LMS Capital plc

Annual Report & Accounts 2015

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 of small to medium sized companies across a range of sectors.

Contents

Highlights for the year

- The Net Asset Value at 31 December 2015 was £95.1 million, 92p per share (31 December 2014: £135.1 million, 93p per share).
- In December £40.0 million was returned to shareholders by way of a tender offer; this brought to £155.0 million the total returned to shareholders since the commencement of the realisation strategy at the end of 2011.
- The proceeds received from the investment portfolio during the year were £43.7 million (2014: £45.9 million).
- Net gains on the investment portfolio were £6.6 million (2014: £16.6 million) before deducting charges for incentive plans of £2.0 million (2014: £2.5 million).
- Overheads were £3.3 million (2014: £3.6 million).
- The profit for the year was £0.5 million (2014: £10.3 million).
- At 31 December 2015 we had liquid assets of £15.9 million (31 December 2014: £29.6 million), being net cash of £6.1 million (31 December 2014: £9.2 million) and quoted securities of £9.8 million (31 December 2014: £20.4 million). Outstanding commitments to funds were £4.0 million, down from £7.0 million at the end of 2014.

The Company's ten largest investments by valuation at 31 December 2015 were as follows:

Name	Geography	Type	Sector	Date of initial investment	Book value £'million
Medhost Inc	US	Unquoted	Technology	2007	14.2
Brockton Capital	UK	Fund	Property	2006	12.3
Nationwide Energy Partners	US	Unquoted	Energy	2010	9.9
Weatherford International	US	Quoted	Energy	1984	8.1
ICU Eyewear*	US	Unquoted	Consumer	2010	7.2
Yes To, Inc*	US	Unquoted	Consumer	2008	7.1
Penguin Computing*	US	Unquoted	Technology	2004	6.8
Opus Capital Venture Partners	US	Fund	Technology	2006	5.4
Entuity	UK	Unquoted	Technology	2000	4.5
Elateral Group	UK	Unquoted	Technology	2000	4.3

*A portfolio company of San Francisco Equity Partners.

The above represent 83% of the investment portfolio.

Chairman's statement

In 2015, your Board has continued to progress the realisation strategy approved by shareholders at the general meeting on 30 November 2011.

Realisation proceeds to date

This year, realisations from the portfolio were £43.7 million and, in December, £40.0 million was returned to shareholders by way of a tender offer.

At the commencement of the realisation strategy, the market capitalisation of the Company was approximately £153.0 million and the Net Asset Value at the end of 2011 was £245.0 million. Since then, a total of £155.0 million has been returned to shareholders by way of tender offers; the Net Asset Value of the Company at 31 December 2015 was £95.1 million.

The capital returned equates to 100% of the Company's market capitalisation at the time of the November 2011 general meeting and around 63% of the Net Asset Value at the end of 2011.

At the year end the Company had cash of £6.1 million; the Board will consider a further return of capital in the light of realisations in the coming year. The Board is not recommending payment of a dividend for the year ended 31 December 2015 (2014: £nil).

Portfolio performance

Net Asset Value per share at the end of 2015 was 92p, a 1% decrease from 93p a year ago.

Total portfolio net gains (realised and unrealised) for the year before carried interest charges were £6.6 million (2014: £16.6 million), the key elements of which were:

- Unquoted investments contributed net gains of £10.1 million (2014: £15.4 million), of which £6.5 million relates to the realised gain on the sale of Wesupply (2014: £10.3 million was the realised gain on the sale of Updata);
- Our quoted investments generated a net loss of £1.0 million for the year (2014: net loss of £0.8 million). The share price of Weatherford International has continued to be impacted significantly by low world oil prices; and
- Our fund interests showed a net loss of £2.5 million (2014: net gains of £2.0 million).

The portfolio net gains for the year include unrealised exchange gains of £3.6 million (2014: £5.9 million).

Managing the portfolio

Your Board regularly reviews the realisation plan for the portfolio on an asset by asset basis to ensure that there is a clear plan which balances the twin aims of concluding the realisation process and optimising value for shareholders. For its direct investments, the Company generally has control of or significant influence over a realisation process and monitors the performance of each company directly with its management. For funds and co-investments the Company may have a degree of influence but no control. The Company monitors these investments by maintaining regular dialogue with the fund manager or lead investor and actively monitors opportunities to realise value in established secondary markets.

Your Board will continue to take measures to contain overheads as part of its consideration of how best to manage the portfolio as it continues to reduce in size.

Conclusion and outlook

The realisation 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 2015.

Your Board believes that the investment portfolio will continue to release cash to shareholders in the medium-term. World markets continue to exhibit volatility against the background of uncertain conditions in a number of global economies and your Board will follow developments closely as it continues the orderly wind-down of the business in the coming year.

Martin Knight
Chairman
18 March 2016

Strategic report

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. 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.

This report is in four parts:

1. A summary of the Company's objectives and strategy, including a description of its business model;
2. A review of the Company's performance in 2015 against the background of these strategic objectives;
3. A statement of the principal risks and uncertainties faced by the Company in its operations and strategy; and
4. Viability statement.

1. Objectives and strategy

The focus of the Company's Directors is to optimise realisations from the investment portfolio and return the proceeds to shareholders. The investment portfolio comprises publicly quoted and private company investments in the UK and the US held directly and through funds. To date returns to shareholders have taken the form of tender offers and the Directors expect the use of tender offers to continue as the realisation strategy progresses.

Under the terms of the realisation strategy, 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 Company's investment portfolio is managed by appropriately qualified and experienced investment professionals. Since the change in strategy at the end of 2011, the Company has sought to reduce its overall costs and this process has included headcount reductions.

Overall management of the business is the responsibility of the two Executive Directors. Mr Friedlos has responsibility for overseeing the orderly realisation of the assets of the Company; financial and secretarial matters are the responsibility of Mr Sweet. Both act within delegated authority limits and in accordance with clearly defined systems of control.

The Board regularly reviews reports prepared by the Executive Directors on the realisation prospects for each portfolio holding in the context of the Company's overall objectives, including the factors affecting the likely amount and timing of the realisations. These factors include:

- The performance of each underlying investment which is monitored regularly with commentary on trends and risks at each investee company;
- The level of confidence in the economy in which both the investee company and a potential acquirer operate. This includes prospects for the investee company in its chosen markets as well as the likely availability of finance generally for investment, including the degree of liquidity in capital markets;
- The likely value of any realisation based on comparable trading multiples for quoted companies in the same sector as well as the price of other purchase transactions; and
- Recent prices within secondary markets.

The Directors' intention is that the realisation of the portfolio should be substantially complete within the next two years. However, recent uncertainty in financial markets may significantly impact the timing of future realisations and hence this overall target timetable. Shareholders should note that as well as general market conditions progress with the realisation strategy is subject to a number of other uncertainties including the future performance of investee companies, the actions of other shareholders in investee companies (in particular where the Company is a minority investor) and the level of mergers and acquisitions activity across the geographies relevant to 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 announcced as appropriate.

2. Review of performance in 2015

The following are the key performance indicators for 2015:

		Cumulative[1]	2015	2014
Cash realisations from the investment portfolio – gross	£'million	177.1	**43.7**	45.9
Cash realisations from the investment portfolio – net	£'million	150.5	**41.4**	36.2
Cash returned to shareholders	£'million	155.0	**40.0**	40.0
Returns to shareholders compared to opening market capitalisation[2]	%	100	**26**	26
Returns to shareholders compared to opening Net Asset Value[3]	%	63	**17**	17
Net Asset Value	£'million		**95.1**	135.1
Net Asset Value per share	pence		**92**	93

Notes

1. The cumulative column refers to the four years from 1 January 2012.
2. Market capitalisation at the time of the November 2011 general meeting to approve the realisation strategy.
3. Net Asset Value at the end of 2011.

Net cash realisations from the portfolio in the year were as follows:

	Cumulative[1] £'000	2015 £'000	2014 £'000
Sales of investments	95,385	**29,350**	34,726
Capital restructurings and loan repayments	11,928	**2,756**	763
Distributions from funds	69,793	**11,625**	10,390
Total – gross	177,106	**43,731**	45,879
Fund calls	(10,581)	**(390)**	(1,658)
Other follow-on investments	(8,977)	**(804)**	(3,198)
Carried interest payments	(7,059)	**(1,128)**	(4,833)
Total – net	150,489	**41,409**	36,190

The principal follow-on investments during 2015 were:

- £0.4 million to Nationwide Energy Partners as part funding for an acquisition; and
- £0.3 million to provide working capital for Elateral, one of our UK direct investments.

In December 2015, the Directors made the fourth return of cash to shareholders under the realisation strategy by way of a tender offer.

Strategic report continued

2. Review of performance in 2015 continued

The principal factor in the results for the year is the return on the investment portfolio which was as follows:

	2015			2014		
Asset type	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000
Funds	**2,518**	**(5,025)**	**(2,507)**	(142)	2,144	2,002
Quoted	**1,511**	**(2,479)**	**(968)**	879	(1,642)	(763)
Unquoted	**8,948**	**1,142**	**10,090**	11,537	3,837	15,374
	12,977	**(6,362)**	**6,615**	12,274	4,339	16,613
Charges for incentive plans			**(1,951)**			(2,462)
			4,664			14,151

Approximately 66% of the portfolio at 31 December 2015 is denominated in US dollars (31 December 2014: 64%) and the above table includes the impact of currency movements. In the year ended 31 December 2015, the strengthening of the US dollar against pound sterling (year on year) resulted in an unrealised foreign currency gain of £3.6 million (2014: unrealised gain of £5.9 million). As is common practice in private equity investment, it is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Charges for incentive plans include £1.4 million (2014: £2.7 million) for carried interest and £0.6 million (2014: credit of £0.2 million) in respect of the Executive Directors' incentive plan.

Quoted investments

The loss on the quoted portfolio reflects the net impact of the changes in the capital markets during the year. The total net loss of £1.0 million (2014: loss of £0.8 million) arose as follows:

Gains/(losses), net	2015 £'000	2014 £'000
Realised		
Weatherford International – sale of 426,000 (2014: 205,000) shares	**709**	648
ChyronHego Corporation	**777**	–
Other quoted holdings	**–**	209
Dividend income	**25**	22
	1,511	879
Unrealised		
Weatherford International	**(2,927)**	(5,227)
ChyronHego Corporation	**–**	1,555
Other quoted holdings	**(127)**	187
Unrealised foreign currency gains	**575**	1,843
	(2,479)	(1,642)
Total gains/(losses), net	**(968)**	(763)

The share price of Weatherford International continued to be impacted significantly by low world oil prices.

At the end of 2015 our quoted holdings were valued at £9.8 million (31 December 2014: £20.3 million), of which our interest of 1,419,000 shares (31 December 2014: 1,845,000 shares) in Weatherford International at £8.1 million (31 December 2014: £13.6 million) continues to be the principal element.

Direct investments

The realised net gain on our direct investments was £8.9 million (2014: £11.5 million), including £8.3 million (2014: £10.3 million) on sales of investments and £0.6 million (2014: £1.2 million) interest and dividend income. In 2015 the most significant contributor to this was the sale of Wesupply which realised a gain of £6.5 million (2014: all related to the sale of Updata).

The unrealised net valuation increase was £1.1 million (2014: £3.8 million), of which unrealised foreign currency gains were £2.0 million (2014: £2.1 million). Changes in valuations reflect a combination of two factors:

- The operating performance of the individual businesses within the portfolio; and
- Changes in the revenue and profitability multiples and transaction prices of comparable businesses, which are used in the underlying calculations.

In most cases the multiples we used this year are similar to those prevailing at the end of 2014 and therefore the unrealised gains or losses set out in the table below arise principally as a result of the companies' performance or other market-related factors.

Valuation adjustments were as follows:

	Unrealised gain/(loss)	
Name	**2015 £'000**	**2014 £'000**
365 ITMS	**1,000**	500
Nationwide Energy Partners	**(1,497)**	–
Wesupply Limited – sold in 2015	**–**	1,000
Others, net	**(320)**	196
Total	**(817)**	1,696

Factors reflected in the valuation of individual companies in the table above were as follows:

Name	Sector	Comment on valuation
365 ITMS	Technology	365 made good progress during 2015 and this is reflected in the valuation increase.
Nationwide Energy Partners	Energy	The company experienced difficult trading conditions during 2015 as competitors reduced prices to retain market share. This impacted the company's trading margins and overall profitability and we have therefore reduced our carrying value to reflect this.

Other companies:

Name	Sector	Comment on valuation
Medhost Inc	Technology	Medhost performed well during 2015 but the impact of market factors on prices for comparable quoted businesses resulted in us leaving our carrying value (in US$) unchanged.
ICU Eyewear	Consumer	ICU Eyewear, a co-investment with SFEP, traded profitability in 2015 but we left our carrying value unchanged since there was little growth in revenues during the year.

Strategic report continued

2. Review of performance in 2015 continued

Fund interests

The return on our funds portfolio for the year was a net loss of £2.5 million (2014: net gain of £2.0 million). Unrealised currency gains were £1.0 million (2014: £1.9 million). The principal valuation movements in 2015 were:

- In the first half of the year we sold five of our fund positions in the secondary market for net proceeds (after costs) of £9.2 million – this was at a discount of around £1.8 million to our opening book value;
- At the end of the year we wrote down our carrying value in Brockton Capital by £2.8 million based on revised value expectations for the fund;
- We wrote down our carrying value in San Francisco Equity Partners ("SFEP") by £2.7 million, most of which arose on Luxury Link, one of its portfolio companies, which entered bankruptcy proceedings during the year;
- Voreda sold its principal asset during the year resulting in a realised gain to us of £1.5 million;
- Opus Capital benefited from the successful IPO of one of its portfolio companies and our share of the fund's net asset value increased by £1.4 million; and
- Net valuation increases on other fund positions were £0.9 million.

The maturity of our funds portfolio is reflected in the related cash flows during 2015. Distributions from funds were £11.6 million (2014: £10.4 million) and calls paid were £0.4 million (2014: £1.7 million). The principal distributions were from Voreda (which completed the sale of its principal asset) £6.5 million, SFEP (which sold The Guild and received escrow proceeds from an earlier disposal) £2.0 million and Inflexion £1.4 million.

We are the majority investor in SFEP (as opposed to our other fund interests where we have only a minority stake) and at the end of 2015 the carrying value of our interest was £11.8 million (31 December 2014: £16.3 million). The principal remaining investments in its portfolio at 31 December 2015 are Yes To (£6.2 million (2014: £7.1 million) – consumer sector) and Penguin Computing (£5.2 million (2014: £5.0 million) – technology sector).

Our other fund holdings at the end of 2015 (excluding SFEP) had a book value of £28.0 million (31 December 2014: £46.3 million), and include the following principal interests:

		31 December	
General partner	Sector	2015 £'000	2014 £'000
Brockton Capital	UK property	**12,339**	15,168
Opus Capital Venture Partners	US venture capital	**5,424**	4,085
Eden Ventures	UK venture capital	**4,085**	3,624
Weber Capital Partners	US micro-cap quoted stocks	**3,263**	3,372

The above holdings represent 90% of the funds portfolio (excluding SFEP).

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 basis of valuation and knowledge of the investments and the sectors in which they operate.

Other income statement items

As well as the investment portfolio return, the profit for the year of £0.5 million (2014: £10.3 million) includes the following:

- Directors' and other fees from portfolio companies were £0.1 million (2014: £0.1 million);
- The recurring overhead costs in 2015 were £3.3 million (2014: £3.6 million);
- One-off costs associated with the proposed change in investment strategy were £0.8 million;
- Interest income for the year was £78,000 (2014: £26,000); and
- The tax charge for the year was £0.3 million (2014: £0.4 million).

Financial resources and commitments

Cash holdings were £6.1 million (31 December 2014: £9.2 million) with no debt. At 31 December 2015 the Group had commitments of £4.0 million (31 December 2014: £7.0 million) to meet outstanding capital calls from its fund interests.

Employees

The number of employees (including directors) was as follows:

	2015			2014		
	Male	Female	Total	Male	Female	Total
Directors	6	–	6	6	–	6
Senior management	–	–	–	–	–	–
Other employees	2	5	7	2	5	7
	8	5	13	8	5	13

The Directors do not consider that information on environmental matters and social, community and human rights issues is necessary for an understanding of the development, performance or position of the Company's business; this information is therefore included in the Directors' report.

3. Principal risks and uncertainties

The Board is responsible for risk management and for ensuring that the Group has an effective internal control framework. On behalf of the Board the Audit Committee has responsibility for ensuring that the Group has an effective process to identify, document and assess those risks which might impact the Group's performance and its achievement of its strategy. This process, which is overseen by the Executive Directors, includes reporting the mitigating action taken to address the risks identified.

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 Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity and a summary of the principal risks and uncertainties that could have a material adverse effect on the Group's strategy, performance and financial condition is set out below.

Strategic report continued

3. Principal risks and uncertainties continued

Principal risks	Consequences	Mitigation
Market risk		
Economic instability and low growth in the markets where the Group or its investments operate. Volatility in listed equity prices, foreign currency rates and interest rates. At 31 December 2015 66% of the Group's investment portfolio is denominated in US dollars. Investments fail to perform in line with original expectations or management's plans. Investment performance may be impacted by competition, regulatory changes or other market developments.	Negative impact on the performance and growth rates of the Company's investments. This may result in the Company's NAV declining and ultimately lower realisation proceeds and returns to shareholders.	Regular monitoring of the trading, cash flows and prospects (including exit opportunities) of the investment portfolio to identify the impact on individual investments and on the realisation strategy.
Investment risk		
Lack of liquidity in capital markets. Where we have only minority stakes in investments we may not be able to influence performance initiatives or exit strategy.	The Company may not be able to realise its investments in line with planned timings and values leading to realisations being lower and/or later than planned. This could impact the timing and amount of capital returned to shareholders under the Company's asset realisation strategy.	Review of investment performance and regular communication with the lead investor.
Financial risk		
Many of our investments produce little or no recurring income and the timing of realisations to provide working capital cannot be ascertained with certainty. The Group has made investments in private equity funds under the terms of which it may be obliged to make further capital contributions. Whilst the maximum amount of the future commitment is known, the timing of such capital contributions cannot be predicted with certainty.	Failure to meet future financial obligations (including capital calls to funds) could expose the Group to potential legal action and/or loss of value (to a fund investment).	Working capital requirements (including exposure to uncalled fund commitments) are reviewed regularly. In addition, the Group's quoted investments act as a store of potential standby liquidity.
Operational risk		
Failure of the Group's internal processes and systems to ensure that it complies with all legal, regulatory and financial reporting obligations.	Reputational damage and/or financial loss.	The Audit Committee, on behalf of the Board, regularly reviews the systems in respect of the principal operational risks, as well as reports on the Company's related risk management procedures.

4. Viability statement

Taking into account the Company's current position (as set out in the Chairman's statement and this Strategic report) and the principal risks and uncertainties set out above, the Directors have assessed the Company's prospects and viability over a period considerably longer than twelve months from the date of approval of this Annual report.

The Directors concluded that the appropriate period for this assessment should be the two years commencing 1 January 2016 since this period is expected to see the Company's realisation strategy substantially complete. This assessment has included consideration of the following:

- Many of the Company's investments are in private companies for which the timing and amount of income and/or realisation is uncertain. The Board regularly reviews the short and medium-term prospects for companies within the investment portfolio which includes consideration of operational issues as well as broader market factors and individual realisation opportunities. These reviews form the basis for determining when to initiate a sale process and, ultimately, the overall period required for the realisation strategy;
- The Company will continue to return capital to shareholders through the orderly realisation of its assets and needs to maintain the appropriate level of working capital to ensure it can finance the operations required to fulfil this overall strategic objective. The amounts returned to shareholders are determined only after ensuring that the Company has retained sufficient cash or other liquid resources to meet its working capital requirements, including its obligations in the form of uncalled capital commitments to its fund interests;
- Where it relies on liquid resources other than cash in making this judgement, the Board considers likely downside risk in the value of marketable securities. This risk typically includes factors impacting the price of the security and the exchange rate against £ sterling of the currency in which it is denominated.

Taking account of the above factors the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of this assessment. However the nature of the realisation strategy means that the Company is not a going concern but it has viability during the period of the implementation of that strategy.

By order of the Board

Nicholas Friedlos
Director
18 March 2016

Board of Directors

Martin Knight
Non-executive Chairman
Age: 66

Directorships
Chairman of Imperial Innovations Group plc, Cambridge Mechatronics Limited and Toumaz Holdings Limited. Non-executive director of Chrysalis VCT plc. 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.

Nicholas Friedlos
Director
Age: 58

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: 61

Directorships
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: 62

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

Neil Lerner
Non-executive Director
Age: 68

Directorships
Deputy Chairman at the Royal Brompton & Harefield NHS Foundation Trust and council member of the RNLI.

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: 67

Directorships
Non-executive Chairman of Derwent London plc and a non-executive director of Weatherford International plc, as well as a number of charitable trusts and foundations.

Experience
Robbie has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. He established the Company’s investment activities in the early 1980s as Investment Director and later Managing Director and Chief Executive Officer of London Merchant Securities.

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 September 2014 ('the Code'). Copies of the Code are available from the Financial Reporting Council's website at www.frc.org.uk.

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 2015, 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 Committee report.
- The Board has not appointed a senior independent Non-executive Director.
- The members of the Audit Committee and the Remuneration Committee are the Chairman and one Non-executive Director and the Chairman also chairs the Remuneration Committee. Following the change in the Company's investment policy approved by shareholders on 30 November 2011, there has been a consequent reduction in the scale of the Company's activities, and this has resulted in a reduction in the size of the Board. Against this background, the Board believes that the composition of the two committees is appropriate to the Company's circumstances – further details are set out on pages 16 to 18.

Board of Directors

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 six Directors: the Non-executive Chairman, three other Non-executive Directors and two Executive Directors. Brief biographies of the Directors appear on page 12. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

The Chairman's role

Martin Knight 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 was 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

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.

From time to time during the year the Chairman holds meetings with the Non-executive Directors without the Executive Directors being present.

Corporate governance report continued

Board of Directors continued

Director independence and commitment

In the opinion of the Board, Martin Knight and Neil Lerner 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. In addition Martin Knight was independent upon his appointment as Chairman on 20 May 2013.

Bernard Duroc-Danner and Robert Rayne are directors and shareholders of Weatherford International plc and do not participate in Board discussions or decisions concerning the Company's investment in Weatherford International plc. No Board papers or minutes relating to the Company's investment in Weatherford International plc are circulated to Mr Duroc-Danner or Mr Rayne. In addition Mr Duroc-Danner has served on the Board for more than nine years.

Notwithstanding these factors, the Board considers Mr 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 2015 committed sufficient time to fulfilling their duties as members of the Board.

Senior Independent Director

No Senior Independent Director has been appointed since January 2012. The Directors consider that the revised composition of the Board provides sufficient channels of communication between the Board and shareholders and that the independent Non-executive Directors 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. During the year under review, Mr Knight and Mr Lerner retired by rotation and were re-elected by shareholders at the Annual General Meeting held in May 2015.

Accordingly, Mr Friedlos and Mr Sweet will retire at the forthcoming Annual General Meeting and, being eligible, each will offer himself for re-election at the meeting. A brief biography for each of these Directors can be found on page 12.

Following the recent Board performance evaluation, the performance of each Director offering himself for re-election is considered to be effective and demonstrates commitment to the role. The Board is of the view that it is in the Company's interests that these Directors 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 in other companies and may retain any fees received in that role.

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.

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.

Board effectiveness

The Board carried out a board performance evaluation in December 2015. This encompassed a review of the performance of the Board, its Committees and individual Directors. It was conducted internally by the Chairman, supported by 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 February 2016 Board meeting and it was agreed that the Board, its Committees and the individual Directors were operating effectively.

Corporate governance report continued

Board meetings

Six scheduled Board meetings were held in 2015. At each scheduled meeting, the Board considers a report on current operations and significant business issues, such as major divestment proposals and strategy, as well as a financial report from the Chief Financial Officer. 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 2015. 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	1	1
Martin Knight	6	3	1	1
Bernard Duroc-Danner	2	–	–	–
Nicholas Friedlos	6	–	–	–
Neil Lerner	6	3	1	1
Robert Rayne	6	–	1	–
Antony Sweet	6	–	–	–

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 13 ad-hoc meetings during 2015.

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 comprises: Neil Lerner (Committee Chairman) and Martin Knight. Neil Lerner is considered by the Board to have recent and relevant financial experience.

Since May 2013, the Committee membership has comprised only one independent Non-executive Director (and not two as required under the Code). This has arisen as a consequence of the Company reducing the scale of its operations as it undertakes the realisation strategy approved by shareholders in November 2011, including reducing costs wherever appropriate to this strategy. The Nomination Committee and the Board considered committee composition at their meetings in November and concluded that the reduction in the membership of the Audit Committee would not result in a reduction in scope or effectiveness of the corporate governance processes otherwise required by the Code.

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. A report on the activities of the Audit Committee is set out on pages 20 to 23.

The terms of reference for the Committee take into account the requirements of the Code and are available for inspection at the registered office and can also be found on the Company's website at www.lmscapital.com. The role of the Committee is to assist the Board with the discharge of its responsibilities in relation to the Company and Group financial statements in the areas set out below.

The Audit Committee may request and receive reports from management to enable it to fulfil its duties under its terms of reference. The Committee Chairman reports to the full Board at each scheduled Board meeting immediately following a Committee meeting.

Corporate reporting

The Committee monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, with particular emphasis on reviewing significant financial reporting judgements contained in them. It reviews the Group's draft annual financial statements and half year results statement prior to discussion and approval by the Board and reviews the external auditor's detailed reports thereon.

It then reports to the Board any matters which it considers the Board should take into account in ensuring that published financial reports provide a fair, balanced and understandable assessment of the Company's position and prospects. In identifying any such matters the Committee also takes into account the findings reported to it from the external audit process.

External audit

The Audit Committee reviews the conduct of the external audit, including its effectiveness and independence, on an annual basis and 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.

During the year the Committee monitors the external audit as it proceeds. At its December meeting the Committee reviews, discusses and approves the external audit plan for the current financial year; the Committee then meets with the external auditor prior to the Board's consideration of the full year and half year results to consider their findings.

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 carefully monitoring 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 or desirable 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.

Internal control and risk management

The Board has delegated to the Audit Committee overall responsibility for monitoring the Company's system of internal control and risk management and for reviewing its effectiveness. Risk management and internal controls of the principal business risks is a standing agenda item for each Audit Committee meeting. The Committee reviews the effectiveness of these internal controls throughout the year and will take any necessary actions should any significant failings or weaknesses be identified. More information on the results of these reviews during 2015 are set out in the Audit Committee report on pages 20 to 23.

The business has processes to identify risks, consider financial and non-financial implications and, so far as possible, take action to reduce those risks. Details of the principal risks and uncertainties potentially facing the Group can be found in the Strategic report on pages 9 and 10.

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, taking into account the small size of the business and the limited operating locations, the information it has is sufficient to enable it to review the effectiveness of the Company's system of internal controls.

The Audit Committee also monitors the Company's whistleblowing policy. Neil Lerner acts as the contact for staff who may have a concern that they cannot raise under their normal chain of management.

Corporate governance report continued

Nomination Committee

The Nomination Committee currently comprises: Martin Knight, who chairs the Committee, Bernard Duroc-Danner, Neil Lerner and Robert Rayne. 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. In reviewing potential candidates, the Committee takes into account the need to consider the benefits of diversity on the Board, while ensuring that appointments are made based on merit and relevant experience.

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 2015 conducted a further review of its executive succession plan.

The Nomination Committee normally meets as required, but at least once each year. During 2015, the Committee had one scheduled meeting which included consideration of the composition of the Board and its committees.

Remuneration Committee

The current members of the Committee are: Martin Knight (Committee Chairman) and Neil Lerner.

Since May 2013, the Committee membership has included only one independent Non-executive Director (and not two as required under the Code) and its Chairman, Martin Knight, is also Chairman of the Board. This has arisen as a consequence of the Company reducing the scale of its operations as it undertakes the realisation strategy approved by shareholders in November 2011, including reducing costs wherever appropriate to this strategy. The Nomination Committee and the Board considered committee composition at their meetings in November and concluded that the reduction in the membership of the Remuneration Committee would not result in a reduction in scope or effectiveness of the processes otherwise required by the Code to monitor Directors' remuneration.

The terms of reference for the Committee take into account the requirements of the Code and are available for inspection at the registered office and can also be found on the Company's website at www.lmscapital.com. 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 the remuneration policy;
- ensure that the policy provides appropriate incentives to encourage performance by the Executive Directors and senior management that is linked to the Company's strategy and designed to promote the long-term success of the Company;
- make recommendations to the Board as to the Company's policy for the remuneration of the Chairman, the Executive Directors and the Company Secretary and to determine their total individual remuneration packages including bonuses, incentive payments, targets under performance-related pay schemes and share options or other share awards; and
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company.

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.

A report on the activities of the Remuneration Committee is set out on pages 24 to 27.

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 37, 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 38 to 40, 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.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Strategic report on pages 4 to 11.

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. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources for the foreseeable future.

Martin Knight
Chairman
18 March 2016

Audit Committee report

Introduction from the Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for 2015 which provides shareholders with an overview of the activities of the Committee during the year. These activities are focused on the integrity of the Group's financial reporting, the quality of the external audit process, risk management and the effectiveness of the Group's systems of internal control. The Committee is also responsible for reviewing the Group's arrangements on whistleblowing, ensuring that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

The Audit Committee had three scheduled meetings during 2015; each meeting was also attended by the Executive Directors and the external auditor, KPMG LLP ("KPMG"). The Committee also meets without the Executive Directors being present but with the external auditor in attendance. The Committee met on 23 February 2016 to consider the 2015 results and Annual Report.

I report to the full Board at each scheduled Board meeting immediately following a Committee meeting.

A summary of how the Committee carried out its responsibilities during 2015 as well as the more significant issues it addressed is set out in the report.

Neil Lerner
Chairman, Audit Committee
18 March 2016

Corporate reporting

Since the publication of the 2014 Annual Report the Committee has reviewed the following:

- The 2015 half year report;
- The preliminary announcement of 2015 results;
- The 2015 Annual Report; and
- Reports from KPMG on the planning and outcome of their audits and reviews for 2015.

Annual Report 2015

The Board requested that the Committee advise them on whether it believes that the 2015 Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. A report confirming this to be the case was presented to the Board at its meeting on 23 February 2016.

In formulating its report to the Board, the matters considered by the Committee included the following:

- The process underlying the preparation of financial and narrative information which is reported to the Board at each of its meetings;
- Whether the information in the Strategic report is consistent with that reported to the Board throughout the year;
- Ensuring that positive and negative factors affecting the Group's performance are given equal prominence; and
- The appropriateness of the key performance indicators and comments thereon.

Significant accounting judgements

During the year, the Committee considered the key accounting matters and judgements in respect of the financial statements and these are described below. As part of this review, the Committee received papers from management setting out the assumptions used and conclusions reached, which were subject to challenge by the Committee as it considered appropriate in the circumstances.

Investment portfolio valuation

The principal focus for the Committee is the investment portfolio valuation; a full valuation is prepared by executive management at least twice a year for inclusion in the Company's half-year and full year financial reports.

Each valuation is submitted to the Committee for its review as part of which the Committee receives comments on the valuation from the external auditor – based on their review of the 30 June (half-year) valuation and audit of the 31 December (full year) valuation.

The following areas were of particular focus for the Committee in its consideration of the approach to investment valuation in 2015:

- Ensuring that the valuation methodology complied with the International Private Equity and Venture Capital Valuation Guidelines and the Company's stated accounting policy, and that the Guidelines had been applied on a consistent basis;
- The availability of third party information to corroborate valuation results at individual investment level, including:
  - Reports from general partners for the Company's fund interests; and
  - Market prices for its quoted investments; and
- The nature and reason for any adjustments made to third party information by the Company for its valuation purposes.

The valuation of unquoted investments inevitably requires the exercise of judgement and the Committee studied in detail the variables underpinning the valuation of each unquoted investment, in particular:

- Consideration of current trading and future prospects in determining the appropriate revenues or earnings base for valuation purposes;
- Consistency of approach in the valuation, satisfying itself that any change made was appropriate;
- Ensuring that metrics from comparable quoted companies were appropriate and up to date;
- For co-investments, comparing the Company's carrying value with (where available) the valuation used by the lead investor and ensuring that there are proper explanations for any differences; and
- Confirming that the valuation takes account (where appropriate) of the Company's realisation plans for the investment.

At its meeting in February 2016 the Committee considered a detailed report from the Chief Financial Officer on the year end investment valuation and concluded that the valuation process had been properly carried out and that the valuation was appropriate in aggregate. In reaching this conclusion the Committee took into account the findings of the external auditor.

Incentive schemes

The Company's incentive schemes for Directors and senior management are explained in the Directors' remuneration policy on pages 28 to 32. At its meeting in February 2016 the Committee considered a paper prepared by the Chief Financial Officer setting out the accounting treatment for each of the Company's incentive plans. Based on this the Committee was satisfied that the financial implications of each plan are properly reflected in the Company's 2015 financial statements.

Audit Committee report continued

Significant accounting judgements continued

Non going concern

Since the Company has adopted a realisation strategy which will ultimately lead to the liquidation of the Company once realisation and settlement of the remaining net assets is complete, which may be over a number of years, the consolidated financial statements have not been prepared on a going concern basis. The Committee considered the continuing appropriateness of this approach, including, inter alia, its impact (if any) on the investment portfolio valuation.

As part of this review the Committee also satisfied itself that the Viability statement in the Strategic report and the statement on Going concern under Basis of preparation in note 1 to the financial information were appropriate.

External audit findings

The auditor also reported to the Committee the misstatements they had found during the course of their work, which were insignificant, and confirmed that in their opinion there were no material items remaining unadjusted in the 2015 financial statements.

Internal control and risk management

Risk management and internal controls of the principal business risks were reviewed by the Committee at each of its scheduled meetings during the year and the Committee is of the view that:

- Risks have been properly identified;
- The systems were operating satisfactorily during 2015 and up to the date of this report; and
- Mitigation of the risks identified is satisfactory and appropriate to the Company's circumstances.

The Committee also reviewed in detail the disclosures in relation to risks and longer-term viability in the Strategic report to ensure that these are consistent with the findings of its own work on risk management during the year.

The Company has no internal audit department, relying on in-house resource and external advisers to gain comfort on internal controls. To assist the Committee in its monitoring and review of internal controls, KPMG were asked to test and report on the operation of material controls during 2015. Taking into account the work performed by KPMG and its own review of controls and challenge of executive management, the Committee concluded that the Company has an effective system of internal controls and risk management processes in place to enable it to identify, evaluate and manage the principal risks.

External audit

It is the responsibility of the Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the external audit process. The external auditor, KPMG, attended all meetings of the Committee during 2015 and to the date of this report. At the meetings KPMG provides reports as appropriate on topics including:

- The results of their audit of the full year accounts and review of the half year report;
- Their plans and proposed audit scope for the year;
- Developments in accounting, reporting and corporate governance; and
- Their findings on the Group's systems of internal control based on their audit procedures.

The assessment of the external audit process includes members of the Committee and certain members of the management team providing their comments and evaluation to the Chairman of the Committee on areas including:

- The procedures adopted by the external auditor to ensure their independence and objectivity;
- The appropriateness of risk identification in determining the external audit plan;
- Their conduct of the audit process, including the extent of challenge of management's judgements; and
- The nature and content of reports presented to the Committee.

During the year, the Committee also reviewed the Audit Quality Inspections Annual Report and the Public Report on KPMG by the FRC's Audit Quality Review Team. For 2015 the Committee was satisfied with the effectiveness and quality of the external audit process.

The Company has a formal policy governing the engagement of the external auditor to provide non-audit services, which includes procedures designed to limit such services to areas which would not result in potential conflict with the objectivity and independence of the external audit process. In addition KPMG report annually to the Committee their procedures to ensure their independence and objectivity and confirm the compliance of the partners and staff assigned to the Company's audit with those procedures.

During the year the amount of non-audit services provided by KPMG was £98,000 (2014: £51,000) and comprised:

- Assurance services in connection with the tender offer in December 2015;
- Reporting to the Committee on the operation during 2015 of key controls over the principal risks the Company faces; and
- Tax advisory services.

The Committee considers that the above items are such that these services could not easily or cost effectively be provided by another accounting firm and are not of such a nature or scale as to impact auditor objectivity or independence.

Following the implementation of EU audit reform by the UK in 2014, the Company is required to conduct a competitive audit tender no later than for the financial year commencing 1 January 2019.

Audit Committee effectiveness

The annual Board evaluation described on page 15 included the work of the Committee and concluded that it was working satisfactorily.

Remuneration Committee report

Introduction from the Chairman of the Remuneration Committee

I am pleased to present our report on Directors' remuneration for 2015 which includes amounts actually paid to directors in 2015 and on which shareholders will be asked to vote in an advisory manner at the Annual General Meeting in May 2016. It includes information subject to audit. The members of the Remuneration Committee during 2015 were Martin Knight (Committee Chairman) and Neil Lerner.

The Company's Directors' remuneration policy was approved by shareholders at the Annual General Meeting in May 2014 and we expect the policy to remain unchanged until 31 December 2016. The Company is only permitted to make a payment to a Director if that payment is in line with the policy. A copy of the policy can be found on pages 28 to 32.

The Remuneration Committee believes that the Company's remuneration policy should support the Company's strategy and be aligned with the interests of all stakeholders. Key factors in achieving this are:

- Base salaries which are competitive and which reflect the market and the roles and contribution of the individual concerned; and
- Variable remuneration which is directly linked to the Company's objectives and strategy measured both on an annual basis and longer.

Given the Company's overriding objective to maximise cash returned to shareholders as it implements its realisation strategy, the executive bonus scheme aligns executive variable remuneration directly with achievements on cash returns to shareholders.

Following adoption of the realisation strategy at the end of 2011, there are no current plans to make further awards under the Company's share incentive or carried interest plans.

Martin Knight
Chairman, Remuneration Committee
18 March 2016

Remuneration for the year ended 31 December 2015

The tables below (which have been subject to audit) set out amounts paid to each Director during the years ended 31 December 2015 and 2014:

	2015							
	Salary and fees £'000	Taxable benefits £'000	Pension contributions £'000	Carried interest £'000	Share options £'000	Bonus £'000	Consulting fees £'000	Total £'000
N Friedlos	220	15	–	–	–	132	–	367
A Sweet	215	15	32	91	–	154	–	507
	435	30	32	91	–	286	–	874
M Knight	60	–	–	–	–	–	–	60
B Duroc-Danner	40	–	–	–	–	–	–	40
N Lerner	45	–	–	–	–	–	–	45
R Rayne	40	11	–	14	–	–	60	125
	620	41	32	105	–	286	60	1,144

	2014							
	Salary and fees £'000	Taxable benefits £'000	Pension contributions £'000	Carried interest £'000	Share options £'000	Bonus £'000	Consulting fees £'000	Total £'000
N Friedlos	220	13	–	–	–	132	–	365
A Sweet	215	14	32	218	49	154	–	682
	435	27	32	218	49	286	–	1,047
M Knight	60	–	–	–	–	–	–	60
B Duroc-Danner	40	–	–	–	–	–	–	40
N Lerner	45	–	–	–	–	–	–	45
R Rayne	40	11	–	1,093	100	–	60	1,304
	620	38	32	1,311	149	286	60	2,496

Amounts included for taxable benefits are insurance premiums for private healthcare, life assurance and income protection, and gym membership.

Bonus payments are in accordance with the rules of the Executive Directors' bonus scheme set out in the Company's Directors' remuneration policy.

Performance share plan

On 11 April 2014, share awards granted in 2011 under the Company's performance share plan vested to the extent the required performance conditions had been met. As a result, Mr Sweet was entitled to 63,028 shares and Mr Rayne 127,324 shares. In June 2014 these awards were settled in cash (as permitted under the rules of the plan) at 78.5 pence per share.

No further awards have been made under this plan and consequently none is outstanding at 31 December 2015.

Deferred share bonus plan

Mr Sweet was granted an award of 100,000 shares under this plan on 13 April 2010. The performance condition for the first release was satisfied and 33,333 shares with a then market value of £20,000 were released on 13 April 2011 and remain outstanding at 31 December 2015. The performance condition for the second and third releases was not satisfied and the related share awards lapsed during 2011 and 2012.

No further awards have been made under this plan.

Carried interest

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. Amounts paid in 2015 and 2014 were in accordance with these arrangements.

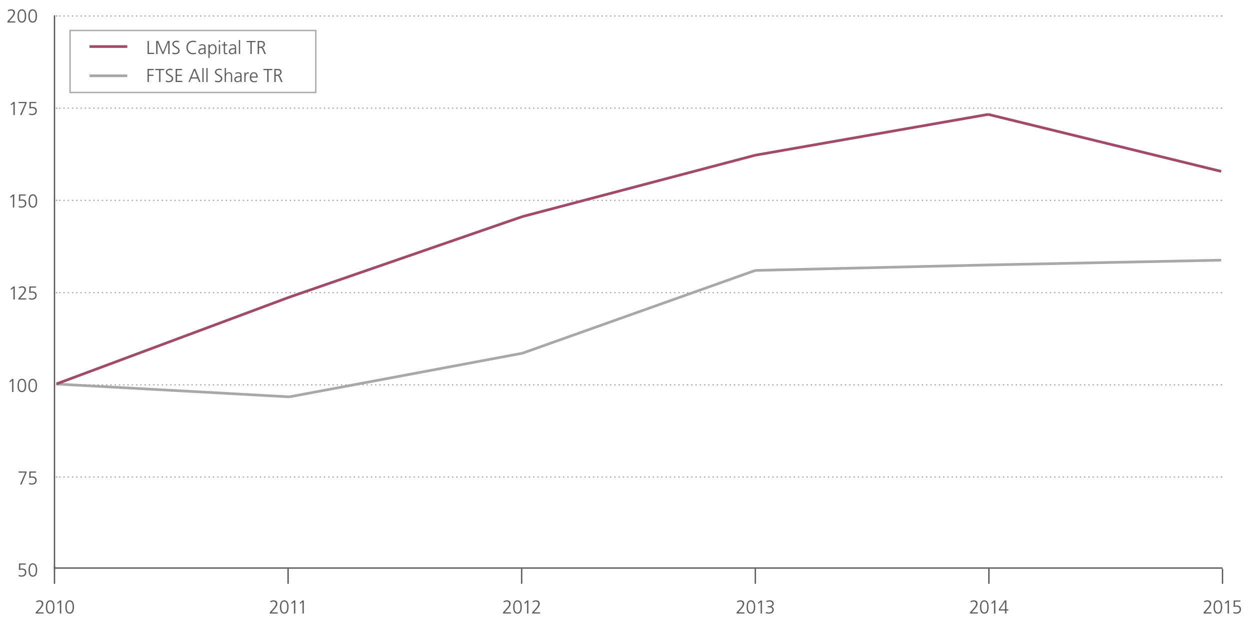
At 31 December 2015, amounts earned but unpaid were £76,000 for Mr Rayne and £15,000 for Mr Sweet. In addition, if the Company's investment portfolio were realised at its valuation at 31 December 2015, under these arrangements Mr Rayne would be entitled to further carried interest of £969,000 and Mr Sweet to £31,000.

Remuneration Committee 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 2015 compared with that of the FTSE All-Share Index.



Directors' service contracts and letters of appointment

The Executive Directors have rolling service agreements as follows:

Name	Date of agreement	Notice period
Nicholas Friedlos	21 March 2012	From the Company: 6 months From the Director: 6 months
Antony Sweet	14 March 2007	From the Company: 12 months From the Director: 6 months

The following table provides details of the current Non-executive Directors' letters of appointment:

Name	Date of appointment	Date of expiry of current term
Martin Knight	4 January 2012	17 May 2018
Bernard Duroc-Danner	7 April 2006	13 May 2016
Neil Lerner	4 January 2012	17 May 2018
Robert Rayne	6 April 2006	30 September 2016

Further information on Directors' service agreements and letters of appointment is included in the Directors' Remuneration policy on pages 28 to 32.

Directors' share interests

The beneficial interests of those Directors who held office during 2015 in the ordinary shares of the Company are set out below:

	31 December	
	2015	**2014**
M Knight	**59,907**	64,393
B Duroc-Danner	**139,009**	–
N Friedlos	**47,823**	69,391
N Lerner	**49,435**	96,182
R Rayne	**3,076,866**	4,314,081
A Sweet	**16,775**	24,505

In addition, Robert Rayne holds a non-beneficial interest in 7,791,115 ordinary shares held in trust.

Except as stated above:

- There have been no changes in the above Directors' interests between 31 December 2015 and the date of this report; and
- The Company is not aware of any other interests of any Director in the ordinary share capital of the Company.

There are no requirements or guidelines concerning share ownership by Directors.

2015 Annual General Meeting

At the Annual General Meeting held on 14 May 2015, shareholders voted to approve the Remuneration Committee report in an advisory capacity as follows: votes in favour were 99.7%, against 0.3%; 11,028 votes were withheld.

This report has been approved by the Board.

Martin Knight
Chairman, Remuneration Committee
18 March 2016

Directors' remuneration policy

The Company's remuneration policy is designed to ensure that the Company is able to motivate and retain the talent required to run the Company successfully. The Company aims to structure executive remuneration in such a way as to align their reward with the best interests of shareholders.

In the circumstances of the Company's realisation strategy and the fact that it has no other senior management employees, the Remuneration Committee did not consider it relevant or appropriate to take into account pay and employment conditions of other employees when setting the policy for Directors' remuneration. Where it considers it appropriate the Committee consults the Company's financial advisers and shareholders on remuneration issues.

Executive Directors

The following table summarises the Company's policy on Directors' remuneration for the three years commencing 1 January 2014:

	Link to strategy	Operation	Maximum potential value	Performance criteria
Base salary	Retention	Reviewed annually based on general economic and market conditions	Increases from 2014 levels based on market changes	None
Allowances and benefits	Retention	Health and related insurances. Gym membership	Based on market rates	None
Pension contributions	Retention	Base salary only is pensionable	Company contribution maximum – 15%	None
Bonus	Motivation to maximise returns to shareholders	Based on value returned to shareholders	£3 million	Value returned under the realisation strategy must exceed market cap at 1 Jan 2012 plus an annual compound return (see explanatory note below)
Carried interest	Motivation to maximise investment returns	Based on a proportion of realised gains on investments after a preferred return or hurdle	No maximum	Pre-tax investment gains must exceed 6% preferred return or 8% hurdle before any amounts are payable

Executive Directors' base salaries for 2016 are £220,000 for Mr Friedlos and £215,000 for Mr Sweet – unchanged from 2015.

Non-executive Directors

Name	Annual fee £
Martin Knight	60,000
Bernard Duroc-Danner	40,000
Neil Lerner	45,000
Robert Rayne	40,000

Mr Rayne 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.

The fees for Non-executive Directors are reviewed annually – increases will reflect market changes from the above levels.

Mr Rayne was an Executive Director from 6 April 2006 to 1 October 2010, whereupon he became Non-executive. Under Mr Rayne's letter of appointment he participated in the carried interest plan and share option schemes up to the end of 2011, and is entitled to cover under the Company's various insurance policies. The Company will also provide a car, driver and secretary if required in the future, but does not currently do so.

The other Non-executive Directors do not participate in the Company's incentive plans or share schemes or other benefits.

Bonus arrangements

The Company operates the following bonus plan for Executive Directors:

1) Each Executive Director will receive a bonus linked to the outcome of the realisation strategy;

2) The lower threshold for payments requires returns to shareholders equal to the market capitalisation of the Company at 1 January 2012 plus a compound return per annum of 5% ("the lower limit");

3) Full pay-out of the bonus at the conclusion of the realisation strategy will be made if cumulative returns to shareholders at least equal the market capitalisation of the Company at 1 January 2012 plus a compound return per annum of 15% ("the upper limit");

4) The maximum bonus amounts for each of the current Executive Directors are £2 million for Mr Friedlos and £1 million for Mr Sweet;

5) For value returned between the lower and upper limits, the bonus will be adjusted on a pro rata basis equal to [(A-L)/(U-L)] x P where:

   A = Actual value returned
   L = Lower performance threshold
   U = Upper performance threshold
   P = Potential bonus at Upper threshold;

6) The Remuneration Committee may approve annual performance bonus payments. Given the cash performance metric underlying the Company's bonus plan, any such payments will be deducted from any payment due at the end of the realisation period, but are not subject to clawback.

In addition to the above arrangements Mr Sweet is entitled to a payment in connection with his duties as Company Secretary up to a maximum of 15% of his base salary per annum.

Directors' remuneration policy continued

Carried interest

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. As a result of the implementation of the realisation strategy, no new carried interest arrangements have been instituted, the last year of the arrangements being 2011.

The Company's carried interest arrangements are based on annual capital pools for direct investments (i.e. excluding third party funds). Entitlement to carried interest on these pools is calculated as follows:

- For the 2009 and prior pools, carried interest will be payable in respect of pre-tax net gains on investments in the pool after a preferred return to the Company at the rate of 6% per annum. This 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 in the pool after a hurdle of 8% is reached. The change was made to reflect 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.

The Remuneration Committee report on pages 24 to 27 includes details of amounts paid to Mr Rayne and Mr Sweet under these arrangements during 2015.

Share-based incentives

The Remuneration Committee has determined that in the context of a realisation strategy, share-based awards are not an appropriate form of incentive. Accordingly no further awards are proposed under the existing share incentive plans.

Mr Rayne and Mr Sweet retain their interests in awards made under these plans in prior years – details of amounts paid during the year and any remaining entitlements as at 31 December 2015 are set out in the Remuneration Committee report on pages 24 to 27.

Service agreements

Each Executive Director has a service agreement which sets out:

- The duties and obligations of the Director;
- Individual entitlements to elements of remuneration under the remuneration policy; and
- Notice periods and compensation on termination of employment by the Company without notice or cause.

The Executive Directors have rolling service agreements which terminate on the Director reaching age 65 – the agreements for the current Executive Directors are summarised below:

Name	Date of agreement	Notice period
Nicholas Friedlos	21 March 2012	From the Company: 6 months From the Director: 6 months
Antony Sweet	14 March 2007	From the Company: 12 months From the Director: 6 months

Compensation arrangements in the event of termination by the Company without cause are:

1) 100% of base salary, allowances and benefits and pension contributions attributable to the notice period from the Company in force at the date of termination;

2) A bonus as at the date of termination under the rules set out above on the basis that total returns to shareholders equal actual value returned to date plus the Net Asset Value of the Company (calculated in accordance with its normal accounting policies) as at the termination date, such amount to be payable as returns are made to shareholders;

3) All entitlements under the Company's carried interest arrangements are deemed fully vested;

4) All entitlements under the Company's share incentive plans calculated in accordance with the "good leaver" provisions of the plans;

5) In addition the Remuneration Committee may at its discretion make ex-gratia payments to Executive Directors up to one times the total of 1) and 2) above.

In the case of Mr Sweet, in the event of a change in control of the Company he has the option to terminate his employment; in such circumstances he is entitled to receive the following:

1) 95% of annual base salary and annual allowances and benefits;

2) Pension contribution of 15% of the amount calculated for base salary in 1) above; and

3) An amount equal to the average annual payment of cash bonus paid to him in the previous three years.

All Non-executive Directors 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:

Name	Date of appointment	Date of expiry of current term
Martin Knight	4 January 2012	17 May 2018
Bernard Duroc-Danner	7 April 2006	13 May 2016
Neil Lerner	4 January 2012	17 May 2018
Robert Rayne	6 April 2006	30 September 2016

Directors' remuneration policy continued

Recruitment

The Remuneration Committee determines all elements of the remuneration package for any new appointee to the Board. The following factors are considered:

- The nature of the role;
- The experience of the individual concerned and current remuneration package; and
- Market data, including input from advisers involved in any recruitment process.

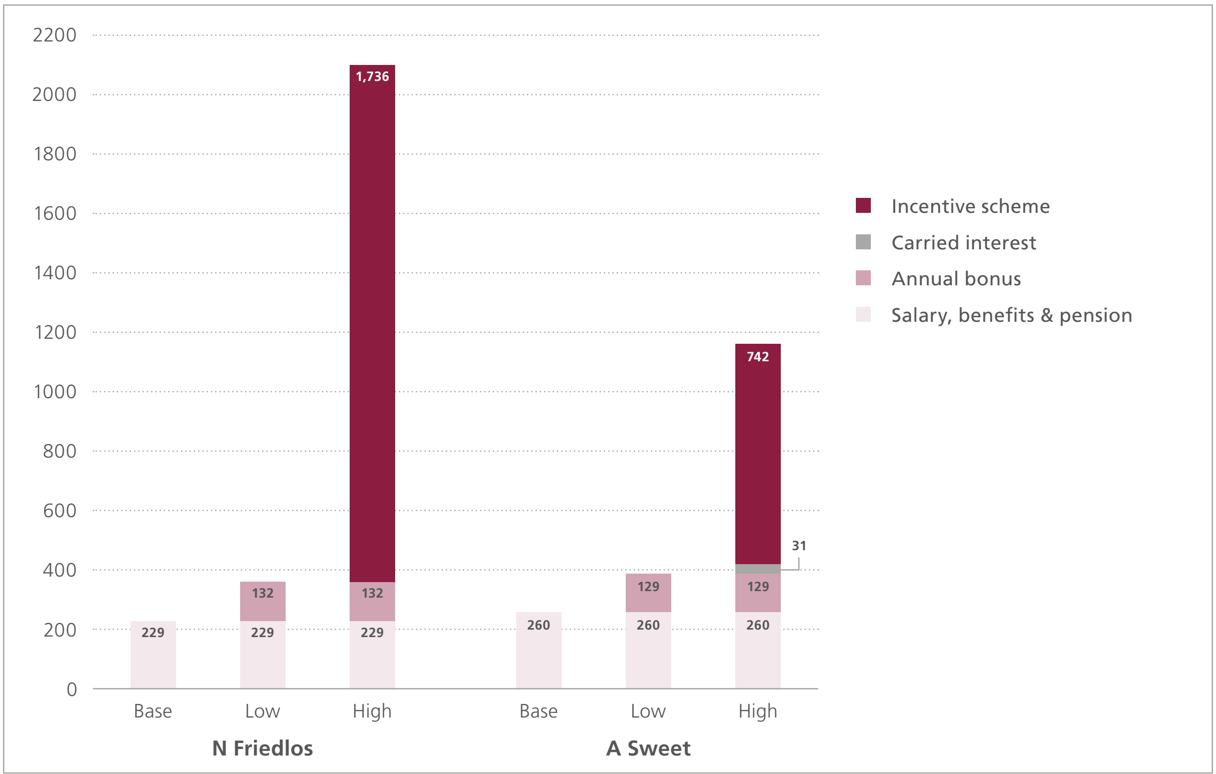
The package for a new Director will include all elements provided to current Directors. If necessary to complete the appointment, it may also include compensation for the forfeiture of awards from a previous employer.

The base salary will be set based on market estimates and may therefore vary significantly from current Directors; variable components will be in line with the policy outlined above and, subject to the impact if any of the market determination of base salary, will not exceed the highest amounts paid to the current Directors.

Application of remuneration policy

The chart below sets out for each current Executive Director an indication of the level of remuneration receivable for each based on:

- Base remuneration receivable, being base salary, allowances and benefits and pension contributions;
- Low achievement, being the base amount plus annual bonus payments of 60% of basic salary (reflecting recent award levels); and
- The maximum including payout in full from the bonus pool for each individual at the end of the realisation period, calculated based on the required return and Net Asset Value at 31 December 2015 and, for Mr Sweet, carried interest calculated assuming realisation at the Company's Net Asset Value at 31 December 2015.



Directors' report

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. Details of the Company's strategy and performance in 2015 are included in the Strategic report on pages 4 to 11.

Directors

The names and biographical details of the current Directors of the Company are given on page 12. In addition, further information about the Board is set out in the Corporate governance report on pages 13 to 19.

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 Committee report on pages 24 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.

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.

Corporate social responsibility

Environment

LMS Capital has a limited direct impact upon the environment and there are few environmental risks associated with the Company's activities.

It does not own the building where it occupies floor space. 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, re-use 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 building is multi-tenanted and costs are apportioned to each tenant pro-rated according to space occupied. Water and gas supplied into the building are metered centrally by the building management and costs apportioned to each tenant. Electricity usage is separately monitored by tenant and energy efficient lighting is installed in the building with sensors which turn lights off when no movement is detected.

Directors' report continued

Corporate social responsibility continued

Environment continued

Greenhouse gas emissions by scope:

Total emissions

Scope		Source	2015 (tonnes CO_2e)	2014 (tonnes CO_2e)
			Year ended 31 December	
Scope 1	Emissions from combustion of fuel		**15.7**	30.4
	Process or fugitive emissions		**0.0**	0.0
Scope 2	Emissions from electricity, heat, steam and cooling purchased for own use using location-based method		**65.0**	69.3
Total			**80.7**	99.7
Intensity – emissions per unit floor area			**$kgCO_2e$**	**$kgCO_2e$**
	Per square foot		**11.0**	13.6
	Per square meter		**118.7**	146.6

To meet the requirements of the GHG Protocol Scope 2 Guidance, the Company accounts for its Scope 2 emissions using a market-based method as well as a location-based method. The Company's scope 2 emissions using the market-based method were 56.0 tCO_2e in 2015 and 73.6 tCO_2e in 2014. This is based on emission factors obtained for its electricity supply, which were 0.398 $kgCO_2$/kWh in 2015 and 0.525 $kgCO_2$/kWh in 2014.

There has been a decrease in greenhouse gas emissions for the current year and the main reason for this is a reduction in gas consumption resulting from a focus on improved heating control. We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements. We do not have responsibility for any emissions sources that are not included in our consolidated financial statements.

We have used the GHG Protocol Corporate Accounting and Reporting Standard and the GHG Protocol Scope 2 Guidance, data gathered from our own operations, emission factors from UK Government's Conversion Factors for Company Reporting 2015 and emission factors from the electricity supplier.

Charitable donations

The Group did not make any charitable donations during 2015 (2014: £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 2015 was £56,000 (2014: £58,000).

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

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

Political donations

The Group did not make any political donations during 2015 (2014: £nil).

Contractual arrangements

There are no contracts or arrangements with third parties which the Board deem essential to the operation of the Company, or which take effect, alter or terminate upon a change of control of the Company following a takeover bid. The Company's share incentive plans contain provisions relating to 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. Details of this and other related party transactions are set out in note 19 to the financial information.

Dividends

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2015 (2014: £nil).

Share capital

On 27 November 2015, 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 14 December 2015 and the results of the tender offer were announced on 15 December 2015. As a result, 41,666,666 ordinary shares in the capital of the Company (with a nominal value of £4,166,666.60) were purchased by the Company through its brokers. These shares were then cancelled, reducing the Company's issued share capital from 145,251,258 ordinary shares to 103,584,592 ordinary shares. The tender offer price was set at 96p and the total value of all ordinary shares purchased was £40 million.

At 31 December 2015, the Company's issued share capital remains at 103,584,592 ordinary shares of 10p each. Each share carries one vote. No shares are currently held in treasury. There are no restrictions on the transfer of shares. There has been no change in the issued share capital between the year end and the date of this report.

Substantial shareholdings

As at 31 December 2015, the Company was aware of the following significant direct and indirect interests in the issued share capital of the Company.

Name of shareholder	Percentage of issued share capital
Asset Value Investors	12.82
Schroders plc	7.59
Trustees of Lord Rayne's Will Trust	10.86
Robert Rayne [1,2]	10.49
British Empire Securities & General Trust plc	12.73
Lady Jane Rayne [1]	9.02

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 7,791,115 ordinary shares held in trust and a personal interest in 3,076,866 ordinary shares.

Directors' report continued

Annual General Meeting

The Company's Annual General Meeting will be held at Durrants Hotel, George Street, London W1H 5BJ at 12.00p.m. on 19 May 2016. 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 LLP, 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 2016

Statement of Directors' responsibilities

The Directors who served during the year ended 31 December 2015 and to the date of this Annual Report are as set out on page 12. 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 International Financial Reporting Standards as adopted by the European Union (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 report that complies with that law and those regulations.

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

We confirm 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;
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- the Strategic 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

Nicholas Friedlos
Director
18 March 2016

Antony Sweet
Chief Financial Officer

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

Opinions and conclusions arising from our audit

1) Our opinion on the financial statements is unmodified

We have audited the financial statements of LMS Capital plc (Group) for the year ended 31 December 2015 set out on pages 41 to 71. These financial statements have not been prepared on the going concern basis for the reason set out in note 1 to the 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

2) Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows (unchanged from 2014):

Valuation of investments £95.6 million (2014: 132.9 million) Risk vs 2014: unchanged

Refer to page 21 (Audit Committee report), pages 50 and 51 (accounting policy) and pages 58 to 60 (note 9) and pages 64 to 69 (note 16) for relevant disclosures.

The risk – The fair values of fund, quoted and unquoted investments have been determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Fund investments are valued with regard to the underlying fund manager reports.

For unquoted investments, valuations are determined with reference to inputs such as prices of recent transactions and earnings multiples. These valuations are a key judgemental area on which our audit concentrated.

We do not consider there to be a high risk of significant misstatement or a requirement for a significant level of judgement regarding quoted investments as they are comprised of liquid quoted instruments. However they have been covered in our response to the overall investment valuation risk as due to their materiality in the context of the financial statements as a whole they affect our audit strategy.

Our response – Our audit procedures included:

General process

- Document and assess the design and implementation of the investment valuation processes and controls in place, including enquiry of the Investment Manager;
- Assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and consideration of whether they are indicative of bias or error in the Group's approach to valuations; and
- Attending the year-end Audit Committee meeting, where we assessed the effectiveness of the Audit Committee's challenge and approval of investment valuations.

Fund investments (£39.7 million)

We assessed the Group's review of the reliability of the underlying fund manager reports. We compared the Group's holdings in fund investments to independent analysis provided by the manager of the underlying fund. Where the December 31 fund reports were not available, we used September 2015 reports, comparing the Group's cash movements in the intervening period to drawdown and distribution notices. We considered whether there were any events after the date of the latest valuation reports, in addition to cash movements, that would result in an adjustment to the underlying fund's Net Asset Value and hence the resulting valuation.

Direct (unquoted) investments (£46.1 million)

We assessed whether an appropriate valuation technique had been adopted in line with observed industry best practice and the International Private Equity and Venture Capital Guidelines including comparing the sources of inputs and estimates to those within the relevant guidance. Where the valuation technique was based on the price of recent investment, we considered whether that price remained appropriate with reference to the time elapsed since the date of acquisition, whether subsequent funding rounds had taken place and whether more up to date financial information, both of the investee and within its market sector, was now available to produce a fair value estimate. Where an earnings-based approach was adopted, we formed an assessment of, and considered the reasonableness of, the various inputs used in deriving the valuation: this included comparison of underlying profit and debt inputs to management accounts, and where available, audited accounts. Valuation multiples were agreed to comparable trading and comparable transaction multiples, where available. Where a discounted cash flow approach had been adopted, we formed an assessment of the reasonableness of expected future cash flows. This included an assessment of the historical accuracy of management's forecasts (budget vs actual results) and comparison of the risk-adjusted rate adopted to available market data. Gains and losses on asset sales after the year end were also reviewed to provide additional evidence to support the estimated fair value at the balance sheet date.

Quoted investments (£9.8 million)

We compared investment holdings to underlying ownership records, and closing bid prices to external providers of market data.

Investment disclosures

We also assessed whether the Group's disclosures detailing the significant fair value estimates adequately disclose the degree of estimation and the sensitivity of the key inputs to those estimates.

3) Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £4.9 million. This was determined with reference to a benchmark of net assets (of which it represents 5%).

We report to the Audit Committee any corrected or uncorrected identified audit misstatements exceeding £0.25 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.

4) Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 13 to 19 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

Opinions and conclusions arising from our audit continued

5) We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- The Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

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; or
- A Corporate Governance Statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 19, in relation to going concern and the statement on longer term viability on page 12; and
- The part of the Corporate Governance Statement on pages 13 to 19 relating to the parent company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Statement of Directors' responsibilities set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the parent company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Iain Bannatyne (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

18 March 2016

Consolidated income statement

		Year ended 31 December	
	Notes	**2015 £'000**	**2014 £'000**
Net gains on investments	2	**4,664**	14,151
Directors' and other fees from investments		**55**	88
Interest income	3	**78**	26
		4,797	14,265
Operating expenses	4	**(4,052)**	(3,566)
Profit before tax		**745**	10,699
Taxation	6	**(294)**	(409)
Profit for the year		**451**	10,290
Attributable to:			
Equity holders of the parent		**451**	10,290
Earnings per ordinary share – basic	7	**0.3p**	6.3p
Earnings per ordinary share – diluted	7	**0.3p**	6.3p

The notes on pages 49 to 71 form part of these financial statements.

Consolidated statement of comprehensive income

	Year ended 31 December	
	2015 **£'000**	**2014** **£'000**
Profit for the year	**451**	10,290
Other comprehensive income which will be reclassified subsequently to profit or loss when specific conditions are met:		
Exchange differences on translation of foreign operations	**4**	34
Total comprehensive profit for the year	**455**	10,324
Attributable to:		
Equity holders of the parent	**455**	10,324

The notes on pages 49 to 71 form part of these financial statements.

Consolidated statement of financial position

		31 December	
	Notes	2015 £'000	2014 £'000
Non-current assets			
Property, plant and equipment	8	**261**	387
Investments	9	**95,643**	132,875
Non-current assets		**95,904**	133,262
Current assets			
Operating and other receivables	10	**602**	240
Cash and cash equivalents	11	**6,105**	9,158
Current assets		**6,707**	9,398
Total assets		**102,611**	142,660
Current liabilities			
Operating and other payables	12	**(3,985)**	(4,843)
Current tax liabilities		**(715)**	(492)
Current liabilities		**(4,700)**	(5,335)
Non-current liabilities			
Provisions and other long-term liabilities	13	**(2,820)**	(2,217)
Non-current liabilities		**(2,820)**	(2,217)
Total liabilities		**(7,520)**	(7,552)
Net assets		**95,091**	135,108
Equity			
Share capital	14	**10,358**	14,525
Share premium		**508**	508
Capital redemption reserve		**22,664**	18,497
Merger reserve	14	**23,918**	35,422
Foreign exchange translation reserve		**816**	812
Retained earnings		**36,827**	65,344
Equity attributable to owners of the parent		**95,091**	135,108

The financial statements on pages 41 to 71 were approved by the Board on 18 March 2016 and were signed on its behalf by:

Nicholas Friedlos
Director

The notes on pages 49 to 71 form part of these financial statements.

Company statement of financial position

		31 December	
	Notes	2015 £'000	2014 £'000
Non-current assets			
Property, plant and equipment	8	**261**	387
Investments in subsidiaries	9	**209,901**	236,301
Non-current assets		**210,162**	236,688
Current assets			
Operating and other receivables	10	**156**	138
Amounts receivable from subsidiaries	10	**10,831**	13,184
Cash and cash equivalents	11	**4,083**	3,177
Current assets		**15,070**	16,499
Total assets		**225,232**	253,187
Current liabilities			
Operating and other payables	12	**(1,472)**	(1,748)
Amounts payable to subsidiaries	12	**(125,622)**	(113,988)
Current liabilities		**(127,094)**	(115,736)
Non-current liabilities			
Provisions and other long-term liabilities	13	**(2,820)**	(2,217)
Non-current liabilities		**(2,820)**	(2,217)
Total liabilities		**(129,914)**	(117,953)
Net assets		**95,318**	135,234
Equity			
Share capital	14	**10,358**	14,525
Share premium		**508**	508
Capital redemption reserve		**22,664**	18,497
Retained earnings		**61,788**	101,704
Equity attributable to owners of the parent		**95,318**	135,234

The financial statements on pages 41 to 71 were approved by the Board on 18 March 2016 and were signed on its behalf by:

Nicholas Friedlos
Director

The notes on pages 49 to 71 form part of these financial statements.

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 equity £'000
Balance at 1 January 2014	18,736	508	14,286	84,083	778	46,863	165,254
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	10,290	10,290
Exchange differences on translation of foreign operations	–	–	–	–	34	–	34
Transactions with owners, recorded directly in equity							
Repurchase of shares	(4,211)	–	4,211	–	–	(40,470)	(40,470)
Release from merger reserve	–	–	–	(48,661)	–	48,661	–
Balance at 31 December 2014	14,525	508	18,497	35,422	812	65,344	135,108
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	451	451
Exchange differences on translation of foreign operations	–	–	–	–	4	–	4
Transactions with owners, recorded directly in equity							
Repurchase of shares	(4,167)	–	4,167	–	–	(40,472)	(40,472)
Release from merger reserve	–	–	–	(11,504)	–	11,504	–
Balance at 31 December 2015	**10,358**	**508**	**22,664**	**23,918**	**816**	**36,827**	**95,091**

The notes on pages 49 to 71 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 2014	18,736	508	14,286	133,799	167,329
Total comprehensive income/(loss) for the year					
Loss for the year	–	–	–	(34,562)	(34,562)
Dividends received	–	–	–	42,937	42,937
Transactions with owners, recorded directly in equity					
Repurchase of shares	(4,211)	–	4,211	(40,470)	(40,470)
Balance at 31 December 2014	14,525	508	18,497	101,704	135,234
Total comprehensive income/(loss) for the year					
Loss for the year	–	–	–	(30,752)	(30,752)
Dividends received	–	–	–	31,308	31,308
Transactions with owners, recorded directly in equity					
Repurchase of shares	(4,167)	–	4,167	(40,472)	(40,472)
Balance at 31 December 2015	**10,358**	**508**	**22,664**	**61,788**	**95,318**

The notes on pages 49 to 71 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2015 £'000	2014 £'000
Cash flows from operating activities			
Profit for the year		**451**	10,290
Adjustments for:			
Depreciation and amortisation	4	**127**	131
Gains on investments		**(4,664)**	(14,151)
Translation differences		**(329)**	(825)
Share-based payments	15	**–**	(114)
Interest income		**(78)**	(26)
Income tax expense		**294**	409
		(4,199)	(4,286)
Change in operating and other receivables		**(361)**	136
Change in operating and other payables		**(2,206)**	(6,284)
		(6,766)	(10,434)
Income tax paid		**(72)**	(930)
Net cash used in operating activities		**(6,838)**	(11,364)
Cash flows from investing activities			
Interest received		**78**	26
Acquisition of property, plant and equipment	8	**(1)**	(5)
Acquisition of investments	9	**(1,194)**	(4,856)
Proceeds from sale of investments		**43,731**	45,879
Other income from investments		**1,310**	1,265
Net cash from investing activities		**43,924**	42,309
Cash flows from financing activities			
Repurchase of own shares		**(40,472)**	(40,470)
Net cash used in financing activities		**(40,472)**	(40,470)
Net decrease in cash and cash equivalents		**(3,386)**	(9,525)
Cash and cash equivalents at the beginning of the year		**9,158**	17,824
Effect of exchange rate fluctuations on cash held		**333**	859
Cash and cash equivalents at the end of the year	11	**6,105**	9,158

The notes on pages 49 to 71 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2015 £'000	2014 £'000
Cash flows from operating activities			
Loss for the year		**(30,752)**	(34,562)
Adjustments for:			
Depreciation	8	**127**	131
Impairment of investment in subsidiaries	9	**26,400**	30,000
Share-based payments	15	**–**	(114)
Interest income		**(78)**	(25)
		(4,303)	(4,570)
Change in operating and other receivables		**(20)**	57
Change in operating and other payables		**327**	203
Change in amounts due to subsidiaries		**13,989**	(278)
Net cash from/(used in) operating activities		**9,993**	(4,588)
Cash flows from investing activities			
Interest received		**78**	25
Dividends received		**31,308**	42,937
Acquisition of property, plant and equipment		**(1)**	(5)
Net cash from investing activities		**31,385**	42,957
Cash flows from financing activities			
Repurchase of own shares		**(40,472)**	(40,470)
Net cash used in financing activities		**(40,472)**	(40,470)
Net increase/(decrease) in cash and cash equivalents		**906**	(2,101)
Cash and cash equivalents at the beginning of the year		**3,177**	5,278
Cash and cash equivalents at the end of the year	11	**4,083**	3,177

The notes on pages 49 to 71 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 2015 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.

Basis of preparation

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

The Group's business activities and financial position are set out in the Strategic report on pages 4 to 11. In addition Note 16 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. 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 2016.

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. The accounting policies adopted are consistent with those of the previous financial year.

New standards and interpretations not yet applied

The International Accounting Standards Board has issued the following standards, which are relevant to the Group's reporting but which have not yet been applied and have an effective date after the date of these financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 28 – effective 1 January 2016.

The adoption of the above amendments not yet applied is not expected to have a material impact on the Group's reported Net Asset Value but will result in the publication of Group financial statements which are not consolidated.

Notes to the financial information continued

1. Principal accounting policies continued

Use of estimates and judgements

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 1 – valuation of investments.

Basis of consolidation

The Group financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 December 2015. Investments measured at fair value through profit or loss are held through a series of intermediate holding companies which are consolidated within the Group financial statements. Note 21 includes details of the companies included in the consolidated financial information.

Investments in subsidiaries

The Company's 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.

Valuation of 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, unquoted and managed funds investments are designated at fair value through profit and loss and carried in the statement of financial position at fair value.

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:

Plant and equipment	3 years
Fixtures and fittings	3–7 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.

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.

Notes to the financial information continued

1. Principal accounting policies continued

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies at the 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.

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 operating and other payables.

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

Provisions

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

Income

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.

Notes to the financial information continued

1. Principal accounting policies continued

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.

2. Net gains on investments

Gains and losses on investments were as follows:

	Year ended 31 December					
	2015			2014		
Asset type	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000
Funds	**2,518**	**(5,025)**	**(2,507)**	(142)	2,144	2,002
Quoted	**1,511**	**(2,479)**	**(968)**	879	(1,642)	(763)
Unquoted	**8,948**	**1,142**	**10,090**	11,537	3,837	15,374
	12,977	**(6,362)**	**6,615**	12,274	4,339	16,613
Charges for incentive plans			**(1,951)**			(2,462)
			4,664			14,151

The charges for incentive plans are described in note 5.

3. Interest income

Interest income comprises interest receivable on bank deposits.

4. Operating expenses

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Depreciation	**127**	131
Operating lease expense	**137**	137
Non-recurring costs	**823**	–
Auditor's remuneration		
Fees to Group auditor		
– parent company	**105**	124
– subsidiary companies	**35**	36
Non-audit related services		
– taxation advisory services	**43**	11
– other assurance services	**55**	40

The non-recurring costs were incurred in connection with the proposals to change the investment strategy announced in July 2015 and subsequently withdrawn.

5. Personnel expenses

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Wages and salaries	**3,607**	4,315
Compulsory social security contributions	**150**	157
Contributions to defined contribution plans	**75**	78
Share-based payment transactions	**–**	(114)
	3,832	4,436

The wages and salaries expense includes £1,951,000 (2014: £2,462,000) in relation to the following incentive plans: (i) the executive incentive plan £603,000 (2014: £261,000 credit), and (ii) carried interest £1,348,000 (2014: £2,723,000). The wages and salaries expense is shown in the consolidated income statement as follows:

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Gains on investments	**1,951**	2,462
Operating expenses	**1,656**	1,853
	3,607	4,315

The executive incentive plan is described in the Remuneration Committee report. The scheme is linked to amounts returned to shareholders as a consequence of the Group's realisation strategy and £2,820,000 is accrued at 31 December 2015 (31 December 2014: £2,217,000) calculated on the assumption that the Group's investment portfolio is realised at its year-end carrying amount.

The Group operates carried interest arrangements in line with normal practice in the private equity industry; £2,256,000 is accrued at 31 December 2015 (31 December 2014: £2,088,000) calculated on the assumption that the Group's investment portfolio is realised at its year-end carrying amount.

Notes to the financial information continued

6. Taxation

	Year ended 31 December	
	2015 £'000	2014 £'000
Current tax expense		
Current year	**294**	409
Total tax expense	**294**	409

Reconciliation of effective tax rate

	Year ended 31 December	
	2015 £'000	2014 £'000
Profit before tax	**745**	10,699
Corporation tax using the Company's domestic tax rate –20.25% (2014: 21.5%)	**151**	2,300
Fair value adjustments not currently taxed	**1,343**	(1,205)
Non-deductible expenses	**856**	1,552
Non-taxable income	**(782)**	(2,818)
Deferred tax not recognised	**343**	171
Overseas tax paid	**72**	409
Prior year adjustment	**(64)**	–
Tax losses utilised	**(1,625)**	–
Total tax expense	**294**	409

Deferred tax liabilities

The Group has no unrecognised deferred tax liabilities.

Deferred tax assets

The Group has capital losses for tax purposes of £26.2 million at 31 December 2015 (31 December 2014: £32.1 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 2015 it would realise further net capital losses for tax purposes of £1.1 million (31 December 2014: £8.0 million).

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from these losses.

7. Earnings per ordinary share

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

	Year ended 31 December	
	2015 £'000	**2014 £'000**
Earnings		
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	**451**	10,290
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares for the purposes of basic earnings per shares	**143,424,774**	162,794,999
Effect of dilutive potential ordinary shares:		
Share options and performance shares	**78,531**	78,531
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**143,503,305**	162,873,530
Earnings per share	**Pence**	**Pence**
Basic	**0.3**	6.3
Diluted	**0.3**	6.3

8. Property, plant and equipment

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2014	323	1,023	1,346
Additions	5	–	5
Balance at 31 December 2014	328	1,023	1,351
Balance at 1 January 2015	**328**	**1,023**	**1,351**
Additions	**1**	**–**	**1**
Balance at 31 December 2015	**329**	**1,023**	**1,352**
Depreciation and impairment losses			
Balance at 1 January 2014	317	516	833
Depreciation charge for the year	6	125	131
Balance at 31 December 2014	323	641	964
Balance at 1 January 2015	**323**	**641**	**964**
Depreciation charge for the year	**2**	**125**	**127**
Balance at 31 December 2015	**325**	**766**	**1,091**
Carrying amounts			
At 31 December 2014	5	382	387
At 31 December 2015	**4**	**257**	**261**

Notes to the financial information continued

9. Investments

Group

	31 December 2015			31 December 2014		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	**18,602**	**21,168**	**39,770**	29,722	32,850	62,572
Quoted	**1,564**	**8,197**	**9,761**	1,667	18,685	20,352
Unquoted	**12,347**	**33,765**	**46,112**	16,991	32,960	49,951
	32,513	**63,130**	**95,643**	48,380	84,495	132,875

The movements in investments were as follows:

	Quoted securities £'000	Unquoted securities £'000	Funds £'000	Total £'000
Carrying value				
Balance at 1 January 2014	24,036	64,539	69,146	157,721
Purchases	29	3,169	1,658	4,856
Disposals	(2,070)	(21,594)	–	(23,664)
Distributions from partnerships	–	–	(10,534)	(10,534)
Fair value adjustments	(1,643)	3,837	2,302	4,496
Balance at 31 December 2014	20,352	49,951	62,572	132,875
Balance at 1 January 2015	**20,352**	**49,951**	**62,572**	**132,875**
Purchases	**–**	**804**	**390**	**1,194**
Disposals	**(8,112)**	**(5,785)**	**–**	**(13,897)**
Distributions from partnerships	**–**	**–**	**(18,167)**	**(18,167)**
Fair value adjustments	**(2,479)**	**1,142**	**(5,025)**	**(6,362)**
Balance at 31 December 2015	**9,761**	**46,112**	**39,770**	**95,643**

The following table 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).

There were no transfers between Level 1, Level 2 and Level 3 during the year (2014: £nil).

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's view of market assumptions in the absence of observable market information (see note 16 – Market risk).

	31 December	
	2015 £'000	**2014 £'000**
Level 1	**9,761**	20,352
Level 2	**–**	–
Level 3	**85,882**	112,523
	95,643	132,875

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:

	Year ended 31 December	
	2015 £'000	**2014 £'000**
Opening balance	**112,523**	133,685
Total gain in profit or loss	**(3,883)**	6,139
Purchases	**1,194**	4,827
Realisations	**(23,952)**	(32,128)
Closing balance	**85,882**	112,523

Company

The investment in subsidiaries was as follows:

	31 December	
	2015 £'000	**2014 £'000**
Opening balance	**236,301**	266,301
Impairment	**(26,400)**	(30,000)
Carrying value	**209,901**	236,301

Details of subsidiaries are set out in note 21.

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

Notes to the financial information continued

10. Operating and other receivables

	Group 31 December		Company 31 December	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade receivables	120	82	–	–
Other receivables and prepayments	482	158	156	138
Amounts receivable from subsidiaries	–	–	10,831	13,184
	602	240	10,987	13,322

11. Cash and cash equivalents

	Group 31 December		Company 31 December	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Bank balances	265	793	145	93
Short-term deposits	5,840	8,365	3,938	3,084
	6,105	9,158	4,083	3,177

12. Operating and other payables

	Group 31 December		Company 31 December	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade payables	155	19	155	19
Carried interest (note 5)	2,256	2,088	366	576
Fund management fees	–	962	–	–
Other non-trade payables and accrued expenses	1,574	1,774	951	1,153
Amounts payable to subsidiaries	–	–	125,622	113,988
	3,985	4,843	127,094	115,736

The provision for fund management for fees at 31 December 2014 related to an investment management agreement which was considered onerous following the change in strategy of the Group from 30 November 2011. The agreement ceased on 31 December 2015.

13. Provisions and other long-term liabilities

	Group 31 December		Company 31 December	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Executive incentive plan (note 5)	2,820	2,217	2,820	2,217

14. Capital and reserves

Share capital

Ordinary shares	2015 Number	2015 £'000	2014 Number	2014 £'000
Balance at the beginning of the year	**145,251,258**	**14,525**	187,356,236	18,736
Repurchase of shares	**(41,666,666)**	**(4,167)**	(42,104,978)	(4,211)
Balance at the end of the year	**103,584,592**	**10,358**	145,251,258	14,525

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 December for £40 million (2014: £40 million).

Capital redemption reserve

The capital redemption reserve comprises the nominal value of 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 was credited to merger reserve.

Movements on the merger reserve during the year were as follows:

	2015 £'000	2014 £'000
Balance at beginning of the year	**35,422**	84,083
Transfer to retained earnings	**(11,504)**	(48,661)
Balance at the end of the year	**23,918**	35,422

The transfer from merger reserve to retained earnings reflects the realisation of assets acquired at the date of demerger.

Foreign exchange translation reserve

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

Notes to the financial information continued

15. Share-based payments

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 2015 there were no option grants outstanding under this plan (2014: 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:

	Year ended 31 December	
	2015 Number	**2014 Number**
Outstanding at 1 January	**49,999**	49,999
Exercised during the year	**–**	–
Outstanding at 31 December	**49,999**	49,999

Share awards outstanding at 31 December 2015 are vested and available for exercise until 12 April 2020. The weighted average exercise price of awards outstanding at 31 December 2015 was £nil (31 December 2014: £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.

Movements during the year were as follows:

	Year ended 31 December	
	2015 Number	**2014 Number**
Outstanding at 1 January	**28,532**	258,879
Exercised during the year	–	(230,347)
Outstanding at 31 December	**28,532**	28,532

Share awards outstanding at 31 December 2015 are vested and available for exercise until 11 April 2021. The weighted average exercise price of awards outstanding at 31 December 2015 was £nil (31 December 2014: £nil).

The awards exercised during 2014 were settled in cash as permitted under the rules of the plan.

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 2014.

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

	Year ended 31 December	
	2015 £'000	**2014 £'000**
Deferred share bonus plan	–	(25)
Performance share plan	–	(89)
	–	(114)

Notes to the financial information continued

16. Financial risk management

Financial instruments by category

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

Group

	31 December					
	2015			2014		
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	84,370	11,273	95,643	121,729	11,146	132,875
Operating and other receivables	–	602	602	–	240	240
Cash and cash equivalents	–	6,105	6,105	–	9,158	9,158
Total	84,370	17,980	102,350	121,729	20,544	142,273

	31 December					
	2015			2014		
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
Operating and other payables	–	3,985	3,985	–	4,843	4,843

Company

	31 December					
	2015			2014		
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
Operating and other receivables	–	156	156	–	138	138
Amounts receivable from subsidiaries	–	10,831	10,831	–	13,184	13,184
Cash and cash equivalents	–	4,083	4,083	–	3,177	3,177
Total	–	15,070	15,070	–	16,499	16,499

	31 December					
	2015			2014		
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
Operating and other payables	–	1,472	1,472	–	1,748	1,748
Amounts payable to subsidiaries	–	125,622	125,622	–	113,988	113,988
Total	–	127,094	127,094	–	115,736	115,736

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.

	31 December	
	2015 £'000	2014 £'000
Operating and other receivables	602	240
Cash and cash equivalents	6,105	9,158
	6,707	9,398

Operating and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. Each new customer (counterparty) is analysed individually for creditworthiness before payment terms are offered. The conduct of customer and counterparty 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:

	31 December	
	2015 £'000	2014 £'000
UK	417	211
United States	185	29
	602	240

The aging of trade receivables was:

	31 December			
	2015		2014	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	120	–	82	–

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.

Notes to the financial information continued

16. Financial risk management continued

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 2015	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
Operating and other payables	**3,985**	**3,985**	**3,985**	–	–	–	–

31 December 2014	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
Operating and other payables	4,843	4,843	4,843	–	–	–	–

In addition the Group has uncalled commitments to funds of £3,961,000 (31 December 2014: £6,994,000) for which the timing of payment is uncertain.

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 69% of the investment portfolio 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					
	2015			2014		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**25,963**	**67,630**	**2,050**	40,384	90,139	2,352
Operating and other receivables	**417**	**185**	**–**	211	29	–
Cash and cash equivalents	**3,630**	**2,475**	**–**	3,182	5,976	–
Operating and other payables	**(2,935)**	**(1,050)**	**–**	(2,865)	(1,978)	–
Gross exposure	**27,075**	**69,240**	**2,050**	40,912	94,166	2,352
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**27,075**	**69,240**	**2,050**	40,912	94,166	2,352

At 31 December 2015, the rate of exchange was USD 1.48 = £1.00 (31 December 2014: USD 1.56 = £1.00). The average rate for the year ended 31 December 2015 was USD 1.52 = £1.00 (2014: USD 1.65 = £1.00).

A 10 per cent strengthening of the US dollar against the pound sterling would have increased equity by £6.8 million at 31 December 2015 (31 December 2014: increase of £9.2 million) and increased the profit for the year ended 31 December 2015 by £6.8 million (2014: increase of £9.2 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:

	31 December	
	2015 £'000	2014 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**–**	–
	–	–
Variable rate instruments		
Financial assets	**6,105**	9,158
Financial liabilities	**–**	–
	6,105	9,158

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £76,000 (31 December 2014: increase of £135,000) and increased the profit for the year by £76,000 (2014: increased by £135,000).

Notes to the financial information continued

16. Financial risk management continued

Market risk continued

Fair values

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

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

Other market price risk

Equity price risk arises from equity securities held as part of the Group's portfolio of investments. The Group's management of risk in its investment portfolio focuses on diversification in terms of geography and sector, as well as type and stage of investment.

The Group's investments comprise quoted investments (quoted on the main stock exchanges in London, USA and Canada) 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 significant unobservable inputs used at 31 December 2015 in measuring investments categorised as level 3 in note 9 are considered below:

1. Unquoted securities (carrying value £46.1 million) are valued using the most appropriate valuation technique such as the price of recent investment, an earnings-based approach, or a discounted cash flow approach. In most cases the valuation method uses inputs based on comparable quoted companies for which the key unobservable inputs are:

    - EBITDA multiples in the range 5–9 times dependent on the business of each individual company, its performance and the sector in which it operates;
    - Revenue multiples in the range 0.5–1.5 times, also dependent on attributes at individual investment level; and
    - Discounts applied ranging from 10%–30% to reflect the illiquidity of unquoted companies compared to similar quoted companies. The discount used requires the exercise of judgement taking into account factors specific to individual investments such as size and rate of growth compared to other companies in the sector.

2. Investments in funds (carrying value £39.8 million) are valued using reports from the general partners of our fund interests with adjustments made for calls, distributions and foreign currency movements since the date of the report (if prior to 31 December 2015). 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 basis of valuation and knowledge of the investments and the sectors in which they operate. However the degree of detail on valuations varies significantly by fund and, in general, details of unobservable inputs used are not available.

If the valuation for level 3 category investments declined by 10% from the amount at the reporting date, with all other variables held constant, the profit for the year ended 31 December 2015 would have decreased by £8.6 million (2014: decreased by £11.3 million). An increase in the valuation of level 3 category investments by 10% at the reporting date would have an equal and opposite effect.

Capital management

The Group's total capital at 31 December 2015 was £95 million (31 December 2014: £135 million) comprising equity share capital and reserves. The Group had borrowings at 31 December 2015 of £nil (31 December 2014: £nil).

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

- Working capital requirements and follow-on investment capital for portfolio investments, including calls from funds;
- 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 30 November 2011.

17. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December 2015 £'000	31 December 2014 £'000
Less than one year	**289**	289
Between one and five years	**361**	650
	650	939

18. Capital commitments

	31 December 2015 £'000	31 December 2014 £'000
Outstanding commitments to funds	**3,961**	6,994

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

Notes to the financial information continued

19. 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 £289,000 to Derwent London plc plus certain service charges. 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 Robert Rayne.

Compensation arrangements for Directors and key management are set out in the Remuneration Committee report on pages 24 to 27.

In connection with the tender offer in May 2014, 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.

The Undertaking was classified as a related party transaction under the Listing Rules and was therefore subject to approval by non-Concert Party shareholders at the general meeting to approve the May 2014 tender offer – which approval was duly given. For the purposes of this classification the deemed value of the consideration for the Undertaking was £8.4 million. The results of the tender offer in May 2014 required 45,764 extra shares to be tendered under the terms of the Undertaking.

No fee was payable by the Company in connection with the Undertaking.

There was no such undertaking in connection with the tender offer in November 2015.

20. Subsequent events

There are no events subsequent to 31 December 2015 that would materially affect the interpretation of these financial statements.

21. Subsidiaries

The Group's subsidiaries 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 five limited partnerships (LMS Capital 2007 LP, LMS Capital 2008 LP, LMS Capital 2009 LP, LMS Capital 2010 LP and LMS Capital 2011 LP) which are registered in Bermuda.

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 Asset Services, 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 Asset Services, 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 2016
Annual General Meeting
19 May

Half-year results
July/August

Year-end
31 December

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