LMS Capital plc
Report and Accounts

For the year ended 31 December 2016

LMS Capital plc

Contents

Highlights

- At the general meeting on 16 August 2016 shareholders voted in favour of proposals to change the Company's investment strategy so that the Company may now make new investments focused on private equity opportunities. On the same date the Company appointed Gresham House Asset Management Limited to manage its investment portfolio.

- The meeting also approved a further tender offer which returned £6 million to shareholders, bringing to £161 million the amount returned since the beginning of the realisation strategy in 2012. The Company also undertook to return up to a further £11 million to shareholders on the basis of realisations from the existing investment portfolio.

- The net asset value at 31 December 2016 was £68.1 million, 71p per share (31 December 2015: £95.1 million, 92p per share).

- The 23% decline in NAV per share reflects a disappointing performance from the investment portfolio particularly in the second half of 2016. Net losses on the investment portfolio were £16.2 million (2015: gains of £6.6 million) leading to an overall loss for the year of £20.8 million (2015: profit of £0.5 million).

- GHAM has initiated a staged approach to achieving the objectives outlined in 2016 including: optimising the value of existing assets, reducing costs and facilitating the return of capital to shareholders before investing in line with the new investment policy and seeking to grow the business.

Corporate Information

Directors
M Knight
R Birkett
B Duroc-Danner
N Lerner
The Hon RA Rayne

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Company website
The Company's website provides further information on the Company's strategy and investments, as well as information for shareholders.
www.lmscapital.com

Registered office
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Registered number 5746555

Financial calendar 2017
Annual General Meeting – 25 May
Half-year results – August

Chairman's Statement

2016 was a transformational year for the Company. In August shareholders voted to change the Company's investment policy and at the same time your Board, with the support of shareholders, took the decision to appoint Gresham House Asset Management Limited ("GHAM") or "the Manager" to manage the Company's operations. The GHAM team has a successful investment track record, underpinned by proven operating and technical expertise in private and public equity investments.

The Company has also acquired shares in Gresham House plc (parent company of GHAM) to align the Company's interests in the long term with those of the Manager. The Company's interest is currently 801,985 ordinary shares and 909,908 warrants to subscribe for ordinary shares exercisable at 323.27p per share no later than 30 June 2018.

Change of investment objective

The first seven months of the year saw the continuation of the realisation strategy which the Company had been following since November 2011. However, your Board was aware that as the realisation strategy progressed and the Company reduced in size, its expense ratio would likely deteriorate. The Company could also have been seen as a forced seller of its investments impacting its ability to maximise value through longer term engagement. In consequence, potential shareholder returns from continuing with the realisation strategy were therefore likely to be lower than those achieved historically.

Your Board believed that a change in the investment objective would present an attractive alternative to the existing realisation strategy. At a general meeting on 16 August shareholders approved a change to a policy predominantly focused on private equity investment whilst optimising the value of existing assets.

At the same time shareholders approved a return of capital of £6 million (by way of a tender offer and associated repurchase of shares). This was completed on 1 September and brought to £161 million the amount returned to shareholders since November 2011.

The Company has also undertaken to make two further tender offers up to a combined maximum of £11 million. The first of these up to £6 million will be made when net realisation proceeds from the existing portfolio reach £12 million. Realisations since the circular sent to shareholders on 27 July have totalled £6.9 million and your Board and GHAM are focused on initiating and progressing sale processes for appropriate holdings.

Performance review

Net Asset Value per share at the end of 2016 was 71p, slightly higher than announced on 25 January, but a 23% decrease from 92p a year ago.

Portfolio losses (realised and unrealised) for the year before carried interest charges were £16.2 million (2015: gains of £6.6 million), the key elements of which were:

- Unquoted investments contributed net losses of £15.9 million (2015: net gains of £10.1 million), most of which arose on three US investments – ICU Eyewear, Medhost and Nationwide Energy Partners;
- Quoted investments generated a net loss of £1.3 million for the year (2015: net loss of £1.0 million); and
- Our fund interests showed net gains of £1.0 million (2015: net loss of £2.5 million).

The portfolio losses for the year are stated after the impact of exchange gains of £11.6 million (2015: gains of £6.2 million), primarily due to the weakness of sterling against the US dollar.

Overhead costs were £3.3 million, similar to the previous year (2015: £3.2 million). One-off charges (including staff redundancy and surplus property costs) were £2.2 million; as a result of these there will be future benefits from annual overhead cost savings targeted at £1 million which are expected to start during the first half of 2017.

Board composition

In June we welcomed Rod Birkett as a non-executive Director. Rod has over 25 years' experience in the investment company sector.

Bernard Duroc-Danner has confirmed that he will not be standing for re-election at the forthcoming 2017 AGM and I should like to take this opportunity to thank Bernard for his contribution to the Company over the last ten years.

Following the appointment of GHAM, Nick Friedlos and Tony Sweet resigned as Directors and I should like to thank them for their role in the management of the Company. They now form part of the GHAM team managing the Company's operations.

As a result of these changes, your Board is now wholly non-executive.

Conclusion and outlook

2016 was a transformational year for the Company. The performance of the investment portfolio in the second half of the year was disappointing but following the appointment of GHAM as investment manager the Board looks forward to improved performance in 2017 and beyond.

Martin Knight
Chairman

14 March 2017

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

Investment objective and strategy

Until 16 August 2016 the Directors of the Company were conducting an orderly realisation of the assets of the Company, in line with the strategy previously approved by shareholders at a general meeting in November 2011. The focus of the Company was to optimise realisations from the investment portfolio and return the proceeds to shareholders. No investments were made in new opportunities; follow-on investments were made in existing assets to honour commitments made at the time of the initial investment and/or to which the Company was legally obligated, or where the investment was made to protect or enhance the value of an existing asset or to facilitate its orderly realisation.

At a general meeting on 16 August 2016 shareholders voted to change the Company's investment policy from the realisation strategy to a new policy focused predominantly on private equity investment. At the same time Gresham House Asset Management Limited ("GHAM" or "the Manager") was appointed by the Board to manage the Company's assets.

The Company's investment objective is to achieve total returns over the medium to longer term, principally through capital gains and supplemented with the generation of a longer term income yield. The Company is targeting a return on equity, after running costs, of between 12% and 15% per annum over the long-term on new capital invested.

The disposal proceeds of the Company's existing portfolio less amounts required for working capital and net of anticipated further returns of capital to shareholders (see below) will be invested in accordance with the investment policy.

New investments will be primarily focused on direct private equity investments and specialist asset classes (including funds managed by GHAM), with the majority of the portfolio expected to be invested in direct private equity opportunities.

No investment in any single company will (at the time of investment) represent more than 15% of the Company's net assets. Any investment in securities of a single company or investment fund, which represents more than 10% of the Company's net assets at the time the investment is made, requires the Board's approval.

The Company may invest in public or private securities; investments may be made in the form of, inter alia, equity, equity-related instruments, derivatives and indebtedness. The Company may hold controlling or non-controlling positions and may invest directly or indirectly. The Company may also invest in Gresham House plc, to benefit from the potential growth of GHAM.

The Company is not restricted to specific sectors; its assets are and will continue to be predominantly invested in the United Kingdom, Europe and North America, with an increasing focus on the United Kingdom.

Indebtedness of the Company will not exceed 25% of net assets measured at the time of drawdown. The Company had no indebtedness at 31 December 2016 or at the date of this report.

Further returns to shareholders

In the circular to shareholders dated 27 July 2016 the Company undertook to make two further returns of capital to shareholders by way of tender offers. These returns of capital will in total represent 50% of the net proceeds of further disposals of assets in the Company's existing portfolio made after the date of the circular. These further tenders will be for a maximum of £11 million and distributions of up to £6 million and up to £5 million are expected to be made. Both these future tender offers will be at a 5% discount to the net asset value of the Company at the relevant time.

It is intended that the first of the tender offers will return up to £6 million to shareholders (after net realisation proceeds from the Company's existing portfolio, after the date of the Circular, exceed £12 million). It is intended that the second of the tender offers will return up to £5 million to shareholders (after net realisation proceeds from the Company's existing portfolio, after the date of the Circular, exceed £22 million in total).

Portfolio management

The Company's operations are managed by Gresham House Asset Management Limited ("GHAM") who was appointed as the Manager on 16 August 2016. GHAM manages the Company's assets and investments in accordance with guidelines determined by the Directors and as specified in a formal portfolio management agreement. Further information about GHAM can be found in the Manager's Review on pages 11 to 19.

In order to comply with the requirements of the Alternative Investment Fund Managers Directive 2011, the Company has appointed an alternative investment fund manager ("AIFM"). In due course, the Company's AIFM will be GHAM, once GHAM has obtained a variation of its permissions under Part 4A of the Financial Services and Markets Act 2000 to enable it to act as a full-scope UK AIFM. For an initial period, however, before GHAM has obtained this permission, the Company has appointed G10 Capital Limited ("G10 Capital"), a specialist provider of regulated services, as its initial AIFM and G10 Capital has delegated certain functions in relation to the portfolio management of the Company's assets to GHAM.

The Company has appointed Ipes (UK) Limited as its depositary.

Under the AIFM and portfolio management agreement, the Manager is entitled to an annual management fee as follows:

a) 1.50% of the net asset value of the Company, to the extent that the Company's net assets under management are £100 million or less;

b) 1.25% of the net asset value of the Company, to the extent that the Company's net assets under management exceed £100 million but are £150 million or less: and

c) 1.00% of the net asset value of the Company to the extent that Company's net assets under management exceed £150 million.

The Manager is also entitled to a performance fee on new investments which is designed to align the interests of GHAM, as portfolio manager, with those of the Company. If certain hurdle return requirements are satisfied, GHAM earns a performance fee of 15% of the gain in the net asset value of new investments made after 16 August 2016. No performance fee will be payable in respect of investments held at the date of GHAM's appointment.

GHAM is the regulated subsidiary of Gresham House plc, the specialist asset manager quoted on the Alternative Investment Market of the London Stock Exchange. Its investment team has a successful track record, underpinned by proven operating and technical expertise. GHAM adopts a differentiated and rigorous approach to private and public equity investments through its specialist asset management strategies which are focused on capitalising on the growth in demand for alternative investment strategies, illiquid assets and for discretionary co-investments.

A dedicated investment committee of GHAM is responsible for the Company's portfolio and oversees the investment appraisal process in relation to investments made in respect of the Company's portfolio. The Company has the right to nominate a member to this committee and as at the date of this report has exercised that right.

The committee assesses existing assets and new investment opportunities and is also responsible for approving due diligence costs, abort costs exposure, capital allocation and appropriate risk management.

All investment opportunities are appraised by the investment team and a short list of deals progresses for review by the Investment Committee. The Investment Committee assist in due diligence, investment appraisal and the team can leverage their extensive network as required. The members of this committee are set out on page 20.

Representatives of GHAM are available to attend all meetings of the Board and provide regular reports on the investment portfolio and the affairs of the Company generally. The performance of each underlying investment is monitored regularly with commentary on trends and risks both company specific and market related. GHAM may also have representatives on the boards of portfolio investment companies.

Distribution policy

In future the Company intends to return in the region of 30% of annual cash realised profits from new investments and in so doing, to generate a dividend yield over the longer term.

Performance

The following are the key performance indicators ("KPIs") considered by the Board and the Manager in assessing the Company's performance against its objectives. These KPIs are:

Return on equity over the long-term

The Company's objective is to achieve a return on equity (on new investments) of between 12% and 15% per year over the long-term.

NAV per ordinary share total return

The Company's net asset value per share total return was negative for the year ended 31 December 2016. This compared with 16.8% for the FTSE All-Share Index.

Share price total return

The Company's share price total return was negative over the year ended 31 December 2016.

Further information on the Company's performance is given in the Chairman's Statement on pages 3 to 4 and the Manager's Review on pages 11 to 19.

Personnel

The average number of Directors and staff was as follows:

	2016			2015		
	Male	Female	Total	Male	Female	Total
Directors	6	–	6	6	–	6
Senior management	–	–	–	–	–	–
Other staff members	1	3	4	2	5	7
	7	3	10	8	5	13

Environment

The Company has a limited direct impact upon the environment and there are few environmental risks associated with the Company's activities. Information on greenhouse gas emissions are set out in the Directors' Report on pages 44 to 46.

Risk management and principal risks and uncertainties

On 16 August 2016 the Company appointed G10 Capital, an independent investment manager, as its AIFM to act in accordance with the Company's investment objective and the AIFMD rules. This includes portfolio management and risk management services. At the same time GHAM was appointed to perform on behalf of G10 Capital day-to-day portfolio management services.

GHAM is responsible for the ongoing process of identifying, evaluating, monitoring and managing the risks facing the Company. The Board keeps G10 Capital's and GHAM's performance of these responsibilities under review as part of its overall responsibility for ensuring that the Company has an effective risk management and internal control framework.

On behalf of the Board, the Audit Committee has responsibility for ensuring that the Company has an effective process to identify, document and assess those risks which might impact the Company's performance and its achievement of its strategy.

The Board has carried out a robust assessment of the principal risks facing the Company throughout the year ended 31 December 2016, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the principal risks and uncertainties that could have a material adverse effect on the Company's strategy, performance and financial condition is set out below.

Principal risks	Consequences	Company procedures
Market risk		
Economic instability, political uncertainty and low growth in the markets where the Company's investments operate. Lack of liquidity in capital markets.	Economic conditions may result in reduced demand for the products and services supplied by investee companies. Such a negative impact on performance and growth rates may result in lower individual company valuations resulting in a decline of the Company's NAV and its failure to meet its return targets and investment objective.	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 Company's strategy.
Volatility in listed equity prices, foreign currency rates and interest rates.	At 31 December 2016 69% of the Company's investment portfolio was denominated in US dollars. Movements in the USD/GBP exchange rate have a significant impact on the Company's NAV.	The Board regularly receives reports on the Company's foreign currency exposure in its investment portfolio. The Company does not currently hedge its underlying non-sterling investments.

Investment risk		
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. Where the Company has only minority stakes in investments it may not be able to influence performance initiatives or exit strategy.	Poor performance by portfolio companies may result in the Company not meeting its investment return objectives or its realisation and cash distribution plans. This could impact the NAV and the market's view of the Company's prospects, with a consequent negative impact on its share price.	Regular monitoring of the trading of individual companies in the investment portfolio as well as of the Company's overall investment performance.

Financial risk		
Many of the Company's investments produce little or no recurring income and the timing of realisations to provide working capital and liquidity cannot be ascertained with certainty. The Company 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 Company 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.

Principal risks	Consequences	Company procedures
Operational risk		
Failure of the Company'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.

Viability statement

The Directors have assessed the Company's current position and prospects as described in the Chairman's Statement and the Manager's Review, as well as the principal risks and uncertainties set out above.

The Directors concluded that the appropriate period for this assessment should be the three years commencing 1 January 2017 since this timeframe reflects the Company's internal planning horizon as well as that of most of the companies in which it is invested. Given the illiquid nature of much of its investment portfolio, investment/divestment decisions tend to reflect a time period which can be up to three years.

In performing their assessment the Directors considered principally:

1. The Company's liquidity forecast for the three years from 1 January 2017; and
2. The Manager's latest report on the investment portfolio which includes (for every Board meeting) an assessment of operational issues as well as broader market factors and each asset's cash needs (if any) and likely future cash generation (amount and timing).

The Directors' consideration of these reports was made against the background of the following considerations:

- 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 has reviewed the liquidity of the Company and considered commitments to private equity investments, long-term cash flow projections and the potential availability of gearing. It has also satisfied itself that assumptions regarding future cash inflows are reasonable;
- The Company has undertaken to make further returns of capital to shareholders. These future returns will be made 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;
- The Board has also considered likely downside risk in the value of marketable securities where realisations of these form part of the liquidity forecast. 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;
- In making its assessment, the Board has taken into account the threats to the Company's solvency or liquidity incorporated in the principal risks and uncertainties and satisfied itself that they are being addressed as outlined above.

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.

For and on behalf of the Board.

Martin Knight
Chairman

14 March 2017

Investment Portfolio – principal holdings

MEDHOST Carrying value – £12.1 million % of NAV – 17.7% Domicile – USA Medhost provides technology services to the healthcare sector in the US and focuses on optimising clinical management and related administration, as well as aiming to maximise revenue capture. It is a co-investment with one of the Company's fund interests, Primus Capital, who are the lead investment manager.	PENGUIN COMPUTING Carrying value – £10.1 million* % of NAV – 14.9% Domicile – USA Penguin Computing is one of the largest private suppliers of enterprise and high-performance computing and cloud computing solutions in North America. Its solutions are based on open architectures and are made of non-proprietary components from a variety of OEM providers. * includes the interest held by San Francisco Equity Partners and the Company's direct interest
yes to Carrying value – £8.4 million % of NAV – 12.3% Domicile – USA Yes To develops innovative, natural, fun, and efficacious beauty and personal care products that are free of all the "nasties" and filled with all the "goodies." * includes the interest held by San Francisco Equity Partners and the Company's direct interest.	Elateral Carrying value – £3.9 million % of NAV – 5.7% Domicile – UK Elateral's products enable marketing departments to source content in any form and from any system. That content can be customized in any size, shape, layout and language to produce market-ready materials for distribution, both online and offline.
entuity Taking the Work out of Network Management Carrying value – £3.0 million % of NAV – 4.4% Domicile – UK Entuity has developed and sells an enterprise class network management solution, with its target market being businesses with medium to large enterprise networks.	365 IT Carrying value – £2.1 million % of NAV – 3.1% Domicile – UK 365iTMS is an IT services company that designs and delivers information and communications technology services and solutions for commercial and government clients.

Manager's Review

Transition to external manager

GHAM has made significant progress since being appointed investment manager in August. With input from the LMS Capital Board it has set out a staged approach towards achieving the objectives outlined in 2016.

The 'first stage' has been to transition to external management, including:

- Implementing a new investment process and governance structure, including the newly appointed Investment Committee;
- Detailed review of portfolio holdings to frame future strategy and drive potential growth and liquidity opportunities;
- Significant engagement with the management teams of underlying portfolio investments in order to identify catalysts for stabilisation, value creation and long term growth. This includes members of GHAM joining the boards of Entuity, Elateral, Nationwide Energy Partners and 365iTMS;
- Appointing external administrators and driving targeted annualised cost savings.

The 'second stage' of development is focused on realisation and return of capital to shareholders alongside investing appropriately to optimise the value of the portfolio where there is a clear plan for longer term value creation with portfolio companies.

The 'third stage' will be focused primarily on new investment in direct private equity opportunities at the smaller end of the market, leveraging the expertise, experience and network of the investment team and newly formed Investment Committee. The team will also seek to scale the Company appropriately to generate additional shareholder value.

Investment approach

As a result of changes in 2016 to the investment policy, new investment is now focused predominantly on private equity investment using the experience of the GHAM team in asset management, private equity and public markets:

- The manager will invest in and partner with management teams of profitable and cash generative businesses to create value, targeting an annual return on equity of 12% -15% net of costs over the long-term;
- The focus will primarily be on smaller private companies below £50 million enterprise value where the manager believes there to be significant market inefficiencies which create opportunities for superior long-term returns and to leverage the experience of the investment team;
- The focus is on optimising the value of existing holdings and, where growth prospects are clear, to preserve and support longer term value creation.

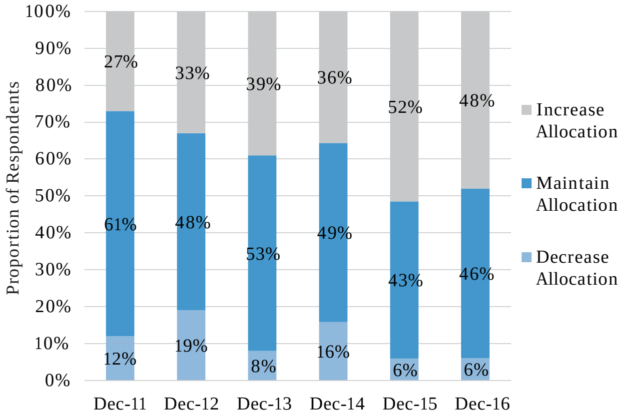
Market background

Equity markets were strong in 2016, especially in Q4, both in the UK and US, despite significant political uncertainty with Brexit and the US presidential election, and pedestrian global growth. Expectations of fiscal loosening, increased expenditure on infrastructure, a shift in focus to deregulation and reflationary pressures buoyed the stock markets in the UK and US.

Last year also saw continued strong private equity activity. New capital raised for private equity has been significant over the last three years as pension funds, endowments and institutions increase allocations to private equity, seeking above market returns. Valuations have been driven to levels last seen in 2006/2007 with average multiples reaching around 14x EBITDA in 2015 and remaining in excess of 10x in 2016.

A research study recently published by Preqin shows that 40% of investors surveyed intend to invest more capital in private equity over the next year than in the last, compared with only 11% that plan to invest less. Almost half (48%) of respondents plan to increase their allocations to private equity over the longer term; a further 46% will maintain their allocations. Importantly these are some of the highest levels seen over the past six years.

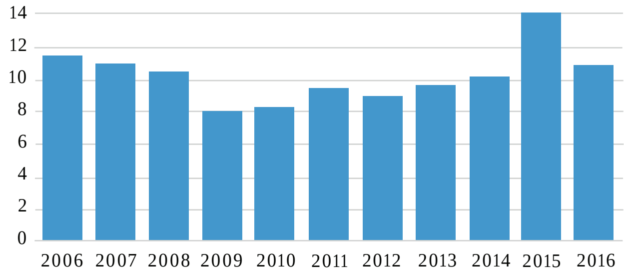
Investors' intentions for their private equity allocations over the long term, 2011 – 2016



Source: Preqin 2017 Global Private Equity and Venture Capital report

This is driving increasing competition for deals, with the availability of debt resulting in continued high prices and valuations, particularly we believe at the larger end of the market.

Median EBITDA Valuation



Source: Bloomberg – Median EV/EBITDA for private equity buyouts valued at more than US$100 million

High valuations, increasing allocation and fund raising and increased competition for deals means private equity firms have record levels of uninvested funds, particularly for the larger enterprise value deals.

However we believe that there are significant inefficiencies at the smaller end of the market, focusing on established smaller private companies between £25 and £50 million enterprise value that are often overlooked, where there can be less competition for deals and valuations are attractive. They tend to be off radar for venture and early stage funding providers and sub-threshold for mid-market private equity investors. This creates an opportunity to generate superior long-term returns.

Performance review

On 16 August 2016 GHAM was appointed to manage the affairs of the Company. This is the first Annual Report since that appointment and since the change in investment strategy approved by shareholders at the general meeting on 16 August 2016.

This review covers:

1. The first seven months of the year during which the Company was undertaking a realisation strategy; and
2. Progress with implementation of the new investment objective since 16 August 2016.

Change in accounting policy

With effect from 1 January 2016, the Company has adopted the amendment to IFRS 10 (Consolidated Financial Statements) which requires it to report its operating subsidiaries (which act as the intermediate holding companies of the investment portfolio) at fair value rather than consolidate them as previously. Amounts reported for the year ended 31 December 2015 have been restated – there was no change to 2015 reported net asset value.

Realisations in 2016

These were as follows:

	Year ended 31 December	
	2016 £'000	2015 £'000
Cash realisations from the investment portfolio – gross	10,602	43,731
Cash realisations from the investment portfolio – net	9,040	41,409
Cash returned to shareholders	6,000	40,000

Cash realisations from the portfolio were as follows:

	2016 £'000	2015 £'000
Sales of investments	5,927	29,350
Capital restructurings and loan repayments	–	2,756
Distributions from funds	4,675	11,625
Total – gross	10,602	43,731
Fund calls	(438)	(390)
Other follow-on investments	(851)	(804)
Carried interest payments	(273)	(1,128)
Total – net	9,040	41,409

The principal follow-on investments were:

- £522,000 (US$750,000) to ICU Eyewear to provide working capital and funding for new customer trials; and
- £300,000 to provide working capital for Elateral, a UK direct investment.

Net realisations of £9,040,000 in 2016 bring to £159.5 million the total of such net realisations since the commencement of the realisation strategy on 1 January 2012. Including the £6.0 million returned to shareholders in 2016, total cash returned during the same period was £161.0 million.

Realisations after the change in investment strategy were £1,974,000 to the end of 2016. To date in 2017 realisations from the portfolio have been £4,925,000 including the following:

- The Company has concluded an agreement to a two stage sale of Nationwide Energy Partners for total consideration of £7,703,000 (US$9,500,000), which was the Company's carrying value at the end of 2016. The stage 1 payment of US$4,500,000 was received on 23 January 2017. The second and final stage will be settled either as a one off payment of US$5,000,000 in January 2018 or a loan note repayable with interest in instalments over 4 years.
- The Company has also agreed the realisation of its long-term and successful holdings in the Weber Capital funds at an amount equal to the Company's carrying value at the end of 2016. The realisation is expected to complete in stages during the first half of 2017. The first stage has been completed and proceeds of US$1,300,000 have been received. The balance is due to be paid in the second quarter of 2017.

Performance of the investment portfolio

Below is a summary of the Company's investment portfolio:

	31 December 2016			31 December 2015		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Quoted	2,481	2,995	5,476	1,564	8,197	9,761
Unquoted	9,384	21,987	31,371	12,347	33,765	46,112
Funds	11,149	25,436	36,585	18,602	21,168	39,770
	23,014	50,418	73,432	32,513	63,130	95,643

The Company's principal investments at 31 December 2016 comprising 80% of the total portfolio were:

			Carrying value 31 December		% of Net asset value
Name	Geography	Sector	2016 £'000	2015 £'000	2016
Quoted investments					
Weatherford International	US	Energy	2,909	8,064	4.2%
Gresham House	UK	Financial	2,481	–	3.6%
Unquoted investments					
Medhost Inc	US	Technology	12,070	14,157	17.7%
Elateral	UK	Technology	3,900	4,250	5.7%
Entuity	UK	Technology	3,000	4,500	4.4%
365iTMS	UK	Technology	2,100	3,500	3.1%
Fund investments					
San Francisco Equity Partners					
Penguin Computing*	US	Technology	10,133	6,834	14.9%
Yes To, Inc*	US	Consumer	8,387	7,089	12.3%
Others					
Brockton Capital	UK	Property	6,651	12,339	9.8%
Opus Capital Venture Partners	US	Technology	4,505	5,424	6.6%
Eden Venture Partners	UK	Technology	2,964	4,085	4.4%

* *includes holdings by SFEP and co-investments held by the Company*

Basis of valuation:

- Quoted investments – bid price of security quoted on relevant securities exchange;
- Unquoted investments – multiple of revenues or earnings of comparable quoted companies with appropriate discounts for marketability;
- Fund interests – based on amounts reported by the general partner unless the reported value is not in line with the Company's valuation policy.

The return on investments for 2016 was as follows:

Asset type	2016 Realised gains/(losses) £'000	2016 Unrealised gains/(losses) £'000	2016 Total £'000	Restated 2015 Realised gains/(losses) £'000	Restated 2015 Unrealised gains/(losses) £'000	Restated 2015 Total £'000
Quoted	9	(1,291)	(1,282)	1,511	(2,479)	(968)
Unquoted	–	(15,879)	(15,879)	8,948	1,142	10,090
Funds	491	492	983	2,518	(5,025)	(2,507)
	500	(16,678)	(16,178)	12,977	(6,362)	6,615
Credit/(charge) for incentive plans			737			(1,951)
			(15,441)			4,664
Operating and similar expenses of subsidiaries			(720)			(949)
			(16,161)			3,715

The credit for incentive plans includes £737,000 (2015: charge £1,348,000) for carried interest and £nil (2015: charge £603,000) in respect of the Executive Directors' incentive plan.

Approximately 69% of the portfolio at 31 December 2016 is denominated in US dollars (31 December 2015: 66%) and the above table includes the impact of currency movements. In the year ended 31 December 2016, the strengthening of the US dollar against pound sterling (year on year) resulted in an unrealised foreign currency gain of £11,319,000 (2015: unrealised gain of £3,565,000). 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.

Quoted investments

The loss on the quoted portfolio arose as follows:

Gains/(losses), net	2016 £'000	2015 £'000
Realised		
Weatherford International	(158)	709
ChyronHego Corporation	–	777
Bond International	155	–
Other quoted holdings	10	–
Dividend income	2	25
	9	1,511
Unrealised		
Weatherford International	(1,781)	(2,927)
Bond International	71	93
Other quoted holdings	(205)	(220)
Unrealised foreign currency gains	624	575
	(1,291)	(2,479)
Total net losses	(1,282)	(968)

During the year the Company sold 700,000 shares (2015: 426,000 shares) of its opening holding of 1,419,000 shares of a long-term holding in Weatherford International for net proceeds of £3,820,000 (2015: £3,839,000). The losses on this investment during the year (both realised and unrealised) reflect the continuing pressure on this company's share price during 2016.

Other sales during the year:

- The Company sold its entire holding in Imperial Innovations Group (now renamed Touchstone Innovations) for net proceeds of £865,000, a £39,000 uplift on the 2015 closing value; and
- The Company sold 550,000 shares (around 70% of its holding) in Bond International Software for net proceeds of £678,000, a gain of £155,000 over the opening 2016 value. This left 227,850 shares to participate in the liquidation of the company; the first distribution from the liquidators – £287,000 – was received in January 2017; the final distribution is not expected to be a significant amount.

The Company acquired its interest in Gresham House plc in line with the proposals set out in the circular to shareholders dated 27 July 2016 and at the end of the year held:

- 801,985 ordinary shares; and
- 909,908 warrants to subscribe for ordinary shares exercisable at 323.27p per share. The warrants are exercisable no later than 30 June 2018.

Unquoted investments

There were no purchases or sales of unquoted investments during 2016. The unrealised net loss was £15,879,000 (2015: unrealised net gain of £1,142,000) after unrealised foreign currency gains of £6,454,000 (2015: gains of £1,959,000).

Valuations are sensitive to changes in the following two inputs:

- The operating performance of the individual businesses within the portfolio; plus
- 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 used this year are similar to those prevailing at the end of 2015 and therefore the unrealised gains or losses set out in the table below arise principally as a result of the companies' performance.

Valuation movements were as follows:

	Unrealised gain/(loss)	
Name	2016 £'000	2015 £'000
ICU Eyewear	(9,165)	–
Medhost	(4,878)	–
Nationwide Energy Partners	(3,521)	(1,497)
Entuity	(1,878)	40
365iTMS	(1,400)	1,000
Elateral	(650)	(300)
Others, net	(841)	(60)
Unrealised foreign currency gains	6,454	1,959
Total net unrealised (losses)/gains	(15,879)	1,142

Comments on individual companies are set out below.

Medhost

Medhost is a co-investment with one of the Company's fund interests, Primus Capital, who are the lead investment manager. The business faced challenging market conditions during 2016 which impacted its profitability and resulted in a write down of the carrying value compared to last year. The Company has based its carrying value on the carrying value reported by the general partner.

ICU Eyewear

The business encountered difficult trading conditions in 2016 and has exited a potential sales process. It requires additional capital, the source of which has not yet been determined. Consequently, the Company has fully written off its interest.

Nationwide Energy Partners ("NEP")

In December 2016 the Company reached conditional agreement to sell its interest back to the founder in a two stage transaction. The stage 1 payment of $4.5 million was due and received in January 2017. The second and final stage will be settled either as a one off payment of $5 million in January 2018 or a loan note repayable with interest in instalments over 4 years. The 31 December carrying value is based on amounts receivable under this two stage deal.

Entuity

The pressure on revenues seen in 2015 continued during 2016 and in the first quarter LMS Capital appointed an interim chairman at Entuity to conduct a strategic review of the business which also led to the search for a new CEO. These issues resulted in the write down of the Company's carrying value at the half year.

The actions taken following the completion of the strategic review are expected to bring benefits in 2017 but were unable to affect the decline in revenues in 2016. As a result the Company has made a further write down of its carrying value for the business at the end of the year. The new CEO took up his post in February 2017 and GHAM has appointed a new investment director to work with the board of Entuity to stabilise and focus on future value growth.

365iTMS

The company successfully completed its first acquisition in the first half of 2016 but experienced a slowdown in its core business during the second half of the year. As a result of the impact of this on its profitability, the Company's carrying value has been reduced accordingly. The recently appointed GHAM investment director is focusing with management on strategic options which would enable a return to profitable growth and maximise equity value.

Elateral

Elateral has invested heavily in recent years to re-engineer and upgrade its technology platform as a precursor to retaining and growing its multinational client base. The company has made good progress in 2016 and is seeing year on year growth in underlying recurring revenue in its financial year to March 2017.

The write down of the Company's carrying value principally reflects changes to the funding structure in the second half of the year whereby Elateral's working capital funding has been supplemented by a short term loan from a third party, reducing the need for additional capital from existing investors. GHAM has appointed an investment director to work with management to maintain the growth momentum in revenues.

Fund interests

The return on the Company's funds portfolio for the year was a net gain of £983,000 (2015: net loss of £2,507,000) including unrealised foreign currency gains of £4,240,000 (2015: £1,031,000).

Fund investments are valued using latest general partner valuations.

The Company's principal fund interests are:

General partner	Sector	31 December 2016 £'000	2015 £'000
San Francisco Equity Partners	US consumer & technology	16,748	11,752
Brockton Capital	UK property	6,651	12,339
Opus Capital Venture Partners	US venture capital	4,505	5,424
Weber Capital Partners	US micro-cap quoted stocks	3,784	3,263
Eden Ventures	UK venture capital	2,964	4,085
Other interests	–	1,933	2,907
		36,585	39,770

Gains/(losses) on fund interests were as follows:

Gains/(losses), net	2016 £'000	2015 £'000
San Francisco Equity Partners	1,993	(3,264)
Brockton Capital	(2,518)	(2,829)
Opus Capital Venture Partners	(1,415)	1,245
Weber Capital	459	526
Eden Ventures	(1,189)	276
Amadeus Capital Partners	–	(922)
Boston Ventures	4	(1,081)
Voreda	86	1,527
Inflexion Private Equity	184	608
Other funds, net	(861)	376
Unrealised foreign currency gains	4,240	1,031
Total gains/(losses), net	983	(2,507)

San Francisco Equity Partners ("SFEP")

LMS Capital is the majority investor in SFEP (as opposed to the other fund interests where the Company has only a minority stake).

SFEP has two remaining investments:

- Penguin Computing – fund carrying value £8,685,000. The company's revenues grew strongly (in line with expectations), reflecting the benefit of a major contract win in the previous year;
- Yes To – fund carrying value £7,622,000. 2016 was the first year of a turnaround plan for the business under a new CEO appointed in 2015. 2016 results were in line with that plan.

Other fund interests

- In April 2016 Brockton Capital completed the partial realisation of the principal remaining asset in the fund, a high end central London residential development not due for completion for several years. As part of these arrangements the fund was able to make a distribution to investors – the Company received £3,304,000. At the end of the year, the carrying value of the Company's interest in the fund was written down by £2,518,000 to reflect current market circumstances resulting in uncertainty over the timing and value of future distributions;
- Opus Capital, a US venture fund, made stock distributions in kind during 2016 totalling £594,000; this and a downward valuation of the portfolio reduced the Company's interest by around £1.4 million and was partly offset by unrealised foreign currency gains;

- The Company's interest in Weber Capital Partners includes two funds, both of which performed well in 2016. The Company has agreed with the fund manager that its positions in both funds will be liquidated during the first half of 2017;
- Eden Ventures' portfolio performed below expectations during the year which is reflected in the reduction in the carrying value of the Company's interest compared to last year.

Other income statement items

As well as the investment portfolio return, the loss for the year of £20.8 million (2015: profit of £0.5 million) includes the following:

- Directors' and other fees from portfolio companies were £48,000 (2015: £55,000);
- The recurring overhead costs in 2016 (including amounts incurred by subsidiaries) were £3,301,000 (2015: £3,229,000);
- One-off costs associated with the change in investment strategy and transition to external management were £2,157,000 (2015: £823,000);
- Interest income for the year was £20,000 (2015: £78,000).

Taxation

There is no tax charge for the year ended 31 December 2016 or 2015 – in both years tax deductible expenses exceed taxable income. The excess of these tax deductible expenses has been surrendered to subsidiaries of the Company to offset taxable income in those companies.

Financial resources and commitments

Including cash in subsidiaries, cash holdings were £1,632,000 (31 December 2015: £6,105,000) with no debt. Since the end of 2016 to the date of this report cash realisations from the portfolio have been £4,925,000.

At 31 December 2016 subsidiary companies had commitments of £3,577,000 (31 December 2015: £3,961,000) to meet outstanding capital calls from fund interests.

Outlook

GHAM has engaged with portfolio companies and is working with the management teams to identify catalysts for growth, to drive long-term value. We are committed to return up to £11 million to shareholders from realisations of the existing portfolio and are focused on progressing and initiating sale processes for certain holdings. Alongside any return to shareholders we will look to access and reinvest primarily in direct private equity opportunities at the smaller end of the market, leveraging the expertise and experience of our investment team and Investment Committee.

Gresham House Asset Management Limited

14 March 2017

Investment committee

Tony Dalwood

Tony is CEO of Gresham House plc and Chair of the Investment Committee. He developed the Strategic Public Equity process with Graham Bird and shares fund management responsibilities with Graham and Pardip. Prior to Gresham House he established SVGIM and launched Strategic Equity Capital plc and the Strategic Recovery Funds. Tony is the former CEO of SVG Advisers (Schroder Ventures London), former chair of Downing Active Management Investment Committee and a member of the UK Investment Committee at PDFM. He is currently a non-executive director of JP Morgan Private Equity Plc (JPEL).

Graham Bird

Graham leads the Strategic Equity division of GHAM. He was previously Director of Strategic Investments at SVGIM having helped launch the Strategic Public Equity strategy with Tony Dalwood. Graham has considerable experience as a fund manager and an adviser to quoted companies having previously been a director within the corporate finance department at JP Morgan Cazenove. More recently Graham held senior positions in industry including Paypoint plc as Strategic Planning and Corporate Development Director and PayByPhone President and executive Chairman managing a growing technology business.

Tim Farazmand

Tim has a strong background in UK mid-market private equity with over 30 years in the industry working with a broad variety of companies such as LDC, 3i, RBS PE and Catalyst Fund Management during that time. Most recently Tim was a MD at LDC, the private equity subsidiary of Lloyds Bank plc.

Robert Rayne is the Company's nominated member of the Investment Committee. His biographical details are on page 24.

Investment team

Pardip Khroud

Pardip is Investment Director at Gresham House. She shares fund management responsibilities with Tony Dalwood and Graham Bird. She has 13 years' experience in audit, private equity transactions and global tax restructuring at KPMG, as a Senior Manager at Lloyds Banking Group and most recently as an Investment Manager at Lloyds Development Capital where she managed numerous investments and was also appointed to the Board of portfolio companies uSwitch and Bluestone.

Nick Friedlos

Nick joined LMS Capital in 2012 to oversee the realisation strategy and was instrumental in structuring the Company's new arrangements with GHAM. Nick is a chartered accountant and was a partner at PriceWaterhouseCoopers. For the last 20 years Nick has worked as a consultant to and as CFO and CEO in alternative asset investment businesses including real estate, private equity and renewable energy.

Tony Sweet

Tony joined LMS Capital in April 2006 as Chief Financial Officer. In addition to his finance responsibilities, he participates actively in investment activities, particularly supporting portfolio companies in formulating strategic plans and funding requirements. Prior to joining the Company, he was the CFO of Systems Union Group plc, an AIM-quoted international software business, where he was responsible for the group finance function and was also involved in a number of cross-border acquisitions. Before that, Tony was a partner at PricewaterhouseCoopers, where he gained experience of a variety of sectors and geographies.

Investment team continued

Laurence Hulse

Laurence joined Gresham House after graduating in Politics and Political Economy from Warwick University. He supports the investment team with quantitative analysis and due diligence. Prior to Gresham House he interned with the M&A team at Rothschild and on the Equities trading floor at Barclays Capital.

Jonathan Dighe

Jonathan has over five years of UK small cap equities experience, working as both a research analyst and as a director on the equity sales desk at Charles Stanley Securities. Prior to joining Charles Stanley Jonathan worked for BP Plc and Accenture UK Ltd as a management consultant working on global business transformation projects.

Board of Directors

Martin Knight

Non-executive Chairman

Directorships

Chairman of Cambridge Mechatronics Limited and Frontier Smart Technologies Limited. Non-executive director of Chrysalis VCT plc and 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.

Rod Birkett

Non-executive Director

Directorships

Trustee and Investment Committee Chairman of Royal Navy Royal Marines Charity; Investment Committee Member of British Heart Foundation; non-executive director of Infiniti China Opportunities Fund.

Experience

Rod is a former investment manager and investment company specialist with over 30 years investment experience, including equity long only and hedge fund management. Since 2006, he has developed a 'portfolio' of non-executive and consultancy roles. His experience includes managing JPMorgan Fleming's investment company business and he is former director of the Association of Investment Companies.

Bernard Duroc-Danner

Non-executive Director

Directorships

Director of a number of oilfield service sector companies; formerly Chairman, President and Chief Executive Officer of Weatherford International plc.

Bernard has confirmed that he will be standing down as a Director at the conclusion of the 2017 AGM.

Neil Lerner

Non-executive Director

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

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 April 2016 ('the Code'). Copies of the Code are available from the Financial Reporting Council's website at www.frc.org.uk.

As set out in the Strategic Report, on 16 August 2016 shareholders approved a change to the investment policy of the Company and the Board appointed GHAM as the Company's investment manager. The impact of these changes including, inter alia, that the Board is now wholly non-executive is set out in this report.

This report sets out how the Company has applied the principles 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 2016, except as follows:

- Robert Rayne was previously Chief Executive Officer of the Company. 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 Director.
- Until the appointment of Rod Birkett as a Director on 17 June 2016 the members of the Audit Committee and the Remuneration Committee were the Chairman and one non-executive Director. On appointment as a Director, Mr Birkett also became a member of the Audit and Remuneration Committees. The Chairman continues to chair the Remuneration Committee, but in all other respects the Company now complies with the requirements of the Code relating to Audit and Remuneration Committee composition.

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 five Directors: the non-executive Chairman and four other non-executive Directors. Brief biographies of the Directors appear on pages 23 to 24. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

Martin Knight is the Company's non-executive Chairman and he is responsible for the effective running of the Board, including setting the Board's agenda and ensuring that all matters relating to performance and strategy are fully addressed as required. He is also responsible for ensuring that that Board's effectiveness is regularly evaluated (see further comments on this below). The role description of the Chairman is documented and has been approved by the Board.

Executive Directors

Following the change in investment policy referred to above, and the appointment of GHAM as Manager, Mr Friedlos and Mr Sweet stood down as Executive Directors. There are no longer any Executive Directors on the Board.

Non-executive Directors

Each non-executive Director is appointed for an initial term of three years. Subject to agreement, satisfactory performance and re-election by shareholders, their appointments may be renewed for further terms of three years.

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

Director independence and commitment

In the opinion of the Board, Martin Knight, Rod Birkett 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 was a director of and Robert Rayne is currently chairman of Weatherford International plc; both are shareholders in that company. They do not participate in Board discussions or decisions concerning the Company's investment in Weatherford International plc and 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 2016 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 fulfil this role.

Director re-election

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. Mr Birkett was appointed a Director since the 2016 AGM; he will retire at the 2017 AGM and, being eligible, will offer himself for re-election at the meeting.

With effect from the 2017 AGM, the Board has resolved that all Directors should retire and, being eligible, they will seek re-election, with the exception of Bernard Duroc-Danner who has indicated his wish to step down as a Director at the conclusion of the 2017 AGM.

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.

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 Manager 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 and annual budgets, as well as acquisitions and disposals and major capital and operating expenditure proposals above pre-determined limits agreed with the Manager. 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 Manager. During 2016 this was the responsibility of the Executive Directors until the appointment of the Manager in August 2016.

Management arrangements between the Company and GHAM are set out in a portfolio management agreement which sets out the matters for which GHAM is responsible and over which it has authority. At the Board's scheduled meetings, GHAM reports on matters such as progress with the investment strategy, investment portfolio performance, and communication with shareholders. The Board also monitors the performance of the Manager in the context of the provisions of the portfolio management agreement.

Financial matters and the responsibility for the day-to-day financial aspects of the business were delegated to the Chief Financial Officer until the Manager was appointed. The Company has retained its own financial team during 2016 acting within delegated authority limits and in accordance with clearly defined systems of control and reporting to the Manager. During 2017 the Company's day-to-day financial and administrative functions will be outsourced to a third party. A report on financial matters is presented at each Board meeting.

Board effectiveness

The Board carried out a board performance evaluation in December 2016. This encompassed a review of the performance of the Board, its Committees and individual Directors (including the Chairman). 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 2017 Board meeting and it was agreed that the Board, its Committees and the individual Directors were operating effectively.

Board meetings

Six scheduled Board meetings were held in 2016. At each scheduled meeting, the Board considers a report on current operations and significant business issues, such as major investment or divestment proposals and strategy, as well as a financial report. 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 2016. 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	3	–	1	–
Neil Lerner	6	3	1	1
Robert Rayne	6	–	1	–
Rod Birkett (from 17 June 2016)	3	2	1	–
Nicholas Friedlos (until 16 August 2016)	4	–	–	–
Antony Sweet (until 16 August 2016)	4	–	–	–

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 six ad-hoc meetings during 2016.

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), Rod Birkett and Martin Knight. Neil Lerner is considered by the Board to have recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates.

From May 2013 until June 2016, the Committee membership included only one independent non-executive Director (and not two as required under the Code). This arose as a consequence of the Company reducing the scale of its operations during the period of the realisation strategy. The Nomination Committee and the Board regularly considered committee composition 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. Following the appointment of Mr Birkett as a Director and member of the Committee from June 2016 the Company now complies in full with the requirements of the Code relating to Audit Committee composition.

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, a representative of the Manager and other Directors. A report on the activities of the Audit Committee is set out on pages 32 to 36.

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's financial statements in the areas set out below.

The Audit Committee may request and receive reports from the Manager 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 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 to the extent permitted.

Internal control and risk management

G10 Capital Limited ("G10 Capital") was appointed by the Company in August 2016 as its Alternative Investment Fund Manager ("AIFM") to provide risk management, portfolio management, company secretarial, administration and other services to the Company. Once GHAM is fully authorised, it will assume G10 Capital's role as AIFM.

G10 Capital has delegated portfolio management functions to GHAM as well as company secretarial and administration services, until the transfer of these responsibilities to a third party service provider has been completed. However, G10 Capital retains responsibility for risk management and the process of identifying, evaluating, monitoring and managing the risks facing the Company in accordance with the Alternative Investment Fund Managers Directive.

The Board has delegated to the Audit Committee responsibility for monitoring the AIFM's performance of these responsibilities as part of the Board's overall responsibility for the Company's risk management and internal control. 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 the 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 2016 are set out in the Audit Committee Report on pages 32 to 36. Details of the principal risks and uncertainties potentially facing the Company can be found in the Strategic Report on pages 5 to 9.

The Company has no internal audit department, relying on 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.

Nomination Committee

All Directors are members of the Nomination Committee, which is chaired by Martin Knight. 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.

The Nomination Committee normally meets as required, but at least once each year. During 2016, 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), Rod Birkett and Neil Lerner.

From May 2013 until June 2016, the Committee membership included only one independent non-executive Director (and not two as required under the Code). This arose as a consequence of the Company reducing the scale of its operations during the period of the realisation strategy. The Nomination Committee and the Board regularly considered committee composition 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. Martin Knight, the Chairman, is also chairman of this Committee.

Following the appointment of Mr Birkett as a Director and member of the Committee from June 2016 the Committee now includes two independent non-executive Directors (as required by the Code).

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 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.

With effect from August 2016 the Company's Board is wholly non-executive and the Committee's future role will be reviewed in due course.

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 37 to 40.

Shareholder communications

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

Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors. At the AGM the level of proxy votes lodged on each resolution is made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution. 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 47, their responsibility for preparing the financial statements of the Company. The external auditor has included, in the Independent Auditor's Report set out on pages 48 to 51, a statement about its 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's 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 5 to 9 and the Manager's Review on pages 11 to 19. The Directors have considered these for a period not less than twelve months from the date of this report.

Following the change of investment objective in August 2016, the Directors have adopted the going concern basis of accounting in preparing the financial statements. The Viability statement of the Company is in the Strategic Report on page 9.

Martin Knight
Chairman

14 March 2017

Introduction from the Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for 2016 which provides shareholders with an overview of the activities of the Committee during the year. These activities are focused on the integrity of the Company's financial reporting, the quality of the external audit process, risk management and the effectiveness of the Company's systems of internal control. The Committee was also responsible for reviewing the Company'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 2016; each meeting was attended by the Executive Directors until August 2016 when the Board became wholly non-executive and from which date Committee meetings were attended by representatives of the Manager. The external auditor also attended all meetings of the Committee. The Committee also met without the Executive Directors but with the external auditor in attendance. The Committee met on 22 February 2017 to consider the 2016 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 2016 as well as the more significant issues it addressed is set out in the report.

Neil Lerner
Chairman, Audit Committee

14 March 2017

Corporate reporting

Since the publication of the 2015 Annual Report the Committee has reviewed the following:

- The 2016 half year report;
- The preliminary announcement of 2016 results;
- The 2016 Annual Report; and
- The report from KPMG LLP ("KPMG") on the results of their review of the half year report for 2016; and
- Reports from BDO LLP ("BDO") on the planning and outcome of their audit for the year ended 31 December 2016.

As explained more fully below, the Committee undertook a competitive audit tender process in the second half of 2016, as a result of which BDO was appointed as external auditor in place of KPMG.

Annual Report 2016

The Board requested that the Committee advise it on whether the Committee believes that the 2016 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.

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 and the Manager's Review is consistent with that reported to the Board throughout the year;
- Ensuring that positive and negative factors affecting the Company's performance are given equal prominence; and
- The appropriateness of the key performance indicators and comments on these.

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 the Manager 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 and reported to the Committee at least twice a year and used for the preparation of the Company's half year and full year financial reports.

As part of its review of each valuation report 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 2016:

- Ensuring that the valuation methodology complied with the International Private Equity and Venture Capital Valuation Guidelines (December 2015 edition) 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 divestment plans.

At its meeting in February 2017 the Committee considered a detailed report from the Manager 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 41 to 43. At its meeting in February 2017 the Committee considered a paper prepared by the Manager 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 2016 financial statements.

Going concern

Under the Company's previous realisation strategy the financial statements were not prepared on a going concern basis. Following the change in strategy in August 2016, the financial statements are now prepared on a going concern basis. The Committee considered the appropriateness of this change in basis, including, inter alia, its impact (if any) on the investment portfolio valuation, and concluded that the adoption of the going concern basis was appropriate.

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 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 2016 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 of internal control were operating satisfactorily during 2016 and up to the date of this report; and
- Mitigation of the risks identified is 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. To assist the Committee in its monitoring and review of internal controls, KPMG was 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. The Committee considers that this conclusion is still valid for 2016.

The Committee notes that finance and administration services will be outsourced to a third party provider during 2017 and expects to spend time during the current year to satisfy itself that the new systems and controls are operating effectively.

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 Committee also ensures that the Company complies with the EU audit reform as now implemented in the UK.

Following completion of the maximum five years involvement by the KPMG audit partner and in order to ensure that certain non-audit services from KPMG continued to be available to the Company, in the second half of the year the Committee decided to undertake a competitive tender process. As a result of this tender process BDO was appointed as external auditor.

Reports presented to the Committee by KPMG during the year covered:

- The results of their audit of the 2015 financial statements and annual report; and
- The results of their review of the 2016 half year report.

Following their appointment and to the date of this report BDO has reported to the Committee on the following:

- Their plans and proposed audit scope for 2016; and
- The results of their audit of the 2016 financial statements and annual report.

The Committee conducts a written assessment of the external audit process each year which includes members of the Committee and certain representatives of the Manager 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 judgement areas; 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 and BDO by the FRC's Audit Quality Review Team. For 2016 the Committee was satisfied with the effectiveness and quality of the external audit process as provided by both firms involved.

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 comply with relevant legislation and not result in potential conflict with the objectivity and independence of the external audit process. In addition BDO reported to the Committee their procedures to ensure their independence and objectivity and confirmed 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 BDO was £nil (2015: KPMG £98,000). The KPMG non-audit services in 2015 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.

Audit Committee effectiveness

The annual Board evaluation described on page 27 included the work of the Committee and concluded that it was working satisfactorily.

Neil Lerner
Chairman, Audit Committee

14 March 2017

Remuneration Committee Report

Introduction from the Chairman of the Remuneration Committee

I am pleased to present our report on Directors' remuneration for 2016 which includes amounts actually paid to Directors in 2016 and on which shareholders will be asked to vote in an advisory manner at the AGM in May 2017. It includes information subject to audit. The members of the Remuneration Committee during 2016 were Martin Knight (Committee Chairman), Rod Birkett (appointed on 16 June 2016) and Neil Lerner.

The Company's Directors' remuneration policy was approved by shareholders at the AGM in May 2014 and that policy has remained unchanged for the year ended 31 December 2016. The Company is only permitted to make a payment to a Director (or former Director) if that payment is in line with the policy. A copy of the policy can be found on pages 41 to 43.

Following the appointment of GHAM as Manager on 16 August 2016, Mr Friedlos and Mr Sweet resigned as Directors and from that date the Board has been wholly non-executive. A new remuneration policy will be proposed for approval by shareholders at the AGM to be held in May 2017 and a copy of this proposed policy is on page 43.

Martin Knight
Chairman, Remuneration Committee

14 March 2017

Remuneration for the year ended 31 December 2016

The tables below (which have been subject to audit) set out amounts paid to each Director during the years ended 31 December 2016 and 2015:

	2016							
	Salary and fees £'000	Taxable benefits £'000	Pension contributions £'000	Carried interest £'000	Bonus £'000	Compensation loss of office £'000	Consulting fees £'000	Total £'000
N Friedlos	138	11	–	–	1,309	82	–	1,540
A Sweet	135	11	20	15	636	230	–	1,047
	273	22	20	15	1,945	312	–	2,587
M Knight	60	–	–	–	–	–	–	60
R Birkett	22	–	–	–	–	–	–	22
B Duroc-Danner	40	–	–	–	–	–	–	40
N Lerner	45	–	–	–	–	–	–	45
R Rayne	40	15	–	76	–	–	38	169
	480	37	20	91	1,945	312	38	2,923

On 16 August 2016 Mr Friedlos and Mr Sweet ceased to be employees of the Company and resigned as Directors. As part of these arrangements, Mr Friedlos and Mr Sweet received payments of £81,500 and £230,000 respectively by way of compensation for the termination of their employment with the Company. In addition, Mr Friedlos and Mr Sweet will receive a total of £1,598,000 and £742,000 respectively, being the maximum outstanding amount of their bonus entitlements (calculated in line with the arrangements set out on page 42 of the Company's Directors' Remuneration Policy). Payment of the bonus amounts is in three instalments as set out below:

- 65% – being £1,038,700 for Mr Friedlos and £482,300 for Mr Sweet – was paid in September 2016 and is included in the table of remuneration above;
- 17.5% – being £279,650 for Mr Friedlos and £129,850 for Mr Sweet – is payable on the earlier of the date of the first subsequent tender offer of up to £6 million or 31 March 2017; and
- 17.5% – being £279,650 for Mr Friedlos and £129,850 for Mr Sweet – is payable on the earlier of the date of the second subsequent tender offer of up to £5 million or 31 December 2017.

	2015						
	Salary and fees £'000	Taxable benefits £'000	Pension contributions £'000	Carried interest £'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

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 2016.

Deferred share bonus plan

Mr Sweet was granted an award of options and 100,000 shares under this plan on 13 April 2010. The performance condition for the first release was satisfied and options over 33,333 shares with a then market value of £20,000 were released on 13 April 2011 and remain outstanding at 31 December 2016. 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

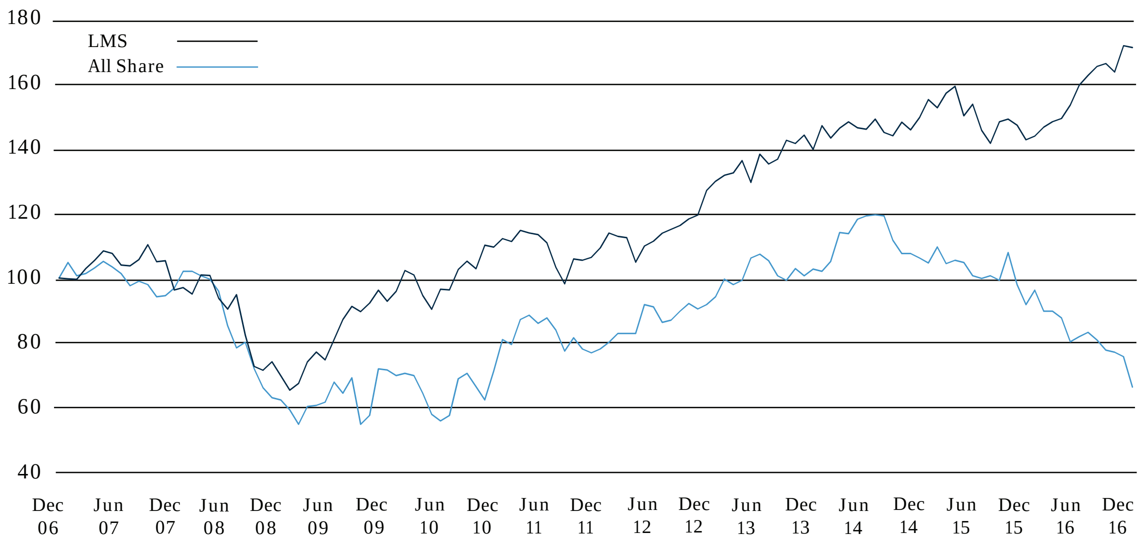
Mr Rayne and Mr Sweet participate in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio. Amounts paid in 2016 were in accordance with these arrangements.

At 31 December 2016, there were no amounts earned but unpaid. If the Company's investment portfolio were realised at its valuation at 31 December 2016, under these arrangements Mr Rayne would be entitled to further carried interest of £759,000 and Mr Sweet to £4,000.

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 ten year period ended 31 December 2016 compared with that of the FTSE All-Share Index.



Directors' letters of appointment

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

Name	Date of appointment	Date of expiry of current term
M Knight	4 January 2012	17 May 2018
R Birkett	16 June 2016	16 June 2019
B Duroc-Danner	7 April 2006	13 May 2019
N Lerner	4 January 2012	17 May 2018
R Rayne	6 April 2006	30 September 2019

Directors' interests in shares

The beneficial interests of Directors at 31 December 2016 in the ordinary shares of the Company are set out below:

	31 December	
	2016	2015
M Knight	52,490	59,907
R Birkett	25,000	–
B Duroc-Danner	139,009	139,009
N Lerner	37,787	49,435
R Rayne	3,076,866	3,076,866

In addition, Mr 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 2016 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.

2016 Annual General Meeting

At the AGM held on 19 May 2016 shareholders voted to approve the Remuneration Committee Report in an advisory capacity as follows: votes in favour were 94.07%, against 5.93%; 94,774 votes were withheld.

This report has been approved by the Board.

Martin Knight
Chairman, Remuneration Committee

14 March 2017

Directors' Remuneration Policy

The Company's remuneration policy set out below was approved by shareholders at the AGM in May 2014 and was for the three years commencing 1 January 2014. Following the change in investment strategy with effect from 16 August 2016 and the appointment of GHAM as Manager, the Board is wholly non-executive; references below to the remuneration policy for Executive Directors therefore cover the period up to 16 August 2016 as well as any payments made to the former Executive Directors after leaving.

The proposed remuneration policy from 1 January 2017, on which shareholders will be asked to vote at the AGM to be held in May 2017, is set out on page 43 below.

Executive Directors

The following table summarises the Company's policy on Executive 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' annual base salaries for 2016 were £220,000 for Mr Friedlos and £215,000 for Mr Sweet – unchanged from 2015.

Non-executive Directors

Annual fees for non-executive Directors in 2016 were as follows:

Name	Annual fee £
M Knight	60,000
R Birkett	40,000
B Duroc-Danner	40,000
Neil Lerner	45,000
Robert Rayne	40,000

Mr Rayne also had a consulting agreement with the Company to provide advice in connection with the Company's realisation plans. He was entitled to a fee of £60,000 per annum under this consultancy arrangement, which came to an end on 16 August 2016.

The fees for non-executive Directors are reviewed annually – increases will reflect market changes from the above levels. With effect from 1 January 2017 Mr Duroc-Danner will not receive a fee for his services as a non-executive Director.

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 operated 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 Executive Directors were £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 was entitled to a payment in connection with his duties as Company Secretary up to a maximum of 15% of his base salary per annum.

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 37 to 40 includes details of amounts paid to Mr Rayne and Mr Sweet under these arrangements during 2016.

Share-based incentives

The Remuneration Committee determined that in the context of a realisation strategy, share-based awards were not an appropriate form of incentive. Accordingly no further awards were made 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 2016 are set out in the Remuneration Committee Report.

Service agreements and letters of appointment

Service agreements for each Executive Director were terminated on 16 August 2016. Amounts paid to the Executive Directors as compensation are set out in the Remuneration Committee Report.

Details of the current non-executive Directors' letters of appointment are set out in the Remuneration Committee Report.

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.

Remuneration policy – commencing 1 January 2017

The Directors of the Company are all non-executive and independent of the Manager and their fees reflect market rates for their respective roles. These fees are reviewed annually – increases (or decreases) will reflect market changes from current levels.

Directors' fees for 2017 are as follows:

Name	Annual fee £
M Knight	60,000
R Birkett	40,000
B Duroc-Danner	Nil
N Lerner	45,000
R Rayne	40,000

There are no pension arrangements for Directors.

Mr Rayne participates in the Company's carried interest plans and is entitled to cover under the Company's various insurance policies. None of the other Directors receives any other benefits from the Company.

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. Details of the Company's strategy, risk management and performance in 2016 are included in the Strategic Report on pages 5 to 9 and the Manager's Review on pages 11 to 19.

Directors

The names and biographical details of the current Directors of the Company are given on pages 23 to 24. Nick Friedlos and Tony Sweet resigned as Directors on 16 August 2016. In addition, further information about the Board is set out in the Corporate Governance Report on pages 25 to 31.

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 37 to 40. 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 in the Articles of Association include those in relation to the issue and buyback of shares.

Corporate social responsibility

Environment

LMS Capital plc 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.

Greenhouse gas emissions by scope:

		Year ended 31 December	
Scope	Source	2016 (tonnes CO_2e)	2015 (tonnes CO_2e)
Scope 1	Emissions from combustion of fuel	18.7	15.7
	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	55.1	65.0
Total		73.8	80.7
Intensity – emissions per unit floor area		$kgCO_2e$	$kgCO_2e$
	Per square foot	10.1	11.0
	Per square metre	108.6	118.7

Note: 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 64.6 tCO_2e in 2016 and 56.0 tCO_2e in 2015. This is based on emission factors for electricity supply, which were 0.48284 $kgCO_2/kWh$ in 2016 (UK residual mix) and 0.398 $kgCO_2/kWh$ in 2015 (supplier-specific emission factor). No supplier-specific emission factor was available for 2016.

The Company has reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our financial statements. The Company has no responsibility for any emissions sources that are not included in the financial statements.

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

Charitable donations

The Company did not make any charitable donations during 2016 (2015: £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 2016 was £65,000 (2015: £56,000).

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 are supported by the Company and their colleagues.

Political donations

The Company did not make any political donations during 2016 (2015: £nil).

Contractual arrangements

Details of the Company's contractual arrangements are given in the Strategic Report on pages 5 to 9.

There are no other 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.

Related party transactions

Details of related party transactions are set out in note 20 to the financial statements.

Dividends

The Board does not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: £nil).

Subsequent events

There have been no events subsequent to 31 December 2016 that would materially affect the interpretation of the financial statements included in this Annual Report.

Share capital

On 27 July 2016, the Company published a circular to shareholders setting out details of a tender offer to return up to £6 million to shareholders. The tender offer was approved by shareholders at a general meeting of the Company held on 16 August 2016 and the results of the tender offer were announced on 1 September 2016. As a result, 7,142,857 ordinary shares in the capital of the Company (with a nominal value of £714,285.70) were purchased by the Company through its brokers. These shares were then cancelled, reducing the Company's issued share capital from 103,584,592 ordinary shares to 96,441,735 ordinary shares. The tender offer price was set at 84p and the total value of all ordinary shares purchased was £6 million.

At 31 December 2016, the Company's issued share capital remains at 96,441,735 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 2016, 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	12.09
Schroders plc	6.95
Robert Rayne[1,2]	11.27
Trustees of Lord Rayne's Will Trust	11.22
Lady Jane Rayne[1]	9.69

The Company has not been notified of any changes to these holdings up to the date of this report.

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.

Annual General Meeting

The Company's AGM will be held at Durrants Hotel, George Street, London W1H 5BJ at 12.00 noon on 25 May 2017. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the AGM, is available to view on the Company's website at www.lmscapital.com.

Auditor

The auditor, BDO LLP, has indicated their willingness to continue in office and resolutions will be proposed at the AGM for their reappointment 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.

Augentius Corporate Services Limited
Company Secretary

14 March 2017

Statement of Directors' Responsibilities

The Directors who served during the year ended 31 December 2016 and to the date of this Annual Report are as set out on pages 23 to 24. The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 Company and of its profit or loss for that period. In preparing the 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' Report, Strategic Report and Directors' Remuneration Report which comply with the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and to prevent and detect fraud and other irregularities.

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 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 and Manager's Review include a fair review of the development and performance of the business and the position of the Company taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board.

Martin Knight
Chairman

14 March 2017

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

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

Our assessment of and response to the risks of material misstatement and overview of the scope of our audit

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate. Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the investment manager and the overall control environment. Based on this understanding we assessed those aspects of the Company's financial statements which were most likely to give rise to a material misstatement.

The valuation of investments in the underlying investment portfolio was the risk that had the greatest impact on our audit strategy and scope, including the allocation of resources in the audit. The Audit Committee's consideration of this key matter is set out on pages 33 to 34.

Risk description	How our audit addressed the risk
The valuation of investments can be a highly subjective accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the investment manager, who is remunerated based on the net asset value of the Company.	**Quoted investments** In respect of quoted equity investments, we confirmed that bid price has been used by obtaining the bid prices from an independent third party source. We also confirmed that there were no contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. **Unquoted investments** Our testing was stratified according to risk, having regard to the subjectivity of the inputs to the valuations. For the investments sampled our procedures included, inter alia: • Agreeing valuations where relevant through to a third party valuation report or third party data • Challenging whether the assumptions and underlying evidence supporting the year-end valuations were reasonable • Challenging whether the valuation methodology was the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and IFRSs • Re-performing the calculation of the investment valuations, having regard to the application of enterprise value across the capital structures of the investee companies • Verifying and benchmarking key inputs and estimates to independent information and our own research • Where appropriate, performing sensitivity analysis on the valuation calculations where there is sufficient evidence to suggest reasonable alternative inputs might exist • Challenging the investment manager regarding significant judgements made and obtaining corroborating evidence where available • Considering the economic environment in which the investment operates to identify factors that could impact the investment valuation. The remainder of the portfolio was subject to analytical procedures, such as confirming whether a nil value was appropriate. **Fund investments** We reviewed the underlying fund manager report and assessed the quality and reliability of the information. We challenged the appropriateness of any adjustments made by the investment manager to the value of the investment holding (for instance where reports available were not at the same year-end date or more relevant information suggested an adjustment to the valuation). For a sample of funds this involved an assessment of the underlying investments using the steps noted under unquoted investments above. Where necessary we considered the appropriateness of the key assumptions in the valuation models and whether alternative reasonable assumptions could have been applied. We considered each assumption in isolation as well as in conjunction with other assumptions and the valuation as a whole. Where appropriate, we sensitised the valuations where other reasonable alternative assumptions could have been applied. We also considered the completeness and clarity of disclosures regarding the valuation of investments in the financial statements. Based on our procedures performed we concluded that the valuation of the investment portfolio was considered to be within an acceptable range.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Basis and key considerations	Quantum (£)
Financial statement materiality.	Assessing whether the financial statements as a whole present a true and fair view.	Based on 1.5% of total assets considering the nature of the investment portfolio and the level of judgement inherent in the valuation.	1,149,000
Specific materiality – classes of transactions and balances which impact on the realised return.	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	1.5% of total expenditure.	80,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £22,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit;

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Statement regarding the Directors' assessment of principal risks, going concern and longer term viability of the company

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;

- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any relevant disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

Under the Listing Rules we are required to review the parts of the Directors' statement relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10 R(2). The Listing Rules also require that we review the Directors' statements set out on page 31 and page 9 regarding going concern and longer term viability.

We have nothing to report in respect of these matters.

Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

14 March 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Income Statement

	Notes	Year ended 31 December 2016 £'000	Restated Year ended 31 December 2015 £'000
Net (losses)/gains on investments	3	(16,161)	3,715
Directors' and other fees from investments		48	55
Interest income	4	20	78
		(16,093)	3,848
Operating expenses	5	(4,738)	(3,393)
(Loss)/profit before tax		(20,831)	455
Taxation	7	–	–
(Loss)/profit for the year		(20,831)	455
Attributable to:			
Equity shareholders		(20,831)	455
(Loss)/earnings per ordinary share – basic	8	(20.6)p	0.3p
(Loss)/earnings per ordinary share – diluted	8	(20.6)p	0.3p

The notes on pages 57 to 78 form part of these financial statements.

Statement of Comprehensive Income

	Year ended 31 December 2016 £'000	Restated Year ended 31 December 2015 £'000
(Loss)/profit for the year	(20,831)	455
Other comprehensive income	–	–
Total comprehensive (loss)/profit for the year	(20,831)	455
Attributable to:		
Equity shareholders	(20,831)	455

The notes on pages 57 to 78 form part of these financial statements.

Statement of Financial Position

	Notes	31 December 2016 £'000	Restated 31 December 2015 £'000
Non-current assets			
Property, plant and equipment	9	32	261
Investments	10	148,312	220,505
Non-current assets		148,344	220,766
Current assets			
Operating and other receivables	11	248	156
Cash and cash equivalents	12	1,249	4,083
Current assets		1,497	4,239
Total assets		149,841	225,005
Current liabilities			
Operating and other payables	13	(4,078)	(1,472)
Amounts payable to subsidiaries		(76,743)	(125,622)
Current liabilities		(80,821)	(127,094)
Non-current liabilities			
Provisions and other liabilities	14	(904)	(2,820)
Non-current liabilities		(904)	(2,820)
Total liabilities		(81,725)	(129,914)
Net assets		68,116	95,091
Equity			
Share capital	15	9,644	10,358
Share premium		508	508
Capital redemption reserve		23,378	22,664
Retained earnings		34,586	61,561
Total equity shareholders' funds		68,116	95,091

The financial statements on pages 52 to 78 were approved by the Board on 14 March 2017 and were signed on its behalf by:

Martin Knight
Director

The notes on pages 57 to 78 form part of these financial statements.

Statement of Changes in Equity

	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 2015 as previously reported	14,525	508	18,497	35,422	812	65,344	135,108
Effect of change in accounting policy (note 2)	–	–	–	(35,422)	(812)	36,234	–
Balance at 1 January 2015 as restated	14,525	508	18,497	–	–	101,578	135,108
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	455	455
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	–	–	61,561	95,091
Total comprehensive income for the year							
Loss for the year	–	–	–	–	–	(20,831)	(20,831)
Transactions with owners, recorded directly in equity							
Repurchase of shares	(714)	–	714	–	–	(6,144)	(6,144)
Balance at 31 December 2016	9,644	508	23,378	–	–	34,586	68,116

The notes on pages 57 to 78 form part of these financial statements.

Cash Flow Statement

	Notes	Year ended 31 December 2016 £'000	Restated Year ended 31 December 2015 £'000
Cash flows from operating activities			
(Loss)/profit for the year		(20,831)	455
Adjustments for:			
Depreciation	9	233	127
Losses/(gains) on investments		16,161	(3,715)
Interest income		(20)	(78)
		(4,457)	(3,211)
Change in operating and other receivables		(92)	(20)
Change in operating and other payables		(120)	(1,260)
Change in amounts payable to subsidiaries		9,585	45,792
Net cash from operating activities		4,916	41,301
Cash flows from investing activities			
Interest received		19	78
Purchase of investments		(1,621)	–
Acquisition of property, plant and equipment	9	(4)	(1)
Net cash (used in)/from investing activities		(1,606)	77
Cash flows from financing activities			
Repurchase of own shares		(6,144)	(40,472)
Net cash used in financing activities		(6,144)	(40,472)
Net (decrease)/increase in cash and cash equivalents		(2,834)	906
Cash and cash equivalents at the beginning of the year		4,083	3,177
Cash and cash equivalents at the end of the year		1,249	4,083

The notes on pages 57 to 78 form part of these financial statements.

Notes to the Financial Statements

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 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.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("Adopted IFRSs"). These financial statements were authorised for issue by the Directors on 14 March 2017.

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 income statement.

On 16 August 2016, shareholders approved a change in the investment policy of the Company with the objective predominantly focused on private equity investment. Prior to this the Company had been conducting an orderly realisation of its assets and returning the cash to shareholders. Under the realisation strategy the financial statements were not prepared on a going concern basis. Following the change in investment strategy these financial statements have been prepared on a going concern basis.

The Company's business activities and financial position are set out in the Strategic Report on pages 5 to 9 and in the Manager's Review on pages 11 to 19. In addition note 17 to the financial information includes a summary of the Company'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 Company is well placed to manage its business risks successfully. After making enquiries the Directors have a reasonable expectation that the Company has adequate resources for the foreseeable future.

Change in accounting policy and disclosure

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

In December 2014 the International Accounting Standards Board issued an amendment to IFRS 10 "Consolidated Financial Statements" which considered certain application issues which had been raised in connection with the standard. To comply with this amendment, which is effective from 1 January 2016, the Company now reports its operating subsidiaries (which act as the intermediate holding companies of the investment portfolio) at fair value through profit or loss rather than consolidating them as previously. The impact of this change in accounting policy is set out in note 2 to the financial statements.

Accounting for subsidiaries

The Directors have concluded that the Company has all the elements of control as prescribed by IFRS 10 "Consolidated Financial Statements" in relation to all its subsidiaries and that the Company satisfies the criteria to be regarded as an investment entity as defined in IFRS 10, IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are therefore measured at fair value through profit or loss, in accordance with IFRS 13 " Fair Value Measurement" and IAS 39 "Financial Instruments: Recognition and Measurement".

The Company's subsidiaries, which are wholly-owned and over which it exercises control, are listed in note 22.

1. Principal accounting policies – continued

New standards and interpretations not yet applied

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

- IFRS 9 "Financial instruments" will not become effective until accounting periods beginning on or after 1 January 2018;
- IFRS 15 "Revenue from contracts with customers" will not become effective until accounting periods beginning on or after 1 January 2018;
- IFRS 16 "Leases" is not yet endorsed and will not become effective until accounting periods beginning on or after 1 January 2019.

The adoption of the above standards is not expected to have a material impact on the Company's reported net assets.

Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRSs 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.

Investments in subsidiaries

The Company's investments in subsidiaries are stated at fair value which is considered to be the carrying value of the net assets of each subsidiary. 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 Company and its subsidiaries manage their 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 fund 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. Where the value of an investment is considered to be impaired, it is written down to its expected recoverable amount as part of the determination of its fair value.

Quoted investments

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

1. Principal accounting policies – continued

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 Company will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the Company'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. The useful lives of the items within property, plant and equipment are reviewed regularly, including at each reporting date.

Impairment of financial assets

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.

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.

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 short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

The Company's financial liabilities include operating and other payables. 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 Company 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.

Directors' and other fees from investments

These principally comprise investment management fees receivable from portfolio companies.

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 Company 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.

1. Principal accounting policies – continued

Share-based payments

The Company 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.

Operating 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. Provision is made for all or part of an operating lease if it is considered to be onerous.

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 as other comprehensive income.

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 liability approach, 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 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. Change in accounting policy

With effect from 1 January 2016, the Company has adopted the amendment to IFRS 10 "Consolidated Financial Statements" which requires it to report its operating subsidiaries (which act as the intermediate holding companies of the investment portfolio) at fair value rather than consolidate them as previously.

The impact of this change in accounting policy on the income statement for the year ended 31 December 2015 is set out below:

	Year ended 31 December 2015		
	Consolidated As previously reported £'000	Impact of change in accounting policy £'000	Company Restated £'000
Net gains on investments	4,664	(949)	3,715
Directors' and other fees from investments	55	–	55
Interest income	78	–	78
	4,797	(949)	3,848
Operating expenses	(4,052)	659	(3,393)
Profit before tax	745	(290)	455
Taxation	(294)	294	–
Profit for the year	451	4	455
Attributable to:			
Equity shareholders	451	4	455
Earnings per ordinary share – basic	0.3p	–	0.3p
Earnings per ordinary share – diluted	0.3p	–	0.3p

2. Change in accounting policy – continued

The impact of this change in accounting policy on the statement of financial position at 31 December 2015 is set out below:

	31 December 2015		
	Consolidated As previously reported £'000	Impact of change in accounting policy £'000	Company Restated £'000
Non-current assets			
Property, plant and equipment	261	–	261
Investments	95,643	124,862	220,505
Non-current assets	95,904	124,862	220,766
Current assets			
Operating and other receivables	602	(446)	156
Cash and cash equivalents	6,105	(2,022)	4,083
Current assets	6,707	(2,468)	4,239
Total assets	102,611	122,394	225,005
Current liabilities			
Operating and other payables	(3,985)	2,513	(1,472)
Amounts payable to subsidiaries	–	(125,622)	(125,622)
Current tax liabilities	(715)	715	–
Current liabilities	(4,700)	(122,394)	(127,094)
Non-current liabilities			
Provisions and other long-term liabilities	(2,820)	–	(2,820)
Non-current liabilities	(2,820)	–	(2,820)
Total liabilities	(7,520)	(122,394)	(129,914)
Net assets	95,091	–	95,091
Equity			
Share capital	10,358	–	10,358
Share premium	508	–	508
Capital redemption reserve	22,664	–	22,664
Merger reserve	23,918	(23,918)	–
Foreign exchange translation reserve	816	(816)	–
Retained earnings	36,827	24,734	61,561
Total equity shareholders' funds	95,091	–	95,091

2. Change in accounting policy – continued

The impact of this change in accounting policy on the statement of cash flows for the year ended 31 December 2015 is set out below:

	Year ended 31 December 2015		
	Consolidated As previously reported £'000	Impact of change in accounting policy £'000	Company Restated £'000
Cash flows from operating activities			
Profit for the year	451	4	455
Adjustments for:			
Depreciation	127	–	127
Net gains on investments	(4,664)	949	(3,715)
Translation differences	(329)	329	–
Interest income	(78)	–	(78)
Income tax expense	294	(294)	–
	(4,199)	988	(3,211)
Change in operating and other receivables	(361)	341	(20)
Change in operating and other payables	(2,206)	946	(1,260)
Change in amounts payable to subsidiaries	–	45,792	45,792
	(6,766)	48,067	41,301
Income tax paid	(72)	72	–
Net cash (used in)/from operating activities	(6,838)	48,139	41,301
Cash flows from investing activities			
Interest received	78	–	78
Acquisition of property, plant and equipment	(1)	–	(1)
Acquisition of investments	(1,194)	1,194	–
Proceeds from sale of investments	43,731	(43,731)	–
Other income from investments	1,310	(1,310)	–
Net cash from investing activities	43,924	(43,847)	77
Cash flows from financing activities			
Repurchase of own shares	(40,472)	–	(40,472)
Net cash used in financing activities	(40,472)	–	(40,472)
Net (decrease)/increase in cash and cash equivalents	(3,386)	4,292	906
Cash and cash equivalents at the beginning of the year	9,158	(5,981)	3,177
Effect of exchange rate fluctuations on cash held	333	(333)	–
Cash and cash equivalents at the end of the year	6,105	(2,022)	4,083

3. Net (losses)/gains on investments

Gains and losses on investments were as follows:

Asset type	Year ended 31 December 2016 Realised £'000	Unrealised £'000	Total £'000	Restated Year ended 31 December 2015 Realised £'000	Unrealised £'000	Total £'000
Quoted	9	(1,291)	(1,282)	1,511	(2,479)	(968)
Unquoted direct	–	(15,879)	(15,879)	8,948	1,142	10,090
Funds	491	492	983	2,518	(5,025)	(2,507)
	500	(16,678)	(16,178)	12,977	(6,362)	6,615
Credit/(charge) for incentive plans			737			(1,951)
			(15,441)			4,664
Operating and similar expenses of subsidiaries*			(720)			(949)
			(16,161)			3,715

* Includes operating and legal costs and taxation charges of subsidiaries.

4. Interest income

Interest income comprises interest receivable on bank deposits.

5. Operating expenses

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December 2016 £'000	Restated 2015 £'000
Depreciation	127	127
Personnel costs (note 6)	1,910	3,470
Operating lease expense	269	137
Non-recurring costs	2,157	823
Auditor's remuneration		
Fees to auditor		
– parent company	27	105
– subsidiary companies	63	35
Non-audit related services		
– taxation advisory services	–	43
– other assurance services*	55	40

* relates to non-audit services provided by the previous auditor, KPMG LLP.

5. Operating expenses – continued

The non-recurring costs comprise the following:

- Professional charges in connection with the circular to shareholders dated 27 July 2016 – £866,000
- Severance costs for Executive Directors and staff – £712,000
- Premises costs for property expected to be surplus to requirements from the end of March 2017 – £579,000 (including £105,000 accelerated depreciation on fixtures and fittings).

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

6. Personnel expenses

	Year ended 31 December	
	2016 £'000	Restated 2015 £'000
Wages and salaries	1,722	3,245
Compulsory social security contributions	125	150
Contributions to defined contribution plans	63	75
	1,910	3,470

The wages and salaries expense includes a credit of £179,000 (2015: charge of £1,589,000) in relation to the following incentive plans: (i) the executive incentive plan £nil (2015: £603,000 charge), and (ii) carried interest credit of £179,000 (2015: £986,000 charge).

The wages and salaries expense is shown in the income statement as follows:

	Year ended 31 December	
	2016 £'000	Restated 2015 £'000
Gains on investments	(179)	1,589
Operating expenses	1,901	1,656
	1,722	3,245

The executive incentive plan is described in the Remuneration Committee Report. The scheme was linked to amounts returned to shareholders as a consequence of the Company's realisation strategy and £904,000 is accrued at 31 December 2016 (31 December 2015: £2,820,000) in respect of amounts due to the former Executive Directors.

The Company operates carried interest arrangements in line with normal practice in the private equity industry; £nil is accrued at 31 December 2016 (31 December 2015: £366,000) calculated on the assumption that the investment portfolio is realised at its year-end carrying amount.

6. Personnel expenses – continued

The average number of Directors and staff was as follows:

	2016			2015		
	Male	Female	Total	Male	Female	Total
Directors	6	–	6	6	–	6
Senior management	–	–	–	–	–	–
Other employees	1	3	4	2	5	7
	7	3	10	8	5	13

7. Taxation

	Year ended 31 December	
	2016 £'000	Restated 2015 £'000
Current tax expense		
Current year	–	–
Total tax expense	–	–

Reconciliation of tax expense

	Year ended 31 December	
	2016 £'000	Restated 2015 £'000
(Loss)/profit before tax	(20,831)	455
Corporation tax using the Company's domestic tax rate –20.00% (2015: 20.25%)	(4,166)	92
Fair value adjustments not currently taxed	3,811	1,108
Non-deductible expenses	(212)	856
Non-taxable income	27	(782)
Deferred tax asset not recognised	686	343
Group relief	(204)	(1,625)
Overseas tax paid	39	72
Prior year adjustment	19	(64)
Total tax expense	–	–

8. (Loss)/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	
	2016 £'000	Restated 2015 £'000
(Loss)/earnings		
(Loss)/earnings for the purposes of (loss)/earnings per share being net (loss)/profit attributable to equity holders of the parent	(20,831)	455
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	101,203,640	143,424,774
Effect of dilutive potential ordinary shares:		
Share options and performance shares*	–	78,531
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	101,203,640	143,503,305
	Pence	Pence
(Loss)/earnings per share		
Basic	(20.6)	0.3
Diluted	(20.6)	0.3

* There are no potentially dilutive shares in 2016 since the Company has made a loss.

9. Property, plant and equipment

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2015	328	1,023	1,351
Additions	1	–	1
Balance at 31 December 2015	329	1,023	1,352
Balance at 1 January 2016	329	1,023	1,352
Additions	4	–	4
Balance at 31 December 2016	333	1,023	1,356
Depreciation and impairment losses			
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
Balance at 1 January 2016	325	766	1,091
Depreciation charge for the year	3	230	233
Balance at 31 December 2016	328	996	1,324
Carrying amounts			
At 31 December 2015	4	257	261
At 31 December 2016	5	27	32

10. Investments

The Company's investments comprised the following:

	31 December 2016 £'000	Restated 2015 £'000
Total investments	148,312	220,505
These comprise:		
Investment portfolio of the Company	2,481	–
Investment portfolio of subsidiaries	70,951	95,643
Other net assets of subsidiaries	74,880	124,862
	148,312	220,505

The carrying amounts of the Company's and its subsidiaries' investment portfolios were as follows:

	31 December 2016			31 December 2015		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Quoted	2,481	2,995	5,476	1,564	8,197	9,761
Unquoted direct	9,384	21,987	31,371	12,347	33,765	46,112
Funds	11,149	25,436	36,585	18,602	21,168	39,770
	23,014	50,418	73,432	32,513	63,130	95,643

The movements in the investment portfolio were as follows:

	Quoted securities £'000	Unquoted securities £'000	Funds £'000	Total £'000
Carrying value				
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
Balance at 1 January 2016	9,761	46,112	39,770	95,643
Purchases	2,618	852	438	3,908
Reclassification	(286)	286	–	–
Disposals	(5,326)	–	–	(5,326)
Distributions from partnerships	–	–	(4,779)	(4,779)
Fair value adjustments	(1,291)	(15,879)	1,156	(16,014)
Balance at 31 December 2016	5,476	31,371	36,585	73,432

10. Investments – continued

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 such as trading comparables and liquidity discounts).

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information (see note 17 – Financial risk management).

The Company's investments are analysed as follows:

	31 December	
	2016 £'000	2015 £'000
Level 1	2,366	9,761
Level 2	–	–
Level 3	145,946	210,744
	148,312	220,505

Level 3 amounts include £70,951,000 (2015: £85,882,000) relating to the investment portfolios of subsidiaries (including quoted investments of £2,995,000 (2015: £9,761,000)) and £74,880,000 (2015: £124,862,000) in relation to the other net assets of subsidiaries.

11. Operating and other receivables

	31 December	
	2016 £'000	Restated 2015 £'000
Trade receivables	60	63
Other receivables and prepayments	188	93
	248	156

12. Cash and cash equivalents

	31 December	
	2016 £'000	Restated 2015 £'000
Bank balances	117	145
Short-term deposits	1,132	3,938
	1,249	4,083

13. Operating and other payables

	31 December 2016 £'000	Restated 2015 £'000
Trade payables	1,470	155
Carried interest (note 6)	–	366
Other non-trade payables and accrued expenses	2,608	951
	4,078	1,472

14. Provisions and other liabilities

	31 December 2016 £'000	Restated 2015 £'000
Executive incentive plan (note 6)	904	2,820

15. Capital and reserves

Share capital

Ordinary shares	2016 Number	2016 £'000	2015 Number	2015 £'000
Balance at the beginning of the year	103,584,592	10,358	145,251,258	14,525
Repurchase of shares	(7,142,857)	(714)	(41,666,666)	(4,167)
Balance at the end of the year	96,441,735	9,644	103,584,592	10,358

The Company's ordinary shares have a nominal value of 10p per share and all shares in issue are fully paid up.

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 September 2016 for £6 million (2015: £40 million).

Share premium account

The Company's share premium account arose on the exercise of share options in prior years.

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.

16. 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 2016 there were no option grants outstanding under this plan (2015: 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 ("RPI") by an average of at least 3% per annum.

At 31 December 2016 options over 49,999 ordinary shares were outstanding (2015: 49,999). There were no grants or exercises of options under this plan during 2016 (2015: nil). These options are vested and available for exercise until 12 April 2020. The weighted average exercise price of the awards outstanding at 31 December 2016 was £nil (31 December 2015: £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.

At 31 December 2016 options over 28,352 ordinary shares were outstanding (2015: 28,352). There were no grants or exercises of options under this plan during 2016 (2015: nil). These options are vested and available for exercise until 11 April 2021. The weighted average exercise price of the awards outstanding at 31 December 2016 was £nil (31 December 2015: £nil).

Recognition and measurement

The fair value of services received in return for grants and awards under the Company's share-based incentive plans is based on their fair value measured using a binomial valuation model. There were no awards of shares under the plans in 2016 or 2015 and there was no charge or credit recognised in the income statement in respect of share based incentive plans in 2016 (2015: £nil).

17. Financial risk management

Financial instruments by category

The following tables analyse the 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:

	31 December					
	2016			Restated 2015		
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	148,312	–	148,312	220,505	–	220,505
Operating and other receivables	–	248	248	–	156	156
Cash and cash equivalents	–	1,249	1,249	–	4,083	4,083
	148,312	1,497	149,809	220,505	4,239	224,744

	31 December					
	2016			Restated 2015		
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	–	4,078	4,078	–	1,472	1,472
Provisions and other liabilities	–	904	904	–	2,820	2,820
Amounts payable to subsidiaries	–	76,743	76,743	–	125,622	125,622
	–	81,725	81,725	–	129,914	129,914

The Company 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 Company's exposure to each of the above risks, its policies for measuring and managing risk, and its management of capital.

17. Financial risk management – continued

Credit risk

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

	31 December	
	2016 £'000	Restated 2015 £'000
Operating and other receivables	248	156
Cash and cash equivalents	1,249	4,083
	1,497	4,239

The Company limits its credit risk exposure by only depositing funds with highly rated institutions. Cash holdings at 31 December 2016 and 2015 were in funds currently rated AAAm by Standard and Poor's. Given these ratings the Company does not expect any counterparty to fail to meet its obligations and therefore no allowance for impairment is made for bank deposits.

Liquidity risk

Liquidity risk is the risk that the Company 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.

Operating and other payables are due within six months or less.

In addition certain of the Company's subsidiaries have uncalled capital commitments to funds of £3,577,000 (31 December 2015: £3,961,000) for which the timing of payment is uncertain (see note 19).

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 Company's income or the value of its holdings of financial instruments. The Company aims to manage this risk within acceptable parameters while optimising the return.

Currency risk

The Company is exposed to currency risk on those of its investments which are denominated in a currency other than the Company'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 Company does not hedge the currency exposure related to its investments. The Company 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 Company is exposed to translation currency risk on sales and purchases which are denominated in a currency other than the Company's functional currency. The currency in which these transactions are denominated is principally US dollars.

17. Financial risk management – continued

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

	31 December					
	2016			Restated 2015		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	94,190	52,628	1,494	151,481	66,974	2,050
Operating and other receivables	247	1	–	156	–	–
Cash and cash equivalents	853	396	–	1,796	2,287	–
Operating and other payables	(80,821)	–	–	(127,074)	(20)	–
Gross exposure	14,469	53,025	1,494	26,359	69,241	2,050
Forward exchange contracts	–	–	–	–	–	–
Net exposure	14,469	53,025	1,494	26,359	69,241	2,050

At 31 December 2016, the rate of exchange was USD 1.23 = £1.00 (31 December 2015: USD 1.48 = £1.00). The average rate for the year ended 31 December 2016 was USD 1.34 = £1.00 (2015: USD 1.52 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity by £5.4 million at 31 December 2016 (31 December 2015: increase of £6.8 million) and decreased the loss for the year ended 31 December 2016 by £5.4 million (2015: increased the profit by £6.8 million). This assumes that all other variables, in particular interest rates, remain constant. A weakening of the US dollar against the pound sterling would have decreased equity and increased the loss for the year by the same amounts.

Interest rate risk

At the reporting date the Company's cash and cash equivalents are exposed to interest rate risk and the sensitivity below is based on these amounts.

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £27,000 (31 December 2015: increase of £76,000) and decreased the loss for the year by £27,000 (2015: increased the profit by £76,000). A decrease of 100 basis points would have decreased equity and increased the loss for the year by the same amounts.

Fair values

All items not held at fair value in the Statement of Financial Position have fair values that approximate their carrying values.

Other market price risk

Equity price risk arises from equity securities held as part of the Company's portfolio of investments. The Company'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 Company's investments comprise unquoted investments in its subsidiaries and investments in quoted investments. The subsidiaries' investment portfolios comprise investments in quoted and unquoted equity and debt instruments. Quoted investments are quoted on the main stock exchanges in London, USA and Canada. A proportion of the 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.

17. Financial risk management – continued

The significant unobservable inputs used at 31 December 2016 in measuring investments categorised as level 3 in note 10 are considered below:

1. Unquoted securities (carrying value £31.4 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 of up to 65%, 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 £36.6 million) are valued using reports from the general partners of the fund interests with adjustments made for calls, distributions and foreign currency movements since the date of the report (if prior to 31 December 2016). The Company also carries out its 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.

The valuation of the investments in subsidiaries makes use of multiple interdependent significant unobservable inputs and it is impractical to sensitise variations of any one input on the value of the investment portfolio as a whole. Estimates and underlying assumptions are reviewed on an ongoing basis however inputs are highly subjective.

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 loss for the year ended 31 December 2016 would have increased by £14.6 million (2015: profit decreased by £21.1 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 Company's total capital at 31 December 2016 was £68 million (31 December 2015: £95 million) comprising equity share capital and reserves. The Company had borrowings at 31 December 2016 of £nil (31 December 2015: £nil).

In order to meet the Company's capital management objectives, the Manager and the Board monitor and review the broad structure of the Company's capital on an ongoing basis. This review includes:

- Working capital requirements and follow-on investment capital for portfolio investments, including calls from funds;
- Capital available for new investments;
- The possible timing of returning capital to shareholders in line with the Company's commitment to further capital returns to shareholders; and
- The annual dividend policy.

The Company's objectives, policies and processes for managing capital reflect the change in strategy from 16 August 2016.

18. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December	
	2016 £'000	2015 £'000
Less than one year	406	289
Between one and five years	–	361
	406	650

19. Capital commitments

	31 December	
	2016 £'000	2015 £'000
Outstanding commitments to funds	3,577	3,961

The outstanding capital commitments to funds comprise unpaid calls in respect of funds where a subsidiary of the Company is a limited partner.

20. Related party transactions

Gresham House Asset Management Limited was appointed the investment manager of LMS Capital plc on 16 August 2016. Amounts charged by the investment manager in 2016 were £573,000.

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 £406,000 (2015: £289,000) to Derwent London plc plus certain service charges. Robert Rayne is Chairman of Derwent London plc.

Up to 16 August 2016 the Company paid fees of £60,000 per annum to SQP Limited for the provision of services by Robert Rayne. From that date these fees are now paid by the Manager.

Compensation arrangements for Directors are set out in the Remuneration Committee Report on pages 37 to 40.

21. Subsequent events

There are no events subsequent to 31 December 2016 that would materially affect the interpretation of these financial statements.

22. Subsidiaries

The Company'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 Company'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.

The registered addresses of the Company's subsidiaries are as follows:

Subsidiaries incorporated in England and Wales: 100 George Street, London W1U 8NU.

Subsidiaries and partnerships incorporated in Bermuda: Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

Subsidiary incorporated in the United States of America: c/o 100 George Street, London W1U 8NU.

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LMS Capital plc

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