

Kings Arms Yard VCT PLC



Half-yearly Financial Report
(unaudited) for the
six months to 30 June 2020

2020



AlbionCapital



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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 F Wollocombe
Country of incorporation	United Kingdom
Legal form	Public Limited Company
Manager, company secretary, AIFM and registered office	Albion Capital Group LLP 1 Benjamin Street London, EC1M 5QL
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol, BS99 6ZZ
Auditor	BDO LLP 55 Baker Street London, W1U 7EU
Corporate broker	Panmure Gordon (UK) Limited One New Change London, EC4M 9AF
Taxation adviser	Philip Hare & Associates LLP 1 Temple Avenue London, EC4Y 0HA
Legal adviser	Bird & Bird LLP 12 New Fetter Lane London, EC4A 1JP
Depository	Ocorian (UK) Limited 11 Old Jewry London, EC2R 8DU

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

Shareholder information

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 are recorded)

Website: www.investorcentre.co.uk

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

Shareholders can also contact the Chairman directly on: KAYchair@albion.capital

Financial adviser information

For enquiries relating to the performance of the Company, and information for financial advisers, please contact the Business Development team at Albion Capital Group LLP:

Email: info@albion.capital

Tel: 020 7601 1850 (lines are open 9.00am – 5.30pm; Mon-Fri, calls are recorded)

Website: www.albion.capital

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 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 banks 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% 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.

Financial calendar

Record date for second dividend	2 October 2020
Payment date of second dividend	30 October 2020
Financial year end	31 December

Financial summary

	Unaudited six months ended 30 June 2020 (pence per share)	Unaudited six months ended 30 June 2019 (pence per share)	Audited year ended 31 December 2019 (pence per share)
Opening net asset value	22.02	22.78	22.78
Revenue return	0.15	0.24	0.44
Capital (loss)/return	(1.31)	0.11	(0.02)
Total (loss)/return	(1.16)	0.35	0.42
Impact from share capital movements	0.04	–	0.02
Dividends paid	(0.60)	(0.60)	(1.20)
Net asset value	20.30	22.53	22.02

Shareholder return and shareholder value

(pence per share)

Shareholder return from launch to 1 January 2011:

Total dividends paid to 1 January 2011	58.66
Decrease in net asset value	(83.40)
Total shareholder return to 1 January 2011	(24.74)

Shareholder return from 1 January 2011 to 30 June 2020 (period that Albion Capital has been investment manager):

Total dividends paid	9.67
Increase in net asset value	3.70
Total shareholder return from 1 January 2011 to 30 June 2020	13.37

Shareholder value since launch:

Total dividends paid to 30 June 2020	68.33
Net asset value as at 30 June 2020	20.30
Total shareholder value as at 30 June 2020	88.63

The Directors have declared a second dividend of 0.51 pence per share for the year ending 31 December 2020, which will be paid on 30 October 2020 to shareholders on the register on 2 October 2020.

The details of the new dividend policy can be found in the Interim management report on page 5.

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 at www.albion.capital/funds/KAY under the 'Financial summary for previous funds' section.

Interim management report

Introduction

The duration and the final scale of the global Covid-19 pandemic are still unknown. What we do know is that many industries have been very severely disrupted, many businesses are struggling for survival and a rash of quoted companies have suspended or drastically reduced their dividends for the first time in decades. Against this background Kings Arms Yard has proved resilient. Despite a decline of 5% in NAV since 31 December 2019, none of our investee companies have ceased trading, few have been adversely affected and the majority continue to grow strongly given the focus on the software and healthcare sectors which have benefitted from the shift to remote working, the increasing adoption of software and the increased interest in healthcare.

Valuations and results

Since the year ended 31 December 2019, the Board has been closely monitoring the ongoing disruption caused by the Covid-19 pandemic and its current and potential impact on portfolio companies.

The net effect of the Board's regular portfolio revaluation has been an overall loss on investments of £4.3m. The key movements in the period include: a £1.6m uplift in the valuation of Quantexa following a £50m externally led fundraising, a £1.2m uplift in the valuation of Proveca, offset by a £0.9m reduction in the valuation of Sandcroft Avenue (T/A Hussle), a £0.9m reduction in the valuation of Elateral Group and based on the disruption caused by Covid-19 to the rail sector, the valuation of Perpetuum was written down significantly. After the period end, contracts were exchanged, subject to regulatory approval, for the sale of Perpetuum at a small uplift to its carrying value at 30 June 2020.

Further details of the portfolio of investments can be found on pages 9 and 10.

This has resulted in a total loss for the six month period to 30 June 2020 of 1.16 pence per share, compared to a total return of 0.35 pence per share for the six month period to 30 June 2019.

Net asset value decreased from 22.02 pence per share at 31 December 2019 to 20.30 pence per share at 30 June 2020, following the loss during the period and the payment of a 0.60 pence per share dividend on 30 April 2020.

New dividend policy

The Board is aware of the importance of dividends to shareholders and it remains its intention to continue to pay regular dividends, as far as liquidity permits. Given the uncertainty that the current pandemic has created and the volatile nature of investing in small unquoted growth businesses, the Board considers it appropriate to move to a variable dividend policy targeting an annual dividend yield of around 5%. Semi-annual dividends will be paid calculated as 2.5% of the most recently announced net asset value when the dividend is declared (in most cases this will be the net asset value announced in the Half-yearly Financial Report or in the Annual Report and Financial Statements). This has the advantage of avoiding unsustainably high dividends if the net asset value falls, whilst rewarding shareholders more immediately if the net asset value rises.

This new policy will take effect immediately and apply to the second dividend for the financial year ending 31 December 2020 and dividends declared thereafter. The Board is therefore pleased to declare a second dividend for the financial year ending 31 December 2020 of 0.51 pence per share (31 October 2019: 0.60 pence per share) payable on 30 October 2020 to shareholders on the register on 2 October 2020.

The Company continues to offer a Dividend Reinvestment Scheme whereby shareholders can elect to receive dividends in the form of new shares.

Investment activity

Largely as a result of the Government lockdown, investment activity in the six months ended 30 June 2020 has been slower than in previous periods. The Company has invested £649,000 into 3 new portfolio companies with the expectation of further funding rounds over time to support success. In addition, the Company invested £714,000 to support growth in

Interim management report continued

5 existing portfolio companies. Since the period end investment activity has increased and the Company has made £1.7m of investments, the largest being £891,000 into Quantexa. Further details of post balance sheet events can be found in note 9.

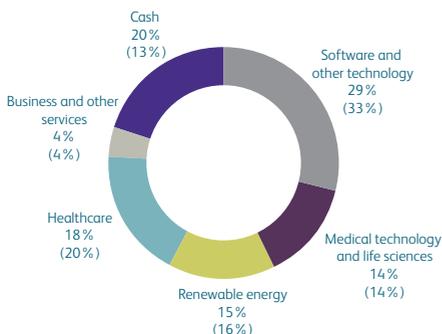
New investments in the period were:

- An initial investment of £308,000 (Albion VCTs: £5.0m) in Concirrus, a software provider bringing real time behavioural data analytics to the marine and transport insurance industries;
- An initial investment of £185,000 (Albion VCTs: £3.0m) in Credit Kudos, a challenger credit bureau helping lenders optimise and automate their affordability and risk assessments; and
- An initial investment of £156,000 (Albion VCTs: £1.5m) in TransFICC, a provider of connectivity solutions, connecting financial institutions with trading venues via a single API.

There were no disposals during the six month period to 30 June 2020. For further information on loan stock repayments and escrow adjustments, please see the realisations table on page 10.

Portfolio sector allocation

The following pie chart outlines the different sectors in which the Company's assets, at carrying value, were invested at 30 June 2020.



Comparatives for 31 December 2019 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 2019/20 was fully subscribed and closed early raising net proceeds of £9.6m. Further details can be found in note 7. 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.

Corporate broker and share buy-backs

The Board was pleased to announce on 17 June 2020 the appointment of Panmure Gordon (UK) Limited as corporate broker.

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. The Board has decided to limit the amount of share buybacks in the sixth month period to 31 December 2020 to £1 million.

It is the Board's intention over time 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.

Risks and uncertainties

The implication of the financial turmoil arising from the Covid-19 crisis is the key risk facing the Company. There are also potential implications of increasing tensions in international trade and of the UK leaving the European Union which may adversely affect our underlying portfolio companies. The Manager is continually assessing the exposure to these risks for each portfolio company, and appropriate actions, where possible, are being implemented.

Interim management report continued

Other risks and uncertainties remain unchanged as set out on pages 16 and 17 of the Annual Report and Financial Statements for the year ended 31 December 2019.

Outlook

The outlook for the UK and the world economy has perhaps not been so uncertain for a generation. Covid-19, together with growing interference in free trade may change the global economic picture in ways that will dwarf Brexit.

The one thing of which we can be certain is continuing change and a greater reliance on technology. Our policy of investing in young businesses with emerging technologies has proved robust so far and the Board has every confidence that it continues to offer the best course going forward.

Robin Field

Chairman

3 September 2020

Responsibility statement

The Directors, Robin Field, Thomas Chambers, Martin Fiennes and Fiona Wollock, are responsible for preparing the Half-yearly Financial Report. In preparing these condensed Financial Statements for the period to 30 June 2020 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

3 September 2020

Portfolio of investments

Fixed asset investments	% voting rights	As at 30 June 2020			Change in value for the period ⁽²⁾ £'000
		Cost ⁽¹⁾ £'000	Cumulative movement in value £'000	Value £'000	
Active Lives Care Limited	20.3	4,395	2,690	7,085	(468)
Proveca Limited	15.1	2,259	4,668	6,927	1,166
Ryefield Court Care Limited	18.7	3,070	1,786	4,856	(618)
Egress Software Technologies Limited	4.8	1,644	2,901	4,545	–
Quantexa Limited	1.7	438	2,971	3,409	1,593
Chonais River Hydro Limited	6.5	2,428	939	3,367	10
Antenova Limited	28.7	1,733	617	2,350	(590)
The Street by Street Solar Programme Limited	10.0	1,040	809	1,849	(57)
Regenerco Renewable Energy Limited	9.8	988	622	1,610	(58)
Alto Prodotto Wind Limited	11.1	882	607	1,489	3
MyMeds&Me Limited	15.4	1,459	(71)	1,388	7
OmPrompt Holdings Limited	14.8	1,377	(45)	1,332	–
Dragon Hydro Limited	17.2	684	435	1,119	33
G.Network Communications Limited	2.0	204	901	1,105	–
Shinfield Lodge Care Limited	2.9	535	528	1,063	2
Sift Limited	42.1	2,306	(1,331)	975	228
Black Swan Data Limited	2.3	941	–	941	–
Perpetuum Limited	11.9	3,136	(2,280)	856	(2,188)
Gharagain River Hyrdo Limited	5.0	620	199	819	16
Academia Inc.	3.0	351	380	731	(316)
Symetrica Limited	3.7	685	19	704	(163)
Elateral Group Limited	47.9	5,488	(4,798)	690	(897)
AVESI Limited	14.8	484	197	681	(42)
Oviva AG	2.0	585	90	675	(121)
The Ewell (Harley Street) Limited	4.7	642	(59)	583	(58)
MPP Global Solutions Limited	1.7	550	–	550	–
SBD Automotive Limited	1.7	260	267	527	21
Avora Limited	2.8	510	–	510	–
Convertr Media Limited	3.0	482	13	495	2
Elliptic Enterprises Limited	0.6	488	–	488	–
Panaseer Limited	1.5	342	128	470	–
Cantab Research Limited (T/A Speechmatics)	1.1	460	–	460	–
Beddlestead Limited	5.1	606	(160)	446	(157)
Greenenco Limited	8.6	259	185	444	(2)
Koru Kids Limited	1.6	345	36	381	(156)
Phrasee Limited	1.8	374	–	374	–
Locum's Nest Limited	3.6	375	(12)	363	7
Anthropics Technology Limited	13.8	19	312	331	(151)
Concirrus Limited	0.6	308	–	308	–
ePatient Network Limited (T/A Raremark)	2.4	230	53	283	(27)
uMotif Limited	1.0	240	32	272	98
InCrowd Sports Limited	2.1	272	(6)	266	(85)
Limitless Technology Limited	1.7	260	–	260	–

Portfolio of investments continued

Fixed asset investments	% voting rights	As at 30 June 2020			Change in value for the period ⁽²⁾ £'000
		Cost ⁽¹⁾ £'000	Cumulative movement in value £'000	Value £'000	
Abcodia Limited	4.3	735	(475)	260	–
Celoxica Holdings plc	4.4	513	(255)	258	–
Aridhia Informatics Limited	2.1	409	(152)	257	203
Clear Review Limited	1.6	203	51	254	51
Arecor Limited	1.2	220	–	220	–
Healios Limited	0.7	216	–	216	–
Mirada Medical Limited	1.8	390	(198)	192	(288)
Credit Kudos Limited	0.9	185	–	185	–
TransFICC Limited	1.0	156	–	156	–
Erin Solar Limited	5.7	160	(22)	138	(16)
Cisiv Limited	3.1	278	(144)	134	(27)
Innovation Broking Group Limited	4.5	45	72	117	16
Sandcroft Avenue Limited (T/A Hussle)	5.1	1,026	(929)	97	(915)
Imandra Inc.	1.0	91	–	91	–
Harvest AD Limited ⁽ⁱ⁾	–	70	1	71	(4)
Zift Channel Solutions Inc.	0.6	321	(260)	61	(122)
Forward Clinical Limited (T/A Pando)	1.5	184	(123)	61	(47)
Xention Limited	10.6	38	(28)	10	–
Other holdings (5 companies)		26	(21)	5	–
Total fixed asset investments		50,020	11,140	61,160	(4,117)

- (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 column shows the movement in the period from the opening balance as at 1 January 2020 to the closing balance as at 30 June 2020 after adjustments for additions and disposals.
- (i) Early stage investment of convertible loan stock.

Realisations in the period to 30 June 2020	Cost £'000	Opening carrying value £'000	Disposal proceeds £'000	Realised gain on cost £'000	Gain on opening or acquired value £'000
<u>Loan stock repayments and other:</u>					
Alto Prodotto Wind Limited	24	36	36	12	–
Greenenerco Limited	7	10	10	3	–
Escrow adjustments	–	–	19	19	19
Total	31	46	65	34	19

Total change in value of investments for the period	(4,117)
Movement in loan stock accrued interest	(188)
Unrealised losses on fixed asset investments sub-total	(4,305)
Realised gains in current period	19
Total losses on investments as per Income statement	(4,286)

Condensed income statement

	Note	Unaudited six months ended 30 June 2020			Unaudited six months ended 30 June 2019			Audited year ended 31 December 2019		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	2	–	(4,286)	(4,286)	–	865	865	–	1,002	1,002
Investment income	3	917	–	917	1,112	–	1,112	2,144	–	2,144
Investment management fee	4	(185)	(554)	(739)	(175)	(524)	(699)	(364)	(1,092)	(1,456)
Other expenses		(182)	–	(182)	(163)	–	(163)	(331)	–	(331)
(Loss)/profit on ordinary activities before tax		550	(4,840)	(4,290)	774	341	1,115	1,449	(90)	1,359
Tax on ordinary activities		–	–	–	–	–	–	–	–	–
(Loss)/profit and total comprehensive income attributable to shareholders		550	(4,840)	(4,290)	774	341	1,115	1,449	(90)	1,359
Basic and diluted (loss)/return per share (pence)*	6	0.15	(1.31)	(1.16)	0.24	0.11	0.35	0.44	(0.02)	0.42

* adjusted for 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 2019 and the audited statutory accounts for the year ended 31 December 2019.

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 2020 £'000	Unaudited 30 June 2019 £'000	Audited 31 December 2019 £'000
Fixed asset investments	61,160	63,259	63,960
Current assets			
Trade and other receivables less than one year	105	887	115
Cash and cash equivalents	15,554	11,872	9,867
	15,659	12,759	9,982
Total assets	76,819	76,018	73,942
Payables: amounts falling due within one year			
Trade and other payables less than one year	(461)	(449)	(486)
Total assets less current liabilities	76,358	75,569	73,456
Equity attributable to equity holders			
Called up share capital	7 4,333	3,872	3,883
Share premium	45,253	35,595	35,825
Capital redemption reserve	11	11	11
Unrealised capital reserve	10,387	15,343	14,707
Realised capital reserve	8,680	8,995	9,200
Other distributable reserve	7,694	11,753	9,830
Total equity shareholders' funds	76,358	75,569	73,456
Basic and diluted net asset value per share (pence)*	20.30	22.53	22.02

* 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 2019 and the audited statutory accounts for the year ended 31 December 2019.

These Financial Statements were approved by the Board of Directors, and authorised for issue on 3 September 2020 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 2020	3,883	35,825	11	14,707	9,200	9,830	73,456
(Loss)/profit and total comprehensive income for the period	-	-	-	(4,305)	(535)	550	(4,290)
Transfer of previously unrealised gains on disposal of investments	-	-	-	(15)	15	-	-
Purchase of own shares for treasury	-	-	-	-	-	(447)	(447)
Issue of equity	450	9,662	-	-	-	-	10,112
Cost of issue of equity	-	(234)	-	-	-	-	(234)
Dividends paid	-	-	-	-	-	(2,239)	(2,239)
At 30 June 2020	4,333	45,253	11	10,387	8,680	7,694	76,358
At 1 January 2019	3,519	27,896	11	15,358	8,639	13,727	69,150
Profit/(loss) and total comprehensive income for the period	-	-	-	443	(102)	774	1,115
Transfer of previously unrealised gains on disposal of investments	-	-	-	(458)	458	-	-
Purchase of own shares for treasury	-	-	-	-	-	(745)	(745)
Issue of equity	353	7,888	-	-	-	-	8,241
Cost of issue of equity	-	(189)	-	-	-	-	(189)
Dividends paid	-	-	-	-	-	(2,003)	(2,003)
At 30 June 2019	3,872	35,595	11	15,343	8,995	11,753	75,569
At 1 January 2019	3,519	27,896	11	15,358	8,639	13,727	69,150
Profit/(loss) and total comprehensive income for the period	-	-	-	274	(364)	1,449	1,359
Transfer of previously unrealised gains on disposal of investments	-	-	-	(925)	925	-	-
Purchase of own shares for treasury	-	-	-	-	-	(1,367)	(1,367)
Issue of equity	364	8,120	-	-	-	-	8,484
Cost of issue of equity	-	(191)	-	-	-	-	(191)
Dividends paid	-	-	-	-	-	(3,979)	(3,979)
At 31 December 2019	3,883	35,825	11	14,707	9,200	9,830	73,456

*The total distributable reserves are £16,374,000 (30 June 2019: £20,748,000; 31 December 2019: £19,030,000).

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 2019 and the audited statutory accounts for the year ended 31 December 2019.

Condensed statement of cash flows

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Audited year ended 31 December 2019 £'000
Cash flow from operating activities			
Investment income received	656	1,020	2,000
Deposit interest received	25	18	35
Dividend income received	49	228	254
Investment management fee paid	(745)	(694)	(1,425)
Performance incentive fee paid	–	(637)	(637)
Other cash payments	(198)	(154)	(309)
UK corporation tax paid	–	–	–
Net cash flow from operating activities	(213)	(219)	(82)
Cash flow from investing activities			
Purchase of fixed asset investments	(1,363)	(3,053)	(5,637)
Disposal of fixed asset investments	60	2,344	5,172
Net cash flow from investing activities	(1,303)	(709)	(465)
Cash flow from financing activities			
Issue of share capital	9,588	7,804	7,804
Cost of issue of equity	(2)	(2)	(4)
Purchase of own shares (including costs)	(447)	(745)	(1,367)
Equity dividends paid*	(1,936)	(1,742)	(3,504)
Net cash flow from financing activities	7,203	5,315	2,929
Increase in cash and cash equivalents	5,687	4,387	2,382
Cash and cash equivalents at start of period	9,867	7,485	7,485
Cash and cash equivalents at end of period	15,554	11,872	9,867

* 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 2019 and the audited statutory accounts for the year ended 31 December 2019.

Notes to the condensed Financial Statements

1. Accounting policies

Basis of accounting

The condensed Financial Statements have been prepared 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 Financial Statements have been prepared on a going concern basis.

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 International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and further detail on the valuation techniques used are outlined below.

This 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.

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 IPEV Guidelines. Indicators of fair value are derived using established methodologies including earnings multiples, the level of third party offers received, cost or price of recent investment rounds, net assets and industry valuation benchmarks. Where price of recent investment is used as a starting point for estimating fair value at subsequent measurement dates, this has been benchmarked using an appropriate valuation technique permitted by the IPEV guidelines.
- In situations where cost or price of recent investment is used, 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:
 - o the performance and/or prospects of the underlying business are significantly below the expectations on which the investment was based;
 - o 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
 - o 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.

Current assets and payables

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

Notes to the condensed Financial Statements continued

1. Accounting policies (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 fee, performance incentive fee 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% of management fees and performance incentive fees are allocated to the realised capital reserve. This is in line with the Board's expectation that over the long term 75% 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.

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.

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.

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 period 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. (Losses)/gains on investments

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Audited year ended 31 December 2019 £'000
Unrealised (losses)/gains on fixed asset investments	(4,305)	816	647
Unrealised losses on current asset investments	–	(373)	(373)
Realised gains on fixed asset investments	19	422	728
	(4,286)	865	1,002

3. Investment income

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Audited year ended 31 December 2019 £'000
Interest from loans to portfolio companies	844	863	1,855
Dividends	49	231	254
Bank deposit interest	24	18	35
	917	1,112	2,144

4. Investment management fee

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Audited year ended 31 December 2019 £'000
Investment management fee charged to revenue	185	175	364
Investment management fee charged to capital	554	524	1,092
	739	699	1,456

Further details of the Management agreement under which the investment management fee and any performance incentive fee are paid are given in the Strategic report on page 13 of the Annual Report and Financial Statements for the year ended 31 December 2019.

During the period, services with a value of £739,000 (30 June 2019: £699,000; 31 December 2019: £1,456,000) and £25,000 (30 June 2019: £25,000; 31 December 2019: £50,000) were purchased by the Company from Albion Capital Group LLP in respect of 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 £385,000 (30 June 2019: £366,000; 31 December 2019: £391,000).

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 £155,000 (30 June 2019: £168,000; 31 December 2019: £200,000) attributable to the investments of the Company were paid pursuant to these arrangements.

Albion Capital Group LLP, its partners and staff hold 1,399,153 Ordinary shares in the Company as at 30 June 2020.

The Company entered into an offer agreement relating to the Offers with the Company's investment manager Albion Capital Group LLP ("Albion"), pursuant to which Albion received a fee of 2.5% of the gross proceeds of the Offers and out of which Albion paid the costs of the Offers, as detailed in the Prospectus. The Offers closed on 16 January 2020.

Notes to the condensed Financial Statements continued

5. Dividends

	Unaudited six months ended 30 June 2020 £'000	Unaudited six months ended 30 June 2019 £'000	Audited year ended 31 December 2019 £'000
First dividend of 0.60 pence per share paid on 30 April 2019	–	2,010	2,010
Second dividend of 0.60 pence per share paid on 31 October 2019	–	–	2,005
First dividend of 0.60 pence per share paid on 30 April 2020	2,256	–	–
Unclaimed dividends returned to the Company	(17)	(7)	(36)
	2,239	2,003	3,979

The Directors have declared a second dividend of 0.51 pence per share for the year ending 31 December 2020, which will be paid on 30 October 2020 to shareholders on the register on 2 October 2020. Details of the new dividend policy can be found in the Interim management report on page 5.

6. Basic and diluted (loss)/return per share

	Unaudited six months ended 30 June 2020		Unaudited six months ended 30 June 2019		Audited year ended 31 December 2019	
	Revenue	Capital	Revenue	Capital	Revenue	Capital
(Loss)/profit attributable to shareholders (£'000)	550	(4,840)	774	341	1,449	(90)
Weighted average shares in issue (excluding treasury shares)	369,249,306		319,703,183		327,246,191	
(Loss)/return attributable per equity share (pence)	0.15	(1.31)	0.24	0.11	0.44	(0.02)

The weighted average number of Ordinary shares is calculated after adjusting for treasury shares of 57,096,607 (30 June 2019: 51,789,000; 31 December 2019: 54,723,000).

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

7. Called up share capital

	Unaudited 30 June 2020 £'000	Unaudited 30 June 2019 £'000	Audited 31 December 2019 £'000
Allotted, called up and fully paid Ordinary shares of 1 penny each			
Number of shares	433,336,785	387,227,906	388,335,260
Nominal value of allotted shares (£'000)	4,333	3,872	3,883
Voting rights (number of shares net of treasury shares)	376,240,178	335,438,906	333,612,260

The Company operates a share buy-back programme, as detailed in the Interim management report on page 6. During the period the Company purchased 2,373,607 Ordinary shares with a nominal value of £23,736 (30 June 2019: 3,516,000; 31 December 2019: 6,450,000) representing 0.5% of the issued called up share capital as at 30 June 2020, at a cost of £447,000 (30 June 2019: £745,000; 31 December 2019: £1,367,000), including stamp duty, to be held in treasury. The Company holds a total of 57,096,607 Ordinary shares in treasury, representing 13.2% of the issued Ordinary share capital as at 30 June 2020.

Notes to the condensed Financial Statements continued

7. Called up share capital (continued)

During the period from 1 January 2020 to 30 June 2020, 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 2020	1,521,895	15	19.19	290	18.50

Under the terms of the Albion VCTs Prospectus Top Up Offers 2019/20, the following new Ordinary shares of nominal value 1 penny each were allotted during the period to 30 June 2020:

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 2020	5,082,101	51	22.40	1,121	21.10
31 January 2020	1,019,398	10	22.50	225	21.10
31 January 2020	36,336,304	363	22.70	8,042	21.10
30 April 2020	418,451	4	19.50	80	18.50
30 April 2020	623,376	6	19.70	120	18.50
	43,479,630	435		9,588	

8. Commitments, contingencies and guarantees

As at 30 June 2020, the Company had no financial commitments (30 June 2019: £nil; 31 December 2019: £nil).

There were no contingent liabilities or guarantees given by the Company as at 30 June 2020 (30 June 2019: £nil; 31 December 2019: £nil).

9. Post balance sheet events

Since 30 June 2020, the Company has had the following post balance sheet events:

- Investment of £891,000 in Quantexa Limited;
- Investment of £361,000 in a new portfolio company, which provides a cloud platform that enables corporates to purchase digital gift cards and to distribute them to employees and customers;
- Investment of £274,000 in Phrasee Limited;
- Investment of £175,000 in uMotif Limited;
- Investment of £29,000 in The Ewell (Harley Street) Limited; and
- Contracts were exchanged for the sale of Perpetuum 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.

Notes to the condensed Financial Statements continued

11. Going concern

The Board has conducted a detailed assessment of the Company's ability to meet its liabilities as they fall due. Cash flow forecasts are updated and discussed quarterly at Board level and have been stress tested to allow for the forecasted impact of Coronavirus (Covid-19). The Board have revisited and updated their assessment of liquidity risk and concluded that it remains unchanged since the last Annual Report and Financial Statements. Further details can be found on pages 66 and 67 of the Annual Report and Financial Statements for the year ended 31 December 2019.

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 cash and liquid 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.

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 434 of the Companies Act 2006 for the periods ended 30 June 2020 and 30 June 2019, and is unaudited. The information for the year ended 31 December 2019 does not constitute statutory accounts within the terms of section 434 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.





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