

# Kings Arms Yard VCT PLC

Annual Report and Financial  
Statements for the year  
ended 31 December 2017



**ALBION**CAPITAL



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# Company information

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<b>Company number</b>	03139019
<b>Directors</b>	R A Field, Chairman T W Chambers M G Fiennes
<b>Country of incorporation</b>	United Kingdom
<b>Legal form</b>	Public Limited Company
<b>Manager, company secretary, AIFM and registered office</b>	Albion Capital Goup LLP 1 King's Arms Yard London, EC2R 7AF
<b>Registrar</b>	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol, BS99 6ZZ
<b>Auditor</b>	BDO LLP 55 Baker Street London, W1U 7EU
<b>Taxation adviser</b>	Philip Hare & Associates LLP 1st Floor 4 Staple Inn London, WC1V 7QH
<b>Legal adviser</b>	Bird & Bird LLP 12 New Fetter Lane London, EC4A 1JP

Kings Arms Yard VCT PLC is a member of The Association of Investment Companies ([www.theaic.co.uk](http://www.theaic.co.uk)).

<b>Shareholder information</b>	<p>For help relating to dividend payments, shareholdings and share certificates please contact Computershare Investor Services PLC: Tel: 0370 873 5858 (UK National Rate call, lines are open 8.30am – 5.30pm; Mon – Fri; calls may be recorded) Website: <a href="http://www.investorcentre.co.uk">www.investorcentre.co.uk</a></p> <p>Shareholders can access holdings and valuation information regarding any of their shares held with Computershare by registering on Computershare's website.</p>
<b>Financial adviser information</b>	<p>For enquiries relating to the performance of the Company and information for financial advisers, please contact Albion Capital Group LLP: Tel: 020 7601 1850 (lines are open 9.00am – 5.30pm; Mon – Fri; calls may be recorded) Email: <a href="mailto:info@albion.capital">info@albion.capital</a> Website: <a href="http://www.albion.capital">www.albion.capital</a></p> <p><b>Please note that these contacts are unable to provide financial or taxation advice.</b></p>

## Financial calendar

Record date for first dividend	13 April 2018
Payment date for first dividend	30 April 2018
Annual General Meeting	11:00 am on 16 May 2018
Announcement of half-yearly results for the six months ending 30 June 2018	August 2018
Payment date for second dividend (subject to Board approval)	31 October 2018

# Investment policy

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Kings Arms Yard VCT PLC is a Venture Capital Trust and the investment policy is intended to produce a regular and predictable dividend stream with an appreciation in capital value.

The Company's current general investment policy is as follows:

## **Investment policy**

*It is intended to produce a regular and predictable dividend stream with an appreciation in capital value as set out below.*

*The Company intends to achieve its strategy by adopting an investment policy for new investments which over time will rebalance the portfolio such that approximately 50 per cent. of the portfolio comprises an asset-based portfolio of more stable, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors (the "Asset-Based Portfolio"). The balance of the portfolio, other than funds retained for liquidity purposes, will be invested in a portfolio of higher growth businesses across a variety of sectors of the UK economy. These will range from more stable, 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 with the objective of providing a balance between income and capital growth for the longer term. The Asset-Based Portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth. The Growth Portfolio is intended to provide highly diversified exposure through its portfolio of investments in unquoted UK companies.*

In the November 2017 Autumn Budget, a number of changes to the legislation governing venture capital trusts were announced. Those changes have now been enacted in the Finance Act 2017-19 and further information has been provided in Guidance Notes issued by HM Revenue & Customs. Some of these changes took effect from the date upon which the Finance Act received Royal Assent and others will come into force from 6 April 2018. In future, VCTs may no longer offer secured loans to portfolio companies and to qualify for VCT tax reliefs, portfolio companies must satisfy a "risk to capital condition". This means that the portfolio company must have an objective to grow and develop over the long term and there must be a significant risk that there could be a loss of capital to the VCT of an amount exceeding the net return. The overall aim of HM Treasury is to encourage more high growth investment through VCTs rather than low risk, heavily asset backed investments.

**As a result of these changes, and subject to shareholder approval, the Board is now recommending an update to the Company's general investment policy, as set out below.** The updated policy removes references to loan stock being secured by first charges and enables the Company to invest in a broad range of businesses.

## **Proposed new investment policy**

*The Company will invest in a broad portfolio of higher growth businesses across a variety of sectors of the UK economy including higher risk technology companies. Allocation of assets will be determined by the investment opportunities which become available but efforts will be made to ensure that the portfolio is diversified both in terms of sector and stage of maturity of company.*

Funds held pending investment or for liquidity purposes are held as cash on deposit or similar instruments with bank or other financial institutions with high credit ratings assigned by international credit rating agencies.

## **Risk diversification and maximum exposures**

Risk is spread by investing in a number of different businesses within venture capital trust qualifying industry sectors using a mixture of securities. The maximum amount which the Company will invest in a single portfolio company is 15 per cent. of the Company's assets at cost, thus ensuring a spread of investment risk. The value of an individual investment may increase over time as a result of trading progress and it is possible that it may grow in value to a point where it represents a significantly higher proportion of total assets prior to a realisation opportunity being available.

The Company's maximum exposure in relation to gearing is restricted to the amount equal to its adjusted capital and reserves. The Directors do not currently have any intention to utilise long term gearing.

# Financial highlights

21.60p

Net asset value per share as at 31 December 2017.

1.25p

Basic and diluted total return per share.

1.0p

Total tax free dividends per share paid in the year to 31 December 2017.

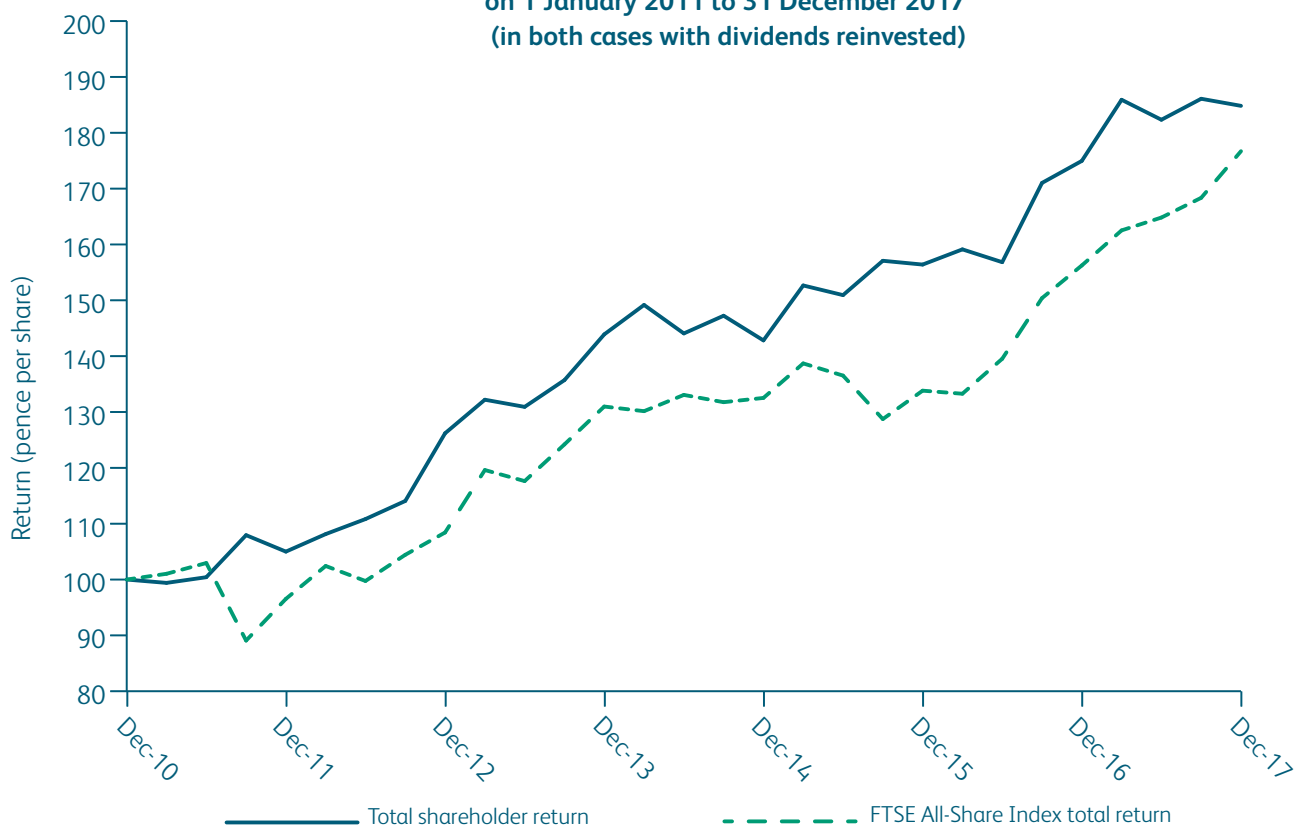
0.6p

First tax free dividend per share declared for the year to 31 December 2018 payable on 30 April 2018.

5.8%

Total return on opening NAV per share as at 31 December 2017.

**Total shareholder return relative to FTSE All-Share Index  
total return from appointment of Albion Capital Group LLP  
on 1 January 2011 to 31 December 2017  
(in both cases with dividends reinvested)**



Source: Albion Capital Group LLP

Methodology: Total shareholder return, including original amount invested (rebased to 100), assuming that dividends were reinvested at the 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 highlights continued

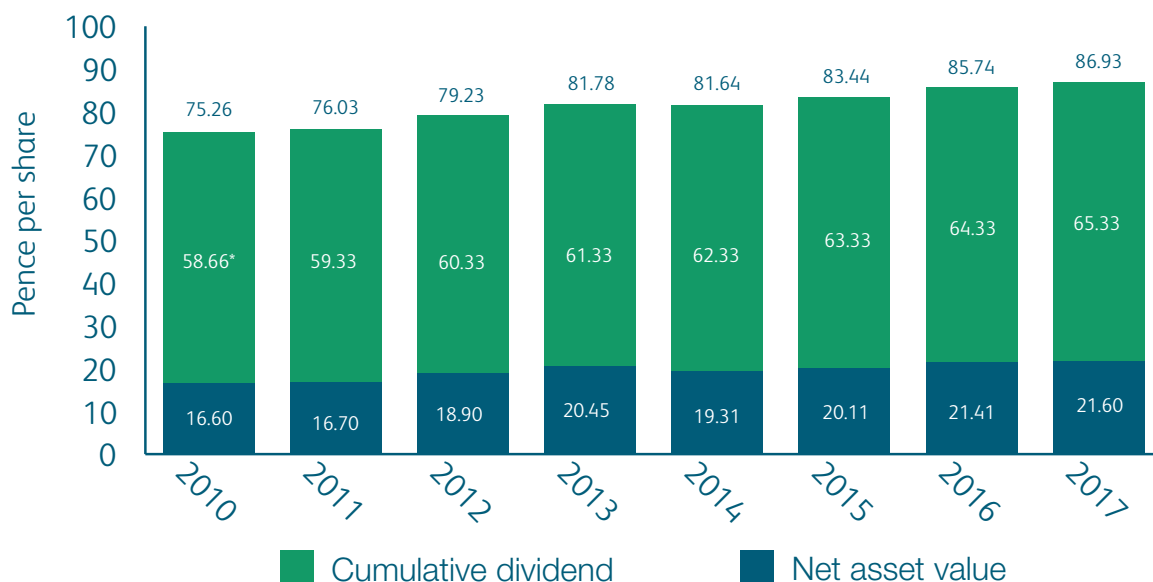
	31 December 2017 (pence per share)	31 December 2016 (pence per share)
Revenue return	0.56	0.29
Capital return	0.69	2.03
Dividends paid	1.00	1.00
Net asset value	21.60	21.41

## Total shareholder return

	From launch to 31 December 2010 (pence per share)	1 January 2011 to 31 December 2017 (pence per share)	From launch to 31 December 2017 (pence per share)
Subscription price per share at launch	100.00	–	100.00
Dividends paid	58.66	6.67	65.33
(Decrease)/increase in net asset value	(83.40)	5.00	(78.40)
<b>Total shareholder return</b>	<b>75.26</b>	<b>11.67</b>	<b>86.93</b>

The Directors have declared a first dividend of 0.6 pence per share for the year ending 31 December 2018, which will be paid on 30 April 2018 to shareholders on the register on 13 April 2018.

## Total shareholder return since launch of the Company in 1996



\* Cumulative dividends paid since the Company's launch in 1996.

Source: Albion Capital Group LLP

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 68.

# Chairman's statement



**Robin Field**  
Chairman

## Introduction

It had been widely anticipated that 2017 would be a watershed year for the venture capital trust sector as a result of the Patient Capital Review, which included a review on the costs and benefits of VCT, SEIS and EIS schemes.

Following an extensive and collaborative public consultation, the Autumn Budget was strongly supportive of tax advantaged investment schemes and their impact on the economy.

The underlying tax reliefs remained unchanged and we are delighted at this endorsement of the VCT industry. Nevertheless, legislation did include measures designed to direct VCT investments towards growth and technology businesses.

Legislation over recent years has shifted the emphasis away from MBOs and more mature businesses towards earlier stage companies. Albion Capital, our manager, has over the past seven years successfully balanced our current portfolio to a healthy mix between asset based investments and those focused on higher growth. Albion's long term approach has always focused on new enterprises, both asset based and higher growth, rather than management buy outs and the like.

## Results and performance

We are pleased to report another year of growth and consolidation for the Company. Net asset value per share rose by 1% to 21.60p at 31 December 2017, after allowing for the payment of dividends totalling one penny per share during the year.

The Company recorded a positive total shareholder return of 1.25 pence per share, or £3.4 million for the year to 31 December 2017, driven by positive developments at a number of portfolio companies, including Grapeshot, Active Lives Care, Egress Software Technologies and Ryefield Court Care.

## Portfolio

We now have a widely diversified selection of businesses in our portfolio, of which 64% are already profitable, with key investments in the healthcare, renewable energy and technology sectors. As a proportion of all invested assets, the majority of our funds are invested in businesses that are growing their annual sales and profits. We rightly qualify as a venture capital trust but this does not imply that our assets are speculative.

The divestment of the legacy portfolio continues, with a £1.4m reduction in our holding in Oxford Immunotec Global PLC and a £0.6m reduction in our holding of ErgoMed PLC alongside £2.3m received on a sale of an Albion-originated investment, Hilson Moran, for c.3x cost.

The Board has reassessed the carrying value of all portfolio investments and has reduced those wherever trading performance or market conditions made this necessary. Nevertheless, as the overall outcome shows, positive movements have significantly outweighed the setbacks.

For a detailed review of these disposals and other developments in the business please see the Strategic report on page 8.

## Dividend

In light of the continued good progress, I am pleased to announce that the Company's dividend target will now be raised by 20% to 1.20p per share per annum. Consequently, we declare a first dividend of 0.6p per share to be paid on 30 April 2018 to shareholders on the register on 13 April 2018 and anticipate that a second dividend will be paid later in the year in line with our current annual dividend target of 1.20p per share.

## Manager

Albion Capital Group LLP (formerly Albion Ventures LLP), has been the Company's manager since January 2011. Before they took over, the Company had suffered several years of decline and stagnation until a point at which, in the 2010 Annual General Meeting, it had come within a few votes of being wound up; an outcome that would inevitably have led to losses for shareholders and tax bills far larger than any possible capital distribution for many.

The Board then determined to seek new managers and interviewed all potential candidates, drawing up a shortlist. In reviewing the performance over the last seven years of all the alternatives then open to us I think we can say definitively that in Albion we made the right choice.

Details of transactions that took place with the Manager during the year can be found in note 4 and principally relate to the management and incentive fees.



# Chairman's statement continued

## VCT qualifying status

As at 31 December 2017, 88% (2016: 89%) of total investments were in qualifying holdings. The Board continues to monitor this and all the VCT qualification requirements very carefully in order to ensure that qualifying investments comfortably exceed the current minimum threshold of 70% required for the Company to continue to benefit from VCT tax status.

## Albion VCTs Prospectus Top Up Offers 2017/18

By 31 January 2018, the Company had raised £5.1 million from the first and second allotment of shares under the top up share offer launched on 6 September 2017. As a result of the strong demand for the Company's shares, the Board was able to announce on 5 March 2018 that subscription had reached its £8 million limit under the prospectus offer and was now closed. The next allotment will be on 5 April 2018.

## Share buy-backs

It remains the Board's policy to buy back shares in the market, subject to the overall constraint that such purchases are in the Company's interest, including the maintenance of sufficient resources for investment in new and existing portfolio companies and the continued payment of dividends to shareholders. It is the Board's intention for such buy-backs to be in the region of a 5% discount to net asset value, so far as market conditions and liquidity permit. During 2017, the Company purchased 6,396,000 Ordinary shares at an average price of 20.24 pence per share. Further information is shown in note 14.

## 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 16 May 2018. Full details of the business to be conducted at the Annual General Meeting are given in the Notice of the Meeting on pages 63 and 64.

The Board welcomes your attendance at the meeting as it gives an opportunity for shareholders to ask questions of the Board and the Manager. If you are unable to attend the Annual General Meeting in person, we would encourage you to make use of your proxy votes.

## Risks and uncertainties

The outlook for the UK economy continues to be the key risk affecting your Company. The Company's investment risk is mitigated through a variety of processes, including investing in a diversified portfolio in terms of sector and stage of maturity and focusing on opportunities where it is believed growth can be both resilient and sustainable.

A detailed analysis of the other risks and uncertainties facing the business is shown in the Strategic report on pages 13 and 14.

## Outlook and prospects

The World has ever been an uncertain place and that remains the case today. Overall quoted equity markets have been at a very high valuation. Large fund managers have felt themselves constrained to continue dancing as long as the music played and enthusiastic amateurs have flocked in, believing as so many seem always to do that high prices are a good reason to buy.

Against this background a widely spread portfolio of relatively small, unquoted businesses without external borrowings, many of them now well established in their fields, may offer less volatility and superior value. Your Board continues to have confidence in the long term prospects of our increasingly diversified portfolio.

**Robin Field**  
Chairman  
29 March 2018

“The Company's dividend target will now be raised by 20% to 1.20 pence per share per annum”



“The Autumn Budget was strongly supportive of tax advantaged investment schemes and their impact on the economy”

# Strategic report

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In the November 2017 Autumn Budget, a number of changes to the legislation governing venture capital trusts were announced. Those changes have now been enacted in the Finance Act 2017-19 and further information has been provided in Guidance Notes issued by HM Revenue & Customs. Some of these changes took effect from the date upon which the Finance Act received Royal Assent and others will come into force from 6 April 2018. In future, VCTs may no longer offer secured loans to portfolio companies and to qualify for VCT tax reliefs, portfolio companies must satisfy a "risk to capital condition". This means that the portfolio company must have an objective to grow and develop over the long term and there must be a significant risk that there could be a loss of capital to the VCT of an amount exceeding the net return. The overall aim of HM Treasury is to encourage more high growth investment through VCTs rather than low risk, heavily asset backed investments.

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## **Risk diversification and maximum exposures**

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The Company's maximum exposure in relation to gearing is restricted to the amount equal to its adjusted capital and reserves. The Directors do not currently have any intention to utilise long term gearing.

## **Review of business and future changes**

One of the key aims of the Manager has been to increase the income generated by the investment portfolio to the extent that it more than covers the ongoing investment management fee and other charges. This continues to be achieved, with total income for 2017 of £2.1m against total ongoing costs of £1.47m. The investment income generated is equivalent to a gross yield of 3.6% on the average net asset value for the year.

As outlined below, the Company has recorded significant capital uplift during the year. This is led by an uplift in realised and unrealised gains of £2.6m across the unquoted investments and £0.2m across the quoted investments. Key individual investment movements included £1.8m uplift in the valuation of our holding in Grapeshot Limited, £0.9m realised gain on the disposal of

Hilson Moran Holdings Limited, £0.7m uplift in Active Lives Care Limited, £0.5m uplift in Egress Software Technologies Limited and £0.5m uplift in Ryefield Court Care Limited, partially offset by a decline in the valuation of our holding in Elateral Group Limited of £2.3m and Sift Limited of £0.3m.

Details of significant events which have occurred since the end of the financial year are listed in note 18. Details of transactions with the Manager are shown in note 4.

## Results and dividends

	Ordinary shares £'000
Net revenue return for the year ended 31 December 2017	1,522
Net capital gain for the year ended 31 December 2017	1,880
<b>Total return for the year ended 31 December 2017</b>	<b>3,402</b>
Dividend of 0.5 pence per share paid on 28 April 2017	(1,375)
Dividend of 0.5 pence per share paid on 31 October 2017	(1,363)
Unclaimed dividends returned to the Company	15
<b>Transferred to reserves</b>	<b>679</b>
Net assets as at 31 December 2017	62,492
<b>Net asset value per share as at 31 December 2017 (pence)</b>	<b>21.60</b>

The Company paid dividends of 1 penny per share during the year ended 31 December 2017 (2016: 1 penny per share). The Directors have declared a first dividend of 0.6 pence per share for the year ending 31 December 2018, which will be paid on 30 April 2018 to shareholders on the register on 13 April 2018.

As shown in the Income statement on page 45, investment income has increased to £2,116,000 (2016: £1,370,000) due to higher dividends received and a loan stock income increase to £1,331,000 (2016: £1,257,000). The capital gain was significantly lower for the year at £1,880,000 (2016: £4,958,000).

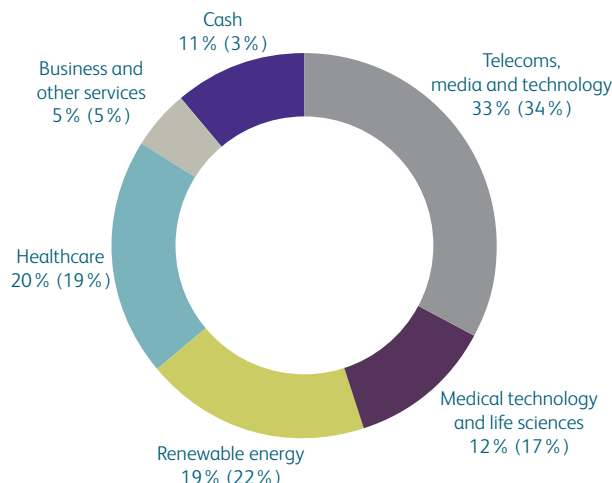
The total return for the year has decreased to £3,402,000 (2016: £5,677,000), equating to a total return of 1.25 pence per share (2016: 2.32 pence per share).

The Balance sheet on page 46 shows that the net asset value has increased over the last year to 21.60 pence per share (2016: 21.41 pence per share) which is due to continued strong performance of the unquoted investments.

There has been a net cash inflow for the year, mainly due to fundraising amounting to £9.8 million and the disposal of fixed asset investments. This was offset by the purchase of new investments, the payment of dividends and buy back of shares.

## Current portfolio sector allocation

The following pie chart outlines the different sectors in which the Company's assets, at carrying value, are currently invested.



Comparatives for 31 December 2016 are in brackets  
Source: Albion Capital Group LLP

## Direction of portfolio

As at 31 December 2017 the portfolio is well balanced in terms of sectors and stage of maturity. With recent changes to VCT legislation, and the proposed amendment to the Company's investment policy as outlined on page 8, future investments will be focused on higher growth businesses across a variety of sectors of the UK economy including higher risk technology companies.

## Future prospects

The Company's performance record reflects the success of the strategy outlined above and has enabled the Company to maintain a predictable stream of dividend payments to shareholders. The Company's portfolio is well balanced across sectors and risk classes and the Board believes that the Company has the potential to continue to deliver attractive returns to shareholders and that a number of investments have strong prospects. Further details on the Company's outlook and prospects can be found in the Chairman's statement on page 7.

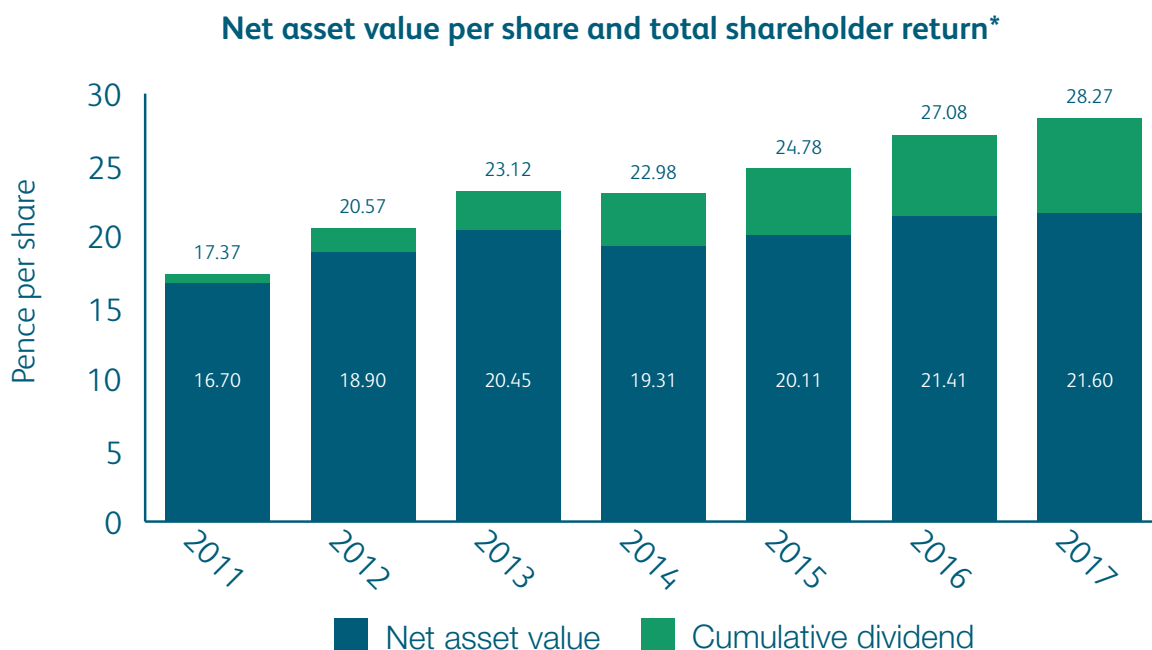
## Key performance indicators

The Directors believe that the following key performance indicators, which are typical for venture capital trusts, used in their own assessment of the Company, will provide shareholders with sufficient information to assess how effectively the Company is applying its investment policy to meet its objectives. The Directors are satisfied that the results shown in the following key performance indicators give a good indication that the Company is achieving its investment objective and policy. These are:

### 1. Total shareholder return relative to FTSE All-Share Index total return

The graph on page 4 shows the strong performance of the Company's total shareholder return against the FTSE All-Share Index total return, with dividends reinvested, from the appointment of Albion Capital Group LLP on 1 January 2011. Details on the performance of the net asset value and return per share for the year are given on pages 8 and 9.

### 2. Net asset value per share and total shareholder return

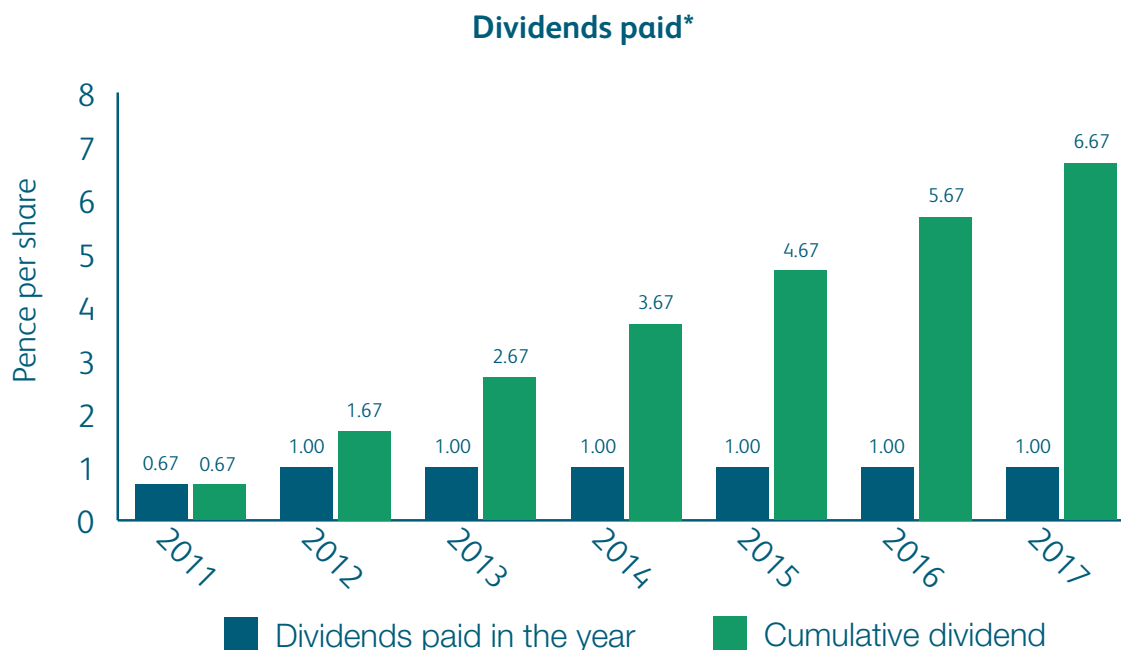


\* Total shareholder return is net asset value plus cumulative dividends paid since 1 January 2011.

Source: Albion Capital Group LLP

Total shareholder return since inception increased by 1.4% to 86.93 pence per share for the year ended 31 December 2017.

### 3. Dividend distributions



\* Dividends paid since Albion Capital Group LLP became manager on 1 January 2011  
Source: Albion Capital Group LLP

Dividends paid in respect of the year ended 31 December 2017 were 1 penny per share (2016: 1 penny per share), in line with the Board's dividend objective for 2017. In light of strong performance, the annual dividend target will be raised by 20% to 1.20p per share. The cumulative dividend paid since inception is 65.33 pence per share.

### 4. Ongoing charges

The ongoing charges ratio for the year to 31 December 2017 was 2.5% (2016: 2.5%). The ongoing charges ratio has been calculated using The Association of Investment Companies ("AIC") recommended methodology. This figure shows shareholders the total recurring annual running expenses (including investment management fees charged to capital reserve) as a percentage of the average net assets attributable to shareholders. The Directors expect the ongoing charges ratio for the year ahead to be approximately 2.5%.

#### VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HMRC. In order to maintain its status under Venture Capital Trust legislation, a VCT must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007, details of which are provided in the Directors' report on page 28.

The Finance Act 2017 contained a number of measures that affects all VCTs. These include:

- A principles-based test for qualifying companies to ensure that investment activity focuses on higher risk opportunities;
- An increase in the proportion of the portfolio invested in qualifying unquoted companies, from 70 per cent. to 80 per cent., in respect of accounting periods on or after 6 April 2019; and
- VCT loan investments to be unsecured and represent no more than normal commercial terms.

The relevant tests to measure compliance have been carried out and independently reviewed for the year ended 31 December 2017. These showed that the Company has complied with all tests and continues to do so.

#### Investment progress

During the year, there was a very active period of new investment, with a total of £6.1 million invested in new and existing portfolio companies, predominantly in the healthcare and technology sectors. The portfolio now includes forty two investments made since 2011 and the proportion of assets still invested in the legacy portfolio of investments made before 2011 has shrunk to 24% (2016: 35%).

Cash and liquid assets at the year-end increased to £6.7 million (2016: £1.8 million), representing 11% of net asset value.



New investments were made in 6 companies and totalled £2.5 million during the year and included: a fibre optic broadband provider in central London – G.Network Communications Limited (£635,000); a women's health clinic development in central London – Women's Health (London West One) Limited (£583,000); a cloud subscription management platform for the media, sports and retail sectors – MPP Global Solutions Limited (£550,000); a developer and operator of dedicated wedding venues in the UK – Beddlestead Limited (£502,000); a predictive analytics platform to protect and detect complex financial crime – Quantexa Limited (£190,000); and a technology solution provider for the management of locum doctors for the NHS – Locum's Nest Limited (£75,000).

Follow-on investments were made in 16 portfolio companies and totalled £3.6 million during the year. The two largest being £572,000 into Egress Software Technologies Limited, an encrypted email and file transfer service provider and £550,000 into Elateral Holdings Limited, a provider of digital marketing software.

During the year the Company sold its entire holding in Hilson Moran Holdings Limited realising proceeds of £2.3 million with a realised gain on cost of £2.0 million. The Company also sold 115,000 shares in Oxford Immunotec Global PLC with proceeds of £1.4 million and a realised gain on cost of £960,000. Other realisations can be found in the realisations table on page 21.

The policy of increasing the income generating capacity of the Company continues to bear fruit. The Company received £1,331,000 of loan stock income during the year representing a rise of 6% on the £1,257,000 loan stock income received from the portfolio during the previous year.

The pie chart on page 9 outlines the different sectors in which the Company's assets, at carrying value, are currently invested.

## Gearing

As defined by the Articles of Association, the Company's maximum exposure in relation to gearing is restricted to its adjusted capital and reserves, being £60,720,000 (2016: £51,680,000). As at 31 December 2017, the Company had no actual short term and long term gearing (2016: £nil). The Directors do not currently have any intention to utilise long term gearing.

## Operational arrangements

The Company has delegated the investment management of the portfolio to Albion Capital Group LLP, which is authorised and regulated by the Financial Conduct Authority. Albion Capital Group LLP also provides company secretarial and other accounting and administrative support to the Company.

## Management agreement

Under the Investment Management Agreement, Albion Capital Group LLP provides investment management, company secretarial and administrative services to the Company. Albion Capital Group LLP is entitled to an annual management fee of 2% of net asset value of the Company, payable quarterly in arrears, along with an annual administration fee of £50,000.

The aggregate payable for management and administration (normal running costs) are subject to an aggregate annual cap of 3% of the year end closing net asset value, for accounting periods commencing after 31 December 2011.

The Investment Management Agreement 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% of the amount invested) and to fees charged for the monitoring of investments (up to a maximum of £20,000 per company per annum).

## Performance incentive fee

As an incentive to maximise the return to investors, the Manager is entitled to charge an incentive fee in the event that the returns exceed minimum target levels.

The performance hurdle is equal to the greater of the Starting NAV of 20 pence per share, increased by the increase in RPI plus 2 per cent per annum from the Start Date of 1 January 2014 (calculated on a simple and not compound basis) and the highest Total Return for any earlier period after the Start Date (the 'high watermark'). An annual fee (in respect of each share in issue) of an amount equal to 15 per cent. of any excess of the Total Return (this being NAV per share plus dividends paid after the Start Date) as at the end of the relevant accounting period over the performance hurdle will be due to the Manager.

There was no management performance fee payable during the year (2016: £513,000). As at 31 December 2017, the total return of the Company since 1 January 2014 (the performance incentive fee start date) was 25.60 pence per share, compared to a performance hurdle rate of 25.63 pence per share, resulting in a shortfall of 0.03 pence per share. This amount needs to be made up in the next accounting period in order for an incentive fee to become payable.

## 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. (to be 80 per cent. in respect of accounting periods starting on or after 6 April 2019) qualifying investment holdings requirement for the Venture Capital Trust status, the making of new investments in accordance with the investment policy, the long term prospects of current investments, a review of the Investment 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.

## Alternative Investment Fund Managers Directive (“AIFMD”)

The Board has appointed Albion Capital Group LLP as the Company’s AIFM as required by the AIFMD.

## Share buy-back policy

It remains the Board’s primary objective to maintain sufficient resources for investment in existing and new portfolio companies and for the continued payment of dividends to shareholders. The Board’s policy is to buy back shares in the market, subject to the overall constraint that such purchases are in the Company’s interest.

It is the Board’s intention for such buy-backs to be in the region of a 5% discount to net asset value, so far as market conditions and liquidity permit.

Further details of shares bought back during the year ended 31 December 2017 can be found in note 14.

## Social and community issues, employees and human rights

The Board recognises the requirement under section 414c of the Companies Act 2006 (the “Act”) to detail information about social and community issues, employees and human rights; including any policies it has in relation to these matters and effectiveness of these policies. As an externally managed investment company with no employees, the Company has no policies in these matters and as such these requirements do not apply.

## General Data Protection Regulation

The General Data Protection Regulation (“GDPR”) is effective from 25 May 2018 with the objective of unifying data privacy requirements across the European Union. The Manager, Albion Capital Group LLP, is undertaking a data audit to identify personal data to ensure compliance with GDPR by the effective date.

## Further policies

The Company has adopted a number of further policies relating to:

- Environment
- Global greenhouse gas emissions
- Anti-bribery
- Anti-facilitation of tax evasion
- Diversity

and these are set out in the Directors’ report on pages 28 and 29.

## Risk management

The Board carries out a regular review of the risk environment in which the Company operates. The principal risks and uncertainties of the Company as identified by the Board and how they are managed are as follows:

Risk	Possible consequence	Risk management
Investment and performance risk	<p>The risk of investment in poor quality assets, which could reduce the capital and income returns to shareholders, and could negatively impact on the Company’s current and future valuations.</p> <p>By nature, smaller unquoted businesses, such as those that qualify for venture capital trust purposes, are more fragile than larger, long established businesses.</p>	<p>To reduce this risk, the Board places reliance upon the skills and expertise of the Manager and its track record over many years of making successful investments in this segment of the market. In addition, the Manager operates a formal and structured investment appraisal and review 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 account of comments from non-executive Directors of the Company on matters discussed at the Investment Committee meetings. Investments are actively and regularly monitored by the Manager (investment managers normally sit on portfolio company boards), including the level of diversification in the portfolio, and the Board receives detailed reports on each investment as part of the Manager’s report at quarterly board meetings.</p>

Risk	Possible consequence	Risk management
VCT approval risk	The Company must comply with section 274 of the Income Tax Act 2007 which enables its investors to take advantage of tax relief on their investment and on future returns. Breach of any of the rules enabling the Company to hold VCT status could result in the loss of that status.	To reduce this risk, the Board has appointed the Manager, which 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 Philip Hare & Associates LLP as its taxation adviser, who 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. Each investment in a new portfolio company is also pre-cleared with H.M. Revenue & Customs or our professional advisers.
Regulatory and 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 or advising quoted companies. In addition, the Board and the Manager receive regular updates on new regulation from its auditor, lawyers and other professional bodies. The Company is subject to compliance checks through the Manager's compliance officer. The Manager reports monthly to its Board on any issues arising from compliance or regulation. These controls are also reviewed as part of the quarterly Board meetings, and also as part of the review work undertaken by the Manager's compliance officer. The report on controls is also evaluated by the internal auditors.
Operational and internal control risk	The Company relies on a number of third parties, in particular the Manager, for the provision of investment management and administrative functions. Failures in key systems and controls 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.	<p>The Company and its operations are subject to a series of rigorous internal controls and review procedures exercised throughout the year.</p> <p>The Audit Committee reviews the Internal Audit Reports prepared by the Manager's internal auditors, PKF Littlejohn LLP. On an annual basis, the Audit Committee chairman meets with the internal audit partner to provide an opportunity to ask specific detailed questions in order to satisfy itself that the Manager has strong systems and controls in place including those in relation to business continuity and cyber security.</p> <p>In addition, the Board regularly reviews the performance of its key service providers, particularly the Manager, to ensure they continue to have the necessary expertise and resources to deliver the Company's investment objective and policies. The Manager and other service providers have also demonstrated to the Board that there is no undue reliance placed upon any one individual.</p>
Economic and political 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.	<p>The Company invests in a diversified portfolio of companies across a number of industry sectors and in addition often invests a mixture of instruments in portfolio companies and has a policy of not normally permitting any external bank borrowings within portfolio companies.</p> <p>At any given time, the Company has sufficient cash resources to meet its operating requirements, including share buy-backs and follow on investments.</p>
Market value of Ordinary shares	The market value of Ordinary shares can fluctuate. The market value of an Ordinary share, as well as being affected by its net asset value and prospective net asset value, also takes into account its dividend yield and prevailing interest rates. As such, the market value of an Ordinary share may vary considerably from its underlying net asset value. The market prices of shares in quoted investment companies can, therefore, be at a discount or premium to the net asset value at different times, depending on supply and demand, market conditions, general investor sentiment and other factors. Accordingly the market price of the Ordinary shares may not fully reflect their underlying net asset value.	<p>The Company operates a share buyback policy, which is designed to limit the discount at which the Ordinary shares trade to around 5 per cent to net asset value, by providing a purchaser through the Company in absence of market purchasers. From time to time buy-backs cannot be applied, for example when the Company is subject to a close period, or if it were to exhaust any buyback authorities.</p> <p>New Ordinary shares are issued at sufficient premium to net asset value to cover the costs of issue and to avoid asset value dilution to existing investors.</p>

## Viability statement

In accordance with the FRC UK Corporate Governance Code published in 2016 and principle 21 of the AIC Code of Corporate Governance, the Directors have assessed the prospects of the Company over three years to 31 December 2020. The Directors believe that three years is a reasonable period in which they can assess the future of the Company to continue to operate and meet its liabilities as they fall due and is also the period used by the Board in the strategic planning process and is considered reasonable for a business of our nature and size. The three year period is considered the most appropriate given the forecasts that the Board require from the Manager and the estimated timelines for finding, assessing and completing investments.

The Directors have carried out a robust assessment of the principal risks facing the Company as explained above, including those that could threaten its business model, future performance, solvency or liquidity. The Board also considered the risk management processes in place to avoid or reduce the impact of the underlying risks. The Board focused on the major factors which affect the economic, regulatory and political environment. The Board deliberated over the importance of the Manager and the processes that they have in place for dealing with the principal risks.

The Board assessed the ability of the Company to raise finance. As explained in this Strategic report the Company's income more than covers on-going expenses. The portfolio is well balanced and geared towards long term growth delivering dividends and capital growth to shareholders. In assessing the prospects of the Company, the Directors have considered the cash flow by looking at the Company's income and expenditure projections and funding pipeline over the assessment period of three years and they appear realistic.

In considering the viability of the Company, the Board took into account factors including the processes for mitigating risks, monitoring costs, managing share price discount, the Manager's compliance with the investment objective, policies and business model and the balance of the portfolio. The Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2020.

This Strategic report of the Company for the year ended 31 December 2017 has been prepared in accordance with the requirements of section 414A of the Companies Act 2006 (the "Act"). The purpose of this report is to provide Shareholders with sufficient information to enable them to assess the extent to which the Directors have performed their duty to promote the success of the Company in accordance with section 172 of the Act.

On behalf of the Board

**Robin Field**

Chairman

29 March 2018

# The Board of Directors

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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 (now LEK Consulting). From 1990 to 1998 he was chief executive and subsequently chairman of Filofax Group plc which was floated on the London Stock Exchange in 1996. He is currently chairman and controlling shareholder of Imperial Yard Ltd and the Yard-O-Led Pencil Company.

**Thomas Chambers (Chairman of the Audit Committee), appointed 3 October 2011**

has had a range of industry and venture capital roles giving insight into, in particular, the technology and communications sectors. He is currently Chairman of Propel London (recruitment), non-executive Director of NCC Group, Trustee of UCAS (University Careers Advisory Services) and advisor to a number of private companies. Until February 2018 he was Chairman of First Utility and, until January 2018, Chairman of the property development activities for the University of Surrey. Previously Thomas played a significant role in the creation of the first Smartphones as CFO and Head of Software Engineering at mobile operating system provider Symbian. He was also CFO of Robert Walters and he spent six years in corporate finance at Dresdner Kleinwort Benson after a five year career with Price Waterhouse. Thomas is a Fellow of the Institute of Chartered Accountants, an Associate of the Association of Corporate Treasurers, a Fellow of the Institute of Engineering and Technology and is an honorary Doctor of the University of Surrey.

**Martin Fiennes, appointed 5 April 2011**

is a Principal with Oxford Sciences Innovation, an investment company created in 2015 to invest in spin-outs from the University of Oxford. Prior to this he ran a corporate finance boutique, Gatehouse Capital, which specialised in raising capital for early-stage UK technology companies. From 1997 until he founded Gatehouse Capital in 2006, Martin had been an investment manager with Top Technology Ventures. Martin is a director of the HDH Wills 1965 Charitable Trust, and also serves as a director at Bodle Technologies Ltd, Mixergy Ltd, Oxford Flow Ltd and MoA Technology Ltd.

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

At the Annual General Meeting, Robin Field will retire from the Board by rotation in accordance with the Company's Articles of Association and Companies Act 2006 and he will offer himself for re-election.



Albion Capital Group LLP is authorised and regulated by the Financial Conduct Authority and is the Manager of Kings Arms Yard VCT PLC. In addition, it manages a further five venture capital trusts, the UCL Technology Fund and provides administration services to Albion Community Power PLC and Albion Care Communities Limited. Albion Capital, together with its subsidiary OLIM Investment Managers, has total assets under management or administration of approximately £1 billion.

The following are specifically responsible for the management and administration of the venture capital trusts managed by Albion Capital:

**Patrick Reeve, MA, ACA,**

qualified as a chartered accountant 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 establishing Albion Capital (formerly Albion Ventures) in 1996. He is the managing partner of Albion Capital and is a director of Albion Technology and General VCT PLC, Albion Enterprise VCT PLC and Albion Development VCT PLC, all managed by Albion Capital. He is also chief executive of Albion Community Power PLC, chairman of OLIM Investment Managers, a member of the Audit Committee of University College London, a director of The Association of Investment Companies, and is on the Council of the BVCA.

**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 Capital in 2001 since when he has focused on leisure and healthcare investing. Will became deputy managing partner of Albion Capital in 2009. Will has a BA in history from Southampton University.

**Adam Chirkowski, MA (Hons),**

having graduated in Industrial Economics followed by a Masters in Corporate Strategy, spent five years at N M Rothschild & Sons specialising in mergers and acquisitions, principally in the natural resources and then healthcare sectors, before joining Albion Capital in 2013. He is currently responsible for a number of investments including renewable energy projects, care homes, health clinics, fibre broadband and wedding venues.

**Dr Andrew Elder, MA, FRCS,**

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 joined Albion Capital in 2005 and became a partner in 2009. 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 Capital 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 Capital in 2009 and is a director of Albion Care Communities.

**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 Capital in 2005 and became a partner in 2009. He is also managing director of Albion Community Power PLC and a director of Albion Care Communities. David has a BSc in Economics from Warwick University.

**Vikash Hansrani, BA (Hons), ACA,**

qualified as a chartered accountant with RSM Tenon plc and latterly worked in its corporate finance team. He joined Albion Capital in 2010, where he is currently operations partner for the group. He is also finance director of OLIM Investment Managers, was finance director of Albion Community Power PLC, and is also on the AIC's VCT Technical Committee. He has a BA in Accountancy & Finance from Nottingham Business School.

**Robert Henderson, BA (Hons), ACA,**

graduated from Newcastle University with a first class degree in business management. Prior to joining Albion Capital in 2015, he qualified as a chartered accountant with KPMG, spending four years working in transactions and restructuring, primarily in turnaround and M&A situations.

**Ed Lascelles, BA (Hons),**

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 Capital in 2004, Ed started investing in the technology, healthcare, financial and business services sectors. Ed became a partner in 2009 and is responsible for a number of Albion's technology investments. He graduated from University College London with a first class degree in Philosophy.

**Catriona McDonald, BA (Hons),**

graduated from Harvard University, majoring in economics. She joined Albion Capital's technology investment team in 2018 having previously worked for Goldman Sachs in both New York and London. At Goldman Sachs, Cat executed several high profile transactions across the product space including leveraged buyouts, IPOs and M&A.

**Dr Christoph Ruedig, MBA,**

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. More recently he worked for General Electric UK, where he was responsible for mergers and acquisitions in the medical technology and healthcare IT sectors. He joined Albion Capital in 2011 and became a partner in 2014. 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 Capital in 1998, where he has been responsible for much of the asset based portfolio. Henry became a partner in Albion Capital in 2009. He holds an MA degree in Classics from Oxford University.

**Nadine Torbey, MSc, BEng,**

graduated from the American University of Beirut with a Bachelor in Electrical and Computer Engineering, and followed this with a MSc in Innovation Management and Entrepreneurship from Brown University. She joined the Albion Capital's technology investment team in 2018 from Berytech Fund Management, Lebanon. Her career to date has involved many aspects of tech investing including experience in a wide variety of digital platforms, big data management, virtual reality and digital networks.

**Robert Whitby-Smith, BA (Hons), FCA, MSI,**

began his career at KPMG and on to Credit Suisse First Boston and ING Barings where he advised a number of businesses on capital raising and M&A activity. After moving to Albion Capital in 2005, Robert started investing in software and tech enabled services, and became a partner in 2009 and is responsible for a number of technology investments. Robert holds an honours degree in History from the University of Reading and is a Chartered Accountant and a member of the Chartered Institute of Securities and Investment. He is also a director of OLIM Investment Managers.

**Marco Yu, MPhil, MA, MRICS,**

spent two and a half years at Bouygues (UK), before moving to EC Harris in 2005 where he advised senior lenders on large capital projects. Since joining Albion Capital in 2007 Marco has been involved in hotel, cinema, pub, residential property and garden centre investments and is, more recently, responsible for a number of renewable energy investments. Marco graduated from Cambridge University with a first class degree in economics and is a Chartered Surveyor.

# Portfolio of investments

Unquoted investments	% voting rights	% voting rights held by Albion <sup>(1)</sup> managed companies	As at 31 December 2017			As at 31 December 2016			Change in value for the year <sup>(3)</sup> £'000
			Cost <sup>(2)</sup> £'000	Cumulative movement in value £'000	Value £'000	Cost <sup>(2)</sup> £'000	Cumulative movement in value £'000	Value £'000	
Active Lives Care Limited	20.3	50.0	4,395	1,973	6,368	4,140	1,236	5,376	737
Ryefield Court Care Limited	18.7	50.0	3,070	1,586	4,656	2,800	1,135	3,935	452
Proveca Limited	15.1	49.9	1,304	1,760	3,064	1,303	1,605	2,908	156
Chonais River Hydro Limited	6.5	50.0	2,428	575	3,003	2,428	508	2,936	67
Elateral Group Limited	37.7	37.7	4,494	(1,858)	2,636	3,944	481	4,425	(2,339)
Antenova Limited	28.7	28.7	1,733	892	2,625	1,733	991	2,724	(99)
Grapeshot Limited	2.6	14.2	518	1,960	2,478	434	159	593	1,801
Egress Software Technologies Limited	5.3	27.3	1,003	1,264	2,267	430	808	1,238	457
Anthropics Technology Limited	13.8	13.8	19	1,756	1,775	19	1,344	1,363	412
The Street by Street Solar Programme Limited	10.0	50.0	1,040	670	1,710	1,040	525	1,565	145
Perpetuum Limited	13.4	13.4	2,373	(755)	1,618	2,073	(652)	1,421	(103)
Alto Prodotto Wind Limited	11.1	50.0	985	553	1,538	998	534	1,532	25
Regenerco Renewable Energy Limited	9.8	50.0	988	482	1,470	988	373	1,361	108
MyMeds&Me Limited	7.0	19.2	848	456	1,304	848	390	1,238	66
Academia Inc	3.2	3.2	351	811	1,162	351	952	1,303	(141)
Dragon Hydro Limited	17.2	30.0	736	369	1,105	736	378	1,114	(9)
Edo Consulting Limited (formerly Sift Digital Limited)	38.6	38.6	923	113	1,036	923	150	1,073	(37)
Bravo Inns II Limited	5.0	50.0	800	190	990	800	99	899	91
Symetrica Limited	3.5	3.5	389	592	981	389	370	759	222
OmPrompt Holdings Limited	10.2	28.3	1,196	(262)	934	900	37	937	(300)
Shinfield Lodge Care Limited	2.9	50.0	535	350	885	535	267	802	83
Earnside Energy Limited	5.2	50.0	835	9	844	835	15	850	(6)
Sift Limited	42.1	42.1	2,306	(1,578)	728	2,307	(1,267)	1,040	(312)
Gharagain River Hydro Limited	5.0	50.0	620	84	704	620	72	692	12
AVESI Limited	14.8	50.0	484	209	693	484	159	643	50
G.Network Communications Limited	6.8	50.0	635	–	635	–	–	–	–
Women's Health (London West One) Limited	4.7	40.0	583	–	583	–	–	–	–
MPP Global Solutions Limited	1.9	13.5	550	–	550	–	–	–	–
Beddlestead Limited	5.2	50.0	502	–	502	–	–	–	–
Black Swan Data Limited	1.4	12.4	482	–	482	170	–	170	–
Oviva AG	2.1	15.9	367	91	458	91	–	91	91
Greenenerco Limited	8.6	50.0	291	151	442	300	168	468	(13)
Celoxica Holdings plc	4.4	4.4	513	(144)	369	513	(144)	369	–
Mirada Medical Limited	1.1	45.0	303	37	340	279	8	287	28
Zift Channel Solutions Inc	0.7	7.4	321	–	321	–	–	–	–
Convertr Media Limited	3.1	27.0	340	(24)	316	284	–	284	(24)
Secured By Design Limited	1.7	10.0	260	1	261	260	1	261	–
Sandcroft Avenue Limited	2.2	9.2	234	11	245	120	(16)	104	27

# Portfolio of investments continued

Unquoted investments	% voting rights	% voting rights held by Albion <sup>(1)</sup> managed companies	As at 31 December 2017			As at 31 December 2016			Change in value for the year <sup>(3)</sup> £'000
			Cost <sup>(2)</sup> £'000	Cumulative movement in value £'000	Value £'000	Cost <sup>(2)</sup> £'000	Cumulative movement in value £'000	Value £'000	
Abcodia Limited	4.3	19.5	589	(347)	242	548	(313)	235	(34)
The Wentworth Wooden Jigsaw Company Limited	5.4	5.4	–	211	211	–	121	121	90
Quantexa Limited	1.7	11.9	190	–	190	–	–	–	–
Aridhia Informatics Limited	2.2	22.3	381	(191)	190	349	(114)	235	(78)
Panaseer Limited	1.3	10.2	113	67	180	50	–	50	67
Erin Solar Limited	5.7	50.0	160	(7)	153	160	(3)	157	(4)
Infinite Ventures (Goathill) Limited	2.7	31.0	112	36	148	112	26	138	9
Cisiv Limited	2.8	28.9	216	(105)	111	216	(105)	111	1
Locum's Nest Limited	1.6	10.9	75	–	75	–	–	–	–
Harvest AD Limited <sup>(i)</sup>	–	–	70	–	70	70	–	70	–
Dickson Financial Services Limited	4.5	30.0	45	24	69	45	17	62	7
InCrowd Sports Limited	0.8	6.8	36	–	36	36	–	36	–
Xention Limited	10.6	10.6	38	(28)	10	38	(2)	36	(26)
Other holdings (7 companies)			27	(20)	7	27	(20)	7	–
<b>Total unquoted investments</b>			<b>41,806</b>	<b>11,964</b>	<b>53,770</b>	<b>35,726</b>	<b>10,293</b>	<b>46,019</b>	<b>1,679</b>
<b>Quoted investments</b>									
ErgoMed PLC			1,013	289	1,302	1,468	115	1,583	210
Oxford Immunotec Global PLC (NASDAQ)			279	464	743	726	1,534	2,260	(126)
<b>Total quoted investments</b>			<b>1,292</b>	<b>753</b>	<b>2,045</b>	<b>2,194</b>	<b>1,649</b>	<b>3,843</b>	<b>84</b>
<b>Total fixed asset investments</b>			<b>43,098</b>	<b>12,718</b>	<b>55,815</b>	<b>37,920</b>	<b>11,942</b>	<b>49,862</b>	<b>1,763</b>

(1) Albion Capital Group 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) This column shows the movement in the year from the opening balance as at 1 January 2017 to the closing balance as at 31 December 2017 after adjustment for additions and disposals.

(i) Early stage investment of convertible loan stock.

The comparative cost and valuations for 31 December 2016 do not agree to the Annual Report and Financial Statements for the year ended 31 December 2016 as the above list does not include brought forward investments that were fully disposed of in the year.

# Portfolio of investments continued

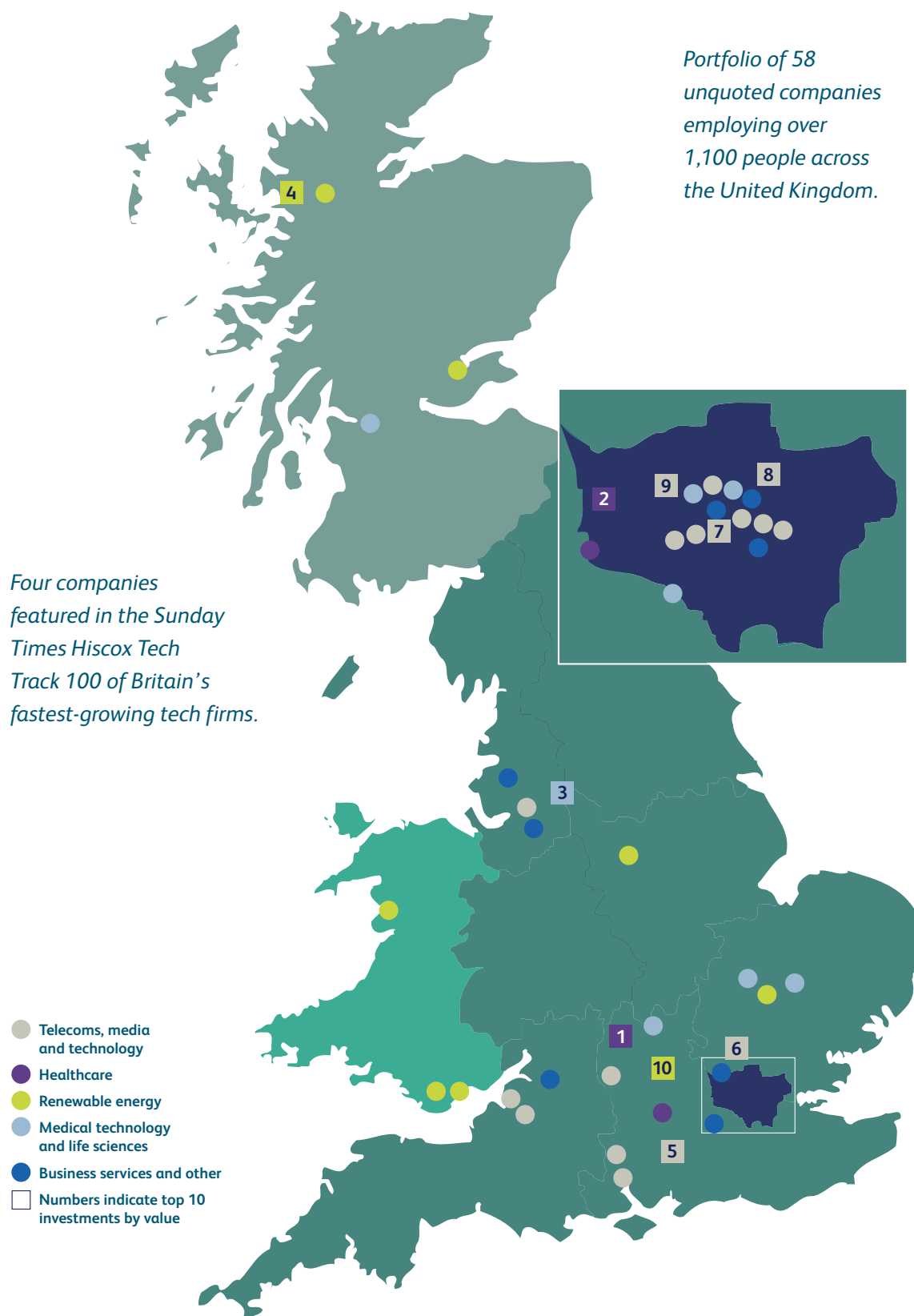
<b>Total change in value of investments for the year</b>	<b>1,763</b>
Movement in loan stock accrued interest	(68)
<b>Unrealised gains sub-total</b>	<b>1,695</b>
Realised gains in current year	1,058
<b>Total gains on investments as per Income statement</b>	<b>2,753</b>

	Cost £'000	Opening carrying value £'000	Disposal proceeds £'000	Realised gain/(loss) £'000	Gain/(loss) on opening or acquired value £'000
<b>Realisations to 31 December 2017</b>					
<u>Disposals:</u>					
Hilson Moran Holdings Limited	301	1,415	2,305	2,004	890
Oxford Immunotec Global PLC	446	1,391	1,406	960	16
ErgoMed PLC	455	491	606	151	115
Relayware Limited	278	277	275	(3)	(2)
<u>Loan stock repayments and other:</u>					
Alto Prodotto Wind Limited	13	19	19	6	–
Greenenerco Limited	9	13	13	4	–
Aridhia Informatics Limited	10	10	11	1	1
Escrow adjustments	–	–	38	38	38
<b>Total</b>	<b>1,512</b>	<b>3,616</b>	<b>4,673</b>	<b>3,161</b>	<b>1,058</b>



# Portfolio companies

## Geographical locations



# Portfolio companies continued

The top ten fixed asset investments by value are shown below.



Website: [www.cumnorhillhouse.co.uk](http://www.cumnorhillhouse.co.uk)

## Active Lives Care Limited

The company operates a 75 bed, purpose built residential care home in Cumnor Hill, Oxford. The home provides nursing, residential and dementia care to elderly residents and attracts fees in line with the high end, private pay market it targets. Promoting social interaction and offering a wide range of activities are at the core of the care philosophy. Occupancy continues to grow as the home nears maturity.

### Filleted audited results for year ended 31 December 2016

Net liabilities	£'000
Basis of valuation	(178)
Third party valuation – Earnings multiple	

### Investment information

Income recognised in the year	£'000
Cost	496
Total valuation	4,395
Voting equity held	6,368
Voting rights for all Albion managed companies	20.3%
	50.0%

## Ryefield Court Care Limited

The company operates a 60 bed, purpose built residential care home in Hillingdon, London. The home provides residential and dementia care to elderly residents and attracts fees in line with the high end, private pay market it targets. In 2017 the home was rated “Outstanding” by CQC, the regulatory body, which places it among a very small number of care homes in London and the South East. Promoting social interaction and offering a wide range of activities are at the core of the care philosophy. Occupancy continues to grow as the home nears maturity.



Website: [www.ryefieldcourt.co.uk](http://www.ryefieldcourt.co.uk)

### Filleted audited results for year ended 30 April 2017

Net liabilities	£'000
Basis of valuation	(447)
Third party valuation – Earnings multiple	

### Investment information

Income recognised in the year	£'000
Cost	266
Total valuation	3,070
Voting equity held	4,656
Voting rights for all Albion managed companies	18.7%
	50.0%

# Portfolio companies continued

## Proveca Limited

Website: [www.proveca.co.uk](http://www.proveca.co.uk)

Proveca is a pharmaceutical company focused on children's medicines. Currently 50-90% of the medicines children take are in the wrong format and/or are not licensed for their use. Proveca is addressing a significant need in developing drugs that are specifically formulated for children, taking advantage of a supportive regulatory regime and market protection throughout Europe. Its first product for chronic drooling was launched in 2017. It has a pipeline of drugs focused on neurology, cardiovascular and other therapeutic areas that it expects to reach the market over the next 2 to 5 years.

### Filleted audited results for year ended 31 July 2016

	£'000
Net liabilities	(2,378)
Basis of valuation	Price of recent investment

### Investment information

	£'000
Income recognised in the year	9
Cost	1,304
Total valuation	3,064
Voting equity held	15.1%
Voting rights for all Albion managed companies	49.9%



## Chonais River Hydro Limited

Chonais Hydro is a 2MW hydropower scheme near Loch Carron in the Scottish Highlands. It is a run-of-river scheme, taking water from a small river via an intake on the mountainside. The scheme is low visual impact with the only visible components being a small intake and a powerhouse, both of which are built using local material. It generates enough electricity to power about 2,000 homes. It benefits from inflation-protected renewable subsidies for a period of 20 years. The scheme was commissioned in 2014 and has been generating successfully since.

### Filleted audited results for year ended 30 September 2016

	£'000
Net liabilities	(322)
Basis of valuation	Third party valuation – Discounted cash flow

### Investment information

	£'000
Income recognised in the year	224
Cost	2,428
Total valuation	3,003
Voting equity held	6.5%
Voting rights for all Albion managed companies	50.0%



# Portfolio companies continued

## Elatral Group Limited

Website: [www.elateral.com](http://www.elateral.com)

Elatral provides omni-channel global digital content adaptation to enable marketers to quickly adapt materials to meet local requirements without compromising brand standards and avoiding costly and time-consuming manual adaptation of content. Elateral's clients include AT&T, Cisco, Hilton, Merck, Morgan Stanley, Nestle, P&G and Pepsi. Elateral has offices in the UK and the US.

### Audited results for year ended 31 March 2017

	£'000
Turnover	7,475
EBITDA	(732)
Loss before tax	(1,654)
Net liabilities	(9,432)
Basis of valuation	Revenue multiple

### Investment information

	£'000
Income recognised in the year	–
Cost	4,494
Total valuation	2,636
Voting equity held	37.7%
Voting rights for all Albion managed companies	37.7%



## Antenova Limited

Website: [www.antenova.com](http://www.antenova.com)

Antenova is a leading provider of high performing standard antennas and RF antenna modules for wireless machine to machine communications, the "Internet of Things" and consumer electronic devices. Antenova is steadily gaining market share in the key areas of Home Appliance, Automotive, Wearables, Healthcare, Industrial, Retail, Smart Cities and Smart Grid as a result of its innovation in antenna design and operational excellence. Antenova operates from offices in the UK, Taipei and California and has regional sales support in Ottawa and Shanghai.

### Filleted audited results for year ended

31 December 2016	£'000	Investment information	£'000
Net assets	2,447	Income recognised in the year	353
Basis of valuation		Cost	1,733
Earnings multiple		Total valuation	2,625
		Voting equity held	28.7%
		Voting rights for all Albion managed companies	28.7%

## Grapeshot Limited

Website: [www.grapeshot.com](http://www.grapeshot.com)

Grapeshot provides contextual intelligence to digital marketers and publishers, using complex algorithms to integrate with the leading marketing, publishing and media platforms and to transform data into relevant, actionable insights that can be used to inform, enhance and precisely target customer acquisition and retention campaigns. Grapeshot operates out of offices in London, New York, Chicago, San Francisco, Cambridge, Sydney and Singapore and the company plans to open offices in Toronto, Miami, LA, Paris, Germany and Japan.

### Audited results for year ended

31 December 2016	£'000	Investment information	£'000
Turnover	9,045	Income recognised in the year	–
EBITDA	(1,207)	Cost	518
Loss before tax	(1,699)	Total valuation	2,478
Net assets	4,367	Voting equity held	2.6%
Basis of valuation		Voting rights for all Albion managed companies	14.2%
Revenue multiple			

# Portfolio companies continued



Website: [www.egress.com](http://www.egress.com)

## Egress Software Technologies Limited

Egress has developed a cloud-based secure communication platform that offers encrypted services including email, file transfer, document collaboration and archiving. Egress's early customers came from the public sector, but are now spread across all verticals where there is a need for enhanced data security, including the financial services, health and legal sectors.

### Audited results for year ended

31 December 2016	£'000	Investment information	£'000
Turnover	5,442	Income recognised in the year	–
EBITDA	(762)	Cost	1,003
Loss before tax	(901)	Total valuation	2,267
Net liabilities	(1,613)	Voting equity held	5.3%
Basis of valuation		Voting rights for all Albion managed companies	27.3%

## Anthropics Technology Limited

Anthropics utilises machine vision and machine learning to provide face detection and intelligent portrait software. Its stable of products include PortraitPro, which is used by professional photographers and mydigitalmakeup which allows consumers to digitally sample specific makeup products.

### Filleted audited results for year ended 31 December 2016

	£'000
Net assets	3,846
Basis of valuation	Earnings multiple

### Investment information

	£'000
Income recognised in the year	277
Cost	19
Total valuation	1,775
Voting equity held	13.8%
Voting rights for all Albion managed companies	13.8%

## The Street by Street Solar Programme Limited

Street by Street owns and operates solar PV systems on circa 600 privately owned homes in England and Wales. It provides free and clean electricity to those homes, and benefits from inflation-protected renewable subsidies for a period of 20 to 25 years. Most of the PV systems were commissioned in 2011 and 2012.

### Filleted audited results for year ended

30 November 2017	£'000	Investment information	£'000
Net liabilities	(316)	Income recognised in the year	–
Basis of valuation		Cost	1,040
		Total valuation	1,710
		Voting equity held	10.0%
		Voting rights for all Albion managed companies	50.0%



Website: [www.anthropics.com](http://www.anthropics.com)



# 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 2017. The Statement of corporate governance on pages 33 to 36 forms a part of the Directors' report.

## BUSINESS REVIEW

### Principal activity and status

The principal activity of the Company is that of a Venture Capital Trust. It has been approved by H.M. 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.

The Company is not a close company for taxation purposes and its shares are premium listed on the official list of the London Stock Exchange.

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

### 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 14.

Ordinary shares represent 100 per cent. of the total share capital and voting rights. All shares (except for treasury shares which have no rights to a dividend and no voting rights) rank *pari passu* for dividend and voting purposes. Each Ordinary share is currently entitled to one vote. The Directors are not aware of any restrictions on the transfer of shares or on voting rights.

### Issue and buy-back of Ordinary shares

The Company operates a Dividend Reinvestment Scheme ("DRIS"), details of which can be found at [www.albion.capital/funds/KAY](http://www.albion.capital/funds/KAY).

The Company engaged in the Albion VCTs Prospectus Top Up Offers 2017/18 which closed on 5 March 2018, having been fully subscribed and reaching its £8m limit under the Prospectus dated 6 September 2017.

During the year, the Company issued 48,106,411 new Ordinary shares as a result of the DRIS and Albion VCT Prospectus Top Up Offers, details of which can be found in note 14.

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

### Substantial interests and shareholder profile

As at 31 December 2017 and at the date of this Report, the Company was not aware of any beneficial interest exceeding 3% of voting rights. There have been no disclosures in accordance with Disclosure Guidance and Transparency Rule 5 made to the Company during the year ended 31 December 2017 and up to the date of this Report.

### Results and dividends

The total return attributable to Shareholders for the year was £3,402,000 (2016: £5,677,000) or 1.25 pence per share (2016: 2.32 pence per share).

During the year, the Company paid a dividend of 1 penny per share (2016: 1 penny per share).

As shown in the Chairman's statement, the Board has declared a first dividend of 0.6 pence per share for the year ending 31 December 2018 to be paid on 30 April 2018 to shareholders on the register on 13 April 2018.

### Future developments of the business

Details on the future developments of the business can be found on page 7 of the Chairman's statement and on page 10 of the Strategic report.

### Going concern

In accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014, 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 over a period of at least twelve months from the date of approval of the Financial Statements. After accounting for investments available for disposal and current fundraising the Company has adequate cash resources. 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 16. The Company's business activities, together with details of its performance are shown in the Strategic report and this Directors' report.

### Post balance sheet events

Details of events that have occurred since the balance sheet date are shown in note 18.

## Principal risks and uncertainties

A summary of the principal risks faced by the Company is set out in the Strategic report on pages 13 and 14.

## VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HMRC. In order to maintain its status under Venture Capital Trust legislation, a VCT must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007 as follows:

- (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'. For funds raised after 5 April 2011 the figure is 70 per cent.;
- (4) At the time of investment, or addition to an investment, the Company's holdings in any one company (other than another VCT) must not have exceeded 15 per cent. by HMRC value of its investments;
- (5) The Company must not have retained greater than 15 per cent. of its income earned in the year from shares and securities;
- (6) The Company's shares, throughout the year, must have been listed on a regulated European market;
- (7) An investment in any company must not cause that company to receive more than £5 million in State aid risk finance in the 12 months up to the date of the investment, nor more than £12 million in total (£20 million for a "knowledge intensive" company);
- (8) The Company must not invest in a company whose trade is more than seven years old (ten years for a "knowledge intensive" company) unless the company previously received State aid risk finance in its first seven years, or a turnover test is satisfied;
- (9) The Company's investment in another company must not be used to acquire another business, or shares in another company; and
- (10) The Company may only make qualifying investments or certain non-qualifying investments permitted by section 274 of the Income Tax Act 2007.

These tests drive a spread of investment risk through disallowing holdings of more than 15 per cent. in any portfolio company. The tests have been carried out and independently reviewed for the year ended 31 December 2017. The Company has complied with all tests and continues to do so.

'Qualifying holdings' 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. 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. 'Qualifying trade' excludes, amongst other sectors, dealing in property or shares and securities, insurance, banking and agriculture. Details of the sectors in which the Company is invested can be found in the pie chart on page 9.

A "knowledge intensive" company is one which is carrying out significant amounts of R&D from which the greater part of its business will be derived, or where those R&D activities are being carried out by staff with certain higher educational attainments.

Portfolio company gross assets must not exceed £15 million immediately prior to the investment and £16 million immediately thereafter.

The Finance Act 2017 contained a number of measures that affect all VCTs which will be phased in over the coming years. Further details of some of the changes introduced can be found in the Strategic report on page 11.

## Environment

The management and administration of the Company is undertaken by the Manager. Albion Capital Group 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.

## Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio.

## Anti-bribery

The Company has adopted a zero tolerance approach to bribery, and will not tolerate bribery under any circumstances in any transaction the Company is involved in.

Albion Capital Group LLP has reviewed the anti-bribery policies and procedures of all portfolio companies.

## Anti-facilitation of tax evasion

The Company has adopted a zero tolerance approach with regards to the facilitation of criminal tax evasion and has put in place a robust risk assessment procedure to ensure compliance. The Board reviews this policy and the prevention procedures in place for all associates on a regular basis.

## Diversity

The Board currently consists of three male Directors. The Board's policy on the recruitment of new Directors is to attract a range of backgrounds, skills and experience and to ensure that appointments are made on the grounds of merit against clear and objective criteria and bear in mind gender and other diversity within the Board. More details on the Directors can be found in the Board of Directors section on page 16.

The Manager has an equal opportunities policy and currently employees 12 men and 16 women.

## Packaged Retail and Insurance-based Investment Products ("PRIIPs")

Investors should be aware that the PRIIPs Regulation requires the Manager, as PRIIP manufacturer, to prepare a Key Information Document ("KID") in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company's webpage on the Manager's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

## Employees

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

## Directors

The Directors who held office throughout the year, and their interests in the shares of the Company (together with those of their immediate family) are shown in the Directors' remuneration report on page 39.

## Re-election of Directors

Directors' retirement and re-election is subject to the Articles of Association and the UK Corporate Governance Code.

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. In accordance with the Articles of Association, Robin Field will resign 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.

## Advising ordinary retail investors

The Company currently conducts its affairs so that its shares can be recommended by financial intermediaries to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The FCA's restrictions which apply to non-mainstream investment products do not apply to the Company's shares because they are shares in a Venture Capital Trust which, for the purposes of the rules relating to non-mainstream investment products, are excluded securities and may be promoted to ordinary retail investors without restriction.

## Investment and co-investment

The Company co-invests with other venture capital trusts and funds managed by Albion Capital Group LLP. Allocation of investments is on the basis of an allocation agreement which is based, inter alia, on the ratio of funds available for investment.

## Auditor

The Audit Committee annually reviews and evaluates the standard and quality of service provided by the Auditor, as well as value for money in the provision of these services. Further details of this evaluation can be found in the Audit Committee section of the Statement of Corporate Governance on page 34.

A resolution to re-appoint BDO LLP will be proposed at the Annual General Meeting.

## Annual General Meeting

The Annual General Meeting will be held at the City of London Club, 19 Old Broad Street, London, EC2N 1DS at 11.00 am on 16 May 2018. The Notice of Annual General Meeting can be found on pages 63 and 64.

The proxy form enclosed with this Annual Report and Financial Statements permits shareholders to disclose votes 'for', 'against' and 'withheld'. A 'vote withheld' is not a vote in law and will not be counted in the proportion of the votes for and against the

resolution. A summary of proxies lodged at the Annual General Meeting will be published at [www.albion.capital/funds/KAY](http://www.albion.capital/funds/KAY) under the 'Financial Reports and Circulars' section.

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.

## **Change of investment policy**

Ordinary resolution number 6 proposes that the Company's investment policy be amended to enable the Company to comply with new VCT qualifying requirements, by replacing the wording under the heading "Investment policy" in the current policy with the following:

*"The Company will invest in a broad portfolio of higher growth businesses across a variety of sectors of the UK economy including higher risk technology companies. Allocation of assets will be determined by the investment opportunities which become available but efforts will be made to ensure that the portfolio is diversified both in terms of sector and stage of maturity of company."*

## **Authority to allot shares**

Ordinary resolution number 7 proposes to renew the Directors' authority to allot additional shares of the Company up to an aggregate nominal amount of £676,159 which represents approximately 20% of the issued share capital of the Company.

The Directors current intention is to allot shares under the Dividend Reinvestment Scheme and Albion VCTs Share Offers. The Company currently holds 42,771,000 treasury shares representing 12.9% of the total Ordinary share capital in issue as at 31 December 2017.

During the year, Ordinary shares were allotted under the terms of the Dividend Reinvestment Scheme and Albion VCTs Share Offers as described in note 14.

Since the year ended 31 December 2017, Ordinary shares were allotted under the Albion VCTs Prospectus Top Up Offers 2017/18 as described in note 18.

This resolution replaces the authority given to the Directors at the Annual General Meeting in 2017. The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed, or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

## **Disapplication of pre-emption rights**

Special resolution number 8 proposes to renew the Directors' authority to allot equity securities for cash up to an aggregate nominal amount of £676,159 (being approximately 20% 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, Top Up Offers 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.

This resolution replaces the authority given to the Directors at the Annual General Meeting in 2017. The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

## **Purchase of own shares**

Special resolution number 9 proposes to renew the existing power of the Company to purchase its own shares up to a maximum number of 50,678,148 shares representing 14.99% of the total number of shares currently in issue at or between the minimum and maximum prices specified in resolution number 9.

The Board believes that it is helpful for the Company to continue to have the flexibility to buy its own shares and this resolution seeks authority from shareholders to do so.

During the financial year under review, the Company purchased 6,396,000 Ordinary shares which were held in treasury, at an aggregate consideration of £1,301,000 representing 1.9% of called up share capital. Further information is shown in note 14.

This resolution replaces the authority given to the Directors at the Annual General Meeting in 2017. The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed, or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

## **Treasury shares**

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"), shares purchased by the Company out of distributable profits can be held as treasury shares, which may then be cancelled or sold for cash. The authority sought is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

# Directors' report continued

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This special resolution number 10 proposes to permit Directors to sell treasury shares at the higher of the prevailing current share price and the price bought in at.

## **Recommendation**

The Board believes that the passing of the resolutions above are in the best interests of the Company and its shareholders as a whole and accordingly, unanimously recommends that you vote in favour of these resolutions, as the Directors intend to do in respect of their own shareholdings.

## **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 provisions of s418 of the Companies Act 2006.

By Order of the Board

## **Albion Capital Group LLP**

Company Secretary  
1 King's Arms Yard  
London, EC2R 7AF  
29 March 2018



# Statement of Directors' responsibilities

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The Directors are responsible for preparing Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Company's Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") (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 for the Company for that period.

In preparing these 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 they have been prepared in accordance with UK GAAP subject to any material departures disclosed and explained in the Financial Statements; and
- prepare a Directors' report, a Strategic report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 ensuring that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

## Website publication

The Directors are responsible for ensuring the Annual Report and Financial Statements are made available on a website. Financial Statements are published on the Company's webpage on the Manager's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's webpage is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

## Directors' responsibilities pursuant to Disclosure Guidance and Transparency Rule 4 of the UK Listing Authority

The Directors confirm to the best of their knowledge:

- The Financial Statements have been prepared in accordance with UK GAAP and give a true and fair view of the assets, liabilities, financial position and profit of the Company.
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

By Order of the Board

**Robin Field**

Chairman

29 March 2018

# Statement of corporate governance

## Background

The Financial Conduct Authority requires all listed companies on a regulated market 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 2016.

The Board 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 the UK Corporate Governance 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 UK Corporate Governance 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 the UK Corporate Governance 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, 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.

Robin Field is the Chairman and all the Directors of the Company are considered independent. 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 and the fact that all Directors are non-executive, it is not necessary for the time being. The need to appoint a Senior Independent Director is reviewed annually.

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 16. 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 given its size its membership is diverse in relation to experience and balance of skills.

The Board met four times during the year as part of its regular programme of Board meetings, with all Directors attending each meeting. In addition, and in accordance with best practice, further meetings took place without the Manager present. A sub-committee of the Board comprising at least two Directors met during the year to allot shares under the Dividend Reinvestment Scheme, the Albion VCTs Prospectus Top Up Offers 2016/2017 and to approve the terms of, and allot shares under, the Albion VCTs Prospectus Top Up Offers 2017/18.

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 delegated authority over the day-to-day management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services. The main issues reserved for the Board include:

- the appointment, evaluation, removal and remuneration of the Manager;
- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy and corporate events that arise;
- application of the principles of the UK Corporate Governance Code, corporate governance and internal control;
- review of sub-committee recommendations, including the recommendation to shareholders for the appointment and remuneration of the Auditor;
- approval of the appropriate dividend to be paid to shareholders;
- 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

# Statement of corporate governance

continued

- monitoring shareholder profile and considering shareholder communications.

It is the responsibility of the Board to present an Annual Report that is fair, balanced and understandable, which provides the information necessary for shareholders to assess the position, performance, strategy and business model of the Company.

## 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 for the effective governance of the Company. Diversity within the Board is achieved through the appointment of Directors with different sector experiences and skills.

Directors are offered training, both at the time of joining the Board and on other occasions where required. The Board also undertakes a proper and thorough evaluation of its committees on an annual basis.

In light of the structured performance evaluation, Robin Field 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 Robin Field continues in his position. Robin Field will retire by rotation in accordance with the articles and offer himself up for re-election.

## Remuneration and Nomination Committees

Since the Company has no executive directors, the detailed Directors' Remuneration disclosure requirements set out in the 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 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 2017; all members attended.

The independent Auditor, BDO LLP, attended the Audit Committee meeting at which the Annual Report and Financial Statements for the year ended 31 December 2017 were discussed. BDO LLP also met with the Audit Committee prior to the meeting without the presence of the Manager.

Written terms of reference have been constituted for the Audit Committee and can be found on the Company's webpage on the Manager's website at [www.albion.capital/funds/KAY](http://www.albion.capital/funds/KAY) under the Corporate Governance section.

During and following the year under review, the Audit Committee discharged its responsibilities including:

- formally reviewing the final Annual Report and Financial Statements, the Half-yearly Report, the Interim Management Statements and the associated announcements, with particular focus on the main areas requiring judgement and on critical accounting policies;
- reviewing the effectiveness of the internal controls system and examination of the Internal Controls Report produced by the Manager;
- meeting with the external Auditor, for the agreement of the audit plan, consideration of the sufficiency of the audit fee for the work required and reviewing the audit findings;
- 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 position, performance, business model and strategy;
- highlighting specific issues relating to the Financial Statements including the reasonableness of valuations produced by the Manager, compliance with accounting standards and UK law, corporate governance and listing and disclosure rules 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 performance of the Manager and making recommendations regarding their re-appointment to the Board; and
- reporting to the Board on how it has discharged its responsibilities.

## Financial Statements

The Audit Committee has initial responsibility for reviewing the Financial Statements and reporting on any significant issues that arise in relation to the audit of the Financial Statements as outlined below. Such issues were communicated with the external Auditor with the approval of the audit strategy and at the completion of the audit of the Financial Statements. No conflicts arose between the Audit Committee and the external Auditor in respect of their work during the year.

# Statement of corporate governance

continued

The key accounting and reporting issues considered by the Committee were:

## *The valuation of the Company's investments*

Valuations of investments are prepared by the Manager. The Audit Committee reviewed the estimates and judgements made in relation to these investments and were satisfied that they were appropriate. The Audit Committee also discussed the controls in place over the valuation of investments. The Audit Committee recommended investment valuations to the Board for approval.

## *Revenue recognition*

The revenue generated from loan stock interest and dividend income has been considered by the Audit Committee as part of its review of the Annual Report as well as a quarterly review of the management accounts prepared by the Manager. The Audit Committee has considered the controls in place over revenue recognition to ensure that amounts received are in line with expectation and budget.

Following detailed reviews of the Annual Report and Financial Statements and consideration of the key areas of risk identified, the Audit Committee has concluded that, as a whole, the Annual Report and Financial Statements are fair, balanced and understandable and that they provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

## **Relationship with the external Auditor**

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 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 2017, 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 Auditor's skills match all the relevant and appropriate criteria. The core legislation mandates that the maximum period for which a firm can be appointed auditor of a public interest entity is 10 years. Member states can choose to make this period shorter, or they can choose to allow extensions: to 20 years if a competitive tender is held at the 10 year point, or to 24 years in the case of a joint audit appointment. Transition arrangements vary depending on the length of time auditors have been incumbent. BDO LLP first acted as Auditor for the year ended 31 December 2014 and therefore the last year BDO LLP can act as auditor before a mandatory tender process is required is 31 December 2023.

Where non-audit fee levels are considered significant, the Audit Committee considers the appropriateness of the independence safeguards put in place by the Auditor. No non-audit fees were paid to BDO LLP in the financial year to 31 December 2017. The Audit Committee considers BDO LLP to be independent of the Company. 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 BDO LLP is appointed and that a resolution to this effect be proposed at the Annual General Meeting.

## **Internal control**

In accordance with the UK Corporate Governance 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 FRC guidance "Risk Management, Internal Control and Related Financial and Business Reporting". The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, acknowledging that such a system is designed to manage, rather than eliminate, the risks of failure to achieve the Company's business objectives, such controls can only provide reasonable and not absolute assurance against material misstatement 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, and to deal with areas of improvement which come to the Manager's and the Audit Committee's attention.

# Statement of corporate governance

continued

The Board, through the Audit Committee, has performed a specific assessment for the purpose of this Annual Report and Financial Statements. 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-based 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 Capital Group LLP;
- bank reconciliations are carried out monthly and stock reconciliations are carried out six-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 Company reviews financial information to be published.

As the Board has delegated the investment management and administration of the Company to Albion Capital Group LLP, the Board feels that it is not necessary to have its own internal audit function. Instead, the Board had access to PKF Littlejohn LLP, which, as internal auditor for Albion Capital Group LLP, undertakes periodic examination of the business processes and controls environment at Albion Capital Group LLP and ensures that any recommendations to implement improvements in controls are carried out. The Audit Committee receives the annual internal audit report prepared by PKF Littlejohn LLP and meets with and addresses matters raised with PKF Littlejohn LLP as required. 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.

## 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 27 and 30. 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 at 11:00 am on 16 May 2018 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 and financial advisers are able to obtain information on holdings and performance using the contact details provided on page 2.

The Company's shares are listed on the London Stock Exchange and it is through this market that the Company operates its share buy-back programme. In order for shareholders to sell shares they should, after due consideration of their personal tax position, 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 Chief Executive Officer, Senior Independent Director and the appointment of separate Remuneration and Nomination Committees, the Company has complied throughout the year ended 31 December 2017 with all the relevant provisions of the Code and with the AIC Code of Corporate Governance. The Company continues to comply with the Code as at the date of this report.

By Order of the Board

**Robin Field**

Chairman

29 March 2018



# Directors' remuneration report

## Introduction

This report is submitted in accordance with Section 420 of the Companies Act 2006 and describes how the Board has applied the principles relating to the Directors' remuneration.

An ordinary resolution will be proposed at the Annual General Meeting of the Company to be held on 16 May 2018 for the approval of the Annual Remuneration Report as set out below. The current Remuneration Policy was approved by shareholders (92.5% per cent. of shareholders voted for the resolution) at the Annual General Meeting on 17 May 2017, and it will remain in place for a three year period. It will next be put to shareholders at the 2020 AGM.

The Company's independent Auditor, BDO LLP, is required to give its opinion on certain information included in this report as indicated below. The Auditor's opinion is included in the Independent Auditor's Report.

## UNAUDITED INFORMATION

### Annual statement from the Chairman

Since the Company's Board consists solely of non-executive Directors and there are no executive employees, a Remuneration Committee is not considered necessary. The Board as a whole is responsible for the appointment and remuneration of Directors and, in accordance with the AIC Code of Corporate Governance, considers the level of the fees at least annually.

### 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. There is no performance related pay criteria applicable to non-executive Directors.

None of the Directors have a service contract with the Company, and as such there is no policy on termination payments. There is no notice period and no payments for loss of office were made during the year. On being appointed to the Board, Directors receive a letter from the Company setting out the terms of their appointment and their specific duties and responsibilities. The Company has no employees other than the Directors.

The maximum level of non-executive Directors' remuneration is fixed by the Company's Articles of Association, not to exceed £100,000 per annum in aggregate; amendment to this is by way of an ordinary resolution and subject to ratification of shareholders.

In addition to Directors' remuneration, the Company pays an annual premium in respect of Directors' & Officers' Liability Insurance of £7,700 (2016: £8,100).

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 16 May 2018, Robin Field will retire by rotation and be subject to re-election.

Shareholders' views in respect of Directors' remuneration are regarded highly and the Board encourages shareholders to attend its Annual General Meeting in order to communicate their thoughts, which it takes into account where appropriate when formulating its policy. At the last Annual General Meeting, 83% of shareholders voted for the resolution approving the Directors' remuneration report which shows significant shareholder support.

### Annual report on remuneration

The remuneration of individual Directors is determined by the entire Board within its set framework.

The Board annually reviews the remuneration of the Directors and the Company's remuneration policy to ensure that it reflects the duties, responsibilities and value of time spent by the Directors on the business of the Company.

### Performance

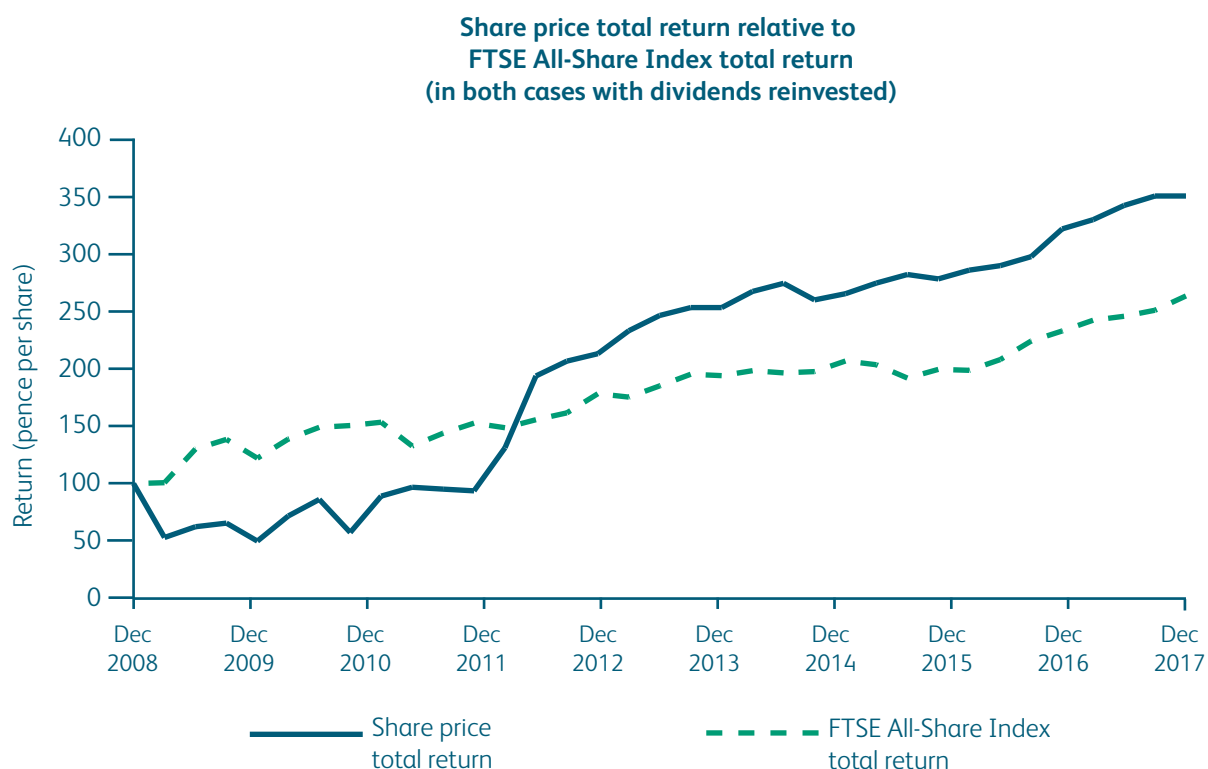
The Directors consider that total return to shareholders (defined as the net asset value per share of the Company plus cumulative dividends paid) since the date of launch of the Company is the most appropriate indicator of the performance of the Company. The total return (excluding tax benefits of 20p per share) of 86.93 pence per share, which is shown on page 5, can be compared against the issue price of 100p at the date of launch of the fund.

The graph below shows the Company's share price total return against the FTSE All-Share Index total return, in both instances rebased to 100 and with dividends reinvested, since 31 December 2008. The Directors consider the FTSE All-Share Index to be the most appropriate benchmark for the Company as it contains a range of sectors relevant to the Company.

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



# Directors' remuneration report continued



Source: Albion Capital Group LLP

Methodology: The share price return to the shareholder, including original amount invested (rebased to 100), assuming that dividends were re-invested at the share price of the Company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

## AUDITED INFORMATION

### Directors' remuneration

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

	Year ended 31 December 2017 £	Year ended 31 December 2016 £
R A Field (Chairman)	24,000	24,000
T W Chambers (Audit Committee Chairman)	22,000	22,000
M G Fiennes	20,000	20,000
	<b>66,000</b>	<b>66,000</b>

The Directors' remuneration for the year ending 31 December 2018 is expected to be £66,000.

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.

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

# Directors' remuneration report continued

## Directors' interests

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) are shown below:

	<b>Shares held at 31 December 2017</b>	<b>Shares held at 31 December 2016</b>
R A Field	<b>1,447,854</b>	782,477
T W Chambers	<b>441,527</b>	393,681
M G Fiennes	<b>132,500</b>	132,500
	<b>2,021,881</b>	1,308,658

There have been no changes in the holdings of the Directors between 31 December 2017 and the date of this Report.

Albion Capital Group LLP, its partners and staff hold 902,724 Ordinary shares in the Company.

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

## Directors' pay compared to distribution to shareholders

	<b>2017 £'000</b>	<b>2016 £'000</b>	<b>Percentage change</b>
Total dividend distribution to shareholders	<b>2,738</b>	2,500	<b>10%</b>
Share buybacks	<b>1,301</b>	905	<b>44%</b>
Total Directors' fees	<b>66</b>	66	<b>–</b>

By Order of the Board

**Robin Field**

Director

29 March 2018

# Independent auditor's report to the members of Kings Arms Yard VCT PLC

## Opinion

We have audited the financial statements of Kings Arms Yard VCT PLC (the "company") for the year ended 31 December 2017 which comprise the income statement, the balance sheet, the statement of changes in equity and the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report to the members of Kings Arms Yard VCT PLC continued

Key Audit Matter	Audit response
<p><b>Valuation of investments (Note 1 and 10 to the financial statements)</b></p> <p>There is a high level of estimation uncertainty involved in determining the unquoted investment valuations.</p> <p>The Investment Manager's fee is based on the value of the net assets of the fund, as shown in note 4.</p> <p>As the Investment Manager is responsible for valuing investments for the financial statements, there is a potential risk of overstatement of investment valuations. The existence of an expense cap in the management agreement enhances this risk.</p>	<p>We tested a sample of 82% of the unquoted investment portfolio by value of investment holdings.</p> <p>We performed preliminary analytical procedures to determine our investment sample and the extent of our work considering, inter alia, the value of individual investments, the nature of the investment and the extent of the fair value movement.</p> <p>27% of the unquoted portfolio is based on valuations using net assets (i.e. cash held), cost (where the investment was recently acquired) or the price of a recent investment. For such investments, we checked the cost or net assets to supporting documentation and considered the Investment Manager's determination of whether there were any reasons why the valuation and the valuation methodology was not appropriate at 31 December 2017.</p> <p>The remaining 73% of the investment portfolio is valued with reference to more subjective techniques with 46% supported by a valuation performed by a third party (22% based on discounted cash flows and 24% using earnings multiples). The remaining 27% of the portfolio is valued using multiples of revenue or earnings, as described in note 10.</p> <p>Our detailed testing for such investments, performed on all investments within our sample comprised:</p> <ul style="list-style-type: none"> <li>• Forming a determination of whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines obtaining management explanations</li> <li>• Re-performed the calculation of the multiples-based investment valuations</li> <li>• Where a valuation has been performed by a third party management's expert, we assessed the competence and capabilities of that expert, the quality of their work and their qualifications, as well as challenging the basis of inputs and assumptions used by the expert (i.e. discount rates and earnings multiples). We also considered any updates for subsequent information to the valuation made by the Investment Manager and obtained appropriate evidence for those changes</li> <li>• Benchmarked key inputs and estimates to independent information and our own research</li> <li>• Challenged the assumptions inherent in the valuation of unquoted investments and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the Financial Statements</li> <li>• Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation</li> </ul>

# Independent auditor's report to the members of Kings Arms Yard VCT PLC continued

Key Audit Matter	Audit response
	<ul style="list-style-type: none"> <li>Developed our own point estimates where alternative assumptions could reasonably be applied and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.</li> </ul> <p>For investments not included in our detailed testing, we performed the following procedures where relevant:</p> <ul style="list-style-type: none"> <li>Considered whether the valuation had been prepared by a suitably qualified individual</li> <li>Considered whether a valid IPEV methodology had been adopted</li> <li>Considered whether the valuation used up to date trading information</li> </ul> <p>For a sample of loans held at fair value, we:</p> <ul style="list-style-type: none"> <li>Vouched security held to documentation</li> <li>Considered the assumption that fair value is not significantly different to cost by challenging the assumption that there is no significant movement in the market interest rate since acquisition and considering the "unit of account" concept (i.e. the investment as a whole)</li> <li>Reviewed the treatment of accrued redemption premium/other fixed returns in line with the SORP</li> </ul>
<p><b>Revenue recognition (Note 1 and 3 to the financial statements)</b></p> <p>Revenue consists primarily of interest earned on loans to investee companies, as well as dividends receivable from investee companies.</p> <p>Revenue recognition is considered to be a significant risk, particularly the assessment of the recoverability of loan interest income, and the completeness of dividends, as it is one of the key drivers of dividend returns to investors.</p> <p>Income arises from unquoted investments and can be difficult to predict. It is often a key factor in demonstrating the performance of the portfolio.</p>	<p>We developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid.</p> <p>We also reviewed the recognition and classification of accrued fixed income receipts to ascertain whether it meets the definition of realised income, considering management information relevant to the ability of the portfolio Company to service the loan and the reasons for any arrears of loan interest.</p> <p>In respect of dividends receivable, we compared actual income to expectations set based on independent published data or management information from the investee company on dividends declared by the portfolio companies held.</p>

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements.

We determined final materiality for the financial statements as a whole to be £1,100,000 based on 2% of the value of investments. On the basis of our risk assessment, together with our assessment of the control environment, our judgement is that performance materiality for the financial statements should be 75% of materiality, namely £825,000. Our objective in adopting this approach was to ensure that total detected and undetected audit differences do not exceed our final materiality of £1,100,000 for the financial statements as a whole.

# Independent auditor's report to the members of Kings Arms Yard VCT PLC continued

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality (2% value of investments)	Assessing whether the financial statements as a whole present a true and fair view. We consider this to be the key measurement for shareholders.	<ul style="list-style-type: none"> <li>The value of investments</li> <li>The level of judgement inherent in the valuation</li> <li>The range of reasonable alternative valuation</li> </ul>	1,100,000
Specific materiality – classes of transactions and balances which impact on revenue profits (10% revenue return before tax)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none"> <li>The level of net income return</li> </ul>	150,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds

## An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** – the statement given by the directors that they consider 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, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.



# Independent auditor's report to the members of Kings Arms Yard VCT PLC continued

## Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Other matters which we are required to address

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

**Vanessa-Jayne Bradley** (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

United Kingdom

29 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Income statement

	Note	Year ended 31 December 2017			Year ended 31 December 2016		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	2	–	2,753	2,753	–	6,076	6,076
Investment income	3	2,116	–	2,116	1,370	–	1,370
Investment management fee	4	(291)	(873)	(1,164)	(244)	(733)	(977)
Performance incentive fee	4	–	–	–	(128)	(385)	(513)
Other expenses	5	(303)	–	(303)	(279)	–	(279)
<b>Profit on ordinary activities before tax</b>		<b>1,522</b>	<b>1,880</b>	<b>3,402</b>	<b>719</b>	<b>4,958</b>	<b>5,677</b>
Tax on ordinary activities	7	–	–	–	–	–	–
<b>Profit and total comprehensive income attributable to shareholders</b>		<b>1,522</b>	<b>1,880</b>	<b>3,402</b>	<b>719</b>	<b>4,958</b>	<b>5,677</b>
<b>Basic and diluted return per share (pence) *</b>	9	<b>0.56</b>	<b>0.69</b>	<b>1.25</b>	<b>0.29</b>	<b>2.03</b>	<b>2.32</b>

\* excluding treasury shares

The accompanying notes on pages 49 to 62 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 and capital columns have been prepared in accordance with The Association of Investment Companies' Statement of Recommended Practice.

# Balance sheet

		31 December 2017	31 December 2016
	Note	£'000	£'000
<b>Fixed assets investments</b>	10	<b>55,815</b>	51,601
<b>Current assets</b>			
Trade and other receivables less than one year	12	<b>368</b>	476
Cash and cash equivalents		<b>6,700</b>	1,788
		<b>7,068</b>	2,264
<b>Total assets</b>		<b>62,883</b>	53,865
<b>Payables: amounts falling due within one year</b>			
Trade and other payables less than one year	13	<b>(391)</b>	(855)
<b>Total assets less current liabilities</b>		<b>62,492</b>	53,010
<b>Equity attributable to equityholders</b>			
Called up share capital	14	<b>3,321</b>	2,840
Share premium		<b>23,841</b>	14,218
Capital redemption reserve		<b>11</b>	11
Unrealised capital reserve		<b>12,118</b>	12,526
Realised capital reserve		<b>5,720</b>	3,432
Other distributable reserve		<b>17,481</b>	19,983
<b>Total equity shareholders' funds</b>		<b>62,492</b>	53,010
<b>Basic and diluted net asset value per share (pence)*</b>	15	<b>21.60</b>	21.41

\* excluding treasury shares

The accompanying notes on pages 49 to 62 form an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors and authorised for issue on 29 March 2018 and were signed on its behalf by:

**Robin Field**  
Chairman

**Company number: 03139019**

# Statement of changes in equity

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Unrealised capital reserve £'000	Realised capital reserve* £'000	Other distributable reserve* £'000	Total £'000
<b>At 1 January 2017</b>	<b>2,840</b>	<b>14,218</b>	<b>11</b>	<b>12,526</b>	<b>3,432</b>	<b>19,983</b>	<b>53,010</b>
Profit and total comprehensive income for the period	–	–	–	1,695	185	1,522	3,402
Transfer of previously unrealised gains on disposal of investments	–	–	–	(2,103)	2,103	–	–
Purchase of own shares for treasury	–	–	–	–	–	(1,301)	(1,301)
Issue of equity	481	9,880	–	–	–	–	10,361
Cost of issue of equity	–	(257)	–	–	–	–	(257)
Dividends paid	–	–	–	–	–	(2,723)	(2,723)
<b>At 31 December 2017</b>	<b>3,321</b>	<b>23,841</b>	<b>11</b>	<b>12,118</b>	<b>5,720</b>	<b>17,481</b>	<b>62,492</b>
<b>At 1 January 2016</b>	<b>2,533</b>	<b>8,399</b>	<b>11</b>	<b>7,170</b>	<b>3,830</b>	<b>22,669</b>	<b>44,612</b>
Profit and total comprehensive income for the period	–	–	–	5,718	(760)	719	5,677
Transfer of previously unrealised gains on disposal of investments	–	–	–	(362)	362	–	–
Purchase of own shares for treasury	–	–	–	–	–	(905)	(905)
Issue of equity	307	5,981	–	–	–	–	6,288
Cost of issue of equity	–	(162)	–	–	–	–	(162)
Dividends paid	–	–	–	–	–	(2,500)	(2,500)
<b>At 31 December 2016</b>	<b>2,840</b>	<b>14,218</b>	<b>11</b>	<b>12,526</b>	<b>3,432</b>	<b>19,983</b>	<b>53,010</b>

\* These reserves amount to £23,201,000 (2016: £23,415,000) which is considered distributable.

The accompanying notes on pages 49 to 62 form an integral part of these Financial Statements.

# Statement of cash flows

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Cash flow from operating activities</b>		
Investment income received	1,218	902
Deposit interest received	3	32
Dividend income received	782	84
Investment management fee paid	(1,128)	(994)
Performance incentive fee paid	(513)	(242)
Other cash payments	(295)	(220)
<b>Net cash flow from operating activities</b>	<b>67</b>	<b>(438)</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed asset investments	(5,735)	(5,935)
Disposal of fixed asset investments	4,498	1,918
<b>Net cash flow from investing activities</b>	<b>(1,237)</b>	<b>(4,017)</b>
<b>Cash flow from financing activities</b>		
Issue of share capital	9,814	5,880
Cost of issue of equity	(2)	(2)
Purchase of own shares (including costs)	(1,300)	(905)
Equity dividends paid*	(2,430)	(2,248)
<b>Net cash flow from financing activities</b>	<b>6,082</b>	<b>2,725</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>4,912</b>	<b>(1,730)</b>
Cash and cash equivalents at start of the year	1,788	3,518
<b>Cash and cash equivalents at end of the year</b>	<b>6,700</b>	<b>1,788</b>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank and in hand	6,700	1,788
Cash equivalents	—	—
<b>Total cash and cash equivalents</b>	<b>6,700</b>	<b>1,788</b>

\* The equity dividends paid shown in the cash flow are different to the dividends disclosed in note 8 as a result of the non-cash effect of the Dividend Reinvestment Scheme.

The accompanying notes on pages 49 to 62 form an integral part of these Financial Statements.



# Notes to the Financial Statements

## 1. Accounting policies

### 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 United Kingdom law and accounting standards, including Financial Reporting Standard 102 ("FRS 102"), and with the 2014 Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued by The Association of Investment Companies ("AIC").

The preparation of the Financial Statements requires management to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The most critical estimates and judgements relate to the determination of carrying value of investments at fair value through profit and loss ("FVTPL"). The Company values investments by following the IPEVCV Guidelines and further detail on the valuation techniques used are outlined below.

Company information can be found on page 2.

### 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.

In accordance with the requirements of FRS 102, those undertakings in which the Company holds more than 20% of the equity as part of an investment portfolio are not accounted for using the equity method. In these circumstances the investment is measured at FVTPL.

Upon initial recognition (using trade date accounting) investments, including loan stock, are designated by the Company as FVTPL 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 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.

Investments are recognised as financial assets on legal completion of the investment contract and are de-recognised on legal completion of the sale of an investment.

Dividend income is not recognised as part of the fair value movement of an investment, but is recognised separately as investment income through the Income statement when a share becomes ex-dividend.

Receivables and payables and cash are carried at amortised cost, in accordance with FRS 102. There are no financial liabilities other than payables.

### 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 unrealised capital reserve.

### Investment income

#### Equity income

Dividend income is included in revenue when the investment is quoted ex-dividend.

#### Unquoted loan stock and other preferred income

Fixed returns on non-equity shares and debt securities are recognised when the Company's right to receive payment and expect settlement is established. Where interest is rolled up and/or payable at redemption then it is recognised as income unless there is reasonable doubt as to its receipt.

# Notes to the Financial Statements continued

## 1. Accounting policies (continued)

### *Bank interest income*

Interest income is recognised on an accruals basis using the rate of interest agreed with the bank.

### **Investment management fees and other expenses**

All expenses have been accounted for on an accruals basis. Expenses are charged through the other distributable reserve except the following which are charged through the realised capital reserve:

- 75 per cent. of management fees are allocated to the realised capital reserve. 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; and
- expenses which are incidental to the purchase or disposal of an investment are charged through the realised capital reserve.

### **Performance incentive fee**

Any performance incentive fee will be allocated between other distributable and realised capital reserves based upon the proportion to which the calculation of the fee is attributable to revenue and capital returns.

### **Taxation**

Taxation is applied on a current basis in accordance with FRS 102. Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past reporting periods using the tax rates and laws that have been enacted or substantively enacted at the financial reporting date. Taxation associated with capital expenses is applied in accordance with the SORP.

Deferred tax is provided in full on all timing differences at the reporting date. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. As a VCT the Company has an exemption from tax on capital gains. The Company intends to continue meeting the conditions required to obtain approval as a VCT in the foreseeable future. The Company therefore, should have no material deferred tax timing differences arising in respect of the revaluation or disposal of investments and the Company has not provided for any 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 FVPTL, 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 unrealised capital reserve.

### **Reserves**

#### *Share premium*

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 the other distributable reserve.

#### *Capital redemption reserve*

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

#### *Unrealised capital reserve*

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

#### *Realised capital reserve*

The following are disclosed in this reserve:

- gains and losses compared to cost on the realisation of investments;
- expenses, together with the related taxation effect, charged in accordance with the above policies; and
- dividends paid to equity holders.

#### *Other distributable reserve*

The special reserve, treasury share reserve and the revenue reserve were combined in 2012 to form a single reserve named other distributable reserve.

This reserve accounts for movements from the revenue column of the Income statement, the payment of dividends, the buy-back of shares and other non-capital realised movements.

### **Dividends**

Dividends by the Company are accounted for in the period in which the dividend is paid or approved at the Annual General Meeting.

### **Segmental reporting**

The Directors are of the opinion that the Company is engaged in a single operating segment of business, being investment in smaller companies principally based in the UK.

# Notes to the Financial Statements continued

## 2. Gains on investments

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Unrealised gains on fixed asset investments	1,695	5,718
Realised gains on fixed asset investments	1,058	358
	<u>2,753</u>	<u>6,076</u>

## 3. Investment income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Income recognised on investments</b>		
Interest from loans to portfolio companies	1,331	1,257
Dividends	782	84
Bank deposit interest	3	29
	<u>2,116</u>	<u>1,370</u>

## 4. Investment management and performance incentive fees

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Investment management fee charged to revenue	291	244
Investment management fee charged to capital	873	733
Performance incentive fee charged to revenue	–	128
Performance incentive fee charged to capital	–	385
	<u>1,164</u>	<u>1,490</u>

Further details of the Management agreement under which the investment management fee and performance incentive fee are paid is given in the Strategic report on page 12.

During the year, services with a value of £1,164,000 (2016: £977,000) and £50,000 (2016: £50,000) were purchased by the Company from Albion Capital Group LLP in respect of management and administration fees respectively. There was no performance incentive fee due during the year (2016: £513,000). At the financial year end, the amount due to Albion Capital Group LLP in respect of these services disclosed as accruals was £309,000 (2016: £786,000).

Albion Capital Group LLP is, from time to time, eligible to receive transaction fees and monitoring fees from portfolio companies. During the year ended 31 December 2017 Albion Capital Group LLP received transaction fees from 18 portfolio companies and monitoring fees from 37 portfolio companies. Kings Arms Yard's share of these fees were, transactions fees of £90,000 and monitoring fees of £143,000 (2016: transaction fees: £53,000; monitoring fees: £120,000).

Albion Capital Group LLP, its partners and staff hold 902,724 Ordinary shares in the Company.

# Notes to the Financial Statements continued

## 5. Other expenses

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Administrative and secretarial services to the Manager	50	50
Directors' fees (note 6)	72	72
Auditor's remuneration for statutory audit services (excluding VAT)	25	24
Other expenses	136	126
	<b>283</b>	<b>272</b>
Foreign exchange cost	20	7
	<b>303</b>	<b>279</b>

## 6. Directors' fees

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Amount payable to Directors	66	66
National insurance	6	6
	<b>72</b>	<b>72</b>

The Company's key management personnel are the Directors. Further information regarding Directors' remuneration can be found in the Directors' remuneration report on page 38.

## 7. Tax on ordinary activities

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
UK Corporation tax payable	—	—

### Reconciliation of profit on ordinary activities to taxation charge

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Return on ordinary activities before taxation	3,402	5,677
Tax charge on profit at the effective UK corporation tax rate of 19.25% (2016: 20%)	655	1,135
Effects of:		
Non-taxable gains	(530)	(1,215)
Non-taxable income	(151)	(17)
Unutilised management expenses	26	97
	<b>—</b>	<b>—</b>

The tax charge for the year shown in the Income statement is lower than the effective rate of corporation tax in the UK of 19.25 per cent. (2016: 20 per cent.). The differences are explained above.

The Company has excess management expenses of £10,897,000 (2016: £10,764,000) that are available for offset against future profits. A deferred tax asset of £1,852,000 (2016: £2,153,000) 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.

# Notes to the Financial Statements continued

## 8. Dividends

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
First dividend of 0.5 pence per share paid on 29 April 2016	–	1,256
Second dividend of 0.5 pence per share paid on 31 October 2016	–	1,244
First dividend of 0.5 pence per share paid on 28 April 2017	1,375	–
Second dividend of 0.5 pence per share paid on 31 October 2017	1,363	–
Unclaimed dividends returned to the Company	(15)	–
	<b>2,723</b>	<b>2,500</b>

The Directors have declared a first dividend of 0.6 pence per share for the year ending 31 December 2018, which will amount to approximately £1,772,000. This dividend will be paid on 30 April 2018 to shareholders on the register on 13 April 2018.

## 9. Basic and diluted return per share

	Year ended 31 December 2017			Year ended 31 December 2016		
	Revenue	Capital	Total	Revenue	Capital	Total
Profit attributable to shareholders (£'000)	1,522	1,880	3,402	719	4,958	5,677
Weighted average shares in issue (excluding treasury shares)	272,042,345			244,550,634		
Return attributable per equity share (pence)	0.56	0.69	1.25	0.29	2.03	2.32

The weighted average number of Ordinary shares is calculated excluding the treasury shares of 42,771,000 (2016: 36,375,000).

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

## 10. Fixed asset investments

	31 December 2017 £'000	31 December 2016 £'000
<b>Summary of fixed asset investments</b>		
<b>Investments held at fair value through profit or loss</b>		
Unquoted equity	30,551	27,094
Unquoted loan stock	23,219	20,664
Quoted equity	2,045	3,843
	<b>55,815</b>	<b>51,601</b>



# Notes to the Financial Statements continued

## 10. Fixed asset investments (continued)

	31 December 2017 £'000	31 December 2016 £'000
<b>Opening valuation</b>	<b>51,601</b>	41,257
Purchases at cost	<b>6,066</b>	7,405
Disposal proceeds	<b>(4,673)</b>	(3,493)
Realised gains	<b>1,058</b>	358
Movement in loan stock accrued income	<b>68</b>	355
Movement in unrealised gains	<b>1,695</b>	5,718
<b>Closing valuation</b>	<b>55,815</b>	51,601
<b>Movement in loan stock accrued income</b>		
Opening accumulated movement in loan stock accrued income	<b>543</b>	187
Movement in loan stock accrued income	<b>68</b>	355
<b>Closing accumulated movement in loan stock accrued income</b>	<b>611</b>	543
<b>Movement in unrealised gains</b>		
Opening accumulated unrealised gains	<b>12,514</b>	7,158
Transfer of previously unrealised gains to realised reserve on disposal of investments	<b>(2,103)</b>	(362)
Movement in unrealised gains	<b>1,695</b>	5,718
<b>Closing accumulated unrealised gains</b>	<b>12,106</b>	12,514
<b>Historical cost basis</b>		
Opening book cost	<b>38,544</b>	33,912
Purchases at cost	<b>6,066</b>	7,405
Sales at cost	<b>(1,512)</b>	(2,772)
<b>Closing book cost</b>	<b>43,098</b>	38,544

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 detailed above may not agree to purchases and disposals in the Statement of cash flows due to restructuring of investments, conversion of convertible loan stock and settlement receivables and payables.

# Notes to the Financial Statements continued

## 10. Fixed asset investments (continued)

### Unquoted investment valuation methodologies

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

Valuation Methodologies	31 December 2017 £'000	31 December 2016 £'000
Cost and price of recent investment (reviewed for impairment)	14,167	10,504
Third party valuation – Earnings multiple	12,899	11,012
Third party valuation – Discounted cash flow	11,656	11,300
Revenue multiple	8,124	6,912
Earnings multiple	6,697	7,797
Net assets	227	233
	<b>53,770</b>	<b>47,758</b>

Fair value investments had the following movements between valuation methodologies between 31 December 2016 and 31 December 2017.

Change in valuation methodology (2016 to 2017)	Value as at 31 December 2017 £'000	Explanatory Note
Revenue multiple to price of recent investment	2,267	Investment round has recently taken place
Cost and price of recent investment (reviewed for impairment) to revenue multiple	2,232	More recent information available
Cost and price of recent investment (reviewed for impairment) to earnings multiple	981	More recent information available
Earnings multiple to revenue multiple	727	More relevant valuation methodology

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 IPEVCV Guidelines. The Directors believe that, within these parameters, the methods used are the most appropriate methods of valuation as at 31 December 2017.

FRS 102 and the SORP requires the Company to disclose the inputs to the valuation methods applied to its investments measured at fair value through profit or loss in a fair value hierarchy according to the following definitions:

The table below sets out fair value measurements using FRS 102 s11.27 fair value hierarchy. The Company has one class of assets, being at fair value through profit and loss.

Fair value hierarchy	Definition
Level 1	The unadjusted quoted price in an active market
Level 2	Inputs to valuations are from observable sources and are directly or indirectly derived from prices
Level 3	Inputs to valuations not based on observable market data

Quoted NASDAQ and LSE investments are valued according to Level 1 valuation methods. Unquoted equity, preference shares, and loan stock are all valued according to Level 3 valuation methods.

# Notes to the Financial Statements continued

## 10. Fixed asset investments (continued)

	31 December 2017 £'000	31 December 2016 £'000
<b>Level 3 reconciliation</b>		
Opening valuation	47,758	38,806
Purchases at cost	6,066	5,938
Unrealised gains	1,611	4,792
Movement in loan stock accrued income	68	355
Realised net gains on disposal	927	201
Disposal proceeds	(2,660)	(2,334)
<b>Closing valuation</b>	<b>53,770</b>	<b>47,758</b>

FRS 102 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. 62 per cent. of the portfolio of investments is based on cost, recent investment price or is loan stock, and as such the Board considers that the assumptions used for their valuations are the most reasonable. The Directors believe that changes to reasonable possible alternative assumptions (by adjusting the revenue and earnings multiples) for the valuations of the remainder of the portfolio companies could result in an increase in the valuation of investments by £1,384,000 or a decrease in the valuation of investments by £1,417,000.

For valuations based on earnings and revenue multiples, the Board considers that the most significant input is the price/earnings ratio; for valuations based on third party valuations, the Board considers that the most significant inputs are price/earnings ratio, discount factors and market value per room for care homes; which have been adjusted to drive the above sensitivities.

## 11. Significant holdings

The principal activity of the Company is to select and hold a portfolio of investments in 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% 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 2017 as described below. The investments listed below are held as part of an investment portfolio and therefore, as permitted by FRS 102, they are measured at fair value and are not accounted for using the equity method.

Company	Registered postcode	Profit/(loss) before tax	Net assets/ (liabilities)	Number of shares held	% class and share type	% total voting rights
Academia Inc	CA 94108, USA	n/a	n/a	774,400	23.2% Preferred shares	3.2%
Active Lives Care Limited	EC2R 7AF, UK	n/a*	(178,000)	1,095,430	20.3% Ordinary shares	20.3%
Antenova Limited	EC4A 3TW, UK	n/a*	2,447,000	9,226,988	22.0% Preferred shares	28.7%
Edo Consulting Limited	BS1 3AE, UK	n/a*	(111,000)	33,671,618	38.6% Ordinary shares	38.6%
Elateral Group Limited	GU9 7XX, UK	(1,654,000)	(9,432,000)	17,430,462	37.7% Ordinary shares	37.7%
Proveca Limited	M1 4ET, UK	n/a*	(2,378,000)	40,289	35.8% D Ordinary shares	15.1%
Sift Limited	BS1 1AB, UK	2,696,000	1,578,000	33,671,618	42.1% Ordinary shares	42.1%

\* The company files filleted accounts which does not disclose this information.

# Notes to the Financial Statements continued

## 12. Trade and other receivables less than one year

	31 December 2017 £'000	31 December 2016 £'000
Trade and other receivables less than one year	350	459
Prepayments and accrued income	18	17
	<b>368</b>	<b>476</b>

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

## 13. Payables: amounts falling due within one year

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	12	5
Accruals	367	838
Other payables	12	12
	<b>391</b>	<b>855</b>

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

## 14. Called up share capital

	£'000
Allotted, called up and fully paid	
283,993,804 Ordinary shares of 1 penny each at 31 December 2016	2,840
48,106,411 Ordinary shares of 1 penny each issued during the year	481
<b>332,100,215 Ordinary shares of 1 penny each at 31 December 2017</b>	<b>3,321</b>
36,375,000 Ordinary shares of 1 penny each held in treasury at 31 December 2016	(364)
6,396,000 Ordinary shares purchased during the year to be held in treasury	(64)
<b>42,771,000 Ordinary shares of 1 penny each held in treasury at 31 December 2017</b>	<b>(428)</b>
<b>289,329,215 Ordinary shares of 1 penny each in circulation* at 31 December 2017</b>	<b>2,893</b>

\* Carrying one vote each

During the year the Company purchased 6,396,000 Ordinary shares (2016: 4,912,000) representing 1.9% of the issued Ordinary share capital as at 31 December 2017, at a cost of £1,301,000 (2016: £905,000), including stamp duty, to be held in treasury. The Company holds a total of 42,771,000 Ordinary shares in treasury, representing 12.9% of the issued Ordinary share capital as at 31 December 2017.

# Notes to the Financial Statements continued

## 14. Called up share capital (continued)

Under the terms of the Dividend Reinvestment Scheme, Circular dated 19 April 2011, the following new 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)	Net invested (£'000)	Opening market price on allotment date (pence per share)
28 April 2017	704,941	7	20.91	145	20.75
31 October 2017	686,439	7	21.31	145	20.75
	<b>1,391,380</b>	<b>14</b>		<b>290</b>	

During the period from 1 January 2017 to 31 December 2017, the Company issued the following new Ordinary shares of nominal value 1 penny each under the Albion VCT Prospectus Top Up Offers 2016/2017 and Albion VCT Prospectus Top Up Offers 2017/18:

Date of allotment	Number of shares allotted	Aggregate nominal value of shares (£'000)	Issue price (pence per share)	Net consideration received (£'000)	Opening market price on allotment date (pence per share)
31 January 2017	4,249,243	42	20.90	870	19.00
31 January 2017	1,647,857	16	21.00	338	19.00
31 January 2017	12,460,938	125	21.10	2,550	19.00
28 March 2017	8,437,199	84	22.10	1,809	20.00
7 April 2017	119,403	1	21.90	25	20.00
7 April 2017	72,916	1	22.00	16	20.00
7 April 2017	1,005,627	10	22.10	216	20.00
17 November 2017	6,590,736	66	21.60	1,402	20.75
17 November 2017	2,603,125	26	21.70	554	20.75
17 November 2017	9,527,987	95	21.90	2,034	20.75
	<b>46,715,031</b>	<b>467</b>		<b>9,814</b>	

## 15. Basic and diluted net asset value per share

The basic and diluted net asset value per share as at 31 December 2017 of 21.60 pence (2016: 21.41 pence) are based on net assets of £62,492,000 (2016: £53,010,000) divided by the 289,329,215 shares in issue (net of treasury shares) at that date (2016: 247,618,804).

## 16. Capital and financial instruments risk management

The Company's capital comprises Ordinary shares as described in note 14. The Company is permitted to buy back its own shares for cancellation or treasury purposes and this policy is described in more detail in the Chairman's statement on page 7.

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 receivables and payables 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 payables. The Company does not use any derivatives for the management of its Balance sheet.

## 16. Capital and financial instruments risk management (continued)

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 19 and 20. 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 fair 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 £55,815,000 (2016: £51,601,000). Fixed asset investments form 89% of the net asset value as at 31 December 2017 (2016: 97%).

More details regarding the classification of fixed asset investments are shown in note 10.

### 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 page 3. 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, 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 Strategic report on page 9.

As required under FRS 102 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% change based on the current economic climate. The impact of a 10% 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% 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 £5,582,000 (2016: £5,160,000).



# Notes to the Financial Statements continued

## 16. Capital and financial instruments risk management (continued)

### Foreign currency risk

Foreign currency risk is the risk of exposure to movements in foreign 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.

As at 31 December 2017, the Company held an investment denominated in US dollars of £743,000 (2016: £2,260,000).

During the year to 31 December 2017, Sterling appreciated by 9.36% (2016: depreciated by 16.75%) against the US dollar.

### Interest rate risk

The Company is exposed to fixed and floating rate interest rate risk on its financial assets. On the basis of the Company's analysis, it is estimated that a rise of 1% in all interest rates would have increased total return before tax for the year by approximately £78,000 (2016: £31,000). Furthermore, it is considered that a fall of interest rates below current levels during the year would have been unlikely.

The weighted average effective interest rate applied to the Company's fixed rate fixed asset investments during the year was approximately 6.9% (2016: 7.3%). The weighted average period to maturity for the fixed rate fixed asset investments is approximately 5.7 years (2016: 5.6 years).

The Company's financial assets and liabilities as at 31 December 2017, denominated in Sterling, consist of the following:

	31 December 2017				31 December 2016			
	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	–	–	30,551	30,551	–	–	27,094	27,094
Quoted equity	–	–	2,045	2,045	–	–	3,843	3,843
Unquoted loan stock	21,845	665	709	23,219	19,273	661	730	20,664
Receivables*	–	–	350	350	–	–	459	459
Current liabilities	–	–	(391)	(391)	–	–	(855)	(855)
Cash	–	6,700	–	6,700	–	1,788	–	1,788
<b>Total net assets</b>	<b>21,845</b>	<b>7,365</b>	<b>33,264</b>	<b>62,474</b>	<b>19,273</b>	<b>2,449</b>	<b>31,271</b>	<b>52,993</b>

\* The receivables 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 receivables, investment in unquoted loan stock 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.

# Notes to the Financial Statements continued

## 16. Capital and financial instruments risk management (continued)

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 receivables) 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 2017 was limited to £23,219,000 (2016: £20,664,000) of unquoted loan stock instruments (all are secured on the assets of the portfolio company), £6,700,000 (2016: £1,788,000) cash on deposit with banks and £350,000 (2016: £459,000) of other receivables.

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

The credit profile of unquoted loan stock is described under liquidity risk below.

### Liquidity risk

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

The Company has no committed borrowing facilities as at 31 December 2017 (2016: £nil) and had cash, before its current fundraising (raising £1.3 million in January 2018) of £6,700,000 (2016: £1,788,000). The Company had no investment commitments as at 31 December 2017 (2016: £nil).

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

The main cash outflows are for new investments, 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 2017 are short term in nature and total £391,000 (2016: £855,000).

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

Redemption date	31 December 2017				31 December 2016			
	Fully performing £'000	Past due £'000	Impaired £'000	Total £'000	Fully performing £'000	Past due £'000	Impaired £'000	Total £'000
Less than one year	2,676	–	–	2,676	1,119	–	–	1,119
1-2 years	2,419	3,097	–	5,516	1,577	–	–	1,577
2-3 years	1,155	328	–	1,483	6,113	–	–	6,113
3-5 years	2,737	2,887	–	5,624	4,135	–	–	4,135
5 + years	4,921	2,999	–	7,920	5,735	1,985	–	7,720
<b>Total</b>	<b>13,908</b>	<b>9,311</b>	<b>–</b>	<b>23,219</b>	<b>18,679</b>	<b>1,985</b>	<b>–</b>	<b>20,664</b>

# Notes to the Financial Statements continued

## 16. Capital and financial instruments risk management (continued)

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

- loan stock valued at £9,311,000 yielding an average of 11.8% which has interest past due by less than one year.

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 of the Company's financial assets and liabilities as at 31 December 2017 are stated at fair value as determined by the Directors, except for receivables, payables and cash which are held at amortised cost. There are no financial liabilities other than short term trade and other payables. 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 and that the Company is subject to low financial risk as a result of having nil gearing and positive cash balances.

## 17. Commitments, contingencies and guarantees

As at 31 December 2017, the Company had no financial commitments (2016: £nil).

There were no contingent liabilities or guarantees given by the Company as at 31 December 2017 (2016: £nil).

## 18. Post balance sheet events

Since the year end, the Company made the following investments:

- Investment of £204,000 in Koru Kids Limited;
- Investment of £141,000 in Panaseer Limited; and
- Investment of £125,000 in Elateral Group Limited.

## Albion VCT Prospectus Top Up Offers 2017/18

On 6 September 2017 the Company announced the publication of a prospectus in relation to an offer for subscription for new Ordinary shares. A Securities Note, which forms part of the prospectus, has been sent to shareholders.

The following new Ordinary shares of nominal value 1 penny each were allotted under the Offers after 31 December 2017:

Date of allotment	Number of shares allotted	Aggregate nominal value of shares (£'000)	Issue price (pence per share)	Net consideration received (£'000)	Opening market price on allotment date (pence per share)
31 January 2018	5,979,493	60	21.90	1,277	21.30

As a result of the strong demand for the Company's shares the Board was able to announce on 5 March 2018 that subscription had reached its £8 million limit under the prospectus offer and is now closed.

## 19. Related party transactions

Other than transactions with the Manager as disclosed in note 4, there are no related party transactions or balances requiring disclosure.

# Notice of Annual General Meeting

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**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Kings Arms Yard VCT PLC (the “Company”) will be held at the City of London Club, 19 Old Broad Street, London, EC2N 1DS on 16 May 2018 at 11.00am for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 7 will be proposed as ordinary resolutions and numbers 8 to 10 as special resolutions.

## Ordinary Business

1. To receive and adopt the Company’s accounts for the year ended 31 December 2017 together with the reports of the Directors and Auditor.
2. To approve the Directors’ remuneration report for the year ended 31 December 2017.
3. To re-elect Robin Field as a Director of the Company.
4. To re-appoint BDO LLP as Auditor of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which the accounts are to be laid.
5. To authorise the Directors to agree the Auditor’s remuneration.

## Special Business

### 6. Change of investment policy

That the Company’s investment policy be amended by replacing the wording under the heading “Investment policy” in the current policy with the following:

“The Company will invest in a broad portfolio of higher growth businesses across a variety of sectors of the UK economy including higher risk technology companies. Allocation of assets will be determined by the investment opportunities which become available but efforts will be made to ensure that the portfolio is diversified both in terms of sector and stage of maturity of company.”

### 7. Authority to allot shares

The Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “Act”) to allot Ordinary shares of nominal value 1 penny per share in the Company up to a maximum aggregate nominal amount of £676,159 (representing approximately 20 per cent. of the issued share capital as at the date of this notice) provided that this authority shall expire 15 months from the date that this resolution is passed, or, if earlier, the conclusion of the next Annual General Meeting of the Company, but so that the Company may, before the expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if the authority had not expired.

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

That, subject to the authority and conditional on the passing of resolution number 7, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution number 7 and/or sell ordinary shares held by the Company as treasury shares for cash as if section 561(1) of the Act did not apply to any such allotment or sale.

Under this power the Directors may impose any limits or restrictions and make any arrangements which they deem necessary or expedient to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or laws of, any territory or other matter, arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or any other matter.

This power shall expire 15 months from the date that this resolution is passed or, if earlier, the conclusion of the next Annual General Meeting of the Company, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired.

# Notice of Annual General Meeting continued

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## **9. Authority to purchase own shares**

That, subject to and in accordance with the Company's Articles of Association, the Company be generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Act, to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares of 1 penny each in the capital of the Company ("Ordinary shares"), on such terms as the Directors think fit, provided always that:

- (a) the maximum aggregate number of shares hereby authorised to be purchased is 50,678,148 shares representing 14.99 per cent. of the issued Ordinary share capital of the Company as at the date of this Notice;
- (b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary share is 1 penny;
- (c) the maximum price, exclusive of any expenses, which may be paid for a share shall be an amount equal to the higher of (a) 105% of the average of the middle market quotations for the share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the date on which the share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;
- (d) the authority hereby conferred shall, unless previously revoked, varied or renewed, expire 15 months from the date that this resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting; and
- (e) the Company may enter into a contract or contracts to purchase shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of shares in pursuance of any such contract or contracts as if the authority conferred hereby had not expired.

## **10. Authority to sell treasury shares**

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

By Order of the Board

### **Albion Capital Group LLP**

Company Secretary

Registered office

1 King's Arms Yard

London, EC2R 7AF

29 March 2018

Kings Arms Yard VCT PLC is registered in England and Wales with company number 03139019

# Notice of Annual General Meeting continued

## Notes

1. Members entitled to attend, speak and vote at the Annual General Meeting (“AGM”) may appoint a proxy or proxies (who need not be a member of the Company) to exercise these rights in their place at the meeting. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. Proxies may only be appointed by:
  - completing and returning the Form of Proxy enclosed with this Notice to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ;
  - going to [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy) and following the instructions provided there; or
  - by having an appropriate CREST message transmitted, if you are a user of the CREST system (including CREST personal members).

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

To be effective the Form of Proxy must be completed in accordance with the instructions and received by the Registrars of the Company by 11.00am on 14 May 2018.

2. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 (‘the Act’) to enjoy information rights (a “Nominated Person”) may, under an agreement between him or her and the member by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

The statement of rights of members in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by members of the Company.

3. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 11.00am on 14 May 2018 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this AGM and any adjournment(s) by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with Euroclear UK and Ireland Limited’s specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent by 11.00am on 14 May 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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



# Notice of Annual General Meeting continued

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members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
6. A copy of this Notice, and other information regarding the meeting, as required by section 311A of the Act, is available from [www.albion.capital/funds/KAY](http://www.albion.capital/funds/KAY) under the "Fund reports" section.
7. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
8. Copies of contracts of service and letters of appointment between the Directors and the Company, together with the Registrar of Directors' interests in the Ordinary shares of the company, will be available for inspection at the Company's registered office during normal business hours from the date of this Notice until the conclusion of the meeting, and at the place of the meeting for at least 15 minutes prior to the meeting until its conclusion. In addition, a copy of the Articles of Association will be available for inspection at the Company's registered office from the date of this Notice until the conclusion of the meeting and at the place of the meeting for at least 15 minutes prior to the meeting until its conclusion.
9. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid in accordance with section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.
10. Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution which those members intend to move (and which may properly be moved) at the AGM. A resolution may properly be moved at the AGM unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment of the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. The business which may be dealt with at the AGM includes a resolution circulated pursuant to this right. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.
11. Members satisfying the thresholds in Section 388A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the AGM any matter (other than a proposed resolution) which may properly be included in the business at the AGM.

A matter may be properly included in the business at the AGM unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.

12. As at 27 March 2018 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital comprises 338,079,708 Ordinary shares with a nominal value of 1 penny each. The Company also holds 42,771,000 Ordinary shares in treasury. Therefore, the total voting rights in the Company as at 27 March 2018 are 295,308,708.

# Merger history

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<b>February 1996</b>	Quester VCT PLC (QVCT) launched
<b>June 2005</b>	Quester VCT 2 PLC (QVCT2) and Quester VCT 3 PLC (QVCT3) merged into QVCT
<b>June 2008</b>	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)
<b>November 2008</b>	SVCT3 merged into SVCT2
<b>January 2011</b>	Albion Capital became Manager
<b>February 2011</b>	All SPARK names changed to Kings Arms Yard SVCT became Kings Arms Yard VCT PLC (KAY) SVCT2 became Kings Arms Yard VCT 2 PLC (KAY2)
<b>September 2011</b>	KAY2 merged into KAY

# Financial summary for previous funds (unaudited)

	31 December 2017 (pence per share)	31 December 2016 (pence per share)	31 December 2015 (pence per share)
<b>Net asset value of Kings Arms Yard VCT PLC</b>	<b>21.60</b>	21.41	20.11
<b>Dividends paid to shareholders of Kings Arms Yard VCT PLC</b>			
Dividends paid during the year	<b>1.00</b>	1.00	1.00
Cumulative dividends paid to 31 December 2017	<b>65.33</b>	64.33	63.33
<b>Total shareholder return<sup>(1)</sup> per 100p invested to shareholders of Kings Arms Yard VCT PLC (formerly SPARK VCT plc, Quester VCT PLC)</b>	<b>86.93</b>	85.74	83.44
Total shareholder return including tax benefits <sup>(2)</sup>	<b>106.93</b>	105.74	103.44
<b>Total shareholder return to former shareholders of:</b>			
<b>Quester VCT 2 PLC, per 100p invested in shares of that company</b>			
<b>Total shareholder return</b>	<b>73.16</b>	71.94	69.58
Total shareholder return including tax benefits <sup>(2)</sup>	<b>93.16</b>	91.94	89.58
<b>Quester VCT 3 PLC, per 100p invested in shares of that company</b>			
<b>Total shareholder return</b>	<b>46.53</b>	45.36	43.10
Total shareholder return including tax benefits <sup>(2)</sup>	<b>66.53</b>	65.36	63.10
<b>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</b>			
<b>Total shareholder return</b>	<b>44.25</b>	42.72	39.78
Total shareholder return including tax benefits <sup>(2)</sup>	<b>64.25</b>	62.72	59.78
<b>Quester VCT 5 PLC (renamed SPARK VCT 3 plc), per 100p invested in shares of that company</b>			
<b>Total shareholder return</b>	<b>58.07</b>	55.84	51.54
Total shareholder return including tax benefits <sup>(2)</sup>	<b>78.07</b>	75.84	71.54

(1) Net asset value plus cumulative dividends 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% 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 Capital Group LLP

# Dividend history (unaudited)

## Dividends paid by the previous funds now merged

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

	(pence per share)
31 January 1997	0.937
31 January 1998	2.547
31 January 1999	2.875
31 January 2000	7.110
31 January 2001	26.650
31 January 2002	1.350
28 February 2006	1.250
28 February 2007	3.910
31 December 2007	4.220
31 December 2008	2.810
31 December 2010	5.000
31 December 2011	0.670
31 December 2012	1.000
31 December 2013	1.000
31 December 2014	1.000
31 December 2015	1.000
31 December 2016	1.000
31 December 2017	1.000
<b>Total dividends paid to 31 December 2017</b>	<b>65.329</b>
<b>Net asset value as at 31 December 2017</b>	<b>21.600</b>
<b>Total shareholder return to 31 December 2017</b>	<b>86.929</b>

## 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
29 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
31 December 2013	1.025
31 December 2014	1.025
31 December 2015	1.025
31 December 2016	1.025
31 December 2017	1.025
<b>Total dividends paid to 31 December 2017</b>	<b>51.020</b>
<b>Net asset value as at 31 December 2017</b>	<b>22.138</b>
<b>Total shareholder return to 31 December 2017</b>	<b>73.158</b>

# Dividend history (unaudited) 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
31 December 2013	0.982
31 December 2014	0.982
31 December 2015	0.982
31 December 2016	0.982
31 December 2017	0.982
<b>Total dividends paid to 31 December 2017</b>	<b>25.323</b>
<b>Net asset value as at 31 December 2017</b>	<b>21.203</b>
<b>Total shareholder return to 31 December 2017</b>	<b>46.526</b>

## Quester VCT 4 PLC (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
31 December 2013	1.281
31 December 2014	1.281
31 December 2015	1.281
31 December 2016	1.281
31 December 2017	1.281
<b>Total dividends paid to 31 December 2017</b>	<b>16.586</b>
<b>Net asset value as at 31 December 2017</b>	<b>27.661</b>
<b>Total shareholder return to 31 December 2017</b>	<b>44.247</b>

# Dividend history (unaudited) continued

## Quester VCT 5 PLC (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 (KAY) 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
31 December 2013	1.871
31 December 2014	1.871
31 December 2015	1.871
31 December 2016	1.871
31 December 2017	1.871
<b>Total dividends paid to 31 December 2017</b>	<b>17.648</b>
<b>Net asset value as at 31 December 2017</b>	<b>40.421</b>
<b>Total shareholder return to 31 December 2017</b>	<b>58.069</b>









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