LMS Capital plc

Annual Report 2010

Highlights of the year

Financial

Net Asset Value per share was 90p (31 December 2009: 84p), an increase of 7%;

Net Asset Value was 245.0 million (31 December 2009: 227.7 million);

The investment portfolio showed a net gain of £23.9 million (year ended 31 December 2009: net loss of £4.9 million) reflecting a recovery in prices of our quoted holdings and improved valuations for our fund interests;

The consolidated profit for the year from continuing operations (including portfolio subsidiaries) was £15.2 million (year ended 31 December 2009: loss of £12.4 million);

Outstanding commitments to funds were £40.7 million at the end of the year, down from £58.7 million at the end of 2009.

Operational

A refined strategic focus for the Company:

LMS Capital will pursue direct investments in growing, profitable businesses where it can use the team's expertise to contribute to their growth and performance;

This focus will primarily be in the energy, consumer and business services sectors where our investment team has demonstrable expertise;

Realisations from our existing quoted, direct and fund investments are expected to provide the liquidity required to implement this strategy;

We made the following new investments:

Apogee, a fast growing UK print solutions company – we acquired a 32.8% interest for £7.9 million;

Nationwide Energy Partners, an energy services company in the US – we invested $14.1 million (£9.7 million) for a 59.5% stake;

Zoom Eyeworks was acquired by San Francisco Equity Partners – our investment was $7.0 million (£4.7 million);

We sold a number of quoted investments where gains of £1.1 million were realised;

We exited certain legacy investments which were unable to sustain themselves as stand alone businesses – Citizen (Vio) and Corizon – and Kizoom sold its software business.

Robert A. Rayne, Chairman

I am pleased to record that 2010 was a year of considerable progress for LMS Capital. Against the backdrop of a slowly improving environment, your Board approved a revised strategic approach for the business, the benefits of which are already apparent in the year's results.

I am pleased to record that 2010 was a year of considerable progress for LMS Capital. Against the backdrop of a slowly improving environment, your Board approved a revised strategic approach for the business, the benefits of which are already apparent in the year's results. After almost two years of focusing on the existing investment portfolio to safeguard value in difficult market conditions, the Company undertook a number of new transactions in 2010.

Net Asset Value per share at the end of 2010 was 90p, an increase of 7% compared to last year, after two years of decline. Improving market conditions are a significant contributor to this (as reflected in increased values of the quoted holdings and fund interests) but this year the write downs on non-performing investments which do not fit our strategy are more than covered by higher valuations on our core investments. To underline this, for the first time the consolidated result (including portfolio subsidiaries) is positive.

Results

The return on the investment portfolio for the year was a net gain of £23.9 million (2009: net loss of £4.9 million). Included in this is a realised net loss for the year of £1.0 million (2009: realised net loss of £0.1 million): we realised gains on sales of certain of our quoted holdings and on our fund distributions but a loss on the sale of Citizen (Vio) which is shown in the consolidated results as discontinued operations.

The investment portfolio at 31 December 2010 was valued at £253.1 million (31 December 2009: £215.6 million), an increase of £37.5 million or 17%.

The quoted portfolio performed well and we expect to make disposals as our target prices are reached. We have continued to take a cautious view of the carrying values of our unquoted holdings since the recovery in public markets has not been reflected in private transactions.

The Group as a whole (including consolidation of the portfolio subsidiaries) showed a consolidated profit for the year from continuing operations of £15.2 million (2009: loss of £12.4 million).

The Board is not recommending payment of a dividend for the year ended 31 December 2010 (year ended 31 December 2009: nil).

Board and management

Glenn Payne was appointed Chief Executive with effect from 1 March 2010 and he is now leading the implementation of our revised strategy. We also welcomed Mark Sebba to the Board in September 2010; his experience in business services and consumer products will be of great value to the Company.

The process of change begun in 2009 has continued and this places special demands on all our people, particularly where cost pressures result in headcount reductions at investee companies. 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 progress in 2010.

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 seeks, once again, to obtain a waiver in respect of the Takeover Code obligations which 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 2010; the current number of ordinary shares in issue is 272,640,952.

Outlook

2010 saw an increase in merger and acquisition activity in which the Company was able to participate. At the same time our people responded positively to the revised strategy and we have begun 2011 with a higher level of deal flow than 12 months ago. We plan to complete the exits of non-performing businesses in 2011 and to focus on deploying capital to meet our stated growth objectives.

The Company's plan to realise its fund of funds and its quoted holdings will result in an increase in liquidity enabling it to invest in profitable and growing businesses. Your Board is confident that the Company is well positioned to take advantage of increased investment opportunities in the coming year and beyond.

Robert A Rayne
Chairman

28 March 2011

Operating review

Glenn Payne, Chief Executive Officer

Our objective is simple: we aim to acquire controlling stakes or positions of influence in profitable and growing companies run by experienced managers operating in sectors we know and where we can add value.

LMS Capital is an investment company which, although only an independent entity since 2006, has a pedigree which dates back to the 1980s. We are not therefore a new company, but there are many exciting things that we are doing which are new this year and which we expect will make us bigger, better and more attractive as an investment to you our shareholders. I was appointed as your Chief Executive Officer in March last year and I am happy to report that 2010 saw us map out the Company's strategic direction and commence its implementation.

Our objective is simple: we aim to acquire controlling stakes or positions of influence in profitable and growing companies run by experienced managers operating in sectors we know and where we can add value.

We are now pursuing a refined strategy based on our assessment of who is 'the best owner' of the Company's current three investing themes: quoted securities, third-party funds and direct investments. We believe the best owners of quoted securities are either our shareholders directly or hedge funds that can employ leverage and sophisticated computer systems which require round the clock monitoring. Similarly, the best owners of funds are entities that have access to either a regular stream of cash flows (member contributions) or committed capital (from investors) such as pension funds, or funds of funds. We are a permanent capital company and we shall exploit the strengths and advantages which this gives us.

We believe we have formulated a value proposition that is differentiable and that over time we expect to deliver superior results. We offer two important positives to our partners seeking a source of capital (usually the management of the company we acquire a stake in): permanence and strength.

- We are not just another private equity fund (although we are similar and compete with many) as unlike private equity funds we do not have to sell and we can always invest more money into our investments. Founders of companies typically have built their enterprise up over a period of time (called experience) and now that they have validated their business model (called profits) they are often in the position of needing capital to capture new opportunities. Debt is not as freely available and so an equity partner with similar style is sought. As a founder, selling part of the business is traumatic; there are many sleepless nights and some degree of seller's remorse. We do not pretend to make the transaction easy: we spend a lot of time performing diligence on any acquisition so that we know what we are buying, but we offer the comfort that we are not going to turn around and sell the company in a short timeframe. We expect to create a long-term partnership such that as the company grows we will be there to provide intellectual and equity capital.
- We are also a publicly listed entity: just as you check our price and can read our audited financial accounts, so can our partners and they receive a lot of solace from the strength of our balance sheet and access to capital. Our public nature provides transparency on our ability to meet our promises.

We have exhibited in the past an ability to identify, acquire, manage and crystallise gains from direct investments. We have an investment team with deep experience in buyouts and from our current portfolio we expect to receive significant net inflows of cash over the next few years to support this strategy. We believe we are 'the best owner' of operating companies: we shall hold direct investments and actively engage in value creation. Recent investments in Updata, Apogee, Nationwide and Zoom (by SFEP) confirm our growing reputation as an equity partner of choice. As the acquirers and owners of these companies, we can control the destiny of our assets.

LMS currently has investment professionals in the US and UK, so our focus will be on those geographies. We have deep knowledge in three sectors: energy, consumer and business services. Our relationships, networks and investments provide a differential capability to identify and evaluate new investments in these sectors and geographies and to create value at the portfolio company level through active stewardship. We do what we are good at where we are located.

We aim to own companies and make follow-on investments in companies that have and will produce profits that contribute to an increasingly valuable and profitable LMS. Across the entire portfolio, where we are actively engaged in the stewardship of the investments and can effect change as required, we are targeting annual growth in excess of 15%.

We still need time to evolve but everything we are doing is with the objective of creating value for shareholders. Our companies operate in economies that continue to experience uncertainties and so earnings growth in 2010 has been variable but there are signs 2011 will see a marked improvement and that our companies' business models are appropriate.

Results

2010 was a year of transition but saw a number of highlights:

- An improvement in the value of our quoted portfolio as the prices of ProStrakan and Weatherford grew. Our decision to hold those stocks through the year has been vindicated.
- Realisations and improvements in third-party fund valuations have been gratefully received as the ability of those funds to exit investments opened up during the year.
- Our newer direct investments saw a number of upward revaluations – confirmation that our strategy is beginning to work.
- We have turned around a number of the older businesses and can now focus on upside rather than losses, however we did make the difficult decision to write-down/off five old direct investments as their potential to create value had passed.
- Combining the positive news we are delighted to announce that LMS Capital produced a net profit of £17.6 million in 2010 (2009: loss of £12.7 million).
- Importantly that result was driven by positive 'owned EBITDA' (our share in the earnings of each of our direct portfolio companies) – we own profitable and growing companies that are creating value
- Our NAV per share at the end of 2010 was 90p, (2009: 84p), an increase of 7% in the year or 15% annualised from mid-year when a number of the key strategic decisions were first announced and implemented.

Further details are set out in the Financial review section of this report.

We are pleased with our results for 2010 however there is much room for further progress. It is good that we are profitable, that we own profitable companies but we are targeting a better annual growth in value. Going forward we are actively seeking to produce superior value and capture gains from the quoted securities and funds to redeploy into direct investments.

We are pleased with our results for 2010 however there is much room for further progress. It is good that we are profitable, that we own profitable companies but we are targeting a better annual growth in value. Going forward we are actively seeking to produce superior value and capture gains from the quoted securities and funds to redeploy into direct investments. Our results are a significant improvement on 2009 (which showed a decline in NAV per share compared to the prior year) but the results continue to be burdened by losses from write-downs on legacy investments; that stops this year. Under our revised strategy we are seeking to invest in companies that should survive and thrive. As a partner of choice we will work with them to ensure they continue to grow as profitable businesses.

It is gratifying to report that a number of our consolidated portfolio companies have made big strides during 2010 and more importantly expect to be able to sustain this next year. The best performers in 2010 were:

- Updata continues to grow revenues and profits as local authorities need to improve the extent and reliability of their broadband communication infrastructure;
- Nationwide has performed in line with our expectations in the first seven months of our ownership and is rapidly signing new customers;
- Entuity has grown its revenues and had its second year of profitability, boosted by additions to its sales partner network;
- Wesupply achieved profitability in the fourth quarter after cutting costs and redirecting its sales focus to the SME marketplace.

On the minus side:

- Citizen (Vio) was unable to build critical mass and was sold;
- Kizoom continues to experience similar difficulties – it sold its software business in the third quarter and we are currently at an advanced stage to sell the remaining hardware business;
- We are seeking to dispose of CopperEye – it needs an owner that can incorporate their technology into a bigger platform;
- ITS has been unable to convert sufficient sales opportunities into orders and management are preparing a report on the options for the business, which will focus on maximising value for shareholders.

Our key reportable metrics are:

	2007	2008	2009	**2010**
Net profit (£m) (Note 1)	29.8	(40.8)	(12.7)	**17.6**
Owned EBITDA (£m) (Note 2)	(14.2)	(9.9)	(3.0)	**7.5**
NAV per share (pence)	101	89	84	**90**

Notes:

1. This is the profit of our investment management business as defined in Note 2 to our financial statements.
2. This is our share of the EBITDA of each of the investments in our portfolio, including investments by San Francisco Equity Partners, based on our % stake. It is not derived from the consolidated financial information.

Based on the 2011 plans of our direct investments, we expect continuing improvement in these figures during 2011.

Review of investments

Quoted securities

We sold a number of our holdings during 2010 and you should expect to see more realisations during 2011 as stocks hit the exit prices we have established. We started 2010 with 20 different securities and ended with 13. Of course a few stocks dominate this category, namely Weatherford and ProStrakan, in both of which we were one of the original investors. The board of ProStrakan recently announced that it was recommending to shareholders an offer at 130p per share, a significant premium to the market (and to our December 2010 carrying value).

We shall use the proceeds of sales of our quoted holdings to reinvest in direct investments. Our book value of quoted securities at year end was £63.2 million, including sales an increase of 29% over last year's value.

	31 December 2010			
Company	Share price	Book value £m	IRR for the year	
Weatherford	$22.8	30.0	33%	Energy
ProStrakan	£1.03	18.1	19%	Pharmaceuticals
GulfMark	$30.40	4.9	12%	Energy
Chyron	$2.20	3.9	12%	Media/technology

The above holdings represent 90% of the quoted portfolio.

Funds

We have 22 general partner relationships across 35 funds. Many of these funds are in sectors we know and a number are the lead investor in co-investments we hold. However committing to funds requires us to have access to cash or cash equivalents to meet the uncertain timing of cash calls, and we have no or limited access or influence over those investments. We have ceased to make new fund commitments and because most of our funds are coming to the end of their investment period, and in many cases are into the harvest period, we expect to see cash returned to us over the next few years.

Book value of our funds at year end was £114.5 million net of commitments and realisations a gain of 4% over the past 12 months. Our outstanding commitments at year end were £40.7 million (to be met from cash and equivalents), down from £58.7 million at the end of 2009; with the reduction in size of one fund the outstanding commitment today is £36 million.

	31 December 2010		
General partner	Book value £m	IRR for the year	
Brockton Capital	14.6	(3)%	UK property
BV Investments	9.4	18%	US buyouts
Scottish Equity Partners	5.7	14%	UK technology
Spectrum Equity Investors	4.4	40%	US technology
CMEA Ventures	4.0	24%	US technology
Amadeus Capital Partners	3.9	(8)%	UK venture capital
Weber Capital Partners	3.1	65%	US post-IPO technology
Brynwood Capital Partners	3.1	40%	US consumer
Cadent Energy	3.1	32%	US energy

The above holdings represent 70% of the funds portfolio (excluding San Francisco Equity Partners).

Direct investments

The number of our direct investments has been reduced throughout the year as we actively seek to focus on winners and exit those that have another better owner. We sold Vio, Corizon and Kizoom Software at a net loss in the year of £3.2 million and are looking to dispose of the balance of Kizoom and CopperEye. In order to succeed, these companies were in need of an owner that could fold their technology into a bigger platform. These companies were start ups when we invested and we do not intend to pursue this style of investing in the future.

We acquired stakes in three new companies during the year: Apogee (business services), Nationwide Energy Partners (energy) and Zoom Eyeworks (consumer products, via San Francisco Equity Partners). Total investment in these businesses was £22.1 million. In all cases our investment thesis foresees us investing additional monies into these companies to finance growth. It is our intention to seek similar opportunities: profitable and growing companies run by experienced managers in those sectors where we can add value.

In addition we provided follow-on monies for ITS, 365iT and Wesupply. Our direct investment portfolio at the year end was £75.4 million which was an increase of £15.1 million over 2009, after further write-downs on the legacy portfolio following strategic reviews during the year. Our direct investment portfolio is very lightly geared with third-party debt at 0.4 x EBITDA.

	31 December 2010		
Company	Book value £m	IRR for the year	
Method Products	17.6	0%	US consumer
Updata Infrastructure	14.0	84%	UK technology
HealthTech Holdings	12.6	80%	US technology
Nationwide Energy Partners	9.7	0%	US energy
Apogee Corporation	8.7	14%	UK technology
Rave Reviews	7.3	3%	US consumer
Penguin Computing	7.2	22%	US technology
Entuity	5.5	21%	UK technology
Luxury Link	5.1	4%	US consumer

The above holdings represent 75% of the direct portfolio (including San Francisco Equity Partners).

Over time you will see us exit some of our older holdings and acquire new ones. We shall constantly review our investments as there may always be someone willing to acquire our position at a value greater than we put on it and for some holdings there may be a more natural owner. But because we do not have to sell we spend our time thinking about growing and adding value rather than simply exiting.

Summary

The evolution of LMS to a lead investor in private companies is ongoing. Where previously we had a variety of investment themes and sector appetites we are now focused on direct investment only in three core sectors.

Over time you will see us exit some of our older holdings and acquire new ones. We shall constantly review our investments as there may always be someone willing to acquire our position at a value greater than we put on it and for some holdings there may be a more natural owner. But because we do not have to sell we spend our time thinking about growing and adding value rather than simply exiting.

Our outlook for 2011 is positive: deal flow of profitable, growing companies is good and most of our direct investments are forecasting revenue growth this year as markets improve.

I have the pleasure of writing this report but the success of your company is attributable to a team of professionals who are committed to growing LMS into a bigger, better and successful company. I would like to thank the Board of LMS and the team working on your behalf: Pieter, Scott, Ed, Jamie, Jamie, David, Matthew, Tom, Alison, Dawn, Ela, Maia, Linda, Chris, Ray, Selina and Joe for their assistance, effort and successes in this past year. We have achieved much in 2010, and look forward to greater success in 2011.

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 2010 was £245.0 million (31 December 2009: £227.7 million), an increase of £17.3 million or 7%. The Net Asset Value per share was 90p (31 December 2009: 84p).

The Group's return on its investment portfolio for the year ended 31 December 2010 was a gain of £23.9 million (year ended 31 December 2009: loss of £4.9 million) as follows:

	Year ended 31 December	
	2010 £'000	2009 £'000
Realised gains/(losses)		
Quoted securities	**1,128**	2,503
Unquoted securities	**(3,154)**	(1,867)
Funds	**1,037**	(755)
	(989)	(119)
Unrealised gains/(losses)		
Quoted securities	**14,100**	9,741
Unquoted securities	**1,293**	(8,491)
Funds	**9,510**	(6,007)
	24,903	(4,757)
Total gain/(loss)	**23,914**	(4,876)

£245.0m

Net Asset Value at 31 December 2010

(31 December 2009: £227.7 million)

£17.3m

Increase in Net Asset Value of 7%

90p

Net Asset Value per share

(31 December 2009: 84p)

Approximately 61% of the portfolio at 31 December 2010 is denominated in US dollars (2009: 60%) and the above table includes the impact of currency movements. In the year ended 31 December 2010 the strengthening of the US dollar against pound sterling resulted in an unrealised foreign currency gain of £5.6 million. During the year ended 31 December 2009 there was a weakening of the dollar against pound sterling and the unrealised loss for that year was £13.5 million. It is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Realised gains on quoted securities include £0.7 million in connection with the sale of our shares in BJ Services, with the balance arising on the sale of other, smaller holdings during the year. The realised losses on unquoted securities arose principally on the disposals of Citizen (trading as Vio) and Corizon.

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 £14.1 million, £7.4 million is attributable to our holding in Weatherford International and £2.9 million to ProStrakan Group.

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

	Unrealised gain/(loss) £'000
Updata	6,482
HealthTech Holdings	5,622
Kizoom	(3,200)
Wesupply	(2,750)
CopperEye	(1,936)
ITS (US) Holdings	(2,938)
	1,280
Other investments (net)	13
Total unrealised gain, net	1,293

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

In most cases the multiples used are similar to those prevailing at the end of 2009. The unrealised gains or losses set out above for 2010 arise principally as a result of the companies' performance. The results of Updata and HealthTech Holdings have resulted in higher valuations for those businesses. Conversely, following continued disappointing results from Kizoom and CopperEye, we are actively seeking to exit these businesses and in the case of ITS a strategic review of the business is in progress.

The unrealised valuation gain on our fund interests includes £6.6 million net valuation increases and £2.9 million unrealised foreign currency gains. We utilise reports from the general partners of our funds 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 £0.9 million (year ended 31 December 2009: £0.5 million) and comprises dividends on quoted securities and management charges made to portfolio companies. Administration expenses for the year were £6.9 million (year ended 31 December 2009: £8.0 million, which included a number of one-off items); Net interest expense for the year was £0.2 million (year ended 31 December 2009: net income of £0.2 million) reflecting the fact that the Company drew down all of its loan facility during the year. The tax charge for the year was £0.4 million (year ended 31 December 2009: £0.3 million).

Investments

The Group's investments are included in the balance sheet at fair values determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Additions to the investment portfolio during the year were £38.9 million (year ended 31 December 2009: £32.7 million) of which £17.6 million (2009: £7.6 million) was for new investments, £17.1 million (2009: £14.8 million) to meet capital calls from funds and £4.2 million (2009: £10.3 million) for follow-on investments. There were no purchases of quoted securities during the year (2009: nil); the new investments were $14.1 million (£9.7 million) for our stake in Nationwide Energy Partners and £7.9 million for our interest in Apogee Group.

Proceeds of realisations were £24.3 million (2009: £13.9 million) including sales of quoted securities of £6.2 million (2009: £6.9 million) and distributions from funds of £13.7 million (2008: £5.6 million).

At 31 December 2010 the Group had commitments of £40.7 million (31 December 2009: £58.7 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 2010 liquid assets were £72.5 million.

Consolidated results

Consolidated revenues for the year from continuing operations were £47.9 million (2009: £29.8 million), all in the portfolio subsidiaries. The increase over the previous year reflects the inclusion of Updata for a full year (acquired in July 2009) and of NEP (from acquisition at the end of May 2010).

Consolidated operating expenses of continuing operations were £60.2 million (2009: £46.1 million), including goodwill impairment charges of £7.7 million (2009: £4.6 million). The increase in operating expenses (excluding goodwill impairment charges) reflects principally the inclusion of Updata and NEP as set out above.

The consolidated profit from continuing operations was £15.2 million (2009: loss of £12.4 million); discontinued operations (being the impact of the sale of Citizen in September) contributed a loss of £2.6 million (2009: loss of £2.4 million).

Financial position

The consolidated balance sheet at 31 December 2010 includes cash and cash equivalents of £13.2 million (31 December 2009: £17.0 million) and borrowings of £23.4 million (31 December 2009: £7.6 million). Cash in the investment management business was £9.3 million (31 December 2009: £14.4 million) and borrowings were £14.3 million under the Company's £15 million borrowing facility with The Royal Bank of Scotland.

Glenn Payne
Chief Executive Officer

28 March 2011

Board of Directors

Robert Rayne†‡
Non-Executive Chairman
Age: 62

Directorships:
Non-executive chairman of Derwent London plc and a non-executive director of Weatherford International Ltd, Chyron Corporation and Richoux Group plc as well as a number of charitable trusts and foundations.

Experience:
Robbie has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. He established the Company's investment activities in the early 1980s as investment director and later managing director and chief executive of London Merchant Securities plc.

Glenn Payne‡
Chief Executive Officer
Age: 46

Directorships:
A number of Group companies.

Experience:
Glenn joined LMS Capital as CEO on 1 March 2010. Previously, he was a director at First Reserve Corporation, a leading private equity 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 a consultant 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.

Antony Sweet‡
Chief Financial Officer
Age: 56

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

Experience:
In addition to his finance responsibilities Tony oversees the Company's HR requirements and also participates as a member of the Investment Committee. 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.

John Barnsley*#†
Senior Independent Non-Executive Director
Age: 62

Directorships:
Grainger plc, American Appraisal (UK) Limited 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.

Richard Christou#†
Non-Executive Director
Age: 66

Directorships:
Chairman, Fujitsu EMEA PLC.

Experience:
Richard 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.

Bernard Duroc-Danner†
Non-Executive Director
Age: 57

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

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

Mark Sebba*#†
Non-Executive Director
Age: 62

Directorships:
Net-A-Porter Limited

Experience:
Mark is the chief executive officer of Net-a-Porter, the pre-eminent luxury global fashion internet magazine and retailer with operations in both the UK and US. He has extensive experience in business services to the retail sector and of international markets.

Prior to joining Net-A-Porter in 2003, Mark was Finance Director at Video Networks Limited and Golden Rose Communications Plc. He has also worked in investment banking and is a qualified Chartered Accountant.

David Verey*#†
Non-Executive Director
Age: 60

Directorships:
Daily Mail & General Trust plc, Sofina S.A., a member of the supervisory board of Bank Gutmann and a senior advisor to Lazard & Co.

Experience:
David has over 30 years of experience in the industry. He worked for Lazard Brothers for 28 years becoming Chief Executive in 1990 and Chairman two years later. He is a past Chairman of Blackstone Group UK.

Investment team

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.

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.

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.

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

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.

David Mannix
Vice-President,
San Francisco
Equity Partners

David joined SFEP in 2010 focusing on investments in the consumer products, consumer services and business services industries. David works closely with SFEP's portfolio companies and serves on the board of directors of Zoom Eyeworks.

Prior to joining SFEP, David has worked for The BearFund, Castanea Partners, RBC Capital Markets and as an independent consultant to portfolio companies of private equity funds.

David earned an MBA with Honors from the University of California at Berkeley and a BA in Economics from Stanford University.

Corporate governance report

The Board of LMS Capital plc is committed to maintaining high standards of corporate governance and business ethics.

This report is made under the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code') in June 2008 and the period under review is the year ended 31 December 2010. A new UK Corporate Governance Code was introduced in June 2010 and will govern future corporate governance reports by the Company. Copies of both Codes are 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 Board considers that the Company has complied with, or explained why it has not complied with, all of the provisions of the Code throughout the period under review.

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

The Board is comprised of eight directors, being six non-executive directors (including the non-executive Chairman) and two executive directors.

Brief biographies of the directors appear on page 14. 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

Each non-executive director is appointed for a term of three years. Subject to agreement, satisfactory performances and re-election by shareholders, their directorships may be renewed for further terms. Mark Sebba was appointed as a non-executive director on 28 September 2010 and will stand for election at the Annual General Meeting to be held on 12 May 2011 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, Mark Sebba 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 2010 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

Nine board meetings were held in 2010. 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.

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 2010:

	Board	Audit	Remuneration	Nomination
Meetings held	9	4	4	2
Jonathan Agnew[1]	5	1	–	1
John Barnsley	9	4	4	2
Richard Christou	7	–	4	2
Bernard Duroc-Danner[2]	4	–	–	1
Glenn Payne[3]	7	–	–	–
Robert Rayne	9	–	–	2
Mark Sebba[4]	1	1	1	1
Antony Sweet	9	–	–	–
David Verey	9	4	4	2

Notes:

1. Mr Agnew resigned from the Board on 13 May 2010.
2. As a result of other business commitments, Dr Duroc-Danner was not able to attend all of the Board meetings. However, he did receive the papers for each meeting and his feedback was provided to the Chairman and other non-executive directors for them to consider and vice-versa. Thus he was able to contribute to the decisions being taken by the Board.
3. Mr Payne was appointed on 1 March 2010.
4. Mr Sebba joined the Board on 28 September 2010 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
The Audit Committee currently comprises John Barnsley (Committee Chairman), Mark Sebba (who joined the Committee on 28 September 2010) and David Verey. 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 2010. 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.

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. During 2010, KPMG provided non-audit services, namely corporate and payroll taxation advice. The fees paid to them for this work was £28,000.

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.

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, Mark Sebba (who joined the Committee on 28 September 2010) and David Verey. The composition and role of the Remuneration Committee is described more fully in the Remuneration report.

Nomination Committee
The Nomination Committee currently comprises Robert Rayne, who chairs the Committee, John Barnsley, Richard Christou, Bernard Duroc-Danner, Mark Sebba (who joined the Committee on 28 September 2010) and David Verey. 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 2010, the Committee met twice. The Committee met in January 2010 to consider and ultimately 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. 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 allows continued access to the network and relationships developed by Robert Rayne over the last 40 years; and

(2) It provides the Company with continued access to the advisory boards of a number of funds.

Mr Rayne acted initially as an executive chairman to assist with the transition to Glenn Payne as Chief Executive Officer and on 1 October 2010, Mr Rayne became non-executive Chairman. Mr Rayne is also non-executive Chairman of Derwent London plc and a non-executive director of both Weatherford International Limited, Chyron Corporation and Richoux Group plc.

The Committee also met in September 2010 to discuss and approve the appointment of Mark Sebba as a non-executive director. As Chief Executive Officer of Net-A-Porter his experience in business services to the retail sector and his international experience will be of great benefit to the Company. Prior to the Nomination Committee in September, each member of the Committee met with Mr Sebba on a one-to-one basis to satisfy themselves that he had the balance of skills and experience necessary to benefit the Board and that he was independent for the purposes of the Code.

Investment Committee

In addition to the principal Board committees described above, there is also an Investment Committee. This currently comprises Glenn Payne, who chairs the Committee, Antony Sweet, Pieter Hooft, Ed Snow and Robert Rayne.
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 in practice meets 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 Barnsley and Christou will retire at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election at the meeting. Mr Sebba (who was appointed to the Board on 28 September 2010) will 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 14.

Board appraisal

Due to the changes in the Board composition in 2010, no appraisal took place as it was felt that such an appraisal would not be beneficial at that time. An appraisal will take place in 2011.

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 the effectiveness of the Company's internal controls 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 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 2010 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 the principal risks and uncertainties facing the Group can be found on pages 22 and 23.

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.

Financial reporting

The directors have acknowledged, in the Statement of directors' responsibilities set out on page 36, their responsibility for preparing the financial statements of the Company and the Group. The external auditors have included, in the Independent auditor's report set out on pages 37 and 38, 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 fair 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 34.

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 4 to 10. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 11 to 13. 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.

Robert A Rayne
Chairman

28 March 2011

Principal risks and uncertainties

This section provides a summary of the principal risks and uncertainties that could have a material adverse effect on the Group's strategy, performance and financial condition. The Group has an ongoing process for identifying, evaluating and managing risk with the aim of mitigating the impact of the risks and uncertainties to which the business is exposed. This process provides reasonable, rather than absolute, assurance in managing risk and cannot eliminate it.

The Group's risk profile is a combination of two elements – the Group's own strategy, including the actions taken within that strategic framework, and the effects of changes in the external economic environment in which it operates, including the impact on the companies in its investment portfolio. In reviewing and approving the Group's strategy, the Board took into account the risks which could have a material effect on the achievement of the Group's objectives, as well as the risks associated with alternative strategies. It then satisfied itself that the Group's risk management process was appropriate in the context of the agreed strategy.

The Audit Committee oversees the Group's risk management process and is provided with a report on risk management at each of its meetings. The management of specific risks is the responsibility of the executive directors and members of the Group's senior management team.

The principal risks and uncertainties summarised below are not set out in order of probability of occurrence or materiality; the Group may also be adversely affected by other risks and uncertainties besides those described here.

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 the performance and growth rates of the Company's investments. The investment portfolio may not achieve the Company's growth targets which may result in the Company's Net Asset Value and net income declining. We seek to mitigate the potential impact of this by monitoring the trading performance 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 detailed 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 has a revolving credit facility of £15 million, which was almost fully drawn down at 31 December 2010. 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 its quoted investments, as well as to 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 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. Before the Group makes a new investment, we undertake rigorous diligence into the business concerned. We understand the company's business plan; evaluate information on its marketplace 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.

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 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 2010. The report has been prepared in accordance with the Companies Act 2006 ('the Act') and the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 ('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 2010' 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 2010 being:

- Richard Christou (Committee Chairman)
- John Barnsley
- Mark Sebba (appointed 28 September 2010)
- David Verey

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, Mark Sebba 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, in addition to providing other corporate legal advice on an ad hoc basis. The Committee has also considered remuneration data provided by Deloitte, Spencer Stuart (executive recruitment specialists) and McLagan (specialists in compensation benchmarking for the private equity sector).

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;
- be based upon individual and business contribution;
- is retentive in the long term; and
- is 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 around the median of the market compared with other entities of similar size in the private equity sector. 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, 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 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 a significant proportion of their total remuneration is provided in the form of variable compensation. The bonus target is 100% assuming a good market and the achievement of the targets set by the Committee.

Share-based incentives The Committee considers the grant of share-based incentives to executive directors and other executives. The Committee made awards under the Performance Share Plan following publication of the Company's results for 2009. The Committee reviewed the share-based 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.

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 have been made as follows:

	No. of shares	First release date	Final release date	Expiry date	Outstanding at 31 December 2010
Award made on 30 March 2007(1)					
Robert Rayne	2,864,292	30 March 2008	30 March 2011	30 March 2017	–
Award made on 13 April 2010(2)					
Glenn Payne	1,500,000	13 April 2011	13 April 2014	12 April 2020	1,500,000
Antony Sweet	100,000	13 April 2011	13 April 2013	12 April 2020	100,000
Total					**1,600,000**

(1) For those shares awarded on 30 March 2007 to Mr Rayne, the performance condition for the first release at 30 March 2008 was satisfied and the Committee exercised its discretion and paid cash instead of issuing shares to satisfy the exercise. The performance conditions for the second, third and fourth releases have not been satisfied and the options for Mr Rayne have now lapsed.

(2) For those shares awarded on 13 April 2010, the performance condition for the first release is expected to be satisfied.

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.

The performance conditions for the award of options granted in April 2008, at a price of 74.00p, have not been satisfied and therefore the options have lapsed. The market price of an ordinary share at 31 December 2010 was 45.00p and the range during the year was 40.00p to 56.25p. There are no outstanding awards of options under this Plan.

Performance Share Plan

The rules of the Plan, approved by shareholders, permit an annual award of performance shares (in the form of nil cost options) 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.

During 2010, the performance conditions for the Plan were changed. For those awards granted in 2009, the performance conditions state that for one half of the award the performance condition is that the 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 the Net Asset Value per share over the period must exceed the increase in the Retail Prices Index (RPI) 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.

For those awards granted in 2010, and onwards, the performance conditions are that for 25% of the total award to vest, the performance condition is that TSR over the three year measurement period must exceed the median Total Shareholder Return of the FTSE All-Share Index. For the remaining 75% of the award, the increase in Net Asset Value per share over the period must exceed the increase in RPI by at least 3% per annum. At RPI plus 3%,18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to the remaining 75% 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.

During 2010 awards of shares were made as follows:

	Grant date	No. of shares	First release date	Expiry date
Robert Rayne	6 April 2009	662,505	6 April 2012	5 April 2019
	13 April 2010	683,451	13 April 2013	12 April 2020
Antony Sweet	6 April 2009	329,172	6 April 2012	5 April 2019
	13 April 2010	259,789	13 April 2013	12 April 2020

Awards will be made in 2011 to Mr Payne (100% of basic salary) and Mr Sweet (67% of basic salary). In addition, an award will be made to Mr Rayne in 2011 based on 100% of his salary as an executive director during 2010. Thereafter, no further awards under the Plan will be made to Mr Rayne.

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

For 2009 and previous pools, 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.

For 2010 and future pools, carried interest will be payable in respect of pre-tax net capital gains on investments, after a hurdle of 8% is reached, which is more usual practice in the private equity sector.

The percentage of eligible capital gains which may be allocated to participants in aggregate may not exceed 20%. Participants are allocated a proportion of this overall maximum at the commencement of each annual pool and may be diluted by new joiners during the life of the pool up to a maximum of 20%. The rules also include provision for reduction in the proportion allocated to each participant in the event that person ceases to be an employee.

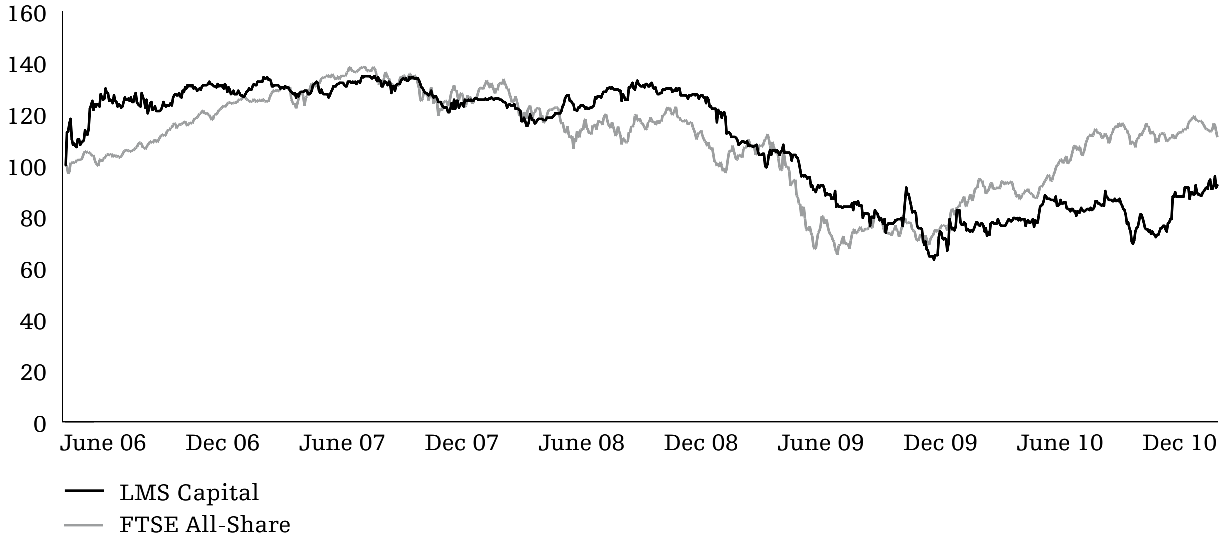
No carried interest payments were made in the year ended 31 December 2010.

Performance graph

The Committee considers the FTSE All-Share 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 All-Share 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
Glenn Payne	1 March 2010	22 March 2010	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.

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 expiry of current term
John Barnsley	7 April 2006	18 May 2012
Richard Christou	7 April 2006	18 May 2012
Bernard Duroc-Danner	7 April 2006	13 May 2013
Robert Rayne[1]	6 April 2006	30 September 2013
Mark Sebba[2]	28 September 2010	12 May 2011
David Verey	7 September 2009	13 May 2013

Notes:

1. Mr Rayne commenced his term as non-executive Chairman on 1 October 2010.
2. Mr Sebba was appointed to the Board in September 2010. In accordance with the Company's Articles of Association he will offer himself for election at the forthcoming Annual General Meeting. Subject to him being successfully elected, his term of appointment will be for a period of three years.

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	£100,000
Remuneration Committee Chairman	£45,000
Audit Committee Chairman	£45,000
Non-executive not chairing a committee	£40,000

Under Mr Rayne's letter of appointment as non-executive Chairman he participates in the Company's carried interest plan in recognition of his continued contribution to the Company's marketing activities through his network of contacts developed over the last 40 years and his input and advice to the investment decision making process.

The other non-executive directors do not participate in the Company's incentive plans.

The letters of appointment for the non-executive directors provide for termination by either party by giving one month's notice, six months in the case of Mr Rayne.

Directors' remuneration in 2010

The following table shows the total remuneration earned in respect of 2010.

	Salary/fees £000	Car allowance £000	Benefits-in-kind[1] £000	Pension £000	Bonus £000	**2010 Total £000**	2009 Total £000
Jonathan Agnew[2]	31	–	–	–	–	**31**	75
John Barnsley	45	–	–	–	–	**45**	45
Richard Christou	45	–	–	–	–	**45**	45
Bernard Duroc-Danner	40	–	–	–	–	**40**	40
Glenn Payne[3]	250	–	3	37	300	**590**	–
Robert Rayne executive	276	15	15	–	150	**456**	638
Robert Rayne[4] non-executive	25	–	5	–	–	**30**	–
Mark Sebba[5]	10	–	–	–	–	**10**	–
Antony Sweet	198	15	10	30	200	**453**	353
David Verey	40	–	–	–	–	**40**	13
Total	960	30	33	67	650	**1,740**	1,209

Notes:

1. Benefits-in-kind for executive directors are insurances and subsidised gym membership.
2. Until date of resignation, being 13 May 2010.
3. From date of appointment, being 1 March 2010.
4. Under Mr Rayne's letter of appointment as non-executive chairman, he is entitled to cover under the Company's various insurance policies.
5. From date of appointment, being 28 September 2010.
6. 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.
7. Fees payable to non-executive directors in 2010 from companies to which they were nominated as directors by LMS Capital were as follows:
   - John Barnsley £20,000

In setting executive directors' salaries for 2011, 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 2011, Mr Payne's salary was increased by £30,000 and Mr Sweet's salary was increased by £17,000, including the consolidation of his car allowance which has now been removed from his service contract.

Directors' pension entitlements

Mr Payne and Mr Sweet receive contributions into a personal pension arrangement of 15% of base salary. No other director receives a pension contribution.

Directors' share interests

The beneficial interests of those directors who held office at 31 December 2010 in the ordinary shares of the Company are set out below.

	At 31 December 2010	At 31 December 2009
John Barnsley	**317,000**	317,000
Richard Christou	**169,965**	169,965
Bernard Duroc-Danner	**550,800**	550,800
Glenn Payne	**100,000**	0[1]
Robert Rayne	**8,208,356**	8,208,356
Mark Sebba	**210,000**	0[2]
Antony Sweet	**1,702**	1,702
David Verey	**309,000**	0

Notes

1. At date of appointment, being 1 March 2010.
2. At date of appointment, being 28 September 2010

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 2010 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

28 March 2011

Directors' report

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2010.

Principal activities

LMS Capital plc is an international investment company whose shares are traded on the Main Market of the London Stock Exchange. The investment portfolio comprises quoted securities, third party funds and direct investments in both the UK and the US.

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 4 to 10;
- Financial review on pages 11 to 13;
- Corporate governance report on pages 16 to 21;
- Principal risks and uncertainties facing the business on pages 22 and 23;
- Directors' remuneration report on pages 24 to 31; and
- Directors' responsibilities in relation to the financial statements on page 36.

For the purpose of DTR 4.1.8R, this report, including those sections above incorporated by reference, is deemed to be the management report.

Corporate and social responsibility report

The Group has analysed and considered its social, environmental and ethical risks and found none to be material. The Company Secretary of LMS Capital is responsible for monitoring the Company's corporate and social responsibility and feedback to the Board is provided where applicable.

As part of the due diligence undertaken when making an investment, the Company looks at the potential investment's record on environmental and social matters to satisfy itself that the investment is responsibly managed in this area.

Employees

The total number of employees employed by the Group, as at 31 December 2010, was 251 (31 December 2009: 292). 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.

As far as is practicable, employees participate in incentive plans linked to the long-term performance of their employing company. LMS Capital employees participate in its performance share plan.

Should an LMS Capital 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.

Environment
LMS Capital ensures that it reduces its environmental impact wherever possible. A carbon audit review was undertaken in 2010 for the Company by the Ethical Property Foundation and recommendations were made concerning business travel, the use of videoconferencing and improving the premises to make them more energy efficient. Since the audit was undertaken the Company has moved to and refitted new premises. As part of the refit, it installed environmentally friendly fittings (such as motion sensor lighting) and used recycled materials wherever possible. Some of the materials removed as part of the fit out were recycled by an investee company in their new premises. Any surplus office equipment resulting from the move was either given away to charities or disposed off in a responsible and environmentally friendly manner. Videoconferencing facilities are available to reduce business travel where possible.

The new premises are more modern and energy efficient than the previous one and under the lease for the new premises the Company and its landlord have agreed to:

(1) devise and comply with an energy management plan to aid the sustainability of resource use;

(2) operate initiatives to reduce, reuse and recycle waste;

(3) maintain and share energy data and other information required to monitor energy and resource consumption to ensure that the premises are used and any services provided by the landlord are performed in accordance with an energy management plan and in a way which improves energy efficiency.

Office waste is recycled and segregated wherever possible. During 2010, the Company produced 920 bags of waste of which nearly 49% were recycled. The Company will endeavour to increase this percentage during 2011.

The majority of the Company's employees travel to the office using public transport.

Charitable donations
The Group did not make any charitable donations during 2010 (2009: £3,500). LMS Capital does provide office accommodation and services within its premises for The Rayne Foundation (www.raynefoundation.org.uk) without charge. The Rayne Foundation aspires to understand and engage with the needs of UK society, and to find ways and means to help address those needs. It focuses on work which has wider than just local application, or which is of national importance, within four sectors: Arts, Education, Health & Medicine, and Social Welfare & Development.

In addition, LMS Capital provides the use of its meeting rooms and facilities to two charities: The Chicken Shed Theatre Company (www.chickenshed.org.uk) and The Place2Be (www.theplace2be.org.uk), for their trustee meetings and other functions.

Individual fund raising activities by employees of the Group are supported by their respective employer and colleagues.

Political donations
The Group did not make any political donations during 2010 (2009: £nil).

Creditor payment policy
LMS Capital'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 2010, trade creditors of the Company had an average of approximately 31 days outstanding (31 December 2009: 31 days). There is no creditor payment policy in force for the Group as a whole.

Contractual arrangements

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

Related party transactions

In January 2011, the Company moved office to 100 George Street, London W1U 8NU. The landlord of this property is Derwent London plc. Robert Rayne is also non-executive Chairman of Derwent London plc. Weatherford International Limited, who were previously subletting a floor of Carlton House, 33 Robert Adam Street, London W1U 3HR (the Company's previous office) contributed £450,000 towards the Company's office move so that it could take on the lease for the whole of Carlton House. Both Robert Rayne and Bernard Duroc-Danner are directors of Weatherford International Limited and LMS Capital plc holds shares in Weatherford International Limited. Independent legal advice was sought by all parties on these transactions.

Dividends

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2010 (31 December 2009: £nil).

Directors

The names and biographical details of the current directors of the Company are given on page 14. In addition, further information about the Board is set out in the Corporate governance report on pages 16 to 21. During the year, Robert Rayne moved from being Chief Executive Officer to non-executive Chairman, Glenn Payne was appointed as Chief Executive Officer on 1 March 2010 and Mark Sebba was appointed as non-executive director on 28 September 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 24 to 31. 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 28 March 2011, 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 24 to 31. There are no restrictions on the transfer of shares.

Substantial shareholdings

As at 28 March 2011, 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]	41,803,802	15.33
Schroders plc[2]	37,367,973	13.71
Trustees of Lord Rayne's Will Trust[1]	35,152,624	12.89
Lady Jane Rayne[1]	27,494,405	10.08
Jupiter Asset Management Limited[3]	21,814,614	8.00
Taube Hodson & Stonex Partners LLP	13,536,161	4.96
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	3.04

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 12 noon on 12 May 2011. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the Annual General Meeting, 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

28 March 2011

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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, Directors' remuneration report and Corporate governance statement 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 that to the best of our knowledge:

- 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 issuer 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

G Payne
Chief Executive Officer

A C Sweet
Chief Financial Officer

28 March 2011

Independent auditor's report to the members of LMS Capital plc

We have audited the financial statements of LMS Capital plc for the year ended 31 December 2010 set out on pages 39 to 79. 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 auditor

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit 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 directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept 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 directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 21, in relation to going concern;
- the part of the Corporate governance statement on pages 16 to 21 in this Annual Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Anthony Cecil (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

28 March 2011

Consolidated income statement

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Continuing operations			
Revenue from sales of goods and services	2	**47,869**	29,819
Gains and losses on investments	2	**29,331**	3,998
Interest income	3	**37**	166
Dividend income	4	**35**	133
Other income from investments	4	**939**	840
		78,211	34,956
Operating expenses	5	**(60,241)**	(46,102)
Profit/(loss) before finance costs		**17,970**	(11,146)
Finance costs	7	**(1,234)**	(327)
Profit/(loss) before tax		**16,736**	(11,473)
Taxation	8	**(1,567)**	(926)
Profit/(loss) from continuing operations		**15,169**	(12,399)
Discontinued operations			
Loss from discontinued operations (net of taxation)	9	**(2,634)**	(2,352)
Profit/(loss) for the year		**12,535**	(14,751)
Attributable to:			
Equity holders of the parent		**10,984**	(15,148)
Non-controlling interests		**1,551**	397
		12,535	(14,751)
Earnings/(loss) per ordinary share – basic	10	**4.0p**	(5.6)p
Earnings/(loss) per ordinary share – diluted	10	**3.9p**	(5.6)p
Continuing operations			
Earnings/(loss) per ordinary share – basic	10	**5.0p**	(4.7)p
Earnings/(loss) per ordinary share – diluted	10	**4.9p**	(4.7)p

The notes on pages 46 to 79 form part of these financial statements.

Consolidated statement of comprehensive income

Group

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit/(loss) for the year	**12,535**	(14,751)
Exchange differences on translation of foreign operations	**(113)**	(200)
Total comprehensive profit/(loss) for the year	**12,422**	(14,951)
Attributable to:		
Owners of the parent	**10,871**	(15,348)
Non-controlling interests	**1,551**	397
	12,422	(14,951)

The notes on pages 46 to 79 form part of these financial statements.

Consolidated statement of financial position

	Notes	31 December 2010 £'000	31 December 2009 £'000
Non-current assets			
Property, plant and equipment	11	**9,491**	7,057
Intangible assets	12	**28,123**	29,525
Investments	13	**220,703**	188,133
Other long-term assets		**43**	80
Non-current assets		**258,360**	224,795
Current assets			
Inventories	14	**1,851**	812
Operating and other receivables	15	**12,818**	10,768
Cash and cash equivalents	16	**13,229**	16,950
Current assets		**27,898**	28,530
Total assets		**286,258**	253,325
Current liabilities			
Bank overdrafts	16	**–**	(369)
Interest-bearing loans and borrowings	17	**(18,812)**	(2,394)
Operating and other payables	18	**(13,859)**	(7,921)
Deferred income	19	**(5,014)**	(8,704)
Current tax liabilities		**(2,276)**	(1,007)
Current liabilities		**(39,961)**	(20,395)
Non-current liabilities			
Interest-bearing loans and borrowings	17	**(4,597)**	(4,795)
Deferred income	19	**(2,084)**	(2,116)
Deferred tax liabilities	20	**(614)**	(401)
Other long-term liabilities		**(172)**	–
Non-current liabilities		**(7,467)**	(7,312)
Total liabilities		**(47,428)**	(27,707)
Net assets		**238,830**	225,618
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		**899**	1,012
Retained earnings		**117,827**	106,773
Equity attributable to owners of the parent		**235,709**	224,768
Non-controlling interests		**3,121**	850
Total equity	21	**238,830**	225,618

The financial statements on pages 39 to 79 were approved by the Board on 28 March 2011 and were signed on its behalf by:

....

G Payne
Director

The notes on pages 46 to 79 form part of these financial statements.

Company statement of financial position

	Notes	31 December 2010 £'000	31 December 2009 £'000
Non-current assets			
Property, plant and equipment	11	**339**	158
Investments in subsidiaries	13	**281,801**	281,801
Non-current assets		**282,140**	281,959
Current assets			
Operating and other receivables	15	**198**	743
Amounts receivable from subsidiaries	15	**26,231**	11,607
Cash and cash equivalents	16	**2,679**	4,277
Current assets		**29,108**	16,627
Total assets		**311,248**	298,586
Current liabilities			
Interest bearing loans	17	**(14,281)**	–
Operating and other payables	18	**(2,292)**	(1,960)
Amounts payable to subsidiaries	18	**(70,018)**	(68,760)
Current liabilities		**(86,591)**	(70,720)
Net assets		**224,657**	227,866
Equity			
Share capital	21	**27,265**	27,265
Capital redemption reserve		**5,635**	5,635
Retained earnings		**191,757**	194,966
Equity attributable to owners of the parent	21	**224,657**	227,866

The financial statements on pages 39 to 79 were approved by the Board on 28 March 2011 and were signed on its behalf by:

G Payne
Director

The notes on pages 46 to 79 form part of these financial statements.

Statements of changes in equity

Group

	Share capital £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Non-controlling Interests £'000	Total equity £'000
Balance at 1 January 2009	27,265	5,635	84,083	1,212	122,741	240,936	147	241,083
Total comprehensive income for the period								
Loss for the year	–	–	–	–	(15,148)	(15,148)	397	(14,751)
Other comprehensive loss	–	–	–	(200)	–	(200)	–	(200)
Changes in ownership interests								
Acquisition of non-controlling interest with a change in control	–	–	–	–	–	–	306	306
Transactions with owners, recorded directly in equity								
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
Total comprehensive income for the period								
Profit for the year	–	–	–	–	10,984	10,984	1,551	12,535
Other comprehensive loss	–	–	–	(113)		(113)	–	(113)
Changes in ownership interests								
Acquisition of non-controlling interest with a change in control	–	–	–	–	–	–	967	967
Disposal of non-controlling interest without a change in control	–	–	–	–	–	–	(247)	(247)
Transactions with owners, recorded directly in equity								
Share-based payments	–	–	–	–	70	70	–	70
Balance at 31 December 2010	**27,265**	**5,635**	**84,083**	**899**	**117,827**	**235,709**	**3,121**	**238,830**

Company

	Share capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2009	27,265	5,635	210,842	243,742
Total comprehensive income for the period				
Loss for the year	–	–	(15,056)	(15,056)
Transactions with owners, recorded directly in equity				
Share-based payments	–	–	(820)	(820)
Balance at 31 December 2009	27,265	5,635	194,966	227,866
Total comprehensive income for the period				
Loss for the year	–	–	(3,279)	(3,279)
Transactions with owners, recorded directly in equity				
Share-based payments	–	–	70	70
Balance at 31 December 2010	**27,265**	**5,635**	**191,757**	**224,657**

The notes on pages 46 to 79 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Cash flows from operating activities			
Profit/(loss) for the year		**12,535**	(14,751)
Adjustments for:			
Depreciation and amortisation	5	**2,450**	1,762
Impairment of intangible assets	12	**7,665**	4,598
(Gains)/losses on investments	9	**(29,331)**	(3,998)
Loss on sale of discontinued operations, net of income tax		**2,015**	–
Loss on sale of property, plant and equipment		**–**	56
Translation differences		**(280)**	433
Share-based payments		**70**	(422)
Finance costs		**1,234**	342
Interest income		**(37)**	(166)
Income tax expense		**1,567**	939
		(2,112)	(11,207)
Change in inventories		**(1,039)**	(147)
Change in operating and other receivables		**(1,056)**	1,396
Change in operating and other payables		**1,317**	(2,219)
		(2,890)	(12,177)
Interest paid		**(1,234)**	(342)
Income tax paid		**(298)**	(321)
Net cash used in operating activities		**(4,422)**	(12,840)
Cash flows from investing activities			
Interest received		**37**	166
Acquisition of property, plant and equipment	11	**(3,737)**	(2,749)
Acquisition of intangible assets	12	**(1,433)**	–
Disposals of property, plant and equipment		**85**	3
Disposal of discontinued operations, net of cash disposed of	9	**165**	–
Other disposals		**1,560**	–
Acquisition of investments	13	**(26,991)**	(18,853)
Acquisition of subsidiaries, net of cash acquired	24	**(7,450)**	(6,116)
Proceeds from sale of investments		**23,880**	13,981
Net cash used in investing activities		**(13,884)**	(13,568)
Cash flows from financing activities			
Drawdown of interest bearing loans		**15,133**	554
Disposal of non-controlling interest without a change in control		**(247)**	–
Net cash from financing activities		**14,886**	554
Net decrease in cash and cash equivalents		**(3,420)**	(25,854)
Cash and cash equivalents at the beginning of the period		**16,581**	42,615
Effect of exchange rate fluctuations on cash held		**68**	(180)
Cash and cash equivalents at the end of the year		**13,229**	16,581
Cash and cash equivalents above comprise			
Cash and cash equivalents		**13,229**	16,950
Bank overdrafts		**–**	(369)
Cash and cash equivalents at the end of the year	16	**13,229**	16,581

The notes on pages 46 to 79 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Cash flows from operating activities			
Loss for the year		**(3,279)**	(15,056)
Adjustments for:			
Depreciation		**122**	144
Impairment of investments in subsidiaries	13	**–**	11,709
Share-based payments		**70**	(422)
Interest income		**(24)**	(60)
Income tax credit		**–**	(2,541)
		(3,111)	(6,226)
Change in operating and other receivables		**545**	(446)
Change in operating and other payables		**332**	6
Change in amounts due to subsidiaries		**(13,366)**	(1,121)
Net cash (used in)/from operating activities		**(15,600)**	(7,787)
Cash flows from investing activities			
Interest received		**24**	60
Acquisition of property, plant and equipment		**(303)**	(14)
Net cash (used in)/from investing activities		**(279)**	46
Cash flows from financing activities			
Drawdown of interest bearing loans		**14,281**	–
Net cash from financing activities		**14,281**	–
Net (decrease)/increase in cash and cash equivalents		**(1,598)**	(7,741)
Cash and cash equivalents at the beginning of the year		**4,277**	12,018
Cash and cash equivalents at the end of the year		**2,679**	4,277
Cash and cash equivalents above comprise			
Cash and cash equivalents		**2,679**	4,277
Bank overdrafts		**–**	–
Cash and cash equivalents at the end of the year	16	**2,679**	4,277

The notes on pages 46 to 79 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 2010 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 Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Group's business activities and financial position are set out in the Operating and Financial review on pages 4 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 28 March 2011.

The accounting policies set out below have been applied consistently for all periods. Certain comparative amounts have been reclassified to conform with the current year's presentation. In addition, the comparative consolidated income statement has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (see Note 9).

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:

IFRS 3: Business combinations (2008)

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 re-measurement of contingent consideration and business combinations achieved in stages.

The Group has applied IFRS 3: Business Combinations (2008) in accounting for business combinations with effect from 1 January 2010. The change in accounting policy has been applied prospectively and had no material impact on the earnings/loss per share for the year. The Group has elected to measure any non-controlling interest at the proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

1. Principal accounting policies (continued)

IAS 27 'Consolidated and separate financial statements' (2008)
The Group has also applied IAS 27 'Consolidated and separate financial statements' (2008) with effect from 1 January 2010 in accounting for acquisitions of and allocation of losses to non-controlling interests. The change in accounting policy has been applied prospectively and had no material impact on the earnings per share for the year.

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.

Basis of consolidation

The financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 December 2010. 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' financial statements are consolidated and restatements are made to comply with Adopted IFRS. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Prior to the adoption of IAS 27 (2008), losses in a subsidiary were only allocated to non-controlling interests to the extent that non-controlling interests do not have a deficit balance.

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.

Non-controlling interests are stated at their share of the fair value of the identifiable assets, liabilities and contingent liabilities recognised, except to the extent that applicable losses exceed non-controlling interests.

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

1. Principal accounting policies (continued)

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 investment management business.

Acquisitions and disposals of non-controlling interests
Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

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.

Goodwill

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

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 judgements 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.

1. Principal accounting policies (continued)

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; and
- 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.

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 statement of financial position.

1. Principal accounting policies (continued)

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 the 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.

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 reporting 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 reporting 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.

1. Principal accounting policies (continued)

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 recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

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.

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 license 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 reporting date the related income is deferred and recognised over the remaining life of the contract, generally on a straight-line basis.

1. Principal accounting policies (continued)

Revenues from energy provision are recognised based on metered consumption by customers; revenues from related services are recognised by reference to the stage of completion of the service provision at the reporting date.

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.

Lease payments
Payments made under operating leases are recognised in the 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.

1. Principal accounting policies (continued)

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the 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.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is restated as if the operation has been discontinued from the start of the comparative period.

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.

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. These adjustments include the elimination of intra-group transactions and adjustments in relation to goodwill.

2. Operating segments (continued)

Segment profit or loss

Year ended 31 December 2010	Investment management £'000	Reconciliation Portfolio subsidiaries £'000	Discontinued operations £'000	Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	47,869	–	–	47,869
Gains and losses on investments	23,914	–	–	5,417	29,331
Interest income	24	13	–	–	37
Dividend income	35	–	–	–	35
Other income from investments	920	(227)	–	246	939
Impairment of intangible assets	–	–	–	7,665	7,665
Finance costs	(338)	(3,202)	–	2,306	(1,234)
Continuing operations	17,562	(2,745)	–	352	15,169
Discontinued operations	–	–	(2,634)	–	(2,634)
Profit/(loss) for the year	17,562	(2,745)	(2,634)	352	12,535

Year ended 31 December 2009	Investment management £'000	Reconciliation Portfolio subsidiaries £'000	Discontinued operations £'000	Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	29,819	–	–	29,819
Gains and losses on investments	(4,876)	–	–	8,874	3,998
Interest income	159	7	–	–	166
Dividend income	133	–	–	–	133
Other income from investments	361	479	–	–	840
Impairment of intangible assets	–	–	–	(4,598)	(4,598)
Finance costs	–	(6,326)	–	5,999	(327)
Continuing operations	(12,660)	7,284	–	(7,023)	(12,399)
Discontinued operations	–	–	(2,352)	–	(2,352)
(Loss)/profit for the year	(12,660)	7,284	(2,352)	(7,023)	(14,751)

Segment net assets

31 December 2010	Investment management £'000	Reconciliation Portfolio subsidiaries £'000	Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	339	9,152	–	9,491
Intangible assets	–	11,502	16,621	28,123
Investments	253,140	–	(32,437)	220,703
Other non-current assets	–	43	–	43
Non-current assets	253,479	20,697	(15,816)	258,360
Cash and cash equivalents	9,326	3,903	–	13,229
Other current assets	590	14,661	(582)	14,669
Total assets	263,395	39,261	(16,398)	286,258
Total liabilities	(18,429)	(60,802)	31,803	(47,428)
Net assets/(liabilities)	244,966	(21,541)	15,405	238,830

The net asset value of the investment management business at 31 December 2010 is wholly attributable to the equity holders of the parent.

2. Operating segments (continued)

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 non-controlling interests.

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

	Year ended 31 December 2010			Year ended 31 December 2009		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	**35,164**	**79,371**	**114,535**	30,259	73,194	103,453
Quoted	**21,091**	**42,122**	**63,213**	17,274	34,601	51,875
Unquoted	**41,361**	**34,031**	**75,392**	39,849	20,455	60,304
	97,616	**155,524**	**253,140**	87,382	128,250	215,632

	Year ended 31 December 2010			Year ended 31 December 2009		
Asset type	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000
Funds	**1,037**	**9,510**	**10,547**	(755)	(6,007)	(6,762)
Quoted	**1,128**	**14,100**	**15,228**	2,503	9,741	12,244
Unquoted	**(3,154)**	**1,293**	**(1,861)**	(1,867)	(8,491)	(10,358)
	(989)	**24,903**	**23,914**	(119)	(4,757)	(4,876)

2. Operating segments (continued)

Revenues

The Group's revenues from external customers comprise:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Continuing operations		
IT services and software	**36,850**	22,178
Specialist manufacturing	**4,039**	7,641
Energy and related services	**6,980**	–
	47,869	29,819

Geographical information

	Revenues		Non-current assets	
	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000	31 December 2010 £'000	31 December 2009 £'000
Continuing operations				
United Kingdom	**31,527**	16,224	**93,924**	88,298
United States of America	**12,068**	7,611	**164,436**	136,497
Other countries	**4,274**	5,984	**–**	–
	47,869	29,819	**258,360**	224,795

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 one customer of the Group's Portfolio subsidiaries segment represents approximately 12% of the Group's total revenues. In 2009, no single customer contributed more than 10% of the Group's total revenues.

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 2010 £'000	Year ended 31 December 2009 £'000
Dividends from quoted securities	**35**	133
Investment management fees	**297**	360
Income from investments	**79**	314
Other	**563**	166
	974	973

5. Operating expenses

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Cost of sales	**21,884**	12,826
Administrative expenses	**38,357**	33,276
	60,241	46,102

Operating expenses include the following:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Depreciation	**2,212**	1,435
Goodwill impairment loss	**7,665**	3,456
Intangible asset amortisation	**238**	–
Auditors' remuneration:		
Fees to group auditors:		
– parent company	**70**	67
– subsidiary companies	**140**	133
Non-audit related services:		
– taxation advisory services	**28**	19
– other	**–**	80
Fees to non-group auditors	**185**	196

6. Personnel expenses

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Wages and salaries	**15,717**	15,740
Compulsory social security contributions	**2,424**	1,457
Contributions to defined contribution plans	**448**	544
Share-based payment transactions	**70**	(178)
	18,659	17,563

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 2010 (year ended 31 December 2009: nil). If the Group's investment portfolio were realised at its carrying amount at 31 December 2010, carried interest of £nil would become payable (31 December 2009: £nil).

7. Finance costs

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Interest on bank loans and overdrafts	**413**	94
Interest on other loans	**817**	219
Finance lease charges	**4**	14
	1,234	327

8. Taxation

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Current tax expense		
Current period	**1,569**	458
Adjustment for prior periods	**(2)**	224
	1,567	682
Deferred tax expense		
Origination and reversal of temporary differences	**–**	244
	–	244
Total tax expense	**1,567**	926

Reconciliation of effective tax rate

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit/(loss) before tax	**16,736**	(11,473)
Income tax using the Company's domestic tax rate – 28% (2009: 28.5%)	**4,686**	(3,270)
Recognition of previously unrecognised tax losses	**–**	(123)
Fair value adjustments not currently taxed	**(7,520)**	(1,901)
Non-deductible expenses	**2,306**	3,717
Non-taxable income	**(338)**	(234)
Deferred tax not recognised	**2,435**	2.513
Prior year adjustment	**(2)**	224
Total tax expense	**1,567**	926

9. Discontinued operations

In September 2010 the Group sold its entire interest in Citizen Limited.

Results of discontinued operations

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Revenues	**1,708**	2,706
Expenses	**(2,324)**	(5,046)
Results from operating activities	**(616)**	(2,340)
Taxation	**(3)**	(12)
Results from operating activities, net of tax	**(619)**	(2,352)
Loss on sale of discontinued operations, net	**(2,015)**	–
Tax on loss on sale of discontinued operations	**–**	–
Loss for the year	**(2,634)**	(2,352)
Basic and diluted loss per ordinary share	**(1.0)p**	(0.9)p

9. Discontinued operations (continued)

Cash used in discontinued operations

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Net cash used in operating activities	**(82)**	(413)
Net cash used in investing activities	**(17)**	(201)
Net cash from financing activities	**–**	–
Net cash used in discontinued operations	**(99)**	(614)

Effect of disposal on the financial position of the Group

	31 December 2010 £'000
Property, plant and equipment	(157)
Intangible assets	(2,561)
Trade and other receivables	(338)
Cash and cash equivalents	(54)
Bank overdrafts	475
Trade and other payables	770
Deferred Income	140
Net assets	(1,725)
Consideration received, satisfied in cash	219
Cash disposed of	(54)
Net cash inflow	165

10. Earnings/(loss) per ordinary share

The calculation of basic earnings per ordinary share is based on the profit of £10,984,000 (year ended 31 December 2009: loss of £15,148,000), being the profit for the year attributable to the owners of the Company, divided by the weighted average number of ordinary shares in issue during the year of 272,640,952 (year ended 31 December 2009: 272,640,952).

The calculation of earnings per ordinary share for continuing operations is based on the profit of £13,618,000 (year ended 31 December 2009: loss of £12,796,000), being the profit for the year from continuing operations attributable to the owners of the Company, divided by the weighted average number of ordinary shares in issue during the year of 272,640,952 (year ended 31 December 2009: 272,640,952).

The calculation of diluted earnings per ordinary share is based on the profit of £10,984,000, being the profit for the year attributable to the owners of the Company, divided by the weighted average number of ordinary shares in issue during the year of 278,266,853 after taking account of the potential dilutive effect of share options issued under the Company's share option plans.

The calculation of diluted earnings per ordinary share for continuing operations is based on the profit of £13,618,000, being the profit for the year from continuing operations attributable to the owners of the Company, divided by the weighted average number of ordinary shares in issue during the year of 278,266,853 after taking account of the potential dilutive effect of share options issued under the Company's share option plans.

There was no dilution effect in the preceding 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 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
Balance at 1 January 2010	**1,614**	**9,258**	**926**	**11,798**
Additions	**24**	**3,187**	**526**	**3,737**
Acquisitions through business combinations	**–**	**1,387**	**–**	**1,387**
Disposals	**–**	**(328)**	**(364)**	**(692)**
Disposals of discontinued operations	**–**	**(594)**	**(9)**	**(603)**
Other disposals	**–**	**–**	**(318)**	**(318)**
Effect of movement in exchange rates	**180**	**(125)**	**(21)**	**34**
Balance at 31 December 2010	**1,818**	**12,785**	**740**	**15,343**
Depreciation and impairment losses				
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
Balance at 1 January 2010	**921**	**3,432**	**388**	**4,741**
Depreciation charge for the year	**98**	**2,003**	**294**	**2,395**
Disposals	**–**	**(274)**	**(333)**	**(607)**
Disposals of discontinued operations	**–**	**(441)**	**(5)**	**(446)**
Other disposals	**–**	**–**	**(278)**	**(278)**
Effect of movement in exchange rates	**244**	**(179)**	**(18)**	**47**
Balance at 31 December 2010	**1,263**	**4,541**	**48**	**5,852**
Carrying amounts				
At 31 December 2009	693	5,826	538	7,057
At 31 December 2010	**555**	**8,244**	**692**	**9,491**

11. Property, plant and equipment (continued)

At 31 December 2010 land and buildings with a carrying amount of £555,000 (31 December 2009: £693,000) are subject to a registered debenture to secure bank loans.

At 31 December 2010 the carrying amount of plant and equipment includes £285,475 held under finance leases (31 December 2009: £278,000).

Company

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2009	162	295	457
Additions	14	–	14
Balance at 31 December 2009	176	295	471
Balance at 1 January 2010	**176**	**295**	**471**
Additions	**126**	**177**	**303**
Balance at 31 December 2010	**302**	**472**	**774**
Depreciation and impairment losses			
Balance at 1 January 2009	93	76	169
Depreciation charge for the year	54	90	144
Balance at 31 December 2009	147	166	313
Balance at 1 January 2010	**147**	**166**	**313**
Depreciation charge for the year	**129**	**(7)**	**122**
Balance at 31 December 2010	**276**	**159**	**435**
Carrying amounts			
At 31 December 2009	29	129	158
At 31 December 2010	**26**	**313**	**339**

12. Intangible assets

Group

	Intangible asset £'000	Software licence £'000	Goodwill £'000	Total £'000
Cost				
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
Balance at 1 January 2010	**–**	**2,088**	**48,094**	**50,182**
Acquisitions through business combinations	**1,916**	**–**	**7,077**	**8,993**
Acquisitions of intangible assets	**1,433**	**–**	**–**	**1,433**
Disposal of discontinued operations	**–**	**(2,088)**	**(1,860)**	**(3,948)**
Other disposals	**–**	**–**	**(1,165)**	**(1,165)**
Effect of movement in exchange rates	**(126)**	**–**	**–**	**(126)**
Balance at 31 December 2010	**3,223**	**–**	**52,146**	**55,369**
Impairment losses				
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
Balance at 1 January 2010	–	**(170)**	**(20,487)**	**(20,657)**
Impairment loss	**–**	**(75)**	**(7,665)**	**(7,740)**
Disposal of discontinued operations	**–**	**245**	**1,142**	**1,387**
Amortisation	**(238)**	**–**	**–**	**(238)**
Effect of movement in exchange rates	**2**	**–**	**–**	**2**
Balance at 31 December 2010	**(236)**	**–**	**(27,010)**	**(27,246)**
Carrying amounts				
At 31 December 2009	–	1,918	27,607	29,525
At 31 December 2010	**2,987**	**–**	**25,136**	**28,123**

The adjustment to goodwill at acquisition in 2009 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.

12. Intangible assets (continued)

An analysis of goodwill is set out below:

	Goodwill impairment recognised in the year ended 31 December 2010 £'000	Goodwill impairment recognised in the year ended 31 December 2009 £'000	Carrying amount 2010 £'000	Carrying amount 2009 £'000
ITS (US) Holdings Inc	**1,508**	64	**–**	1,508
Entuity Limited	**–**	–	**4,981**	4,981
Wesupply Limited	**776**	–	**4,344**	5,120
CopperEye Limited	**1,426**	1,585	**–**	1,426
Nationwide Energy Partners LLC	**–**	–	**7,077**	–
Kizoom Limited	**3,955**	1,806	**–**	5,121
Citizen Limited	**–**	1,143	**–**	718
Updata Infrastructure UK Ltd	**–**	–	**8,734**	8,733
	7,665	4,598	**25,136**	27,607

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:

		Unquoted securities			
	Quoted securities £'000	Equity £'000	Loans £'000	Funds £'000	Total £'000
Carrying value					
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
Balance at 1 January 2010	**51,876**	**26,278**	**6,525**	**103,454**	**188,133**
Purchases	**1,104**	**8,023**	**744**	**17,120**	**26,991**
Disposals	**(6,241)**	**(484)**	**(138)**	**(2,622)**	**(9,485)**
Distributions from partnerships	**–**	**–**	**–**	**(12,566)**	**(12,566)**
Fair value adjustments	**14,935**	**6,252**	**(2,707)**	**9,150**	**27,630**
Reclassifications	**1,538**	**(1,538)**	**–**	**–**	**–**
Balance at 31 December 2010	**63,212**	**38,531**	**4,424**	**114,536**	**220,703**

13. Investments (continued)

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).

	2010 £'000	2009 £'000
Level 1	**63,213**	51,876
Level 2	**–**	–
Level 3	**153,066**	129,732
	216,279	181,608

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:

	2010 £'000	2009 £'000
Opening balance	**129,731**	126,004
Total gain/(loss) in profit or loss	**15,402**	(6,290)
Purchases	**25,143**	16,353
Transfers to portfolio subsidiaries	**–**	–
Realisations	**(15,672)**	(6,335)
Reclassifications	**(1,538)**	–
	153,066	129,732

Company

The movement in investments in subsidiaries was as follows:

	2010 £'000	2009 £'000
Opening balance	**281,801**	293,510
Impairment loss	**–**	(11,709)
	281,801	281,801

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 2010 £'000	Group 2009 £'000
Work in progress	**1,671**	191
Finished goods	**180**	621
	1,851	812

Changes in finished goods and work in progress recognised as cost of sales amounted to a credit of £1,039,000. (Year ended 31 December 2009: credit of £493,000.)

15. Operating and other receivables

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Trade receivables	**7,937**	8,518	**–**	–
Other receivables and prepayments	**4,881**	2,250	**198**	743
Amounts receivable from subsidiaries	**–**	–	**26,231**	11,607
	12,818	10,768	**26,429**	12,350

16. Cash and cash equivalents

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Bank balances	**7,246**	2,793	**341**	410
Short-term deposits	**5,983**	14,157	**2,338**	3,867
Cash and cash equivalents	**13,229**	16,950	**2,679**	4,277
Bank overdrafts	**–**	(369)	**–**	–
	13,229	16,581	**2,679**	4,277

17. Interest bearing loans and borrowings

	Group 2010 £'000	Group 2009 £'000
Non-current liabilities		
Secured bank loans	**2,866**	3,255
Other unsecured loans	**1,513**	1,270
Finance lease liabilities	**218**	270
	4,597	4,795
Current liabilities		
Secured bank loans	**2,080**	765
Other unsecured loans	**16,664**	1,566
Finance lease liabilities	**68**	63
	18,812	2,394

17. Interest bearing loans and borrowings (continued)

Terms and conditions of outstanding loans are as follows:

				Group	
				2010 £'000	2009 £'000
	Currency	Nominal interest rate	Maturity	Carrying amount	Carrying amount
Secured bank loan	£	LIBOR plus 2.50%	2010	**–**	91
Secured bank loan	£	7.5%	2014	**3,117**	2,540
Secured bank loan	USD	4.36%	2020	**742**	764
Secured bank loan	USD	6.00%	2011	**644**	612
Secured bank loan	£	LIBOR plus 3.00%	2011	**5,000**	–
Secured bank loan	USD	LIBOR plus 3.00%	2011	**9,281**	–
Secured bank loan	USD	LIBOR plus 2.625%	2011	**441**	–
Secured bank loan	USD	LIBOR plus 2.375%	2012	**140**	–
Secured bank loan	USD	7.18%	2011	**11**	–
Secured bank loan	USD	6.06%	2013	**33**	–
Other secured loans	USD	Various	2010	**–**	13
Unsecured loan	£	21%	2014	**1,805**	1,270
Unsecured loan	USD	4.65%	2011	**93**	100
Unsecured loan	USD	12.00%	2011	**1,816**	1,466
Finance lease liabilities	£	25%	2014	**240**	278
Finance lease liabilities	USD	6.45%	2014	**46**	55
				23,409	7,189

Finance lease liabilities are payable as follows:

	2010			2009		
	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
Less than one year	**86**	**18**	**68**	80	17	63
Between one and five years	**260**	**42**	**218**	327	57	270
More than five years	**–**	**–**	**–**	–	–	–
	346	**60**	**286**	407	74	333

18. Operating and other payables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade payables	**6,040**	2,739	**42**	85
Non-trade payables and accrued expenses	**7,819**	5,182	**16,531**	1,875
Amounts payable to subsidiaries	**–**	–	**70,018**	68,760
	13,859	7,921	**86,591**	70,720

19. Deferred income

Deferred income comprises amounts invoiced to customers in respect of goods or services which had not been delivered at the reporting 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	
	2010 £'000	2009 £'000
Property, plant and equipment	**549**	339
Financial assets at fair value through profit or loss	**65**	62
	614	401

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 £11.2 million at 31 December 2010 (31 December 2009: £10.9 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 2010 it would realise further net capital losses for tax purposes of £47.4 million (31 December 2009: £55.7 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.

The Group's portfolio subsidiaries have tax losses of £96.7 million at 31 December 2010 (31 December 2009: £118.9 million) available to offset future profits chargeable to tax.

21. Capital and reserves

Share capital

	Ordinary shares			
	2010 Number	2010 £'000	2009 Number	2009 £'000
Balance at beginning and 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.

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.

21. Capital and reserves (continued)

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 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:

	2010 Number	2009 Number
Outstanding at 1 January	**1,859,995**	4,045,807
Granted during the year	**–**	–
Exercised during the year	**–**	–
Lapsed during the year	**(1,859,995)**	(2,185,812)
Outstanding at 31 December	**–**	1,859,995

Options over 1,859,995 ordinary shares lapsed during the year as a result of performance criteria not being met (2009: 1,445,952). In 2009 options over 739,860 ordinary shares lapsed as a result of employees leaving the Company.

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.

22. Share-based payments (continued)

Movements during the year were as follows:

	2010 Number	2009 Number
Outstanding at 1 January	**716,073**	3,102,983
Awards during the year	**1,870,000**	–
Exercised during the year	**–**	(1,193,455)
Lapsed during the year	**(716,073)**	(1,193,455)
Outstanding at 31 December	**1,870,000**	716,073

In 2009, 1,193,455 shares were released having become eligible for release on 31 March 2008; the Company elected to settle the release for a cash payment of £642,000. The weighted average exercise price of the shares released was nil.

Of the 1,193,455 shares which lapsed in 2009, 477,382 lapsed when the beneficiary left the Company and 716,073 lapsed because the performance criteria were not met.

The award of 716,073 shares outstanding as at 1 January 2010 (eligible for release on 30 March 2011) has lapsed since performance criteria were not met.

Assuming the performance criteria set out above are met, the awards granted during the year and outstanding at 31 December 2010 are eligible for release as follows:

Date	Number of shares
13 April 2011	498,333
13 April 2012	498,333
13 April 2013	498,334
13 April 2014	375,000

The weighted average exercise price of awards outstanding at 31 December 2010 was nil (31 December 2009: 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 performance criteria set out below.

In respect of awards granted in 2010: for 25% of the total award to vest, Total Shareholder Return (TSR) over the three year measurement period must exceed the median TSR of the FTSE All-Share Index. For the remaining 75% 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%, 18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to the remaining 75% vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum.

In respect of awards granted in 2009: for 50% of the total award to vest, Total Shareholder Return (TSR) over the three year measurement period 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. For the other 50% of the award to vest, 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.

22. Share-based payments (continued)

	2010 Number	2009 Number
Outstanding at 1 January	**2,005,201**	–
Granted during the year	**1,750,700**	2,455,888
Exercised during the year	**–**	–
Lapsed during the year	**–**	(450,687)
Outstanding at 31 December	**3,755,901**	2,005,201

The weighted average exercise price of awards outstanding at 31 December 2010 was nil (31 December 2009: nil).

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.

Awards under the performance share plan and the deferred share bonus plan granted during 2010 were valued using the following inputs:

	Performance share plan	Deferred share bonus plan
Fair value at grant date	£0.50	£0.50
Share price	£0.51	£0.51
Exercise price	–	–
Expected volatility	30%	30%
Option life	10 years	10 years
Expected dividends	–	–
Risk-free interest rate	3.0%	3.0%

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

	2010 £'000	2009 £'000
Executive share option plan	**(260)**	(186)
Deferred share bonus plan		
– Equity settled	**(170)**	(844)
– Cash settled	**–**	642
Performance share plan	**500**	210
	70	(178)

At 31 December 2010, non-trade payables and accrued expenses include £51,000 (2009: £398,000) in respect of amounts payable under the Company's long-term incentive plans.

23. Financial risk management

Financial instruments by category

The following tables analyse the Group and Company's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are not included in the tables below.

Group

Assets	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000
			31 December 2010			31 December 2009
Investments	**216,279**	**4,424**	**220,703**	181,607	6,526	188,133
Operating and other receivables	**–**	**12,818**	**12,818**	–	10,768	10,768
Cash and cash equivalents	**–**	**13,229**	**13,229**	–	16,950	16,950
Total	**216,279**	**30,471**	**246,750**	181,607	34,244	215,851

Liabilities	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000
			2010			2009
Bank overdrafts	**–**	**–**	**–**	–	369	369
Interest bearing loans and borrowings	**–**	**23,409**	**23,409**	–	7,189	7,189
Operating and other payables	**–**	**13,859**	**13,859**	–	7,921	7,921
Total	**–**	**37,268**	**37,268**	–	15,479	15,479

Company

Assets	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000
			31 December 2010			31 December 2009
Operating and other receivables	**–**	**198**	**198**	–	743	743
Amounts receivable from subsidiaries	**–**	**26,231**	**26,231**	–	11,607	11,607
Cash and cash equivalents	**–**	**2,679**	**2,679**	–	4,277	4,277
Total	**–**	**29,108**	**29,108**	–	16,627	16,627

Liabilities	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000
			2010			2009
Interest bearing loans and borrowings	**–**	**14,281**	**14,281**	–	–	–
Operating and other payables	**–**	**2,292**	**2,292**	–	1,960	1,960
Amounts payable to subsidiaries	**–**	**70,018**	**70,018**	–	68,760	68,760
Total	**–**	**86,591**	**86,591**	–	70,720	70,720

23. Financial risk management (continued)

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.

	2010 £'000	2009 £'000
Operating and other receivables	**12,818**	10,768
Cash and cash equivalents	**13,229**	16,950
	26,047	27,718

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:

	2010 £'000	2009 £'000
UK	**8,418**	7,954
United States	**3,090**	1,853
Other regions	**1,310**	961
	12,818	10,768

The ageing of trade receivables was:

	2010		2009	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	**2,767**	**–**	4,270	–
Past due 0–30 days	**1,322**	**–**	2,969	–
Past due 31–120 days	**2,975**	**–**	462	–
More than 120 days	**1,221**	**348**	1,008	191
	8,285	**348**	8,709	191

23. Financial risk management (continued)

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 which is fully drawn. Interest is 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 following are the contractual maturities of financial liabilities:

31 December 2010	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	**23,123**	**23,408**	**16,303**	**1,264**	**106**	**5,238**	**497**
Finance lease liabilities	**286**	**290**	**35**	**35**	**150**	**70**	**–**
Operating and other payables	**13,859**	**13,897**	**13,886**	**9**	**1**	**1**	**–**
	37,268	**37,595**	**30,224**	**1,308**	**257**	**5,309**	**497**

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

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 66% 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.

23. Financial risk management (continued)

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

	31 December 2010			31 December 2009		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**67,805**	**146,663**	**6,235**	59,881	128,252	–
Operating and other receivables	**8,051**	**4,689**	**78**	7,568	3,092	108
Cash and cash equivalents	**5,827**	**7,325**	**77**	15,342	1,528	80
Bank overdrafts	**–**	**–**	**–**	(369)	–	–
Interest bearing loans and borrowings	**(10,013)**	**(13,110)**	**–**	(3,901)	(2,955)	–
Finance lease liabilities	**(240)**	**(45)**	**–**	(278)	(55)	–
Operating and other payables	**(7,218)**	**(6,642)**	**–**	(6,504)	(1,380)	(37)
Gross exposure	**64,212**	**138,880**	**6,390**	71,739	128,482	151
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**64,212**	**138,880**	**6,390**	71,739	128,482	151

Market risk

At 31 December 2010 the rate of exchange was USD1.55 = £1.00 (31 December 2009: USD1.62 = £1.00). The average rate for the year ended 31 December 2010 was USD1.54 = £1.00 (year ended 31 December 2009: USD1.57 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity by £13.5 million at 31 December 2010 (31 December 2009: increase of £10.9 million) and increased the profit from continuing operations for the year ended 31 December 2010 by £14.9 million (year ended 31 December 2009: decreased the loss by £13.9 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:

	2010 £'000	2009 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**23,409**	7,558
	23,409	7,558
Variable rate instruments		
Financial assets	**13,229**	16,950
Financial liabilities	**–**	–
	13,229	16,950

An increase of 100 basis points in interest rates at the reporting date would have decreased equity by £4,000 (31 December 2009: increase of £246,000) and decreased the profit from continuing activities by £4,000 (year ended 31 December 2008: decreased the loss by £246,000).

23. Financial risk management (continued)

Fair values

The carrying amounts of financial assets (excluding investments) and liabilities, shown in the statement of financial position, 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 and sector, as well as 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 profit for the year ended 31 December 2010 would have decreased by £22.1 million (year ended 31 December 2009: increased the loss by £18.8 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/loss for the year.

Capital management

The Group's total capital at 31 December 2010 was £239 million (31 December 2009: £225.6 million) comprising equity share capital and reserves. The Group had borrowings at 31 December 2010 of £23.4 million (31 December 2009: £7.6 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 account 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 2010:

Nationwide Energy Partners LLC

In May 2010 the Group acquired a 55.4% interest in Nationwide Energy Partners LLC 'NEP'); 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	1,761
Intangible assets	1,571
Operating and other receivables	2,682
Loans and borrowings	(1,086)
Operating and other payables	(2,569)
Long-term liabilities	(192)
Net identifiable assets and liabilities	2,167
Intangible assets (goodwill)	**7,077**
Net assets acquired	9,244
Non-controlling interest	(967)
Consideration paid	8,277

The operating and other receivables comprise gross contractual amounts due of £2,922,551, of which £240,859 was expected to be uncollectable at acquisition date. The non-controlling interest is calculated based on the proportionate interest of the non-controlling interest in the fair value of identifiable net assets acquired.

Of the total consideration, £7,450,000 was paid on completion and the remainder is payable in May 2011.

The goodwill is attributable to the expected profitability of the acquired business. None of the goodwill is expected to be deductible for tax purposes.

NEP is an energy service provider in Columbus, Ohio and provides owners of multi unit residential properties with outsourced meter reading, billing and collection services for water and electricity accounts.

In July 2010 the Group made an additional investment in NEP of £1.2 million and increased its interest in the company to 59.5%.

In the seven months to 31 December 2010 the company contributed a profit of £21,661 to the consolidated results of the Group. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been £52,515,254 and the consolidated profit for the period would have been £12,218,062.

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.

24. Acquisitions of subsidiaries (continued)

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

	Fair value of net assets acquired £'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 assets and liabilities	(2,228)
Intangible assets (goodwill)	8,733
Net assets acquired	6,505
Non-controlling interest	(306)
Consideration paid	6,199

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.

In July 2010 the Group sold some shares in Updata and there was a partial repayment of loans which reduced the Groups interest to 47.8%. However, the Group still regards Updata as a subsidiary since it controls the composition of the company's board of directors.

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Less than one year	**572**	**280**	640	400
Between one and five years	**1,473**	**1,155**	1,147	600
More than five years	**650**	**650**	–	–
	2,695	**2,085**	1,787	1,000

26. Capital commitments

	2010 £'000	2009 £'000
Outstanding commitments to funds	**40,711**	58,709
	40,711	58,709

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 2010 was £1.2 million (31 December 2009: £1.8 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 2010 were £nil (31 December 2009: £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 2010 were £6,500 (31 December 2008: £47,000).

The Company surrendered its lease with Derwent London plc in January 2011 in respect of the premises comprising its head office and former registered office (33 Robert Adam Street). The Company entered a new lease agreement with Derwent London plc for new premises (100 George Street, its current registered office). Under the terms of the lease the Company pays an annual rent of £288,752 to Derwent London plc plus certain service charges. Rent is payable from 16 January 2011 at a reduced rate of £144,495 for the first 12 months and thereafter at £288,752 per annum.

Compensation arrangements for key management are set out in the Remuneration report on pages 24 to 31.

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
LMS NEP Holdings Inc	United States	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
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
Nationwide Energy Partners LLC	United States of America	59.5	Energy services provider
ITS (US) Holdings Inc	United States of America	100	Specialist engineering design and fabrication
Updata Infrastructure (UK) Limited	England and Wales	47.8	Carrier-class networks
Wesupply Limited	England and Wales	85	Supply chain management software

During the year to 31 December 2010 Offshore Tool and Energy Corporation was dissolved and ITS (US) Holdings Inc was formed. The assets of Offshore Tool and Energy Corporation were transferred to ITS (US) Holdings Inc as part of a restructuring process.

Shareholders' information

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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 Capita Registrars, whose address is given above.

Electronic shareholder communications

The Company has opted to send shareholder 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 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

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Financial calendar 2011

Annual General Meeting: 12 May

Interim Management Statements: May and November

Half-year results: July*

Year-end 31 December

* This date is provisional and may change.

This document includes statements that are, or may be deemed to be 'forward-looking statements'. These forward-looking statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions investors that forward-looking statements are not guarantees of future performance and that its actual results of operations, financial condition and liquidity may differ materially from those made in or suggested by the forward-looking statements contained in this document. These forward-looking statements reflect the Directors' judgement at the date of this document and are not intended to give any assurances as to future results. Subject to the requirements of the Financial Services Authority's Prospectus Rules, Disclosure Rules and Transparency Rules and Listing Rules, the Company undertakes no obligation to update these forward-looking statements, and it will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document.

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