January 2011, it is the Board's intention to establish a sustainable and progressive dividend policy, combined with the prospect of a gradual recovery in capital value. The Board had intended to maintain in 2012 the dividend of 0.67 pence per share that had been established in 2011, but in view of the strong performance and the availability of cash, the Board has resolved to increase its dividend target to 1 penny per share. Accordingly, a first dividend of 0.5 pence will be paid on 25 May 2012 to shareholders on the register on 27 April 2012, with a second dividend of 0.5 pence anticipated to be paid later in the year.

Acquisition of the assets and liabilities of Kings Arms Yard VCT 2 PLC ("KAY 2")

Following approval by shareholders at the General Meeting on 23 September 2011, the Company completed the acquisition of the assets and liabilities of KAY 2 on 30 September 2011. The Merger created a larger Company, adding net assets of £16,379,000 from KAY 2. The Merger is expected to result in material cost savings of approximately £80,000 per annum going forwards. The ratio used for the conversion of KAY 2 shares to shares in the Company was 1.2806. All shareholders were issued with new share certificates during October 2011. Further details regarding the Merger are shown in note 10 to the financial statements.

Budgeted merger costs were £235,000, of which the Company's share, which has been provided for in these accounts, was £124,000. Final figures for the costs of the Merger are not yet available as the liquidation of KAY 2 has not yet been completed, however, the Board expects that the total costs will be in line with the original estimate.

Board composition

On 3 October 2011, as part of the Merger arrangements, Patrick Reeve, the Managing Partner of Albion Ventures LLP, stepped down from the Board. The Board wishes to express its thanks to Patrick for his contribution during his time as a Director.

The Board is pleased to welcome Thomas Chambers and Alan Lamb, who were directors of Kings Arms Yard VCT 2 PLC and who were appointed Directors of the Company on 3 October 2011. They will be proposed for election at the forthcoming Annual General Meeting. Their biographical details can be found on page 9.

Chairman's statement (continued)

As part of a review of the composition of the Board and Committees following the Merger, Martin Fiennes retired as Audit Committee Chairman and Thomas Chambers was appointed Audit Committee Chairman on 3 October 2011. The Board would like to thank Martin Fiennes for his stewardship of the Audit Committee.

Discount management and share buy-backs

Having completed the Merger and having reviewed the Company's position following the appointment of the new Manager, the Board has decided to reintroduce a policy to buy back shares in the market, subject to the overall constraint that such purchases are in the VCT's interests, including the maintenance of sufficient resources for investment in new and existing investee companies and the continued payment of dividends to shareholders. It is the Board's intention over time for such buy-backs to be in the region of a 10 to 15 per cent. discount to net asset value, so far as market conditions and liquidity permit. It is hoped that this approach, together with the dividend policy, will encourage a more active secondary market in the Company's shares, and thus reduce the discount at which shares trade compared to net asset value.

Cancellation of share capital and reserves

The cancellation of share capital and of various reserves as authorised by shareholders at the General Meeting on 23 September 2011, was completed on 23 November 2011. The Ordinary shares now have a nominal value of 1 penny per share and the distributable reserves were increased by £20,600,000 as a result of this process.

Change of registrar

As part of our commitment to improve services to shareholders, the Company has changed its share registrars to Computershare Investor Services PLC. The Computershare Investor Centre can be found at www.investorcentre.co.uk. Further contact details are shown in the front of these accounts.

Albion Ventures is working with Computershare to further improve shareholder communications, including annual shareholder statements which are due to be sent out in May 2012.

Related party transactions

Details of material related party transactions for the year can be found in note 22.

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 12.30pm on 17 May 2012. 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 20. The 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.

Risks and uncertainties

The outlook for the UK economy continues to be the key risk affecting your Company. Growth in the UK is stagnant while the prospects for Continental Europe look even more difficult. The Company's investment risk is mitigated through a variety of processes, including our policy of ensuring that the Company has a first charge over investee companies' assets wherever possible.

A detailed analysis of the other risks and uncertainties facing the business is shown on page 17.

Outlook and prospects

Despite the difficulties that current conditions present, history has demonstrated that venture capital returns from investments made in periods of low or negative growth tend to exceed those made against an atmosphere of economic optimism. Investment opportunities within our target sectors are currently arising at attractive valuations and the Company's liquidity should allow the Manager to take full advantage of these.

The Board is conscious that no investment strategy is risk free, but believes that the continuance of the investment policy that was adopted in 2011 will, over time, reduce the Company's risk profile and offer the best prospect of a gradual recovery in capital value and a sustainable long term dividend.

Robin Field
Chairman
16 April 2012

Manager's report

Introduction

Albion Ventures took over the management of the former SPARK VCTs on 1 January 2011. Our task was to implement a new investment policy with a view to rebalancing the portfolio, such that approximately 50 per cent. would comprise of investments in asset-backed, lower risk, ungeared businesses, with the balance being in higher growth businesses across a variety of sectors in the UK economy. Behind this restructuring was the intention to support a longer term, sustainable dividend policy, combined with the task of commencing a recovery of capital value.

With this in mind, we have been working on an exit programme for a number of the investments that we inherited, as well as implementing a new investment programme, in order to fulfil the longer term policy objectives.

The first stage was to work on achieving a higher revenue yield from the investment portfolio, including from non-qualifying investments. This has been achieved through keener terms on cash deposits, though not at the price of an increase in risk, whilst merging the two VCTs in order to achieve cost reductions which will start to take effect in the current year. At the same time, we have begun a process of investing in higher yielding qualifying investments in order to provide a further boost to the revenue line.

We set out below a pro-forma statement of total return for the Company and Kings Arms Yard VCT 2 PLC ("KAY 2"). For the year to 31 December 2010, the figures reflect the aggregate of the income statements for the year for the Company and KAY2. For the year to 31 December 2011, the figures are the total of the year for the Company and for the nine months to 30 September 2011 (the date of the Merger) for KAY 2.

As can be seen, there has been a significant increase in the income from the merged VCTs (helped, in part, by a welcome dividend from Elateral Holdings) and at the same time, a decrease in other expenses, which are expected to further decrease in the year ahead.

	KAY and KAY 2 Year ended 31 December 2011 £'000	KAY and KAY 2 Year ended 31 December 2010 £'000
Investment income	**790**	243
Investment management fees (1)	**(778)**	(757)
Other expenses	**(514)**	(619)
Revenue return before tax	**(502)**	(1,133)

(1) Investment management fees in respect of both KAY and KAY 2 were capped for the year to 31 December 2010. No management fee cap was in place for the Company and KAY2 for the year to 31 December 2011.

Investment progress

Two major disposals were made during 2011, the first being the sale of Level Four Software which realised proceeds of £2.0 million, the second being the sale of Imagesound which realised proceeds of £2.2 million. In addition, with regard to quoted companies, we sold the entire holding in Medigene and reduced our holding in Allergy Therapeutics, realising approximately £160,000.

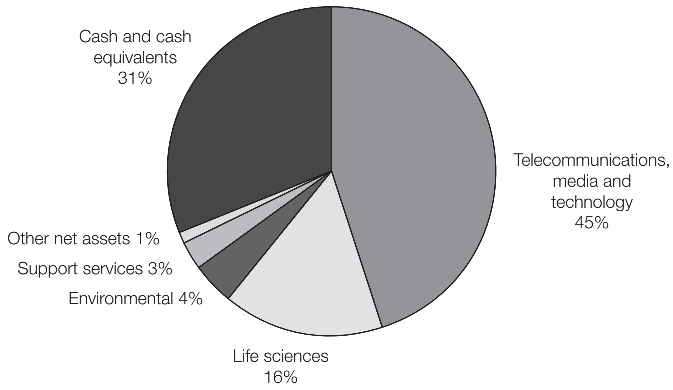
These total proceeds of just over £4.4 million were used to begin the process of repositioning the portfolio. Just under £1 million was invested in five existing investee companies, with a view to supporting further growth, with a further £2.5 million being invested in new companies. Of this latter amount, £110,000, was invested in Abcodia, a life sciences spin-out from University College London, which possesses the rights to a valuable library of five million biomarkers used for pharmaceutical research. £1.2 million was invested in the management buy-out of Hilson Moran, a long established mechanical and engineering consultancy, while £1.2 million was invested in wind and solar renewable energy projects. It is intended that this latter sector, which will also include hydro and anaerobic digestion projects, will ultimately account for up to 15 per cent. of the Company's portfolio.

Manager's report (continued)

Subsequent to the year end, a further £2,357,000 was invested in renewable energy projects, while a further £640,000 was invested to support existing portfolio companies.

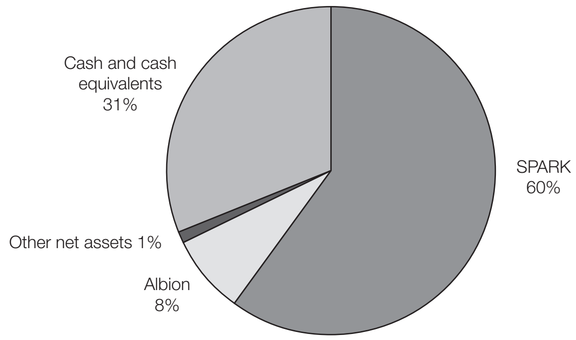
The two pie charts set out below outline firstly the different sectors in which the portfolio is currently invested, and secondly, delineates between those investments comprising the original SPARK portfolio, and those that have been made by Albion Ventures in new portfolio companies.

Split of portfolio valuation by sector as at 31 December 2011



Source: Albion Ventures LLP

Split of existing investments originally made by SPARK and new investments made by Albion Ventures



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 2011) and which comprise nearly 80 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
UniServity Limited	3,860	16.3	2007	£3m – £5m	Earnings multiple
Elateral Holdings Limited	3,817	16.1	1999	£5m – £10m	Revenue multiple
Workshare Limited	2,257	9.5	2006	£20m – £25m	Revenue multiple
Vivacta Limited	1,938	8.2	2006	Pre revenue	Price of recent investment
Cluster Seven Ltd	1,668	7.1	2005	£1m – £3m	Revenue multiple
Oxford Immunotec Limited	1,305	5.5	2003	£5m – £10m	Price of recent investment
Hilson Moran Holdings Limited	1,202	5.1	2011	£10m – £15m	Cost
Haemostatix Limited	920	3.9	2006	Pre revenue	Price of recent investment
Atego Group Limited	868	3.7	1998	£5m – £10m	Price of recent investment
Sift Limited	783	3.3	1999	£5m – £10m	Earnings multiple
	18,618	78.7			

Our main task in the current year is to continue to increase the level of investment income, to work selectively on exits from the existing investment portfolio and to reinvest the proceeds in line with the Company's new investment policy. With these aims in mind, we are confident of making further progress in 2012.

Albion Ventures LLP
Manager
16 April 2012

The Board of Directors

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

Robin Field (60) (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 a number of private companies.

Thomas Chambers (50) (Chairman of the Audit Committee), appointed 3 October 2011, has over ten years operational experience at mobile operating systems provider Symbian Limited (now part of Nokia Oyj) and at ADSL/fixed line phone provider First Telecom plc. Since 2002, Thomas has had a range of industry, venture capital and government, non-executive and advisory roles giving insight into, in particular, the technology and communications sectors. As CFO of Symbian he played a significant leadership role in the creation of the first Smartphones. He was also CFO of Robert Walters plc which he took through its listing on the London Stock Exchange in 1996. He spent six years in corporate finance at Dresdner Kleinwort Benson Limited after a five year career with Price Waterhouse. He is currently Treasurer and a Council member of the University of Surrey, sits on the advisory board of Green Square Partners LLP and is a non-executive director of a number of private companies.

Martin Fiennes (51), appointed 5 April 2011. Martin is a self-employed corporate finance adviser. He trades as Gatehouse Capital, a technology corporate finance business based in Oxford which specialises in fund-raisings and M&A for UK technology companies. Prior to starting Gatehouse Capital, Martin worked for nine years with Top Technology Ventures where he was responsible for making investments in early stage UK technology companies. Martin has wide experience in marketing and management roles, including as an executive director in a start-up in the leisure sector. He 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.

Alan Lamb (62), appointed 3 October 2011, has broad experience as a manager and entrepreneur in technology businesses, from early stage through to being part of a large public company. He founded Flexion Inc. in 1998 to provide new generation communication systems for smaller businesses. Previously, he founded Airtech Computer Security that grew to become a highly profitable group delivering secure electronic payments solutions. Having sold Airtech to Racal Electronics plc in 1994, he was divisional managing director responsible for banking and communications security business in Europe and the USA. In the last ten years he has focused on developing spin-out companies from UK universities as a mentor, chairman and non-executive director. He formed Blaze Photonics which was sold to Crystal Fibre; and Identum which was sold to Trend Micro. He is currently on the board of Promethean Particles Limited, a supplier of specialist nano-particles; and TTE Systems, which provides high-reliability processors and matched development tools to the aerospace and automotive markets.

All of the Directors are non-executive and independent of the Manager, Albion Ventures LLP and are members of the Audit Committee.

Separate Remuneration and Nomination Committees are not considered appropriate and the Board as a whole is responsible for the appointment and remuneration of Directors.

At the Annual General Meeting, Thomas Chambers and Alan Lamb, who were appointed since the last Annual General Meeting, will retire and be subject to election. Robin Field is due to retire from the Board by rotation in accordance with the Company's Articles of Association and Companies Act 2006 and will offer himself for re-election.

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 seven venture capital trusts and currently has total funds under management of approximately £220 million. Albion Ventures LLP was awarded “VCT Manager of the Year” at the “Unquote” British Private Equity Awards 2009, “VCT of the Year” for Albion Development VCT PLC at the 2009 Investor AllStar Awards and “Investor of the Year” at the Independent Healthcare Awards 2011.

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 (51), MA, ACA, 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 Limited, for whom Albion Ventures LLP acts as an investment adviser.

Will Fraser-Allen (41), BA (Hons), ACA, 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 LLP (then Close Ventures Limited) 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 (47), BSc (Hons), ACA, MBA, 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 LLP (then Close Ventures Limited) in 2005, having previously been finance director for a number of unquoted companies. Isabel became Operations Partner at Albion Ventures LLP in 2009. She has a BSc in Biochemistry with Pharmacology from Southampton University and an MBA from London Business School.

Dr Andrew Elder (41), MA, FRCS, joined Albion Ventures LLP (then Close Ventures Limited) 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 (42), BA (Hons), ACA, 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 LLP (then Close Ventures Limited) 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 LLP in 2009.

David Gudgin (39), BSc (Hons), ACMA, 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 LLP (then Close Ventures Limited) in 2005 and became a Partner in Albion Ventures LLP in 2009. David has a BSc in Economics from Warwick University.

Michael Kaplan (35), BA, MBA. Prior to joining Albion Ventures LLP (then Close Ventures Limited) 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 LLP in 2010.

Ed Lascelles (36), BA (Hons), joined Albion Ventures LLP (then Close Ventures Limited) in 2004. Ed began by advising quoted UK companies on IPOs, takeovers and other corporate transactions, first with Charterhouse Securities and then ING Barings. Companies ranged in value from £10 million to £1 billion, across the healthcare and technology sectors among others. After moving to Albion Ventures LLP in 2004, Ed started investing in the technology, healthcare, financial and business services sectors. Ed became a Partner in Albion Ventures LLP in 2009 and is responsible for a number of Albion’s technology investments. Ed graduated from University College London with a first class degree in Philosophy.

Dr Christoph Ruedig (35), MA, MBA, joined Albion Ventures LLP as an Investment Manager in October 2011 and primarily focuses on Albion’s healthcare investments, alongside Andrew Elder. He initially practised as a radiologist, before spending 3 years at Bain & Company. In 2006 he joined 3i plc working for their Healthcare Venture Capital arm leading investments in biotechnology, pharmaceuticals and medical technology. Most recently he has worked for General Electric UK, where he was responsible for mergers and acquisitions in the medical technology and healthcare IT sectors. He holds a degree in medicine from Ludwig-Maximilians University, Munich and an MBA from INSEAD.

Henry Stanford (46), MA, ACA, 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 LLP (then Close Ventures Limited) in 1998. Henry became a Partner in Albion Ventures LLP in 2009. He holds an MA degree in Classics from Oxford University.

Robert Whitby-Smith (37), BA (Hons), MSI, ACA. 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 Albion Ventures LLP (then Close Ventures Limited) 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 Johnston and is responsible for investments in the leisure, manufacturing and technology sectors. Robert became a Partner in Albion Ventures LLP in 2009.

Marco Yu (34), MPhil, MA, MRICS, 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 LLP (then Close Ventures Limited) in 2007 and became an investment manager in Albion Ventures LLP in 2009. Marco graduated from Cambridge University with a first class degree in economics and is a Chartered Surveyor.

Portfolio of investments

	Industry sector	Voting equity % held	Voting equity % held by AVL[1]	Accounting cost[2] £'000	Valuation £'000	% of fund by value	Change in value for year[3] £'000
Unquoted investments							
UniServity Limited	TMT	36.6	36.6	3,510	3,860	11.0	(82)
Elateral Holdings Limited	TMT	31.8	31.8	2,243	3,817	10.9	518
Workshare Limited	TMT	11.3	11.3	2,011	2,257	6.5	324
Vivacta Limited	Life sciences	13.3	13.3	2,060	1,938	5.5	854
Cluster Seven Ltd	TMT	14.8	14.8	2,218	1,668	4.8	53
Oxford Immunotec Limited	Life sciences	4.2	4.2	1,305	1,305	3.7	–
Hilson Moran Holdings Limited	Business services	15.0	50.0	1,200	1,202	3.5	2
Haemostatix Limited	Life sciences	18.9	18.9	1,142	920	2.6	(508)
Atego Group Limited	TMT	11.3	11.3	384	868	2.5	323
Sift Limited	TMT	31.4	31.4	2,911	783	2.2	(82)
Academia Networks Limited	TMT	5.3	5.3	351	669	1.9	318
Regenerco Renewable Energy Limited	Renewable energy	7.9	50.0	515	517	1.5	2
The Street by Street Solar Programme Limited	Renewable energy	8.6	50.0	515	515	1.5	–
Antenova Limited	TMT	12.3	12.3	1,543	496	1.4	(145)
Lab M Holdings Limited	Life sciences	26.4	26.4	690	495	1.4	55
Perpetuum Limited	TMT	12.4	12.4	1,086	448	1.3	(335)
Xention Limited	Life sciences	5.9	5.9	608	424	1.2	(184)
Celoxica Holdings plc	TMT	2.9	2.9	377	377	1.1	–
Alto Prodotto Wind Limited	Renewable energy	7.2	50.0	308	311	0.9	3
Abcodia Limited	Life sciences	6.7	21.4	235	235	0.7	–
We7 Limited	TMT	2.6	2.6	863	160	0.5	(54)
Symetrica Limited	TMT	2.6	2.6	152	152	0.4	(6)
Clear2Pay Limited	TMT	–	–	129	129	0.4	–
Xtera Communications Inc	TMT	1.3	1.3	85	85	0.2	–
Teraview Limited	Life sciences	1.0	1.0	1,197	13	–	(36)
Oxonica PLC	Life sciences	2.1	2.1	198	10	–	(10)
Total unquoted investments				27,836	23,654	67.6	1,010
Quoted investments							
Allergy Therapeutics plc (AIM)	Life sciences			456	125	0.4	–
Celldex Therapeutics Inc (NASDAQ)	Life sciences			636	178	0.5	(10)
Total quoted investments				1,092	303	0.9	(10)
Total investments				28,928	23,957	68.5	1,000
Current asset investment							
Royal Bank of Scotland Group European Commercial Paper 16/06/11 to 14/06/12	Collective bond			1,976	1,976	5.6	
Cash and other net assets				9,065	9,053	25.9	
Net assets				39,969	34,986	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, and those acquired from Kings Arms Yard VCT 2 PLC at the Merger on 30 September 2011, plus any subsequent acquisition costs, as reduced in certain cases by amounts written off as representing an impairment in value.

(3) After adjustment for additions and disposals and merger with Kings Arms Yard VCT 2 PLC on 30 September 2011.

Realisations in the year to 31 December 2011	Cost £'000	Opening carrying value £'000	Disposal proceeds £'000	Realised gain/(loss) £'000	Gain/(loss) on opening or acquired value £'000
Allergy Therapeutics plc (AIM)	407	38	72	(335)	34
Imagesound plc	2,848	1,632	2,193	(655)	561
Level Four Software Limited	2,034	1,321	2,001	(32)	(369)
MediGene AG (Frankfurt)	316	83	88	(228)	5
Oxonica PLC (repayment of capital)	10	–	10	–	10
Westchester Holdings Limited (formerly Boxman.com plc)	–	–	104	104	104
Other disposals	2,178	66	8	(2,190)	(75)
	7,793	**3,140**	**4,476**	**(3,336)**	**270**

Portfolio companies

The top ten fixed asset investments by aggregate value of equity and loan stock are as shown below.

For the purposes of the valuation process, the latest portfolio company financial information is used. The accounting information disclosed below is the latest as filed at Companies House.

UniServity Limited

Learning platform solution provider for schools and local authorities.

Website: www.uniservity.com

Audited results for year ended	31 July 2011	Investment information:	
	£'000		£'000
Turnover	3,332	Income recognised in the year	–
Profit before tax	669	Accounting cost	3,510
Profit after tax	453	Valuation	3,860
(Net liabilities)	(430)	Voting equity held	36.6%
		Basis of valuation	Earnings multiple

Elateral Holdings Limited

Development and sale of brand marketing automation software.

Website: www.elateral.com

Audited results for year ended	31 March 2011	Investment information:	
	£'000		£'000
Turnover	6,210	Income recognised in the year	359
Profit before tax	873	Accounting cost	2,243
Profit after tax	699	Valuation	3,817
Net assets	1,189	Voting equity held	31.8%
		Basis of valuation	Revenue multiple

Workshare Limited

Development, marketing, selling and supporting document comparison and collaboration software, providing risk management and security.

Website: www.workshare.com

Audited results for year ended	31 March 2011	Investment information:	
	$'000		£'000
Turnover	20,559	Income recognised in the year	–
Profit before tax	1,324	Accounting cost	2,011
Profit after tax	1,303	Valuation	2,257
(Net liabilities)	(1,878)	Voting equity held	11.3%
		Basis of valuation	Revenue multiple

Vivacta Limited

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.

Website: www.vivacta.com

Audited results for year ended	31 July 2011	Investment information:	
	£'000		£'000
Turnover	621	Income recognised in the year	–
(Loss) before tax	(3,393)	Accounting cost	2,060
(Loss) after tax	(2,956)	Valuation	1,938
Net assets	2,174	Voting equity held	13.3%
		Basis of valuation	Price of recent investment

Cluster Seven Ltd

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

Website: www.clusterseven.com

Audited results for year ended	31 December 2010	Investment information:	
	£'000		£'000
Turnover	1,664	Income recognised in the year	–
(Loss) before tax	(308)	Accounting cost	2,218
(Loss) after tax	(185)	Valuation	1,668
(Net liabilities)	(3,455)	Voting equity held	14.8%
		Basis of valuation	Revenue multiple

Portfolio companies (continued)

Oxford Immunotec Limited

Development and sale of T-cell measurement diagnostic products.

Website: www.oxfordimmunotec.com

Audited results for year ended	31 December 2010	Investment information:	
	£'000		£'000
Turnover	5,923	Income recognised in the year	–
(Loss) before tax	(7,454)	Accounting cost	1,305
(Loss) after tax	(7,354)	Valuation	1,305
Net assets	5,657	Voting equity held	4.2%
		Basis of valuation	Price of recent investment

Hilson Moran Holdings Limited

Multi-disciplinary engineering consultancy.

Website: www.hilsonmoran.com

Audited results for year ended	31 December 2010	Investment information:	
	£'000		£'000
Turnover	14,326	Income recognised in the year	–
(Loss) before tax	(1,516)	Accounting cost	1,200
(Loss) after tax	(1,516)	Valuation	1,202
Net assets	3,953	Voting equity held	15.0%
		Basis of valuation	Cost

Haemostatix Limited

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

Website: www.haemostatix.com

Abbreviated audited results for year ended	31 March 2011	Investment information:	
	£'000		£'000
(Net liabilities)	(3,870)	Income recognised in the year	–
		Accounting cost	1,142
		Valuation	920
		Voting equity held	18.9%
		Basis of valuation	Price of recent investment

Atego Group Limited

Mission and safety critical software for automotive, aerospace and defence sectors.

Website: www.atego.com

Audited results for the period 19 November 2009 to	31 December 2010	Investment information:	
	£'000		£'000
Turnover	8,314	Income recognised in the year	–
(Loss) before tax	(1,318)	Accounting cost	384
(Loss) after tax	(779)	Valuation	868
Net assets	2,167	Voting equity held	11.3%
		Basis of valuation	Price of recent investment

Sift Limited

Web based provision of online business and community management solutions.

Website: www.sift.com

Audited results for year ended	31 December 2010	Investment information:	
	£'000		£'000
Turnover	7,326	Income recognised in the year	7
(Loss) before tax	(769)	Accounting cost	2,911
(Loss) after tax	(803)	Valuation	783
Net assets	361	Voting equity held	31.4%
		Basis of valuation	Earnings multiple

Directors' report and business review (continued)

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 2011.

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 439 of the Corporation Tax Act 2010.

The Company's ordinary shares of 1 penny 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 25 and forms part of this Report.

Acquisition of the assets and liabilities of Kings Arms Yard VCT 2 PLC ("the Merger")

On 30 September 2011, the Company acquired the assets and liabilities of Kings Arms Yard VCT 2 PLC ("KAY 2") in exchange for new shares in the Company ("the Merger"). On the same day KAY 2 was placed into members' voluntary liquidation pursuant to a scheme of reconstruction under Section 110 of the Insolvency Act 1986.

All the assets and liabilities of KAY 2 totalling £16,379,000 were transferred to the Company in exchange for the issue of 99,050,205 new ordinary shares of 5 pence each in the capital of the Company at a deemed issue price of 16.5349 pence per share. Each KAY 2 shareholder received approximately 1.2806 shares in the Company) for each KAY 2 share that they held at the date of the Merger. The total number of shares receivable by each shareholder was rounded down to the nearest whole number of shares.

New share certificates were sent to all shareholders in the Company during October 2011.

Cancellation of share capital and reserves

The cancellation of share capital and of various reserves as authorised by shareholders at the General Meeting on 23 September 2011 was completed on 23 November 2011. The Ordinary shares now have a nominal value of 1 penny per share and the distributable reserves were increased by £20,600,000 as a result of this process.

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 dividends and each share carries one vote. 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.

The Company currently operates a Dividend Reinvestment Scheme, details of which can be found on www.albion-ventures.co.uk under the 'Our Funds' section. During the year, the Company issued 47,257 new Ordinary shares under the Dividend Reinvestment Scheme, details of which can be found in note 15.

Substantial interests and shareholder profile

As at 31 December 2011 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 2011, and up to the date of this Report.

The table below shows the shareholder profile, including nominee accounts, as at 31 March 2012 for the Company's Ordinary shares of 1 penny:

Number of shares held	% shareholders	% share capital
1 – 10,000	41.1	7.6
10,001 – 50,000	46.5	33.8
50,001 – 100,000	8.2	18.7
100,001 – 500,000	3.8	19.6
500,001 – 1,000,000	0.2	4.5
1,000,001 – 5,000,000	0.2	15.8

Investment policy

The Company is a Venture Capital Trust. The 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.

Directors' report and business review (continued)

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.

Venture capital trust status

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 HMRC 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. The tests have been carried out and independently reviewed for the year ended 31 December 2011. The Company has complied with all tests and continues to do so.

'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.

Portfolio company gross assets must not exceed £15 million immediately prior to the investment and £16 million immediately thereafter and there is an annual investment limit of £1 million in each portfolio company.

The Company will co-invest with the other seven 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, being £33,938,000 (2010: £17,543,000). Gearing will not normally be employed. As at 31 December 2011, the Company had no borrowings (2010: £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 11 to 13.

Review of business and future changes

A detailed review of the Company's business during the year and future prospects is contained in the Chairman's statement on pages 5 and 6 and Manager's report on pages 7

Directors' report and business review (continued)

and 8. Details of significant events which have occurred since the end of the financial year are listed in note 21. Details of related party transactions are shown in note 22.

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.

Operational arrangements
The Company has delegated the investment management of the portfolio to Albion Ventures LLP, which is authorised and regulated by the Financial Services Authority. Albion Ventures LLP also provides company secretarial and other accounting and administrative support to the Company. Further details regarding the terms of engagement of the Manager are shown on page 19.

Results and dividends

	£'000
Net revenue return for the year ended 31 December 2011	125
Revenue dividend of 0.67 pence per share paid on 24 June 2011	(739)
Unclaimed dividends returned to the Company	120
Transfer from special reserve to pay the dividend for the year ended 31 December 2011	739
Transferred to profit and loss account	245
Net capital gain for the year ended 31 December 2011	935
Transferred to profit and loss account and investment holding reserves	935
Net assets as at 31 December 2011	**34,986**
Net asset value per share as at 31 December 2011	**16.70**

The Company paid a dividend of 0.67 pence per share during the year ended 31 December 2011 (2010: 5.00 pence per share). The Directors have declared a first dividend of 0.5 pence per share for the year ended 31 December 2012, which will be paid on 25 May 2012 to shareholders on the register on 27 April 2012.

As shown in the Income statement on page 29 of the Financial Statements, investment income has increased to £522,000 (2010: £132,000), mainly due to the receipt of a dividend of £359,000 from a portfolio company. The revenue return to equity holders has risen to £125,000 (2010: loss £581,000) due to the dividend noted above and 75 per cent. of the management fee being reclassified as a capital expense in accordance with a revised policy adopted by the Board.

The capital return for the year was £935,000 (2010: loss £633,000) as a result of an increase in valuations and realised gains, offset by the capitalisation of management fees noted above.

The total return per share was 0.80 pence per share (2010: negative 1.10 pence per share).

The Balance sheet on page 30 of the Financial Statements shows that the net asset value per share has increased over the last year to 16.70 pence per share (2010: 16.60 pence per share) which is due to the profit for the year as noted above less the dividend paid during the year.

The cash flow for the business has been positive for the year due to net proceeds from the sale of investments and cash received from Kings Arms Yard VCT 2 PLC, offset by the purchase of current asset investments and the payment of a dividend.

Key performance indicators
The Directors believe that the following key performance indicators are the most important for the business.

The bar chart on page 4 shows the shareholder net asset value return for the past five years.

The Company's gross income yield on closing net assets was 1.5 per cent. (2010: 0.7 per cent.) and the gross income yield taking into account income earned by the Company and Kings Arms Yard VCT 2 PLC was 2.3 per cent. (see Manager's report on page 8).

The total expense ratio ("TER") for the year to 31 December 2011 was 2.9 per cent (2010: 3.0 per cent). This TER excludes the costs of issue of shares which have been accounted through against the share premium account (before its cancellation).

The Company continues to comply with HMRC rules in order to maintain its status under Venture Capital Trust legislation as highlighted on page 15.

Share buy-backs
The Company now operates a policy of buying back shares either for cancellation or for holding in treasury. Details regarding the current policy can be found on page 6 of the Chairman's statement.

Principal risks and uncertainties

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

1. *Economic risk*

   Changes in economic conditions, including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and other factors could substantially and adversely affect the Company's prospects in a number of ways.

   To reduce this risk, in addition to investing in equity in portfolio companies, the Company often invests in secured loan stock and has a policy of not permitting any external bank borrowings within portfolio companies. Additionally, the Manager selects the sector exposure of the portfolio with a view to limiting reliance on consumer led sectors.

2. *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, and takes into account, 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 portfolio company boards) and the Board receives detailed reports on each investment as part of the Manager's report at quarterly Board meetings. For new investments it is the policy of the Company for portfolio companies to not normally have external borrowings.

3. *Valuation risk*

   The Company's investment valuation method is reliant on the accuracy and completeness of information that is issued by portfolio companies. In particular, the Directors may not be aware of or take into account certain events or circumstances which occur after the information issued by such companies is reported.

   As described in note 11 of the Financial Statements, the unquoted equity investments, loan stock and debt issued at a discount held by the Company are valued at fair value through profit or loss in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The 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.

4. *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.

   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.

5. *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 Auditor, lawyers and other professional bodies.

6. *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 meets with the Manager's Internal Auditor, Littlejohn LLP, when required, and receives a report regarding the last formal internal audit performed on the Manager, and providing opportunity for the Audit Committee to ask specific and detailed questions. The Audit Committee Chairman has met with the internal audit partner of Littlejohn LLP to discuss the most recent Internal Audit Report on the Manager. 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.

7. *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 Management agreement for the change of Manager under certain circumstances (for further detail, see below). In addition, the Manager has demonstrated to the Board that there is no undue reliance placed upon any one individual within Albion Ventures LLP.

8. *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.

Most of the Company's income and expenditure is denominated in sterling. There is one foreign currency quoted portfolio investment whose value at 31 December 2011 was £178,000 (2010: £140,000). It is therefore unlikely that the Company would be significantly affected by currency fluctuations.

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.

Employees

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

Directors

The Directors who held office at the year end, and their interests in the issued shares of 1 penny each of the Company (together with those of their immediate family) at 31 December 2011, are shown below:

	31 December 2011	31 December 2010
R A Field (Chairman)	**208,993**	48,993
M G Fiennes (appointed 5 April 2011)	**83,300**	–
T W Chambers (appointed 3 October 2011)	**333,781**	–
A P M Lamb (appointed 3 October 2011)	**118,796**	–
	744,870	48,993

There have been no changes in the holdings of the Directors between 31 December 2011 and the date of this Report.

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

Directors' report and business review (continued)

Partners and staff of Albion Ventures LLP hold 208,027 shares in the Company.

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.

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.

Insurance

As provided for in the Company's Articles of Association, the Company continues to maintain Directors' and Officers' liability insurance.

Management agreement

The Company and SPARK Venture Management Limited entered into a Termination Agreement on 8 December 2010, under which the Company 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. This management fee has been 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. Under this agreement Albion Ventures LLP provides investment management, company secretarial and administrative services to the Company. Albion Ventures LLP 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.

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, for accounting periods commencing after 31 December 2011.

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 portfolio 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.

Performance incentive fee

The Company has agreed with Albion Ventures LLP that no performance or incentive fee will be payable to Albion Ventures LLP for any periods prior to 31 December 2012 and thereafter the Board intends to discuss an appropriate incentive arrangement with Albion Ventures LLP which will be subject to approval by shareholders. Accordingly, no performance incentive payments were paid or fall due for the year ended 31 December 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 2011, trade creditors totalled £27,000 (2010: £5,000). Creditor days as at 31 December 2011, were 14 days (2010: 2 days).

Evaluation of the Manager

The Board has evaluated the performance of the Manager based on the delivery of the Merger with Kings Arms Yard VCT 2 PLC, the returns generated by the Company from the sale of existing investments, the continuing achievement of the 70 per cent. investment requirement for Venture Capital Trust status, the writing of new investments, the long term prospects of current investments, a review of the Management agreement and the services provided therein, and benchmarking 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 the Manager for the forthcoming year.

Directors' report and business review (continued)

Auditor

The Audit Committee annually reviews and evaluates the standard and quality of service provided by the Auditor, Grant Thornton UK LLP, as well as value for money in the provision of these services.

Grant Thornton UK LLP have indicated their willingness to continue as Auditor to the Company and a resolution to re-appoint Grant Thornton UK LLP as Auditor will be proposed at the Annual General Meeting on 17 May 2012.

Annual General Meeting

The Annual General Meeting will be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS at 12.30 pm on 17 May 2012. 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 within the 'Our Funds' section by clicking on Kings Arms Yard VCT PLC.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting for which shareholder approval is required in order to comply either with the Companies Act 2006 or the Listing Rules of the Financial Services Authority.

Authority to allot shares (Resolution 8)

This ordinary resolution proposes to renew the Directors' authority to allot additional shares of the Company up to an aggregate nominal amount of £209,467, which represents approximately 10 per cent. of the issued share capital of the Company. The Directors have no present intention to exercise this authority with the exception of the Dividend Reinvestment Scheme.

Authority for the disapplication of pre-emption rights (Resolution 9)

This special resolution proposes to renew the Directors' authority to allot equity securities for cash up to an aggregate nominal amount of £209,467 (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 enable the Company to operate its Dividend Reinvestment Scheme and also includes 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)

This special 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 asset value per share.

No shares were bought back by the Company in the year ended 31 December 2011.

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 s724-732 of the Companies Act 2006, 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.

Treasury shares (Resolution 11)

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

Resolutions numbered 8 to 11 replace the authorities given to the Directors at the Annual General Meeting on 16 May 2011 and 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.

Recommendation

Your Board believes that the passing of the resolutions proposed at the Annual General Meeting are 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' responsibilities
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 accounting 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, to 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). 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, which have been prepared in accordance with applicable UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Management report included within the Chairman's statement, Manager's report and Directors' report and 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 9.

Disclosure of information to the Auditor
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 Auditor is 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 Auditor is 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
16 April 2012

Statement of corporate governance

This Statement of corporate governance, which is required by DTR 7.2, forms part of the Director's report and business review.

Background

The Financial Services Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council ("FRC") in May 2010 ("the Code").

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 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 Code.

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 is the Chairman. All the Directors of the Company are considered independent Directors. 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 need to appoint 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 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 and 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. In accordance with the Articles of Association, Mr Robin Field will resign and offer himself for re-election. Mr Thomas Chambers and Mr Alan Lamb, having been appointed since the last Annual General Meeting, will retire and offer themselves for election.

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 five times during 2011 as part of its regular programme of Board meetings. All Directors attended all meetings. The Board also met to discuss the new investment policy, together with the change of name and to discuss and approve the Merger with Kings Arms Yard VCT 2 PLC. A sub-committee of two Directors met to allot shares under the Dividend Reinvestment Scheme.

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.

Statement of corporate governance (continued)

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 the portfolio valuations;
- consideration of corporate strategy;
- application of the principles of the Code, corporate governance and internal control;
- review of sub-committee recommendations, including the recommendation to shareholders for the appointment and remuneration of auditors;
- recommendation of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of 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:

- 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, Robin Field, Thomas Chambers and Alan Lamb, all of whom are subject to re-election or election at the forthcoming Annual General Meeting, are considered to be effective and demonstrate strong commitment to the role. 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 the Code provisions are not considered 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 all Directors. Mr Thomas Chambers is the Chairman of the Audit Committee. In accordance with the Code, at least one member of the Audit Committee has recent and relevant financial experience. The Audit Committee met twice during the year ended 31 December 2011; all members attended.

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

- providing an overview of the Company's accounting policies and financial reporting;
- considering and reviewing the effectiveness of the Company's internal controls and risk management systems;
- monitoring the integrity of the Annual Report and Financial Statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- meeting the Company's external Auditor annually, approving their appointment, re-appointment, remuneration, terms of engagement and providing an ongoing review of the Auditor independence and objectivity and monitoring the effectiveness of the audit process;
- developing and implementing a policy for the supply of non-audit services by the external Auditor;
- meeting the external Auditor at least once a year without the presence of the Manager;
- meeting with the internal Auditor of the Manager when appropriate;
- ensuring that all Directors of the Company and staff of the Manager feel able to raise issues of serious concern with the Chairman of the Audit Committee, and that these issues, where raised, are subject to proportionate and independent investigation, and appropriate action;
- reporting to the Board, identifying any matters in respect of which action or improvement is needed and recommending appropriate steps to be taken; and

- undertaking the duties of the Engagement Committee, and reviewing the performance of the Manager and all matters arising under the Management Agreement.

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 Auditor and reviewing the audit findings; and
- reviewing the performance of the Manager and making recommendations regarding their re-appointment to the Board.

Since the year end, the Chairman of the Audit Committee has met with the Partner in charge of Albion Ventures LLP's internal audit at Littlejohn LLP.

The Committee reviews the performance and continued suitability of the Company's external Auditor on an annual basis. They assess the external Auditor's 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 Auditor 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 Auditor. Note 5 details the total fees paid to Grant Thornton UK LLP in the financial year to 31 December 2011. 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 re-appointed and that a resolution to this effect be proposed at the Annual General Meeting.

Internal control and risk management

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 published in September 1999 and updated in 2005 (the "Turnbull guidance"). The Board is responsible for the Company's system of risk management and 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 mis-statement 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 and risk management 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 are carried out by the Managing Partner and reviews of financial reports are carried out by the Operations Partner of Albion Ventures LLP;
- 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.

The Board has 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 report formally to the Board on

Statement of corporate governance (continued)

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 the Financial Reporting Council, the Board has assessed the Company's operation as a going concern. The Company has adequate 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 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 14 and 20 of the Directors' report and business review. 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 17 May 2012 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.

The Annual General Meeting will also include a presentation from the Manager on the portfolio and on the Company, and a presentation from a portfolio company.

Shareholders are able to access the latest information on the Company via the Albion Ventures LLP website 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 Computershare Investor Services PLC:

Tel: 0870 873 5858
(UK National Rate call, lines are open 8.30 am – 5.30 pm; Mon – Fri, calls may be recorded)
Website: www.computershare.co.uk

Specific enquiries relating to the performance of the Fund and for IFA information, please contact Albion Ventures LLP:

Tel: 020 7601 1850
(lines are open 9.00 am – 5.30 pm; Mon – Fri, calls may be recorded)
Email: 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 2011 with all the relevant provisions set out in Section 1 of the Code and with the AIC Code of Corporate Governance. 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
16 April 2012

Directors' remuneration report

Introduction
This report is submitted in accordance with Section 420 of the Companies Act 2006 ('the Act'). 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. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

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 28.

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 per annum 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 £49,000 (2010: £45,000) as set out below and in note 6 to the Financial Statements.

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.

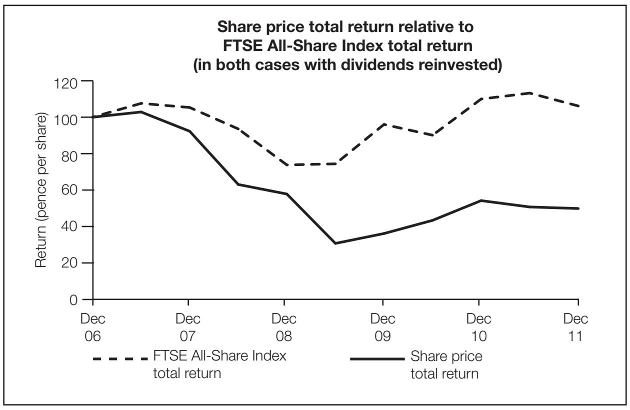
Mr Martin Fiennes was appointed a Director on 5 April 2011 and on 3 October 2011, as part of the Merger arrangements, Mr Thomas Chambers and Mr Alan Lamb, who were directors of Kings Arms Yard VCT 2 PLC, were appointed Directors of the Company.

Mr Andrew Carruthers and Mr David Adams retired from the Board on 1 January 2011 and 19 April 2011 respectively. Mr Patrick Reeve also retired from the Board on 3 October 2011 as part of the Merger arrangements.

At the Annual General Meeting to be held on 17 May 2012, Thomas Chambers and Alan Lamb, who were appointed on 3 October 2011 will retire from the Board and be subject to election. Robin Field will also retire by rotation and be subject to re-election.

Performance
The Directors consider that total return (defined as the net asset value per share of the Company plus cumulative dividends paid) to 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 76.03p per share, which is shown on page 4, can be compared against the issue price of 105p per share at the date of launch of the fund.

The graph below shows the Company's share price total return against the FTSE All-Share Index total return, in both cases, with dividends reinvested, since 2006. 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 items have been audited.

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

	Year ended 31 December 2011	Year ended 31 December 2010
R A Field (Chairman)	**22,500**	22,500
T W Chambers (appointed 3 October 2011)(1)	**4,375**	–
M G Fiennes (appointed 5 April 2011)(1)	**12,320**	–
A P M Lamb (appointed 3 October 2011)	**3,750**	–
D Y Adams (retired 19 April 2011)(1)	**5,810**	16,621
P H Reeve (retired 3 October 2011)(2)	**–**	–
G K Lockwood (retired 7 May 2010)	**–**	6,154
A B Carruthers (retired 31 December 2010)(2)	**–**	–
	48,755	45,275

(1) Amounts of £625, £1,250 and £625 included in the totals above were paid to T W Chambers, M G Fiennes and D Y Adams respectively in their capacity as Audit Committee Chairman.

(2) P H Reeve and A B Carruthers waived their entitlement to Directors' fees for all accounting periods ended on, or prior to, 31 December 2011.

The Company does not confer any share options, long term incentives or retirement benefits to any Director, nor does it make a contribution to any pension scheme on behalf of the Directors.

Director's remuneration is paid to the Director personally through the Manager's payroll and subsequently recharged to the Company.

In addition to Directors' remuneration, the Company pays an annual premium in respect of Directors' & Officers' Liability Insurance of £10,000 (2010: £7,000). In view of the increase in the net asset value of the Company since the Merger on 30 September 2011, Directors' & Officers' insurance cover has been increased.

An ordinary resolution for the approval of this report will be put to shareholders at the Annual General Meeting on 17 May 2012.

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
16 April 2012

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

We have audited the Financial Statements of Kings Arms Yard VCT PLC for the year ended 31 December 2011 which comprise the Income statement, Balance sheet, Reconciliation of movements in shareholders' funds, Cash flow statement 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 Auditor

As explained more fully in the Statement of Directors' responsibilities 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.

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 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with 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 UK Corporate Governance 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
16 April 2012

Income statement

		Year ended 31 December 2011			Year ended 31 December 2010		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	2	–	1,257	1,257	–	(633)	(633)
Investment income	3	522	–	522	132	–	132
Recoverable VAT		–	–	–	49	–	49
Investment management fees	4	(107)	(322)	(429)	(412)	–	(412)
Other expenses	5	(290)	–	(290)	(350)	–	(350)
Profit/(loss) on ordinary activities before tax		125	935	1,060	(581)	(633)	(1,214)
Tax on ordinary activities	7	–	–	–	–	–	–
Profit/(loss) on ordinary activities after tax		125	935	1,060	(581)	(633)	(1,214)
Basic and diluted profit/(loss) per share (pence)	9	0.10	0.70	0.80	(0.50)	(0.60)	(1.10)

The accompanying notes on pages 33 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 the continuing operations of the Company up to 30 September 2011 and thereafter includes the return on the assets and activities of Kings Arms Yard VCT 2 PLC after they were acquired by the Company on 30 September 2011.

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 profit/(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 2011 £'000	31 December 2010 £'000
Fixed asset investments	11	**23,957**	12,350
Current assets			
Trade and other debtors	13	**557**	686
Current asset investments	13	**1,976**	3,230
Cash at bank and in hand	17	**8,758**	2,216
		11,291	6,132
Creditors: amounts falling due within one year	14	**(262)**	(199)
Net current assets		**11,029**	5,933
Net assets		**34,986**	18,283
Capital and reserves			
Called-up share capital	15	**2,095**	5,519
Share premium		–	150
Capital redemption reserve		–	765
Special reserve		**36,945**	20,524
Investment holding losses		**(4,984)**	(9,574)
Profit and loss account		**930**	899
Total equity shareholders' funds		**34,986**	18,283
Basic and diluted net asset value per share (pence)	16	**16.70**	16.60

The accompanying notes on pages 33 to 45 form an integral part of these Financial Statements.

The Balance sheet as at 31 December 2011 reflects the acquisition of the assets and liabilities of Kings Arms Yard VCT 2 PLC on 30 September 2011.

The Financial Statements were approved by the Board of Directors and authorised for issue on 16 April 2012 and were signed on its behalf by:

Robin Field
Chairman

Company number: 03139019

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
At 31 December 2010	5,519	150	765	20,524	(9,574)	899	18,283
Recognised losses on investments	–	–	–	–	–	270	270
Realisation of prior years' net recognised losses on investments	–	–	–	–	3,603	(3,603)	–
Investment holding profit on valuation of investments	–	–	–	–	987	–	987
Transfer from special reserve to profit and loss account**	–	–	–	(4,179)	–	4,179	–
Capitalised investment management fee	–	–	–	–	–	(322)	(322)
Shares issued under the Dividend Reinvestment Scheme	2	5	–	–	–	–	7
Shares issued to acquire net assets of Kings Arms Yard VCT 2 PLC including costs	4,953	11,425	–	–	–	–	16,378
Share issue costs	–	(124)	–	–	–	–	(124)
Reduction in share capital and reserves*	(8,379)	(11,456)	(765)	20,600	–	–	–
Gain on ordinary activities after taxation	–	–	–	–	–	125	125
Net Dividends paid	–	–	–	–	–	(619)	(619)
At 31 December 2011	**2,095**	**–**	**–**	**36,945**	**(4,984)**	**930**	**34,986**
At 31 December 2009	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)
At 31 December 2010	5,519	150	765	20,524	(9,574)	899	18,283

The accompanying notes on pages 33 to 45 form an integral part of these Financial Statements.

* The reduction in the nominal value of shares from 5 pence to 1 penny, the cancellation of the Capital redemption reserve and the cancellation of the Share premium account (as approved by shareholders at the General Meeting held on 23 September 2011 and by the order of the Court dated 23 November 2011) has increased the value of the existing special reserve account which is distributable.

** A transfer of £4,179,000 (which comprises £3,440,000 representing realised losses on disposal of investments during the year and £739,000 for dividend purposes) has been made from the special reserve to the profit and loss account during the year (2010: £2,161,000).

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

The total distributable reserves are £32,891,000 (2010: £11,849,000), comprising the special reserve and the profit and loss account, less net investment holding losses.

Cash flow statement

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Net cash flow from operating activities	18	**(205)**	(524)
Taxation			
UK corporation tax recovered/(paid)		**–**	–
Capital expenditure and financial investments			
Purchase of fixed asset investments	11	**(3,131)**	(536)
Disposal of fixed asset investments	11	**4,235**	2,139
Cash received from investments previously sold or written off		**324**	–
Net cash flow from investing activities		**1,428**	1,603
Management of liquid resources			
Purchase of current asset investments		**(985)**	–
Disposal of current asset investments		**3,230**	3,480
Net cash flow from liquid resources		**2,245**	3,480
Equity dividends paid (net of costs of shares issued under Dividend Reinvestment Scheme)*	8	**(706)**	(5,533)
Net cash flow before financing		**2,762**	(974)
Financing			
Cash acquired from Kings Arms Yard VCT 2 PLC on Merger	10	**3,953**	–
Cost of Merger (paid on behalf of the Company and Kings Arms Yard VCT 2 PLC)		**(173)**	–
Net cash flow from financing		**3,780**	–
Cash flow in the year	17	**6,542**	(974)

The accompanying notes on pages 33 to 45 form an integral part of these Financial Statements.

Details of material non-cash transactions can be found in notes 10 and 11.

* The equity dividends paid in the cash flow are different to the dividend posted to reserves due to the release of dividend creditors recoverable by the Company, and the non-cash effect of the Dividend Reinvestment Scheme.

Notes to the Financial Statements

1. Accounting policies

A summary of the principal accounting policies, which have been applied consistently in the current and in prior periods, is set out below. With effect from 1 January 2011, the Board has made the decision to allocate management fees between capital and income. Previously all such expenses were charged to income.

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. 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 income statement).

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 September 2009 IPEVCV Guidelines. Indicators of fair value are derived using established methodologies including earnings multiples, the level of third party offers received, 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 portfolio 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 portfolio 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 portfolio 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.

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 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 basis.

Investment management fees and other 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 income statement except for 75 per cent. of management fees which are allocated to capital to the extent that these relate to an enhancement in the value of the investments. This is in line with the Board's expectation that over the long term 75 per cent. of the Company's investment returns will be in the form of capital gains.

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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Taxation

Taxation is applied on a current basis in accordance with FRS 16 "Current tax". Taxation associated with capital expenses is applied in accordance with the SORP. In accordance with FRS 19 "Deferred tax", deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The Directors have considered the requirements of FRS 19 and do not believe that any provision should be made for deferred tax.

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 Income statement. Exchange differences relating to investments and other financial instruments measured at fair value are subsequently included in Investment holding losses.

Reserves

Share premium account

This reserve accounts for the difference between the price paid for shares and the nominal value of the shares, less issue costs.

Capital redemption reserve

This reserve accounts for amounts by which the issued share capital is diminished through the repurchase and cancellation of the Company's own shares.

Investment holding losses

Increases and decreases in the valuation of investments held at the year end against cost are included in this reserve.

Special reserve

The reduction in the nominal value of shares, the cancellation of the share premium and capital redemption reserves has created a special reserve that can be used to fund market purchases and subsequent cancellation of own shares, to cover gross realised losses, and for other distributable purposes.

Dividends

In accordance with FRS 21 "Events after the balance sheet date", dividends declared by the Company and payable to equity shareholders are accounted for in the period in which the dividend has been paid or approved by shareholders at an annual general meeting.

2. Gains/(losses) on investments

	Year ended 31 December 2011	Year ended 31 December 2010
	£'000	£'000
Unrealised gains/(losses) on fixed asset investments held at fair value through profit or loss	**993**	(2,209)
Unrealised loss on deferred consideration held at fair value through profit or loss	**(6)**	–
Unrealised gain/(loss) subtotal	**987**	(2,209)
Realised gains on fixed asset investments held at fair value through profit or loss (includes escrow receipts from previously sold investments and distributions from investments in liquidation)	**270**	1,576
	1,257	(633)

Notes to the Financial Statements (continued)

3. Investment income

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Income recognised on investments held at fair value through profit or loss		
Dividends	**359**	–
Listed fixed interest securities	**13**	3
Loans to venture capital portfolio companies	**67**	91
Other income	**10**	22
	449	116
Income recognised on investments measured at amortised cost		
Bank deposit interest	**73**	16
	522	132

Interest income earned on impaired investments at 31 December 2011 was £nil (2010: £nil).

4. Investment management fees

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Investment management fees charged to revenue	**107**	412
Investment management fees charged to capital	**322**	–
	429	412

With effect from 1 January 2011, 75 per cent. of management fees are allocated to the realised capital reserve. This is in line with the revised policy adopted by the Board and the Board's expectation that over the long term 75 per cent. of the Company's investment returns will be in the form of capital gains.

In accordance with the Termination Agreement dated 8 December 2010, investment management fees were paid to SPARK Venture Management Limited. Albion Ventures LLP received no management fees during the year.

5. Other expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Administrative and secretarial services	**77**	68
Directors' remuneration (note 6)	**46**	49
Auditor's remuneration		
– Fees payable for audit of the Financial Statements	**23**	18
– Fees payable for other services relating to tax	**4**	15
Legal and professional expenses	**27**	83
Insurance	**10**	19
Management fees payable to OLIM Limited	**–**	1
Irrecoverable VAT	**26**	35
Other expenses	**77**	62
	290	350

The Auditor was also paid £2,500 for a review of investment valuations as part of the preparation of the Prospectus for the issue of shares for the Merger between the Company and Kings Arms Yard VCT 2 PLC. This expense, together with the other expenses of the Merger, have been charged to the Share premium account (before its cancellation).

In accordance with the Termination Agreement dated 8 December 2010, administrative and secretarial fees were paid to SPARK Venture Management Limited. Albion Ventures LLP received no administrative and secretarial fees during the year.

Notes to the Financial Statements (continued)

6. Directors' fees

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Amount payable to Directors	**49**	45
National insurance	**2**	4
Tax and national insurance recovered from past directors	**(5)**	–
	46	49

Further information regarding Directors' remuneration can be found in the Directors' remuneration report on page 26.

7. Tax on ordinary activities

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
UK Corporation tax payable	**–**	–

Reconciliation of profit/(loss) on ordinary activities to taxation charge	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit/(loss) on ordinary activities before taxation	**1,060**	(1,214)
Tax (charge)/credit on profit/(loss) at standard UK corporation tax rate of 26% (2010: 28%)	**(281)**	340
Effects of:		
Non taxable gains/(losses)	**333**	(177)
Non taxable income	**95**	–
Unutilised management expenses	**(147)**	(163)
	–	–

The UK government changed the rate of corporation tax from 28 per cent. to 26 per cent. with effect from 1 April 2011. The effective rate of tax for the year ended 31 December 2011 is 26.5 per cent. (90 days at 28 per cent. and 275 days at 26 per cent.). The tax charge for the year shown in the income statement is lower than the standard rate of corporation tax for the reasons shown above.

The Company has excess trading losses of £9,189,000 (2010: £8,632,000) that are available for offset against future profits. A deferred tax asset of £2,388,000 (2010: £2,420,000) 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.

8. Dividends

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Final dividend of 4 pence per share paid on 11 June 2010	**–**	4,430
Interim dividend of 1 penny per share paid on 24 September 2010	**–**	1,103
Final dividend of 0.67 pence per share paid on 24 June 2011	**739**	–
Unclaimed dividends returned to Company during the year	**(120)**	–
	619	5,533

The Directors have declared a first dividend of 0.5 pence per share for the year ended 31 December 2012, which will amount to approximately £1,047,000. This dividend will be paid on 25 May 2012 to shareholders on the register on 27 April 2012.

9. Earnings per share

	Year ended 31 December 2011			Year ended 31 December 2010		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Return/(loss) attributable to equity shares (£'000)	**125**	**935**	**1,060**	(581)	(663)	(1,214)
Weighted average shares in issue (excluding treasury shares)		**135,360,943**			110,370,135	
Return/(loss) attributable per equity share (pence)	**0.10**	**0.70**	**0.80**	(0.50)	(0.60)	(1.10)

There is no dilution effect in respect of the year ended 31 December 2011 (2010: nil).

Notes to the Financial Statements (continued)

10. Acquisition of the assets and liabilities of Kings Arms Yard VCT 2 PLC

On 30 September 2011, the following assets and liabilities of Kings Arms Yard VCT 2 PLC ("KAY 2") were transferred to the Company in exchange for the issue to KAY 2 shareholders of 99,050,205 shares in the Company, at an issue price of 16.5349 pence per share:

	£'000
Fixed asset investments	11,422
Debtors	175
Current asset investments	991
Cash at bank and in hand	3,953
Creditors	(162)
	16,379

On the same day, Kings Arms Yard VCT 2 PLC was placed into members' voluntary liquidation pursuant to a scheme of reconstruction under section 110 of the Insolvency Act 1986.

The net asset values ("NAVs") per share of each fund used for the purposes of conversion at the calculation date of 29 September 2011 were 16.5349 and 21.1746 for the Company and KAY 2 respectively. The conversion ratio for each KAY 2 share was 1.2806 shares for each Kings Arms Yard VCT PLC share.

New share certificates were sent to all shareholders during October 2011.

11. Fixed asset investments

Summary of fixed asset investments	**31 December 2011 £'000**	31 December 2010 £'000
Unquoted equity	**19,412**	9,784
Unquoted loan stock	**4,242**	2,354
Quoted equity	**303**	212
	23,957	12,350

	31 December 2011 £'000	31 December 2010 £'000
Opening valuation	**12,350**	14,870
Purchases at cost	**3,375**	536
Investments acquired from Kings Arms Yard VCT 2 PLC	**11,422**	–
Disposal proceeds	**(4,460)**	(2,423)
Realised gains	**270**	1,576
Movement in loan stock accrued income	**7**	–
Unrealised gains/(losses)	**993**	(2,209)
Closing valuation	**23,957**	12,350
Movement in loan stock accrued income		
Opening accumulated movement in loan stock accrued income	**–**	–
Movement in loan stock accrued income	**7**	–
Closing accumulated movement in loan stock accrued income	**7**	–
Movement in unrealised losses		
Opening accumulated unrealised losses	**(9,574)**	(7,941)
Transfer of previously unrealised losses to realised reserve on disposal of investments	**3,603**	576
Movement in unrealised gains/(losses)	**993**	(2,209)
Closing accumulated unrealised losses	**(4,978)**	(9,574)

Notes to the Financial Statements (continued)

11. Fixed asset investments (continued)

Historic cost basis

	31 December 2011 £'000	31 December 2010 £'000
Opening book cost	**21,924**	22,811
Purchases at cost	**3,375**	536
Investments acquired from Kings Arms Yard VCT 2 PLC	**11,422**	–
Sales at cost	**(7,793)**	(1,423)
Closing book cost	**28,928**	21,924

Amounts shown as cost represent the acquisition cost in the case of investments made by the Company and/or the valuation attributed to the investments acquired from other VCTs at the dates of merger, plus any subsequent acquisition cost.

Purchases and disposals in the cashflow statement may not equal purchases and disposals in the table above due to settlement debtors and creditors and the receipt of consideration totalling £129,000 from the sale of investments as shares, rather than in cash.

All fixed asset investments are held at fair value through profit or loss. Loan stocks valued at £2,445,000 yield a fixed rate of interest.

The Company does not hold any assets as the result of the enforcement of security during the period, and believes that the carrying values for both impaired and past due assets are covered by the value of security held for these loan stock investments.

Investment valuation methodologies

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

	31 December 2011 £'000	31 December 2010 £'000
Revenue multiple	**8,336**	7,152
Price of recent investment	**7,109**	1,679
Earnings multiple	**5,267**	2,963
Cost reviewed for impairment	**2,932**	–
Net assets	**10**	–
Cost reviewed for recent performance	**–**	325
Expected distribution	**–**	19
	23,654	12,138

Change in valuation methodology (2010 to 2011)	**Value as at 31 December 2011 £'000**	**Explanatory note**
Revenue multiple to earnings multiple	3,860	Business making trading profits
Earnings multiple to price of recent investment	868	More recent information available
Cost reviewed for impairment to price of recent investment	829	More recent information available
Revenue multiple to cost reviewed for impairment	152	Decline in performance
Revenue multiple to price of recent investment	13	More recent information available
Expected distribution to net assets	10	Scale back of business

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 2011.

11. Fixed asset investments (continued)

Fair value hierarchy

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 2011 are categorised in accordance with FRS 29 as follows:

		31 December 2011		
		Level 1	**Level 2**	**Level 3**
	£'000	**£'000**	**£'000**	**£'000**
Unquoted equity	**19,412**	**–**	**–**	**19,412**
Unquoted loan stock	**4,242**	**–**	**–**	**4,242**
Quoted equity	**303**	**303**	**–**	**–**
	23,957	**303**	**–**	**23,654**

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		
		Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Unquoted equity	9,784	–	–	9,784
Unquoted loan stock	2,354	–	–	2,354
Quoted equity	212	212	–	–
	12,350	212	–	12,138

Level 3 reconciliation

	31 December 2011	31 December 2010
	£'000	£'000
Opening valuation	**12,138**	14,440
Purchases at cost	**3,375**	536
Investments acquired from Kings Arms Yard VCT 2 PLC	**11,200**	–
Disposal proceeds	**(4,294)**	(2,335)
Realised net gains on disposal	**833**	1,569
Movement in loan stock accrued income	**7**	–
Investment holding gains/(losses)	**395**	(2,072)
Closing valuation	**23,654**	12,138

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 58 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 the portfolio could result in an increase of £1.8m or a decrease of £1.2m in the valuation of the unquoted investments.

Notes to the Financial Statements (continued)

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 portfolio 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 (some of which are non-voting) of the allotted shares in the portfolio companies as at 31 December 2011 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	17,380,462	31.8%
Lab M Holdings Limited	A Ordinary shares	2,280,000	100.0%
	B Ordinary shares	600	60.0%
	Preferred ordinary shares	389,940	52.3%
Sift Limited	Ordinary shares	16,828,131	29.8%
	A Ordinary shares	3,199,455	28.4%
	B Ordinary shares	4,872,240	42.4%
UniServity Limited	Ordinary shares	24,605	14.3%
	A Ordinary shares	86,152	100.0%
	B Ordinary shares	44,500	100.0%

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.

13. Current assets

Trade and other debtors	31 December 2011 £'000	31 December 2010 £'000
Other debtors	**513**	628
Prepayments and accrued income	**44**	58
	557	686

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

Current asset investments	31 December 2011 £'000	31 December 2010 £'000
The Royal Bank of Scotland Global Treasury Funds plc	**–**	3,230
UBS RBS Group European Commercial Paper 16/06/11 to 14/06/12	**1,976**	–
	1,976	3,230

Current asset investments represent money held for investment. The fair value hierarchy applied to this current asset investment is Level 1 (see page 39 for definitions).

14. Creditors: amounts falling due within one year	31 December 2011 £'000	31 December 2010 £'000
Trade creditors	**27**	5
Accruals	**108**	76
Other creditors	**127**	118
	262	199

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

Notes to the Financial Statements (continued)

15. Called up share capital

	31 December 2011 £'000	31 December 2010 £'000
Allotted, issued and fully paid and voting rights:		
209,467,597 Ordinary shares of 1 penny (2010: 110,370,135 Ordinary shares of 5 pence)	**2,095**	5,519

No shares were bought back for cancellation by the Company during the year ended 31 December 2011 (2010: nil).

The nominal value of the Ordinary shares was reduced from 5 pence to one penny on 23 November 2011 following approval by shareholders at the General Meeting on 23 September 2011.

Under the terms of the Dividend Reinvestment Scheme, the following Ordinary shares of nominal value 5 pence per share were allotted during the year:

Date of allotment	Number of shares allotted	Aggregate nominal value of shares (£)	Issue price (pence per share)	Net consideration received (£)	Opening market price per share on allotment date (pence per share)
24 June 2011	47,257	2,363	15.93	5,165	7.75

The Company issued 99,050,250 Ordinary shares to former shareholders in Kings Arms Yard VCT 2 PLC as part of the Merger as explained in note 10.

16. Net asset value per share

The net asset value per share as at 31 December 2011 of 16.70 pence (2010: 16.60 pence) is based on net assets of £34,986,000 (2010: £18,283,000) divided by the 209,467,597 ordinary shares in issue at that date (2010: 110,370,135).

17. Analysis of changes in cash during the year

	31 December 2011 £'000	31 December 2010 £'000
Opening cash balances	**2,216**	3,190
Net cash flow	**6,542**	(974)
Closing cash balances	**8,758**	2,216

18. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	31 December 2011 £'000	31 December 2010 £'000
Profit/(loss) on ordinary activities before tax	**125**	(1,214)
Capitalised investment management fees	**(322)**	633
Movement in accrued loan stock interest	**7**	–
Decrease in debtors	**113**	58
Decrease in creditors	**(128)**	(1)
Net cash flow from operating activities	**(205)**	(524)

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 or treasury purposes and this policy is described in more detail on page 20.

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 financial instrument 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 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 in its portfolio in unquoted and quoted investments, details of which are shown on pages 11 to 13. 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 portfolio company and the dynamics of market quoted comparators. The Manager receives management accounts from portfolio companies, and members of the investment management team often sit on the boards of unquoted portfolio 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 £25,933,000 (2010: £15,580,000). Fixed and current asset investments form 74 per cent. of the net asset value as at 31 December 2011 (2010: 85 per cent.).

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

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 14. 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 and current 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 and current asset investment portfolio (keeping all other variables constant) would increase or decrease the net asset value and return for the year by £2,593,000.

Notes to the Financial Statements (continued)

19. Capital and financial instruments risk management (continued)

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 2011, the Company held investments denominated in currencies other than sterling of £178,000 (2010: £140,000).

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 £63,000 (2010: £82,000). 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 fixed asset investments during the year was approximately 0.7 per cent. (2010: 3.3 per cent.). The weighted average period to expected maturity for the fixed rate fixed assets is approximately 9.5 years (2010: 2.2 years).

The Company's financial assets and liabilities as at 31 December 2011, denominated in pounds sterling, consist of the following:

	31 December 2011				31 December 2010			
	Fixed rate £'000	**Floating rate £'000**	**Non-interest bearing £'000**	**Total £'000**	Fixed rate £'000	Floating rate £'000	Non-interest bearing £'000	Total £'000
Unquoted equity	**–**	**–**	**19,412**	**19,412**	–	–	9,784	9,784
Quoted equity	**–**	**–**	**303**	**303**	–	–	212	212
Unquoted loan stock	**2,245**	**200**	**1,797**	**4,242**	1,246	143	965	2,354
Debtors	**–**	**–**	**557**	**557**	–	–	686	686
Current liabilities	**–**	**–**	**(262)**	**(262)**	–	–	(199)	(199)
Cash and liquid investments	**8,423**	**2,311**	**–**	**10,734**	–	5,446	–	5,446
Total net assets	**10,668**	**2,511**	**21,807**	**34,986**	1,246	5,589	11,448	18,283

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, quoted corporate bonds and through the holding of cash on deposit with banks.

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 portfolio company. However, for new investments typically loan stock instruments will have a first fixed charge or a fixed and floating charge over the assets of the portfolio company in order to mitigate the gross credit risk.

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 2011 was limited to £4,242,000 (2010: £2,354,000) of unquoted loan stock instruments, £1,976,000 (2010: nil) of UBS RBS Group ECP 16/06/11 to 16/06/12 quoted corporate bonds, and £8,758,000 (2010: £2,216,000 plus £3,230,000 RBS Global Treasury Fund) cash on deposit with banks.

As at the balance sheet date, cash and liquid investments held by the Company are held with The Royal Bank of Scotland plc, Scottish Widows Bank plc (part of Lloyds Banking Group plc), Standard Life Cash Savings (part of Barclays Bank plc) and UBS Wealth Management AG. Credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to regulatory supervision, with high credit ratings assigned by international credit-rating agencies.

19. Capital and financial instruments risk management (continued)

The cost, impairment and carrying value of impaired loan stocks held at fair value at 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011			31 December 2010		
	Cost £'000	**Impairment £'000**	**Carrying value £'000**	Cost £'000	Impairment £'000	Carrying value £'000
Impaired loan stock	**764**	**303**	**461**	–	–	–

Liquidity risk

Liquid assets are held as cash on current account, deposit or short term money market accounts or similar instruments. 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 2011 (2010: £nil) and had cash and liquid asset balances of £10,734,000 (2010: £5,446,000).

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, the buy back of shares 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 at 31 December 2011 are short term in nature and total £262,000 (2010: £199,000).

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

	31 December 2011				31 December 2010			
Redemption date	**Fully performing loan stock £'000**	**Past due loan stock £'000**	**Impaired loan stock £'000**	**Total £'000**	Fully performing loan stock £'000	Past due loan stock £'000	Impaired loan stock £'000	Total £'000
Less than one year	**129**	**–**	**–**	**129**	–	–	–	–
1-2 years	–	**–**	**–**	**–**	1,796	–	–	1,796
2-3 years	**1,207**	**–**	**461**	**1,668**	169	–	–	169
3-5 years	**1,102**	**–**	**–**	**1,102**	246	143	–	389
5 + years	**1,343**	**–**	**–**	**1,343**	–	–	–	–
Total	**3,781**	**–**	**461**	**4,242**	2,211	143	–	2,354

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 2011 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, contingencies and guarantees

As at 31 December 2011, there was a commitment of £148,000 (2010: £nil) in respect of further funding to be provided to an existing portfolio company.

There were no contingent liabilities or guarantees given by the Company as at 31 December 2011 (2010: £nil).

Notes to the Financial Statements (continued)

21. Post balance sheet events

Since 31 December 2011, the Company has had the following material post balance sheet events:

- the sale of 35,000 shares in Celldex Therapeutics Inc for £112,000 realising a gain of £54,000 on the carrying value at 31 December 2011;
- a repayment of £45,000 loan stock from Hilson Moran Holdings Limited; and
- further investments of:
  - £692,000 in Alto Prodotto Wind Limited;
  - £485,000 in The Street by Street Solar Programme Limited;
  - £460,000 in AVESI Limited;
  - £420,000 in Regenerco Renewable Energy Limited;
  - £353,000 in Sift Limited;
  - £300,000 in Greenenerco Limited;
  - £159,000 in Perpetuum Limited; and
  - £128,000 in Oxford Immunotec Limited.

22. Related party disclosures

During the year to 31 December 2011, the Manager, Albion Ventures LLP, was considered to be a related party by virtue of the fact that Patrick Reeve, who had been a Director of the Company until 3 October 2011, is also Managing Partner of the Manager. The Company was not charged any fees by Albion Ventures LLP in respect of Patrick Reeve's services as a Director as any remuneration normally paid for such services had been waived by Albion Ventures LLP.

The Manager is party to an Investment management agreement from the Company as disclosed on page 19 of this Report. As part of this agreement, Albion Ventures LLP received no investment management, administration or secretarial fees during the year. In accordance with the Termination Agreement dated 8 December 2010, investment management fees, administration and secretarial fees were paid to SPARK Venture Management Limited up to 30 November 2011.

Albion Ventures LLP is, from time to time, eligible to receive transaction fees and Directors' fees from investee companies. During the year ended 31 December 2011, fees of £82,000 attributable to the investments of the Company were received pursuant to these arrangements (SPARK Venture Management Limited 2010: £40,000).

Albion Ventures LLP holds 1,084 shares as a result of the fractional entitlements arising from the Merger of Kings Arms Yard VCT 2 PLC on 30 September 2011.

There are no other related party transactions or balances requiring disclosure.

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 17 May 2012 at 12.30 p.m. 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 11 as special resolutions.

Ordinary Business

1. To receive and adopt the Company's accounts for the year ended 31 December 2011 together with the report of the Directors and Auditor.

2. To approve the Directors' remuneration report for the year ended 31 December 2011.

3. To re-elect Mr Robin Field as a Director of the Company.

4. To elect Mr Thomas Chambers as a Director of the Company.

5. To elect Mr Alan Lamb as a Director of the Company.

6. To re-appoint Grant Thornton UK LLP as Auditor 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 Auditor's 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 1 penny per share in the Company up to a maximum aggregate nominal amount of £209,467 provided that this authority shall expire 18 months from the date that this resolution is passed, or, if earlier, the conclusion of the next Annual General Meeting of the Company but so that the Company may, before the expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into 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) pursuant to any Dividend Reinvestment Scheme introduced or operated by the Company; and

   (c) otherwise than pursuant to paragraphs (a) and (b) above, up to an aggregate nominal amount of £209,467,

   and that this authority shall expire 18 months from the date that this resolution is passed or, if earlier, 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.

Notice of Annual General Meeting (continued)

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 “subject to and conditional on the passing of Resolution number 8” were omitted in relation to such a sale.

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 1 penny 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 aggregate 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 shall be 1 penny;

(c) the maximum price, exclusive of any expenses, which may be paid for a share shall be 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 date 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 17 November 2013 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 s724-732 of the Companies Act 2006, 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.

By order of the Board

Albion Ventures LLP
Company Secretary
Registered office
1 King’s Arms Yard
London, EC2R 7AF
16 April 2012

Registered in England and Wales with number 03139019

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 Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ;
   - going to www.computershare.co.uk and following the instructions provided there; or
   - by having an appropriate CREST message transmitted, if you are a user of the CREST system (including CREST personal members).

   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 12.30 pm on 15 May 2012.

   In accordance with good governance practice, the Company is offering shareholders use of an online service, offered by the Company's registrar, Computershare Investor Services PLC, at www.computershare.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline of 12.30 pm on 15 May 2012 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 Holder ID 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 12.30 pm on 15 May 2012 (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. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this AGM and any adjournment(s) by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent by 12.30 pm on 15 May 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK and Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. 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.

Notice of Annual General Meeting (continued)

6. 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.

7. 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.

8. A copy of this Notice, and other information regarding the AGM, as required by section 311A of the Act, is available from www.albion-ventures.co.uk under the "Our Funds" section.

9. 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.

10. As at 16 April 2012 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital and voting rights comprises 209,467,597 Ordinary shares. Therefore, the total voting rights in the Company as at 16 April 2012 are 209,467,597.

Financial summary for previous funds

	31 December 2011 (pence per share)	31 December 2010 (pence per share)	31 December 2009 (pence per share)
Net asset value of Kings Arms Yard VCT PLC	**16.7**	16.6	22.7
Dividends paid to shareholders of Kings Arms Yard VCT PLC			
Dividends paid during the year	**0.67**	5.0	–
Cumulative dividend paid to 31 December 2011	**59.33**	58.7	53.7
Total net asset value return(1) (per 105p invested)			
To shareholders of Kings Arms Yard VCT PLC (formerly SPARK VCT plc; Quester VCT plc)	**76.03**	75.3	76.4
Total net asset value return including tax benefits(2)	**97.03**	95.3	96.4
Total net asset value return to former shareholders of:			
Quester VCT 2 plc, per 100p invested in shares of that company			
Total net asset value return	**61.99**	61.2	62.3
Total net asset return including tax benefits(2)	**81.99**	81.2	82.3
Quester VCT 3 plc, per 100p invested in shares of that company			
Total net asset value return	**35.82**	35.1	36.1
Total net asset return including tax benefits(2)	**55.82**	55.1	56.1
Quester VCT 4 plc (renamed SPARK VCT 2 plc and then Kings Arms Yard VCT 2 PLC), per 100p invested in shares of that company			
Total net asset value return	**30.29**	31.5	37.9
Total net asset return including tax benefits(2)	**50.29**	51.5	57.9
Quester VCT 5 plc (renamed SPARK VCT 3 plc), per 100p invested in shares of that company			
Total net asset value return	**27.81**	39.4	48.8
Total net asset return including tax benefits(2)	**47.81**	59.4	68.8

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

(2) Return after 20 per cent. income tax relief but excluding capital gains deferral.

The total returns stated are applicable only to subscribers of shares at the time of each companies launch. They do not represent the return to subsequent subscribers or purchasers of shares.

Source: Albion Ventures LLP

Merger history

June 2005	QVCT2 and QVCT3 merged into QVCT
June 2008	All Quester names changed to SPARK QVCT became SPARK VCT plc (SVCT) QVCT4 became SPARK VCT2 plc (SVCT2) QVCT5 became SPARK VCT3 (SVCT3)
November 2008	SVCT3 merged into SVCT2
January 2011	Albion Ventures became Manager
February 2011	All SPARK names changed to Kings Arms Yard SVCT became Kings Arms Yard VCT PLC (KAY) SVCT2 became Kings Arms Yard VCT2 PLC (KAY2)
September 2011	KAY2 merged into KAY

Dividends paid by the previous funds now merged

Dividends paid to shareholders of Kings Arms Yard VCT PLC launched in 1996 (formerly SPARK VCT plc; Quester VCT plc).

	(pence per share)
31 January 1997	0.937
31 January 1998	2.547
31 January 1999	2.875
31 January 2000	7.110
31 January 2001	26.650
31 January 2002	1.350
28 February 2006	1.250
28 February 2007	3.910
31 December 2007	4.220
31 December 2008	2.810
31 December 2010	5.000
31 December 2011	0.670
Total dividends paid to 31 December 2011	59.329
Net asset value as at 31 December 2011	16.700
Total net asset value return to 31 December 2011	76.029

Quester VCT 2 PLC (“QVCT2”)

QVCT2 was launched in 1998 and was merged with Kings Arms Yard VCT PLC (formerly SPARK VCT plc and originally Quester VCT PLC) in June 2005 with a share exchange ratio of 1.0249 QVCT shares for each QVCT2 share.

	(pence per share)
28 February 1999	1.000
28 February 2000	3.065
28 February 2001	20.500
28 February 2002	2.000
28 February 2006	1.281
28 February 2007	4.007
31 December 2007	4.325
31 December 2008	2.880
31 December 2010	5.125
31 December 2011	0.687
Total dividends paid to 31 December 2011	44.870
Net asset value as at 31 December 2011	17.116
Total net asset value return to 31 December 2011	61.990

Merger history (continued)

Quester VCT 3 PLC ("QVCT3")

QVCT3 was launched in 2000 and was merged with Kings Arms Yard VCT PLC (formerly SPARK VCT plc and originally Quester VCT PLC) in June 2005 with a share exchange ratio of 0.9816 QVCT shares for each QVCT3 share.

	(pence per share)
28 February 2001	0.750
28 February 2002	1.000
28 February 2003	0.150
28 February 2006	1.227
28 February 2007	3.838
31 December 2007	4.142
31 December 2008	2.758
31 December 2010	4.908
31 December 2011	0.658
Total dividends paid to 31 December 2011	19.431
Net asset value as at 31 December 2011	16.393
Total net asset value return to 31 December 2011	35.824

Quester VCT 4 ("QVCT4")

QVCT4 was launched in 2000 and was renamed SPARK VCT 2 plc and then Kings Arms Yard VCT 2 PLC ("KAY2"). KAY2 merged with Kings Arms Yard VCT PLC (KAY) in September 2011 with a share exchange ratio of 1.2806 KAY shares for each KAY2 share.

	(pence per share)
31 October 2002	1.750
31 October 2003	1.150
31 October 2005	1.000
31 October 2006	1.000
31 December 2007	1.000
31 December 2008	1.000
31 December 2010	1.000
31 December 2011	1.000
Total dividends paid to 31 December 2011	8.900
Net asset value as at 31 December 2011	21.386
Total net asset value return to 31 December 2011	30.286

Quester VCT 5 ("QVCT5")

QVCT5 was launched in 2002 and was renamed SPARK VCT 3 plc and merged with SPARK VCT 2 plc (originally QVCT4) in November 2008 with a share exchange ratio of 1.4613 SVCT2 shares for each SVCT3 share. The merged company was then renamed KAY2. KAY2 merged with Kings Arms Yard VCT PLC in September 2011 with a share exchange ratio of 1.2806 KAY shares for each KAY2 share.

	(pence per share)
31 December 2003	0.500
31 December 2004	1.000
31 December 2006	1.000
31 December 2007	1.000
31 December 2010	1.461
31 December 2011	1.461
Total dividends paid to 31 December 2011	6.423
Net asset value as at 31 December 2011	21.386
Total net asset value return to 31 December 2011	27.809

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