LMS Capital plc

Annual Report & Accounts 2012

LMS
CAPITAL

LMS Capital is an investment company which, following a general meeting on 30 November 2011, is undertaking a realisation strategy with the aim of achieving a balance between an efficient return of cash to shareholders and optimising the value of the Company's investments. Its investment portfolio consists principally of small to medium sized companies in the consumer, energy and business services sectors.

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Highlights for the year

- The Net Asset Value at 31 December 2012 was £192.1 million (31 December 2011: £245.0 million), per share 85 pence (31 December 2011: 90 pence).
- In November £40 million was returned to shareholders by way of a tender offer at 84 pence per share.
- £43.2 million of proceeds realised in the year.
- Unrealised gains on the unquoted and funds portfolio of £8.0 million were offset by adverse price movements on a number of our quoted investments of £5.5 million and unrealised currency losses of £5.6 million.
- Overheads (excluding one-off items) were reduced from £7.9 million in 2011 to £4.4 million in 2012.
- The investment management business loss for the year was £12.2 million (2011: loss of £0.4 million).
- At the date of this report the US dollar has strengthened relative to pound sterling such that the unrealised losses incurred in 2012 have reversed.
- Outstanding fund commitments reduced from £18.9 million to £10.4 million over the year.
- Realisations have continued in 2013; on 12 March we announced the sale of our interest in Apogee for cash proceeds of £16 million and Pims Group, a co-investment, has been sold with proceeds to us of £3.3 million. Both transactions were at or above our December 2012 carrying value.

Chairman's statement

2012 was the first year of the realisation strategy approved by shareholders at the general meeting on 30 November 2011. The change of strategy is intended to provide liquidity for shareholders and achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. More information on the implementation of this revised strategy is set out in the Operating Review.

Your Board made satisfactory progress in implementing this change in strategy during the year and the Directors believe that the Company's plans for the orderly wind-down of the business should continue to deliver value to shareholders.

Results

During 2012 the Company received proceeds of £43.2 million from its investment portfolio and in November your Board was able to announce a first return to shareholders under the realisation strategy by way of a tender offer. This completed at the beginning of December and returned £40 million to shareholders, retiring 47.6 million shares at 84 pence per share, being 17.4% of shares in issue before the tender. This was a satisfactory result against the background of the uncertain economic environment.

The Board is not recommending payment of a dividend for the year ended 31 December 2012 (2011: £nil).

Net Asset Value per share at the end of 2012 was 85 pence, a decrease of 6% from a year ago. Adverse movements in some of our quoted investments and a 4% movement in the US dollar exchange rate relative to pound sterling were factors in this. At the date of this statement, we have seen a reversal of the negative currency impact seen last year.

The investment portfolio at 31 December 2012 was valued at £179.3 million (31 December 2011: £218.5 million); cash at 31 December 2012 was £20.1 million (31 December 2011: £30.6 million). The Company has no borrowings.

The Group as a whole (including consolidation of the portfolio subsidiaries) showed a consolidated loss for the year from continuing operations of £12.9 million (2011: loss of £1.0 million).

Board and management

The change in strategy has placed special demands on a smaller management team and your Board would like to extend its appreciation to all the Company's employees for their contribution in 2012.

As a consequence of the change in strategy the Board was reconstituted at the beginning of 2012. Given the reducing size of the Company, the consequent need to reduce overheads and the successful commencement of the realisation strategy, Mark Sebba and I have decided not to stand for re-election at the forthcoming Annual General Meeting. I am delighted that Martin Knight has agreed to take over as Chairman.

As the asset base of the business diminishes, continued steps are being taken to reduce overheads and further changes in our management structure will be implemented in the first half of 2013.

Outlook

To date in 2013 we have seen further realisations and your Board believes that the investment portfolio will continue to release cash to shareholders. The economic background remains uncertain, but on the basis that there is no significant worsening of the business environments in the UK and the US your Board expects to progress the orderly wind-down of the business in the coming year and will focus on optimising value and cash flow for the benefit of shareholders.

Richard Christou
Chairman

18 March 2013

Operating review

This review provides an update on progress during 2012 with the realisation strategy approved by shareholders in November 2011.

Corporate strategy and investment policy

At the general meeting on 30 November 2011 shareholders approved proposals to modify the Company's objectives and its investment policy. The revised investment policy is to conduct an orderly realisation of the assets of the Company, to be effected in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments.

Accordingly, no investments will be made in new opportunities. Follow-on investments will be made in existing assets to honour commitments made at the time of the initial investment and/or to which the Company is legally obligated, or where the investment is made to protect or enhance the value of an existing asset or to facilitate its orderly realisation. The portfolio as a whole will be managed with a view to progressively returning funds to shareholders over a period of time.

At the beginning of 2012, immediately following the change in strategy, the Directors:

- reviewed the realisation prospects for each portfolio holding in the context of seeking to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments;
- established a plan to focus on the realisation of key investments;
- reduced the operating costs of the Company – this principally took the form of headcount reductions. As the asset base decreases the Board will continue to seek to reduce operating costs.

Asset realisation and cost reduction plans are kept under regular review by the management team and the Board in the light of progress on particular investments and market developments. We continue to monitor opportunities within the secondary market, in particular for our fund interests.

Realisations and cash

Realisations from the portfolio in the year totalled £43.2 million. This came from a number of sources as noted below and included £18.1 million from the sale of the investment in Method, held through San Francisco Equity Partners.

Outstanding uncalled commitments to funds were reduced by £8.5 million, reflecting not only fund calls in the year but also the sale at book value of a fund at an early stage of its investment period with a large outstanding commitment, as well as the renegotiation of commitments where possible.

In November 2012 the Directors made the first return of cash to shareholders under the realisation strategy by way of a tender offer, and aim to make further realisations to enable a distribution to shareholders during 2013. The Directors' current expectation is that the realisation of the portfolio is likely to be substantially completed in some two to four years, in line with previously disclosed estimates.

Shareholders should note that whilst these are the best estimates of the Board as at the date of this report, they are subject to a number of uncertainties including general market conditions, the future performance of investee companies, the behaviour of other shareholders in investee companies (where the Company is a minority investor) and the level of activity in the mergers and acquisitions market across the geographies of the Company's assets.

The Board will keep shareholders informed on progress through the Company's half-yearly and annual reports, and significant individual realisations will be announced as appropriate.

Results and review of portfolio

NAV per share declined over the year by 5 pence. Underlying this, the unquoted investments and funds have shown a value increase of £8.0 million, offset by the negative share price performance of our quoted investments of £5.5 million and unrealised currency losses of £5.6 million. We have also implemented and recognised in these accounts our carried interest arrangements resulting in a non-cash charge of £3.1 million. Overheads including restructuring costs were £5.3 million (2011: £12.9 million).

Our key reportable metrics are:

	2012	2011	2010
Net (loss)/profit (£ million)	**(12.2)**	(0.4)	17.6
NAV per share (pence)	**85**	90	90
Cash from realisations (£ million)	**43.2**	62.7	24.3

The above table sets out the results of our investment management business as defined in Note 2 to our financial statements.

Quoted investments

At the end of 2012 our quoted holdings were valued at £17.1 million (2011: £24.2 million), of which our interest in Weatherford International, at £14.1 million, continues to be the principal element.

The Weatherford International share price performed poorly in 2012 – the price in US dollars at the end of December 2012 was 24% lower than at 31 December 2011 and (excluding currency effects) this reduced our NAV per share year on year by 2 pence.

Proceeds from sales of other quoted holdings during the year were £0.8 million (2011: £31.6 million, which included £22.9 million from the sale of our interest in ProStrakan Group).

Fund interests

The maturity of our funds portfolio is reflected in the related cash flows during 2012. Distributions from funds were £32.2 million (2011: £11.7 million) and calls paid were £5.3 million (2011: £13.1 million). Distributions included £18.1 million from San Francisco Equity Partners ("SFEP") following its sale of Method in the third quarter.

Our uncalled fund commitments continue to decrease and at 31 December 2012 stood at a maximum of £10.4 million, down from £18.9 million at the end of 2011.

Our fund holdings at the end of 2012 had a book value of £56.3 million (2011: £63.5 million), excluding SFEP, and include the following principal interests:

		31 December	
General partner		2012 £ million	2011 £ million
Brockton Capital	UK property	**13.0**	15.8
BV investments	US buyouts	**8.1**	10.9
Voreda Capital	UK property	**5.3**	5.3
Primus Capital	US buyouts	**5.1**	4.7
Opus Capital Venture Partners	US venture capital	**3.7**	3.2
Amadeus Capital Partners	UK venture capital	**3.2**	3.8
CMEA Ventures	US venture capital	**2.4**	3.3

The above holdings represent 72% (2011: 74%) of the funds portfolio (excluding SFEP).

At the end of 2012 the carrying value of our interest in SFEP was £20.2 million (2011: £41.4 million) and the principal investments in its portfolio are Yes To (£8.3 million – consumer sector), Penguin Computing (£4.2 million – technology sector) and Luxury Link (£4.2 million – consumer sector).

Operating review continued

Direct investments

We received £6.2 million when our US co-investment Rave Reviews Cinemas was sold and £2.2 million from the sale of our small interest in Agilisys, a provider of outsourcing services principally to the public sector. We have recognised net valuation increases of £6.7 million, principally in relation to:

- Apogee, which increased revenues and EBITDA in 2012 and was able to withstand increased competitor pricing pressure. We increased the carrying value of our interest to £15.0 million (2011: £11.5 million) at the end of 2012 and we sold our interest in the company in March 2013 for £16 million.
- Updata, which continued to expand its operations during the year and gained a significant number of contract wins. Our carrying value has increased to £14.5 million (2011: £12.7 million).

Our other large holdings are as follows:

- HealthTech Holdings has continued to perform strongly in 2012 but lower valuation multiples of comparable quoted companies has resulted in no significant change to our carrying value.
- Nationwide Energy Partners has continued to increase the number of its revenue generating metered units, the full benefit of which will be reflected in its results in 2013 and beyond.

We made only one follow-on investment during 2012 – we increased our direct investment in Zoom Eyeworks (a portfolio company of SFEP) by £2.0 million in connection with the refinancing of its third party borrowing facility.

Our principal direct investments at book value are:

		31 December	
		2012 £ million	**2011 £ million**
HealthTech Holdings	US technology	**22.3**	23.9
Apogee Corporation	UK technology	**15.0**	11.5
Updata Infrastructure	UK technology	**14.5**	12.7
Nationwide Energy Partners	US energy	**10.0**	10.5
Entuity	UK technology	**4.0**	4.0
Wesupply	UK technology	**3.3**	3.3

The above holdings represent 81% (2011: 74%) of the direct portfolio.

Financial review

Basis of preparation of financial information

The financial statements have not been prepared on a going concern basis as the Company is seeking to realise the investment portfolio, return the capital to shareholders and then liquidate the Company, as outlined in the strategy approved by shareholders on 30 November 2011 – see note 1 to the consolidated 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 consolidated 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

NAV at 31 December 2012 was £192.1 million (31 December 2011: £245.0 million); NAV per share was 85 pence (31 December 2011: 90 pence).

The Group's return on its investment portfolio for the year ended 31 December 2012 excluding carried interest charges of £3.1 million was a loss of £4.1 million (2011: gain of £8.7 million) as follows:

	Year ended 31 December	
Gains/(losses)	**2012 £'000**	**2011 £'000**
Quoted securities	**(6,317)**	(7,728)
Direct investments	**3,517**	12,995
Funds	**(1,295)**	3,467
	(4,095)	8,734
Being:		
Realised (losses)/gains, net	**(1,034)**	6,358
Unrealised (losses)/gains, net	**(3,061)**	2,376
Total	**(4,095)**	8,734

Approximately 56% of the portfolio at 31 December 2012 is denominated in US dollars (31 December 2011: 65%) and the above table includes the impact of currency movements. In the year ended 31 December 2012, the weakening of the US dollar against pound sterling (year on year) resulted in an unrealised foreign currency loss of £5.6 million (2011: unrealised gain of £0.3 million). It is the Board's current policy not to hedge the Company's underlying non-sterling investments.

The loss on our quoted portfolio reflects the net impact of the changes in the capital markets during the year. Of the total of £6.3 million, £5.3 million is attributable to our holding in Weatherford International.

The net gain on our direct investments includes valuation increases of our interests in Apogee, Updata and Pims Group totalling £7.2 million, offset by smaller downward valuation adjustments on other unquoted holdings and foreign currency losses of £2.2 million.

Changes in valuations reflect 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 2011. The unrealised gains or losses for 2012 arise principally as a result of the companies' performance.

Financial review continued

For the valuation of our fund interests 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.

As well as the investment portfolio return, the loss for the year of £12.2 million (2011: loss of £0.4 million) includes the items discussed below.

Income from investments in the year was £1.2 million (2011: £3.7 million) and comprises interest and dividends from portfolio companies, dividends on quoted securities and management charges made to portfolio companies.

Administration expenses for the year were £5.3 million (2011: £12.9 million). The figure for 2012 includes one-off costs of £0.9 million, principally in connection with headcount reductions. 2011 included one-off costs of £5.0 million comprising £1.6 million of charges for professional fees incurred in relation to the change in investment policy of the Company, £0.9 million compensation payments to staff members who left before the end of the year and £2.5 million to provide for the costs of a management fee commitment regarded as onerous following the change in strategy.

Interest income for the year was £0.1 million (2011: net expense of £0.1 million) reflecting the fact that the Company repaid its loan facility in May 2011. There was a tax charge for the year of £1.0 million (2011: credit of £0.2 million), being principally withholding tax on distributions from US funds.

Investments

The Group's investments are carried 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 £7.3 million (2011: £19.3 million) of which £5.3 million (2011: £13.1 million) was to meet capital calls from funds and £2.0 million (2011: £3.6 million) for follow-on investments. There were no new investments (2011: £2.6 million).

Proceeds of realisations were £43.2 million (2011: £62.7 million). Distributions from funds were £32.2 million (2011: £11.7 million) including £18.1 million from SFEP following its sale of Method in the third quarter. Sales of direct investments were £9.2 million (2011: £4.8 million) and quoted securities £0.8 million (2011: £31.6 million which included £22.9 million from the sale of our interest in ProStrakan Group).

At 31 December 2012 the Group had commitments of £10.4 million (31 December 2011: £18.9 million) to meet outstanding capital calls from its fund interests. Cash in the investment management business was £20.1 million (31 December 2011: £30.6 million) with no debt.

Consolidated results

Consolidated revenues for the year from continuing operations were £60.8 million (2011: £47.3 million), all in the portfolio subsidiaries. The increase over the previous year reflects the inclusion of 365iTMS for a full year (acquired in September 2011), as well as increased revenues at Entuity, Nationwide Energy Partners, Updata and Wesupply.

Consolidated operating expenses of continuing operations were £62.8 million (2011: £55.9 million). The increase in operating expenses reflects principally the inclusion of 365iTMS (for a full year), as well as higher costs associated with the revenue growth at most companies.

The portfolio subsidiaries continued to make good progress during 2012:

- Updata's revenues in 2012 were 8% higher compared to 2011 with the proportion of rental (contractual) revenues continuing to increase as installation revenues have declined. Operating profits were held back by investment in new contract wins which are expected to come on stream in 2013.
- Nationwide Energy Partners grew revenues by 25% in 2012, albeit operating profits were flat. The company invested in new contract wins during the year with the benefit expected to be seen in the 2013 results.
- Wesupply's revenues were 12% ahead of last year with operating profits ahead by more than 50%.
- Entuity performed well with revenues up by 11% year on year and operating profits benefitting from a lower cost base.
- 365iTMS started the year well but difficult trading conditions impacted revenues and profits in the second half of the year. The company is addressing this in 2013.

The consolidated loss from continuing operations was £12.9 million (2011: loss of £1.0 million), the downturn compared to last year being in the investment management business.

Financial position

The consolidated statement of financial position at 31 December 2012 includes cash and cash equivalents of £26.8 million (31 December 2011: £34.9 million) and borrowings of £15.3 million (31 December 2011: £11.8 million).

Nick Friedlos	Antony Sweet
Director	Chief Financial Officer

18 March 2013

Board of Directors

Richard Christou
Non-executive Chairman
Age: 68

Directorships:
None.

Experience:
Richard is currently an adviser to Fujitsu Limited. He was previously Chairman of Fujitsu EMEA plc and president of the global business group at Fujitsu where he had responsibility for all of the overseas regions including EMEA, the Americas, APAC and China. At Fujitsu he was instrumental in setting many of its global strategies, including its current brand strategy. He is a solicitor and holds a law degree from Trinity College Cambridge.

Nicholas Friedlos
Director
Age: 55

Directorships:
A number of Group companies.

Experience:
Nick has held financial and operational leadership positions in financial services businesses holding real estate and other assets in both the public markets and in private equity. He was Chief Financial Officer of London Merchant Securities, the real estate and investment business out of which LMS Capital was created. Nick has managed change in the businesses he has been involved with including mergers, reconstructions and portfolio disposals. Most recently he was Chief Executive Officer of Mapeley and was previously a partner at PricewaterhouseCoopers.

Antony Sweet
Chief Financial Officer
Age: 58

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

Experience:
Before joining the Company, Tony 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.

Bernard Duroc-Danner
Non-executive Director
Age: 59

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 and President and Chief Executive Officer of EVI, Inc. (now Weatherford International). Prior to this, he held positions at Arthur D. Little and Mobil Oil Inc.

Martin Knight
Non-executive Director
Age: 63

Directorships:
Chairman of Imperial Innovations Group plc and Cambridge Mechatronics Limited. Non-executive Director of Chrysalis VCT plc and Toumaz Holdings Limited. A Trustee of the Royal Institution.

Experience:
Martin was previously a Director of Morgan Grenfell & Co Limited and subsequently became the principal adviser to South Audley Street Investments. He was a governor and council member of Imperial College from 1992 to 2010.

Neil Lerner
Non-executive Director
Age: 65

Directorships:
Non-executive Director at the Royal Brompton & Harefield NHS Foundation Trust and council member of the RNLI and SOAS.

Experience:
Neil retired in September 2006 as Risk Management partner for KPMG where he had responsibilities for managing all aspects of professional risk and reputation. Until September 2009 he was Special Advisor to KPMG International's captive insurer.

Robert Rayne
Non-executive Director
Age: 64

Directorships:
Non-executive Chairman of Derwent London plc and a Non-executive Director of Weatherford International and Chyron Corporation, 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 Officer of London Merchant Securities plc.

Mark Sebba
Non-executive Director
Age: 64

Directorships:
The Net-a-Porter Group Limited.

Experience:
Mark has been the Chief Executive Officer of The Net-a-Porter Group since 2003. Previously he 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.

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 UK Corporate Governance Code published by the Financial Reporting Council in June 2010 ('the Code'). Copies of the Code are available from the Financial Reporting Council's website at www.frc.org.uk. In September 2012 the Financial Reporting Council issued a revised version of the UK Corporate Governance Code which will apply to financial periods beginning on or after 1 October 2012. The Company will review its practices against the provisions of the new Code when preparing its annual report for the year ending 31 December 2013.

This report sets out how the Company has applied the principles set out in 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 all of the provisions of the Code throughout the year ended 31 December 2012, except as follows:

- Robert Rayne served as Chairman of the Company in the period up to 4 January 2012, having previously been Chief Executive Officer. On that date he stood down as Chairman, remaining on the Board as a Non-executive Director. As a consequence of having previously served as an Executive Director, Mr Rayne was entitled to participate in the Company's long-term incentive plans, including the Performance Share Plan and the carried interest plans. Details of these arrangements are set out in the Remuneration report on pages 21 to 27.
- The Board has not appointed a senior independent Non-executive Director following the resignation on 4 January 2012 of John Barnsley (who previously held this position).
- A formal performance evaluation of the Board, its committees and individual Directors was carried out early in 2013 rather than during 2012 and further details are set out on page 15.

Board of Directors

How the Board Operates

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 currently comprises eight Directors: namely the Non-executive Chairman, five other Non-executive Directors and two Executive Directors.

On 4 January 2012, John Barnsley and David Verey, both Non-executive Directors, resigned from the Board. Martin Knight and Neil Lerner were appointed as Non-executive Directors on 4 January 2012 and Nick Friedlos was appointed as an Executive Director on 9 February 2012. Brief biographies of all of the Directors appear on pages 10 and 11. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

The Chairman's Role

Richard Christou is the Company's Non-executive Chairman and he is responsible for the effective running of the Board. The Executive Directors are responsible for the executive management and performance of the Company's operations. There is therefore a clear division of responsibilities at the head of the Company.

Executive Directors

During the year under review, no Chief Executive Officer has been appointed. Following the strategic changes agreed by shareholders on 30 November 2011, the Board no longer considers it necessary to appoint a Chief Executive Officer, in particular because the full Board wishes to participate extensively in the realisation of the assets of the Company. In February 2012 the Board appointed Nick Friedlos as Executive Director with responsibility for overseeing the orderly realisation of the assets of the Company.

Non-executive Directors
From time to time during the year the Chairman holds meetings with the Non-executive Directors without the Executive Directors being present. There were no matters requiring a meeting of the Non-executive Directors without the Chairman being present.

Each Non-executive Director is appointed for a term of three years. Subject to agreement, satisfactory performance and re-election by shareholders, their Directorships may be renewed for further terms. During the year under review, Martin Knight and Neil Lerner were appointed as Non-executive Directors on 4 January 2012 and were both re-elected by shareholders at the Annual General Meeting held in May 2012.

Director Independence and Commitment
In the opinion of the Board, the following Non-executive Directors 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: Richard Christou (who was independent upon his appointment as Chairman on 4 January 2012), Martin Knight, Neil Lerner and Mark Sebba. In addition, John Barnsley and David Verey, who are no longer Directors, were also considered to be independent.

Robert Rayne and Bernard Duroc-Danner are Directors and shareholders of Weatherford International and do not participate in board discussions or decisions concerning the Company's investment in Weatherford International. Notwithstanding this interest, the Board considers Bernard Duroc-Danner to be independent in character and judgement. Given his extensive business and energy sector experience, he provides a valuable contribution to board discussions and is knowledgeable about the Company's investments and their markets. Robert Rayne is not considered to be independent.

The Board is of the view that the Chairman and each of the Non-executive Directors who held office during 2012 committed sufficient time to fulfilling their duties as members of the Board.

Senior Independent Director
Until John Barnsley's resignation on 4 January 2012, he served as senior independent Non-executive Director. Since that date, no senior independent Director has been appointed. The Directors consider that the revised composition of the Board provides sufficient channels of communication between the Board and shareholders. In particular, the Non-executive Directors appointed on 4 January 2012, each of whom has been appointed as a chairman of a board committee, are both independent and are able to fill this role.

Director Re-elections
In accordance with the Code and the Company's Articles of Association, all Directors are subject to election by shareholders at the first Annual General Meeting following their appointment. Thereafter at least a third of the Directors on the Board must retire and offer themselves for re-election. Accordingly, Richard Christou, Mark Sebba and Antony Sweet will retire at the forthcoming Annual General Meeting. Mr Christou and Mr Sebba have indicated that they will not be offering themselves for re-election; Mr Sweet, being eligible, will offer himself for re-election at the meeting. A brief biography for Mr Sweet can be found on page 10.

Following the recent Board performance evaluation, the performance of Mr Sweet is considered to be effective and demonstrate commitment to the role. The Board is of the view that it is in the Company's interests that he should be re-elected at the forthcoming Annual General Meeting.

External Non-executive Directorships
With the Board's prior agreement, Executive Directors are permitted to accept one external Non-executive directorship and may retain any fees received in that role.

Corporate governance report continued

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. All declared conflicts have been approved by the Board. The Company has instituted procedures to ensure that Directors' outside interests do not give rise to conflicts with its operations and strategy.

Board Procedures and Support

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. In addition, newly appointed Directors are provided with comprehensive information about the Company and its investee companies as part of their induction process. They are also given the opportunity to meet investment managers and shareholders and receive a briefing from the Executive Directors.

Whilst no formal structured continuing professional development programme has been established for the Non-executive Directors, every effort is made to ensure that they are fully briefed before Board meetings on the Company's business and its investments. In addition, they receive updates from time to time from the Executive Directors on specific topics affecting the Company and from the Company Secretary on recent developments in corporate governance and compliance. Each of the Non-executive Directors independently ensures that they update their skills and knowledge sufficiently to enable them to fulfil their duties appropriately.

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. The Board delegates specific responsibilities to the Audit, Nomination and Remuneration Committees, which operate within written terms of reference approved by the Board. These committees report regularly to the Board.

Board Meetings

Six scheduled Board meetings were held in 2012. At each scheduled meeting, the Board considers a report on current operations and significant business issues, such as major 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 during the week before the meeting.

Attendance at Board Meetings

The following were Directors of the Company during 2012. They attended the following number of scheduled meetings of the Board and (where they were members) its committees during the year:

	Board	Audit	Nomination	Remuneration
Meetings held	6	3	2	5
Richard Christou	6	–	2	5
Bernard Duroc-Danner	4	–	1	–
Nick Friedlos	6	–	–	–
Martin Knight	6	3	2	5
Neil Lerner	6	3	2	–
Robert Rayne	6	–	2	–
Mark Sebba	6	3	2	5
Antony Sweet	6	–	–	–
John Barnsley	–	–	–	–
David Verey	–	–	–	–

Attendances set out above include attendance in person or by telephone or video link. In addition to the scheduled Board meetings specified above, the Board held 17 ad-hoc meetings during 2012.

Board Effectiveness

The Board carried out a board performance evaluation in early 2013. This encompassed a review of the performance of the Board, the Audit, Nomination and Remuneration Committees and individual Directors. It was conducted internally by the Chairman, supported by Nick Friedlos and the Company Secretary. The process involved the distribution of a questionnaire to each Director; the responses were then analysed and a report was circulated to the Board. The outcomes of the evaluation were discussed by the Board at the March 2013 board meeting and it was agreed that the Board, its committees and the individual Directors were operating effectively.

Board Committees

Each Board Committee has established terms of reference detailing its responsibilities and powers. These are available in the Investor Relations section of the Company's website at www.lmscapital.com.

Audit Committee

The Audit Committee currently comprises: Neil Lerner (Committee Chairman), Martin Knight and Mark Sebba. Messrs Knight and Lerner joined the Committee on 4 January 2012. Prior to Neil Lerner's appointment, John Barnsley chaired this committee and was considered by the Board to have recent and relevant financial experience for the purpose of the Code. Of the present committee members, Neil Lerner is considered by the Board to have recent and relevant financial experience.

The Chairman of the Committee may invite non-members to attend committee meetings and these typically include: a representative of the Company's external auditor, the Chief Financial Officer and other Directors.

The Audit Committee met three times during 2012. Its role is to assist the Board with the discharge of its responsibilities in relation to the Company and Group financial statements including internal controls and external audits.

Additionally, the Audit Committee keeps under review the conduct of the external audit and its effectiveness. The Committee makes recommendations to the Board regarding the re-appointment or removal of the external auditor, 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 auditor.

A policy regarding the engagement of the external auditor to supply non-audit services is in place. The policy recognises the importance of maintaining the objectivity and independence of the external auditor 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 auditor 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 2012, KPMG provided non-audit services on accounting issues and in connection with the tender offer in November 2012. The fees paid to them for this work were £40,000 (2011: £27,000).

The Audit Committee also monitors the Company's whistleblowing policy. Since his appointment on 4 January 2012, Neil Lerner has acted as the contact for staff who may have a concern that they cannot raise under their normal chain of management. John Barnsley had previously fulfilled this role.

Nomination Committee

The Nomination Committee currently comprises: Richard Christou, who chairs the Committee, Bernard Duroc-Danner, Martin Knight, Neil Lerner, Robert Rayne and Mark Sebba. Martin Knight and Neil Lerner joined the Committee on 4 January 2012. John Barnsley and David Verey served as members of this Committee until their resignations on 4 January 2012. 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 arises. 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.

Corporate governance report continued

In the process by which Martin Knight and Neil Lerner were appointed, an external executive search consultant was engaged and, prior to the decision being taken, there was an opportunity for other Directors to meet the proposed candidates. These appointments were handled by the Special Committee appointed on 24 November 2011, rather than by the Nomination Committee, in line with the delegation to that committee of certain specific duties by the Board following the change in strategic direction approved by shareholders on 30 November 2011. In reviewing potential candidates, Directors took into account the need to consider the benefits of diversity on the Board and considered applicants from diverse backgrounds.

When considering succession planning, the Committee looks at the balance, structure and composition of the Board and takes into account the future challenges and opportunities facing the Company. In light of the Company's realisation strategy agreed in November 2011, the Committee has not during the course of 2012 conducted a further review of its executive succession plan. The Nomination Committee normally meets as required, but at least once each year. During 2012, the Committee met twice, dealing with the appointment of new Directors and officers and the composition of the Board and its Committees.

Remuneration Committee

The Remuneration Committee currently comprises: Martin Knight, who chairs the Committee, Richard Christou and Mark Sebba. Martin Knight joined the Committee on 4 January 2012 and was appointed Committee Chairman in place of Richard Christou with effect from 10 February 2012. John Barnsley and David Verey served as members of this Committee until their resignations on 4 January 2012.

Further information about the Remuneration Committee is set out in the Remuneration report on pages 21 to 27.

Other Committees

In addition to the principal Board Committees described above, the Special Committee was established as a formal committee of the Board on 24 November 2011. Its members were: Mark Sebba, who chaired the Committee, Richard Christou and Robert Rayne. Its remit included conducting the search for and appointing two new Non-executive Directors, and reviewing the executive management team in the context of the revised investment strategy. These duties having been completed, the Committee was dissolved on 4 January 2012.

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 at least once a year 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 business are delegated to the Executive Director with responsibility for overseeing the orderly realisation of the assets of the Company 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 that 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 to gain comfort on internal controls. 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.

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 2012 and up to the date of this report. During 2012 the Audit Committee regularly reviewed the effectiveness of the Company's risk management and internal control systems. Risk review is a continuing process embedded within the business. The business is also required to have processes to formally identify risks, consider financial and non-financial implications and, so far as possible, take action to reduce those risks. Details of risks potentially facing the Group can be found on pages 19 and 20.

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 Annual General Meeting as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors. At the Annual General Meeting 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. The chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions from shareholders and all Directors attend.

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 32, their responsibility for preparing the financial statements of the Company and the Group. The external auditor has included, in the independent auditor's report set out on pages 33 and 34, 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, the Company produces two interim management statements, usually in May and November, which provide an unaudited quarterly review of the Company's financial position.

Corporate governance report continued

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 6. The financial position of the Company, its cash flows and liquidity position are described in the Financial review on pages 7 to 9.

On 30 November 2011 the shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the Directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, the consolidated financial statements have not been prepared on a going concern basis. 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 for the foreseeable future.

Richard Christou
Chairman

18 March 2013

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 derives from 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. The Board has taken into account the impact of the change in strategy agreed at the general meeting on 30 November 2011 in assessing the risks which could have a material effect on the achievement of the Group's revised objectives. This change has principally impacted communication with stakeholders and counterparties and staff retention and incentivisaton (see further details below). The Board is satisfied that the Group's risk management process is appropriate in the context of the revised 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 market demands of the sectors in which its investments operate) which may negatively impact the performance and growth rates of the Company's investments, 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.

A lack of liquidity in the capital markets could mean that the Company may not be able to realise its investments in line with planned timings and values. This could impact the timing and amount of capital returned to shareholders under the Company's asset realisation strategy. Difficulties could arise in agreeing the Company's plans to realise investments with investee companies' management and investing partners leading to realisations being lower and/or later than planned.

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 underlying economic conditions) cannot be ascertained with certainty. We rely on our detailed budgeting and forecasting procedures to ensure that the cash requirements of the Group are met. The Board regularly reviews the Company's working capital requirements and believes it has sufficient liquid resources to meet its expected cash obligations for the foreseeable future.

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. It is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Principal risks and uncertainties continued

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. 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 individual investment decisions and the performance of its investments. Our investment management process requires regular monitoring 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 including an update on expected realisation timing and value.

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 Company has instituted procedures to ensure that Directors' outside interests do not give rise to conflicts with its operations and strategy.

The ability to access and attract people with the appropriate skills is of fundamental importance to the Group's strategy, since failure to do so could adversely affect investment returns. Headcount changes and/or reductions as a result of cost saving measures require careful management to minimise their impact on the Group's investment management processes.

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 2012. The report has been prepared in accordance with the Companies Act 2006 ("the Act") and the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 ("the Code").

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 2012" is subject to audit by the Company's auditor. 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 Company's remuneration strategy and policies 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 current members of the Committee are: Martin Knight (Committee Chairman), Richard Christou and Mark Sebba. John Barnsley and David Verey resigned from the Committee when they resigned as Directors on 4 January 2012. Martin Knight was appointed a member of the Committee on that date and became Chairman of the Committee at the conclusion of its meeting on 9 February 2012. Richard Christou served as Committee Chairman until Martin Knight's appointment as Committee Chairman.

Under the Code and the terms of reference of the Committee, at least two independent Non-executive Directors must serve on the Committee. Martin Knight and Mark Sebba are considered by the Board to be independent Non-executive Directors. The Committee invites Executive Directors to attend Committee meetings when appropriate in order to provide a management perspective on all aspects of employee compensation.

The Committee takes advice, where it considers it appropriate, on technical aspects of compensation policy from independent external consultants appointed by the Committee. Clifford Chance has advised the Committee on matters from time to time during the year.

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.

Remuneration report continued

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

- directly linked to the Company's overall performance;
- based upon individual and business contribution;
- aligned to the requirements of the Company's realisation strategy; and
- market competitive.

The Committee reviews remuneration policy on a regular basis.

During the year the Committee considered alternative incentive arrangements to align management's interests with those of shareholders in the wind-down process. The Committee's conclusion is that the annual bonus, with objectives set year by year around realisations and distributions to shareholders, provides an adequate incentive mechanism.

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 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. As noted above, bonuses will be determined by reference to levels of realisations and distributions to shareholders.

Share-based incentives The Committee has determined that in the context of a realisation strategy, share-based awards are not an effective form of incentive. Accordingly no further awards are proposed under the existing share incentive plans. The schemes in operation during 2012 are described below.

Deferred share bonus plan

This Plan, which has been approved by shareholders, was established as an inducement to recruitment for key executives of the Company. Participants may receive only one grant; no awards were made under this plan in 2012. The performance condition attaching to awards made under this Plan 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. However, 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.

Mr Sweet was granted an award of 100,000 shares under the Plan on 13 April 2010. The performance condition for the first release was satisfied and 33,333 shares with a market value of £20,000 were released on 13 April 2011 and remain outstanding at 31 December 2012. The performance condition for the second and third releases was not satisfied and the related share awards lapsed during 2011 and 2012.

Executive share option plan

The Company has a share option plan that entitles Executive Directors and 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. At 31 December 2012 there were no option grants outstanding under this plan (2011: nil).

Performance share plan

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

Awards granted in 2009 have lapsed since the performance conditions were not met. For awards granted in 2010 and onwards, the performance conditions are that, for 25% of the total award to vest, Total Shareholder Return 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 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. However, the Committee may at its discretion reduce the award to take into account the length of time between the date of award and the date of the change of control.

Awards of shares in the form of nil-cost options which remain outstanding are as follows:

		Number of shares				
	Grant date	**Total**	**Lapsed**	**Outstanding**	**Release date**	**Expiry date**
Robert Rayne	13 April 2010	683,451	512,588	170,863	13 April 2013	12 April 2020
	11 April 2011	509,298	–	509,298	11 April 2014	10 April 2021
Antony Sweet	13 April 2010	259,789	194,842	64,947	13 April 2013	12 April 2020
	11 April 2011	252,111	–	252,111	11 April 2014	10 April 2021

There were no releases of performance share awards in 2012 (2011: nil).

Carried interest

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

For the 2009 and previous pools, carried interest will be payable in respect of pre-tax net 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 the 2010 and subsequent pools, carried interest will be payable in respect of pre-tax net gains on investments, after a hurdle of 8% is reached, which is more usual practice in the private equity sector. The percentage of eligible gains which may be allocated to participants in aggregate may not exceed 20%. Participants are allocated a proportion of the 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 any participant who ceases to be an employee.

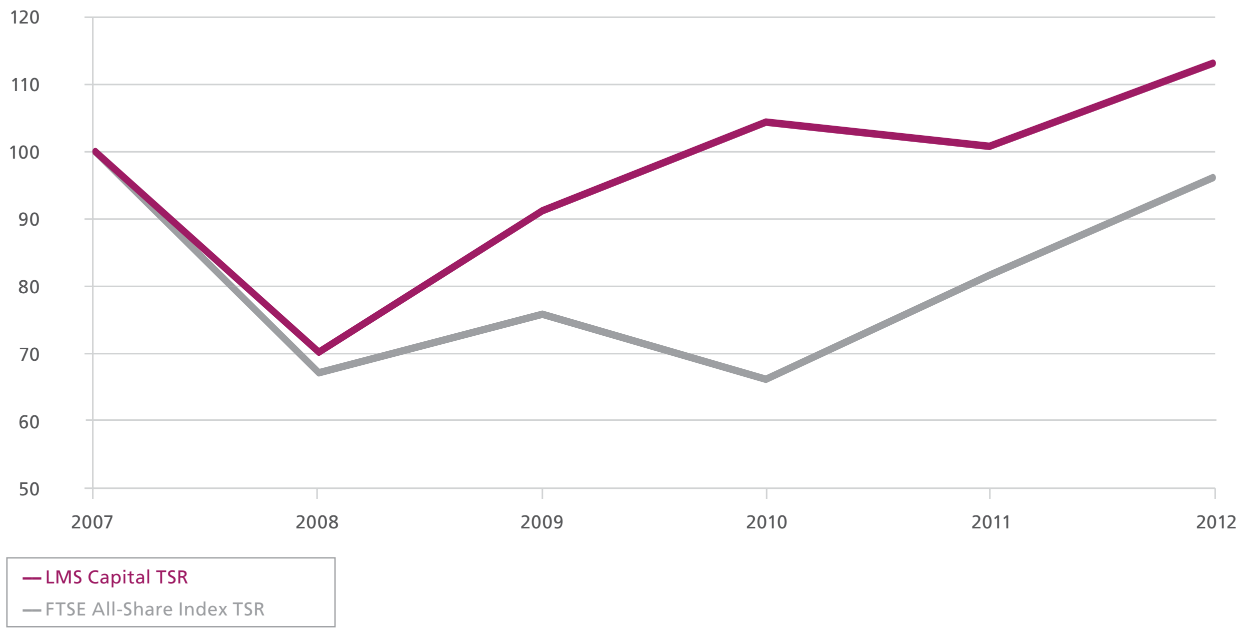
Remuneration report continued

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 for the five year period ended 31 December 2012 compared with that of the FTSE All-Share Index.

Total Shareholder Return graph since 1 January 2008



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 states that it 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
Nick Friedlos	9 February 2012	21 March 2012	12 months until December 2013, reducing in stages to 6 months by June 2014	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 current Non-executive Directors' letters of appointment:

	Date of appointment	Date of expiry of current term
Richard Christou	7 April 2006	11 May 2014
Bernard Duroc-Danner	7 April 2006	13 May 2013
Martin Knight	4 January 2012	17 May 2015
Neil Lerner	4 January 2012	17 May 2015
Robert Rayne	6 April 2006	1 October 2013
Mark Sebba	28 September 2010	11 May 2014

Mr Christou and Mr Sebba, who retire by rotation at the forthcoming Annual General Meeting, have indicated that they will not be standing for re-election.

Fees for Non-executive Directors are determined 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 fees for Non-executive Directors, which are non-pensionable, were:

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

Mr Rayne was an Executive Director from 6 April 2006 to 1 October 2010, whereupon he became Non-executive Chairman. Under Mr Rayne's letter of appointment as Non-executive Chairman, he participated in the carried interest plan and share option schemes up to the end of 2011, and was entitled to cover under the Company's various insurance policies. The other Non-executive Directors do not participate in the Company's incentive plans or share schemes or other benefits.

With effect from 4 January 2012, Mr Rayne stepped down as Chairman, remaining a Non-executive Director. His fee has reduced accordingly, although he continues to be entitled to cover under the Company's various insurance policies. He also has a consulting agreement with the Company to provide advice in connection with the Company's realisation plans. He is entitled to a fee of £60,000 per annum under this consultancy arrangement.

Remuneration report continued

Directors' remuneration in 2012

The following table shows the total remuneration earned in respect of 2012.

	Salary/Fees £'000	Benefits -in-kind £'000	Pension £'000	Bonus £'000	Long-term incentives £'000	2012 Total £'000	2011 Total £'000
Richard Christou	100	–	–	–	–	100	45
Bernard Duroc-Danner	40	–	–	–	–	40	40
Nicholas Friedlos	196	2	–	132	–	330	–
Neil Lerner	45	–	–	–	–	45	–
Martin Knight	45	–	–	–	–	45	–
Robert Rayne	40	10	–	–	1,041	1,091	420
Mark Sebba	40	–	–	–	–	40	40
Antony Sweet	215	12	32	129	141	529	458
John Barnsley	–	–	–	–	–	–	45
Glenn Payne	–	–	–	–	–	–	946
David Verey	–	–	–	–	–	–	40
Total	721	24	32	261	1,182	2,220	2,034

Notes:

1 Benefits-in-kind shown above are insurances and subsidised gym membership.

2 Long-term incentives relate to the Company's carried interest plans and the figure represents the amount attributable to each Director of the increase in obligation recognised by the Company. Although recognised in the accounts and disclosed on an accruals basis, these amounts will only be paid to the Directors when the underlying investments to which they relate are sold. The eventual amount paid could be lower or higher than the above estimate according to proceeds received. No carried interest payments were made to Directors in the year ended 31 December 2012 (2011: £nil). The 2011 comparative total has been adjusted to include £300,000 in respect of Mr Rayne's interest in the carried interest plans.

3 In addition, Mr Rayne has a consulting agreement with the Company under which he received a fee of £60,000 in 2012 (2011: nil).

Fees payable in respect of Executive Directors serving as Non-executive Directors of companies to which they were nominated by the Company are not retained by them, but paid to the Company.

In setting Executive Directors' salaries for 2012, the Committee took into account current economic and market factors as well as the salaries and benefits received by other employees of the Company.

Directors' pension entitlements

Mr Sweet receives contributions into a personal pension arrangement of 15% of base salary.

Directors' share interests

The beneficial interests of those Directors who held office at 31 December 2012 in the ordinary shares of the Company are set out below.

	At 31 December 2012	At 31 December 2011
Richard Christou	169,965	169,965
Bernard Duroc-Danner	447,570	550,800
Nicholas Friedlos	42,404	11,702
Neil Lerner	28,262	–
Robert Rayne	6,766,987	8,208,356
Mark Sebba	173,486	210,000
Antony Sweet	42,650	51,702

In addition, Robert Rayne holds a non-beneficial interest in 17,719,153 ordinary shares held in trust.

Except as stated above:

- no changes in the above Directors' interests have taken place between 31 December 2012 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.

Martin Knight
Chairman, Remuneration Committee

18 March 2013

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2012.

Principal Activities

LMS Capital plc is an international investment Company whose shares are traded on the London Stock Exchange. The investment portfolio comprises publicly quoted and private company investments in both the UK and the US held directly and through funds.

On 30 November 2011, shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the Directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, they have not prepared the financial statements on a going concern basis. The effect of this is explained in note 1 to the consolidated financial information.

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, which are deemed to be incorporated by reference into this report:

- Operating review on pages 4 to 6;
- Financial review on pages 7 to 9;
- Corporate governance report on pages 12 to 18;
- Principal risks and uncertainties on pages 19 and 20;
- Remuneration report on pages 21 to 27; and
- Statement of Directors' responsibilities on page 32.

Corporate Social Responsibility

The Group has considered its social, environmental and ethical risks and found none to be material. Furthermore, 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 2012, was 303 (31 December 2011: 243), including 11 (31 December 2011: 13) in the investment management business. Employees are kept informed about significant business issues and performance by means of meetings, email updates and other in-house communications.

Should an LMS Capital employee become disabled while in the Company's employment, 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

The Group ensures that it reduces its environmental impact wherever possible.

The Company occupies premises which are modern and energy efficient. Under the lease for these premises the Company and its landlord have agreed to devise and comply with an energy management plan; to operate initiatives to reduce, reuse and recycle waste; and to maintain and share data about energy and resource consumption to ensure that the premises are used in accordance with the energy management plan and in a way which improves energy efficiency.

Office waste is recycled and segregated wherever possible, and staff are made aware of the importance of recycling. The Company will continue to endeavour to increase the proportion of waste recycled during 2013.

The majority of the Company's employees travel to the office using public transport and video conferencing facilities are available to reduce business travel where possible.

Charitable donations

The Group did not make any charitable donations during 2012 (2011: £nil). However the Company does provide without charge office accommodation and services within its premises for The Rayne Foundation (www.raynefoundation.org.uk). The estimated monetary value of this in 2012 was £51,000 (2011: £44,000).

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. It does this within four sectors: the Arts; Education; Health & Medicine; and Social Welfare & Development.

In addition, the Company 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 employers and colleagues.

Political donations

The Group did not make any political donations during 2012 (2011: £nil).

Creditor Payment Policy

The Company's policy and practice in the UK is to agree terms of payment with suppliers at the time of contract and to make payment in accordance with those terms, subject to satisfactory performance. The Company does not follow any code or standard on payment practice. At 31 December 2012, trade creditors of the Company had an average of approximately 31 days outstanding (31 December 2011: 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, or which effect, alter or terminate upon a change in control of the Company following a takeover bid. The Company's share incentive plans contain provisions relating to a change of control. Outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Related Party Transactions

In January 2011, the Company moved office to 100 George Street, London W1U 8NU. Robert Rayne is Non-executive Chairman of Derwent London plc, which is the landlord of this property.

Dividends

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2012 (2011: £nil).

Directors

The names and biographical details of the current Directors of the Company are given on pages 10 and 11. In addition, further information about the Board is set out in the Corporate governance report on pages 12 to 18.

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 21 to 27. The Company maintains Directors' and officers' liability insurance and provides the Directors and officers with a qualifying third party indemnity within the limits permitted by the Companies Act 2006.

Directors' report continued

The Directors may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's Articles of Association. The powers set out in the Articles of Association include those in relation to the issue and buyback of shares.

Tender Offer and Shares in Issue

At a meeting of shareholders on 30 November 2011, shareholders approved an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As part of this strategy, on 2 November 2012 the Company published a circular to shareholders setting out details of a tender offer to return up to £40 million to shareholders. The tender offer was approved by shareholders at a general meeting of the Company held on 29 November 2012. The results of the tender offer were announced on 30 November 2012. As a result, 47,618,864 ordinary shares in the capital of the Company (with a nominal value of £4,761,886.40) were purchased by the Company through its brokers. These shares were then cancelled, reducing the Company's issued share capital from 273,863,838 ordinary shares to 226,244,974 ordinary shares. The tender offer price was set at 84 pence and the total value of all ordinary shares purchased was £40 million.

At 31 December 2012, the Company's issued share capital remains at 226,244,974 ordinary shares of 10 pence each. There has been no change in the issued share capital between the year end and the date of this report.

Voting Rights

Each share carries one vote. No shares are currently held in treasury. There are no restrictions on the transfer of shares.

Substantial Shareholdings

As at 31 December 2012, the Company had been advised of the following significant direct and indirect interests in the issued share capital of the Company. No further notifications have been received as at the date of this report.

Name of Shareholder	Percentage of issued share capital
Schroders plc	13.19
Trustees of Lord Rayne's Will Trust	13.01
Robert Rayne [1,2]	10.82
Lady Jane Rayne [1]	9.89
Asset Value Investors	8.96
Jupiter Asset Management Ltd [3]	7.84
Mantra Investissement SCA	5.58
British Empire Securities & General Trust plc	5.50
Taube Hodson & Stonex Partners LLP	4.52

Notes:

1. There are common interests in certain of these shares, which are held within charitable trusts.
2. Robert Rayne holds a non-beneficial interest in 17,719,153 ordinary shares held in trust and a personal interest in 6,766,987 ordinary shares.
3. Part of this holding (comprising 5.33% of the issued share capital) is managed by Jupiter Asset Management Ltd on behalf of The Rayne Foundation, which controls the voting rights attached to these shares.

Annual General Meeting

The Company's Annual General Meeting will be held at The Royal Society of Medicine at 1 Wimpole Street, London W1G 0AE at 3.00 p.m. on 20 May 2013. 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 at www.lmscapital.com.

Auditor and Disclosure of Information to Auditor

The auditor, KPMG Audit Plc, has indicated their willingness to continue in office and resolutions will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditor and to authorise the Directors to fix their remuneration.

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 Section 418 (3) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board.

Antony Sweet
Company Secretary

18 March 2013

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors who served during the year ended 31 December 2012 and to the date of this annual report are as set out on pages 10 and 11. 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 will continue in business. As explained in note 1 to the consolidated financial information, the Directors do not believe that it is appropriate to prepare these financial statements on a going concern basis.

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

Nick Friedlos	Antony Sweet
Director	Chief Financial Officer

18 March 2013

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 2012 set out on pages 35 to 76. 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. These financial statements have not been prepared on the going concern basis for the reason set out in note 1 to the financial statements.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 32, 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 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the 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.

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

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 28, in relation to going concern;
- the part of the Corporate governance report on pages 12 to 18 in this Annual Report relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

18 March 2013

Consolidated income statement

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Continuing operations			
Revenue from sales of goods and services	2	**60,762**	47,334
Gains and losses on investments	2	**(9,472)**	7,912
Interest income	3	**88**	65
Dividend income	4	**130**	801
Other income from investments	4	**308**	360
		51,816	56,472
Operating expenses	5	**(62,752)**	(55,903)
(Loss)/profit before finance costs		**(10,936)**	569
Finance costs	7	**(758)**	(941)
Loss before tax		**(11,694)**	(372)
Taxation	8	**(1,201)**	(595)
Loss from continuing operations		**(12,895)**	(967)
Discontinued operations			
Gain from discontinued operations (net of taxation)	9	–	2,232
(Loss)/profit for the year		**(12,895)**	1,265
Attributable to:			
Equity holders of the parent		**(12,951)**	561
Non-controlling interests		**56**	704
		(12,895)	1,265
(Loss)/earnings per ordinary share – basic	10	**(4.8)p**	0.2p
(Loss)/earnings per ordinary share – diluted	10	**(4.8)p**	0.2p
Continuing operations			
Loss per ordinary share – basic	10	**(4.8)p**	(0.6)p
Loss per ordinary share – diluted	10	**(4.8)p**	(0.6)p

The notes on pages 43 to 76 form part of these financial statements.

Consolidated statement of comprehensive income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
(Loss)/profit for the year	**(12,895)**	1,265
Exchange differences on translation of foreign operations	**(917)**	216
Total comprehensive (loss)/profit for the year	**(13,812)**	1,481
Attributable to:		
Equity holders of the parent	**(13,401)**	777
Non-controlling interests	**(411)**	704
	(13,812)	1,481

The notes on pages 43 to 76 form part of these financial statements.

Consolidated statement of financial position

	Notes	31 December 2012 £'000	31 December 2011 £'000
Non-current assets			
Property, plant and equipment	11	**7,367**	6,931
Intangible assets	12	**36,694**	33,381
Investments	13	**144,419**	185,201
Other long-term assets		**73**	20
Non-current assets		**188,553**	225,533
Current assets			
Inventories	14	**1,975**	200
Operating and other receivables	15	**14,751**	14,881
Cash and cash equivalents	16	**26,832**	34,858
Current assets		**43,558**	49,939
Total assets		**232,111**	275,472
Current liabilities			
Interest-bearing loans and borrowings	17	**(3,712)**	(2,420)
Operating and other payables	18	**(17,482)**	(10,163)
Deferred income	19	**(8,758)**	(7,221)
Current tax liabilities		**(1,055)**	(1,406)
Current liabilities		**(31,007)**	(21,210)
Non-current liabilities			
Interest-bearing loans and borrowings	17	**(11,621)**	(9,406)
Deferred income	19	**(1,990)**	(1,777)
Deferred tax liabilities	20	**(200)**	(469)
Provisions and other long-term liabilities	21	**(1,723)**	(2,222)
Non-current liabilities		**(15,534)**	(13,874)
Total liabilities		**(46,541)**	(35,084)
Net assets		**185,570**	240,388
Equity			
Share capital	22	**22,625**	27,268
Share premium		**508**	17
Capital redemption reserve		**10,397**	5,635
Merger reserve		**84,083**	84,083
Foreign exchange translation reserve		**665**	1,115
Retained earnings		**64,642**	118,794
Equity attributable to owners of the parent		**182,920**	236,912
Non-controlling interests		**2,650**	3,476
Total equity	22	**185,570**	240,388

The financial statements on pages 35 to 76 were approved by the Board on 18 March 2013 and were signed on its behalf by:

Nick Friedlos
Director

The notes on pages 43 to 76 form part of these financial statements.

Company statement of financial position

	Notes	31 December 2012 £'000	31 December 2011 £'000
Non-current assets			
Property, plant and equipment	11	**633**	759
Investments in subsidiaries	13	**281,801**	281,801
Non-current assets		**282,434**	282,560
Current assets			
Operating and other receivables	15	**156**	179
Amounts receivable from subsidiaries	15	**15,862**	23,766
Cash and cash equivalents	16	**5,535**	10,650
Current assets		**21,553**	34,595
Total assets		**303,987**	317,155
Current liabilities			
Operating and other payables	18	**(1,960)**	(3,485)
Amounts payable to subsidiaries	18	**(108,641)**	(94,557)
Current liabilities		**(110,601)**	(98,042)
Net assets		**193,386**	219,113
Equity			
Share capital	22	**22,625**	27,268
Share premium		**508**	17
Capital redemption reserve		**10,397**	5,635
Retained earnings		**159,856**	186,193
Equity attributable to owners of the parent	22	**193,386**	219,113

The financial statements on pages 35 to 76 were approved by the Board on 18 March 2013 and were signed on its behalf by:

Nick Friedlos
Director

The notes on pages 43 to 76 form part of these financial statements.

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Statements of changes in equity

Group

	Share capital £'000	Share premium £'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 2011	27,265	–	5,635	84,083	899	117,827	235,709	3,121	238,830
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	561	561	704	1,265
Exchange differences on translation of foreign operations	–	–	–	–	216	–	216	–	216
Changes in ownership interests									
Acquisition of non-controlling interest with a change in control	–	–	–	–	–	–	–	233	233
Transactions with owners, recorded directly in equity									
Distributions to non-controlling interests	–	–	–	–	–	–	–	(582)	(582)
Share-based payments	–	–	–	–	–	406	406	–	406
Shares issued in the year	3	17	–	–	–	–	20	–	20
Balance at 31 December 2011	27,268	17	5,635	84,083	1,115	118,794	236,912	3,476	240,388
Total comprehensive income for the year									
Loss for the year	–	–	–	–	–	(12,951)	(12,951)	56	(12,895)
Exchange differences on translation of foreign operations	–	–	–	–	(450)	–	(450)	(467)	(917)
Transactions with owners, recorded directly in equity									
Distributions to non-controlling interests	–	–	–	–	–	–	–	(415)	(415)
Share-based payments	–	–	–	–	–	(109)	(109)	–	(109)
Repurchase of shares	(4,762)	–	4,762	–	–	(40,482)	(40,482)	–	(40,482)
Share options exercised in the year	119	491	–	–	–	(610)	–	–	–
Balance at 31 December 2012	**22,625**	**508**	**10,397**	**84,083**	**665**	**64,642**	**182,920**	**2,650**	**185,570**

The notes on pages 43 to 76 form part of these financial statements.

Statements of changes in equity continued

Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	27,265	–	5,635	191,757	224,657
Total comprehensive income for the year					
Loss for the year	–	–	–	(5,970)	(5,970)
Transactions with owners, recorded directly in equity					
Share-based payments	–	–	–	406	406
Shares issued in the year	3	17	–	–	20
Balance at 31 December 2011	27,268	17	5,635	186,193	219,113
Total comprehensive income for the year					
Loss for the year	–	–	–	(4,045)	(4,045)
Dividends received	–	–	–	18,909	18,909
Transactions with owners, recorded directly in equity					
Share-based payments	–	–	–	(109)	(109)
Repurchase of shares	(4,762)	–	4,762	(40,482)	(40,482)
Share options exercised in the year	119	491	–	(610)	–
Balance at 31 December 2012	**22,625**	**508**	**10,397**	**159,856**	**193,386**

The notes on pages 43 to 76 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flows from operating activities			
(Loss)/profit for the year		**(12,895)**	1,265
Adjustments for:			
Depreciation and amortisation	5	**3,742**	3,505
Losses/(gains) on investments		**9,472**	(7,912)
Gain on sale of discontinued operations, net of income tax	9	**–**	(3,300)
Translation differences		**134**	557
Share-based payments	23	**(109)**	406
Finance costs		**758**	941
Interest income		**(88)**	(65)
Income tax expense		**1,201**	595
		2,215	(4,008)
Change in inventories		**(1,775)**	1,537
Change in operating and other receivables		**130**	(2,860)
Change in operating and other payables		**4,323**	4,563
		4,893	(768)
Interest paid		**(758)**	(941)
Income tax paid		**(1,552)**	(1,458)
Net cash from/(used in) operating activities		**2,583**	(3,167)
Cash flows from investing activities			
Interest received		**88**	65
Acquisition of property, plant and equipment	11	**(3,690)**	(2,628)
Acquisition of deferred installation asset	12	**(4,416)**	(2,365)
Disposals of property, plant and equipment		**79**	39
Disposal of discontinued operations, net of cash disposed of	9	**–**	1,079
Acquisition of investments	13	**(7,264)**	(15,398)
Acquisition of subsidiaries, net of cash acquired	25	**–**	(2,651)
Proceeds from sale of investments		**42,500**	57,967
Net cash from investing activities		**27,297**	36,108
Cash flows from financing activities			
Issue of new shares		**–**	20
Repurchase of own shares		**(40,482)**	–
Drawdown of interest bearing loans		**4,303**	7,919
Repayment of interest bearing loans		**(796)**	(18,685)
Distributions paid to non-controlling interests		**(415)**	(582)
Net cash used in financing activities		**(37,390)**	(11,328)
Net (decrease)/increase in cash and cash equivalents		**(7,510)**	21,613
Cash and cash equivalents at the beginning of the year		**34,858**	13,229
Effect of exchange rate fluctuations on cash held		**(516)**	16
Cash and cash equivalents at the end of the year	16	**26,832**	34,858

The notes on pages 43 to 76 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flows from operating activities			
Loss for the year		**(4,045)**	(5,970)
Adjustments for:			
Depreciation	11	**138**	141
Share-based payments	23	**(109)**	406
Interest income		**(71)**	(48)
		(4,087)	(5,471)
Change in operating and other receivables		**23**	19
Change in operating and other payables		**(1,525)**	1,193
Change in amounts due to subsidiaries		**21,988**	27,004
Net cash from operating activities		**16,399**	22,745
Cash flows from investing activities			
Interest received		**71**	48
Dividends received from subsidiaries		**18,909**	–
Acquisition of property, plant and equipment		**(12)**	(585)
Disposal of property, plant and equipment		**–**	24
Net cash from/(used in) investing activities		**18,968**	(513)
Cash flows from financing activities			
Issue of new shares		**–**	20
Repurchase of own shares		**(40,482)**	–
Repayment of interest bearing loans		**–**	(14,281)
Net cash used in financing activities		**(40,482)**	(14,261)
Net (decrease)/increase in cash and cash equivalents		**(5,115)**	7,971
Cash and cash equivalents at the beginning of the year		**10,650**	2,679
Cash and cash equivalents at the end of the year	16	**5,535**	10,650

The notes on pages 43 to 76 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 2012 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.

On 30 November 2011 shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the Directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, these consolidated financial statements have not been prepared on a going concern basis.

On 31 October 2012, the International Accounting Standards Board issued Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27). These amendments provide an exception to existing IFRS 10 consolidation requirements, and require investment entities to measure certain subsidiaries at fair value through the profit or loss account rather than consolidating, as currently required. The amendments also set out certain disclosure requirements for investment entities.

The Directors believe that the Company meets the Investment Entity criteria. The standard and its amendments are not to be adopted until EU adoption, which is expected in 2013. It is not possible to early adopt these amendments.

The Group's business activities and financial position are set out in the Operating and Financial reviews on pages 4 to 9. In addition Note 24 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 for the foreseeable future.

These financial statements were authorised for issue by the Directors on 18 March 2013.

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

The financial statements have been prepared on the historical cost basis except for investments which are measured at fair value, with changes in fair value recognised in the consolidated income statement.

Notes to the financial information continued

1. Principal accounting policies continued

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial 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 on-going 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; and
- 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 2012. 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 31 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.

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.

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

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the consolidated statement of financial position 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.

Business combinations
All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2010
For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

Acquisitions before 1 January 2010
For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

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.

Notes to the financial information continued

1. Principal accounting policies continued

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 installments over their useful economic lives.

Deferred Installation asset

These are costs related to installation or acquisition of a distribution infrastructure for electric and/or water utilities for a designated housing community.

Such costs are amortised on a straight line basis over the guaranteed service contract period.

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 statement of financial position at fair value. Other investments including loan investments are classified as loans and receivables and carried in the statement of financial position at amortised cost less impairment.

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

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

Quoted investments

Quoted investments for which an active market exists are valued at the closing bid price at the reporting 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 in the Group's statement of financial position.

Notes to the financial information continued

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 income statement.

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 income statement.

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.

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. 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.

Notes to the financial information continued

1. Principal accounting policies continued

Income

Revenue from sales of goods and services

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

Revenues from software and related services are also predominantly project based with transactions typically including the sale of a software 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.

Installation fees are separated from the maintenance fees and are recognised as performance occurs. Consideration accrues as contract activity progresses by reference to the value of the work performed. Hence, revenue in respect of service contracts represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant.

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 income statement 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 income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

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

Income tax expense

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

Notes to the financial information continued

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 standalone 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.

Segment profit or loss

		Reconciliation		
Year ended 31 December 2012	**Investment management £'000**	**Portfolio subsidiaries £'000**	**Consolidation adjustments £'000**	**Group total £'000**
Revenues from sales of goods and services	**–**	**60,762**	**–**	**60,762**
Gains and losses on investments	**(7,221)**	**–**	**(2,251)**	**(9,472)**
Interest income	**75**	**13**	**–**	**88**
Dividend income	**130**	**–**	**–**	**130**
Other income from investments	**1,029**	**229**	**(950)**	**308**
Finance costs	**–**	**(2,373)**	**1,615**	**(758)**
Profit/(loss) for the year	**(12,211)**	**435**	**(1,119)**	**(12,895)**

		Reconciliation			
Year ended 31 December 2011	**Investment management £'000**	**Portfolio subsidiaries £'000**	**Discontinued operations £'000**	**Consolidation adjustments £'000**	**Group total £'000**
Revenues from sales of goods and services	–	47,334	–	–	47,334
Gains and losses on investments	8,734	–	–	(822)	7,912
Interest income	54	11	–	–	65
Dividend income	801	–	–	–	801
Other income from investments	2,861	3	–	(2,504)	360
Finance costs	(179)	(3,081)	–	2,319	(941)
Continuing operations	(434)	112	–	(645)	(967)
Discontinued operations	–	–	2,232	–	2,232
Profit/(loss) for the year	(434)	112	2,232	(645)	1,265

Segment net assets

31 December 2012	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	**633**	**6,734**	**–**	**7,367**
Intangible assets	**–**	**20,809**	**15,885**	**36,694**
Investments	**179,299**	**–**	**(34,880)**	**144,419**
Other non-current assets	**–**	**73**	**–**	**73**
Non-current assets	**179,932**	**27,616**	**(18,995)**	**188,553**
Cash and cash equivalents	**20,117**	**6,715**	**–**	**26,832**
Other current assets	**1,114**	**15,653**	**(41)**	**16,726**
Total assets	**201,163**	**49,984**	**(19,036)**	**232,111**
Total liabilities	**(9,057)**	**(56,599)**	**19,115**	**(46,541)**
Net assets/(liabilities)	**192,106**	**(6,615)**	**79**	**185,570**

31 December 2011	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	759	6,172	–	6,931
Intangible assets	–	17,369	16,012	33,381
Investments	218,476	–	(33,275)	185,201
Other non-current assets	–	20	–	20
Non-current assets	219,235	23,561	(17,263)	225,533
Cash and cash equivalents	30,602	4,256	–	34,858
Other current assets	2,516	12,629	(64)	15,081
Total assets	252,353	40,446	(17,327)	275,472
Total liabilities	(7,360)	(46,775)	19,051	(35,084)
Net assets/(liabilities)	244,993	(6,329)	1,724	240,388

The net asset value of the investment management business at 31 December 2012 and at 31 December 2011 is wholly attributable to the equity holders of the parent.

Notes to the financial information continued

2. Operating segments continued

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

	31 December 2012			31 December 2011		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	**29,879**	**46,638**	**76,517**	32,610	72,361	104,971
Quoted	**1,014**	**16,114**	**17,128**	860	23,339	24,199
Unquoted	**47,476**	**38,178**	**85,654**	42,570	46,736	89,306
	78,369	**100,930**	**179,299**	76,040	142,436	218,476

	Year ended 31 December 2012			Year ended 31 December 2011		
Asset type	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000
Funds	**(100)**	**(1,195)**	**(1,295)**	719	2,748	3,467
Quoted	**34**	**(6,351)**	**(6,317)**	5,758	(13,486)	(7,728)
Unquoted	**(968)**	**1,359**	**391**	(119)	13,114	12,995
	(1,034)	**(6,187)**	**(7,221)**	6,358	2,376	8,734

Unrealised gains/(losses) include a charge of £3.1 million (2011: £0.4 million) in respect of the Group's carried interest plans.

Revenues

The Group's revenues from external customers comprise:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Continuing operations		
IT services and software	**44,650**	34,419
Energy and related services	**16,112**	12,915
	60,762	47,334

Geographical information

	Revenues		Non-current assets	
	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000	31 December 2012 £'000	31 December 2011 £'000
Continuing operations				
United Kingdom	**38,782**	28,810	**75,576**	75,278
United States of America	**18,095**	15,200	**112,977**	150,255
Other countries	**3,885**	3,324	**–**	–
	60,762	47,334	**188,553**	225,533

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

Major customers

No single customer contributed more than 10% of the Group's total revenues in either 2012 or 2011.

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 2012 £'000	Year ended 31 December 2011 £'000
Dividends from quoted securities	**10**	7
Dividends from unquoted securities	**120**	724
Dividends from funds	**–**	70
Investment management fees	**75**	128
Income from investments	**233**	47
Other	**–**	185
	438	1,161

5. Operating expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cost of sales	**31,292**	23,358
Administrative expenses	**31,460**	32,545
	62,752	55,903

Operating expenses include the following:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Depreciation	**3,177**	3,174
Intangible asset amortisation	**565**	365
Operating lease expense	**1,094**	1,035
Non-recurring costs	**864**	5,020
Auditor's remuneration:		
Fees to Group auditor:		
– parent company	**115**	75
– subsidiary companies	**216**	138
Non-audit related services:		
– taxation advisory services	**27**	27
Fees to other auditors (non KPMG)	**157**	197

Non-recurring costs comprise £nil (2011: £1.6 million) of one-off charges for professional fees incurred in relation to the change in investment policy of the Company, £0.9 million (2011: £0.9 million) of compensation payments to staff members and £nil (2011: £2.5 million) to provide for the costs of a management fee commitment regarded as onerous following the change in strategy.

Notes to the financial information continued

6. Personnel expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Wages and salaries	**14,207**	14,014
Compulsory social security contributions	**3,229**	2,274
Contributions to defined contribution plans	**325**	422
Share-based payment transactions	**(174)**	70
	17,587	16,780

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. Carried interest of £3.9 million is accrued at 31 December 2012 (31 December 2011: £0.8 million) calculated on the assumption that the Group's investment portfolio is realised at its year end carrying amount.

7. Finance costs

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest on bank loans and overdrafts	**297**	310
Interest on other loans	**461**	631
	758	941

8. Taxation

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Current tax expense		
Current year	**1,396**	679
Adjustment for prior periods	**75**	(5)
	1,471	674
Deferred tax expense		
Origination and reversal of temporary differences	**(270)**	(79)
	(270)	(79)
Total tax expense	**1,201**	595

Reconciliation of effective tax rate

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Loss before tax	**(11,694)**	(372)
Income tax using the Company's domestic tax rate – 24.5% (2011: 26.5%)	**(2,865)**	(99)
Fair value adjustments not currently taxed	**779**	(1,113)
Non-deductible expenses	**2,380**	2,564
Non-taxable income	**(15)**	(1,800)
Deferred tax not recognised	**214**	866
Overseas tax paid	**960**	256
Prior year adjustment	**75**	(79)
Tax losses utilised	**(327)**	–
Total tax expense	**1,201**	595

9. Discontinued operations

In April 2011 the Group sold its entire interests in CopperEye Limited and Kizoom Limited.

In October 2011 ITS (US) Holdings Inc, sold its entire interest in its two operating subsidiaries ITS Engineered Systems Inc, and ITS Water Solutions Inc.

Results of discontinued operations

	Year ended 31 December 2011 £'000
Revenues	5,357
Expenses	(6,425)
Results from operating activities	(1,068)
Taxation	–
Results from operating activities, net of tax	(1,068)
Gain on sale of discontinued operations	3,300
Tax on gain on sale of discontinued operations	–
Gain for the year	2,232
Earnings per ordinary share – basic	0.8p
Earnings per ordinary share – diluted	0.8p

Notes to the financial information continued

9. Discontinued operations continued

Cash used in discontinued operations

	Year ended 31 December 2011 £'000
Net cash used in operating activities	(62)
Net cash used in investing activities	–
Net cash from financing activities	106
Net cash from discontinued operations	44

Effect of disposal on the financial position of the Group

	31 December 2011 £'000
Property, plant and equipment	(2,160)
Inventories	(221)
Trade and other receivables	(2,825)
Cash and cash equivalents	(310)
Trade and other payables	2,147
Deferred income	3,686
Interest bearing loans and borrowings	816
Net liabilities	1,133
Consideration received, satisfied in cash	1,389
Cash disposed of	(310)
Net cash inflow	1,079

Gain on sale of discontinued operations

	Year ended 31 December 2011 £'000
Consideration received, satisfied in cash	1,389
Net liabilities disposed as at 31 December 2010	2,119
Loss from operating activities, net of tax	1,068
Other non-operating items – investment in the year	(1,276)
Gain on sale of discontinued operations	3,300

10. (Loss)/earnings per ordinary share

The calculation of the basic and diluted (loss)/earnings per share, in accordance with IAS 33, is based on the following data:

Group	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
(Loss)/earnings		
(Loss)/earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**(12,951)**	561
Loss for the purposes of continuing earnings per share being net loss from continuing operations attributable to equity holders of the parent	**(12,951)**	(1,671)
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares for the purposes of basic earnings per shares	**269,495,938**	272,662,870
Effect of dilutive potential ordinary shares:		
Share options and performance shares	**1,618,736**	4,230,301
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**271,114,674**	276,893,171
(Loss)/earnings per share		
Basic	**(4.8)p**	0.2p
Diluted	**(4.8)p**	0.2p
Loss per share – continuing operations		
Basic	**(4.8)p**	(0.6)p
Diluted	**(4.8)p**	(0.6)p

There was no dilution effect on the loss for the year.

Notes to the financial information continued

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 2011	1,818	12,785	740	15,343
Additions	–	1,941	687	2,628
Acquisitions through business combinations	–	259	–	259
Disposals	–	(23)	(38)	(61)
Disposals of discontinued operations	(1,723)	(2,974)	(265)	(4,962)
Effect of movement in exchange rates and other adjustments	(66)	(264)	360	30
Balance at 31 December 2011	29	11,724	1,484	13,237
Balance at 1 January 2012	**29**	**11,724**	**1,484**	**13,237**
Additions	**–**	**3,171**	**519**	**3,690**
Disposals	**–**	**(884)**	**(55)**	**(939)**
Effect of movement in exchange rates	**–**	**(9)**	**–**	**(9)**
Balance at 31 December 2012	**29**	**14,002**	**1,948**	**15,979**
Depreciation and impairment losses				
Balance at 1 January 2011	1,263	4,541	48	5,852
Depreciation charge for the year	–	2,920	254	3,174
Disposals	–	(7)	(14)	(21)
Disposals of discontinued operations	(1,167)	(1,529)	(115)	(2,811)
Effect of movement in exchange rates and other adjustments	(67)	(181)	360	112
Balance at 31 December 2011	29	5,744	533	6,306
Balance at 1 January 2012	**29**	**5,744**	**533**	**6,306**
Depreciation charge for the year	**–**	**2,810**	**367**	**3,177**
Disposals	**–**	**(809)**	**(51)**	**(860)**
Effect of movement in exchange rates	**–**	**(11)**	**–**	**(11)**
Balance at 31 December 2012	**29**	**7,734**	**849**	**8,612**
Carrying amounts				
At 31 December 2011	–	5,980	951	6,931
At 31 December 2012	**–**	**6,268**	**1,099**	**7,367**

At 31 December 2012 the carrying amount of plant and equipment includes £420,000 held under finance leases (31 December 2011: £185,000).

Company	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2011	302	472	774
Additions	9	576	585
Disposals	–	(38)	(38)
Balance at 31 December 2011	311	1,010	1,321
Balance at 1 January 2012	**311**	**1,010**	**1,321**
Additions	**11**	**1**	**12**
Balance at 31 December 2012	**322**	**1,011**	**1,333**
Depreciation and impairment losses			
Balance at 1 January 2011	276	159	435
Depreciation charge for the year	21	120	141
Disposals	–	(14)	(14)
Balance at 31 December 2011	297	265	562
Balance at 1 January 2012	**297**	**265**	**562**
Depreciation charge for the year	**12**	**126**	**138**
Balance at 31 December 2012	**309**	**391**	**700**
Carrying amounts			
At 31 December 2011	14	745	759
At 31 December 2012	**13**	**620**	**633**

Notes to the financial information continued

12. Intangible assets

Group	Deferred installation asset £'000	Goodwill £'000	Total £'000
Cost			
Balance at 1 January 2011	3,223	52,146	55,369
Acquisitions through business combinations	–	3,717	3,717
Additions	2,365	–	2,365
Disposal of discontinued operations	–	(23,273)	(23,273)
Effect of movement in exchange rates	7	(452)	(445)
Balance at 31 December 2011	5,595	32,138	37,733
Balance at 1 January 2012	**5,595**	**32,138**	**37,733**
Additions	**4,416**	**–**	**4,416**
Effect of movement in exchange rates	**(267)**	**(313)**	**(580)**
Balance at 31 December 2012	**9,744**	**31,825**	**41,569**
Impairment losses/amortisation			
Balance at 1 January 2011	236	27,010	27,246
Disposal of discontinued operations	–	(23,273)	(23,273)
Amortisation	365	–	365
Effect of movement in exchange rates	14	–	14
Balance at 31 December 2011	615	3,737	4,352
Balance at 1 January 2012	**615**	**3,737**	**4,352**
Amortisation	**565**	**–**	**565**
Effect of movement in exchange rates	**(42)**	**–**	**(42)**
Balance at 31 December 2012	**1,138**	**3,737**	**4,875**
Carrying amounts			
At 31 December 2011	4,980	28,401	33,381
At 31 December 2012	**8,606**	**28,088**	**36,694**

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.

An analysis of goodwill is set out below:

	Goodwill impairment recognised in the year ended 31 December 2012 £'000	Goodwill impairment recognised in the year ended 31 December 2011 £'000	Carrying amount 2012 £'000	Carrying amount 2011 £'000
365iTMS Limited	**–**	–	**3,717**	3,717
Entuity Limited	**–**	–	**4,981**	4,981
Wesupply Limited	**–**	–	**4,344**	4,344
Nationwide Energy Partners LLC	**–**	–	**6,312**	6,625
Updata Infrastructure UK Ltd	**–**	–	**8,734**	8,734
	–	–	**28,088**	28,401

13. Investments

Group

The movements in investments were as follows:

	Quoted securities £'000	Unquoted securities Equity £'000	Unquoted securities Loans £'000	Funds £'000	Total £'000
Carrying value					
Balance at 1 January 2011	63,213	38,531	4,424	114,535	220,703
Purchases	308	1	1,823	13,266	15,398
Disposals	(30,466)	–	(637)	(15,704)	(46,807)
Distributions from partnerships	–	–	–	(10,124)	(10,124)
Fair value adjustments	(8,857)	12,755	(865)	2,998	6,031
Balance at 31 December 2011	24,198	51,287	4,745	104,971	185,201
Balance at 1 January 2012	**24,198**	**51,287**	**4,745**	**104,971**	**185,201**
Purchases	**–**	**–**	**2,005**	**5,259**	**7,264**
Disposals	**(679)**	**(8,440)**	**(61)**	**(941)**	**(10,121)**
Distributions from partnerships	**–**	**–**	**–**	**(32,418)**	**(32,418)**
Fair value adjustments	**(6,391)**	**411**	**827**	**(354)**	**(5,507)**
Balance at 31 December 2012	**17,128**	**43,258**	**7,516**	**76,517**	**144,419**

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); and

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

	2012 £'000	2011 £'000
Level 1	**17,128**	24,198
Level 2	**–**	–
Level 3	**119,775**	156,258
	136,903	180,456

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:

	2012 £'000	2011 £'000
Opening balance	**156,258**	153,066
Total gain in profit or loss	**57**	15,753
Purchases	**5,259**	13,268
Realisations	**(41,799)**	(25,829)
Closing balance	**119,775**	156,258

Notes to the financial information continued

13. Investments

Company

The investment in subsidiaries was as follows:

	2012 £'000	2011 £'000
Cost	**293,510**	293,510
Carrying value	**281,801**	281,801

Details of subsidiaries are set out in Note 31.

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	
	2012 £'000	2011 £'000
Work in progress	**1,939**	189
Finished goods	**36**	11
	1,975	200

Changes in finished goods and work in progress recognised as cost of sales amounted to a credit of £1,775,000 (2011: debit of £1,651,000).

15. Operating and other receivables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables	**10,683**	10,495	**–**	–
Other receivables and prepayments	**4,068**	4,386	**156**	179
Amounts receivable from subsidiaries	**–**	–	**15,862**	23,766
	14,751	14,881	**16,018**	23,945

16. Cash and cash equivalents

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Bank balances	**8,726**	5,954	**2,339**	91
Short-term deposits	**18,106**	28,904	**3,196**	10,559
	26,832	34,858	**5,535**	10,650

17. Interest bearing loans and borrowings

	Group 2012 £'000	Group 2011 £'000
Non-current liabilities		
Secured bank loans	**10,729**	8,646
Other unsecured loans	**640**	640
Finance lease liabilities	**252**	120
	11,621	9,406
Current liabilities		
Secured bank loans	**1,528**	425
Other unsecured loans	**2,016**	1,930
Finance lease liabilities	**168**	65
	3,712	2,420

Terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Maturity	Group 2012 £'000 Carrying amount	Group 2011 £'000 Carrying amount
Secured bank loan	£	3.65%	2016	**4,011**	4,737
Secured bank loan	£	7.50%	2014	**1,313**	1,393
Secured bank loan	USD	LIBOR plus 2.00%	2018	**3,383**	2,618
Secured bank loan	USD	LIBOR plus 2.00%	2018	**2,589**	–
Secured bank loan	USD	LIBOR plus 1.75%	2012	**–**	301
Secured bank loan	USD	LIBOR plus 1.75%	2013	**949**	–
Secured bank loan	USD	6.06%	2013	**12**	23
Unsecured loan	£	21.00%	2014	**712**	759
Unsecured loan	USD	12.00%	2013	**1,944**	1,810
Finance lease liabilities	£	25.00%	2014	**121**	185
Finance lease liabilities	£	9.00%	2015	**299**	–
				15,333	11,826

Finance lease liabilities are payable as follows:

	2012 Future minimum lease payments £'000	2012 Interest £'000	2012 Present value of minimum lease payments £'000	2011 Future minimum lease payments £'000	2011 Interest £'000	2011 Present value of minimum lease payments £'000
Less than one year	**193**	**25**	**168**	102	20	82
Between one and five years	**281**	**29**	**252**	126	23	103
	474	**54**	**420**	228	43	185

Notes to the financial information continued

18. Operating and other payables

	Group		Company	
	2012	**2011**	**2012**	**2011**
	£'000	**£'000**	**£'000**	**£'000**
Trade payables	**8,054**	4,049	**51**	44
Non-trade payables and accrued expenses	**9,428**	6,114	**1,909**	3,441
Amounts payable to subsidiaries	**–**	–	**108,641**	94,557
	17,482	10,163	**110,601**	98,042

Non-trade payables and accrued expenses include £3,900,000 (31 December 2011: £800,000) for carried interest payable and £375,000 (31 December 2011: £412,000) for fund management fees described in note 21.

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	
	2012	**2011**
	£'000	**£'000**
Property, plant and equipment	**200**	469
Financial assets at fair value through profit or loss	**–**	–
	200	469

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 £30.1 million at 31 December 2012 (31 December 2011: £31.9 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 2012 it would realise further net capital losses for tax purposes of £27.9 million (31 December 2011: £31.5 million).

The Group's portfolio subsidiaries have tax losses of £79.5 million at 31 December 2012 (31 December 2011: £59.1 million) available to offset future profits chargeable to tax.

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 from these losses.

21. Provisions and other long-term liabilities

	Group	
	2012 £'000	2011 £'000
Provisions for fund management fees	**1,581**	2,055
Customer security deposits	**142**	167
	1,723	2,222

Full provision has been made for fees payable under an investment management agreement of £1,956,000 (31 December 2011: £2,467,000) which is considered onerous following the change in strategy of the Group from 30 November 2011. The fund management fees are expected to be paid annually until 2015. The current element of the provision of £375,000 (31 December 2011: £412,000) is included in operating and other payables.

22. Capital and reserves

Share capital

	Ordinary shares			
	2012 Number	2012 £'000	2011 Number	2011 £'000
Balance at beginning of the year	**272,674,285**	**27,268**	272,640,952	27,265
Exercise of share options	**1,189,553**	**119**	33,333	3
Repurchase of shares	**(47,618,864)**	**(4,762)**	–	–
Balance at the end of the year	**226,244,974**	**22,625**	272,674,285	27,268

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.

The repurchase of shares was in connection with the tender offer in November 2012 which amounted to £40 million. Further details are provided in the Directors' report on pages 28 to 31.

Capital redemption reserve

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

Treasury shares

The Company has no shares held in treasury.

Merger reserve

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

Foreign exchange translation reserve

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

Notes to the financial information continued

23. 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. At 31 December 2012 there were no option grants outstanding under this plan (2011: nil).

Deferred share bonus plan

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

Movements during the year were as follows:

	2012 Number	2011 Number
Outstanding at 1 January	**1,321,667**	1,870,000
Awards during the year	**–**	–
Exercised during the year	**(1,171,667)**	(33,333)
Lapsed during the year	**(83,335)**	(515,000)
Outstanding at 31 December	**66,665**	1,321,667

During the year, no shares were released since the performance criteria had not been met (2011: 498,333 shares were released). The shares which lapsed during 2012 and 2011 did so because performance criteria required for their release were not met. Shares outstanding at 31 December 2012 are vested and available for exercise until 12 April 2020.

The weighted average exercise price of awards outstanding at 31 December 2012 was £nil (31 December 2011: £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.

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.

	2012 Number	2011 Number
Outstanding at 1 January	**2,908,634**	3,755,901
Granted during the year	**–**	2,045,004
Exercised during the year	**(59,267)**	–
Lapsed during the year	**(1,297,296)**	(2,892,271)
Outstanding at 31 December	**1,552,071**	2,908,634

Of the awards which lapsed during the year, 1,158,003 (2011: 2,005,201) lapsed because the performance criteria were not met and 139,293 (2011: 887,070) lapsed when the beneficiary left the Company.

The shares exercised during 2012 were by beneficiaries who had left the Company; part of their entitlement had vested under the plan's leaver provisions and the rest lapsed.

The weighted average exercise price of awards outstanding at 31 December 2012 was £nil (31 December 2011: £nil).

The awards outstanding at 31 December 2012 comprise:

- 359,790 shares which will vest and be released on 13 April 2013, and be available for exercise until 12 April 2020; and
- 1,192,281 shares for which the performance period ends on 31 December 2013.

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. There were no awards of shares under the plans in 2012.

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

	2012 £'000	2011 £'000
Executive share option plan	–	–
Deferred share bonus plan	**(21)**	446
Performance share plan	**(88)**	(40)
	(109)	406

At 31 December 2012, non-trade payables and accrued expenses include £nil (31 December 2011: £65,000) in respect of amounts payable under the Company's long-term incentive plans.

24. Financial risk management

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 table below.

Group

	2012			2011		
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**
Investments	**136,903**	**7,516**	**144,419**	180,456	4,745	185,201
Operating and other receivables	**–**	**14,751**	**14,751**	–	14,881	14,881
Cash and cash equivalents	**–**	**26,832**	**26,832**	–	34,858	34,858
Total	**136,903**	**49,099**	**186,002**	180,456	54,484	234,940

	2012			2011		
Liabilities	**Fair value through profit or loss £'000**	**Loans and payables £'000**	**Total £'000**	**Fair value through profit or loss £'000**	**Loans and payables £'000**	**Total £'000**
Bank overdrafts	**–**	**–**	**–**	–	–	–
Interest bearing loans and borrowings	**–**	**15,333**	**15,333**	–	11,826	11,826
Operating and other payables	**–**	**17,482**	**17,482**	–	10,163	10,163
Total	**–**	**32,815**	**32,815**	–	21,989	21,989

Notes to the financial information continued

24. Financial risk management continued

Company

Assets	2012 Fair value through profit or loss £'000	2012 Loans and receivables £'000	2012 Total £'000	2011 Fair value through profit or loss £'000	2011 Loans and receivables £'000	2011 Total £'000
Operating and other receivables	–	**156**	**156**	–	179	179
Amounts receivable from subsidiaries	–	**15,862**	**15,862**	–	23,766	23,766
Cash and cash equivalents	–	**5,535**	**5,535**	–	10,650	10,650
Total	–	**21,553**	**21,553**	–	34,595	34,595

Liabilities	2012 Fair value through profit or loss £'000	2012 Loans and payables £'000	2012 Total £'000	2011 Fair value through profit or loss £'000	2011 Loans and payables £'000	2011 Total £'000
Interest bearing loans and borrowings	–	–	–	–	–	–
Operating and other payables	–	**1,960**	**1,960**	–	3,485	3,485
Amounts payable to subsidiaries	–	**108,641**	**108,641**	–	94,557	94,557
Total	–	**110,601**	**110,601**	–	98,042	98,042

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

- Credit risk;
- Liquidity risk; and
- 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.

	2012 £'000	2011 £'000
Operating and other receivables	**14,751**	14,881
Cash and cash equivalents	**26,832**	34,858
	41,583	49,739

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:

	2012 £'000	2011 £'000
UK	**9,859**	10,484
United States	**3,914**	3,433
Other regions	**978**	964
	14,751	14,881

The aging of trade receivables was:

	2012		2011	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	**5,782**	**–**	4,733	–
Past due 0–30 days	**3,766**	**–**	3,381	–
Past due 31–120 days	**409**	**8**	1,864	72
More than 120 days	**911**	**177**	826	237
	10,868	**185**	10,804	309

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 and the use of cash resources.

The following are the contractual maturities of financial liabilities:

31 December 2012	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
Interest bearing loans and borrowings	**14,913**	**17,165**	**4,473**	**1,336**	**4,685**	**5,842**	**829**
Finance lease liabilities	**420**	**475**	**97**	**97**	**172**	**109**	**–**
Operating and other payables	**17,482**	**17,482**	**17,482**	**–**	**–**	**–**	**–**
	32,815	**35,122**	**22,052**	**1,433**	**4,857**	**5,951**	**829**

31 December 2011	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
Interest bearing loans and borrowings	11,640	14,013	678	2,179	542	7,915	2,699
Finance lease liabilities	186	228	60	42	84	42	–
Operating and other payables	10,163	10,163	10,163	–	–	–	–
	21,989	24,404	10,901	2,221	626	7,957	2,699

In addition the Group has uncalled commitments to funds of £10.4 million (31 December 2011: £18.9 million) for which the timing of payment is uncertain.

Notes to the financial information continued

24. Financial risk management continued

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 56% 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 translation currency risk on sales and purchases which are denominated in a currency other than the Group's functional currency. The currency in which these transactions are denominated is principally US dollars.

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

	31 December 2012			31 December 2011		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**48,213**	**91,711**	**4,495**	48,303	132,719	4,179
Operating and other receivables	**9,845**	**4,820**	**86**	8,794	5,982	105
Cash and cash equivalents	**12,325**	**14,227**	**280**	23,781	10,911	166
Interest bearing loans and borrowings	**(6,037)**	**(8,876)**	**–**	(6,889)	(4,751)	–
Finance lease liabilities	**(420)**	**–**	**–**	(186)	–	–
Operating and other payables	**(9,944)**	**(7,538)**	**–**	(6,076)	(4,083)	(4)
Gross exposure	**53,982**	**94,344**	**4,861**	67,727	140,778	4,446
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**53,982**	**94,344**	**4,861**	67,727	140,778	4,446

At 31 December 2012 the rate of exchange was USD 1.63 = £1.00 (31 December 2011: USD 1. 55 = £1.00). The average rate for the year ended 31 December 2012 was USD 1.59 = £1.00 (2011: USD 1.61 = £1.00).

A 10 per cent strengthening of the US dollar against the pound sterling would have increased equity by £8.3 million at 31 December 2012 (31 December 2011: increase of £12.1 million) and decreased the loss for the year ended 31 December 2012 by £10.1 million (2011: decreased the loss from continuing operations by £14.4 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:

	2012 £'000	2011 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**15,333**	11,826
	15,333	11,826
Variable rate instruments		
Financial assets	**26,832**	34,858
Financial liabilities	**–**	–
	26,832	34,858

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £173,000 (31 December 2011: increase of £64,000) and decreased the loss by £173,000 (2011: decreased the loss from continuing activities by £64,000).

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 reporting date, with all other variables held constant, the loss for the year ended 31 December 2012 would have increased by £14.4 million (2011: increased the loss from continuing operations by £21.8 million). An increase in the valuation of investments by 10% at the reporting 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 2012 was £186 million (31 December 2011: £240 million) comprising equity share capital and reserves. The Group had borrowings at 31 December 2012 of £15.3 million (31 December 2011: £11.8 million).

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

- The current and planned level of gearing, which takes into account working capital requirements and investment capital for portfolio subsidiaries;
- The possible timing and extent of returning capital to shareholders in line with the Company's asset realisation strategy; and
- The annual dividend policy.

The Group's objectives, policies and processes for managing capital reflect the change in strategy from November 2011.

Notes to the financial information continued

25. Acquisitions of subsidiaries

The following acquisition was made during the year ended 31 December 2011:

365iTMS Ltd

In September 2011 the Group acquired a 84.1% interest in 365iTMS Ltd ("365iTMS"); the acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Fair value of net assets acquired/consideration £'000
Property, plant and equipment	259
Inventories	111
Operating and other receivables	1,897
Cash and cash equivalents	22
Operating and other payables	(1,659)
Deferred income	(1,471)
Net identifiable assets and liabilities	(841)
Intangible assets (goodwill)	3,717
Net assets acquired	2,876
Non-controlling interest	(233)
Total payable	2,643
Deferred cash consideration	(743)
Cash consideration paid	1,900

The operating and other receivables comprise gross contractual amounts due of £1,992,124, of which £95,230 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.

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

365iTMS Ltd delivers a range of technology solutions extending from unified communications to network and system infrastructure, security, business continuity and managed services.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012		2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Less than one year	**546**	**289**	449	289
Between one and five years	**1,752**	**1,227**	1,652	1,444
More than five years	**–**	**–**	72	72
	2,298	**1,516**	2,173	1,805

27. Capital commitments

	2012 £'000	2011 £'000
Outstanding commitments to funds	**10,420**	18,894

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

28. Contingent liabilities

The Company has guaranteed the indebtedness of certain of the Group's investments; the amount outstanding under these arrangements at 31 December 2012 was £441,000 (31 December 2011: £517,000).

29. Related party transactions

With effect from January 2011 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 £288,752 to Derwent London plc plus certain service charges. Mr Robert Rayne is Chairman of Derwent London plc.

Under an arrangement with SQP Limited the Company pays fees of £60,000 per annum for the provision of services by Mr Robert Rayne.

Compensation arrangements for key management are set out in the Remuneration report on pages 21 to 27.

In connection with the tender offer in November 2012, the Company received an irrevocable undertaking from Withers Trust Corporation Limited (the "Undertaking"). The purpose of the Undertaking was a contingency measure to ensure that members of the extended Rayne family and associated trusts (the "Concert Party") would in aggregate tender sufficient shares so that the Concert Party's percentage interest in the ordinary shares of the Company would not increase as a consequence of the tender offer and consequently avoid any requirement under the City Code on Takeovers and Mergers for the Concert Party to make an offer for all the issued shares of the Company which they did not own. This arrangement described above was classified as a smaller related party transaction under the Listing Rules of the UK Listing Authority (the "Listing Rules"). For the purposes of this classification the deemed value of the consideration for the Undertaking was £1.67 million.

The results of the Tender Offer did not, however, ultimately require any extra shares to be tendered by Withers under the terms of the Undertaking. No fee was payable by the Company in connection with the Undertaking.

30. Subsequent events

There were no events subsequent to 31 December 2012 that would materially affect the interpretation of these financial statements.

Notes to the financial information continued

31. 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 of America	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, certain of 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
365iTMS Limited	England and Wales	84.1	Provider of managed IT services & security, Unified communications, Business continuity, Virtualisation
Entuity Limited	England and Wales	69.9	Network management software
Nationwide Energy Partners LLC	United States of America	59.5	Energy services provider
ITS (US) Holdings Inc	United States of America	100	Non-trading after sale of business
Updata Infrastructure (UK) Limited	England and Wales	47.8	Carrier-class networks
Wesupply Limited	England and Wales	85	Supply chain management software

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 Company's registrars, Capita Registrars, whose address is given above.

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

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

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

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Financial calendar 2013
Annual General Meeting:
20 May

Interim Management Statements:
May and November

Half-year results:
July/August

Year-end 31 December

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