LMS Capital plc
Annual Report 2009

LMS Capital plc is an investment company with over 30 years' experience in identifying, investing in and creating profitable returns. Our objective is to deliver superior absolute returns for our shareholders through a risk-diversified portfolio of investments.

Financial highlights*

- Net Asset Value per share was 84p (31 December 2008: 89p)
- Net Asset Value was £227.7 million (31 December 2008: £241.5 million)
- The return on the investment portfolio was a loss of £4.9 million after recording unrealised currency losses of £13.5 million (2008: loss of £36.7 million after unrealised currency gains of £45.5 million)
- The loss for the year was £12.7 million (2008: loss of £40.8 million)
- The business had cash of £14.4 million at 31 December 2009 and no debt

Operational highlights

- Investment of £6.2 million for a 53.3% interest in Updata Infrastructure UK Limited in support of a management buyout
- Sale of 7 Global Limited to 365iT plc
- Successful migration of the Company's shares to trading on the Main Market of the London Stock Exchange
- Appointment of Glenn Payne as Chief Executive Officer on 1 March 2010

* Investment management business.

Strategy

The Company's strategy is to obtain superior absolute return for our shareholders through a risk-diversified portfolio of investments.

LMS Capital plc is an investment company. Our objective is to deliver superior absolute return for our shareholders through a risk-diversified portfolio of investments.

We understand the drivers of demand in the sectors in which we invest and this enables us to recognise the potential of both new ideas and young companies requiring growth funding. These sectors currently include applied technology, energy and water, healthcare and medical, media and consumer and real estate. We do, however, retain the freedom to invest outside our core sectors in order to take advantage of opportunities when they arise.

Investments are principally in the UK and US, although the Company is not restricted from expanding into other markets.

A deep knowledge of our chosen sectors acquired over 30 years allows LMS Capital to invest in and with leading management teams. The Company undertakes rigorous inquiry and carries out full due diligence into new investments to understand the investee company's business, evaluate information on their marketplace and competition, meet their management, directors and existing shareholders and, if necessary commission reports from external experts.

We also understand the cyclical nature of the sectors in which we are working and through taking long-term positions are able to adjust our economic interest to reflect the longer holding period. One of the principal characteristics of LMS Capital which differentiates us from other private equity investors is the time horizon over which we are able to invest. As an active, and supportive, long-term investor we are not constrained by the fixed investment periods of most private equity funds. It is not uncommon for us to hold investments for long periods of time where we believe that this will deliver greater shareholder value.

The Board will continue to manage the Company's portfolio in line with its overall objective. In this regard, we may make realisations from within the existing portfolio where we believe that the proceeds of realisation could generate better returns if deployed elsewhere.

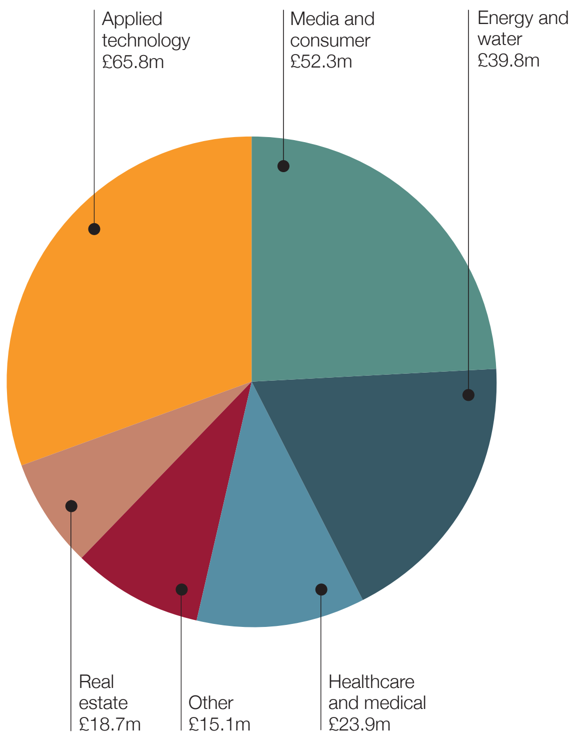
Our portfolio

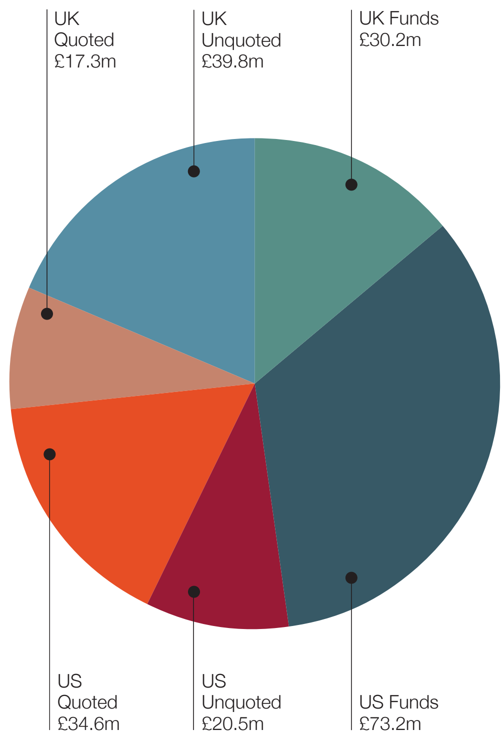
Portfolio split by sector

Applied technology	31%	£65.8m
Media and consumer	24%	£52.3m
Energy and water	18%	£39.8m
Healthcare and medical	11%	£23.9m
Real estate	9%	£18.7m
Other	7%	£15.1m
Total	**100%**	**£215.6m**

Portfolio split by asset type and geography

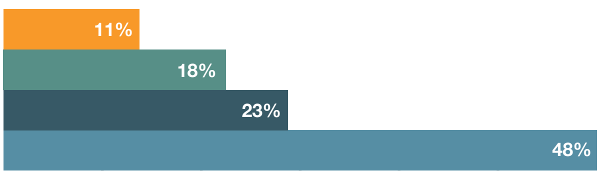
UK Funds	14%	£30.2m
US Funds	34%	£73.2m
UK Quoted	8%	£17.3m
US Quoted	16%	£34.6m
UK Unquoted	19%	£39.8m
US Unquoted	9%	£20.5m
Total	**100%**	**£215.6m**





Vintage[1]

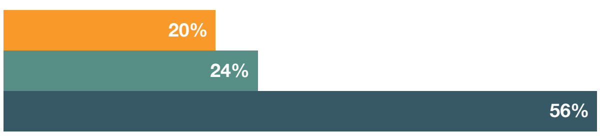
1-2 years	11%	£23.6m
3-4 years	18%	£37.9m
5-6 years	23%	£49.7m
6+ years	48%	£104.4m
Total	**100%**	**£215.6m**



(1) Vintage is based on year of first investment and includes fund interests.

Valuation basis

Directors' valuation	20%	£42.5m
Public market quotation	24%	£51.9m
Third party valuation	56%	£121.2m
Total	**100%**	**£215.6m**



Chairman's statement

2009 was a year of uncertainty and instability in the financial markets and the effect on the private equity sector was to reduce fund raising and transaction activities to the lowest level seen for many years. The Company focused its efforts on maintaining its strong balance sheet and on managing its existing portfolio. One acquisition was made through participation in a management buyout and there were some small disposals, both of quoted and unquoted interests.

The Company ended 2009 with a Net Asset Value per share of 84p, a reduction of 6% compared to the end of 2008; much of this decline was attributable to a strengthening of the Sterling/US dollar exchange rate. At the year end the Company's balance sheet showed net cash of £14.4 million and no borrowings. During the year there was also a reduction in the Company's outstanding commitments to funds from £71.1 million to £58.7 million and we expect this reducing trend to continue.

Results

The return on the investment portfolio for the year was a net loss of £4.9 million (2008: net loss of £36.7 million). Included in this is a small realised net loss for the year of £0.1 million (2008: realised gains of £17.3 million, most of which related to the sale of Energy Cranes) and net unrealised losses of £4.8 million, significantly reduced from £54.1 million last year. After overheads, the loss for the year ended 31 December 2009 was £12.7 million (year ended 31 December 2008: loss of £40.8 million).

The investment portfolio at 31 December 2009 was valued at £215.6 million (31 December 2008: £202.0 million), an increase of £13.6 million or 7%.

The quoted portfolio (to which there were no additions in 2009) recovered somewhat in value during the year, although our holdings in the oilfield services sector in particular have yet to benefit from a sustained increase in global demand for energy. We have continued to take a cautious view of the carrying values of our unquoted holdings until the recovery in public markets is fully reflected in private transactions.

For the Group as a whole (including consolidation of the portfolio subsidiaries) the consolidated loss for the year was £14.8 million (2008: loss of £6.1 million).

The Board is not recommending payment of a dividend for the year ended 31 December 2009 (year ended 31 December 2008: nil).

Balance sheet

At the year end the Company had no direct debt. Further, as the primary method of funding development capital is equity, there is very little external debt in the unquoted portfolio.

Board and management

Last month the Company announced the appointment of Glenn Payne as Chief Executive with effect from 1 March 2010. His experience will provide impetus to the Company's next phase of development. The appointment of a new chief executive is an appropriate time for me to step down from your Board which I shall do at the conclusion of the forthcoming Annual General Meeting. Your Board has appointed Robert Rayne to succeed me as Chairman. This appointment means that the Company will continue to benefit from his many contacts and long experience in the private equity sector and I wish Robbie Rayne and Glenn Payne in their new roles every success in taking the business forward.

David Verey joined the Board in September 2009 and his considerable experience as an investment banker and in private equity will be of great value to the Company. Martin Pexton left the Company at the end of September 2009 and on behalf of the Board I should like to thank him for his contribution to the business since it became independent in 2006.

2009 was a year of change at LMS Capital when many of its investee companies were required to make significant reductions in headcount and overheads to adjust to a difficult operating environment. Your Board would like to extend its appreciation to all the Company's employees, as well as to the management teams of our investee companies, for their contribution to the Group's continuing progress.

Share capital

As in previous years, at the forthcoming Annual General Meeting the Company will be seeking authority to purchase up to 14.99% of its issued share capital. The Company also needs, once again, to obtain a waiver in respect of the Takeover Code obligations that a repurchase of shares above a certain limit would place on the Rayne family shareholders.

There were no purchases of shares by the Company during 2009; the current number of ordinary shares in issue is 272,640,952.

Outlook

Although your Board does not expect a fundamental change in economic conditions in 2010 we are hopeful of a slow and steady recovery of the principal economies in which your Company invests; there are currently signs of merger and acquisition activity increasing in 2010.

Your Board believes that our continued strategy of a risk diversified portfolio and our strong financial position will enable us to surmount these challenges. We shall continue to seek exit opportunities for selected investments and to ensure that capital outlays are subject to rigorous review and due diligence. Your Board is confident that the Company is well positioned to protect its existing assets and take advantage of increased investment opportunities in the short to medium term.

Jonathan Agnew

Jonathan Agnew
Chairman

26 March 2010

Operating review

The Company's resilience following the turbulence in international markets in the closing months of 2008 is a testimony to the key fundamentals of our investment strategy – a risk and geographically diversified portfolio of investments. This resilience also reflects the low levels of debt in the overall portfolio. These principles have enabled us to see out these recent economic difficulties while at the same time taking advantage of opportunities which the current environment presents.

The last year has seen considerably reduced activity in the private equity arena and while we have maintained a satisfactory level of deal flow, transaction levels have been very low in the face of reduced liquidity in the financial markets. Consequently we have added only one new investment during the year and made relatively few realisations.

Our primary focus during 2009 has been on managing our existing portfolio companies to ensure that each has adapted to the current business environment of reduced demand and reduced liquidity. Faced with the expectation that this environment will continue at least through 2010, we have also used this period to review our longer term strategy for each investment.

Our objective remains unchanged. We aim to deliver sustained medium- to long-term growth for our shareholders; we are not constrained by the fixed investment periods of most private equity funds and we are therefore able to hold investments for longer than many other funds where we believe that this will deliver greater shareholder value. We understand the drivers of demand in the sectors in which we invest and this enables us to recognise the potential of both new ideas and young companies requiring growth funding.

Investment portfolio

The portfolio in the Group's core investment management business is risk diversified and comprises:

- early stage companies;
- companies requiring development or growth finance where the normal holding period has been three to five years but could now be seven or eight years; and
- shorter term investments in the pre- and post-IPO market which usually provide liquidity within three to four years.

The Company's resilience is a testimony to the key fundamentals of our investment strategy – a risk and geographically diversified portfolio of investments

The movement in the investment portfolio during the year was as follows:

	2009 £million	2008 £million
1 January	**202.0**	282.1
Additions in the year	**32.7**	51.6
Realisations	**(14.3)**	(77.6)
Valuation adjustments, net	**8.7**	(99.6)
Foreign currency (losses)/gains	**(13.5)**	45.5
31 December	**215.6**	202.0

Additions include £7.6 million (2008: £12.4 million) of new investments and £25.1 million (2008: £39.2 million) of follow on funding, including £14.8 million (2008: £15.8 million) of capital calls from funds. The figure for realisations relates principally to sales of quoted stocks and adjustments for fund distributions (the figure for 2008 included £65.0 million in respect of Energy Cranes International Limited).

The foreign currency gains or losses are unrealised and reflect the weakening of the US dollar against the pound sterling, principally in the first part of the year. It is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Applied technology

In July we acquired a 53.3% interest in *Updata Infrastructure UK Limited* ('Updata') investing £6.2 million in a management buyout. Updata designs, builds and manages cost-effective high-capacity broadband networks for public sector organisations in the UK and differentiates itself from its competitors through its culture of excellence in customer service. In the first six months since our investment Updata has performed strongly with growth in revenues and profits which are in line with our expectations at the time of investment.

In November we completed the sale of our interest in 7 Global Limited to *365 iT plc* ('365iT'), a private company which provides a comprehensive suite of IT services and solutions to UK businesses. We received shares in 365iT in return for our 7 Global shares and since the end of the year we have participated in a fund raising by 365iT which has taken our holding to 15%.

Wesupply Limited enjoyed strong sales growth in 2009 with revenues increasing by around 70% compared to 2008. In particular the company, in partnership with IBM, secured a contract with Sainsbury's to be its business-to-business platform for connectivity to 4,000 of its suppliers. Despite the increase in revenues the company traded at a loss in 2009 and we have taken steps to reduce the cost base of the business in 2010.

Entuity Limited had a successful year – it increased revenues year on year by 16% and achieved a positive EBITDA result for the first time in its history. The company has a clear strategy and we expect further progress in 2010.

Coppereye Limited had a disappointing performance in 2009 after a strong 2008. Its unique technology has a long sales cycle.

Kizoom's revenues improved 20% over the prior year and this coupled with cost reductions resulted in a substantially reduced loss for the year. However this performance was below expectations and we are currently reviewing the strategic options for this business.

In the USA, *Penguin Computing*, which provides high performance computing ('HPC') solutions using Linux cluster servers, continued to make good progress. In August the company launched HPC as a Service, offering on-demand access to high performance clusters over the Internet, thereby significantly reducing customers' capital outlays for HPC.

Energy and water

This sector was particularly affected by the difficult economic conditions in 2009 as activity levels fell in the face of reduced world demand. Most of our interests in this sector are in quoted stocks, in particular *Weatherford International Ltd* which experienced difficult trading conditions during 2009 in line with the oilfield services sector generally. However the company's share price recovered from a low of $9 around the end of 2008 to just under $18 at the end of 2009. We made no purchases or sales of shares in the company during the year.

In August *Venture Production plc* was acquired by Centrica plc, a transaction that produced cash of £4.1 million for the Company.

Pims Group Limited, a private UK-based company which designs, installs and services pumping systems for domestic and commercial water systems, performed well in a difficult trading environment. It has also continued to make bolt-on acquisitions to expand its presence in its chosen markets. Pims is a co-investment with Inflexion 2006 Buyout Fund.

Offshore Tool and Energy Corporation, which specialises in fabrication projects for the oil and gas and water industries, made good progress during the first half of 2009 but could not sustain this in the second half of the year. Increasing order intake is a priority for the business in the first quarter of 2010, following rigorous cost cutting measures during the second half of last year.

Healthcare and medical

This sector has proved to be more resilient than most during 2009. We made no purchases or sales in this sector during the year but our existing portfolio has made strong progress.

ProStrakan Group continues to report good progress in line with its strategic objectives and expects 2010 to be its first full year of operating profitability. This progress has not yet been reflected in a sustained improvement in the company's share price which, despite

Our primary focus during 2009 has been on managing our portfolio companies

movements during 2009, was little changed at the end of the year compared to the end of 2008. However, the price improved during January 2010 on the back of an encouraging trading update for 2009 and positive expectations for 2010.

HealthTech Holdings (formerly Healthcare Management Systems) which is based in the USA has enjoyed a successful 2009 as the hospital market in which it operates has shown resilience in the generally difficult trading environment. Since the end of the year it has acquired a complementary business which extends its offering to Accident & Emergency departments.

Media and consumer

Our principal interest in this sector is via San Francisco Equity Partners, the US fund where we are the major investor. For *Method Products, Inc*, which sells environmentally friendly homecare products, 2009 was a year of consolidation, during which it reviewed and rationalised its various product lines. The company believes that the resulting improved product focus will drive significant growth in revenues and profitability in the medium term. The beginning of 2010 has seen the launch of its new laundry products with very positive media and consumer reaction to date.

Yes To Inc has become one of the fastest growing brands in the worldwide natural personal-care market, and its award-winning products are currently sold by leading retailers across North America, Europe and Asia. The company is benefiting from consumers' growing preference for natural products over synthetic.

Rave Reviews Cinemas, a co-investment with one of our fund interests, had a successful year in 2009, during which it improved revenues and cash flow. At the end of the year it completed a restructuring which substantially reduced its debt and which should result in the business paying dividends in the medium term.

Other

In July we sold part of our interest in Inflexion 2006 Buyout Fund for approximately £1 million in cash. This transaction also reduced our outstanding commitment to this fund by £1.4 million.

Also in July, Viking Moorings, an investment in the Inflexion 2003 Buyout Fund, was sold, producing proceeds to the Company of £2.5 million.

Financial review

Basis of preparation of financial information

The Company reports its results under International Financial Reporting Standards as adopted for use in the European Union ('Adopted IFRS'), and the consolidated financial statements include the consolidation of portfolio companies which are also subsidiaries ('portfolio subsidiaries'). Since the Board manages the Company as an investment business, this financial review focuses on the results of the investment management operations. Note 2 to the financial information includes the separate results and net assets of the investment management business. Where appropriate, this review includes comments on the results and financial position of the portfolio subsidiaries.

Investment management

Net Asset Value at 31 December 2009 was £227.7 million (31 December 2008: £241.5 million), a decrease of £13.8 million or 6%. The Net Asset Value per share was 84p (31 December 2008: 89p).

The Group's return on its investment portfolio for the year ended 31 December 2009 was a loss of £4.9 million (year ended 31 December 2008: loss of £36.7 million) as follows:

	Year ended 31 December	
	2009 £'000	2008 £'000
Realised gains/(losses)		
Quoted securities	**2,503**	574
Unquoted securities	**(1,867)**	14,620
Funds	**(755)**	2,114
	(119)	17,308
Unrealised gains/(losses)		
Quoted securities	**9,741**	(31,122)
Unquoted securities	**(8,491)**	(27,506)
Funds	**(6,007)**	4,572
	(4,757)	(54,056)
Total gain/(loss)	**(4,876)**	(36,748)

Approximately 60% of the portfolio at 31 December 2009 is denominated in US dollars (2008: 59%) and the above table includes the impact of currency movements. In the year ended 31 December 2009 the weakening of the US dollar against pound sterling resulted in an unrealised foreign currency loss of £13.5 million. During the year ended 31 December 2008 there was a significant strengthening of the dollar against pound sterling and the unrealised gain for that year was £45.5 million.

Realised gains on quoted securities include £2.0 million in connection with the sale of our shares in Venture Production plc to Centrica plc, with the balance arising on the sale of other, smaller holdings during the year. The realised losses on unquoted securities arose on the sale of 7 Global to 365iT.

The unrealised gains on our quoted portfolio reflect the net impact of the changes in the capital markets during the year. Of the total of £9.7 million, £7.5 million is attributable to our holding in Weatherford International.

The principal constituents of the net unrealised loss for the year on our unquoted securities are as follows:

	Unrealised gain/(loss) £'000
Coppereye	(5,226)
Kizoom	(3,240)
Offshore Tool and Energy	(1,861)
Updata	1,800
Rave Reviews Cinemas	(1,745)
HealthTech Holdings	3,580
	(6,692)
Other investments (net)	(1,799)
Total net unrealised loss	(8,491)

The unrealised losses above reflect the combined impact on our valuation criteria of changes in the revenue and profitability multiples of comparable businesses which are used in the underlying calculations and the operating performances of the individual businesses within the portfolio.

In most cases the multiples used are either the same as or more favourable than those prevailing at the end of 2008. The unrealised gains or losses set out above for 2009 arise principally as a result of the companies' performance. In particular, the results of Kizoom and Coppereye in 2009 were below expectations, such that a strategic review of these businesses is in progress which is likely to result in exit by us. Conversely the performances of Updata and HealthTech Holdings have resulted in a higher valuation for those businesses.

The unrealised valuation loss on our fund interests reflects the fact that many of these are US funds and the net decrease in our carrying value arises from the weakening of the US dollar against the pound sterling, principally in the first half of the year. The net unrealised loss for the year was £6.0 million, being unrealised foreign currency losses of £7.8 million offset by net valuation adjustments of £1.8 million.

In line with other funds of funds we rely on reports from general partners as at the end of the third quarter in establishing our year end carrying value, with adjustments made for calls, distributions and foreign currency movements since that date. We also carry out our own review of individual funds and their portfolios to satisfy ourselves that the underlying valuation bases are consistent with our knowledge of the investments and the sectors in which they operate.

Income from investments in the year was £0.5 million (2008: £0.6 million) and comprises dividends on quoted securities and management charges made to portfolio companies. Administration expenses for the year were £8.0 million (2008: £5.6 million); the current year includes a number of non-recurring charges (including £0.4 million for the costs of the Company moving to the Official List and £0.8 million as compensation for loss of office to a director) whereas 2008 benefited from a one-off VAT refund of £1.1 million. Net interest income for the year was £0.2 million (2008: £1.8 million) reflecting the lower interest rates during the year as well as the lower levels of uninvested cash. The tax charge for the year was £0.3 million (2008: £0.6 million).

Investments

The Group's investments are included in the balance sheet at fair values determined in accordance with industry guidelines.

Additions to the investment portfolio during the year were £32.7 million (year ended 31 December 2008: £51.6 million) of which £7.6 million (2008: £12.4 million) was for new investments and £25.1 million (2008: £39.2 million) for follow on investments including £14.8 million (2008: £15.8 million) for capital calls from funds.

There were no additions to quoted securities during the year (2008: £17.5 million); the most significant new investment was £6.2 million for our stake in Updata. The follow on investments (excluding fund calls) included £9.5 million (2008: £12.0 million) for the UK unquoted portfolio and £0.8 million (2008: £0.9 million) for the US portfolio.

Proceeds of realisations were £13.9 million (2008: £97.1 million, of which £82.9 million was from the sale of Energy Cranes), including sales of quoted securities of £6.9 million (2008: £3.9 million) and distributions from funds of £5.6 million (2008: £8.1 million).

At 31 December 2009 the Group had commitments of £58.7 million (31 December 2008: £71.1 million) to meet capital calls from its fund interests which the Directors estimate will be called over the next five years. In terms of assessing the level of the Group's commitment in this area, the Directors do not expect fund commitments to exceed liquid assets (being cash and quoted securities); at 31 December 2009 liquid assets were £66.3 million.

Consolidated results

Consolidated revenues for the year were £32.5 million (2008: £19.8 million), all in the portfolio subsidiaries. The increase over the previous year reflects the inclusion of Updata for the first time (from acquisition in July 2009), the inclusion of Citizen Limited for a full year (2008: four months only) and the improved revenue performances by Entuity, Kizoom and Wesupply.

Consolidated operating expenses were £51.1 million for the year (2008: £46.1 million), including goodwill impairment charges of £4.6 million (2008: £11.2 million). Excluding goodwill impairment, the increase in operating expenses reflects principally the inclusion of Updata and Citizen as set out above.

Financial position

The consolidated balance sheet at 31 December 2009 includes cash and cash equivalents of £17.0 million (31 December 2008: £42.6 million) and borrowings of £7.6 million (31 December 2008: £2.8 million) in the portfolio subsidiaries.

Cash in the investment management business was £14.4 million (31 December 2008: £41.3 million). Part of the Company's cash has been and will be committed during 2010 to meets calls from funds and to provide further funding for existing unquoted investments. The business also has a £15 million borrowing facility with The Royal Bank of Scotland, which is due to expire in April 2011. The investment management business had no borrowings during 2009.

Robert Rayne
Chairman designate

26 March 2010

LMS Capital plc – Top 20 investments by valuation 31 December 2009*

Investment	Geography	Type of investment	Date of initial investment	Book value £'000	% of net assets
Weatherford International Ltd Oilfield services	US	Quoted	2001	22,647	10%
Method Products Consumer products	US	Fund portfolio company	2004	17,265	8%
Prostrakan Group plc Speciality pharmaceuticals	UK	Quoted	1999	15,226	7%
Updata Infrastructure UK Limited Wide area networks	UK	Unquoted	2009	8,000	4%
Rave Reviews Cinemas Cinema operations	US	Unquoted	2002	7,115	3%
HealthTech Holdings, Inc Hospital information systems	US	Unquoted	2007	7,000	3%
Penguin Computing Linux server systems	US	Fund portfolio company	2004	5,586	3%
Wesupply Limited Supply chain connectivity software	UK	Unquoted	2000	5,500	2%
Entuity Limited Network management software	UK	Unquoted	2000	4,500	2%
Elateral Limited Marketing software	UK	Unquoted	2000	4,500	2%
Gulfmark Offshore Inc International offshore services	US	Quoted	2008	4,363	2%
Luxury Link Internet commerce	US	Fund portfolio company	2006	4,283	2%
Kizoom Limited Transport information services	UK	Unquoted	1997	4,000	2%
Yes To, Inc Consumer products	US	Fund portfolio company	2008	3,726	2%
Chyron Corporation Media technology	US	Quoted	1995	3,501	2%
Pims Group Wastewater systems and services	UK	Unquoted	2008	2,905	1%
BJ Services Oil and gas field services	US	Quoted	2007	2,870	1%
Agilisys Holdings Limited IT services and outsourcing	UK	Unquoted	2000	2,000	1%
Vio Worldwide Limited Advertising workflow services	UK	Unquoted	2002	2,000	1%
Offshore Tool and Energy Corporation Specialist engineering	US	Unquoted	1998	2,000	1%

* Investment management business.

Company Profiles

Updata Infrastructure UK Limited
www.updata.biz

Updata is a specialist managed network services provider solely focused on the local authority market throughout the UK.

Established in 2003, Updata was set up to provide broadband services utilising Local Loop Unbundling (LLU) as a cost effective alternative technology platform on which to compete with established service providers. Today Updata is recognised as the de facto specialist LLU Operator within its market, having won contracts in excess of £80 million since inception. Updata has expanded its service offering beyond LLU and indeed quite some way beyond simple connectivity. Current services include data centre management, ISP services, hosted services, firewall management and migration services. The principal drive within the business today is the augmentation of its considerable networking expertise with those ancillary value added services mentioned above. Additionally, the business is actively looking to offer a broader converged solution incorporating both voice (fixed and mobile) and data to meet growing customer demands.

The local authority market is addressed via a combination of direct sales and indirect sales via a small number of strategic partnerships with the likes of Siemens, Unisys, Research Machines and Logicalis. Updata now own and manage networks across Wales, Kent, Essex, Cheshire, Peterborough, Herefordshire and Dorset to name a few. Updata is a preferred supplier to The Office of Government Commerce (OGC) and Adit North procurement frameworks, through which it generates considerable business and customer credibility.

Typically, Updata owns and manages the entire infrastructure for which it is responsible. Contracts are entered into on a three, five or seven year basis, generating recurring revenues which now account for around 50% of year on year sales.

There is a growing realisation by end users that significant economic efficiencies can be leveraged through shared services and public sector networks (PSNs). Updata's underlying network design lends itself very well to the concept of 'one network for multiple stakeholders' and indeed Updata forms a major part of some of the largest PSNs in the country, namely, PSBA (Wales); KPSN (Kent) and the County-wide network now serving Essex County Council and half a dozen other users (including the Fire & Rescue service) within the county.

Whilst the consequences of the expected tightening of the public sector purse may possibly contribute to a depressed market in the short to medium term, Updata believes that it is in a unique position in terms of pedigree, references and financial stability to offer a genuine alternative for customers looking to extract better value from its WAN related investments. This is a very risk adverse customer segment, which historically has chosen large and safe over small and innovative. Updata could be considered big enough to be safe and small enough to be innovative.

The Company's investment in Updata had a book value of £8 million as at 31 December 2009.

HealthTech Holdings Inc

HealthTech Holdings, Inc. is a healthcare information technology holding company with two major portfolio companies, Healthcare Management Systems, Inc. and MEDHOST, Inc. The company expects combined revenue in excess of $100 million in 2010. In addition, MEDHOST will develop an integrated emergency department system for the HMS solution designed for community hospitals.

LMS Capital's stake in HealthTech Holdings had a book value of £7 million as at 31 December 2009.

Healthcare Management Systems
www.hmstn.com

Based in Nashville, Tennessee, Healthcare Management Systems (HMS) develops, sells and supports integrated clinical and financial hospital information systems and services. This integrated approach provides HMS's customers with peerless stability and effectiveness in communications and significantly increases productivity within their facilities and with their external agencies.

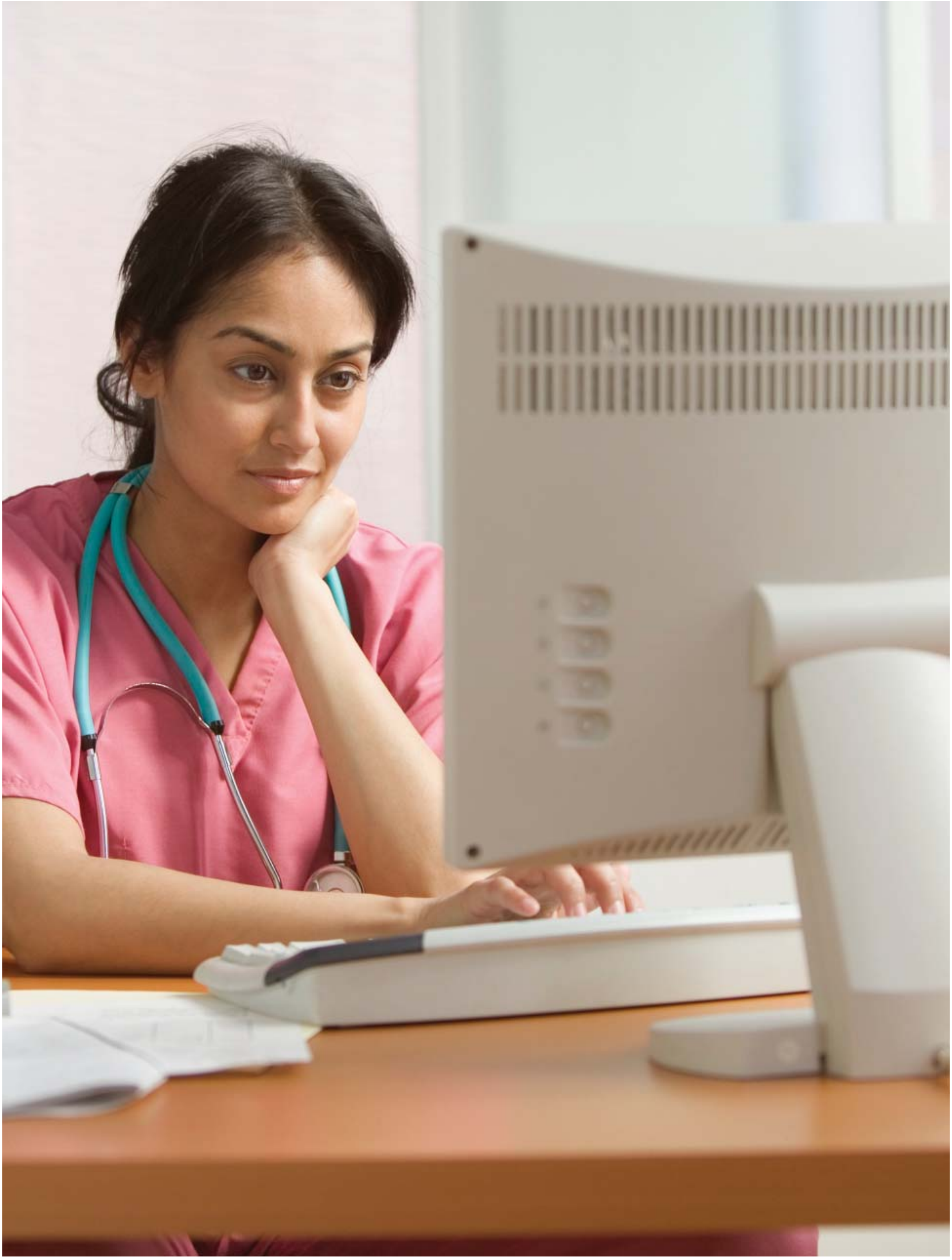
HMS provides their system to over 650 community hospitals; behavioural, rehabilitation and long-term acute care facilities; and multi-entity healthcare organisations within the United States. Compared to other vendors, HMS focuses specifically on providing solutions and services to the sub 200-bed healthcare marketplace.

HMS maintains a continued commitment to growth in developing technology and quality customer service. In 2009, HMS launched its learning institute which provides the industry's most comprehensive training and implementation process by providing a variety of easy to use, convenient and cost effective training and education opportunities to meet the needs of its customers.

MEDHOST
www.medhost.com

In February 2010, HealthTech Holdings acquired MEDHOST, a leading provider within the United States of emergency department information systems. MEDHOST's Emergency Department Information System (EDIS) includes real time patient tracking, nurse charting, physician documentations, order entry and comprehensive reporting. This powerful EDIS was designed by clinicians, not software developers, so it eliminates everything that hinders care in the emergency department, such as drop down menus, too many screens, confusing dialogue boxes, multiple key strokes and other obstacles that impede patient care.

MEDHOST's innovative technology is easy to navigate and features a unique touch screen design and an Administrative ToolKit for customising processes. The graphical floorplans improve staff communication through automated notification, risk alerts and visual cues, and it allows clinicians to quickly and easily decipher which patients are highest acuity, who has tests completed or pending, which rooms and beds are available, and manage all other patient care priorities.



Luxury Link, LLC

Luxury Link, LLC is the parent company of LuxuryLink.com and FamilyGetaway.com, the web's pioneering sites devoted to online luxury and family travel deals. Luxury Link, LLC is a US unquoted investment made by San Francisco Equity Partners, a partnership in which LMS Capital is a founding partner.

LUXURY LINK
Travel Well. Travel Smart.

Luxury Link
www.luxurylink.com

Founded in 1997, LuxuryLink.com is the leader in online luxury travel with a proven track record of longevity, credibility and success. Designed for travellers seeking inspiration and exceptional values at the world's finest hotels and resorts, holidays can be purchased via online auctions or via "buy now" special offers.

LuxuryLink.com only offers the world's very best hotels, tours and cruises and works hard to ensure that everything it offers meets high standards of quality, service and luxury. Before it lists an item, the company's vetting team uses a three page checklist of amenities to evaluate whether a resort or travel operator meets its standards – most hotels are four or five star. If a holiday is bid for by auction, once the auction is won LuxuryLink.com will also make the reservation on behalf of the successful bidder, unlike other websites who make the auction winner book themselves.

During the current economic situation, LuxuryLink.com has seen business boom and has been voted a "Top Travel Website" for both 2009 and 2008 by Travel & Leisure magazine and "Best Travel Website" for 2008 by CNBC.

familygetaway.com
value your time together

Family Getaway
www.familygetaway.com

In February 2010, in response to requests for family and child friendly holidays, the team behind LuxuryLink.com launched a new website dedicated to families seeking the best places to stay at exceptional values – FamilyGetaway.com. As with LuxuryLink.com, holidays can be purchase via online auctions or via "buy now" special offers at up to 65% off retail value.

FamilyGetaway.com offers a wide spectrum of family travel accommodations and experiences including global hotel collections, boutique hotels, villas, all-inclusive holidays, historic hotels, all in the three-to-five star range in popular family destinations such as California, Florida, Europe, Mexico, Hawaii and the Caribbean.

The FamilyGetaway.com website has been designed to make it practical and easy to find suitable holidays for families depending on their requirements. Families can choose which holiday by type (e.g. beach, all-inclusive or cruise); by interests (e.g. active, adventure or skiing) or by specific activities for children.

Entuity Limited
www.entuity.com

Founded in 1997, Entuity® is a leading provider of innovative management solutions that deliver network insight, predictability and control, enabling enterprises, system integrators and managed service providers to monitor and manage network services and assets, meet service level commitments, implement best practices in service delivery.

Entuity competes in a mature and competitive market but is making steady progress thanks to continued product improvements. With its Insight Center Perspectives, the company has successfully positioned itself as the 'next generation' of network management, bringing business-focused service and value to the forefront. One of those Perspectives is for 'Green IT' initiatives, and the company is winning awards and praise for its uniqueness and innovation in the network management industry. For example, the Green IT Perspective currently allows the University of Minnesota to monitor the nightly shut-down of more than 50,000 devices. This will allow the university to save more than $2 million in total annual utility costs. In early 2010, Entuity finished a project with the University, installing a centrally managed network support service that supports the wireless mobility needs of its students and staff, with 9,500 wireless access points, serving some 80,000 people spread over a campus of 1,204 acres: the largest current-generation wireless configuration in the world.

Since introducing a strategic plan to stimulate sales from partnerships and reseller agreements, Entuity's indirect channel partners have quadrupled in number over the last four years. Indirect revenues doubled from 2008 to 2009 alone and the company experienced a 20% growth in 2009, despite the global economic downturn.

The Company's interest in Entuity had a book value of £4.5 million as at 31 December 2009.

Method Products, Inc
www.methodproducts.com

Method Products is the maker of eco-friendly household and personal care products and within eight years it has become the world's largest and fastest growing green homecare company. Having started in the United States, the company's products are now available in the United Kingdom, Ireland and Australia.

There are no toxic ingredients used in Method's products. All ingredients in Method's products are environmentally safe and friendly, with each ingredient being independently assessed by EPA, a world-renowned scientific research institute.

In late January 2010, Method launched a new revolutionary laundry detergent in the US, made with smartclean technology – a powerful, patent-pending, plant-based formula that gets clothes really clean with a formula that's super green. It cuts down on the need for large bottles of laundry detergent and packs it into a smaller, ultra-concentrated, lightweight bottle. Instead of using a measuring cap, which is prone to dripping, Method's product uses a no-mess, precision-dosing pump. The result of this is a product that is smaller and lighter in size than its rivals, which means that it is cheaper to ship as it takes up less packaging space. It also uses less water. This results in a super green product. The launch of the detergent has proven a great success and has received much coverage in the press and on television in the US.

Current retailers of Method Products in the UK are John Lewis and Waitrose, Selfridges, Tesco, Sainsbury's, Boots, Co-Op, Homebase and B&Q.

Method is a US unquoted investment made by San Francisco Equity Partners, a partnership in which LMS Capital is a founding partner.

Principal unquoted investments

Company	**365 iT plc**
Description	365 iT delivers expert and affordable computer and network services including Managed IT Services, Unified Communications, Business Continuity, Virtualisation, and IT Security.
MD	Peter MacLean
Website	www.365itechnology.com

Company	**Kizoom**
Description	Provision of urban digital networks, supplying and servicing intelligent transport systems, iPlus Points and wireless broadband city networks.
CEO	Andrew Fraser
Website	www.kizoom.com

Company	**Elateral Limited**
Description	Supply chain software to streamline and automate marketing processes, from creative design and marketing to printing and fulfilment, via an online collaborative workflow tool.
CEO	Paul Goater
Website	www.elateral.com

Company	**Agilisys Holdings Limited**
Description	An IT services and outsourcing provider which designs, builds and operates an integrated end-to-end suite of IT and business process services, for public and private sector clients.
CEO	Kay Andrews
Website	www.agilisys.co.uk

Company	**CopperEye Limited**
Description	Specialised search solutions for business transaction data that facilitates quick retrieval of specific records from months or years of history and billions of business transactions.
CEO	Carmen Carey
Website	www.coppereye.com

Company	**Emerging Markets Advisory Corporation Limited**
Description	An alternative asset management business focused primarily on the transition markets of South Eastern Europe.
CEO	Matthew Gilpin
Website	www.emac-global.com

Company	**Pims Group Limited**
Description	A supplier of waste water pumping systems and services across the UK.
CEO	Charlie White
Website	www.pimsgroup.co.uk

Company	**Corizon Limited**
Description	Software solutions which allow enterprise users, such as contact centre agents, to access multiple applications from a single user interface.
CEO	Eric Guilloteau
Website	www.corizon.com

Company	**Wesupply Limited**
Description	Supply chain management software, offering a fully configurable on-demand and collaborative web-based solution.
CEO	Bob Godfrey
Website	www.wesupply.com

Company	**Entuity Limited**
Description	Network management software that facilitates the deployment and management of IP services, reduction of network downtime, and compliance with service level commitments.
CEO	Michael Jannery
Website	www.entuity.com

Company	**Updata Infrastructure UK Limited**
Description	Updata creates, implements and then manages secure, cost-effective high-capacity broadband networks for public sector organisations and mobile operators.
CEO	Richard Bennett
Website	www.updata.biz

Company	**Telespree Communications**
Description	Self-service platform for automated activation, ongoing account management and location-based advertising for mobile devices.
CEO	Bill DeKay
Website	www.telespree.com

Company	**Healthcare Management Systems, Inc***
Description	Integrated clinical and financial hospital information systems and services, focusing on rural, community, behavioural, rehabilitation and multi-entity healthcare organisations.
CEO	Thomas M Stephenson
Website	www.hmstn.com

*Part of HealthTech Holdings, Inc.

Company	**Envestnet Asset Management**
Description	A provider of wealth management solutions, via web-based tools, to the financial advisory sector.
CEO	Judson Bergman
Website	www.envestnet.com

Company	**Vio Worldwide Limited**
Description	Supply chain software solutions for the advertising, publishing and graphic arts industries.
MD	Chris Friend
Website	www.vio.com

Company	**ITS Engineered Systems Inc***
Description	Oil and gas production/recovery systems, encompassing custom engineering, fabrication, installation, training and service.
President	Mike Decarlo
Website	www.itses.com

*Part of Offshore Tool & Energy

Company	**Rave Reviews Cinemas LLC**
Description	Operator of multiplex cinemas in the United States.
CEO	Tom Stephenson
Website	www.ravemotionpictures.com

Company	**Eye-Fi, Inc.**
Description	Developer of wireless memory cards which integrate with Wi-Fi networks to automatically send photos from a digital camera to online, in-home and retail destinations.
CEO	Jef Holove
Website	www.eye.fi

Board of Directors

1) Jonathan Agnew
Chairman
Age: 68

Directorships:
Chairman of Ashmore Global Opportunities Ltd, Beazley plc and The Cayenne Trust plc, and senior independent director of Rightmove plc.

Experience:
Jonathan was a managing director of Morgan Stanley and subsequently group chief executive of Kleinwort Benson and has been chairman of Nationwide Building Society, Limit plc, Gerrard Group plc and Henderson Geared Income & Growth Trust plc.

2) Robert Rayne
Chairman designate
Age: 61

Directorships:
Chairman of Derwent London plc and a non-executive director of Weatherford International Ltd and Chyron Corporation, as well as a number of unlisted companies.

Experience:
Robbie established LMS Capital's investment activities in the early 1980s as investment director and later managing director and chief executive of London Merchant Securities plc. He has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. Previous directorships include First Leisure Corporation and Crown Sports plc.

3) Glenn Payne
Chief Executive Officer
Age: 45

Directorships:
A number of Group companies.

Experience:
Glenn joined LMS Capital as CEO on 1 March 2010. Previously, he was a director of First Reserve Corporation, a leading investment firm specialising in the energy industry. He has also worked at Suez Energy, a major global electricity and gas provider, as director of strategy and at McKinsey & Co. as an Engagement Manager serving electric power and natural gas clients. Before joining McKinsey, he was at the Atlantic Richfield Company (ARCO, now BP), where he served as a Director of Business Development.

4) Antony Sweet
Chief Financial Officer
Age: 55

Directorships:
Wesupply Ltd (non-executive), and a number of Group companies.

Experience:
In addition to his finance responsibilities Tony participates actively in investment activities, particularly supporting portfolio companies in formulating strategic plans and funding requirements. Before joining the Company, he was chief financial officer of Systems Union Group plc. Prior to that, he was at PricewaterhouseCoopers (the last 13 years as a partner) where he gained experience of a variety of sectors and geographies, working for large multinational companies, as well as smaller entrepreneurial businesses.

5) John Barnsley
Senior Independent Non-Executive Director
Age: 61

Directorships:
Non-executive director of Grainger plc, American Appraisal (UK) Limited and European Cardiovascular Genetics Foundation, chairman of Westover Medical Ltd and senior independent non-executive director of Northern Investors Company plc.

Experience:
John was chairman of North London Research Committee, chairman of KCS Global Holdings Ltd and non-executive director of Syltone plc. Prior to December 2001, he spent 22 years as a partner of PricewaterhouseCoopers, including four years as UK managing partner.

6) Richard Christou
Non-Executive Director
Age: 65

Directorships:
Chairman, Fujitsu Services Holdings PLC, and director of a number of Fujitsu subsidiary companies, and English Touring Opera Limited.

Experience:
Richard began his career in 1967 and has held various positions within the telecommunications industry, joining ICL in 1990. In April 2002 ICL changed its name to Fujitsu and he moved into the role of executive chairman. He is now president of the global business group at Fujitsu Ltd where he has responsibility for all of Fujitsu's overseas regions including EMEA, The Americas, APAC and China.

7) Bernard Duroc-Danner
Non-Executive Director
Age: 56

Directorships:
Chairman, president and chief executive officer of Weatherford International Ltd and director of a number of oilfield service sector companies.

Experience:
Bernard was a non-executive director of London Merchant Securities plc and president and chief executive officer of EVI, Inc. (now Weatherford International Ltd). Previously, he held positions at Arthur D. Little and Mobil Oil Inc.

8) David Verey
Non-Executive Director
Age: 59

Directorships:
Daily Mail & General Trust plc, Sofina S.A., a member of the supervisory board of Bank Gutmann and a member of the international advisory board of The Blackstone Group.

Experience:
With over 30 years of experience, David has extensive industry knowledge and was previously Chairman of Blackstone Group UK where he remains as a member of their International Advisory Board. Previously he worked for Lazard Brothers for 28 years becoming Chief Executive in 1990 and Chairman two years later.

Investment team and advisers

1) Pieter Hooft
Managing Director,
UK investments

Pieter joined LMS Capital in November 2006 and leads the Group's UK investment activities. Pieter has over 15 years' investment experience in MBOs and development capital in the UK and across Europe. He has been involved in deals in a broad range of sectors including media, consumer, business services and industrial. As well as Apax Partners, Pieter has previously worked for JP Morgan Partners, Botts & Company and Bain and has also had operational experience as chairman of Germany's second-largest chain of fitness clubs.

2) Edward Snow
Director,
UK investments

Ed leads LMS Capital's UK technology investing, having joined LMS at the start of 2007 from Amadeus Capital Partners, a venture capital firm specialising in backing start-ups. Prior to Amadeus, Ed was with Deutsche Bank's global markets division for two years. Ed also co-founded and later floated a vehicle technology start-up in the 1990s. Ed has investment and operational experience gained from a range of sectors including infrastructure software, medical technology and comms hardware.

3) Jamie Rhodes
Investment Manager,
UK investments

Jamie joined LMS Capital in 2004 and works across the Group's UK direct investment portfolio as well as being responsible for UK fund investments and quoted stocks. Jamie is a specialist in consumer products, retail, leisure, logistics and distribution and has extensive operational and entrepreneurial experience having funded, operated and sold three successive ventures in the food and beverage sector; including an award-winning restaurant in London and a chain of sandwich bars in the North of England.

4) Jamie Szpiro
Investment Manager,
UK Investments

Jamie joined LMS Capital in June 2008 from Singer & Friedlander where he was a Director in the Corporate and Structured finance team focusing on mid-market buyouts. Jamie has a broad range of financial experience spanning Corporate Finance, Property Finance and Leveraged Finance. He also has direct operational and M & A experience having been a senior Director of Wintrust plc, where he oversaw its sale and subsequent integration into Singer and Friedlander. Jamie focuses on new deal opportunities as well as managing a number of portfolio relationships.

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Investment Committee

5) Scott Potter
Managing Partner,
San Francisco Equity
Partners (US)

Scott joined LMS Capital in 2003 with responsibility for the Group's US private equity portfolio and in 2005 established San Francisco Equity Partners (SFEP), with LMS Capital as the founding limited partner. San Francisco Equity Partners is a private equity fund focused on growth equity investments in the consumer products, consumer services and business services industries. Scott had broad operational experience having served as SVP, Field Operations for Inktomi Corporation and Chief Executive of Quiver, a venture backed internet software business in which LMS Capital was a significant investor.

6) Gene Weber
Managing Partner,
Weber Capital Management,
LLC (US)

Gene is the managing partner of Weber Capital Management, a firm that operates a number of funds in which LMS Capital invests. He founded Weber Capital Management in 1994 and is a long term investor in public and private growth companies in the information technology, communications and healthcare sectors in the US. From 1983 to 1994, Gene was a partner with the investment management firm Weiss, Peck & Greer in their San Francisco venture capital office having joined them from McKinsey & Company. Gene has over 26 years experience in investment management and has managed four funds holding positions in over 130 companies.

7) Brian Bank
Managing Partner,
Pinecrest Capital
Partners

Brian has been working with LMS Capital for over ten years and is responsible for selecting and managing the Group's investments in US venture capital and private equity partnerships as well as overseeing LMS Capital's US based co-investment portfolio. Recent co-investments include Healthcare Management Systems (HMS) and Eye-Fi. Brian was previously with Ernst & Young's management consulting group, with Miller and Schroeder Inc as a municipal bond underwriter and with the Center for Strategic and International Studies as an international political-military analyst.

Corporate governance report

The Board of LMS Capital plc is committed to maintaining high standards of corporate governance and business ethics. As a company, LMS Capital is required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code'). A copy of the Code is publicly available from the Financial Reporting Council's website, www.frc.org.uk. This report explains how the Company has applied the principles set out in Section 1 of the Code and the extent to which it has complied with the detailed provisions of the Code. The period under review is the year ended 31 December 2009. The Board considers that the Company has complied with all of the provisions of the Code throughout the period under review.

On 4 February 2010, the Company announced that it was appointing a new Chief Executive Officer on 1 March 2010, that Jonathan Agnew would be retiring from the Board after the Annual General Meeting on 13 May 2010 and that Robert Rayne, the previous Chief Executive Officer, would be succeeding him as Chairman. Paragraph A2.2 of the Code states that a chief executive should not go on to be chairman of the same company, however, if exceptionally a board decides that a chief executive should become chairman it needs to explain the reasons to its shareholders. The Board has deemed that this is an exceptional case for the following reasons:

(1) It will allow continued access to the network and relationships developed by Robert Rayne over the last 40 years;

(2) Robert Rayne has an ongoing involvement with the investee companies' managements and is the Company representative on some of their boards; and

(3) It will provide the Company with continued access to the advisory boards of a number of funds.

As Chairman, Mr Rayne will continue to act in an executive capacity for a period of time to ensure that there is a smooth transition to the incoming new Chief Executive Officer.

Board of Directors

The Board's role
The Board is responsible to the Company's shareholders for the performance of the Company and for its overall strategic direction, its values and its governance. It provides the leadership necessary to enable the Company's business objectives to be met within the framework of the internal controls detailed below.

Composition
Throughout the period under review, the Board was comprised of seven directors. For most of the period, it was four non-executive directors (including the non-executive Chairman) and three executive directors. However, in September 2009, one executive director left the Company and one non-executive director joined the Company. Accordingly, the composition as at 31 December 2009 was five non-executive directors and two executive directors. On 1 March 2010, a new executive director was appointed to the Board. In addition, Mr Agnew, the current non-executive Chairman, has advised that he will leave the Company after the Annual General Meeting on 13 May 2010.

Brief biographies of the directors appear on page 22. The Board considers that it has an appropriate balance of expertise and ability available to it.

The Chairman and Chief Executive Officer
There is a clear separation of the roles of the Chairman and the Chief Executive Officer. Broadly, the Chairman is responsible for the effective running of the Board, whilst the Chief Executive Officer is responsible for the executive management and performance of the Company's operations.

Non-executive directors
The original non-executive directors were all re-appointed in April 2009 for a further term of three years or until the Annual General Meeting at which they next have to retire by rotation, whichever is the earlier. Subject to agreement, satisfactory performances and re-election by shareholders, their directorships may be renewed for further terms. David Verey was appointed a non-executive director in September 2009 and will stand for election at the Annual General Meeting to be held on 13 May 2010 as required by the Company's Articles of Association. Assuming he is successfully appointed, it will be for a term of three years.

In the opinion of the Board, John Barnsley, Richard Christou, Bernard Duroc-Danner and David Verey are each considered to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the directors' judgement.

The Board is of the view that the Chairman and each of the non-executive directors committed sufficient time during 2009 to fulfilling their duties as members of the Board.

Senior independent director
John Barnsley acts as the senior independent non-executive director. In this role he is available to shareholders if they have concerns which cannot be resolved by discussions with the Chairman, the Chief Executive Officer or the Chief Financial Officer or where such contact is inappropriate. In addition, the senior independent director is available to attend meetings with major shareholders in order to develop an understanding of their issues and concerns.

External non-executive directorships
The Board believes that executive directors should be able to accept external non-executive directorships in other companies in order to widen their skills and knowledge for the benefit of the Company, whilst continuing to discharge their executive responsibilities to the Company. Any executive director who wishes to take on an external non-executive directorship must obtain prior Board approval and may not take on more than one such directorship (not including those companies in which the Company has invested and where he represents the Company). He may retain any fees paid in respect of such directorships.

Insurance
The Company maintains directors' and officers' liability insurance and provides the directors and officers with a qualifying third party indemnity within the limits allowed by the Companies Act.

Neither the Company's indemnity nor insurance provides cover in the event that a director is proved to have acted fraudulently or dishonestly.

Board procedures
There are agreed procedures for the directors to take independent professional advice, if necessary, at the Company's expense. All directors have access to the advice and services of the Company Secretary, who is responsible to the Chairman for ensuring that board procedures are complied with and that applicable rules and regulations are followed and for advising and supporting the Chairman and the Board on corporate governance matters.

Powers and delegation
The Board delegates specific responsibilities to the Audit, Nomination and Remuneration Committees, which operate within clearly defined terms of reference approved by the Board. These committees report regularly to the Board. The Board has adopted a schedule of matters reserved to it for approval. These include the approval of financial statements, strategic plans, annual budgets, acquisitions and disposals and major capital and operating expenditure proposals.

Board meetings

Six scheduled board meetings were held in 2009. At each scheduled meeting, the Board considers a report from the Chief Executive Officer on current trading and significant business issues, such as major investment or divestment proposals and strategy. A financial report is provided by the Chief Financial Officer and other reports and presentations are provided by senior management. Papers for each scheduled board meeting are usually provided four working days before the meeting. In addition to the scheduled meetings, one further meeting was held to discuss the Company's future strategy.

Attendance at board meetings
The following were directors of the Company and attended the following number of meetings of the Board and (where they were members) its committees during the year ended 31 December 2009:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held	7	4	6	3
Meetings attended				
Jonathan Agnew	7	4	6	3
Robert Rayne	7	-	-	3
Martin Pexton[1]	4	-	-	-
Antony Sweet	7	-	-	-
John Barnsley	7	4	6	3
Richard Christou[2]	4	1	6	3
Bernard Duroc-Danner	6	-	-	3
David Verey[3]	2	1	2	1

Notes:

1. Mr Pexton left the Company on 30 September 2009.

2. Mr Christou resigned from the Audit Committee in September 2009.

3. Mr Verey joined the Board on 7 September 2009 and was appointed to all of the Board Committees at that time.

Board committees

Each Board Committee has established clear and defined terms of reference detailing its responsibilities and powers. These are available to review on the Company's website at www.lmscapital.com.

Audit Committee
During 2009, the Audit Committee members were John Barnsley (Committee Chairman), Jonathan Agnew, Richard Christou (who resigned from the Committee in September 2009) and David Verey (who joined the Committee in September 2009). John Barnsley is considered by the Board to have recent and relevant financial experience, for the purpose of the Code. A representative of the Company's external auditors, the Chief Financial Officer and other directors attend meetings of the Audit Committee at the invitation of the Chairman of the Committee.

The Audit Committee met four times during 2009. Its role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Company and Group financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the risk management and internal control systems in place within the Company.

Additionally, the Audit Committee keeps under review the conduct of the external audit and its cost effectiveness. The Audit Committee makes recommendations to the Board regarding the reappointment or removal of the external auditors, their terms of engagement and the level of their remuneration. The Committee also reviews the process which is in place to ensure the independence and objectivity of the external auditors.

A policy regarding the engagement of the external auditors to supply non-audit services is in place. The policy recognises the importance of maintaining the objectivity and independence of the external auditors by minimising their involvement in projects of a non-audit nature. It is, however, also acknowledged that, due to their detailed understanding of the Company's business, it may sometimes be necessary to involve the external auditors in non-audit related work, principally comprising further assurance services relating to due diligence and other duties carried out in respect of acquisitions and disposals and tax services.

The Audit Committee also monitors the Company's whistleblowing policy and Mr Barnsley, as the Company's senior independent non-executive director, is the contact for staff who may have a concern that they cannot raise under their normal chain of management.

Remuneration Committee
The Remuneration Committee currently comprises Richard Christou, who chairs the Committee, John Barnsley and David Verey (who joined the Committee in September 2009). The composition and role of the Remuneration Committee is described more fully in the Remuneration report.

Nomination Committee
The Nomination Committee currently comprises Jonathan Agnew, who chairs the Committee, Robert Rayne, John Barnsley, Richard Christou, Bernard Duroc-Danner and David Verey (who joined the Committee in September 2009). The Committee is responsible for assisting the Board in determining the composition and make-up of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as directors, as the need may arise. The selection process is, in the Board's view, both rigorous and transparent in order to ensure that appointments are made on merit and against objective criteria set by the Committee.

The Committee will also determine succession plans for each of the directors. When considering succession planning, the Committee will look at the balance, structure and composition of the Board and take into account the future challenges and opportunities facing the Company.

The Committee meets as required, but at least once each year. During 2009, the Committee met three times. The Committee met once to discuss and approve the appointment of David Verey as non-executive director, prior to which the individual members of the Committee had met with Mr Verey on a one-to-one basis. The Committee also met twice during the year to discuss the recruitment of a new Chief Executive Officer. The Committee authorised a sub-committee comprising of John Barnsley, who chaired the sub-committee, Robert Rayne and David Verey to oversee the recruitment and to meet the proposed candidates. The Committee appointed Spencer Stuart to assist the recruitment process and a list of candidates was compiled. This was reduced to a short list of about ten candidates whom the individual members of the sub-committee met. A final list of four candidates was drawn up and these candidates met further with the members of the sub-committee and other members of the Board on an individual basis. The candidates also met the senior management of the Company. A Nomination Committee meeting was then held in January 2010 to recommend to the Board the appointment of Glenn Payne as the new Chief Executive Officer. At this meeting, under the Chairmanship of John Barnsley, the Committee also decided to recommend to the Board the appointment of Robert Rayne as Chairman to succeed Jonathan Agnew after he retired from the Board.

Investment Committee
In addition to the principal Board committees described above, there is also an Investment Committee. This currently comprises Robert Rayne, who chaired the Committee during 2009, Antony Sweet, Pieter Hooft and Ed Snow (who was appointed to the Committee on 6 July 2009). Martin Pexton left the Committee in September 2009. Following his appointment as Chief Executive Officer, Glenn Payne will chair the Investment Committee. The Committee is responsible for reviewing and implementing investment and divestment proposals. It also makes proposals relating to the Company's investment policy for the Board to adopt and for regularly reporting to the Board on the performance and management of the Company's investments. The Committee is scheduled to meet twice a month, but may meet more often as circumstances require.

Board reappointments

In accordance with the Code and the Company's Articles of Association, at least a third of the directors on the Board must retire and offer themselves for re-election. Messrs Rayne, Sweet and Duroc-Danner will retire at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election at the meeting. Mr Verey (who was appointed to the Board on 7 September 2009) and Mr Payne (who was appointed to the Board on 1 March 2010) will each offer himself for election to the Board at the Annual General Meeting in accordance with the Company's Articles of Association. The biography for each director can be found on page 22.

Board appraisal

Due to the changes in the Board composition in 2009 and early 2010, no appraisal took place as it was felt that such an appraisal would not be beneficial at that time. It is envisaged that an appraisal will take place in late 2010, or in early 2011.

Shareholder communications

The Company communicates regularly with its major institutional shareholders and ensures that all the directors, including the non-executive directors, have an understanding of the views and concerns of major shareholders about the Company. This is achieved by the executive directors maintaining contact from time to time with representatives of institutional shareholders to discuss matters of mutual interest relating to the Company and reporting back to the Board. Shareholders have the opportunity to meet any of the directors of the Company should they so wish.

Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the directors.

At the AGM the level of proxy votes lodged on each resolution is made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution. Members of the Audit, Remuneration and Nomination Committees are available to answer questions from shareholders.

The interim and annual results of the Company, along with all other press releases, are posted on the Company's website, www.lmscapital.com, as soon as possible after they have been announced to the market. The website also contains an archive of all documents sent to shareholders, as well as details on the Company's investments, strategy and share price.

Internal control

Process
The Audit Committee, on behalf of the Board, has overall responsibility for the Company's system of internal and financial controls and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Audit Committee reviews in depth the effectiveness of the Company's internal controls on an annual basis and will take any necessary actions should any significant failings or weaknesses be identified. Internal controls, included within risk management, are a standing agenda item for each Audit Committee meeting.

Operational matters and the responsibility for the day-to-day management of the businesses are delegated to the Chief Executive Officer and through him, as appropriate, to other managers acting within delegated authority limits and in accordance with clearly defined systems of control.

Financial matters and the responsibility for the day-to-day financial aspects of the business are delegated to the Chief Financial Officer and through him, as appropriate, to members of his financial team acting within delegated authority limits and in accordance with clearly defined systems of control. The Chief Financial Officer reports to the Board on financial matters at each board meeting.

Policies and procedures, which are subject to ongoing review and updated as required, are communicated across the Company and designed to ensure they are properly and consistently applied in relation to significant risks, investment decisions and management issues arising within the Company. The Board believes that this delegated management structure ensures a strong link between overall corporate strategy and its implementation within an effective control environment.

The Company has no internal audit department, relying on in-house resource and external advisers, which is currently considered adequate.

In the Audit Committee's view, the information it has is sufficient to enable it to review the effectiveness of the Company's system of internal controls in accordance with the 'Internal Control Revised Guidance for Directors' on the Combined Code (Turnbull).

Directors' conflicts of interests
The directors' statutory duty to avoid conflicts of interest with the Company came into force during 2008. The Company's Articles of Association allow the directors to authorise conflicts of interest and a register has been set up to record all conflict situations declared. The conflicts declared are all very minor in nature and there have been no conflicts which have resulted in a director having to be excluded from the decision making process. The register is maintained and updated by the Company Secretary and the Board reviews it at each Board meeting.

Risk review
The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place during 2009 and up to the date of this report. Risk review is a continuing process embedded within the business. The business is also required to have processes to formally identify risks, consider financial and non-financial implications and, so far as possible, take action to reduce those risks. Details of risks potentially facing the Group can be found on page 30.

Financial reporting

The directors have acknowledged, in the Statement of directors' responsibilities set out on page 43, their responsibility for preparing the financial statements of the Company and the Group. The external auditors have included, in the independent auditors' report set out on pages 44 to 45, a statement about their reporting responsibilities.

The directors are also responsible for the publication of an unaudited half-year management statement for the Company, which provides a balanced and understandable assessment of the Company and Group financial position for the first six months of each accounting period. In addition, as a company listed on the Main Market, the Company produces two interim management statements, usually in May and November, which provide an unaudited quarterly review of the Company's financial position.

Shares and voting rights

Details of the Company's issued share capital, and the voting rights attached to the shares, can be found in the Directors' report on page 41.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the operating review on pages 6 to 9. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 10 to 11. The directors have also considered, in preparing this statement, the Financial Reporting Council's 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009'.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Jonathan Agnew
Chairman

26 March 2010

Risk factors

The Group has an ongoing process for identifying, evaluating and managing the risks which the business is exposed to and this is monitored by the Audit Committee at each meeting. The key risks, and how the Group mitigates their effects, are as follows:

Economic and financial risk

The Group is subject to economic factors (such as the demand and output of the environments in which its investments operate) which may negatively impact corporate performance and growth rates. The investment portfolio may not achieve the Company's growth targets which may result in the Company's Net Asset Value declining. We manage this by monitoring the trading and cash flows of our portfolio companies on a regular basis which allows us to act quickly should there be a need to do so.

Many of our investments produce little or no recurring income and the timing of realisations of unquoted investments (which itself may be a function of background economic conditions) cannot be ascertained with certainty. Accordingly, we rely on our budgeting and forecasting procedures to ensure that the cash requirements of the Group are met.

A lack of liquidity in the capital markets could mean that the Company may not be able to raise funds for its corporate purposes, including the funding of new or existing investments. The Board regularly reviews the Company's funding requirements and believes it has sufficient funds to meet its expected cash obligations for the foreseeable future. The Company's existing working capital facility is undrawn and we can also raise funds from the sale of our quoted portfolio investments if required.

The Group is subject to the impact of changes in market prices for our quoted investments, as well as movements in interest rates and exchange rates. A significant proportion of our investment portfolio is denominated in a currency other than pounds sterling, principally US dollars. Changes in the value of the US dollar affect the valuation of the Company's US investments, and therefore impact the valuation of the portfolio as a whole. The Group regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return and monitors its overall exposure to foreign currencies at a portfolio level. Any realisations or distributions from US investments are retained in US dollars to be utilised for future investments.

The Group has made fund investments and by virtue of these investments may be obliged to make further capital contributions. Whilst the maximum amount of the future commitment is known, the timing of such capital calls cannot be predicted with certainty and the monitoring of this exposure is included in the Group's budgeting and forecasting procedures referred to above.

Investment risk

The Group's investment risk arises as a result of its investment strategy, individual investment decisions and the performance of its investments. The Group's portfolio is risk-diversified, comprising holdings in quoted and unquoted companies at different stages of development in the UK and the US, together with a number of fund investments.

Before the Group makes a new investment, we undertake rigorous inquiries into the business concerned. We understand the company's business plan; evaluate information on its market place and competition; meet management, directors and existing shareholders and we commission reports from external experts as necessary. This includes consideration of potential exit routes from the proposed investment.

Our investment management process requires regular reporting of the performance and prospects of each investment. This is usually achieved by board representation or equivalent at each investment. The experience of the executive management team is a key factor in mitigating our risk of loss on individual investments. The progress of each investment is reported regularly to the Board of the Company.

There may not be a clear exit route for the Company from any individual investment which could result in negative liquidity and have a cash flow impact on the Company. If an investment is not performing well, and is absorbing too much of the Group's resources (both financial and human), the Company will seek an exit from that investment. If necessary, the Company will seek a solvent closure of any investment where we consider this to be in the Company's best interest.

Operational risk

The Group has a number of internal processes and systems to ensure that it complies with all legal and regulatory obligations, as well as internal controls designed to ensure the integrity of its financial information and reporting. The Audit Committee, on behalf of the Board, regularly reviews these systems, which include reports on the Company's risk management procedures. The financial reporting systems are subject to an annual audit.

The ability to recruit, develop and retain capable people is of fundamental importance to the Group's strategy and the loss of key staff could adversely affect investment returns. The Group operates in a competitive industry and aims to remunerate staff in line with market practice.

Remuneration report

Introduction

This Remuneration report describes the Company's overall remuneration policy and gives details of the remuneration arrangements for directors for the year ended 31 December 2009. The report has been prepared in accordance with the Companies Act 2006 ('the Act') and the Combined Code.

In accordance with the Act, a resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting.

The information set out in the section headed "Directors' remuneration in 2009" is, in accordance with the Act, subject to audit by the Company's auditors. The remainder of the information in this report is not subject to audit.

The Remuneration Committee

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the remuneration strategy and policies for the Company and for setting the remuneration of the executive directors.

To achieve this, the responsibilities of the Committee are to:

- Review and recommend annually employee compensation strategies;
- Review and recommend remuneration policy for the Company's annual compensation review;
- Set the remuneration for executive directors and monitor the level and structure of remuneration for senior management; and
- Approve targets for any performance-related pay schemes applicable to executive directors.

The Committee is made up of non-executive directors, the members during 2009 being:

- Richard Christou (Committee Chairman)
- John Barnsley
- David Verey (appointed on 7 September 2009)

Under the Combined Code and the terms of reference of the Committee, at least two independent non-executive directors must serve on the Committee. Richard Christou, John Barnsley and David Verey are considered by the Board to be independent non-executive directors. The Committee invites the Chairman and the Executive Directors to attend Committee meetings, when appropriate, to provide a management perspective on all aspects of employee compensation.

The Committee takes advice on technical aspects of compensation policy from independent external consultants appointed by the Committee. Clifford Chance has provided advice on long-term incentive arrangements. The Committee has also considered remuneration data published by Deloitte.

Remuneration policy

The Company's remuneration policy is designed to ensure that the Company is able to attract, motivate and retain the talent required to run the Company successfully. The Company aims to structure the remuneration of executive directors and senior management in such a way as to motivate them to perform in the best interests of shareholders.

The Company compensates its executive directors and senior management by balancing the following elements of compensation:

- base salary, payable in cash;
- benefits-in-kind;
- bonus;
- long-term incentives; and
- carried interest.

The mix of these components is managed to create a total compensation package which should be:

- directly linked to the Company's overall performance and profitability;
- based upon individual and business contribution;
- retentive in the long term; and
- market competitive.

The Committee reviews remuneration policy on a regular basis and, where appropriate, it will propose or implement changes to ensure that the Company has appropriate policies to enable it to attract executives of the highest calibre.

Base salaries The fixed compensation elements of executive directors and senior management are reviewed annually by the Committee, having regard to individual performance and comparative market data. Base salaries are generally set between the median and upper quartile of the market compared with other quoted companies of similar size. Base salary is the only element of remuneration which is pensionable.

Benefits-in-kind The benefits-in-kind available to executive directors are a car allowance, pension contribution (with the exception of Robert Rayne), private healthcare, life assurance, personal accident cover, permanent health insurance and subsidised gym membership.

Bonuses Annual bonuses, which are non-pensionable, are based upon achievement of targets set by the Committee, having regard to the performance of the Company and the external market. Consideration is given to the Company's performance and individual achievement of operational goals. The aim is to incentivise executive directors and senior management to achieve outstanding performance, and to ensure that the majority of their total remuneration is provided in the form of variable compensation. The maximum bonus payments are 150% of base salary for Robert Rayne and 100% of salary for Antony Sweet.

Long-term incentives The Committee considers the grant of long-term incentives to executive directors and other executives. The Committee made awards under the Performance Share Plan following publication of the Company's results for 2008. The Committee reviewed the long-term incentive plans currently available and deemed them sufficient for now, however, the Committee is mindful of the need to keep remuneration systems under review in order to provide the appropriate level of challenge and incentivisation.

In setting executive directors' salaries for 2010, the Committee took into account current economic and market factors as well as the salaries and benefits received by other employees of the Company. For 2010, Mr Rayne's salary was reduced by £30,000 and Mr Sweet's salary remained at its 2009 level.

Deferred Share Bonus Plan

This Plan, approved by shareholders, was established as an inducement to recruitment for key executives of the Company. Participants may receive only one grant. No more than 3% of the shares in issue may be awarded under this Plan, and in any ten year period the number of shares issued under this Plan, the Executive Share Option Plan and the Performance Share Plan together may not exceed 5% of the shares in issue. The rules permit an award up to a normal maximum of 0.5% of the shares in issue, although in exceptional circumstances the Committee may grant an award in excess of this.

The performance condition is that the increase in the Net Asset Value per share must exceed the increase in the Retail Prices Index by an average of at least 3% per annum. In the case of an award of up to 0.5% of the shares in issue, one third may be released on the first anniversary of the award date, the second third on the second anniversary and the final third on the third anniversary. Where an award exceeds 0.5%, the release takes place over a four year period. The Committee may decide at its discretion that, when shares are due to be released, the participant may be given the cash equivalent of the market value of the shares.

In the event of a change of control awards may be released early provided that the performance condition has been satisfied or the Remuneration Committee determines that the performance condition should be treated as satisfied, but the Committee may at its discretion reduce the award to take into account the length of time between the date of award and the date of the change of control.

Awards in the form of nil-cost options were made on 30 March 2007 as follows:

	No. of shares	First release date	Final release date	Expiry date
Robert Rayne	2,864,292	30 March 2008	30 March 2011	30 March 2017
Martin Pexton	1,432,146	30 March 2008	30 March 2010	–

Changes in the year were as follows:

	Mr Rayne	Mr Pexton
Outstanding at 1 January 2009	2,148,219	954,764
Awards during the year	–	–
Exercised during the year	(716,073)	(477,382)
Lapsed during the year	(716,073)	(477,382)
Outstanding at 31 December 2009	716,073	–

The performance condition for the first release at 30 March 2008 was satisfied and both Mr Rayne and Mr Pexton exercised their options. The Committee exercised its discretion and paid cash instead of issuing shares to satisfy the exercises. Details of these payments can be found later in this report under Directors' remuneration in 2009. The performance conditions for the second and third releases have not been satisfied. The outstanding award granted to Mr Pexton lapsed when he left the Company on 30 September 2009.

Executive Share Option Plan

Under this Plan, approved by shareholders, the Company grants share options to executive directors and other executives within the Company. The maximum value of a grant in any one calendar year is three times the individual's basic salary, provided the participant does not receive an award under the Performance Share Plan in that year. Options are normally exercisable between three and ten years following the grant, subject to the performance condition having been satisfied. The performance condition requires that, for 25% of the shares under option to vest, the Net Asset Value per share of the Company must increase by at least 3% per annum above the increase in the Retail Prices Index, starting with the Net Asset Value per share at the end of the financial year preceding the date of grant. If the increase in the Net Asset Value per share exceeds the growth in the Retail Prices Index by at least 8% per annum, the option can be exercised in respect of all the shares under option. There is a straight-line scale of vesting for increases in Net Asset Value per share between 3% and 8% per annum.

In the event of a change of control awards may be released early provided that the performance condition has been satisfied. If the change of control occurs before the end of the full period over which performance would otherwise be measured, the Remuneration Committee will determine the extent to which the performance condition has been satisfied.

Awards of options to executive directors have been made as follows:

	Grant date	No. of shares	Exercise price	First exercise date	Expiry date
Martin Pexton	2 April 2007	319,727	73.5p	2 April 2010	–
	1 April 2008	329,729	74.0p	1 April 2011	–
Robert Rayne	2 April 2007	523,809	73.5p	2 April 2010	1 April 2017
	1 April 2008	537,837	74.0p	1 April 2011	31 March 2018
Antony Sweet	2 April 2007	251,700	73.5p	2 April 2010	1 April 2017
	1 April 2008	518,918	74.0p	1 April 2011	31 March 2018

	Mr Rayne	Mr Sweet	Mr Pexton
Outstanding at 1 January 2009	1,061,646	770,618	649,456
Awards during the year	–	–	–
Exercised during the year	–	–	–
Lapsed during the year	(523,809)	(251,700)	(649,456)
Outstanding at 31 December 2009	537,837	518,918	–

The performance conditions for the award of options granted in April 2007 have not been satisfied and therefore the options have lapsed. The market price of an ordinary share at 31 December 2009 was 52.00p and the range during the year was 36.00p to 52.00p.

Performance Share Plan

The rules of the Plan, approved by shareholders, permit an annual award of performance shares up to 150% of the participant's basic salary, if no grant is made to that person under the Executive Share Option Plan in that year.

For one half of the award, the performance condition is that Total Shareholder Return (TSR) over the three year measurement period must exceed the median Total Shareholder Return of the FTSE 250 Index. At the 50th percentile TSR, 12.5% of the total shares will vest, rising on a straight-line basis to 50% vesting at the 75th percentile TSR and above.

For the other half of the award, the increase in Net Asset Value per share over the period must exceed the increase in the Retail Prices Index by at least 3% per annum. At RPI plus 3%, 12.5% of the total shares that are subject to the award will vest, rising on a straight-line basis to 50% vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum.

In the event of a change of control awards may be released early provided that the performance condition has been satisfied or the Remuneration Committee determines that the performance condition should be treated as satisfied, but the Committee may at its discretion reduce the award to take into account the length of time between the date of award and the date of the change of control.

Awards of shares in the form of nil-cost shares were made on 6 April 2009 to executive directors as follows:

	No. of shares	First release date	Expiry date
Martin Pexton[1]	417,811	6 April 2012	–
Robert Rayne	662,505	6 April 2012	5 April 2019
Antony Sweet	329,172	6 April 2012	5 April 2019

1. The award of shares to Mr Pexton lapsed when he left the Company on 30 September 2009.

Carried interest The Committee aims to ensure that incentive arrangements are competitive with the private equity industry. The executive directors participate in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio.

Carried interest will be payable in respect of pre-tax net capital gains on investments, excluding third party fund investments, after a preferred return to the Company, currently at the rate of 6% per annum. The preferred return is a threshold beyond which carried interest is payable and consequently more demanding than the hurdle rate commonly found in private equity funds. The percentage of capital gains, after the preferred return, which may be allocated to participants in aggregate may not exceed 20%.

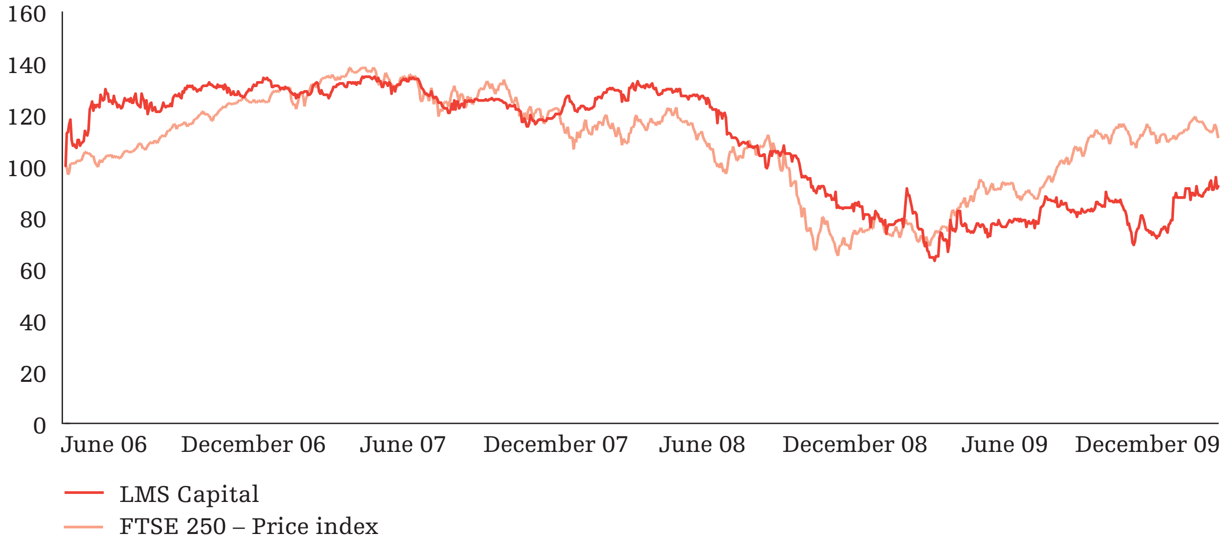
No carried interest payments were made in the year ended 31 December 2009.

Performance graph

The Committee considers the FTSE 250 Index a relevant index for Total Shareholder Return and comparison disclosure as it represents a broad equity market index of which the Company is a member.

The performance graph below shows the Company's Total Shareholder Return performance since the Company first listed on 12 June 2006 compared with that of the FTSE 250 Index.

Total Shareholder Return graph since 12 June 2006



Source: Datastream

Service contracts

The Committee's general policy is that all executive directors should have rolling contracts of employment with notice periods of 12 months from the Company and six months from the director. Each contract will terminate on the director reaching age 65.

The following table provides details of the executive directors' service contracts:

	Date of appointment	Date of contract	Notice period from Company	Notice period from director
Martin Pexton[3]	1 February 2007	14 March 2007	12 months	6 months
Robert Rayne	6 April 2006	14 March 2007	12 months	6 months
Antony Sweet	6 April 2006	14 March 2007	12 months	6 months

Notes:

1. Each of these contracts is a rolling contract.
2. The executive directors' service contracts enable the Company at its option to make payment in lieu of notice upon early termination of the contract. Following a change of control, there is provision for either the Company or the executive director to terminate employment upon payment of 95% of annual salary and benefits.
3. Mr Pexton received compensation for loss of office on the early termination of his contract, details of which can be found in the Directors' Remuneration section of this report.

Non-executive directors

The Committee's policy is for all non-executive directors to have letters of appointment with the Company. Under their letters of appointment, both non-executive directors and the Company are required to give one month's notice to terminate appointments. Non-executive directors are subject to the re-election requirements under the Company's Articles of Association. There are no provisions for non-executive directors to receive compensation upon early termination.

The following table provides details of the non-executive directors' letters of appointment:

	Date of appointment	Date of appointment letter	Date of expiry of current term
Jonathan Agnew[1]	7 April 2006	6 April 2009	May 2011
John Barnsley	7 April 2006	6 April 2009	18 May 2012
Richard Christou	7 April 2006	6 April 2009	18 May 2012
Bernard Duroc-Danner	7 April 2006	6 April 2009	13 May 2010
David Verey	7 September 2009	4 September 2009	13 May 2010

Notes

1. Mr Agnew has announced his intention to resign from the Board at the forthcoming 2010 Annual General Meeting to be held on 13 May 2010.

Fees for non-executive directors are usually determined every two years by the Board as a whole (upon the recommendation of the executive directors), based on market information and in accordance with the restrictions contained in the Company's Articles of Association.

The current fees for non-executive directors, which are non-pensionable, are:

Chairman	£75,000
Remuneration Committee Chairman	£45,000
Audit Committee Chairman	£45,000
Non-executive not chairing Committee	£40,000

Non-executive directors do not participate in the Company's incentive plans or pension schemes.

Directors' remuneration in 2009

The following table shows the total remuneration earned in respect of 2009.

	Salary/ fees £'000	Car allowance £'000	Benefits -in-kind[1] £'000	Pension £'000	Bonus £'000	2009 Total £'000	2008 Total £'000
Jonathan Agnew	75	–	–	–	–	75	75
John Barnsley	45	–	–	–	–	45	45
Richard Christou	45	–	–	–	–	45	45
Bernard Duroc-Danner	40	–	–	–	–	40	40
Martin Pexton[2]	188	11	7	38	–	244	392
Robert Rayne[3]	398	20	20	–	200	638	517
Antony Sweet	198	15	10	30	100	353	284
David Verey[4]	13	–	–	–	–	13	–
Total	1,002	46	37	68	300	1,453	1,398

Notes:

1. Benefits in kind for executive directors are insurances and subsidised gym membership.
2. The amounts for Mr Pexton are up to the date of his leaving the Company, being 30 September 2009. In addition to the above, Mr Pexton received £216,015 (being 45.25p per share over 477,382 shares) when exercising the first tranche of his award under the Deferred Share Bonus Plan. The payment was subject to deduction of income tax and national insurance. Mr Pexton was paid £600,000 (comprising compensation for salary, bonus and benefits for the 12 month notice period to which he was entitled under the terms of his service contract and statutory compensation) as a termination payment and he remains interested in the carried interest plan. In addition, Mr Pexton was paid £150,000 by reference to his pro rata bonus for the period January to September 2009.
3. In addition to the above, Mr Rayne received £361,617 (being 50.50p per share over 716,073 shares) when exercising the first tranche of his award under the Deferred Share Bonus Plan. The payment was subject to deduction of income tax and national insurance.
4. From date of appointment, being 7 September 2009.
5. Fees payable in respect of executive directors serving as non-executive directors of companies to which they were nominated by LMS Capital are not retained by them but paid to the Company. Robert Rayne is Chairman of Derwent London plc and receives a fee at the rate of £150,000 per annum, which he retains.
6. Fees payable to non-executive directors in 2009 from companies to which they were nominated as directors by LMS Capital were as follows:
   - John Barnsley £24,000
   - Richard Christou £3,000
7. Mr Payne was appointed as Chief Executive Officer on 1 March 2010. His basic salary is £300,000. In addition, he will receive a guaranteed bonus of £300,000 for the first 12 months of working for the Company. Thereafter, he will be entitled to discretionary bonuses and share option awards.

Directors' pension entitlements

Mr Sweet receives a contribution into a personal pension arrangement of 15% of base salary. Mr Rayne does not receive a pension contribution. While a director, Mr Pexton received a contribution of 20% of base salary.

Directors' share interests

The beneficial interests of those directors who held office at 31 December 2009 in the ordinary shares of the Company are set out below.

	At 31 December 2009	At 31 December 2008
Jonathan Agnew	291,058	291,058
John Barnsley	317,000	317,000
Richard Christou	169,965	169,965
Bernard Duroc-Danner	550,800	550,800
Robert Rayne	8,208,356	7,853,626
Antony Sweet	1,702	1,702
David Verey	0	0[1]

Notes

1. At date of appointment, being 7 September 2009.

The following directors had non-beneficial interests in the ordinary share capital of the Company:

- Robert Rayne holds a non-beneficial interest in 21,748,571 ordinary shares held in trust.

Except as stated above:

- no changes in the above directors' interests have taken place between 31 December 2009 and the date of this report; and
- the Company is not aware of any other interests of any director (or any member of his immediate family) in the ordinary share capital of the Company.

Richard Christou
Chairman, Remuneration Committee

26 March 2010

Directors' report

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2009.

Principal activities

LMS Capital plc is an international investment company whose shares are traded on the Main Market of the London Stock Exchange (the Company was previously quoted on AIM but moved to the Main Market on 30 June 2009). The investment portfolio comprises investments in both the UK and the US, with a spread of early stage and second round technology investments, development capital and mature company buyouts.

Business review

A detailed review of the Group's activities and performance during the year, together with details of events since the year-end and likely future developments, can be found within the following sections of this Annual Report. All the information detailed in these sections is incorporated by reference into this report and deemed to form part of this report:

- Operating review on pages 6 to 9;
- Financial review on pages 10 to 13;
- Corporate governance report on pages 24 to 29;
- Principal risks and uncertainties facing the business on pages 30 to 31;
- Directors' declaration in relation to relevant audit information on page 42; and
- Directors' responsibilities in relation to the financial statements on page 43.

Employees

LMS Capital plc had 15 employees at 31 December 2009 (31 December 2008: 18). Employees are kept informed about significant business issues and the Group's performance by means of regular meetings, email updates and other in-house communications. Employees are supported in their ongoing professional development and attend training courses which are paid for by the Company. For personal development, the employee is provided with time off. All employees participate in the performance share plan and executive share option scheme offered by the Company. Should an employee become disabled while in the Company's employ, the Company will continue to employ that person in the same role if possible, or do its utmost to find a role suitable for that employee, including arranging appropriate training. The Company gives full and fair consideration to applications for employment by disabled people having regard to their particular aptitudes and abilities.

The total number of employees employed by the Group, as at 31 December 2009, was 292 (31 December 2008: 294).

Charitable donations

During 2009, LMS Capital plc made one charitable donation of £3,500 (2008: £5,125). The donation was made to Business in the Community, the charity which brings businesses together to help with their local communities, tackle carbon emissions and improve working conditions.

Political donations

The Company did not make any political donations during 2009 (2008: £nil).

Creditor payment policy

The Company's policy and practice in the UK is to agree terms of payment with suppliers at the time of contract and to make payment in accordance with those terms, subject to satisfactory performance. The Company does not follow any code or standard on payment practice. At 31 December 2009, trade creditors of the Company had an average of approximately 31 days outstanding (31 December 2008: 31 days).

Contractual arrangements

There are no contracts or arrangements with third parties which the Board deem essential to the operation of the Company.

Dividends

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2009 (31 December 2008: £nil).

Directors

The names and biographical details of the current directors of the Company are given on pages 24 to 25. In addition, further information about the Board is set out in the Corporate governance report on pages 24 to 29. During the year, Martin Pexton resigned as an executive director of the Company on 11 September and left the Company on 30 September 2009. David Verey was appointed as a non-executive director on 7 September 2009. Since the end of the year under review, Glenn Payne has been appointed as an executive director of the Company on 1 March 2010.

Details of the current directors' service contracts and letters of appointment, together with their interests in the Company's shares, are shown in the Remuneration report on pages 32 to 39. Qualifying third party indemnities are in force for each of the directors.

Shares and voting rights

The Company's share capital is comprised of ordinary shares of 10p each and, as at 26 March 2010, there are 272,640,952 shares in issue. Each issued share carries one vote, accordingly the total voting rights in the Company are 272,640,952. No shares are currently held in treasury. Only options over shares have been granted during the year and these are subject to performance conditions before they can be exercised – further details can be found in the Remuneration report on pages 32 and 39. There are no restrictions on the transfer of shares.

Substantial shareholdings

As at 26 March 2010, the Company has been notified of the following persons who, directly or indirectly, are interested in 3% or more of the Company's voting rights.

Name	Number of shares or voting rights held	Percentage of issued share capital
Withers Trust Corporation Limited[1]	48,382,302	17.75
Trustees of Lord Rayne's Will Trust[1]	43,062,624	15.80
Schroders plc[2]	37,157,775	13.63
Lady Jane Rayne[1]	27,494,405	10.09
Jupiter Asset Management Limited[3]	21,814,614	8.00
Taube Hodson Stonex Partners Limited	13,815,461	5.07
Mineworkers Pension Scheme[2]	8,830,834	3.24
Mantra Investissement SCA	8,786,373	3.22
British Coal Staff Superannuation Scheme[2]	8,410,952	3.09
Robert Rayne	8,208,356	3.01

1. There are common interests in certain of these shares

2. Schroders plc manages the shares for the Mineworkers Pension Scheme and British Coal Staff Superannuation Scheme and therefore these shares are included within their own interest.

3. 14,817,277 shares (5.43%) are managed on behalf of The Rayne Foundation who control the voting rights to these shares.

Annual General Meeting

The Company's Annual General Meeting will be held at Durrants Hotel, George Street, London W1H 5BJ at 11.00 am on 13 May 2010. The notice of meeting, which includes explanatory notes, provides full details of the resolutions being proposed at the Annual General Meeting and is available to view on the Company's website, www.lmscapital.com.

Auditors and disclosure of information to auditors

The directors who held office at the date of approval of this report each confirm that, so far as they are aware:

- there is no relevant audit information (as defined by the Companies Act 2006) of which the Company's auditors are unaware, and
- they have each taken all the steps that ought to have been taken as a director of the Company to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and resolutions will be proposed at the forthcoming Annual General Meeting to reappoint them as auditors and to authorise the directors to fix their remuneration.

By order of the Board.

Matthew Jones
Company Secretary

26 March 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Remuneration report and Corporate governance report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

R A Rayne
Chairman designate

A C Sweet
Chief Financial Officer

26 March 2010

Independent auditors' report to the members of LMS Capital plc

We have audited the financial statements of LMS Capital plc for the year ended 31 December 2009 set out on pages 46 to 83. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate governance report set out on pages 24 to 29 in this Annual Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate governance report has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 29, in relation to going concern; and
- the part of the Corporate governance report on pages 24 to 29 in this Annual Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Anthony Cecil
Senior Statutory Auditor

For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

26 March 2010

Consolidated income statement

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Continuing operations			
Revenue from sales of goods and services	2	**32,526**	19,790
Gains and losses on investments		**3,998**	(32,137)
Interest income	3	**166**	1,802
Investment and other income	4	**973**	582
		37,663	(9,963)
Operating expenses	5	**(51,133)**	(46,114)
Loss before finance costs		**(13,470)**	(56,077)
Finance costs	7	**(342)**	(221)
Loss before tax		**(13,812)**	(56,298)
Taxation	8	**(939)**	(579)
Loss from continuing operations		**(14,751)**	(56,877)
Discontinued operations			
Profit from discontinued operations (net of taxation)	9	–	50,755
Loss for the year		**(14,751)**	(6,122)
Attributable to:			
Equity holders of the parent		**(15,148)**	(5,929)
Minority interests		**397**	(193)
		(14,751)	(6,122)
Basic and diluted loss per ordinary share	10	**(5.6)p**	(2.1)p
Continuing operations			
Basic and diluted loss per ordinary share	10	**(5.6)p**	(20.1)p

The notes on pages 53 to 83 form part of these financial statements.

Statements of comprehensive income

Group

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Loss for the year	**(14,751)**	(6,122)
Exchange differences on translation of foreign operations	**(200)**	1,083
Total comprehensive loss for the year	**(14,951)**	(5,039)
Attributable to:		
Equity holders of the parent	**(15,348)**	(4,846)
Minority interests	**397**	(193)
	(14,951)	(5,039)

Company

The company has no recognised income or expense other than its loss for the year of £15,056,000 (year ended 31 December 2008: loss of £3,027,000) which includes an impairment loss on investments in subsidiaries of £11,709,000 (year ended 31 December 2008: nil).

The notes on pages 53 to 83 form part of these financial statements.

Consolidated statement of financial position

	Notes	31 December 2009 £'000	31 December 2008 £'000
Non-current assets			
Property, plant and equipment	11	**7,057**	3,216
Intangible assets	12	**29,525**	26,798
Investments	13	**188,133**	179,546
Other long-term assets		**80**	15
Non-current assets		**224,795**	209,575
Current assets			
Inventories	14	**812**	319
Operating and other receivables	15	**10,768**	8,309
Cash and cash equivalents	16	**16,950**	42,615
Current assets		**28,530**	51,243
Total assets		**253,325**	260,818
Current liabilities			
Bank overdrafts	16	**(369)**	–
Interest-bearing loans and borrowings	17	**(2,394)**	(1,656)
Operating and other payables	18	**(7,921)**	(10,335)
Deferred income	19	**(8,704)**	(3,426)
Current tax liabilities		**(1,007)**	(410)
Current liabilities		**(20,395)**	(15,827)
Non-current liabilities			
Interest-bearing loans and borrowings	17	**(4,795)**	(1,170)
Deferred income	19	**(2,116)**	(2,697)
Deferred tax liabilities	20	**(401)**	(41)
Non-current liabilities		**(7,312)**	(3,908)
Total liabilities		**(27,707)**	(19,735)
Net assets		**225,618**	241,083
Equity			
Share capital	21	**27,265**	27,265
Capital redemption reserve		**5,635**	5,635
Merger reserve		**84,083**	84,083
Foreign exchange translation reserve		**1,012**	1,212
Retained earnings		**106,773**	122,741
Equity attributable to owners of the parent		**224,768**	240,936
Minority interests		**850**	147
Total equity	21	**225,618**	241,083

The financial statements on pages 46 to 83 were approved by the Board on 26 March 2010 and were signed on its behalf by:

RA Rayne
Chairman designate

The notes on pages 53 to 83 form part of these financial statements.

Company statement of financial position

	Notes	31 December 2009 £'000	31 December 2008 £'000
Non-current assets			
Property, plant and equipment	11	**158**	288
Investments in subsidiaries	13	**281,801**	293,510
Non-current assets		**281,959**	293,798
Current assets			
Operating and other receivables	15	**743**	297
Amounts receivable from subsidiaries	15	**11,607**	5,548
Cash and cash equivalents	16	**4,277**	12,018
Current assets		**16,627**	17,863
Total assets		**298,586**	311,661
Current liabilities			
Operating and other payables	18	**(1,960)**	(1,556)
Amounts payable to subsidiaries	18	**(68,760)**	(66,363)
Current liabilities		**(70,720)**	(67,919)
Net assets		**227,866**	243,742
Equity			
Share capital	21	**27,265**	27,265
Capital redemption reserve		**5,635**	5,635
Retained earnings		**194,966**	210,842
Equity attributable to owners of the parent	21	**227,866**	243,742

The financial statements on pages 46 to 83 were approved by the Board on 26 March 2010 and were signed on its behalf by:

RA Rayne
Chairman designate

The notes on pages 53 to 83 form part of these financial statements.

Statements of changes in equity

Group

	Share capital £'000	Capital redemption reserve £'000	Merger reserve £'000	Foreign exchange translation reserve £'000	Retained earnings £'000	Total £'000	Minority interests £'000	Total equity £'000
Balance at 1 January 2008	28,643	4,257	84,083	(867)	133,047	249,163	5,283	254,446
Total recognised income and expense	–	–	–	1,083	(5,929)	(4,846)	(193)	(5,039)
Distribution to minority interests	–	–	–	–	–	–	(575)	(575)
Disposal of portfolio subsidiaries	–	–	–	996	3,372	4,368	(4,368)	–
Repurchase of shares	(1,378)	1,378	–	–	(8,638)	(8,638)	–	(8,638)
Share-based payments	–	–	–	–	889	889	–	889
Balance at 31 December 2008	27,265	5,635	84,083	1,212	122,741	240,936	147	241,083
Total recognised income and expense	–	–	–	(200)	(15,148)	(15,348)	397	(14,951)
Acquisition of portfolio subsidiary	–	–	–	–	–	–	306	306
Share-based payments	–	–	–	–	(820)	(820)	–	(820)
Balance at 31 December 2009	**27,265**	**5,635**	**84,083**	**1,012**	**106,773**	**224,768**	**850**	**225,618**

Company

	Share capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2008	28,643	4,257	221,618	254,518
Total recognised income and expense	–	–	(3,027)	(3,027)
Repurchase of shares	(1,378)	1,378	(8,638)	(8,638)
Share-based payments	–	–	889	889
Balance at 31 December 2008	27,265	5,635	210,842	243,742
Total recognised income and expense	–	–	(15,056)	(15,056)
Share-based payments	–	–	(820)	(820)
Balance at 31 December 2009	**27,265**	**5,635**	**194,966**	**227,866**

The notes on pages 53 to 83 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Cash flows from operating activities			
Loss for the year		**(14,751)**	(6,122)
Adjustments for:			
Depreciation and amortisation		**1,762**	1,199
Goodwill impairment	12	**4,598**	11,224
(Gains)/losses on investments		**(3,998)**	32,137
Gain on discontinued operations, net of income tax		**–**	(49,436)
Loss on sale of property, plant and equipment		**56**	–
Translation differences		**433**	(1,958)
Share-based payments		**(422)**	889
Finance costs		**342**	221
Interest income		**(166)**	(1,802)
Income tax expense		**939**	579
		(11,207)	(13,069)
Change in inventories		**(147)**	(9,878)
Change in operating and other receivables		**1,396**	13,342
Change in operating and other payables		**(2,219)**	(3,397)
		(12,177)	(13,002)
Interest paid		**(342)**	(221)
Income tax paid		**(321)**	(183)
Net cash used in operating activities		**(12,840)**	(13,406)
Cash flows from investing activities			
Interest received		**166**	1,802
Acquisition of property, plant and equipment		**(2,749)**	(1,685)
Proceeds from disposals of property, plant and equipment		**3**	12
Disposal of discontinued operations, net of cash disposed of		**–**	80,543
Acquisition of investments		**(18,853)**	(40,019)
Acquisition of subsidiaries, net of cash acquired		**(6,116)**	(5,645)
Proceeds from sale of investments		**13,981**	11,503
Net cash (used in)/from investing activities		**(13,568)**	46,511
Cash flows from financing activities			
Repurchase of own shares		**–**	(8,638)
Drawdown of interest bearing loans		**554**	1,855
Distribution to minority interests		**–**	(575)
Net cash from/(used in) financing activities		**554**	(7,358)
Net (decrease)/increase in cash and cash equivalents		**(25,854)**	25,747
Cash and cash equivalents at the beginning of the year		**42,615**	14,263
Effect of exchange rate fluctuations on cash held		**(180)**	2,605
Cash and cash equivalents at the end of the year		**16,581**	42,615
Cash and cash equivalents above comprise			
Cash and cash equivalents		**16,950**	42,615
Bank overdrafts		**(369)**	–
Cash and cash equivalents at the end of the year	16	**16,581**	42,615

The notes on pages 53 to 83 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Cash flows from operating activities			
Loss for the year		**(15,056)**	(3,027)
Adjustments for:			
Depreciation		**144**	134
Impairment of investments in subsidiaries	13	**11,709**	–
Share-based payments		**(422)**	889
Interest income		**(60)**	(336)
Income tax credit		**(2,541)**	(1,906)
		(6,226)	(4,246)
Change in operating and other receivables		**(446)**	186
Change in operating and other payables		**6**	(658)
Change in amounts due to subsidiaries		**(1,121)**	19,333
Net **cash (used in)/from operating activities**		**(7,787)**	14,615
Cash flows from investing activities			
Interest received		**60**	336
Acquisition of property, plant and equipment		**(14)**	(111)
Net cash from investing activities		**46**	225
Cash flows from financing activities			
Repurchase of own shares		**–**	(8,638)
Net cash used in financing activities		**–**	(8,638)
Net (decrease)/increase in cash and cash equivalents		**(7,741)**	6,202
Cash and cash equivalents at the beginning of the year		**12,018**	5,816
Cash and cash equivalents at the end of the year		**4,277**	12,018
Cash and cash equivalents above comprise			
Cash and cash equivalents		**4,277**	12,018
Bank overdrafts		**–**	–
Cash and cash equivalents at the end of the year	16	**4,277**	12,018

The notes on pages 53 to 83 form part of these financial statements.

Notes to the financial information

1. Principal accounting policies

Reporting entity

LMS Capital plc ('the Company') is domiciled in the United Kingdom. These financial statements are presented in pounds sterling because that is the currency of the principal economic environment of the Company's operations. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together 'the Group').

The Company was formed on 17 March 2006 and commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities. The consolidated financial statements are prepared as if the Group had always been in existence. The difference between the nominal value of the Company's shares issued and the amount of the net assets acquired at the date of demerger has been credited to Merger reserve.

The Company is an investment company but because it holds majority stakes in certain investments it is required to prepare group accounts that consolidate the results of such investments. In order to present information that is consistent with other investment companies, the results of the Group's investment business on a standalone basis are set out in Note 2.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ('Adopted IFRS').

The Group's business activities and financial position are set out in the Operating and Financial review on pages 6 to 13. In addition Note 23 to the financial information includes a summary of the Group's financial risk management processes, details of its financial instruments and its exposure to credit risk and liquidity risk. Taking account of the financial resources available to it the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

These financial statements were authorised for issue by the directors on 26 March 2010.

The accounting policies set out below have been applied consistently for all periods.

The financial statements have been prepared on the historical cost basis except for investments held at fair value through profit or loss which are measured at fair value.

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year except as follows:

IAS 1: Presentation of Financial Statements
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners. The revised standard also introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement or in two linked statements. The Group has elected to present two statements.

IFRS 2: Share-based Payment (revised)
Amendments to IFRS 2:

- Clarified the definition of vesting conditions and prescribed the treatment for an award that is cancelled; and
- Clarified the scope and accounting for Group cash-settled share-based payment transactions.

The Group adopted these amendments with effect from 1 January 2009; they did not have an impact on the financial position or performance of the Group.

1. Principal accounting policies (continued)

IFRS 7: Financial Instruments Disclosures – Improving Disclosures about Financial Instruments
The amendments to IFRS 7 require fair value measurements to be disclosed by the source of inputs using a three-level hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

In addition, the amendment revises the specific minimum liquidity risk disclosures including the contractual maturity of non-derivative and derivative financial liabilities, and a description of how this risk is managed.

IFRS 3: Business combinations (revised)
The amendments to IFRS 3 include significant changes in the accounting for business combinations, including the valuation of non-controlling interests, accounting for transaction costs, initial recognition and subsequent remeasurement of contingent consideration and business combinations achieved in stages.

The revised standard does not apply to the Group for 2009 and will be implemented with effect from 1 January 2010.

There are no other standards available for early adoption which would have an impact on the financial position or performance of the Group.

Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis; revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 1 – valuation of investments held at fair value through profit or loss;
- Note 12 – measurement of the recoverable amounts of cash-generating units containing goodwill.

1. Principal accounting policies (continued)

Basis of consolidation

The financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 December 2009. The Company's subsidiary undertakings fall into two categories:

- Investment companies through which the Group conducts its investment activities; and
- Certain portfolio companies which form part of the Group's investment activities but which, by virtue of the size of the Group's shareholding or other control rights, fall within the definition of subsidiaries under Adopted IFRS ('portfolio subsidiaries'). The portfolio subsidiaries are included within the consolidated financial information although they continue to be managed by the Group as investments held for capital appreciation. Note 30 includes details of the companies concerned.

Subsidiaries
The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The portfolio subsidiaries' UK GAAP financial statements are consolidated and restatements are made to comply with Adopted IFRS.

On acquisition the assets and liabilities of a subsidiary are measured at fair value and any excess of the cost of acquisition over the fair values of the identifiable net assets and contingent liabilities acquired is recognised as goodwill. If the cost of acquisition is lower than the fair value of the identifiable net assets and contingent liabilities acquired, the amount is credited to the income statement in the period of acquisition.

The interest of minority shareholders is stated at their share of the fair value of the identifiable assets, liabilities and contingent liabilities recognised, except to the extent that losses applicable to the minority exceed minority interest.

All intra Group transactions and profits or losses are eliminated on consolidation.

Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28: Investment in Associates, which requires investments held by investment companies to be excluded from its scope where those investments are designated upon initial recognition as investments held at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. The Group has no interest in associates through which it carries on its business.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments the difference between net disposal proceeds and the corresponding carrying amount is recognised in the income statement.

Intangible assets

Intangible assets purchased separately from a business are capitalised at their cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably.

Concessions, patents, licences and trademarks purchased by the Group are amortised to nil by equal annual instalments over their useful economic lives of 20 years.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

1. Principal accounting policies (continued)

Investments

The Group manages its investments with a view to profit from the receipt of dividends and changes in fair value of equity investments. Therefore all quoted investments, unquoted equity investments and managed funds investments are designated at fair value through profit and loss and carried in the balance sheet at fair value. Other investments including loan investments are classified as loans and receivables and carried in the balance sheet at amortised cost less impairment.

Fair values have been determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines require the valuer to make judgments as to the most appropriate valuation method to be used and the results of the valuations.

Each investment is reviewed individually with regard to the stage, nature and circumstances of the investment and the most appropriate valuation method selected. The valuation results are then reviewed and any amendment to the carrying value of investments is made as considered appropriate.

Quoted investments
Quoted investments for which an active market exists are valued at the closing bid price at the balance sheet date.

Unquoted direct investments
Unquoted direct investments for which there is no ready market are valued using the most appropriate valuation technique with regard to the stage and nature of the investment. Valuation methods that may be used include:

- Investments in which there has been a recent funding round involving significant financing from external investors are valued at the price of the recent funding, discounted if an external investor is motivated by strategic considerations;
- Investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable profits or positive cash flows;
- Investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation;
- Investments in an established business which is generating sustainable profits or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings;
- Investments in early stage businesses not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the discounted cash flow of the investment to the investors.

Funds
Investments in managed funds are valued at fair value. The general partners of the funds will provide periodic valuations on a fair value basis which the Group will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the Group's valuation methods.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment loss.

Cost includes expenditure that is directly attributable to the asset, including where appropriate the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

1. Principal accounting policies (continued)

Depreciation is charged using the straight-line method over the estimated useful lives of the assets as follows:

- Freehold property — 50 years
- Leasehold improvements — the term of the lease
- Plant and equipment — 3–10 years
- Fixtures and fittings — 3–5 years

When parts of an item of property, plant and equipment have different useful lives, these components are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of fair value and the present value of the future minimum lease payments at inception of the lease, less accumulated depreciation and any impairment loss.

Other leases are operating leases and are not recognised on the Group's balance sheet.

Impairment of assets

Loans and receivables
Loans and receivables are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of loans and receivables measured at amortised cost is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant loans and receivables are tested for impairment on an individual basis. The remaining loans and receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Principal accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date and exchange differences are included in the profit and loss account.

On consolidation the assets and liabilities of the Group's overseas operations including goodwill and fair value adjustments arising on consolidation are translated at the closing rates ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on these items are classified as equity and transferred to the Group's foreign exchange translation reserve. Such exchange differences are recognised as income or expense in the period in which the related overseas operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of an overseas operation are treated as assets and liabilities of the overseas entity and translated at the closing rate.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is based on the average cost principle. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes a share of overheads based on normal working capacity.

Operating and other receivables

Operating and other receivables are carried at fair value. Bad debts are written-off when identified.

Cash and cash equivalents

Cash, for the purpose of the cash flow statement, comprises cash in hand and cash equivalents, less overdrafts payable on demand.

Cash equivalents are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Cash equivalents include short-term cash deposits with original maturity of less than three months.

Financial liabilities

The Group's financial liabilities include borrowings and operating and other payables.

Interest bearing loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are stated at amortised cost which is the initial cost less any principal repayments.

Operating and other payables with short duration are not discounted. They are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

1. Principal accounting policies (continued)

Income

Revenue from sales of goods and services
Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from sales of services is recognised by reference to the stage of completion of the transaction at the reporting date. Revenue is estimated by applying to the total expected contract revenue, the proportion of total contract costs incurred to date over total expected costs for each contract.

Revenues from software and related services are also predominantly project based with transactions typically including the sale of a software licence and related implementation services which are invoiced to customers on their acceptance of the installation. Since these projects are normally short term in nature, revenue is generally recognised in line with customer acceptance.

Maintenance contracts for hardware and software are invoiced to customers in advance and these contracts typically cover a period of one year or more. Where such maintenance services extend beyond the balance sheet date the related income is deferred and recognised over the remaining life of the contract, generally on a straight-line basis.

Revenues from specialist manufacturing are recognised on delivery of the product to the customer.

Gains and losses on investments
Realised and unrealised gains and losses on investments are recognised in the profit and loss account in the period in which they arise.

Interest income
Interest income is recognised as it accrues using the effective interest method.

Investment income
Investment income comprises investment management fees receivable from portfolio companies and dividend income. Dividend income is recognised on the date the Group's right to receive payment is established.

Expenditure

Employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or carried interest incentive arrangements if the Group has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

Share-based payments
The Group has issued share options and awards of performance shares to certain employees. Such options and awards are treated as equity-settled share-based payments and measured at fair value at the date of grant and the fair value is recognised as an expense with a corresponding increase in equity on a straight-line basis over the vesting period.

Fair value is calculated by use of a binomial option valuation model taking into account the terms and conditions under which the equity-settled share-based payments were issued. Service and non-market performance conditions attached to transactions are not taken into account in determining fair value.

Finance costs
Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

1. Principal accounting policies (continued)

Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

2. Operating segments

The information below has been prepared using the definition of an operating segment in IFRS 8: Operating Segments. The Group determines and presents information on operating segments based on the information that is provided internally to the directors to enable them to assess performance and allocate resources.

As an investment company, the Group's primary focus is on the performance of its investment management business. Financial information for this segment is prepared on the basis that all investments are accounted for at fair value.

The information set out below therefore presents summarised financial information for the investment management business on a stand alone basis, together with the adjustments arising from the summarised results and financial position of the portfolio subsidiaries. Adjustments for Energy Cranes International Limited ('Energy Cranes') are shown separately in the prior year because of the size of this business relative to the others.

The consolidation adjustments included below reflect the adjustments necessary to restate the portfolio subsidiaries from the basis included in the investment management business (investments carried at fair value) to full consolidation in the Group's financial statements.

2. Operating segments (continued)

Segment profit or loss

Year ended 31 December 2009	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	32,526	–	32,526
Gains and losses on investments	(4,876)	–	8,874	3,998
Interest income	159	7	–	166
Investment and other income	494	479	–	973
Goodwill impairment loss	–	–	(4,598)	(4,598)
Finance costs	–	(6,341)	5,999	(342)
(Loss)/profit for the year	(12,660)	2,177	(4,268)	(14,751)

Year ended 31 December 2008	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Discontinued operations: Energy Cranes £'000	Reconciliation: Discontinued operations: Other £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	19,790	–	–	–	19,790
Gains and losses on investments	(36,748)	–	–	–	4,611	(32,137)
Interest income	1,754	48	–	–	–	1,802
Investment and other income	582	–	–	–	–	582
Goodwill impairment loss	–	–	–	–	(11,224)	(11,224)
Finance costs	–	(4,267)	–	–	4,046	(221)
Continuing operations	(40,796)	(13,514)	–	–	(2,567)	(56,877)
Discontinued operations	–	–	57,556	(6,801)	–	50,755
(Loss)/profit for the year	(40,796)	(13,514)	57,556	(6,801)	(2,567)	(6,122)

Segment net assets

31 December 2009	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	158	6,899	–	7,057
Intangible assets	–	11,817	17,708	29,525
Investments	215,632	1	(27,500)	188,133
Other non-current assets	–	80	–	80
Non-current assets	215,790	18,797	(9,792)	224,795
Cash and cash equivalents	14,416	2,534	–	16,950
Other current assets	462	11,182	(64)	11,580
Total assets	230,668	32,513	(9,856)	253,325
Total liabilities	(2,802)	(79,519)	54,614	(27,707)
Net assets/(liabilities)	227,866	(47,006)	44,758	225,618

The net asset value of the investment management business at 31 December 2009 includes £227,719,000 attributable to the equity holders of the parent and £147,000 attributable to minority interests.

2. Operating segments (continued)

31 December 2008	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	288	2,928	–	3,216
Intangible assets	–	3,196	23,602	26,798
Investments	202,049	1	(22,504)	179,546
Other non-current assets	–	15	–	15
Non-current assets	202,337	6,140	1,098	209,575
Cash and cash equivalents	41,293	1,322	–	42,615
Other current assets	309	8,319	–	8,628
Total assets	243,939	15,781	1,098	260,818
Total liabilities	(2,283)	(70,604)	53,152	(19,735)
Net assets/(liabilities)	241,656	(54,823)	54,250	241,083

The net asset value of the investment management business at 31 December 2008 includes £241,509,000 attributable to the equity holders of the parent and £147,000 attributable to minority interests.

The carrying amount and gains and losses of the investments of the investment management business can be further analysed as follows:

	31 December 2009			31 December 2008		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	**30,259**	**73,194**	**103,453**	29,911	72,390	102,301
Quoted	**17,274**	**34,601**	**51,875**	19,409	27,097	46,506
Unquoted	**39,849**	**20,455**	**60,304**	33,686	19,556	53,242
	87,382	**128,250**	**215,632**	83,006	119,043	202,049

	Year ended 31 December 2009			Year ended 31 December 2008		
	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000
Funds	**(755)**	**(6,007)**	**(6,762)**	2,114	4,572	6,686
Quoted	**2,503**	**9,741**	**12,244**	574	(31,122)	(30,548)
Unquoted	**(1,867)**	**(8,491)**	**(10,358)**	14,620	(27,506)	(12,886)
	(119)	**(4,757)**	**(4,876)**	17,308	(54,056)	(36,748)

Revenues

The Group's revenues from external customers comprise:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Continuing operations		
IT services and software	**24,885**	12,431
Specialist manufacturing	**7,641**	7,359
	32,526	19,790

2. Operating segments (continued)

Geographical information

	Revenues		Non-current assets	
	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Continuing operations				
United Kingdom	**17,640**	7,066	**88,298**	99,378
United States of America	**8,925**	6,521	**136,497**	110,197
Other countries	**5,961**	6,203	**–**	–
	32,526	19,790	**224,795**	209,575

Geographical information on revenue is based on the location of customers and on assets is based on the location of the assets.

Major customers

Revenues from the ten largest customers represent approximately 39% of the Group's total revenues (year ended 31 December 2008: 33%).

3. Interest income

Interest income comprises interest receivable on bank deposits.

4. Investment and other income

Investment and other income comprise the following:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Dividends from quoted securities	**133**	159
Investment management fees	**360**	137
Income from investments	**314**	286
Other	**166**	–
	973	582

5. Operating expenses

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Cost of sales	**13,270**	8,451
Administrative expenses	**37,863**	37,663
	51,133	46,114

Operating expenses include the following:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Depreciation	**1,649**	1,142
Goodwill impairment loss	**4,598**	11,224
Refund of value added tax	**–**	(1,078)
Auditors' remuneration:		
Fees to group auditors:		
– parent company	**67**	65
– subsidiary companies	**133**	141
Non-audit related services:		
– taxation advisory services	**19**	19
– other	**80**	–
Fees to non-group auditors	**196**	84

6. Personnel expenses

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Wages and salaries	**17,854**	16,172
Compulsory social security contributions	**1,457**	1,634
Contributions to defined contribution plans	**544**	552
Share-based payment transactions	**(178)**	889
	19,677	19,247

The Group operates carried interest incentive arrangements in line with normal practice in the private equity industry based on the performance of its investment management business. No amounts were payable under these arrangements for the year ended 31 December 2009 (year ended 31 December 2008: nil). If the Group's investment portfolio were realised at its carrying amount at 31 December 2009, carried interest of £nil would become payable (year ended 31 December 2008: £0.1 million).

7. Finance costs

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Interest on bank loans and overdrafts	**110**	76
Interest on other loans	**219**	145
Finance lease charges	**13**	–
	342	221

8. Taxation

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Current tax expense		
Current period	**471**	579
Adjustment for prior periods	**224**	–
Total current tax	**695**	579

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Deferred tax expense		
Origination and reversal of temporary differences	**244**	–
	244	–
Total tax expense	**939**	579

Reconciliation of effective tax rate

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Loss before tax	**(13,812)**	(56,298)
Income tax using the Company's domestic tax rate – 28% (2009: 28.5%)	**(3,867)**	(16,045)
Recognition of previously unrecognised tax losses	**(123)**	(619)
Fair value adjustments not currently taxed	**(1,901)**	14,120
Non-deductible expenses	**3,717**	4,946
Non-taxable income	**(234)**	(4,533)
Deferred tax not recognised	**3,123**	2,710
Prior year adjustment	**224**	–
Total tax expense	**939**	579

9. Discontinued operations

There were no disposals constituting discontinued operations in the year ended 31 December 2009. In March 2008 the Group sold its entire interest in Energy Cranes International Limited and in June 2008 the Group sold its entire interest in AssetHouse Technology Limited.

Results of discontinued operations

	Year ended 31 December 2008 £'000
Revenues	33,142
Expenses	(31,240)
Results from operating activities	1,902
Taxation	(583)
Results from operating activities, net of tax	1,319
Gain on sale of discontinued operations, net	49,436
Tax on gain on sale of discontinued operations	–
Profit for the year	50,755
Basic earnings/(loss) per ordinary share	18.0p
Diluted earnings/(loss) per ordinary share	17.7p

9. Discontinued operations (continued)

Cash flows from/(used in) discontinued operations

	Year ended 31 December 2008 £'000
Net cash used in operating activities	(8,977)
Net cash used in investing activities	(849)
Net cash from financing activities	7,375
Net cash used in discontinued operations	(2,451)

Effect of disposal on the financial position of the Group

	Year ended 31 December 2008 £'000
Property, plant and equipment	12,216
Intangible assets	39,587
Investments	527
Other non-current assets	–
Inventories	15,326
Trade and other receivables	25,763
Cash and cash equivalents	3,043
Bank overdrafts	–
Interest bearing loans and borrowings	(43,447)
Trade and other payables	(10,813)
Provisions	(8,052)
Net assets	34,150
Consideration received, satisfied in cash	83,586
Cash disposed of	(3,043)
Net cash inflow	80,543

10. Basic and diluted loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss of £15,148,000 (year ended 31 December 2008: loss of £5,929,000), being the loss for the year attributable to the parent, divided by the weighted average number of ordinary shares in issue during the year 272,640,952 (year ended 31 December 2008: 281,758,491).

The calculation of loss per ordinary share for continuing operations is based on the loss of £15,148,000 (year ended 31 December 2008: loss of £56,684,000), being the loss for the year attributable to the parent, divided by the weighted average number of ordinary shares in issue during the year of 272,640,952 (year ended 31 December 2008: 281,758,491).

There was no dilution effect on the loss for the year or the loss from continuing operations in either year.

11. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 January 2008	3,547	16,841	866	21,254
Additions	87	1,538	60	1,685
Acquisitions through business combinations	–	180	31	211
Disposals	–	(75)	–	(75)
Disposals of subsidiaries	(2,288)	(14,538)	(549)	(17,375)
Effect of movement in exchange rates	439	361	9	809
Balance at 31 December 2008	1,785	4,307	417	6,509
Balance at 1 January 2009	**1,785**	**4,307**	**417**	**6,509**
Additions	**2**	**2,309**	**438**	**2,749**
Acquisitions through business combinations	**–**	**2,888**	**82**	**2,970**
Disposals	**–**	**(118)**	**(7)**	**(125)**
Effect of movement in exchange rates	**(173)**	**(128)**	**(4)**	**(305)**
Balance at 31 December 2009	**1,614**	**9,258**	**926**	**11,798**
Depreciation and impairment losses				
Balance at 1 January 2008	830	6,028	141	6,999
Depreciation charge for the year	71	947	124	1,142
Disposals	–	(63)	–	(63)
Disposals of subsidiaries	(210)	(4,855)	(94)	(5,159)
Effect of movement in exchange rates	231	136	7	374
Balance at 31 December 2008	922	2,193	178	3,293
Balance at 1 January 2009	**922**	**2,193**	**178**	**3,293**
Depreciation charge for the year	**91**	**1,340**	**218**	**1,649**
Disposals	**–**	**(61)**	**(5)**	**(66)**
Effect of movement in exchange rates	**(92)**	**(40)**	**(3)**	**(135)**
Balance at 31 December 2009	**921**	**3,432**	**388**	**4,741**
Carrying amounts				
At 31 December 2008	863	2,114	239	3,216
At 31 December 2009	**693**	**5,826**	**538**	**7,057**

At 31 December 2009 land and buildings with a carrying amount of £693,000 (31 December 2008: £863,000) are subject to a registered debenture to secure bank loans.

At 31 December 2009 the carrying amount of plant and equipment includes £278,000 held under finance leases (31 December 2008: £nil).

11. Property, plant and equipment (continued)

Company

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2008	51	295	346
Additions	111	–	111
Balance at 31 December 2008	162	295	457
Balance at 1 January 2009	**162**	**295**	**457**
Additions	**14**	**–**	**14**
Balance at 31 December 2009	**176**	**295**	**471**
Depreciation and impairment losses			
Balance at 1 January 2008	11	24	35
Depreciation charge for the year	82	52	134
Balance at 31 December 2008	93	76	169
Balance at 1 January 2009	**93**	**76**	**169**
Depreciation charge for the year	**54**	**90**	**144**
Balance at 31 December 2009	**147**	**166**	**313**
Carrying amounts			
At 31 December 2008	69	219	288
At 31 December 2009	**29**	**129**	**158**

12. Intangible assets

Group

	Software licence £'000	Goodwill £'000	Total intangible assets £'000
Cost			
Balance at 1 January 2008	–	75,922	75,922
Acquisitions through business combinations	2,088	4,320	6,408
Disposals of businesses	–	(39,586)	(39,586)
Effect of movement in exchange rates	–	–	–
Balance at 31 December 2008	2,088	40,656	42,744
Balance at 1 January 2009	**2,088**	**40,656**	**42,744**
Acquisitions through business combinations	**–**	**8,733**	**8,733**
Adjustment to goodwill at acquisition	**–**	**(1,295)**	**(1,295)**
Balance at 31 December 2009	**2,088**	**48,094**	**50,182**
Impairment losses			
Balance at 1 January 2008	–	4,665	4,665
Impairment loss	–	11,224	11,224
Amortisation	57	–	57
Balance at 31 December 2008	57	15,889	15,946
Balance at 1 January 2009	**57**	**15,889**	**15,946**
Impairment loss	**–**	**4,598**	**4,598**
Amortisation	**113**	**–**	**113**
Balance at 31 December 2009	**170**	**20,487**	**20,657**
Carrying amounts			
At 31 December 2008	2,031	24,767	26,798
At 31 December 2009	**1,918**	**27,607**	**29,525**

The adjustment to goodwill at acquisition relates to the acquisition of Citizen Limited in September 2008, based on information received prior to September 2009.

For the purpose of impairment testing, goodwill is allocated to each portfolio subsidiary which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The recoverable amount of each unit has been determined on the basis of its fair value less costs to sell which is equivalent to its value in use.

An analysis of goodwill is set out below:

	Goodwill impairment recognised in the year ended 31 December 2009 £'000	Goodwill impairment recognised in the year ended 31 December 2008 £'000	Carrying amount 2009 £'000	Carrying amount 2008 £'000
Offshore Tool and Energy Corporation	**64**	610	**1,508**	1,572
Entuity Limited	**–**	2,846	**4,981**	4,981
Wesupply Limited	**–**	–	**5,120**	5,120
CopperEye Limited	**1,585**	–	**1,426**	3,011
Kizoom Limited	**1,806**	7,768	**5,121**	6,927
Citizen Limited	**1,143**	–	**718**	3,156
Updata Infrastructure UK Ltd	**–**	–	**8,733**	–
	4,598	11,224	**27,607**	24,767

12. Intangible assets (continued)

The impairment loss in each year reflects the impact of decreases in the fair value of the relevant portfolio subsidiary; fair value is measured in accordance with the Group's valuation policy for investments which is set out in Note 1. Factors impacting fair values are principally individual company performance and changes in valuation multiples for comparable businesses.

13. Investments

Group

The movements in investments were as follows:

	Quoted securities £'000	Unquoted securities Equity £'000	Unquoted securities Loans £'000	Funds £'000	Total £'000
Carrying value					
Balance at 1 January 2008	63,824	20,225	13,089	86,374	183,512
Purchases	17,525	1,336	5,383	15,775	40,019
Disposals	(3,721)	–	(352)	–	(4,073)
Distributions from partnerships	–	–	–	(6,313)	(6,313)
Fair value adjustments	(31,122)	2,142	(4,084)	6,465	(26,599)
Transfers to portfolio subsidiaries	–	–	(7,000)	–	(7,000)
Balance at 31 December 2008	46,506	23,703	7,036	102,301	179,546
Balance at 1 January 2009	**46,506**	**23,703**	**7,036**	**102,301**	**179,546**
Purchases	**1**	**1,561**	**2,500**	**14,791**	**18,853**
Disposals	**(6,136)**	**–**	**(500)**	**(968)**	**(7,604)**
Distributions from partnerships	**–**	**–**	**–**	**(5,366)**	**(5,366)**
Fair value adjustments	**11,505**	**1,014**	**(2,511)**	**(7,304)**	**2,704**
Balance at 31 December 2009	**51,876**	**26,278**	**6,525**	**103,454**	**188,133**

The table below analyses investments carried at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

	2009 £'000	2008 £'000
Level 1	**51,876**	46,506
Level 2	**–**	–
Level 3	**136,257**	133,040
	188,133	179,546

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2009 £'000	2008 £'000
Opening balance	**133,040**	119,688
Total (gain)/loss in profit or loss	**(8,801)**	4,523
Purchases	**18,852**	22,494
Transfers to portfolio subsidiaries	**–**	(7,000)
Realisations	**(6,834)**	(6,665)
	136,257	133,040

13. Investments (continued)

Company

The movement in investments in subsidiaries was as follows:

	2009 £'000	2008 £'000
Opening balance	**293,510**	293,510
Impairment loss	**(11,709)**	–
	281,801	293,510

Details of subsidiaries are set out in Note 30.

The impairment loss for the year reflects the impact of changes in the values of the net assets of subsidiaries on the carrying value of the Company's investment. The values of the underlying net assets in subsidiary companies are calculated in accordance with the Group's accounting policies set out in Note 1.

14. Inventories

	Group	
	2009 £'000	2008 £'000
Work in progress	**191**	71
Finished goods	**621**	248
	812	319

Changes in finished goods and work in progress recognised as cost of sales amounted to a credit of £493,000 (year ended 31 December 2008: £54,000).

15. Operating and other receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	**8,518**	6,497	**–**	–
Other receivables and prepayments	**2,250**	1,812	**743**	297
Amounts receivable from subsidiaries	**–**	–	**11,607**	5,548
	10,768	8,309	**12,350**	5,845

16. Cash and cash equivalents

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank balances	**2,793**	1,438	**410**	147
Short-term deposits	**14,157**	41,177	**3,867**	11,871
Cash and cash equivalents	**16,950**	42,615	**4,277**	12,018
Bank overdrafts	**(369)**	–	**–**	–
	16,581	42,615	**4,277**	12,018

17. Interest bearing loans and borrowings

	Group 2009 £'000	Group 2008 £'000
Non-current liabilities		
Secured bank loans	**3,255**	1,170
Other unsecured loans	**1,270**	–
Finance lease liabilities	**270**	–
	4,795	1,170
Current liabilities		
Secured bank loans	**765**	254
Other unsecured loans	**1,566**	1,402
Finance lease liabilities	**63**	–
	2,394	1,656

Terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Maturity	Group 2009 £'000 Carrying amount	Group 2008 £'000 Carrying amount
Secured bank loan	£	LIBOR plus 2.50%	2010	**91**	–
Secured bank loan	£	7.5%	2014	**2,540**	–
Secured bank loan	USD	7.51%	2020	**764**	897
Secured bank loan	USD	8.25%	2010	**612**	–
Other secured loans	USD	Various	2010	**13**	527
Unsecured loan	£	21%	2014	**1,270**	–
Unsecured loan	USD	4.95%	2010	**100**	–
Unsecured loan	USD	12%	2010	**1,466**	1,402
Finance lease liabilities	£	25%	2014	**278**	–
Finance lease liabilities	USD	6.45%	2014	**55**	–
				7,189	2,826

Finance lease liabilities are payable as follows:

	2009 Future minimum lease payments £'000	2009 Interest £'000	2009 Present value of minimum lease payments £'000	2008 Future minimum lease payments £'000	2008 Interest £'000	2008 Present value of minimum lease payments £'000
Less than one year	**80**	**17**	**63**	–	–	–
Between one and five years	**327**	**57**	**270**	–	–	–
More than five years	–	–	–	–	–	–
	407	**74**	**333**	–	–	–

18. Operating and other payables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade payables	**2,739**	2,271	**85**	62
Non-trade payables and accrued expenses	**5,182**	8,064	**1,875**	1,494
Amounts payable to subsidiaries	**–**	–	**68,760**	66,363
	7,921	10,335	**70,720**	67,919

19. Deferred income

Deferred income comprises amounts invoiced to customers in respect of goods or services which had not been delivered at the balance sheet date. It arises principally on maintenance contracts for hardware and software which typically cover a period of one year or more.

20. Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax liabilities were attributable to the following:

	Group	
	2009 £'000	2008 £'000
Property, plant and equipment	**339**	–
Financial assets at fair value through profit or loss	**62**	41
	401	41

Unrecognised deferred tax liabilities

The Group has no unrecognised deferred tax liabilities.

Deferred tax assets

The Group's investment management business has capital losses for tax purposes of £10.9 million at 31 December 2009 (31 December 2008: £4.7 million) available to offset future profits chargeable to tax. In addition, if the Group were to dispose of its investment portfolio at book value at 31 December 2009 it would realise further net capital losses for tax purposes of £55.7 million (31 December 2008: £65.5 million). Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The Group's portfolio subsidiaries have tax losses of £118.9 million at 31 December 2009 (31 December 2008: £118.4 million) available to offset future profits chargeable to tax.

21. Capital and reserves

Share capital

	Ordinary shares			
	2009 Number	2009 £'000	2008 Number	2008 £'000
Balance at beginning of the year	**272,640,952**	**27,265**	286,429,228	28,643
Repurchase of shares	**–**	**–**	(13,788,276)	(1,378)
Balance at end of the year	**272,640,952**	**27,265**	272,640,952	27,265

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

21. Capital and reserves (continued)

Capital redemption reserve

The capital redemption reserve comprises the nominal value of those shares purchased by the Company out of its own profits and cancelled.

Treasury shares

The Company has no shares held in treasury.

Merger reserve

The Company commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities. Consolidated financial statements were prepared for the nine months ended 31 December 2006 to reflect the two step demerger process: this comprised an initial common control transaction followed by a subsequent demerger of the Group. The consolidated financial statements are prepared as if the Group had always been in existence. The difference between the nominal value of the Company's shares issued and the amount of the net assets acquired at the date of demerger has been credited to merger reserve.

Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign currency movements arising from the translation of the financial statements of foreign operations.

22. Share-based payments

Company

Executive share option plan
The Company has a share option plan that entitles certain employees to purchase shares in the Company at the market price of the shares at the date of grant of the option, subject to Company performance criteria. Under the terms of the scheme, options may be exercised between three and ten years after the date of grant.

Options granted under the plan are subject to the following vesting criteria. If the Net Asset Value per share of the Company increases by at least 3% per annum above the increase in the Retail Prices Index based on the Net Asset Value per share at the financial year end preceding the date of grant, 25% of the shares under option will vest three years after the date of grant. If the increase in the Net Asset Value per share exceeds the growth in the Retail Prices Index by at least 8% per annum, 100% of the options will be exercisable three years after the date of grant. There is a straight-line scale for increases in Net Asset Value per share between 3% and 8% per annum.

Movements during the year were as follows:

	2009 Number	2008 Number
Outstanding at 1 January	**4,045,807**	1,962,067
Granted during the year	–	2,493,641
Exercised during the year	–	–
Lapsed during the year	**(2,185,812)**	(409,901)
Outstanding at 31 December	**1,859,995**	4,045,807

Options over 739,860 (2008: 409,901) ordinary shares lapsed as a result of employees leaving the Company and options over 1,445,952 lapsed as a result of performance criteria not being met.

The weighted average exercise price of options outstanding at 31 December 2009 was 74p (31 December 2008: 74p).

22. Share-based payments (continued)

Deferred share bonus plan
The Company has a deferred share bonus plan for key executives. Shares awarded under this scheme are released over three or four years (depending on the size of the award) and the first release may take place no earlier than the first anniversary of the award subject to the increase in the Net Asset Value per share of the Company exceeding the increase in the Retail Prices Index by an average of at least 3% per annum.

Movements during the year were as follows:

	2009 Number	2008 Number
Outstanding at 1 January	**3,102,983**	4,296,438
Awards during the year	**–**	–
Exercised during the year	**(1,193,455)**	–
Lapsed during the year	**(1,193,455)**	(1,193,455)
Outstanding at 31 December	**716,073**	3,102,983

Under this plan, 1,193,455 shares became eligible for release on 31 March 2008 and were released during 2009; the Company elected to settle the release for a cash payment of £642,000. The weighted average exercise price of the awards outstanding was nil (31 December 2008: nil).

No shares became eligible for release during 2009 since performance criteria were not met and as a result 1,193,455 shares lapsed as of 31 December 2008. Of the 1,193,455 shares eligible for release based on 2009 performance, 477,382 lapsed when the beneficiary left the Company during 2009 and 716,073 lapsed since performance criteria were not met.

At 31 December 2009, 716,073 shares remain eligible for release on 30 March 2011. The weighted average exercise price at 31 December 2009 was nil (31 December 2008: nil).

Performance share plan
The Company has a performance share plan that entitles certain employees to receive an award of performance shares in the Company. Performance shares granted under the plan are subject to the following performance criteria.

In respect of one half of the award, over the three year measurement period, Total Shareholder Return ('TSR') must exceed the median TSR of the FTSE 250 Index. At the 50th percentile TSR, 12.5% of the total award will vest, rising on a straight-line basis to 50% of the total award vesting at the 75th percentile and above.

In respect of the other half of the award, the increase in Net Asset Value per share over the measurement period must exceed the increase in the Retail Prices Index by at least 3% per annum. At RPI plus 3%, 12.5% of the total award will vest, rising on a straight-line basis to 50% of the total award vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum.

On 6 April 2009 the Company granted awards under this plan for the first time in respect of 2,455,888 ordinary shares to eligible employees; during the year awards covering 450,687 ordinary shares lapsed as a result of employees leaving the Company. The weighted average exercise price of the awards outstanding was nil (31 December 2008: nil).

22. Share-based payments (continued)

Recognition and measurement
The fair value of services received in return for grants and awards under the Company's share-based incentive plans is based on their fair value measured using a binomial valuation model.

Performance share awards granted during 2009 were valued using the following inputs:

	Performance share plan
Fair value at grant date	£0.42
Share price	£0.43
Exercise price	–
Expected volatility	20%
Option life	10 years
Expected dividends	–
Risk-free interest rate	3.0%

The (credit)/expense recognised in the income statement for share-based payments is as follows:

	2009 £'000	2008 £'000
Executive share option plan	**(186)**	318
Deferred share-based plan		
– Equity-settled	**(844)**	571
– Cash settled	**642**	–
Performance share plan	**210**	–
	(178)	889

At 31 December 2009, non-trade payables and accrued expenses include £398,000 (2008: £19,000) in respect of amounts payable under the Company's long-term incentive plans.

23. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its policies for measuring and managing risk, and its management of capital.

Credit risk

Credit risk is the risk of the financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and its cash and cash equivalents.

	2009 £'000	2008 £'000
Operating and other receivables	**10,768**	8,309
Cash and cash equivalents	**16,950**	42,615
	27,718	50,924

23. Financial risk management (continued)

Operating and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Each new customer is analysed individually for creditworthiness before payment and delivery terms are offered. The conduct of customer accounts is reviewed regularly.

The Group establishes an allowance for impairment that represents an estimate of incurred losses in respect of Operating and other receivables. This allowance includes a specific loss component that relates to individually significant exposures and a collective loss component for groups of similar assets. This is determined based on historical payment data statistics and is intended to cover losses that have been incurred but not yet identified.

The maximum exposure to credit risk for operating and other receivables by geographic region was:

	2009 £'000	2008 £'000
UK	**7,954**	3,883
United States	**1,853**	2,842
Other regions	**961**	1,584
	10,768	8,309

The aging of trade receivables was:

	2009		2008	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	**4,270**	**–**	4,052	–
Past due 0–30 days	**2,969**	**–**	1,356	–
Past due 31–120 days	**462**	**–**	851	170
More than 120 days	**1,008**	**191**	801	393
	8,709	**191**	7,060	563

Cash and cash equivalents
The Group limits its credit risk exposure by only depositing funds with highly rated institutions. Given these ratings the Group does not expect any counterparty to fail to meet its obligations and therefore no allowance for impairment is made for bank deposits.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Its financing requirements are met through a combination of liquidity from the sale of investments, the use of cash resources and bank borrowing facilities. The Company has a £15,000,000 facility with The Royal Bank of Scotland. Interest would be payable at the percentage rate per annum, which is the aggregate of the margin (3.0% per annum), London Interbank Offered Rate (LIBOR) and the mandatory cost.

The Company did not use this facility during 2009.

23. Financial risk management (continued)

The following are the contractual maturities of financial liabilities:

31 December 2009	Carrying amount £'000	Contractual Cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Bank overdrafts	**369**	**369**	**369**	**–**	**–**	**–**	**–**
Interest bearing loans and borrowings	**6,856**	**10,011**	**376**	**2,659**	**515**	**5,410**	**1,051**
Finance lease liabilities	**333**	**407**	**38**	**42**	**83**	**244**	**–**
Operating and other payables	**7,921**	**7,921**	**7,921**	**–**	**–**	**–**	**–**
	15,479	**18,708**	**8,704**	**2,701**	**598**	**5,654**	**1,051**

31 December 2008	Carrying amount £'000	Contractual Cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Bank overdrafts	–	–	–	–	–	–	–
Interest bearing loans and borrowings	2,826	3,852	140	2,032	109	270	1,301
Finance lease liabilities	–	–	–	–	–	–	–
Operating and other payables	10,335	10,335	10,335	–	–	–	–
	13,161	14,187	10,475	2,032	109	270	1,301

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Group aims to manage this risk within acceptable parameters while optimising the return.

Currency risk
The Group is exposed to currency risk on those of its investments which are denominated in a currency other than the Group's functional currency which is pounds sterling. The only other significant currency within the investment portfolio is the US dollar; approximately 60% of the investment portfolio within the Group's investment management business is denominated in US dollars.

The Group does not hedge the currency exposure related to its investments. The Group regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return, and does not seek to mitigate that risk through the use of financial derivatives.

The Group is exposed to currency risk on sales and purchases which are denominated in a currency other than the Group's functional currency. The currency in which these transactions are denominated is principally US dollars.

The Group's exposure to foreign currency risk was as follows:

	31 December 2009			31 December 2008		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**59,881**	**128,252**	**–**	60,502	119,044	–
Operating and other receivables	**7,568**	**3,092**	**108**	4,626	3,476	207
Cash and cash equivalents	**15,342**	**1,528**	**80**	40,621	1,822	172
Bank overdrafts	**(369)**	**–**	**–**	–	–	–
Interest bearing loans and borrowings	**(3,901)**	**(2,955)**	**–**	–	(2,826)	–
Finance lease liabilities	**(278)**	**(55)**	**–**	–	–	–
Operating and other payables	**(6,504)**	**(1,380)**	**(37)**	(7,118)	(3,209)	(8)
Gross balance sheet exposure	**71,739**	**128,482**	**151**	98,631	118,307	371
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**71,739**	**128,482**	**151**	98,631	118,307	371

23. Financial risk management (continued)

At 31 December 2009 the rate of exchange was USD1.62 = £1.00 (31 December 2008: USD1.46 = £1.00). The average rate for the year ended 31 December 2009 was USD1.57 = £1.00 (year ended 31 December 2008: USD1.84 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity by £10.9 million at 31 December 2009 (31 December 2008: increase of £12.2 million) and decreased the loss from continuing operations for the year ended 31 December 2009 by £13.9 million (year ended 31 December 2008: decreased by £13.5 million). This assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk
At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	2009 £'000	2008 £'000
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	**7,558**	2,826
	7,558	2,826
Variable rate instruments		
Financial assets	**16,950**	42,615
Financial liabilities	–	–
	16,950	42,615

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £246,000 (31 December 2008: increase of £238,000) and decreased the loss from continuing activities by £246,000 (year ended 31 December 2008: decrease of £238,000).

Fair values
The carrying amounts of financial assets (excluding investments) and liabilities, shown in the balance sheet, approximate their fair values.

The fair values of financial liabilities are based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Other market price risk
Equity price risk arises from equity securities held as part of the Group's portfolio of investments. The Group's investments comprise quoted investments (quoted on the main stock exchanges in London, US, Canada and AIM) and equity and debt instruments in unquoted businesses. A proportion of its unquoted investments are held through funds managed by external managers.

As is common practice in the venture and development capital industry, the investments in unquoted companies are structured using a variety of instruments including ordinary shares, preference shares and other shares carrying special rights, options and warrants and debt instruments with and without conversion rights. The investments are held for resale with a view to the realisation of capital gains. Generally, the investments do not pay significant income.

The Group's management of risk in its investment portfolio focuses on diversification in terms of geography, sector, type and stage of investment.

If the investment valuation declined by 10% from the amount at the balance sheet date, with all other variables held constant, the loss for the year ended 31 December 2009 would have increased by £18.8 million (year ended 31 December 2008: the loss would have increased by £17.9 million). An increase in the valuation of investments by 10% at the balance sheet date would have an equal and opposite effect on the profit or loss for the year.

23. Financial risk management (continued)

Capital management

The Group's total capital at 31 December 2009 was £225.6 million (31 December 2008: £241.1 million) comprising equity share capital and reserves. The Group had borrowings at 31 December of £7.6 million (2008: £2.8 million).

The Board monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:

- The planned level of gearing, which takes into accounts planned investment activity;
- The possible buy-back of equity shares for holding in treasury or cancellation, which takes account of the discount of the share price to net asset value per share;
- The annual dividend policy.

The Group's objectives, policies and processes for managing capital are unchanged from the preceding accounting year.

24. Acquisitions of subsidiaries

The following acquisition was made during the year ended 31 December 2009:

Updata Infrastructure (UK) Limited

In July 2009 the Group acquired 53.3% of the issued share capital of Updata Infrastructure Holdings Limited ('Updata Holdings'), which immediately prior to this investment by the Group had acquired 100% of the issued share capital of Updata Infrastructure UK Limited. The consideration paid by the Group was equivalent to its share of the consolidated net assets of Updata Holdings.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts £'000
Property, plant and equipment	2,970
Inventories	346
Operating and other receivables	3,855
Cash and cash equivalents	83
Loans and borrowings	(3,809)
Operating and other payables	(5,673)
Net identifiable liabilities	(2,228)
Intangible assets (goodwill)	8,733
Net assets acquired	6,505
Minority interest	(306)
Consideration paid	6,199

No adjustments were made to pre-acquisition carrying amounts.

The consideration was paid in cash on completion.

The goodwill is attributable to the expected profitability of the acquired business.

Updata designs, builds and manages carrier-class networks. In the six months to 31 December 2009 the company contributed a profit of £1,400,000 to the consolidated results of the Group. If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been £38,874,000 and the consolidated loss for the period would have been £12,885,000.

24. Acquisitions of subsidiaries (continued)

The following acquisitions were made during the year ended 31 December 2008:

Citizen Limited

In September 2008 the above company underwent a capital reconstruction which took the Group's voting interest from less than 50% to 84% and the company has been included in the consolidated financial statements of the Group with effect from this restructuring.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts £'000
Property, plant and equipment	186
Intangible assets	2,088
Inventories	29
Operating and other receivables	480
Cash and cash equivalents	(83)
Loans and borrowings	(4,050)
Operating and other payables	(1,805)
Net identifiable liabilities	(3,155)
Group share of net identifiable liabilities	(3,155)
Goodwill	3,155
Group equity carrying value on acquisition date	–

No adjustments were made to pre-acquisition carrying amounts.

Citizen (through its wholly-owned subsidiary Vio Worldwide Limited) provides supply chain software solutions for the advertising, publishing and graphic arts industries. In the four months to 31 December 2008 the company contributed a loss of £679,000 to the consolidated results of the Group.

Kizoom Limited

In May 2008 Cityspace acquired 100% of the issued share capital of Kizoom Limited. The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts £'000
Property, plant and equipment	25
Operating and other receivables	635
Cash and cash equivalents	459
Operating and other payables	(313)
Net identifiable assets	806
Goodwill on acquisition	1,165
Consideration paid	1,971

No adjustments were made to pre-acquisition carrying amounts.

The consideration was paid in cash on completion.

Kizoom provides solutions to deliver real-time transport information to the internet and mobile devices. In the eight months to 31 December 2008 the company contributed a loss of £261,117 to the consolidated results of the Group.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2009		2008	
	Group £'000	Company £'000	Group £'000	Company £'000
Less than one year	**640**	**400**	716	400
Between one and five years	**1,147**	**600**	1,160	1,000
More than five years	–	–	–	–
	1,787	**1,000**	1,876	1,400

26. Capital commitments

	2009 £'000	2008 £'000
Outstanding commitments to funds	**58,709**	71,104
	58,709	71,104

The outstanding commitments to funds comprise unpaid calls in respect of funds where a member of the Group is a limited partner.

27. Contingent liabilities

The Company has guaranteed the indebtedness of certain of the Group's investments; the amount outstanding under these arrangements at 31 December 2009 was £1.8 million (31 December 2008: £2.3 million).

28. Related party transactions

With effect from 1 May 2007 the Company entered into a lease agreement with Derwent London plc in respect of the premises comprising its head office and registered office. Under the terms of the lease the Company pays an annual rent of £400,000 to Derwent London plc plus certain service charges.

Under an arrangement with Derwent London plc the Company is entitled to charge that company £50,000 per annum as a recharge of office and related costs of Mr Robert Rayne. Mr Rayne is Chairman of Derwent London plc. Amounts outstanding under this arrangement at 31 December 2009 were £14,000 (31 December 2008: £14,000).

With effect from 29 September 2007 the Company entered into a sub-lease agreement with Weatherford UK under which the latter is a sub-tenant of part of the Company's head office premises at an annual rental of £200,000 plus service charges. Mr Rayne and Dr Duroc-Danner are directors of Weatherford International, the ultimate parent undertaking of Weatherford UK. Amounts outstanding under these arrangements at 31 December 2009 were £47,000 (31 December 2008: £12,000).

Compensation arrangements for key management are set out in the Remuneration report on pages 32 to 39.

29. Subsequent events

There were no events subsequent to the balance sheet date that would materially affect the interpretation of these financial statements.

30. Subsidiaries

The subsidiaries comprising the Group's investment management business (as set out in Note 2) are as follows:

Name	Country of incorporation	Holding %	Activity
International Oilfield Services Limited	Bermuda	100	Investment holding
LMS Capital (Bermuda) Limited	Bermuda	100	Investment holding
LMS Capital (ECI) Limited	England and Wales	100	Investment holding
LMS Capital (General Partner) Limited	Bermuda	100	Investment holding
LMS Capital (GW) Limited	Bermuda	100	Investment holding
LMS Capital Group Limited	England and Wales	100	Investment holding
LMS Capital Holdings Limited	England and Wales	100	Investment holding
Lioness Property Investments Limited	England and Wales	100	Investment holding
Lion Property Investments Limited	England and Wales	100	Investment holding
Lion Investments Limited	England and Wales	100	Investment holding
Lion Cub Investments Limited	England and Wales	100	Dormant
Lion Cub Property Investments Limited	England and Wales	100	Investment holding
Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments (II) Limited	England and Wales	100	Investment holding
Westpool Investment Trust plc	England and Wales	100	Investment holding

In addition to the above, the Group's carried interest arrangements are operated through three limited partnerships (LMS Capital 2007 LP, LMS Capital 2008 LP and LMS Capital 2009 LP) which are registered in Bermuda.

The following companies form part of the Group's investment activities but, by virtue of the size of the Group's shareholding or other control rights, fall within the definition of subsidiaries under IFRS. These portfolio subsidiaries are included within the consolidated financial information although they continue to be managed by the Group as investments held for capital appreciation.

Name	Country of incorporation	Holding %	Activity
Citizen Limited	England and Wales	84	Software solutions for the advertising, publishing and graphic arts industries
CopperEye Limited	England and Wales	76	Specialised search solutions for business transaction data
Entuity Limited	England and Wales	68	Network management software
Kizoom Limited	England and Wales	94	Urban digital networks and intelligent transport systems
Offshore Tool and Energy Corporation	United States of America	100	Specialist engineering design and fabrication
Updata Infrastructure Holdings Limited	England and Wales	53.3	Carrier-class networks
Wesupply Limited	England and Wales	98	Supply chain management software

Shareholder information

Registered office

Carlton House
33 Robert Adam Street
London W1U 3HR
Tel: +44 (0)20 7935 3555
Email: webenquiries@lmscapital.com
Website: www.lmscapital.com

Company registered in England

Number 5746555

Company Secretary

Matthew Jones FCIS

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA
Tel: (UK) 0871 664 0300
(Outside UK) +44 (0)20 8639 3399
Email: ssd@capitaregistrars.com

Shareholder enquiries

All administrative enquiries relating to shareholders, such as notification of change of address or the loss of a share certificate, should be made to the Company's registrars, Capita Registrars, whose address is given above.

Electronic shareholder communications

The Company has opted to send shareholders communications via the Company website rather than via the post. This is more environmentally friendly and cost efficient. If you would like to receive paper copies of these communications, please write to the Company's registrars, Capita Registrars, whose address is given above.

Share dealing service

A telephone dealing service has been arranged with Stocktrade, which provides a simple way of buying or selling LMS Capital plc ordinary shares. Full details can be obtained by telephoning 08456 010995, quoting the reference: 'Low Co 0236'. For further information, please visit: www.stocktrade.co.uk/LMS/

Company website

The Company's website provides further information on the Company's investments, its strategy and its share price, as well as an archive of all press releases, presentations and shareholder documents. You can sign up to be notified by email when press releases are announced. For further information, please visit www.lmscapital.com

Brokers

J.P. Morgan plc
20 Moorgate
London EC2R 6DA

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

The Royal Bank of Scotland plc
36 St. Andrew Square
Edinburgh EH2 2YB

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Financial calendar 2010

Annual General Meeting 13 May

Interim Management Statements
May and November

Half-year results August*

Year-end 31 December

* This date is provisional and may change.

Designed and produced by **Radley Yeldar www.ry.com**

LMS
CAPITAL

Carlton House, 33 Robert Adam Street, London W1U 3HR
Telephone +44 (0)20 7935 3555 www.lmscapital.com