

Kings Arms Yard VCT PLC



Half-yearly Financial Report
(unaudited) for the
six months to 30 June 2018



ALBIONCAPITAL



Contents

Page

- 2 Company information
- 3 Investment policy and financial calendar
- 4 Financial highlights
- 5 Interim management report
- 7 Responsibility statement
- 8 Portfolio of investments
- 11 Condensed income statement
- 12 Condensed balance sheet
- 13 Condensed statement of changes in equity
- 14 Condensed statement of cash flows
- 15 Notes to the condensed Financial Statements
- 21 Merger history for the Company and for previous funds
- 22 Financial summary for the Company and for previous funds
- 23 Dividend history for the Company and for previous funds

This Half-yearly Financial Report has not been audited or reviewed by the Auditor.



Company information

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

Shareholder information	<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: www.investorcentre.co.uk</p> <p>Shareholders can access holdings and valuation information regarding any of their shares held with Computershare by registering on Computershare's website.</p>
Financial adviser information	<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: info@albion.capital Website: www.albion.capital</p>

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

Investment policy

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.

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 calendar

Record date for second dividend	5 October 2018
Payment date of second dividend	31 October 2018
Financial year end	31 December

Financial highlights

	Unaudited six months ended 30 June 2018 (pence per share)	Unaudited six months ended 30 June 2017 (pence per share)	Audited year ended 31 December 2017 (pence per share)
Revenue return	0.15	0.23	0.56
Capital return	1.62	0.75	0.69
Total return	1.77	0.98	1.25
Dividends paid	0.60	0.50	1.00
Net asset value	22.74	21.81	21.60

	From Launch to 31 December 2010 (pence per share)	1 January 2011 to 30 June 2018 (pence per share)	From Launch to 30 June 2018 (pence per share)
Total shareholder return			
Subscription price per share at launch	100.00	–	100.00
Dividends paid	58.66	7.27	65.93
(Decrease)/increase in net asset value	(83.40)	6.14	(77.26)
Total shareholder return	75.26	13.41	88.67

Current annual dividend objective (pence per share)

1.20

The Directors have declared a second dividend of 0.60 pence per share for the year ending 31 December 2018, which will be paid on 31 October 2018 to shareholders on the register on 5 October 2018.

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 22.

Interim management report

Introduction

We are pleased to report a total return of 1.77 pence per share (8.2% on opening net asset value) for the six month period to 30 June 2018, compared to a total return of 0.98 pence per share for the six month period to 30 June 2017. This continues to build on the strong performance the Company has had in recent years of a 1.25 pence per share return in 2017 and 2.32 pence per share return in 2016.

Results

Net asset value increased from 21.60 pence per share at 31 December 2017 to 22.74 pence per share at 30 June 2018, following the payment of a 0.60 pence per share dividend on 30 April 2018.

Dividends

Progress to date gives the Board confidence in the sustainability of our dividend policy and we are therefore pleased to announce a further dividend of 0.60 pence per share to be paid on 31 October 2018, to shareholders on the register on 5 October 2018. The annual dividend target per share of 1.20 pence represents a tax free yield of 5.6% on the mid-market share price of 21.60 pence per share as at 30 June 2018. The Company continues to offer a Dividend Reinvestment Scheme whereby shareholders can elect to receive dividends in the form of new shares.

Valuations

The net effect of the Board's regular portfolio revaluation has been an overall gain on investments of £5.8m. The key movements in the period include: a further £2.3m uplift following the disposal of Grapeshot to Oracle Corporation (NYSE:ORCL); a £1.4m uplift in the valuation of Quantexa following a third party led funding round. There were increases on a variety of investments following independent valuations performed as at March 2018 including: Active Lives Care, Chonais River Hydro,

and Ryefield Court Care offset by a reduction in the valuation of a number of investments including Edo Consulting and Elateral due to lower growth than anticipated. Further details of the portfolio of investments can be found on pages 8 to 10.

Investment activity

There has been a significant level of investment activity in the six months ended 30 June 2018. The Company has invested £0.4m into three new portfolio companies, with the expectation of further funding rounds over time to support success. In addition, the Company invested £1.9m to support existing portfolio companies scale.

New investments in the period included:

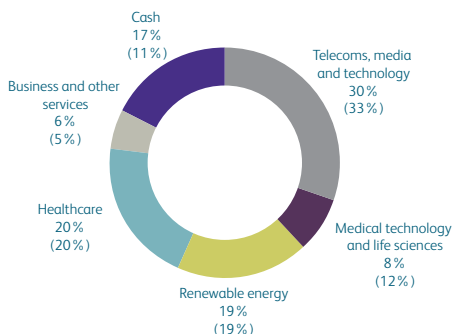
- An initial investment of £204k (Albion VCTs: £1.2m) to fund the early expansion of Koru Kids, a provider of an online marketplace connecting parents and nannies;
- An initial amount of £160k (Albion VCTs: £1.0m) to fund the early expansion of uMotif, a provider of a patient engagement and data capture platform;
- An initial investment of £80k (Albion VCTs: £0.5m), to fund the development of Healios, a provider of an online platform delivering family centric psychological care primarily to children and adolescents.

In the period, the Company sold its investment in Grapeshot generating proceeds at completion of £4.3m (excluding an amount placed in escrow). If the full escrow amount is received, the Company will realise approximately 10x the total investment cost of £0.5m. In addition, the Company sold all of its remaining quoted securities in Oxford Immunotec Global (£0.8m) and disposed of further securities in ErgoMed (£0.3m). For more information please see the realisation table on page 10.

Interim management report continued

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 2017 are in brackets

Source: Albion Capital Group LLP

Transactions with the Manager

Details of transactions with the Manager for the reporting period can be found in note 4. Details of related party transactions can be found in note 10.

Albion VCTs Top Up Offers

The Company is pleased to announce that its participation in the Albion VCTs Prospectus Top Up Offers 2017/18 was fully subscribed and closed early raising net proceeds of £7.8m. Further details can be found in note 7 on page 19. The proceeds of the Offer are being deployed into new investments as mentioned above, and supporting further funding of existing portfolio companies to promote growth.

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. This includes the maintenance of sufficient cash resources for investment in new and existing portfolio companies and the continued payment of dividends to shareholders. It is the Board's intention over time for such buy-backs to be in the region of a 5 per cent. discount to net asset value, so far as market conditions and liquidity permit.

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.

Other risks and uncertainties remain as set out on pages 13 and 14 of the Annual Report and Financial Statements for the year ended 31 December 2017.

Outlook

Your Board remains cautious on the economic outlook but positive on the long term prospects of the portfolio. Our investments are well diversified in more than 50 companies in a wide variety of sectors and stages of maturity. The Board believes the portfolio offers significant long-term growth potential which will be determined primarily by the success of the underlying businesses rather than the macroeconomic environment.

Robin Field

Chairman

29 August 2018

Responsibility statement

The Directors, Robin Field, Thomas Chambers and Martin Fiennes, are responsible for preparing the Half-yearly Financial Report. In preparing these condensed Financial Statements for the period to 30 June 2018 we, the Directors of the Company, confirm that to the best of our knowledge:

- (a) the condensed set of Financial Statements, which has been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and profit and loss of the Company as required by DTR 4.2.4R;
- (b) the Interim management report, includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

- (c) the Interim management report, includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

This Half-yearly Financial Report has not been audited or reviewed by the Auditor.

For and on behalf of the Board

Robin Field
Chairman
29 August 2018

Portfolio of investments

The following is a summary of fixed asset investments as at 30 June 2018:

Fixed asset investments	% voting rights	Cost ⁽¹⁾ £'000	Cumulative movement in value £'000	Value £'000	Change in value for the period ⁽²⁾ £'000
Unquoted investments					
Active Lives Care Limited	20.3	4,395	2,588	6,983	615
Ryefield Court Care Limited	18.7	3,070	2,043	5,113	457
Chonais River Hydro Limited	6.5	2,428	948	3,376	373
Proveca Limited	14.7	1,304	1,613	2,917	(147)
Antenova Limited	28.7	1,733	888	2,621	(4)
Elateral Group Limited	47.9	4,663	(2,070)	2,593	(213)
Egress Software Technologies Limited	5.3	1,003	1,264	2,267	–
Anthropics Technology Limited	13.8	19	1,933	1,952	177
The Street by Street Solar Programme Limited	10.0	1,040	759	1,799	89
MyMeds&Me Limited	15.4	1,459	229	1,688	(9)
Alto Prodotto Wind Limited	11.1	974	691	1,665	144
Perpetuum Limited	13.4	2,373	(755)	1,618	–
Quantexa Limited	1.7	190	1,378	1,568	1,378
Regenerco Renewable Energy Limited	9.8	988	507	1,495	26
Dragon Hydro Limited	17.2	736	453	1,189	84
Academia Inc	3.0	351	781	1,132	(30)
Bravo Inns II Limited	5.0	800	253	1,053	63
G.Network Communications Limited	6.8	635	397	1,032	397
Sandcroft Avenue Limited	5.3	954	38	992	26
Shinfield Lodge Care Limited	2.9	535	412	947	61
OmPrompt Holdings Limited	13.2	1,197	(273)	924	(10)
Earnside Energy Limited	5.2	835	13	848	4
Symetrica Limited	3.5	389	458	847	(134)
Gharagain River Hyrdo Limited	5.0	620	184	804	100
Sift Limited	42.1	2,306	(1,607)	699	(29)
AVESI Limited	14.8	484	206	690	(3)
Black Swan Data Limited	1.4	671	–	671	–
Women's Health (London West One) Limited	4.7	583	–	583	–
Convertr Media Limited	3.1	425	127	552	150
MPP Global Solutions Limited	1.9	550	–	550	–
Beddlestead Limited	5.1	502	–	502	–
Edo Consulting Limited	38.6	923	(442)	481	(555)
Greenenerco Limited	8.6	286	194	480	46
Oviva AG	2.1	367	91	458	–
Zift Channel Solutions Inc	0.6	321	57	378	58
Celoxica Holdings plc	4.4	513	(144)	369	–
Mirada Medical Limited	1.1	303	58	361	21
Panaseer Limited	1.5	253	97	350	30
Secured By Design Limited	1.7	260	81	341	81
Abcodia Limited	4.3	735	(475)	260	(128)
Koru Kids Limited	1.7	204	–	204	–
The Wentworth Wooden Jigsaw Company Limited	5.4	–	178	178	(33)
Infinite Ventures (Goathill) Limited	2.7	112	48	160	12

Portfolio of investments continued

Fixed asset investments	% voting rights	Cost ⁽¹⁾ £'000	Cumulative movement in value £'000	Value £'000	Change in value for the period ⁽²⁾ £'000
uMotif Limited	1.0	160	–	160	–
Erin Solar Limited	5.7	160	(7)	153	–
Aridhia Informatics Limited	2.2	381	(243)	138	(52)
InCrowd Sports Limited	1.5	126	12	138	12
Cisiv Limited	2.8	216	(104)	112	–
Locum's Nest Limited	1.6	75	23	98	23
Healios Limited	0.8	80	–	80	–
Harvest AD Limited(i)	–	70	2	72	2
Innovation Broking Group Limited	4.5	45	24	69	1
Xention Limited	10.6	38	(28)	10	–
Other holdings (7 companies)		26	(19)	7	–
Total unquoted investments		43,866	12,861	56,727	3,083
Quoted investments					
ErgoMed PLC		841	210	1,051	(30)
Total quoted investments		841	210	1,051	(30)
Total fixed asset investments		44,707	13,071	57,778	3,053

- (1) 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 value.
- (2) The above column shows the movement in the period from the opening balance as at 1 January 2018 to the closing balance as at 30 June 2018 after adjustments for additions and disposals.
- (i) Early stage investment of convertible loan stock.

Total change in value of investments for the period	3,053
Movement in loan stock accrued interest	(74)
Unrealised gains on fixed asset investments sub-total	2,979
Realised gains in current period	2,426
Unrealised gains on current asset investments	373
Total gains on investments as per Income statement	5,778

Portfolio of investments continued

	Cost £'000	Cumulative movement in value £'000	Value £'000	Change in value for the period £'000
Current asset investments				
ErgoMed PLC*	–	373	373	373
Total current asset investments	–	373	373	373

* Amounts shown represent future contingent receipts.

	Cost £'000	Opening carrying value £'000	Disposal proceeds £'000	Realised gain on cost £'000	Gain/(loss) on opening or acquired value £'000
Realisations in the period to 30 June 2018					
<u>Disposals:</u>					
Grapeshot Limited	518	2,478	4,795	4,277	2,317
Oxford Immunotec Global PLC	279	743	776	497	33
ErgoMed PLC	171	220	295	124	75
<u>Loan stock repayments and other:</u>					
MyMeds&Me Limited	620	840	839	219	(1)
Alto Prodotto Wind Limited	11	16	16	5	–
Greenenerco Limited	6	8	8	2	–
Escrow adjustments	–	–	2	2	2
Total	1,605	4,305	6,731	5,126	2,426

Condensed income statement

	Note	Unaudited six months ended 30 June 2018			Unaudited six months ended 30 June 2017			Audited year ended 31 December 2017		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	2	–	5,778	5,778	–	2,527	2,527	–	2,753	2,753
Investment income	3	918	–	918	940	–	940	2,116	–	2,116
Investment management fee	4	(162)	(486)	(648)	(142)	(427)	(569)	(291)	(873)	(1,164)
Performance incentive fee	4	(142)	(426)	(568)	(32)	(95)	(127)	–	–	–
Other expenses		(159)	–	(159)	(152)	–	(152)	(303)	–	(303)
Profit on ordinary activities before tax		455	4,866	5,321	614	2,005	2,619	1,522	1,880	3,402
Tax on ordinary activities		–	–	–	–	–	–	–	–	–
Profit and total comprehensive income attributable to shareholders		455	4,866	5,321	614	2,005	2,619	1,522	1,880	3,402
Basic and diluted return per share (pence)*	6	0.15	1.62	1.77	0.23	0.75	0.98	0.56	0.69	1.25

* Excluding treasury shares

The accompanying notes on pages 15 to 20 form an integral part of this Half-yearly Financial Report.

Comparative figures have been extracted from the unaudited Half-yearly Financial Report for the six months ended 30 June 2017 and the audited statutory accounts for the year ended 31 December 2017.

The total column of this Condensed 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.

Condensed balance sheet

	Note	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
Fixed asset investments		57,778	54,697	55,815
Current assets				
Current asset investments		373	–	–
Trade and other receivables less than one year		713	66	368
Cash and cash equivalents		11,689	5,388	6,700
		12,775	5,454	7,068
Total assets		70,553	60,151	62,883
Payables: amounts falling due within one year				
Trade and other payables less than one year		(1,032)	(605)	(391)
Total assets less current liabilities		69,521	59,546	62,492
Equity attributable to equity holders				
Called up share capital	7	3,509	3,127	3,321
Share premium		27,693	19,899	23,841
Capital redemption reserve		11	11	11
Unrealised capital reserve		12,770	14,523	12,118
Realised capital reserve		9,934	3,440	5,720
Other distributable reserve		15,604	18,546	17,481
Total equity shareholders' funds		69,521	59,546	62,492
Basic and diluted net asset value per share (pence)*		22.74	21.81	21.60

* Excluding treasury shares

The accompanying notes on pages 15 to 20 form an integral part of this Half-yearly Financial Report.

Comparative figures have been extracted from the unaudited Half-yearly Financial Report for the six months ended 30 June 2017 and the audited statutory accounts for the year ended 31 December 2017.

These Financial Statements were approved by the Board of Directors, and authorised for issue on 29 August 2018 and were signed on its behalf by

Robin Field
Chairman

Company number: 03139019

Condensed 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
At 1 January 2018	3,321	23,841	11	12,118	5,720	17,481	62,492
Profit and total comprehensive income for the period	–	–	–	3,352	1,514	455	5,321
Transfer of previously unrealised gains on disposal of investments	–	–	–	(2,700)	2,700	–	–
Purchase of own shares for treasury	–	–	–	–	–	(495)	(495)
Issue of equity	188	3,952	–	–	–	–	4,140
Cost of issue of equity	–	(100)	–	–	–	–	(100)
Dividends paid	–	–	–	–	–	(1,837)	(1,837)
At 30 June 2018	3,509	27,693	11	12,770	9,934	15,604	69,521
At 1 January 2017	2,840	14,218	11	12,526	3,432	19,983	53,010
Profit/(loss) and total comprehensive income for the period	–	–	–	2,395	(390)	614	2,619
Transfer of previously unrealised gains on disposal of investments	–	–	–	(398)	398	–	–
Purchase of own shares for treasury	–	–	–	–	–	(676)	(676)
Issue of equity	287	5,853	–	–	–	–	6,140
Cost of issue of equity	–	(172)	–	–	–	–	(172)
Dividends paid	–	–	–	–	–	(1,375)	(1,375)
At 30 June 2017	3,127	19,899	11	14,523	3,440	18,546	59,546
At 1 January 2017	2,840	14,218	11	12,526	3,432	19,983	53,010
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)
At 31 December 2017	3,321	23,841	11	12,118	5,720	17,481	62,492

* The total distributable reserves are £25,538,000 (30 June 2017: £21,986,000; 31 December 2017: £23,201,000).

The accompanying notes on pages 15 to 20 form an integral part of this Half-yearly Financial Report.

Comparative figures have been extracted from the unaudited Half-yearly Financial Report for the six months ended 30 June 2017 and the audited statutory accounts for the year ended 31 December 2017.

Condensed statement of cash flows

	Unaudited six months ended 30 June 2018 £'000	Unaudited six months ended 30 June 2017 £'000	Audited year ended 31 December 2017 £'000
Cash flow from operating activities			
Investment income received	596	594	1,218
Deposit interest received	9	1	3
Dividend income received	32	337	782
Investment management fees paid	(609)	(526)	(1,128)
Performance incentive fee paid	–	(513)	(513)
Other cash payments	(173)	(136)	(295)
Net cash flow from operating activities	(145)	(243)	67
Cash flow from investing activities			
Purchase of fixed asset investments	(2,304)	(1,573)	(5,735)
Disposal of fixed asset investments	5,688	1,422	4,498
Net cash flow from investing activities	3,384	(151)	(1,237)
Cash flow from financing activities			
Issue of share capital	3,826	5,824	9,814
Cost of issue of equity	(2)	–	(2)
Purchase of own shares (including costs)	(448)	(602)	(1,300)
Equity dividends paid*	(1,626)	(1,228)	(2,430)
Net cash flow from financing activities	1,750	3,994	6,082
Increase in cash and cash equivalents	4,989	3,600	4,912
Cash and cash equivalents at start of period	6,700	1,788	1,788
Cash and cash equivalents at end of period	11,689	5,388	6,700
Cash and cash equivalents comprise:			
Cash at bank and in hand	11,689	5,388	6,700
Cash equivalents	–	–	–
Total cash and cash equivalents	11,689	5,388	6,700

* The equity dividend paid in the cash flow is different to the dividend disclosed in note 5 due to the non-cash effect of the Dividend Reinvestment Scheme.

The accompanying notes on pages 15 to 20 form an integral part of this Half-yearly Financial Report.

Comparative figures have been extracted from the unaudited Half-yearly Financial Report for the six months ended 30 June 2017 and the audited statutory accounts for the year ended 31 December 2017.

Notes to the condensed Financial Statements

1. Basis of accounting

The condensed 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"), Financial Reporting Standard 104 – Interim Financial Reporting ("FRS 104"), and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued by The Association of Investment Companies ("AIC").

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.

The Half-yearly Financial Report has not been audited, nor has it been reviewed by the auditor pursuant to the FRC's guidance on Review of interim financial information.

Company information can be found on page 2.

Accounting policies

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, 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.

Current asset investments

Contractual future contingent receipts on the disposal of investments are designated at fair value through profit or loss and are subsequently measured at fair value.

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 period as a capital item and are allocated to the unrealised capital reserve.

Notes to the condensed Financial Statements continued

1. Basis of accounting (continued)

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 expected 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.

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 FVTPL, 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 condensed Financial Statements continued

2. Gains on investments

	Unaudited six months ended 30 June 2018 £'000	Unaudited six months ended 30 June 2017 £'000	Audited year ended 31 December 2017 £'000
Unrealised gains on fixed asset investments	2,979	2,395	1,695
Unrealised gains on current asset investments	373	–	–
Realised gains on fixed asset investments	2,426	132	1,058
	5,778	2,527	2,753

3. Investment income

	Unaudited six months ended 30 June 2018 £'000	Unaudited six months ended 30 June 2017 £'000	Audited year ended 31 December 2017 £'000
Interest from loans to portfolio companies	743	602	1,331
Dividends	165	337	782
Bank deposit interest	10	1	3
	918	940	2,116

4. Investment management fee and performance incentive fee

	Unaudited six months ended 30 June 2018 £'000	Unaudited six months ended 30 June 2017 £'000	Audited year ended 31 December 2017 £'000
Investment management fee charged to revenue	162	142	291
Investment management fee charged to capital	486	427	873
Performance incentive fee charged to revenue	142	32	–
Performance incentive fee charged to capital	426	95	–
	1,216	696	1,164

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

During the period, services with a value of £648,000 (30 June 2017: £569,000; 31 December 2017: £1,164,000) and £25,000 (30 June 2017: £25,000; 31 December 2017: £50,000) were purchased by the Company from Albion Capital Group LLP in respect of investment management and administration fees respectively. At the period end, the amount due to Albion Capital Group LLP in respect of these services disclosed as accruals was £348,000 (30 June 2017: £317,000; 31 December 2017: £309,000). For the period to 30 June 2018, a provisional performance incentive fee of £568,000 has been accrued, however any performance incentive fee is only payable on year end results (30 June 2017: £127,000; 31 December 2017: nil).

Albion Capital Group LLP is, from time to time, eligible to receive arrangement fees and monitoring fees from portfolio companies. During the period, fees of £145,000 (30 June 2017: £113,000; 31 December 2017: £233,000) attributable to the investments of the Company were paid pursuant to these arrangements.

Albion Capital Group LLP, its partners and staff hold 897,071 Ordinary shares in the Company.

Notes to the condensed Financial Statements continued

5. Dividends

	Unaudited six months ended 30 June 2018 £'000	Unaudited six months ended 30 June 2017 £'000	Audited year ended 31 December 2017 £'000
First dividend of 0.5 pence per share paid on 28 April 2017	–	1,375	1,375
Second dividend of 0.5 pence per share paid on 31 October 2017	–	–	1,363
First dividend of 0.6 pence per share paid on 30 April 2018	1,842	–	–
Unclaimed dividends returned to the Company	(5)	–	(15)
	1,837	1,375	2,723

The Directors have declared a second dividend of 0.6 pence per share for the year ending 31 December 2018, which will be paid on 31 October 2018 to shareholders on the register on 5 October 2018.

6. Basic and diluted return per share

	Unaudited six months ended 30 June 2018		Unaudited six months ended 30 June 2017		Audited year ended 31 December 2017	
	Revenue	Capital	Revenue	Capital	Revenue	Capital
Profit attributable to shareholders (£'000)	455	4,866	614	2,005	1,522	1,880
Weighted average shares in issue (excluding treasury shares)	299,536,878		267,189,319		272,042,345	
Return attributable per equity share (pence)	0.15	1.62	0.23	0.75	0.56	0.69

The weighted average number of Ordinary shares is calculated excluding the treasury shares of 45,209,000 (30 June 2017: 39,731,000; 31 December 2017: 42,771,000)

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

7. Called up share capital

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
Allotted, issued and fully paid:			
350,885,505 Ordinary shares of 1 penny each (30 June 2017: 312,691,928; 31 December 2017: 332,100,215)	3,509	3,127	3,321

Voting rights

305,676,505 Ordinary shares of 1 penny each (net of treasury shares) (30 June 2017: 272,960,928; 31 December 2017: 289,329,215).

The Company operates a share buy-back programme, as detailed in the Interim management report on page 6. During the period the Company purchased 2,438,000 Ordinary shares (nominal value of £24,380) at a cost of £495,000. The total number of Ordinary shares held in treasury as at 30 June 2018 was 45,209,000 (30 June 2017: 39,731,000; 31 December 2017: 42,771,000) representing 12.9% of the issued Ordinary share capital as at 30 June 2018.

Notes to the condensed Financial Statements continued

7. Called up share capital (continued)

During the period from 1 January 2018 to 30 June 2018, the Company issued the following new Ordinary shares of 1 penny each under the terms of the Dividend Reinvestment Scheme Circular dated 19 April 2011:

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)
30 April 2018	1,030,225	10	21.00	214	22.40

Under the terms of the Albion VCTs Prospectus Top Up Offers 2017/18, the following new Ordinary shares of nominal value 1 penny each were allotted during the period to 30 June 2018:

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
5 April 2018	9,261,391	93	22.20	2,005	19.80
11 April 2018	94,086	1	22.00	20	19.80
11 April 2018	8,144	–	22.10	2	19.80
11 April 2018	2,411,951	24	22.20	522	19.80
	<u>17,755,065</u>	<u>178</u>		<u>3,826</u>	

8. Commitments, contingencies and guarantees

As at 30 June 2018, the Company had no financial commitments (30 June 2017: £5,000; 31 December 2017: nil).

There were no contingent liabilities or guarantees given by the Company as at 30 June 2018 (30 June 2017: nil; 31 December 2017: nil).

9. Post balance sheet events

Since 30 June 2018, the Company has completed the following investments:

- Investment of £374,000 in Phrasee Limited; and
- Investment of £248,000 in Quantexa Limited.

10. Related party disclosures

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

11. Going concern

The Board's assessment of liquidity risk remains unchanged and is detailed on page 61 of the Annual Report and Financial Statements for the year ended 31 December 2017.

The Company has adequate cash and liquid resources. The portfolio of investments is diversified in terms of sector, and the major cash outflows of the Company (namely investments, dividends and share buy-backs) are within the Company's control. Accordingly, after making diligent enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing this Half-yearly Financial Report and this is 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.

Notes to the condensed Financial Statements continued

12. Other information

The information set out in this Half-yearly Financial Report does not constitute the Company's statutory accounts within the terms of section 435 of the Companies Act 2006 for the periods ended 30 June 2018 and 30 June 2017, and is unaudited. The information for the year ended 31 December 2017 does not constitute statutory accounts within the terms of section 435 of the Companies Act 2006 and is derived from the statutory accounts for that financial year, which have been delivered to the Registrar of Companies. The Auditor reported on those accounts; their report was unqualified and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

13. Publication

This Half-yearly Financial Report is being sent to shareholders and copies will be made available to the public at the registered office of the Company, Companies House, the National Storage Mechanism and also electronically at www.albion.capital/funds/KAY, where the Report can be accessed from the 'Financial Reports and Circulars' section.

Merger history for the Company and for previous funds

February 1996	Quester VCT PLC (QVCT) launched
June 2005	Quester VCT 2 PLC (QVCT2) and Quester VCT 3 PLC (QVCT3) merged into QVCT
June 2008	All Quester names changed to SPARK: QVCT became Spark VCT plc (SVCT) Quester VCT 4 PLC (QVCT4) became Spark VCT 2 plc (SVCT2) Quester VCT 5 PLC (QVCT5) became Spark VCT 3 plc (SVCT3)
November 2008	SVCT3 merged into SVCT2
January 2011	Albion Capital became Manager
February 2011	All SPARK names changed to Kings Arms Yard: SVCT became Kings Arms Yard VCT PLC (KAY) SVCT2 became Kings Arms Yard VCT 2 PLC (KAY2)
September 2011	KAY2 merged into KAY

Financial summary for the Company and for previous funds

	30 June 2018 (pence per share)	30 June 2017 (pence per share)	31 December 2017 (pence per share)
Net asset value of the Company	22.74	21.81	21.60
Dividends paid to shareholders of the Company			
Dividends paid during the period	0.60	0.50	1.00
Cumulative dividend paid	65.93	64.83	65.33
Total shareholder return⁽¹⁾ (per 100p invested)			
To shareholders of the Company			
(formerly SPARK VCT plc; Quester VCT plc)	88.67	86.64	86.93
Total shareholder return including tax benefits ⁽²⁾	108.67	106.64	106.93
Total shareholder return to former shareholders of: Quester VCT 2 plc, per 100p invested in shares of that company			
Total shareholder return	74.94	72.86	73.16
Total shareholder return including tax benefits ⁽²⁾	94.94	92.86	93.16
Quester VCT 3 plc, per 100p invested in shares of that company			
Total shareholder return	48.23	46.24	46.53
Total shareholder return including tax benefits ⁽²⁾	68.23	66.24	66.53
Quester VCT 4 plc (renamed SPARK VCT 2 PLC and then Kings Arms Yard VCT 2 PLC), per 100p invested in shares of that company			
Total shareholder return	46.48	43.88	44.25
Total shareholder return including tax benefits ⁽²⁾	66.48	63.88	64.25
Quester VCT 5 plc (renamed SPARK VCT 3 PLC), per 100p invested in shares of that company			
Total shareholder return	61.33	57.53	58.07
Total shareholder return including tax benefits ⁽²⁾	81.33	77.53	78.07

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

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

The total returns stated are applicable only to shareholders 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 for the Company and for previous funds

Kings Arms Yard VCT PLC (KAY)

Dividends paid to shareholders of KAY launched in 1996 (formerly SPARK VCT plc ("SVCT") and originally Quester VCT PLC ("QVCT")).

	(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
30 June 2018	0.600
Total dividends paid to 30 June 2018	65.929
Net asset value as at 30 June 2018	22.740
Total shareholder return to 30 June 2018	88.669

Quester VCT 2 PLC (QVCT2)

QVCT2 was launched in 1998 and was merged with KAY (formerly SPARK VCT plc ("SVCT") and originally Quester VCT PLC ("QVCT")) 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
30 June 2018	0.615
Total dividends paid to 30 June 2018	51.635
Net asset value as at 30 June 2018	23.306
Total shareholder return to 30 June 2018	74.941

Dividend history for the Company and for previous funds continued

Quester VCT 3 PLC (QVCT3)

QVCT3 was launched in 2000 and was merged with KAY (formerly SPARK VCT plc ("SVCT") and originally Quester VCT PLC ("QVCT")) 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
30 June 2018	0.589
Total dividends paid to 30 June 2018	25.912
Net asset value as at 30 June 2018	22.322
Total shareholder return to 30 June 2018	48.234

Quester VCT 4 PLC (QVCT4)

QVCT4 was launched in 2000 and was renamed SPARK VCT 2 plc ("SVCT2") 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
30 June 2018	0.768
Total dividends paid to 30 June 2018	17.354
Net asset value as at 30 June 2018	29.121
Total shareholder return to 30 June 2018	46.475

Dividend history for the Company and for previous funds continued

Quester VCT 5 PLC (QVCT5)

QVCT5 was launched in 2002 and was renamed SPARK VCT 3 plc ("SVCT3") and merged with SPARK VCT 2 plc ("SVCT2") (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 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 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
30 June 2018	1.123
Total dividends paid to 30 June 2018	18.771
Net asset value as at 30 June 2018	42.554
Total shareholder return to 30 June 2018	61.325





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