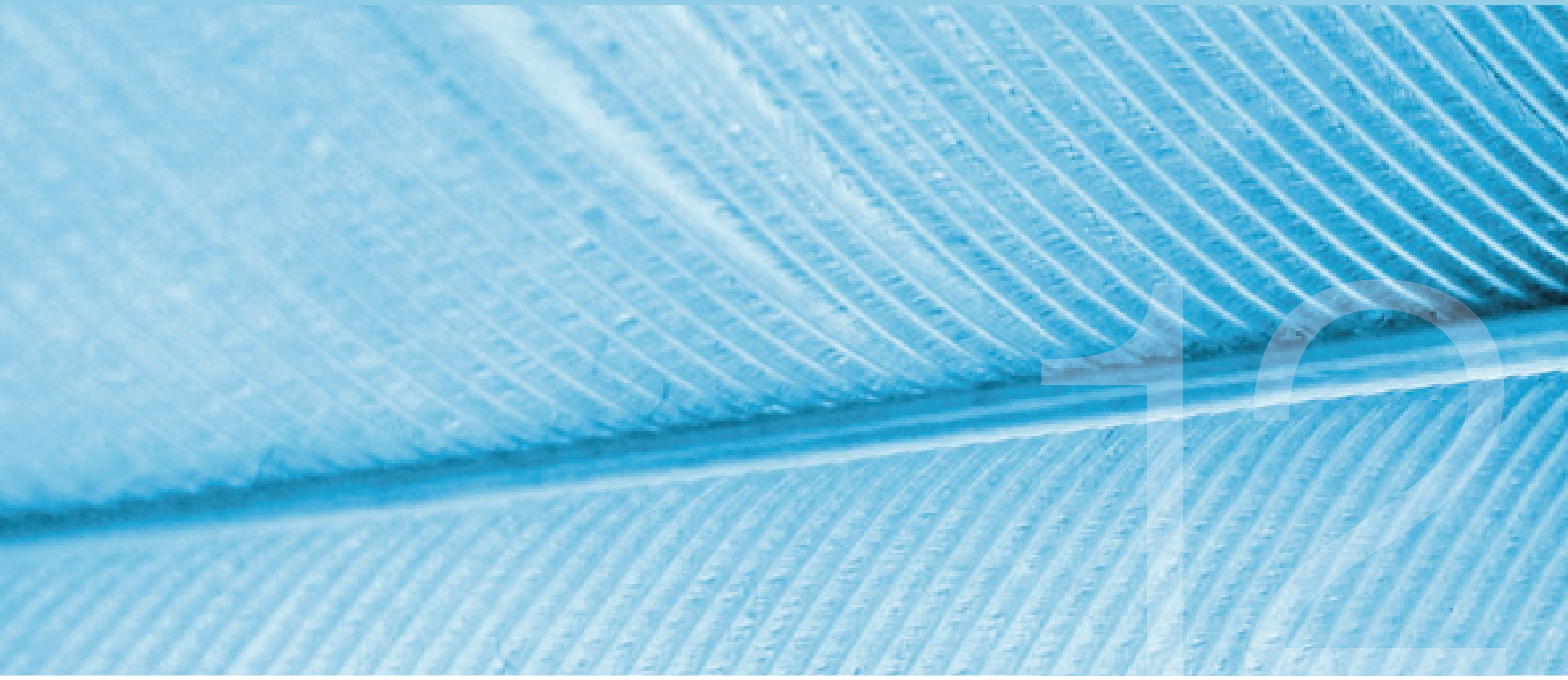
Annual Report and Financial Statements for the year ended 31 December 2012



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
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ
Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Taxation adviser	PricewaterhouseCoopers LLP 1 Embankment Place London, WC2N 6RH
Legal adviser	SGH Martineau LLP No 1 Colmore Square Birmingham B4 6AA

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.investorcentre.co.uk

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 Company, and for IFA information, please contact Albion Ventures LLP:

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

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 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-backed portfolio of lower risk, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors (the "Asset-Backed 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 Company. 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-Backed Portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth. The Growth Portfolio is intended to provide highly diversified exposure through its portfolio of investments in unquoted UK companies.
- Funds held pending investment or for liquidity purposes will be held as cash on deposit or in floating rate notes or similar instruments with banks or other financial institutions with a Moody's rating of 'A' or above.

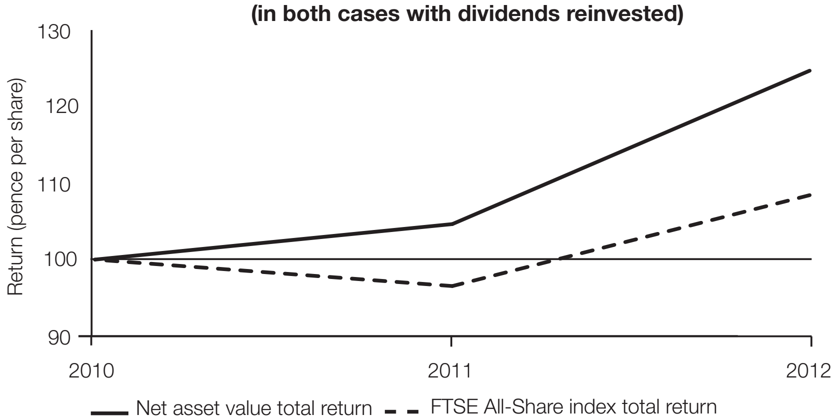
Financial calendar

Record date for first dividend	10 May 2013
Annual General Meeting	24 May 2013
Payment date of first dividend	31 May 2013
Announcement of half-yearly results for the six months ending 30 June 2013	August 2013
Payment date of second dividend (subject to Board approval)	September 2013

Financial highlights

18.9p	Net asset value per share as at 31 December 2012.
16.0p	Mid market share price as at 31 December 2012.
2.1x	Increase in mid market share price during the year.
3.1p	Total return per share to shareholders for the year ended 31 December 2012.
1.0p	Total tax free dividends per share paid in the year to 31 December 2012.
0.5p	First tax free dividend declared for the year to 31 December 2013.
6.25%	Tax free yield on share price (dividend per annum/share price as at 31 December 2012).

Net asset value total return relative to FTSE All-Share Index total return from appointment of Albion Ventures LLP to 31 December 2012 (in both cases with dividends reinvested)



Source: Albion Ventures LLP

Methodology: The return to the shareholder (rebased to 100), assuming that dividends were reinvested at net asset value of the Company at the time when the shares were quoted ex dividend. Tax reliefs and transaction costs are not taken into account.

Financial summary

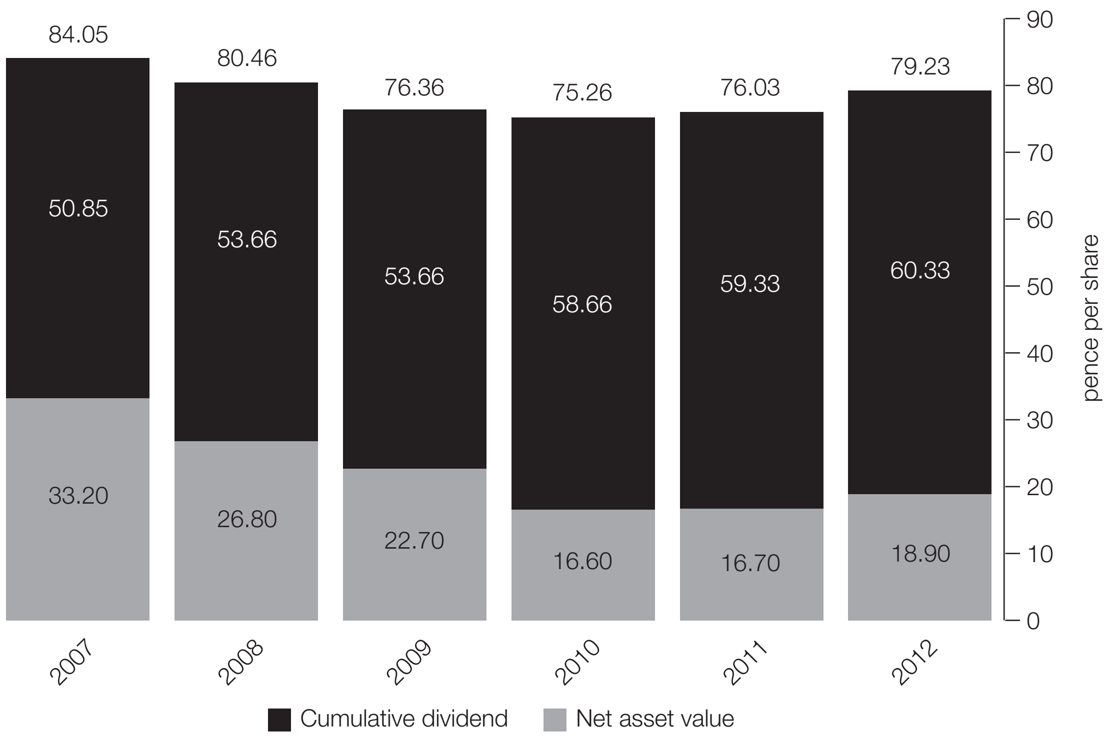
	31 December 2012 (pence per share)	31 December 2011 (pence per share)
Dividends paid during the year	**1.00**	0.67
Revenue return	**–**	0.10
Capital return	**3.10**	0.70
Net asset value enhancement as a result of share buy backs	**0.10**	–
Net asset value	**18.90**	16.70

Shareholder net asset value total return	From launch to 31 December 2010 (pence per share)	1 January 2011 to 31 December 2012 (pence per share)	From launch to 31 December 2012 (pence per share)
Subscription price at launch	100.00	–	100.00
Dividends paid	58.66	1.67	60.33
(Decrease)/increase in shareholder net asset value	(83.40)	2.30	(81.10)
Shareholder net asset value total return	75.26	3.97	79.23

Current annual dividend objective (pence per share)	**1.00**

The Directors have declared a first dividend of 0.5 pence per share for the year ending 31 December 2013, which will be paid on 31 May 2013 to shareholders on the register on 10 May 2013

Net asset value total return
Kings Arms Yard VCT PLC



Source: Albion Ventures LLP

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

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 48.

Chairman's statement

Introduction
The results for 2012 show a year of further growth and repositioning for the Company.

Despite the depressed conditions for the UK economy as a whole, pleasing asset growth was achieved from the legacy portfolio with two significant exits and a number of minor ones, while further progress was made in rebalancing the portfolio with the inclusion of lower risk asset-backed investments offering an immediate income yield.

The troubled market conditions and the paucity of bank lending have made trading difficult for many small companies, but these conditions may have assisted the Manager in securing new investments at attractive prices.

Results
Net asset value per share rose by 13 per cent. from 16.7p as at 31 December 2011 to 18.9p as at 31 December 2012 after allowing for the payment of dividends totalling 1 penny per share during the year. The total net asset return (the aggregate of dividends paid to date and net asset value per share) rose from 76.0p to 79.2p per share.

The Company increased its net profit after taxation from £1,060,000 in 2011 to £6,466,000 in the year to 31 December 2012, very largely as a result of a series of successful disposals.

The two significant exits were made from the legacy portfolio of longstanding technology investments. In September 2012, the investment in Workshare Limited, the document comparison software business, was sold to a company operating in similar markets for a total consideration of £2.7 million, being a £491,000 gain on its carrying value. Shortly before the year end the entire holding in Vivacta Limited, the medical diagnostics company, was sold to a trade buyer for a total cash price of £7.0 million of which £1.0 million is held in escrow, half being payable in nine months and the remainder in eighteen months. The total gain on the previous carrying value of this investment (including the escrow) is £5.0 million. In addition, in the first half of the year, the entire holding in We7 Limited, the music destination website, was sold at a loss of £99,000 on its carrying value at 31 December 2011.

Meanwhile the remaining shareholding in the NASDAQ quoted Celldex Therapeutics Limited was successfully sold at a gain of £33,000 over its carrying value at 30 June 2012.

Over the course of the year new investments totalling £2.6 million have been made in six renewable energy businesses and a profitable pub owning company. All of these fall into our portfolio of lower risk asset-backed businesses. In addition, one new healthcare company has been added to our higher growth portfolio. This is Proveca Limited whose business model is to gain authorisation for the paediatric use of established off-patent drugs, thus obtaining 10 year exclusivity in this new market.

Further information on all new investments is contained in the Manager's Report.

Despite this very active period of new investment, the success of the disposal programme resulted in cash and liquid assets at the year-end rising to £12,173,000 (2011: £10,734,000).

VCT qualifying status
As at 31 December 2012, 84.4 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
The success achieved in generating cash through disposals while repositioning the Company's portfolio reinforces the Board's dividend policy. We are pleased to declare a first dividend of 0.5p per share to be paid on 31 May 2013 to shareholders on the register on 10 May 2013 and anticipate that a second dividend will be paid later in the year.

Discount management and share buy-backs
In 2012 the Board reintroduced a policy of buying back shares in the market, subject to the overall constraint that such purchases are in the Company's interests, including the maintenance of sufficient resources for investment in new and existing portfolio companies and the continued payment of dividends to shareholders. Given the success to date in repositioning the portfolio, it is now the Board's intention over time for such buy-backs to be in the region of a 5 per cent. discount to net asset value, so far as market conditions and liquidity permit.

Chairman’s statement (continued)

During the year the Company has brought back 4,242,000 of its shares at a total cost of £633,000, including stamp duty. These shares were bought at an average discount of 12 per cent. resulting in a 0.1p per share uplift in net asset value per share for continuing shareholders.

Transactions with the Manager

Details of transactions that took place with the Manager during the year can be found in note 4.

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 11.00 am on 24 May 2013. Full details of the business to be conducted at the Annual General Meeting are given in the Notice of the Meeting which can be found in the Shareholder Circular enclosed with this Annual Report and Financial Statements.

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.

Performance incentive fee

Upon the change of management to Albion Ventures LLP on 1 January 2011 the Board specifically stipulated that no performance fee would be payable during the first two years of their tenure. We also said that following 1 January 2013 we would seek to agree such an incentive scheme with Albion Ventures LLP subject to shareholder approval. The Board believes that such schemes, if properly structured, can incentivise managers to better performance and assist them in attracting and retaining a sufficient calibre of staff to achieve this improvement.

We have now put forward, in the enclosed circular to shareholders, a scheme which we believe will meet these objectives while protecting shareholders’ interests. Our proposal is structured so that it would not come into effect unless and until the Manager had achieved a cumulative rise in net asset value and dividends per share of at least 34 per cent. over the opening net asset value per share at the time of its appointment. Even then no reward would be payable to the Manager unless total shareholder return grew thereafter by more than the Retail Price Index plus 2 per cent. per annum.

The Board believes that this is a stretching target and recommends the scheme's adoption by shareholders.

Risks and uncertainties

The outlook for the UK economy continues to be the key risk affecting your Company. 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 portfolio 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 recent improvements in stock market performance, the position for many smaller companies of the sort that continue to form the bulk of the Company's portfolio remains difficult. Bank lending is still scarce and confidence fragile. Nevertheless, sound progress has been made in the last two years. Some very useful and remunerative exits have been achieved and the portfolio continues to be repositioned towards a lower risk profile.

We have now seen two years of continuous improvement in net asset value and total shareholder return and the Board believes that the current investment policy offers the best prospect of continued improvement in capital value and a sustainable long term dividend.

Robin Field
Chairman
15 April 2013

Manager's report

Introduction

The task of repositioning the investment portfolio has continued according to plan over the course of the year. Proceeds from the sale of investments within the 'legacy' portfolio amounted to £10.2 million with the proceeds being utilised mainly into unquoted investments (£5.1 million), but also the payment of dividends (£2.1 million) and share buy-backs (£0.6 million). Cash and liquid asset resources increased over the year by £1.4 million.

Investment progress

Of the new investments made, £1.9 million went to support nine companies within the 'legacy' portfolio while £3.2 million was invested in a number of new portfolio companies, in line with the Company's revised investment policy. Of the 'legacy' investments, the largest was £576,000 into Atego to fund a US acquisition – this has so far performed well above expectations resulting in an increase in the company's overall valuation. Meanwhile, £360,000 was invested into Sift, in order to buy out a shareholder and consolidate our position; £200,000 was invested into UniServity, increasing the Company's interest in the business to 93.6 per cent. and £171,000 was invested into Oxford Immunotec, as part of a larger fund-raising on the back of strong growth.

The majority of our investments in new companies were in renewable energy (£2.6 million), which now accounts for 10 per cent. of the investment portfolio, against a longer term target of 20 per cent. Included within this was our first hydro-electric project, Dragon Hydro (£247,000), where a 'run of river' scheme in West Wales is currently under construction and, once operational, will have a 50 year life producing a projected return of around 11 per cent. per annum for the Company. We also invested a further £692,000 into Alto Prodotto Wind to fund further wind projects. Our first two turbines (both on brownfield or industrial sites) are operating at or above plan. We also invested £400,000 into an existing Albion pub investment, Bravo Inns II, which operates a number of highly profitable managed public houses in the North West and where there continue to be opportunities to purchase premises at advantageous prices, while we also invested an initial £215,000 (out of a projected £903,000) into Proveca, which is involved in the development of paediatric drugs.

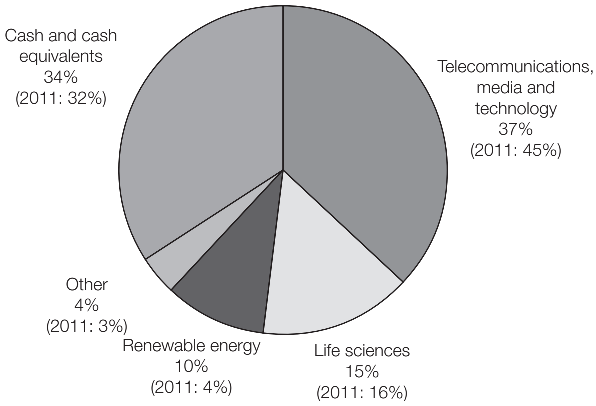
Many companies within the existing portfolio are performing well including strong growth in companies such as Atego, Elateral and Oxford Immunotec. Meanwhile, a transaction by Antenova resulted in a substantial write-up during the year. We anticipate further exits over the next 12 months, with much of the proceeds being targeted for re-investment into lower risk asset-backed income producing investments.

This underlines our policy of seeking to increase the income generating capacity of the Company. Income in 2012 amounted to £511,000. This compares to a total of £790,000 for Kings Arms Yard VCT and Kings Arms Yard VCT 2 for 2011, though that number included a one-off dividend from Elateral of £573,000. Ignoring that, the Company's income more than doubled and we anticipate a further substantial increase in the current year with a view to ensuring, over time, that operating costs are fully covered by income.

The two pie charts on the next page outline firstly the different sectors in which the Company's assets, at carrying value, are currently invested, and secondly, delineates between those investments, at carrying value, comprising the legacy portfolio and those that have been made by Albion Ventures in new portfolio companies.

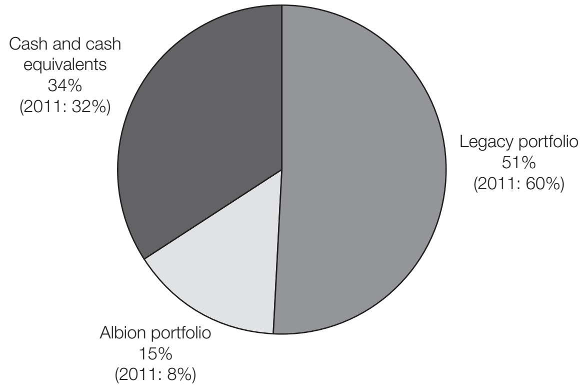
Manager's report (continued)

Distribution of assets, at carrying value, by sector as at 31 December 2012



Source: Albion Ventures LLP

Distribution of assets, at carrying value, for the legacy portfolio and for investments made into new companies by Albion Ventures



Source: Albion Ventures LLP

An overview showing the holding period and the running revenue profile of each of the top ten investments in the unquoted portfolio (as at 31 December 2012) and which comprise nearly 74 per cent. of the unquoted portfolio is set out below.

	Valuation £'000	% of total unquoted portfolio	Date of first investment	Running revenue profile	Basis of valuation
Elateral Group Limited	4,264	16.62	1999	£5m-£10m	Revenue multiple
Oxford Immunotec Limited	3,743	14.59	2003	£10m-£15m	Price of recent investment
UniServity Limited	2,054	8.00	2007	£3m-£5m	Revenue multiple
Cluster Seven Ltd	1,761	6.86	2005	£3m-£5m	Revenue multiple
Atego Group Limited	1,667	6.50	1998	£10m-£15m	Earnings multiple
Antenova Limited	1,288	5.02	2005	£3m-£5m	Earnings multiple
Sift Limited	1,127	4.39	2006	£5m-£10m	Earnings multiple
Hilson Moran Holdings Limited	1,066	4.15	2011	£15m-£20m	Cost reviewed for impairment
Alto Prodotto Wind Limited	1,000	3.90	2011	Pre-revenue	Cost reviewed for impairment
The Street by Street Solar Programme Limited	1,000	3.90	2011	Pre-revenue	Cost reviewed for impairment
	18,970	73.93			

Albion Ventures LLP
Manager
15 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 (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 an 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 (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 non-executive Treasurer and a council member of the University of Surrey, sits on the advisory board of Green Square Partners LLP, is a non-executive director of NCC Group plc and of a number of private companies.

Martin Fiennes, 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 and a non-executive director of Drayton Manor Park Limited.

Alan Lamb, 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 Resilient Networks plc who provide smart voice services to banks and government.

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

At the Annual General Meeting, Martin Fiennes will 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 Conduct 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 six venture capital trusts and currently has total funds under management of approximately £230 million. Albion Ventures LLP was awarded Investor of the Year at the Independent Healthcare Awards 2011.

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

Patrick Reeve, MA, ACA, qualified as a chartered accountant with PricewaterhouseCoopers before joining Cazenove & Co where he spent three years in the corporate finance department. He joined Close Brothers Group plc in 1989, working in both the development capital and corporate finance divisions before founding the venture capital division in 1996. He led the buy-out of this business from Close Brothers in 2009, and re-named it Albion Ventures LLP. He is the managing partner of Albion Ventures LLP and is director of Albion Technology & General VCT PLC, Albion Income & Growth VCT PLC and Albion Enterprise VCT PLC, all managed by Albion Ventures LLP. He is a Member of Council of the BVCA and is a member of the Audit Committee of the University College London. He is also a director of UCL Business, the university technology transfer arm.

Will Fraser-Allen, BA (Hons), FCA, 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 LLP in 2009. Will has a BA in History from Southampton University.

Isabel Dolan, 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, 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, BA (Hons), FCA, 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, 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.

Ed Lascelles, 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, MA, MBA, joined Albion Ventures LLP as an investment manager in October 2011. 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, 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, BA (Hons), FCA. 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) and is responsible for investments in the advanced manufacturing and technology sectors. Robert became a partner in Albion Ventures LLP in 2009.

Marco Yu, 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

Fixed asset investments	% voting rights held by Kings Arms Yard VCT PLC	% voting rights held by all AVL[1] managed companies	As at 31 December 2012 Cost[2] £'000	Cumulative movement in value £'000	Value £'000	As at 31 December 2011 Cost[2] £'000	Cumulative movement in value £'000	Value £'000	Change in value for the year[3] £'000
Asset-backed unquoted investments									
Alto Prodotto Wind Limited	11.1	50.0	1,000	–	1,000	308	3	311	(3)
The Street by Street Solar Programme Limited	10.0	50.0	1,000	–	1,000	515	–	515	–
Regenerco Renewable Energy Limited	9.8	50.0	935	–	935	515	2	517	(2)
AVESI Limited	14.8	50.0	460	–	460	–	–	–	–
Bravo Inns II Limited	2.8	50.0	400	(1)	399	–	–	–	(1)
Greenenerco Limited	8.6	50.0	300	–	300	–	–	–	–
Dragon Hydro Limited	17.2	30.0	247	–	247	–	–	–	–
Total asset-backed unquoted investments			**4,342**	**(1)**	**4,341**	1,338	5	1,343	**(6)**
High growth unquoted investments									
Elateral Group Limited	37.7	37.7	2,243	2,021	4,264	2,243	1,574	3,817	447
Oxford Immunotec Limited	3.5	3.5	1,476	2,267	3,743	1,305	–	1,305	2,268
UniServity Limited *	93.6	93.6	3,710	(1,656)	2,054	3,510	350	3,860	(2,006)
Cluster Seven Ltd	28.6	28.6	2,218	(458)	1,761	2,218	(550)	1,668	93
Atego Group Limited	9.5	9.5	960	708	1,667	384	484	868	224
Antenova Limited	12.3	12.3	1,543	(255)	1,288	1,543	(1,047)	496	792
Sift Limited	40.2	40.2	3,271	(2,144)	1,127	2,911	(2,128)	783	(15)
Hilson Moran Holdings Limited	15.0	50.0	1,065	1	1,066	1,200	2	1,202	(1)
Academia Networks Limited	5.3	5.3	351	392	743	351	318	669	74
Lab M Holdings Limited	26.4	26.4	690	53	743	690	(195)	495	248
Haemostatix Limited	18.9	18.9	1,330	(772)	558	1,142	(222)	920	(550)
Symetrica Limited	3.5	3.5	279	195	474	152	–	152	195
Xention Limited	5.2	5.2	608	(213)	395	608	(184)	424	(29)
Celoxica Holdings plc	2.9	2.9	413	(29)	384	377	–	377	(29)
Perpetuum Limited	12.8	12.8	1,314	(953)	361	1,086	(638)	448	(315)
Abcodia Limited	6.7	21.4	235	–	235	235	–	235	–
Proveca Limited	5.8	16.2	215	–	215	–	–	–	–
Xtera Communications Limited	1.3	1.3	85	–	85	85	–	85	–
Isango Limited			–	69	69	–	–	–	69
Clear2Pay NV	0.1	0.1	129	(61)	68	129	–	129	(61)
TeraView Limited	1.0	1.0	1,197	(1,184)	13	1,197	(1,184)	13	–
Oxonica Limited	2.1	2.1	185	(185)	–	198	(188)	10	3
Total high growth unquoted investments			**23,517**	**(2,204)**	**21,313**	21,564	(3,608)	17,956	**1,407**
Quoted investments									
Allergy Therapeutics plc (AIM)			456	(316)	140	456	(331)	125	14
Total quoted investments			**456**	**(316)**	**140**	456	(331)	125	**14**
Total fixed asset investments			**28,315**	**(2,521)**	**25,794**	23,358	(3,934)	19,424	**1,415**
Movement in loan stock accrued interest									(40)
Unrealised gain on current asset deferred consideration held at fair value through profit or loss									4
Unrealised gains									1,379
Realised gain from disposal of fixed asset investments									5,572
Realised gain from current asset escrow receipts from previously sold investments/distributions from investments in liquidation									13
Total gains on investments as per Income Statement									**6,964**

* As permitted by FRS 2 "Accounting for Subsidiary Undertakings", holdings in excess of 50 per cent. of the equity of an investment company may be excluded from consolidation where the holding is held exclusively for subsequent resale. The results of UniServity Limited, where the Company holds in excess of 50 per cent. of that company's equity are, therefore, excluded from consolidation as the interest in UniServity Limited is held exclusively for subsequent resale and has not previously been consolidated.

Current asset investments	As at 31 December 2012 Cost[2] £'000	Cumulative movement in value £'000	Total value £'000	As at 31 December 2011 Cost[2] £'000	Cumulative movement in value £'000	Value £'000	Change in value for the year[3] £'000
Royal Bank of Scotland Group European Commercial Paper 16/06/11 to 14/06/12	–	–	–	1,976	–	1,976	–
Royal Bank of Scotland Euro Medium Term Note 6.375% 26/06/12 to 29/04/14	1,974	2	1,976	–	–	–	–
Close Brothers Limited Fixed Term Deposit 12/03/14	3,500	–	3,500	–	–	–	–
Total fixed asset investments	**5,474**	**2**	**5,476**	1,976	–	1,976	**–**

Realisations in the year to 31 December 2012	Cost[2] £'000	Opening carrying value £'000	Disposal proceeds £'000	Realised gain/(loss) £'000	Gain/(loss) on opening or acquired value £'000
Vivacta Limited	2,104	1,983	6.960	4,856	4,977
Workshare Limited	2,011	2,257	2,748	737	491
Celldex Therapeutics Inc (NASDAQ)	635	178	381	(254)	203
Hilson Moran Holdings Limited (loan repayment)	135	135	135	–	–
We7 Limited	863	160	61	(802)	(99)
Oxonica Limited (return of capital)	13	13	13	–	–
	5,761	**4,726**	**10,298**	**4,537**	**5,572**

(1) Albion Ventures LLP.

(2) Amounts shown as 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

Portfolio companies

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

Elateral Group Limited

Development and sale of brand marketing automation software.

Website: www.elateral.com

Audited results for year ended	31 March 2012 £'000	Investment information:	£'000
Turnover	4,935	Income recognised in the year	–
(Loss) before tax	(701)	Accounting cost	2,243
(Loss) after tax	(506)	Loan stock valuation	–
Net liabilities	(269)	Equity valuation	4,264
Basis of valuation	Revenue multiple	Voting equity held	37.7%

Oxford Immunotec Limited

Development and sale of T-cell measurement diagnostic products.

Website: www.oxfordimmunotec.com

Audited results for year ended	31 December 2011 £'000	Investment information:	£'000
Turnover	7,970	Income recognised in the year	–
(Loss) before tax	(8,004)	Accounting cost	1,476
(Loss) after tax	(7,912)	Loan stock valuation	–
Net assets	3,950	Equity valuation	3,743
Basis of valuation	Price of recent investment	Voting equity held	3.5%

UniServity Limited

Learning platform solution provider for schools and local authorities.

Website: www.uniservity.com

Audited results for year ended	31 July 2012 £'000	Investment information:	£'000
Turnover	3,752	Income recognised in the year	–
Profit before tax	256	Accounting cost	3,710
Profit after tax	338	Loan stock valuation	–
Net liabilities	(92)	Equity valuation	2,054
Basis of valuation	Revenue multiple	Voting equity held	93.6%

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 2011 £'000	Investment information:	£'000
Turnover	2,682	Income recognised in the year	–
Profit before tax	283	Accounting cost	2,218
Profit after tax	283	Loan stock valuation	308
Net assets	3,196	Equity valuation	1,453
Basis of valuation	Revenue multiple	Voting equity held	28.6%

Atego Group Limited

Engineering design software.

Website: www.atego.com

Audited results for year ended	31 December 2012 £'000	Investment information:	£'000
Turnover	13,360	Income recognised in the year	34
Profit before tax	788	Accounting cost	960
Profit after tax	2,938	Loan stock valuation	582
Net assets	9,599	Equity valuation	1,085
Basis of valuation	Earnings multiple	Voting equity held	9.5%

Portfolio companies (continued)

Antenova Limited

Supplier of integrated antennas and RF solutions

Website: www.antenova.com

Audited results for year ended	31 December 2011	Investment information:	
	£'000		£'000
Turnover	3,502	Income recognised in the year	–
(Loss) before tax	(866)	Accounting cost	1,543
(Loss) after tax	(663)	Loan stock valuation	–
Net assets	871	Equity valuation	1,288
Basis of valuation	Earnings multiple	Voting equity held	12.3%

Sift Limited

Web based provision of online business and community management solutions.

Website: www.sift.com

Audited results for year ended	31 December 2011	Investment information:	
	£'000		£'000
Turnover	8,062	Income recognised in the year	11
(Loss) before tax	(20)	Accounting cost	3,271
Profit after tax	27	Loan stock valuation	420
Net assets	377	Equity valuation	707
Basis of valuation	Earnings multiple	Voting equity held	40.2%

Hilson Moran Holdings Limited

Multi-disciplinary engineering consultancy.

Website: www.hilsonmoran.com

Audited results for year ended	31 December 2011	Investment information:	
	£'000		£'000
Turnover	17,658	Income recognised in the year	81
Profit before tax	261	Accounting cost	1,065
Profit after tax	258	Loan stock valuation	918
Net assets	4,211	Equity valuation	148
Basis of valuation	Cost reviewed for impairment	Voting equity held	15.0%

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

Alto Prodotto Wind Limited

Alto Prodotto Wind is a company which builds, owns and operates medium scale (100kWp to 1500kWp) wind projects in the UK.

Abbreviated audited results for year ended	31 March 2012	Investment information:	
	£'000		£'000
		Income recognised in the year	41
Net assets	1,402	Accounting cost	1,000
		Loan stock valuation	1,000
		Equity valuation	–
Basis of valuation	Cost reviewed for impairment	Voting equity held	11.1%

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

The Street by Street Solar Programme Limited

The company installs, owns and operates domestic photovoltaic systems on homes in England with Engensa as the installation partner.

Website: www.engensa.com

Abbreviated audited results for year ended	30 November 2011	Investment information:	
	£'000		£'000
		Income recognised in the year	87
Net assets	733	Accounting cost	1,000
		Loan stock valuation	1,000
		Equity valuation	–
Basis of valuation	Cost reviewed for impairment	Voting equity held	10.0%

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

Directors' report

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 2012.

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 accordance with Part 6 of the Income Tax Act 2007 and in the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 31 December 2012 is subject to review should there be any subsequent enquiry under corporation tax self assessment. 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.

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.

The Company's ordinary shares of 1 penny are listed on the London Stock Exchange.

Statement of corporate governance
The Statement of corporate governance, which is required by DTR 7.2 is set out on pages 23 to 27 and forms part of this Report.

Capital structure
Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are 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 (except for treasury shares, which have no right to dividend and no voting rights). 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's Ordinary shares are designed for individuals who are professionally advised private investors, seeking, over the long term, investment exposure to a diversified portfolio of unquoted investments. The investments are spread over a number of sectors, to produce a regular and predictable source of income together with the prospect of longer term capital growth.

The Company currently operates a Dividend Reinvestment Scheme, details of which can be found on www.albion-ventures.co.uk within the 'Our Funds' section by clicking on Kings Arms Yard VCT PLC. During the year, the Company issued 200,038 new Ordinary shares, details of which can be found in note 15.

Substantial interests and shareholder profile
As at 31 December 2012 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. There have been no disclosures in accordance with Disclosure and Transparency Rule 5 made to the Company during the year ended 31 December 2012, and up to the date of this Report.

The table below shows the shareholder profile, including nominee accounts but excluding treasury shares, as at 10 April 2013 for the Company's Ordinary shares of 1 penny:

Number of shares held	% shareholders	% share capital
1 – 10,000	39.7	6.9
10,001 – 50,000	46.7	31.9
50,001 – 100,000	8.9	18.8
100,001 – 500,000	4.2	20.6
500,001 – 1,000,000	0.2	5.3
1,000,001 – 5,000,000	0.3	16.5

Investment policy
The Company is a Venture Capital Trust. The investment policy 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-backed portfolio of lower risk, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors (the "Asset-Backed 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 Company. Up to two-thirds of qualifying investments by cost will comprise loan stock secured with a first charge on the portfolio company's assets.

Directors' report (continued)

The Company's investment portfolio will thus be structured to provide a balance between income and capital growth for the longer term. The Asset-Backed 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
In addition to the investment policy described above, the Company's investment allocation and risk diversification policies are substantially driven by the relevant HMRC rules and, in order to maintain its status under Venture Capital Trust legislation, it is the intention of the Company to apply the following policies in this respect:

(1) The Company's income must be derived wholly or mainly from shares and securities;

(2) At least 70 per cent. of the HMRC value* of its investments must have been 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 must have been represented throughout the year by holdings of 'eligible shares';

(4) At no time in the year must the Company's holdings in any one company (other than another VCT) have exceeded 15 per cent. by HMRC value* of its investments;

(5) The Company must not retain more than 15 per cent. of its income earned in the year from shares and securities;

(6) Eligible shares must 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; and

(7) The Company's shares throughout the year must have been listed in the Official List of the London Stock Exchange.

*In accordance with section 278 of the Income Taxes Act 2007, HMRC value is the original cost of the investment, adjusted to the value at the time of any addition or disposal of that investment.

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 2012. 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. Details of the sectors in which the Company is invested can be found in the pie chart in the Manager's report on page 9.

Portfolio company gross assets must not exceed £15 million immediately prior to the investment and £16 million immediately thereafter. The maximum each company can receive from State Aided risk capital schemes is £5 million in any twelve month period. Portfolio companies may have up to 250 employees.

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 £37,803,000 (2011: £33,938,000). Gearing will not normally be employed. As at 31 December 2012, the Company had no borrowings (2011: £nil). The Directors do not currently have any intention to utilise long term gearing.

Current portfolio sector allocation
The pie chart in the Manager's report on page 9 shows the distribution of the portfolio as at 31 December 2012. Details of the principal investments made by the Company are shown in the Portfolio of investments on page 12.

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 6 and 7 and Manager's report on pages 8 and 9. Details of significant events which have occurred since the end of the financial year are listed in note 21. Details of transactions with the Manager are shown in note 4.

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.

Directors' report (continued)

Operational arrangements
The Company has delegated the investment management of the portfolio to Albion Ventures LLP, which is authorised and regulated by the Financial Conduct 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 20.

Results and dividends

	£'000
Net revenue return for the year ended 31 December 2012	28
Dividend of 0.5 pence per share paid on 25 May 2012	(1,047)
Dividend of 0.5 pence per share paid on 28 September 2012	(1,048)
Unclaimed dividends returned to the Company	78
Transferred from other distributable reserve	**(1,989)**
Realised capital return net of capitalised management fees	5,059
Unrealised gain for the year ended 31 December 2012	1,379
Transferred to other distributable reserve and investment holding reserve	**6,438**
Net assets as at 31 December 2012	**38,830**
Net asset value per share as at 31 December 2012 (pence)	**18.90**

The Company paid dividends of 1 penny per share during the year ended 31 December 2012 (2011: 0.67 pence per share). The Directors have declared a first dividend of 0.5 pence per share for the year ending 31 December 2013, which will be paid on 31 May 2013 to shareholders on the register on 10 May 2013.

As shown in the Income Statement on page 31 of the Financial Statements, investment income has fallen slightly to £511,000 (2011: £522,000). Investment income for 2011 included a one-off dividend receipt of £359,000. The increase in underlying investment income is as a result of investment in interest-bearing loan stock during the year. The revenue return to equity holders has fallen to £28,000 (2011: £125,000). The significant increase in interest received from loan stock investments and the reduction in general expenses was offset by the increase in management fees as these were charged for a full year on the merged Company, as well as the effect of exchange rate fluctuations on an investment and accrued income denominated in US dollars.

The capital return for the year was £6,438,000 (2011: £935,000) as a result of an increase in valuations and the significant realised gains from several investment sales, offset by management fees allocated to capital. There was an additional uplift to net asset value per share of 0.1p as a result of the buying back of shares at a discount to net asset value.

The total return per share was 3.1 pence per share (2011: 0.8 pence per share).

The Balance sheet on page 32 of the Financial Statements shows that the net asset value per share has increased over the last year to 18.9 pence per share (2011: 16.7 pence per share) which is due to the movement for the year as noted above less the dividend paid during the year.

The cash flow for the business was negative for the year due to net proceeds from the sale of investments, offset by the purchase of current asset investments and the payment of dividends.

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

- The bar chart on page 5 shows the shareholder net asset value return for the past five years.
- The Company's gross income yield on closing net assets was 1.3 per cent. (2011: 1.5 per cent.).
- The ongoing charges ratio for the year to 31 December 2012 was 2.7 per cent, excluding exchange rate loss (2011: 2.9 per cent). This ratio excludes the cost of the issue of shares which have been accounted for against the share premium account.

The Company continues to comply with HMRC rules in order to maintain its status under Venture Capital Trust legislation as highlighted on page 16 .

Share buy-backs
The Company operates a policy of buying back shares either for cancellation or for holding in treasury. Details regarding the current policy can be found in the Chairman's statement on pages 6 and 7.

Principal risks and uncertainties
In additional to the current economic risks outlined in the Chairman's statement, 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 has been rebalancing 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.

The success of investments in certain sectors is also subject to regulatory risk, such as those affecting companies involved in UK renewable energy.

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 the 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.

The Board and the Manager closely monitor regulatory changes within the sectors invested in.

3. *Valuation risk*

The Company's investment valuation methodology 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 1 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. The sensitivity of these assumptions is commented on further in notes 11 and 19.

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 PricewaterhouseCoopers LLP as its taxation advisers. PricewaterhouseCoopers will report quarterly 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, providing opportunity for the Audit Committee to ask specific and detailed questions. The Manager has a comprehensive business continuity plan in place in the event that operational continuity is threatened. Further details regarding the Board's management and review of the Company's internal controls through the implementation of the Turnbull guidance are detailed on page 25 .

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 more detail, see the Management agreement paragraph on page 20). 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. However, as at 31 December 2012, the Company held an investment and accrued income denominated in US dollars of £582,000 (2011: £178,000). It is therefore likely that the Company would be affected by currency fluctuations, however, this is not expected to be material.

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.

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

Directors
The Directors who held office throughout the year and their interests in the issued Ordinary shares of 1 penny each of the Company (together with those of their immediate family) as at 31 December 2012, are shown below:

	31 December 2012	31 December 2011
R A Field (Chairman)	**208,993**	208,993
M G Fiennes	**132,500**	83,300
T W Chambers	**383,781**	333,781
A P M Lamb	**118,796**	118,796
	844,070	744,870

There have been no changes in the holdings of the Directors between 31 December 2012 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.

Partners and staff of the Manager, Albion Ventures LLP, hold 244,482 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 23.

Further details regarding the Directors' remuneration are shown on pages 28 and 29.

Directors' report (continued)

Re-election of Directors

Directors' retirement and re-election is subject to the Articles of Association and the UK Corporate Governance Code. At the forthcoming Annual General Meeting, Martin Fiennes will retire by rotation in accordance with the Articles and offer himself for re-election.

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

Under the Investment Management Agreement, Albion Ventures LLP provides investment management, company secretarial and administrative services to the Company. Albion Ventures LLP is 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, 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.

Management 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. The Board has proposed an incentive arrangement with Albion Ventures LLP which will be subject to approval by shareholders and details are shown in the circular to shareholders accompanying this Annual Report and Financial Statements.

Evaluation of the Manager

The Board has evaluated the performance of the Manager based on the returns generated by the Company from the management and sale of existing investments, the continuing achievement of the 70 per cent. investment requirement for Venture Capital Trust status, the writing of new investments under the new investment policy, 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.

Investment and co-investment

The Company co-invests with other venture capital trusts and funds managed by Albion Ventures LLP. Allocation of new investments between the Albion Ventures LLP VCTs will be in accordance with the allocation agreement which is based on 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 VCT.

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 2012, trade creditors totalled £18,000 (2011: £27,000). Creditor days as at 31 December 2012 were 7 days (2011: 14 days).

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 24 May 2013.

Annual General Meeting

The Annual General Meeting will be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS at

Directors' report (continued)

11.00 am on 24 May 2013. The Notice of Annual General Meeting can be found in the Shareholder Circular dated 17 April 2013 which is enclosed with this Annual Report and Financial Statements

The proxy form enclosed with the Shareholder Circular 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. A 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 Conduct Authority.

Authority to allot shares (Resolution 6)
This ordinary resolution proposes to renew the Directors' authority to allot additional shares of the Company up to an aggregate nominal amount of £209,667, 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 and the reissuance of treasury shares where it is in the Company's interest to do so. The Company currently holds 4,242,000 treasury shares representing 2.0 per cent. of the total Ordinary share capital in issue as at 31 December 2012.

During the year Ordinary shares were allocated under the terms of the Dividend Reinvestment Scheme as described in detail in note 15.

Authority for the disapplication of pre-emption rights (Resolution 7)
This special resolution proposes to renew the Directors' authority to allot equity securities for cash up to an aggregate nominal amount of £209,667 (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 8)
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 8.

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.

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. Up to 10 per cent. of shares in issue can be held in treasury.

During the financial year under review, the Company purchased 4,242,000 Ordinary shares all of which are held in treasury. Further information is shown in note 15.

Treasury shares (Resolution 9)
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 6 to 9 replace the authorities given to the Directors at the Annual General Meeting on 17 May 2012, 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.

Related Party Transaction (Resolution 10)
This ordinary resolution proposes to introduce a performance incentive fee arrangement for Albion Ventures LLP. Approval by shareholders of this arrangement is required pursuant to the Listing Rules. A full explanation of this resolution is set out in the Shareholder Circular accompanying this Annual Report and Financial Statements.

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

Directors' report (continued)

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 of 844,070 shares.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report, 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 Conduct 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 for the prevention and detection of 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.

The Directors confirm to the best of their knowledge that:

- the Financial Statements, which have been prepared in accordance with applicable UK Generally Accepted Accounting Practice, 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 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 it faces.

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

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
15 April 2013

Statement of corporate governance

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

Background

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

In September 2012, the FRC issued an updated Corporate Governance Code ("the revised Code"), which applies to reporting periods beginning after 1 October 2012. The FRC recommends that companies reporting on periods beginning before 1 October 2012 should continue to report against the June 2010 edition of the Code. However, the Board of Kings Arms Yard VCT PLC feels that early adoption of the revised Code is beneficial and has therefore adopted those new provisions where relevant.

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 (which incorporates the Code), will provide better information to shareholders than reporting under the Code alone.

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

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.

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 fact that all Directors are non-executive, 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 Martin Fiennes will resign and offer himself for re-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 Directors have considered diversity in relation to the composition of the Board and have concluded that its membership is diverse in relation to experience and balance of skills.

The Board met four times during 2012 as part of its regular programme of Board meetings. All Directors attended each meeting. In addition, and in accordance with best practice, further meetings took place without the Manager present.

Statement of corporate governance (continued)

The Board also met during the year, without the Manager, to specifically discuss the terms and conditions of a management performance incentive fee. A sub-committee of two Directors met during the year 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.

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 the Auditor;
- evaluation of non-audit services provided by the external Auditor;
- 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 evaluation process has identified that the Board works well together and has the right balance of skills, experience, independence and knowledge of the Company amongst the Directors for the effective governance of the Company. The Board considers any skills gaps in existence and takes action to remedy these where necessary. Diversity within the Board is achieved through the appointment of directors with different sector backgrounds and skills. For any Board appointments, full consideration will be given to the matter of diversity, including gender.

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, Martin Fiennes, who is subject to re-election at the forthcoming Annual General Meeting, is considered to be effective and demonstrates strong commitment to the role. The Board believes it to be in the best interest of the Company that he continue in his position.

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 and Mr Thomas Chambers is the Chairman. 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 2012; all members attended.

Written terms of reference have been constituted for the Audit Committee and can be found on the Company's website at www.albion-ventures.co.uk within the 'Our Funds' section by clicking on Kings Arms Yard VCT PLC. During the year under review, the Audit Committee discharged its responsibilities including:

Statement of corporate governance (continued)

- 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;
- advising the Board on whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- highlighting specific issues relating to the Financial Statements including the reasonableness of valuations, compliance with accounting standards and UK law, corporate governance and listing and disclosure rules disclosures as well as going concern. These issues were addressed through detailed review, discussion and challenge by the Board of the matters, as well as by reference to underlying technical information;
- 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.

The Audit 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 Audit 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.

As part of its work, the Audit Committee has undertaken a formal evaluation of the external Auditor against the following criteria:

- Qualification
- Expertise
- Resources
- Effectiveness
- Independence
- Leadership

In order to form a view of the effectiveness of the external audit process, the Audit Committee took into account information from the Manager regarding the audit process, the formal documentation issued to the Audit Committee and the Board by the external Auditor regarding the external audit for the year ended 31 December 2012, and assessments made by individual Directors.

The Audit Committee also has an annual meeting with the external Auditor, without the Manager present, at which pertinent questions are asked to help the Audit Committee determine if the Auditors' skills match all the relevant and appropriate criteria.

Where non-audit fee levels are considered significant, the Audit 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 2012. The Audit 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 Audit Committee has obtained sufficient assurance from their own evaluation and the audit feedback documentation. Based on the assurance obtained, the Audit 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 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, assisted by the Audit Committee, monitors all controls, including financial, operational and compliance controls, and risk management. The Audit Committee 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,

Statement of corporate governance (continued)

and to deal with areas of improvement which come to the Manager's and the Audit Committee's attention.

The Board, through the Audit Committee, 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;
- independent third party valuations of the majority of asset-backed investments within the portfolio are undertaken annually;
- reviews of valuations are carried out by the Managing Partner and reviews of financial reports are carried out by the Operations Partner of the Manager, Albion Ventures LLP;
- bank and stock reconciliations are carried out monthly by the Manager in accordance with the FCA 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.

As the Board has delegated the investment management and administration of the Company to Albion Ventures LLP, the Board feels that it is not necessary to have its own internal audit function. Instead, the Board had 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 ensure that any recommendations to implement improvements in controls are carried out. During the year, the Board reviewed internal audit reports prepared by Littlejohn LLP. The Board and the Audit Committee 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, share buy-backs 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.

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 and acknowledge 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 in the Directors' report on pages 15 and 21. 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 24 May 2013 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 by clicking on Kings Arms Yard VCT PLC.

Statement of corporate governance (continued)

Any enquiries relating to dividends, shareholdings, 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.investorcentre.co.uk

Shareholders can access holdings and valuation information regarding any of their shares held with Computershare by registering on Computershare's website.

Specific enquiries relating to the performance of the Company 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
Website: www.albion-ventures.co.uk

Please note that these contacts are unable to provide financial or taxation advice.

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 2012 with all the relevant provisions set out in Section 1 of the Code issued in 2010, and with the AIC Code of Corporate Governance. The Company continues to comply with the Codes issued in September 2012 as at the date of this report.

By order of the Board
Albion Ventures LLP
Company Secretary
15 April 2013

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 Conduct 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 30.

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 Directors' 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 £70,000 (2011: £48,755) 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.

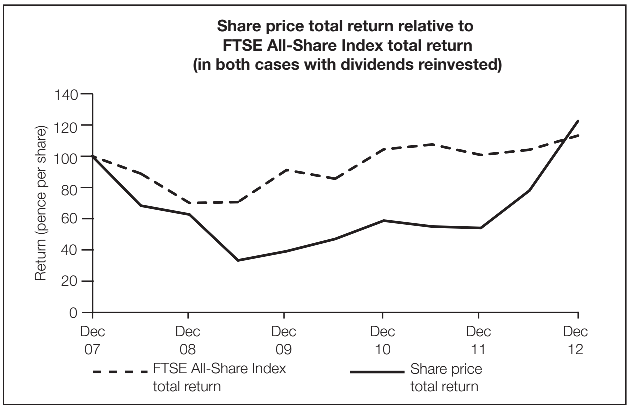
Service contracts
There are no notice periods stipulated in the service contracts or appointment letters with any of the Directors. No compensation is payable to Directors on leaving office.

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.

At the Annual General Meeting to be held on 24 May 2013, Martin Fiennes will retire by rotation and be subject to re-election.

Performance
The Directors consider that total return to shareholders (defined as the net asset value per share of the Company plus cumulative dividends paid) 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 79.2p per share, which is shown on page 5, can be compared against the issue price of 100p at the date of launch of the Company.

The graph below shows the Company's share price total return against the FTSE All-Share Index total return, in both instance, rebased to 100 and with dividends reinvested, since 2007. The Directors consider the FTSE All-Share 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

There are no options, issued or exercisable, in the Company which would distort the graphical representation.

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 2012	Year ended 31 December 2011
R A Field (Chairman)	**22,500**	22,500
T W Chambers[1]	**17,500**	4,375
M G Fiennes	**15,000**	12,320
A P M Lamb	**15,000**	3,750
D Y Adams	**–**	5,810
	70,000	48,755

(1) £2,500 is included in the total above for T W Chambers' capacity as Audit Committee Chairman.

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 (2011: £10,000).

An ordinary resolution for the approval of this report will be put to shareholders at the Annual General Meeting on 24 May 2013.

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
15 April 2013

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 2012 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 22, 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 2012 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 26 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
15 April 2013

Income statement

		Year ended 31 December 2012			Year ended 31 December 2011		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	2	–	6,964	6,964	–	1,257	1,257
Investment income	3	511	–	511	522	–	522
Investment management fees	4	(175)	(526)	(701)	(107)	(322)	(429)
Other expenses	5	(273)	–	(273)	(290)	–	(290)
Exchange rate costs	5	(35)	–	(35)	–	–	–
Profit on ordinary activities before tax		28	6,438	6,466	125	935	1,060
Tax on ordinary activities	7	–	–	–	–	–	–
Profit on ordinary activities after tax		28	6,438	6,466	125	935	1,060
Basic and diluted return per share (pence)	9	–	3.1	3.1	0.1	0.7	0.8

The accompanying notes on pages 35 to 46 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.

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 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 2012 £'000	31 December 2011 £'000
Fixed asset investments	11	**25,794**	23,957
Current assets			
Trade and other debtors	13	**1,505**	557
Current asset investments	13	**5,476**	1,976
Cash at bank and in hand	17	**6,697**	8,758
		13,678	11,291
Creditors: amounts falling due within one year	14	**(642)**	(262)
Net current assets		**13,036**	11,029
Net assets		**38,830**	34,986
Capital and reserves			
Called-up share capital	15	**2,097**	2,095
Share premium		**27**	–
Investment holding reserve		**(2,569)**	(4,984)
Other distributable reserve		**39,275**	37,875
Total equity shareholders' funds		**38,830**	34,986
Basic and diluted net asset value per share (pence)	16	**18.9**	16.7

The accompanying notes on pages 35 to 46 form an integral part of these Financial Statements.

The special reserve, treasury reserve and the profit and loss account have been combined to form a single reserve named other distributable reserve for both the current and prior year. The Directors consider the presentation of a single reserve to enhance the clarity of financial reporting. Details regarding treasury shares can be found in note 15.

The Financial Statements were approved by the Board of Directors and authorised for issue on 15 April 2013 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	Investment holding reserve £'000	Other distributable reserve £'000	Total £'000
At 31 December 2011	2,095	–	–	(4,984)	37,875	34,986
Recognised gains on investments	–	–	–	–	5,585	5,585
Realisation of prior years' net recognised losses on investments	–	–	–	1,035	(1,035)	–
Investment holding profit on valuation of investments	–	–	–	1,379	–	1,379
Investment management fee allocated to capital	–	–	–	–	(526)	(526)
Purchase of own treasury shares	–	–	–	–	(633)	(633)
Shares issued under the dividend reinvestment scheme	2	27	–	–	–	29
Revenue gain on ordinary activities after taxation	–	–	–	–	28	28
Net dividends paid	–	–	–	–	(2,017)	(2,017)
At 31 December 2012	**2,097**	**27**	**–**	**(2,569)**	**39,275**	**38,830**
At 31 December 2010	5,519	150	765	(9,574)	21,423	18,283
Recognised gains 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
Investment management fee allocated to capital	–	–	–	–	(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	–
Revenue gain on ordinary activities after taxation	–	–	–	–	125	125
Net dividends paid	–	–	–	–	(619)	(619)
At 31 December 2011	2,095	–	–	(4,984)	37,875	34,986

The accompanying notes on pages 35 to 46 form an integral part of these Financial Statements.

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

The total distributable reserves are £39,706,000 (2011: £32,891,000), comprising other distributable reserve net of investment holding losses.

The special reserve, treasury share reserve and the profit and loss account have been combined in the balance sheet to form a single reserve named other distributable reserve for both the current and prior year. The Directors consider the presentation of a single reserve to enhance the clarity of financial reporting. More details regarding treasury shares can be found in note 15.

Cash flow statement

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Net cash flow from operating activities	18	**(350)**	(205)
Capital expenditure and financial investments			
Purchase of fixed asset investments		**(6,296)**	(3,131)
Disposal of fixed asset investments		**10,360**	4,235
Cash received from investments previously sold or written off		**404**	324
Net cash flow from investing activities		**4,468**	1,428
Management of liquid resources			
Purchase of current asset investments		**(5,474)**	(985)
Disposal of current asset investments		**1,976**	3,230
Net cash flow from liquid resources		**(3,498)**	2,245
Equity dividends paid (net of costs of issuing shares under the dividend reinvestment scheme and unclaimed dividends)*		**(2,012)**	(706)
Net cash flow before financing		**(1,392)**	2,762
Financing			
Cash acquired from Kings Arms Yard VCT 2 PLC on Merger		**–**	3,953
Cost of Merger (paid on behalf of the Company and Kings Arms Yard VCT 2 PLC)		**(37)**	(173)
Purchase of own shares		**(632)**	–
Net cash flow from financing		**(669)**	3,780
Cash flow in the year	17	**(2,061)**	6,542

The accompanying notes on pages 35 to 46 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 shown in the cash flow are different to the dividends 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. However, to enhance clarify of the financial reporting, during the year the special reserve, treasury share reserve and profit and loss account have been presented as a single reserve named other distributable reserve. This has also been applied to prior periods.

Basis of accounting

The Financial Statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of investments, 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.

Consolidation

As permitted by FRS 2 "Accounting for Subsidiary Undertakings", holdings in excess of 50 per cent. of the equity of an investment company may be excluded from consolidation where the holding is held exclusively for subsequent resale.

The results of UniServity Limited, where the Company holds in excess of 50 per cent. of that company's equity are, therefore, excluded from consolidation as the interest in UniServity Limited is held exclusively for subsequent resale and has not previously been consolidated.

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.

Notes to the Financial Statements (continued)

1. **Accounting policies (continued)**

Investment management fees and other expenses (continued)

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 other distributable reserve, which now includes the special reserve to which these costs were previously charged.

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 the 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 and transfers to other distributable reserve.

Investment holding reserve

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

Other distributable reserve

The special reserve, treasury share reserve and profit and loss account have been combined as a single reserve named other distributable reserve.

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 on investments**

	Year ended 31 December 2012 £’000	Year ended 31 December 2011 £’000
Unrealised gains on fixed asset investments held at fair value through profit or loss account	**1,375**	993
Unrealised gain/(loss) on deferred consideration held at fair value through profit or loss account	**4**	(6)
Unrealised gains subtotal	**1,379**	987
Realised gains on fixed asset investments held at fair value through profit or loss account	**5,572**	253
Realised gains in respect of escrow receipts from previously sold investments and distributions from investments in liquidation	**13**	17
Realised gains subtotal	**5,585**	270
	6,964	1,257

Notes to the Financial Statements (continued)

3. Investment income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Income recognised on investments held at fair value through profit or loss account		
Dividends	**–**	359
Listed fixed interest securities	**72**	13
Interest from loans to portfolio companies	**354**	67
Other income	**–**	10
	426	449
Income recognised on investments measured at amortised cost		
Bank deposit interest	**85**	73
	511	522

Interest income earned on impaired investments at 31 December 2012 was £nil (2011: £nil).

4. Investment management fees

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Investment management fees charged to revenue	**175**	107
Investment management fees charged to capital	**526**	322
	701	429

Further details of the Management agreement under which the investment management fee is paid are given in the Directors' report on page 20.

The Manager, Albion Ventures LLP, is party to a Management agreement from the Company (details disclosed on page 20 of this report). During the year, services with a value of £701,000 (2011: £429,000 from SPARK Venture Management Limited) and £50,000 (2011: £77,000 from SPARK Venture Management Limited) were purchased by the Company from Albion Ventures LLP in respect of management and administration fees respectively. At the financial year end, the amount due to Albion Ventures LLP in respect of these services disclosed as accruals was £185,000 (2011: £nil to SPARK Venture Management Limited).

Albion Ventures LLP is, from time to time, eligible to receive transaction fees and Directors' fees from portfolio companies. During the year ended 31 December 2012, fees of £255,000 attributable to the investments of the Company were received pursuant to these arrangements (2011: £82,000).

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. These shares will be sold for the benefit of the Company at a future date.

Albion Ventures LLP also holds 6,403 shares purchased to clear a dissenting shareholder in respect of the Merger of Kings Arms Yard VCT 2 PLC on 30 September 2011.

5. Other expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Administrative and secretarial services	**50**	77
Directors' fees (note 6)	**75**	46
Auditor's remuneration		
Fees for statutory audit of the Financial Statements (excluding VAT)	**23**	23
Fees for taxation advice (excluding VAT)	**3**	2
Fees for taxation compliance (excluding VAT)	**2**	2
Legal and professional expenses	**1**	27
Insurance	**10**	10
Irrecoverable VAT	**17**	26
Other expenses	**92**	77
	273	290
Exchange rate costs	**35**	–
	308	290

As described on page 8, the Company acquired control of UniServity Limited on 19 December 2012 and for the reasons given on page 35, this investment is not consolidated. Grant Thornton UK LLP is the auditor of both the Company and UniServity Limited. UniServity Limited prepares it's financial statements for the year to 31 July. For the year ended 31 July 2012 fees for UniServity Limited in relation to audit and taxation compliance services were £16,750 and £4,200 respectively.

Notes to the Financial Statements (continued)

6. Directors' fees

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Amount payable to Directors	**70**	49
National insurance	**5**	2
Tax and national insurance recovered from past directors	**–**	(5)
	75	46

Further information regarding Directors' remuneration can be found in the Directors' remuneration report on pages 28 and 29.

7. Tax on ordinary activities

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
UK Corporation tax payable	**–**	–

Reconciliation of profit on ordinary activities to taxation charge	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit on ordinary activities before taxation	**6,466**	1,060
Tax charge on profit at the standard UK corporation tax rate of 24.5% (2011: 26.5%)	**(1,584)**	(281)
Effects of:		
Non-taxable gains	**1,706**	333
Non-taxable income	**–**	95
Unutilised management expenses	**(122)**	(147)
	–	–

The UK government changed the rate of corporation tax from 26 per cent. to 24 per cent. with effect from 1 April 2012. The effective rate of tax for the year ended 31 December 2012 is 24.5 per cent. (91 days at 26 per cent. and 275 days at 24 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 £9,687,000 (2011: £9,189,000) that are available for offset against future profits. A deferred tax asset of £2,325,000 (2011: £2,388,000) 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 2012 £'000	Year ended 31 December 2011 £'000
Final dividend of 0.67 pence per share paid on 24 June 2011	**–**	739
Unclaimed dividends returned to Company during the year	**–**	(120)
First dividend of 0.5 pence per share paid on 25 May 2012	**1,047**	–
Second dividend of 0.5 pence per share paid on 28 September 2012	**1,048**	–
Unclaimed dividends returned to Company during the year	**(78)**	–
	2,017	619

The Directors have declared a first dividend of 0.5 pence per share for the year ending 31 December 2013, which will amount to approximately £1,027,000. This dividend will be paid on 31 May 2013 to shareholders on the register on 10 May 2013.

9. Basic and diluted return per share

	Year ended 31 December 2012			Year ended 31 December 2011		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Return attributable to equity shares (£'000)	**28**	**6,438**	**6,466**	125	935	1,060
Weighted average shares in issue (excluding treasury shares)		**208,673,002**			135,360,943	
Return attributable per equity share (pence)	**–**	**3.1**	**3.1**	0.1	0.7	0.8

The weighted average number of Ordinary shares is calculated excluding the treasury shares of 4,242,000 (2011: nil).

There are no convertible instruments, derivatives or contingent share agreements in issue so basic and diluted return per share are the same.

Notes to the Financial Statements (continued)

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

On 30 September 2011, 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 liquidators held the final creditors meeting on 27 December 2012 and the company was dissolved on 8 April 2013.

11. Fixed asset investments

Summary of fixed asset investments

	31 December 2012 £'000	31 December 2011 £'000
Investments held at fair value through profit or loss account		
Unquoted equity	**17,411**	19,412
Unquoted loan stock	**8,243**	4,242
Quoted equity	**140**	303
	25,794	23,957

	31 December 2012 £'000	31 December 2011 £'000
Opening valuation	**23,957**	12,350
Purchases at cost	**5,148**	3,375
Investments acquired from Kings Arms Yard VCT 2 PLC	**–**	11,422
Disposal proceeds	**(10,298)**	(4,460)
Realised gains	**5,572**	270
Movement in loan stock accrued income	**40**	7
Unrealised gains	**1,375**	993
Closing valuation	**25,794**	23,957
Movement in loan stock accrued income		
Opening accumulated movement in loan stock accrued income	**7**	–
Movement in loan stock accrued income	**40**	7
Closing accumulated movement in loan stock accrued income	**47**	7
Movement in unrealised losses		
Opening accumulated unrealised losses	**(4,978)**	(9,574)
Transfer of previously unrealised losses to realised reserve on disposal of investments	**1,035**	3,603
Movement in unrealised gains	**1,375**	993
Closing accumulated unrealised losses	**(2,568)**	(4,978)
Historical cost basis		
Opening book cost	**28,928**	21,924
Purchases at cost	**5,148**	3,375
Investments acquired from Kings Arms Yard VCT 2 PLC	**–**	11,422
Sales at cost	**(5,761)**	(7,793)
Closing book cost	**28,315**	28,928

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 cash flow statement may not equal purchases and disposals in the table above due to settlement debtors and creditors.

All fixed asset investments are held at fair value through profit or loss. Loan stocks valued at £5,296,000 yield a fixed rate of interest. Loan stocks valued at £2,947,000 are non-interest bearing.

The Company does not hold any assets as the result of the enforcement of security during the year 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.

Notes to the Financial Statements (continued)

11. Fixed asset investments (continued)

Unquoted investment valuation methodologies

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

	31 December 2012 £'000	31 December 2011 £'000
Revenue multiple	**8,245**	8,336
Price of recent investment	**6,101**	7,109
Cost reviewed for impairment	**5,457**	2,932
Earnings multiple	**4,826**	5,267
Discount to price of recent investment	**557**	–
Net assets supported by third party valuation	**399**	–
Discounted cash flow	**69**	–
Net Assets	**–**	10
	25,654	23,654

Full valuations are prepared by independent RICS qualified surveyors in full compliance with the RICS Red Book.

Fair value investments had the following movements between valuation methodologies between 31 December 2011 and 31 December 2012.

Change in valuation methodology (2011 to 2012)	**Value as at 31 December 2012 £'000**	**Explanatory note**
Earnings multiple to revenue multiple	2,122	Short term reduction in profitability
Price of recent investment to earnings multiple	1,667	Trading update since last round of investment
Price of recent investment to revenue multiple	13	Trading update since last round of investment
Price of recent investment to discount to price of recent investment	557	Trading update since last round of investment
Revenue multiple to earnings multiple	1,288	Profitability established
Cost reviewed for impairment to price of recent investment	475	Investment round has recently taken place
Cost reviewed for impairment to discounted cashflow	69	Anticipated sale proceeds

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 2012.

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 2012 are categorised in accordance with FRS 29 as follows

	31 December 2012			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Unquoted equity	**–**	**–**	**17,411**	**17,411**
Unquoted loan stock	**–**	**–**	**8,243**	**8,243**
Quoted equity	**140**	**–**	**–**	**140**
	140	**–**	**25,654**	**25,794**

Notes to the Financial Statements (continued)

11. Fixed asset investments (continued)

Fixed asset investments at fair value through profit or loss as at 31 December 2011 are categorised in accordance with FRS 29 as follows:

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

Level 3 reconciliation

	31 December 2012 £'000	31 December 2011 £'000
Opening valuation	**23,654**	12,138
Purchases at cost	**5,148**	3,375
Investments acquired from Kings Arms Yard VCT 2 PLC	**–**	11,200
Disposal proceeds	**(9,917)**	(4,294)
Realised net gains on disposal	**4,790**	833
Movement in loan stock accrued income	**40**	7
Investment holding gains	**1,939**	395
Closing valuation	**25,654**	23,654

FRS29 requires the Directors to consider the impact of changing one or more of the inputs used as part of the valuation process to reasonable possible alternative assumptions. The valuation methodology applied to 51 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 £1.1m or a decrease of £1.7m in the valuation of the unquoted investments.

12. Significant holdings

The principal activity of the Company is to select and hold a portfolio of investments in quoted and unquoted securities. Although the Company, through the Manager, will, in some cases, be represented on the board of the portfolio company, it will not ordinarily 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 2012 as described below. All of the companies are incorporated in Great Britain

Company	**Class of share**	**Number of shares held**	**Proportion of class held**
Academia Networks Limited	Preferred shares	774,400	23.2%
Cluster Seven Ltd	Ordinary shares	5,999,437	28.6%
Elateral Group Limited	Ordinary shares	17,380,462	37.7%
Lab M Holdings Limited	A Ordinary shares (voting rights diluted)	2,280,000	60.0%
	B Ordinary shares (no voting rights)	600	60.0%
	Preferred ordinary shares (no voting rights)	389,940	52.3%
Oxford Immunotec Limited	A Preferred shares	294,840	32.6%
Proveca Limited	D Ordinary shares	9,297	35.8%
Sift Limited	Ordinary shares	20,952,097	26.5%
UniServity Limited	Ordinary shares	2,024,405	93.2%
	A Ordinary shares	87,152	100.0%
	B Ordinary shares	45,500	100.0%

As permitted by FRS 9, the investments listed above, which are measured at fair value, 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.

As permitted by FRS 2, UniServity Limited, whose holding is in excess of 50 per cent. of that company's equity, is excluded from consolidation as the interest in UniServity Limited is held exclusively for subsequent resale and has not previously been consolidated with the Company.

There is a deficit of £92,191 in respect of the aggregate share capital and reserves of UniServity Limited as at 31 July 2012 and a profit after tax of £338,118 for the year then ended. Details of transactions and balances with UniServity Limited are given in note 22. The investment in UniServity Limited has been included at a fair value that is £1,656,000 less than its original cost. No dividends were received during, or are receivable for the year ended 31 December 2012 from UniServity Limited.

Notes to the Financial Statements (continued)

13. Trade and other receivables/debtors and current asset investments

	31 December 2012 £'000	31 December 2011 £'000
Trade and other receivables/debtors greater than one year	**503**	–
Trade and other receivables/debtors less than one year	**938**	513
Prepayments and accrued income	**64**	44
	1,505	557

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

Current asset investments	31 December 2012 £'000	31 December 2011 £'000
RBS Group European Commercial Paper 16/06/11 to 14/06/12	**–**	1,976
RBS Euro Medium Term Note 6.375% 26/06/12 to 29/04/14	**1,976**	–
Close Brothers Limited fixed term deposit to 12/03/14	**3,500**	–
	5,476	1,976

Current asset investments represent money held for investment. The fair value hierarchy applied to this current asset investment is Level 1 (see note 11 for definitions).

14. Creditors: amounts falling due within one year	31 December 2012 £'000	31 December 2011 £'000
Trade creditors	**18**	27
Accruals	**279**	108
Other creditors	**345**	127
	642	262

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

15. Called up share capital	31 December 2012 £'000	31 December 2011 £'000
Allotted, issued and fully paid:		
209,667,635 Ordinary shares of 1 penny (2011: 209,467,597 Ordinary shares of 1 penny)	**2,097**	2,095

Voting rights
205,425,635 Ordinary shares of 1 penny (net of 4,242,000 treasury shares) (2011: 209,467,597).

The Company operates a share buy back programme, as detailed in the Chairman's Statement on pages 6 and 7. During the year the Company purchased 4,242,000 Ordinary shares with a nominal value of £42,420 at a cost of £633,000, including stamp duty (2011: nil) to be held in treasury. The Company holds a total of 4,242,000 Ordinary shares in treasury, representing 2.0 per cent. of the issued Ordinary share capital as at 31 December 2012. The shares purchased for treasury were funded from other distributable reserves.

Under the terms of the Dividend Reinvestment Scheme, the following Ordinary shares of nominal value 1 penny per share were allotted during the year:

Date of allotment	Number of shares allotted	Aggregate nominal value of shares (£'000)	Issue price (pence per share)	Consideration received net of costs (£'000)	Opening market price per share on allotment date (pence per share)
25 May 2012	98,879	1	16.20	14	11.00
28 September 2012	101,159	1	16.60	15	15.00
	200,038	2		29	

Notes to the Financial Statements (continued)

16. Basic and diluted net asset value per share

The basic and diluted net asset value per share as at 31 December 2012 of 18.9 pence (2011: 16.7 pence) are based on net assets of £38,830,000 (2011: £34,986,000) divided by the 205,425,635 shares in issue (net of treasury shares) at that date (2011: 209,467,597).

17. Analysis of changes in cash during the year

	31 December 2012 £'000	31 December 2011 £'000
Opening cash balances	**8,758**	2,216
Net cash flow	**(2,061)**	6,542
Closing cash balances	**6,697**	8,758

18. Reconciliation of revenue profit before tax to net cash flow from operating activities

	31 December 2012 £'000	31 December 2011 £'000
Revenue profit on ordinary activities before tax	**28**	125
Exchange rate costs	**(35)**	–
Investment management fees allocated to capital	**(526)**	(322)
Movement in accrued loan stock interest	**(40)**	7
(Increase)/decrease in debtors	**(17)**	113
Increase/(decrease) in creditors	**240**	(128)
Net cash flow from operating activities	**(350)**	(205)

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 21.

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 cash flow, 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, foreign currency on investments 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 12 to 14. Investment risk is the exposure of the Company to the revaluation and devaluation of investments. The main driver of investment risk is the operational and financial performance of the 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 asset investment portfolio which is £25,794,000 (2011: £23,957,000). Fixed asset investments form 66 per cent. of the net asset value as at 31 December 2012 (2011: 68 per cent.).

More details regarding the classification of fixed asset investments are shown in note 11.

Notes to the Financial Statements (continued)

19. Capital and financial instruments risk management (continued)

Investment price risk

Investment price risk is the risk that the fair value of future investment cash flows will fluctuate due to factors specific to an investment instrument or to a market in similar instruments. As a venture capital trust the Company invests in unquoted companies in accordance with the investment policy set out on pages 15 and 16. The management of risk within the venture capital portfolio is addressed through careful investment selection, by diversification across different industry segments, by maintaining a wide spread of holdings in terms of financing stage and by limitation of the size of individual holdings. Furthermore, new unquoted investments are often made with up to two-thirds of the investments comprising debt securities, which, owing to the structure of their yield and the fact that they are usually secured, have a lower level of price volatility than equity. 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 in the Manager's report on page 9.

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

The sensitivity of a 10 per cent. increase or decrease in the valuation of the fixed asset investment portfolio (keeping all other variables constant) would increase or decrease the net asset value and return for the year by £2,579,000 (2011: £2,395,000).

Foreign currency risk

Foreign currency risk is the risk of exposure to movements in exchange rates relative to sterling.

The majority of the Company's assets are denominated in Sterling, however, the Company is exposed to US dollars through its investment in a US dollar denominated security. No hedging of the currency exposure is currently undertaken. The Manager monitors the Company's exposure and reports to the Board on a regular basis.

Investment and revenue received in currencies other than sterling is converted into sterling on or shortly after the date of investment or receipt of revenue as are any proceeds from the disposal of a foreign currency investment.

At the year ended 31 December 2012, the Company held an investment and accrued income denominated in US dollars of £582,000 (2011: £178,000).

During the year to 31 December 2012, sterling depreciated by 4.3 per cent. (2011: appreciated by 0.1 per cent.) against the US dollar. It is difficult to forecast future changes in exchanges rates, but the Company, based on the movement of US dollars over the last three years, reasonably expects that the US dollar rate could change by 7.5 per cent. If sterling depreciated by 7.5 per cent. this would affect the US dollar denominated security favourably by £44,000 and a sterling appreciation of 7.5 per cent. would affect the security adversely by £38,000.

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 £222,000 (2011: £63,000). 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 2.7 per cent. (2011: 0.7 per cent.). The weighted average period to expected maturity for the fixed rate fixed assets is approximately 9.2 years (2011: 9.5 years).

Notes to the Financial Statements (continued)

19. Capital and financial instruments risk management (continued)

The Company's financial assets and liabilities as at 31 December 2012, denominated in pounds sterling, consist of the following:

	31 December 2012				31 December 2011			
	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	**–**	**–**	**17,411**	**17,411**	–	–	19,412	19,412
Quoted equity	**–**	**–**	**140**	**140**	–	–	303	303
Unquoted loan stock	**5,123**	**173**	**2,947**	**8,243**	2,245	200	1,797	4,242
Debtors *	**–**	**–**	**1,489**	**1,489**	–	–	544	544
Current liabilities	**–**	**–**	**(642)**	**(642)**	–	–	(262)	(262)
Cash and current asset investments	**12,173**	**–**	**–**	**12,173**	8,423	2,311	–	10,734
Total net assets	**17,296**	**173**	**21,345**	**38,814**	10,668	2,511	21,794	34,973

* The debtors do not reconcile to the balance sheet as prepayments are not included in the above table.

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 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 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 2012 was limited to £8,243,000 (2011: £4,242,000) of unquoted loan stock instruments, £1,976,000 of Royal Bank of Scotland Euro Medium Term Note (2011: £1,976,000 of Royal Bank of Scotland Group ECP), £3,500,000 fixed term deposit with Close Brothers Limited (2011: nil) and £6,697,000 (2011: £8,758,000) 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 Group, NatWest Bank plc, Scottish Widows Bank plc (part of Lloyds Banking Group plc), Barclays Bank plc, Close Brothers Limited 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.

The credit profile of unquoted loan stock is described under liquidity risk on page 46.

The cost, impairment and carrying value of impaired loan stocks held at fair value at 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012			31 December 2011		
	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.

Notes to the Financial Statements (continued)

19. Capital and financial instruments risk management (continued)

The Company has no committed borrowing facilities as at 31 December 2012 (2011: £nil) and had cash of £6,697,000 (2011: £8,758,000) and current asset investments of £5,476,000 (2011: £1,976,000). Against this the Company has an investment commitment as at 31 December 2012 of £188,000 (2011: £148,000).

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 2012 are short term in nature and total £642,000 (2011: £262,000).

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

	31 December 2012				31 December 2011			
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	**301**	**–**	**–**	**301**	129	–	–	129
1-2 years	**1,761**	**–**	**–**	**1,761**	–	–	–	–
2-3 years	**–**	**–**	**–**	**–**	1,207	–	461	1,668
3-5 years	**2,045**	**568**	**–**	**2,613**	1,102	–	–	1,102
5 + years	**3,108**	**460**	**–**	**3,568**	1,343	–	–	1,343
Total	**7,215**	**1,028**	**–**	**8,243**	3,781	–	461	4,242

Loan stock can be past due as a result of interest or capital not being paid in accordance with contractual terms.

Loan stock categorised as past due includes:

- loan stock with a carrying value of £268,000 yielding 2.2 per cent. which has interest overdue for 3 months;
- loan stock with a carrying value of £760,000 in renewable energy companies which are building up interest yield over periods of up to a year as installation of units are completed. Typically these loan stocks yield in excess of 9 per cent. once installed.

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 2012 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 2012, there was a commitment of £188,000 (2011: £148,000) in respect of further funding to be provided to an existing portfolio company.

The Company gave an indemnity to the liquidator of Kings Arms Yard VCT 2 PLC.

There were no contingent liabilities or guarantees given by the Company as at 31 December 2012 (2011: £nil).

21. Post balance sheet events

Since 31 December 2012, the Company has had the following material post balance sheet events:

- the sale of Isango! Limited for £69,000 realising a gain of £69,000 on the carrying value at 31 December 2011;
- a repayment of £45,000 loan stock from Hilson Moran ; and
- further investments of:
  - £365,000 in MyMeds&Me Limited;
  - £120,000 in Bravo Inns II Limited;
  - £100,000 in Celoxica Holdings plc;
  - £86,000 in Dragon Hydro Limited; and
  - £48,000 in Oxford Immunotec Limited.

22. Related party disclosures

There are no related party transactions in the year or balances with the Company and UniServity Limited other than the Company's payment of £200,000 to UniServity for the issue of new shares.

During the year, Albion Ventures LLP, the Company's Manager and Company Secretary, received £24,000 from UniServity Limited in respect of monitoring and arrangement fees.

Notice of Annual General Meeting

The Notice for the Annual General Meeting of Kings Arms Yard VCT PLC (the "Company") to be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS on 24 May 2013 at 11.00 a.m. can be found in the Shareholder Circular dated 17 April 2013 which is enclosed with this Annual Report and Financial Statements.

Merger history

February 1996	Quester VCT PLC (QVCT) launched
June 2005	Quester VCT 2 PLC (QVCT2) and Quester VCT 3 PLC (QVCT3) merged into QVCT
June 2008	All Quester names changed to SPARK QVCT became SPARK VCT plc (SVCT) Quester VCT 4 PLC (QVCT4) became SPARK VCT 2 plc (SVCT2) Quester VCT 5 PLC (QVCT5) became SPARK VCT 3 plc (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

Financial summary for previous funds

	31 December 2012 (pence per share)	31 December 2011 (pence per share)	31 December 2010 (pence per share)
Net asset value of Kings Arms Yard VCT PLC	**18.90**	16.70	16.60
Dividends paid to shareholders of Kings Arms Yard VCT PLC			
Dividends paid during the year	**1.00**	0.67	5.00
Cumulative dividend paid to 31 December 2012	**60.33**	59.33	58.66
Total net asset value return[1] per 100p invested to shareholders of Kings Arms Yard VCT PLC (formerly SPARK VCT plc, Quester VCT PLC)	**79.23**	76.03	75.26
Total net asset value return including tax benefits[2]	**99.23**	96.03	95.26
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	**65.27**	61.99	61.20
Total net asset return including tax benefits[2]	**85.27**	81.99	81.20
Quester VCT 3 plc, per 100p invested in shares of that company			
Total net asset value return	**38.97**	35.82	35.07
Total net asset return including tax benefits[2]	**58.97**	55.82	55.07
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	**34.38**	30.29	31.50
Total net asset return including tax benefits[2]	**54.38**	50.29	51.50
Quester VCT 5 plc (renamed SPARK VCT 3 plc), per 100p invested in shares of that company			
Total net asset value return	**43.66**	27.81	39.45
Total net asset return including tax benefits[2]	**63.66**	47.81	59.45

(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

Dividend history

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 2009	–
31 December 2010	5.000
31 December 2011	0.670
31 December 2012	1.000
Total dividends paid to 31 December 2012	60.329
Net asset value as at 31 December 2012	18.900
Total net asset value return to 31 December 2012	79.229

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
31 December 2012	1.025
Total dividends paid to 31 December 2012	45.895
Net asset value as at 31 December 2012	19.371
Total net asset value return to 31 December 2012	65.266

Dividend 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
31 December 2012	0.982
Total dividends paid to 31 December 2012	20.413
Net asset value as at 31 December 2012	18.552
Total net asset value return to 31 December 2012	38.965

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
31 December 2012	1.281
Total dividends paid to 31 December 2012	10.181
Net asset value as at 31 December 2012	24.203
Total net asset value return to 31 December 2012	34.384

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
31 December 2012	1.871
Total dividends paid to 31 December 2012	8.293
Net asset value as at 31 December 2012	35.368
Total net asset value return to 31 December 2012	43.661

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