LMS CAPITAL PLC
REPORT & ACCOUNTS

For the year ended 31 December 2017

IN THIS REPORT

HIGHLIGHTS

The Board is pleased to announce the 2017 annual results, the first complete year under the new management arrangements with Gresham House Asset Management.

- Return of capital completed ahead of expectation – the tender offer in August 2017, which returned £11 million to shareholders, satisfied in full the undertaking to return further capital to shareholders, which was set out in the circular to shareholders dated 27July 2016.
- The portfolio performed well during the year with NAV per share rising 12.7%:
  - Net gains on the investment portfolio were £9.9 million (2016: losses of £16.2 million);
  - The profit for the year was £7.6 million (2016: loss of £20.8 million); and
  - Realisations for the year totalled £21.7 million (2016: £10.6 million).
- The net asset value at 31 December 2017 was £64.5 million, 80p per share (31 December 2016: £68.1 million, 71p per share).
- The improvement in NAV per share includes significant value increase from the Yes To partial realisation, and further value potential exists.
- Overhead costs for the year (including amounts incurred by subsidiaries) were £2.7 million significantly lower than last year (2016: £3.3 million, excluding reorganisation costs), reflecting the impact of planned cost savings with further savings expected in 2018. Overheads in 2017 include costs of approximately £1.0 million which are not expected to recur now that the transition to external management is complete.
- The Company is now focused on re-investing future realisation proceeds in line with the new investment policy overseen by the Investment Committee.
- The Board and the Manager continue to evaluate strategic options for the Company to enable greater scale and enhance shareholder value.

A VERY PRODUCTIVE YEAR FOR LMS CAPITAL PLC

MARTIN KNIGHT CHAIRMAN

I am pleased to report that 2017 was a year of progress for the Company – the previous realisation strategy, with its related commitment to make further returns of capital to shareholders, was successfully concluded and good progress was made in implementing the revised investment strategy under the leadership of the new Investment Manager, Gresham House Asset Management Limited ("GHAM").

In the circular to shareholders dated 27 July 2016 the Company announced a tender offer to return £6 million to shareholders and undertook to make two further returns of capital to shareholders by way of tender offers for a maximum of £11 million. After a successful period for realisations in the first half of 2017 the Company undertook a tender offer in August 2017 which returned the full £11 million to shareholders ahead of the expected schedule.

CHAIRMAN'S STATEMENT

PERFORMANCE REVIEW

Net Asset Value per share at 31 December 2017 was 80p, slightly higher than announced on 8 February, a 12.7% increase from 71p at the end of 2016.

Portfolio gains (realised and unrealised) for the year before carried interest charges were £10.5 million (2016: losses of £16.2 million), the key elements of which were:

- The net gain on the funds' portfolio of £10.1 million (2016: £1.0 million) is principally a function of the strong performance during the year by investments held within San Francisco Equity Partners;
- The net loss on the unquoted investments of £0.6 million (2016: net loss of £15.9 million) includes:
  - o Gains on the sale of 365iTMS and the partial sale and recapitalisation of Yes To (a co-investment with San Francisco Equity Partners);
  - o An unrealised gain on the Company's interest in Brockton Capital LLP, reflecting the sale of that business which is expected to complete in March 2018; and
  - o Write downs on Medhost and Elateral;
- The gain on the quoted portfolio of £1.0 million (2016: loss of £1.3 million) includes a gain of £1.6 million in the value of the Company's interest in Gresham House plc, offset by losses on IDE Group Holdings and Weatherford International.

The portfolio gains for the year are stated after the impact of exchange losses of £3.2 million (2016: gains of £11.6 million), primarily due to the strengthening of sterling against the US dollar during 2017.

Overhead costs were £2.7 million, lower than the previous year (2016: £3.3 million). In line with the new Manager's plans, overheads in 2017 include costs of approximately £1.0 million which are not expected to recur now that the transition to external management is complete.

CONCLUSION AND OUTLOOK

With the final commitment to return capital to shareholders fulfilled, the Company is now focused on implementing the new investment policy and growing net asset value for shareholders. As part of this implementation the Board and GHAM continue to evaluate strategic options for the Company to enable greater scale for the business and enhance shareholder value.

Tony Sweet is leaving GHAM and I would like, on behalf of the whole Board, to acknowledge our appreciation of his contribution to the Company. Tony was CFO from the time of the Company's beginnings in 2006 until August 2016, at which time he joined the Gresham House team and has overseen the transfer of the Company's finance and administration to the new externally managed structure. He will relinquish his role during the first half of 2018. As well as ensuring a sound financial management for the Company, Tony has been a valued source of support and guidance to the Board in many ways over the years. We wish him well in the future.

MARTIN KNIGHT
Chairman
15 March 2018

LMS Capital plc is an investment company whose shares are traded on the Main Market of 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. 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.

In the circular to shareholders dated 27 July 2016 the Company announced a tender offer to return £6 million to shareholders and undertook to make two further returns of capital to shareholders by way of tender offers for a maximum of £11 million. After a successful period for realisations in the first half of 2017 the Company undertook a tender offer in August 2017 which returned the full £11 million to shareholders.

With the final commitment to return capital to shareholders fulfilled, the Company is now focused on re-investing future realisation proceeds in line with the new investment policy, including private equity and alternative, specialist asset classes. 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 investment strategy is now focused predominantly on private equity investment and alternative, specialist asset classes 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 and investments 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 investment opportunities below £50 million 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;
- Investments may include alternative, specialist asset classes which target long term, illiquid strategies both through co-investment and fund opportunities on preferred terms; and
- The focus is also on optimising the value of existing holdings and, where growth prospects are clear, to preserve and support longer term value creation.

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 2017 or at the date of this report.

PORTFOLIO MANAGEMENT

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 9 to 16.

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 17.

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 annum over the long term.

NAV per ordinary share total return

The Company's net asset value per share total return was 12.7% for the year ended 31 December 2017. This compared with 9% for the FTSE All-Share Index.

Share price total return

The Company's share price total return was negative 12.6% for the year ended 31 December 2017.

Further information on the Company's performance is given in the Chairman's Statement on pages 2 and 3 and the Manager's Review on pages 9 to 16.

PERSONNEL

The average number of Directors and staff was as follows:

	2017			2016		
	Male	Female	Total	Male	Female	Total
Directors	**4**	**–**	**4**	6	–	6
Senior management	**–**	**–**	**–**	–	–	–
Other employees	**1**	**1**	**2**	1	3	4
	5	**1**	**6**	7	3	10

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 is set out in the Directors' Report on page 31.

RISK MANAGEMENT AND PRINCIPAL RISKS AND UNCERTAINTIES

The Company has 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 in all areas 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.

Throughout the year ended 31 December 2017, the Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. 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. Volatility in listed equity prices, foreign currency rates and interest rates.	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. At 31 December 2017 64% 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.	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. 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 The Company may not be able to implement the strategy approved by shareholders in August 2016 if it has insufficient available funds or is unable to find suitable deals. 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.	The Company may not be able to meet the strategic objectives in its investment strategy resulting in a decline in its net asset value and share price. 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.	The Board has retained the services of an experienced investment manager to source and execute deals to meet the Company's strategic objectives. The investment manager will also assist the Board in seeking opportunities to scale the business and ensure the necessary funds for investment are available. Regular monitoring of the trading of individual companies in the investment portfolio as well as of the Company's overall investment performance.

PRINCIPAL RISKS	CONSEQUENCES	COMPANY PROCEDURES
Financial risk Many of the Company's investments produce little or no recurring income and the timing of realisations to provide working capital 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.
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 2018 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 2018; 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:

- 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 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; and

- 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
15 March 2018

INVESTMENT PORTFOLIO – PRINCIPAL HOLDINGS

MEDHOST

Carrying value – £8.2 million
% of NAV – 12.7%
Domicile – USA

Medhost provides technology services to the healthcare sector in the US (*source: company website*). It is a co-investment with one of the Company's fund interests, Primus Capital, which is the lead investment manager.

PENGUIN COMPUTING

Carrying value – £12.9 million*
% of NAV – 20.0%
Domicile – USA

Penguin Computing supplies 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. (*source: company website*).

* includes the interest held by San Francisco Equity Partners and the Company's direct interest.

YesTo

Carrying value – £9.4 million
% of NAV – 14.6%
Domicile – USA

YesTo develops and sells beauty and personal care products (*source: company website*).

* includes the interest held by San Francisco Equity Partners and the Company's direct interest.

Elateral

Carrying value – £2.3 million
% of NAV – 3.6%
Domicile – UK

Elateral's products enable marketing departments to source content that can be customised in any size, shape, layout and language to produce market-ready materials for distribution, both online and offline (*source: company website*).

entuity

Carrying value – £3.6 million
% of NAV – 5.6%
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 (*source: company website*).

BROCKTON CAPITAL

Carrying value – £4.6 million
% of NAV – 7.1%
Domicile – UK

The remaining asset in this fund is a "super prime" residential development site in Mayfair (*source: company website*).

MANAGER'S REVIEW

TRANSITION TO EXTERNAL MANAGER

GHAM has made significant progress since being appointed investment manager in August 2016. With input from the LMS Capital Board it has carried 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; and
- Appointing external administrators and driving targeted annualised cost savings.

The 'second stage' of development was 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' is 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.

INVESTMENT APPROACH

The investment approach is now focused predominantly on private equity investment and alternative, specialist asset classes 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 and investments 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 investment opportunities below £50 million 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;
- Investments may include alternative, specialist asset classes which target long term, illiquid strategies both through co-investment and fund opportunities on preferred terms; and
- The focus is also on optimising the value of existing holdings and, where growth prospects are clear, to preserve and support longer term value creation.

MARKET BACKGROUND

The first half of 2017 was characterised by uncertainty with several significant political events in the UK, Europe and the US. Investors had to navigate continued uncertainty over the terms of Brexit, the impact of the US presidential election as well as pockets of uncertainty in Europe and the snap election in the UK. The latter part of 2017 was one defined by eventual progress on Brexit and the global growth story. The FTSE All-Share rose 4.2% in the final 3 months of the year, finishing the year up 8.7% whilst the International Monetary Fund (IMF) upgraded its global growth forecast for 2017 from 3.2% to 3.6% reflecting improved expectations for the global economy. Commodities and Equities were both stand-out performers – with Oil & Gas a particularly strong sector; sentiment was driven by the generally favourable economic conditions and positive data for natural resources demand that emerged in the period, particularly from China.

The first two months of 2018 saw a bullish start to the year, notably in US markets, followed by a correction and return of volatility in February as markets reacted to rising inflation and the prospect of rising interest rates and also the threat of increased tariffs. The domestic environment continues to be dominated by Brexit.

High valuations, fund raising and increased competition for deals means private equity firms have high levels of uninvested funds, particularly for the larger enterprise value deals. We believe there are significant inefficiencies at the smaller end of the market, focusing on established smaller private companies below £50 million enterprise value where there can be less competition for deals and valuations are more attractive. This segment of the market tends to be off radar for venture and early stage funding providers and sub-threshold for mid-market private equity investors, creating an opportunity to generate superior long term returns.

PERFORMANCE REVIEW

The movement in Net Asset Value during the year was as follows:

	2017 £'000	2016 £'000
Opening Net Asset Value	**68,116**	95,091
Return on investments	**9,898**	(16,161)
Overheads, net of interest received	**(2,298)**	(4,670)
	75,716	74,260
Tender offer, including costs	**(11,228)**	(6,144)
Closing Net Asset Value	**64,488**	68,116

Cash realisations from the portfolio in 2017 were as follows:

	Year ended 31 December	
	2017 £'000	2016 £'000
Sales of investments	**6,812**	5,927
Distributions from funds	**14,902**	4,675
Total – gross	**21,714**	10,602
Follow-on investments	**(550)**	(851)
Fund calls	**(68)**	(438)
Carried interest payments	**(417)**	(273)
Total – net	**20,679**	9,040

The follow-on investments are in respect of working capital for Elateral, a UK direct investment.

Realisations in 2017 include:

- A distribution from San Francisco Equity Partners of £9.0 million following the recapitalisation and partial realisation of its portfolio company, YesTo;
- Distributions from other funds of £5.9 million;
- £3.6 million forming the stage one payment on the sale of Nationwide Energy Partners;
- Proceeds of £1.1 million from the sale of 365iTMS; and
- The sale of 176,850 shares in Weatherford International for net proceeds of £0.7 million.

After a successful period for realisations in the first half of 2017 the Company undertook a tender offer in August 2017 which returned £11 million to shareholders, thereby discharging in full the undertaking given to shareholders in July 2016 to make further returns of capital up to this amount.

Below is a summary of the investment portfolio of the Company and its subsidiaries:

	31 December					
	2017			2016		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Quoted	**6,874**	**1,770**	**8,644**	2,481	2,995	5,476
Unquoted	**8,400**	**14,504**	**22,904**	9,384	21,987	31,371
Funds	**7,806**	**24,464**	**32,270**	11,149	25,436	36,585
	23,080	**40,738**	**63,818**	23,014	50,418	73,432

The principal investments at 31 December 2017 comprising 80% of the total portfolio were:

Name	Geography	Sector	Book value 31 December 2017 £'000	Book value 31 December 2016 £'000	% of Net asset value 31 December 2017
Quoted investments					
Gresham House PLC	UK	Financial	**4,123**	2,481	**6.4%**
IDE Group Holdings *(formerly Coretx Holdings)*	UK	Technology	**2,751**	–	**4.3%**
Unquoted investments					
Medhost Inc	US	Technology	**8,183**	12,070	**12.7%**
Entuity	UK	Technology	**3,600**	3,000	**5.6%**
Elateral	UK	Technology	**2,300**	3,900	**3.6%**
Fund investments					
San Francisco Equity Partners					
Penguin Computing*	US	Technology	**12,895**	10,133	**20.0%**
YesTo, Inc*	US	Consumer	**9,437**	8,387	**14.6%**
Others					
Brockton Capital	UK	Property	**4,603**	6,651	**7.1%**
Opus Capital Venture Partners	US	Technology	**3,671**	4,505	**5.7%**

**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; and
- Fund interests – based on amounts reported by the general partner unless the reported value is not in line with the Company's valuation policy.

PERFORMANCE OF THE INVESTMENT PORTFOLIO

The return on investments for the year ended 31 December 2017 was as follows:

	Year ended 31 December					
	2017			2016		
Asset type	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000
Quoted	**190**	**787**	**977**	9	(1,291)	(1,282)
Unquoted	**2,488**	**(3,077)**	**(589)**	–	(15,879)	(15,879)
Funds	**3,595**	**6,472**	**10,067**	491	492	983
	6,273	**4,182**	**10,455**	500	(16,678)	(16,178)
(Charge)/credit for incentive plans			**(44)**			737
			10,411			(15,441)
Operating and similar expenses of subsidiaries			**(513)**			(720)
			9,898			(16,161)

The (charge)/credit for incentive plans includes £44,000 (2016: credit of £737,000) for carried interest.

Approximately 64% of the portfolio at 31 December 2017 is denominated in US dollars (31 December 2016: 69%) and the above table includes the impact of currency movements. In the year ended 31 December 2017, the strengthening of sterling against the US dollar (year on year) resulted in an unrealised foreign currency loss of £3,248,000 (2016: unrealised gain of £11,319,000). 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

Company	Sector	31 December 2017 £'000	31 December 2016 £'000
Gresham House PLC	UK financial	**4,123**	2,481
IDE Group Holdings (*formerly* Coretx Holdings)	UK technology	**2,751**	–
Weatherford International	US energy	**1,669**	2,909
Others	–	**101**	86
		8,644	5,476

The net gain on the quoted portfolio arose as follows:

Gains/(losses), net	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Realised		
Solaredge	**155**	(29)
Weatherford International	**35**	(158)
Bond International	**–**	155
Other quoted holdings	**–**	39
Dividend income	**–**	2
	190	9
Unrealised		
Gresham House	**1,642**	–
IDE Group Holdings	**(344)**	–
Weatherford International	**(331)**	(1,781)
Bond International	**–**	71
Other quoted holdings	**24**	(205)
Unrealised foreign currency (losses)/gains	**(204)**	624
	787	(1,291)
Total net gain/(loss)	**977**	(1,282)

During the year the Company received distributions of shares in Solaredge Inc, from its fund investment, Opus Capital Venture Partners. These shares were all sold for net proceeds of £1,015,000.

The Company also sold 176,850 shares (2016: 700,000 shares) of its holding in Weatherford International for net proceeds of £751,000 (2016: £3,820,000). The unrealised losses during the period reflect the continuing pressure on this company's share price in 2017.

The shares in IDE Group Holdings were received in part consideration for the sale of 365iTMS.

UNQUOTED INVESTMENTS

Company	Sector	31 December 2017 £'000	31 December 2016 £'000
Medhost Inc	US technology	**8,183**	12,070
Entuity	UK technology	**3,600**	3,000
Elateral	UK technology	**2,300**	3,900
Nationwide Energy Partners	US energy	**2,960**	7,703
Brockton Capital LLP	UK Property	**2,500**	97
Penguin Computing*	US technology	**1,747**	1,449
ICU Eyewear	US consumer	**740**	–
Yes To*	US consumer	**874**	765
365iTMS	UK technology	**–**	2,100
Other interests	–	**–**	287
		22,904	31,371

**These are co-investments with SFEP*

The net gain on the unquoted portfolio arose as follows:

Gains/(losses), net	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Realised		
365ITMS	**1,932**	–
YesTo	**556**	–
	2,488	–
Unrealised valuation adjustments		
Medhost	**(2,969)**	(4,878)
Brockton Capital LLP	**2,403**	–
Elateral	**(2,275)**	(650)
Nationwide Energy Partners	**(785)**	(3,521)
ICU Eyewear	**740**	(9,165)
Entuity	**671**	(1,878)
Penguin Computing	**441**	–
YesTo	**445**	–
365ITMS	**–**	(1,400)
Others	**(266)**	(841)
Unrealised foreign currency (losses)/gains	**(1,482)**	6,454
	(3,077)	(15,879)
Total net losses	**(589)**	(15,879)

In April the Company's investment in 365ITMS was sold to IDE Group Holdings plc. The Company received gross cash proceeds of £1.1 million plus 9,826,400 shares in IDE Group Holdings with a value on completion of £3.0 million. The shares are subject to a 24-month orderly market agreement.

In June, YesTo (a portfolio company of SFEP) was the subject of a recapitalisation and partial sale. The amounts in the above table for YesTo reflect the gains resulting from this transaction for the Company's co-investment. More detail on YesTo is provided within the commentary on SFEP below.

Valuations are sensitive to changes in the following two inputs:

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

In most cases the multiples used at 31 December 2017 are similar to those prevailing at the end of 2016 and therefore the unrealised gains or losses set out in the table above arise principally as a result of the companies' performance.

Comments on other individual companies are set out below.

Medhost

Medhost is a co-investment with one of the Company's fund interests, Primus Capital, which is the lead investment manager. Medhost has announced that an advisor has been appointed to find a buyer for the business. The Company has based its carrying value on the carrying value reported by the general partner.

Brockton Capital LLP

In 2006 the Company, together with 3 other cornerstone investors, backed the establishment of Brockton Capital LLP, a private equity real estate investment adviser, and became an investor in Brockton Capital Fund I LP ("the Fund"), a real estate investment fund. The investment in Brockton Capital LLP gave the Company the right to participate in entities that would receive a share of any carried interest in relation to the performance of the Fund and subsequent Brockton-advised funds.

The interests in Brockton Capital LLP and the carried interest entities were previously reported at cost, this was equivalent to fair value. Early in February 2018 the majority owners of Brockton Capital LLP agreed terms for the sale of the business, completion of which is conditional on customary conditions including obtaining regulatory approval. Assuming the conditions are met, the sale will result in the realisation by the Company of its minority investment for proceeds expected to be in the region of £2.5 million. The carrying value at 31 December 2017 reflects the expected outcome for the Company of this transaction.

ICU Eyewear

The Company fully wrote off its interest at the end of 2016. During 2017 the company's financial position improved following a restructuring of its liabilities and a programme of cost reductions. As a result LMS Capital has recognised a small positive carrying value for the business at 31 December 2017.

Nationwide Energy Partners ("NEP")

In January 2017 the Company reached agreement to sell its interest back to the founder in a two stage transaction. The stage one payment of US$4.5 million was received in January 2017. The second and final stage has been settled through the issue to LMS Capital of a US$5.0 million loan note repayable (with interest) in instalments over 4 years. The carrying value is the present value of the Company's current estimate of amounts receivable from the loan note.

Entuity

Following completion of the strategic review in 2016 a new CEO was appointed and took up his post in February 2017. The new team is performing satisfactorily and is focussed on future value growth.

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. There have been changes in the leadership team during 2017 and the company is looking to grow its revenues and improve profitability. The write down in 2017 reflects the need to provide additional working capital to provide a platform for future growth.

Penguin Computing

This is a co-investment with SFEP. The business has made good progress in the last 18 months and the improved results are reflected in the write up of its carrying value.

FUND INTERESTS

		31 December	
General partner	**Sector**	**2017 £'000**	**2016 £'000**
San Francisco Equity Partners	US consumer & technology	**20,048**	16,748
Brockton Capital Fund 1	UK property	**4,603**	6,651
Opus Capital Venture Partners	US venture capital	**3,671**	4,505
Weber Capital Partners	US micro-cap quoted stocks	**599**	3,784
Eden Ventures	UK venture capital	**1,883**	2,964
Other interests	–	**1,466**	1,933
		32,270	36,585

MANAGER'S REVIEW

Gains and losses on the Company's funds portfolio for the year ended 31 December 2017 were as follows:

Gains/(losses), net	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Realised		
San Francisco Equity Partners (partial sale of YesTo)	**3,576**	–
Other funds	**19**	491
	3,595	491
Unrealised valuation adjustments		
San Francisco Equity Partners	**8,748**	1,993
Eden Ventures	**(1,128)**	(1,189)
Brockton Capital	**362**	(2,518)
Simmons Parallel Energy	**(180)**	(439)
Opus Capital Venture Partners	**315**	(1,613)
Weber Capital	**30**	459
Others (net)	**(113)**	(441)
Unrealised foreign currency (losses)/gains	**(1,562)**	4,240
	6,472	492
Total net gains	**10,067**	983

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 £11,148,000. The company continues to make good progress and is performing ahead of expectations; and
- YesTo – fund carrying value £8,563,000. The above table includes the gains arising as a result of the recapitalisation and partial sale in June of SFEP's interest at a significant premium to the previous book value. Total proceeds to the Company were £9.0 million, of which £8.2 million was received in respect of the Company's interest in SFEP and £0.8 million in relation to the Company's co-investment with SFEP.

In addition to the fund investments noted above the Company has a co investment in Penguin of £1,747,000 and in YesTo of £874,000. Together with its fund interests described above the Company's total investment in Penguin is £12,895,000 and in YesTo is £9,437,000.

Other fund interests:

- Eden Ventures' portfolio performed below expectations during the year and this is reflected in the reduction in the carrying value of the Company's interest;
- Brockton Capital – the overall decrease reflects distributions received in the first half of the year. The Company's valuation methodology for this investment results in a small uplift for its remaining interest;
- Opus Capital, a US venture fund, made stock distributions in kind during 2017 totalling £860,000; and
- During 2017 the Company liquidated substantially all of its positions in the Weber Capital funds, leaving only a small interest in one fund.

OVERHEAD COSTS

Overhead costs for the year (including amounts incurred by subsidiaries) were £2,731,000 – significantly lower than last year (2016: £3,301,000). Overheads in 2017 include costs of approximately £1.0 million which are not expected to recur now that the transition to external management is complete.

TAXATION

The Company has no tax charge for the year (2016: nil) – in both years tax deductible expenses exceeded taxable income. The excess of these tax-deductible expenses will be surrendered to subsidiaries of the Company to offset taxable income in those companies.

FINANCIAL RESOURCES AND COMMITMENTS

Including cash in subsidiaries, cash holdings were £3,960,000 (31 December 2016: £1,632,000) with no debt.

At 31 December 2017 subsidiary companies had commitments of £3,133,000 (31 December 2016: £3,577,000) 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 and to drive long term value; we are also focused on progressing and initiating sale processes for certain holdings. We are looking to access and reinvest in direct private equity opportunities at the smaller end of the market and alternative asset classes targeting long term, illiquid strategies in each case leveraging them within GHAM. The Board and the Manager continue to evaluate strategic options for the Company, to enable greater scale and enhance shareholder value.

GRESHAM HOUSE ASSET MANAGEMENT LIMITED

15 March 2018

ABOUT THE MANAGER

TONY DALWOOD

Tony is CEO of Gresham House plc and Chairman 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 Chairman 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, Corporate Development Director, 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 18.

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.

Nick ceased to be an employee and director of LMS Capital on 16 August 2016, when he joined GHAM.

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.

BOARD OF DIRECTORS

MARTIN KNIGHT
NON-EXECUTIVE CHAIRMAN

Directorships

Chairman of Cambridge Mechatronics Limited, Frontier Smart Technologies Limited and Chrysalis VCT plc.

Experience

Martin was previously a director of Morgan Grenfell & Co Limited and subsequently became the principal adviser to South Audley Street Investments. He is a Fellow of Imperial College, of which he was a governor and council member 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 a former director of the Association of Investment Companies.

NEIL LERNER
NON-EXECUTIVE DIRECTOR

Directorships

Vice-President of the RNLI.

Experience

Neil retired in September 2006 as Risk Management partner for KPMG where he had responsibility 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; Chairman of The Rayne Foundation and a non-executive director/trustee of 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.

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 2017, except as follows:

- Robert Rayne was previously Chief Executive Officer of the Company. As an Executive Director, he was entitled to participate in the Company's long term incentive plans, including the Performance Share Plan and the carried interest plans. Details of these arrangements are set out in the Remuneration Report.
- The Board has not appointed a Senior Independent Director, as explained in this report.

As the Board is wholly non-executive and has no employees, the Board has reviewed the committee structure and concluded that a Remuneration Committee is no longer required. The Remuneration Committee which consisted of Martin Knight (Committee Chairman), Rod Birkett and Neil Lerner was disbanded on 14 November 2017. Detailed information on the remuneration arrangements for the Directors can be found in the Remuneration Report on pages 27 to 30.

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 four non-executive Directors. Brief biographies of the Directors appear on page 18. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

Martin Knight is the 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. 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.

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.

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) their judgement. In addition, Martin Knight was independent upon his appointment as Chairman on 20 May 2013.

Robert Rayne is not considered to be independent as he previously served as an executive director and is a major shareholder in LMS Capital plc.

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 actual and potential conflict situations which have been 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.

Robert Rayne is a shareholder in Weatherford International plc. He does 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 him.

The Board is of the view that the Chairman and each of the non-executive Directors who held office during 2017 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 independent non-executive Directors are able to ensure significant engagement with shareholders.

DIRECTOR RE-ELECTION

In order to comply with the UK Corporate Governance Code, all Directors will offer themselves for re-election by shareholders at each AGM.

BOARD 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.

While 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 its Committees, which operate within written terms of reference approved by the Board. These Committees report regularly to the Board.

BOARD EFFECTIVENESS

The Board carries out an annual board performance evaluation. It was conducted by the Chairman, supported by the Company Secretary. The process involved the completion of a questionnaire by each Director and the responses were analysed. A report was made to the Board and the results were discussed at a Board meeting. It was agreed that the Board was operating effectively.

BOARD MEETINGS

Four scheduled Board meetings were held in 2017. 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 2017. 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[1]
Meetings held	**4**	**3**	**1**	**1**
Martin Knight	4	3	1	1
Bernard Duroc-Danner (until 25 May 2017)	1	–	1	–
Neil Lerner	4	3	1	1
Robert Rayne	4	–	1	–
Rod Birkett	4	3	1	1

1 The Remuneration Committee was disbanded on 14 November 2017.

In addition to the scheduled Board meetings noted above, the Board held five ad-hoc meetings during 2017.

BOARD COMMITTEES

The Board has an Audit Committee and a Nomination Committee. The Board has considered the recommendations of the AIC Code on Corporate Governance (the AIC Code) and decided that the Audit Committee would also undertake the duties and responsibilities of a Management Engagement Committee. As the Board is wholly non-executive and has no employees, the Remuneration Committee has been disbanded.

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.

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 and representatives of the Manager and other Directors. A report on the activities of the Audit Committee is set out on pages 23 to 26.

The terms of reference for the Committee take into account the requirements of the Code and the AIC Code and are available 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 on these.

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 November 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, and other services to the Company. Once GHAM is fully authorised, which is expected to be during the first half of 2018, it will assume G10 Capital's role as AIFM.

G10 Capital has delegated portfolio management functions to GHAM. 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.

Operational matters and the responsibility for the day-to-day management of the business are delegated to the Manager. 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.

In February 2017 Augentius Corporate Services Limited were appointed as Company Secretary and in May 2017, the Company appointed Augentius (UK) Limited to manage the Company's day-to-day financial and administrative functions, acting within delegated authority limits and in accordance with clearly defined systems of control.

Although the Board has overall responsibly for monitoring, it seeks advice from the Audit Committee on the issue of AIFM performance.

Risk management and internal controls 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 2017 are set out in the Audit Committee Report on pages 23 to 26. Details of the principal risks and uncertainties potentially facing the Company can be found in the Strategic Report on pages 4 to 7.

The Company has no internal audit function. Following the appointment of Augentius (UK) Limited to manage the Company's day-to-day financial and administrative functions, the Board relies on third party reports to gain comfort on internal controls operated by Augentius.

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 meets as required, but at least once each year.

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 ask questions. 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 Chairs of the Committees are available to answer questions from shareholders.

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

FINANCIAL REPORTING

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 34, 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 35 to 39, a statement about its reporting responsibilities.

The Directors are also responsible for the publication of a half year report 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.

MARTIN KNIGHT
CHAIRMAN

15 March 2018

INTRODUCTION FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

I am pleased to present the report of the Audit Committee for 2017 which provides shareholders with an overview of the activities of the Committee during the year. These activities are focused on the following:

- The integrity of the Company's financial reporting;
- The quality and effectiveness of the external audit process, including the independence and objectivity of the external auditor; and
- Risk management and internal control. In 2017 the day to day accounting responsibilities were transferred from the Company's own team to a third party service provider, Augentius (UK) Limited.

The Committee was also responsible for reviewing the Company's arrangements on whistleblowing, ensuring that appropriate arrangements were in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action. The transfer of the Company's administrative functions to third party service providers is now complete and the Company now has no employees. Consequently, these arrangements are no longer required.

The Audit Committee had three scheduled meetings during 2017; each meeting was attended by representatives of the Manager and the external auditor. The Committee also met without the Manager but with the external auditor in attendance. The Committee met on 8 March 2018 to consider the 2017 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 2017 as well as the more significant issues it addressed is set out in the report.

NEIL LERNER
CHAIRMAN, AUDIT COMMITTEE

15 March 2018

CORPORATE REPORTING

Since the publication of the 2016 Annual Report the Committee has reviewed the following:

- The 2017 half year report;
- The preliminary announcement of 2017 results;
- The 2017 Annual Report;
- The report from BDO LLP ("BDO") on the results of their review of the half year report for 2017; and
- Reports from BDO LLP ("BDO") on the planning and results of their audit for the year ended 31 December 2017.

ANNUAL REPORT 2017

The Committee advised the Board on whether it believes that the 2017 Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. A report confirming this to be the case was presented to the Board at the meeting where it considered the full year results and annual report.

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

- The roles of GHAM, G10 Capital and Augentius in the reporting process;
- 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 them.

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 2017:

- 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;
- Market prices for its quoted investments; and
- The nature and reason for any adjustments made to third party information for the Company's 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 were proper explanations for any differences; and
- Confirming that the valuation takes account of the Company's divestment plans, where appropriate.

At its meeting to consider the full year results, 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

At its meeting in March 2018 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 were properly reflected in the Company's 2017 financial statements.

Going concern

Following the change in investment strategy in August 2016, the financial statements are prepared on a going concern basis. The Committee considered this and concluded that the use of the going concern basis continued to be 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 also reported to the Committee the misstatements they had found during the course of their work, which were insignificant, and confirmed that in their opinion there were no material items remaining unadjusted in the 2017 financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT

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

- Risks have been properly identified;
- The systems were operating satisfactorily during 2017 and up to the date of this report; and
- Mitigation of the risks identified is satisfactory and appropriate to the Company's circumstances.

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

During 2017 the finance and administration functions were outsourced to a third party provider. The Committee received a report from the Manager concerning the transfer of responsibilities which included consideration of the controls operated by the third party provider (which are the subject of a separate report by a third party).

The Committee was satisfied that the transfer of responsibility for finance and administration had not impacted the reliability or integrity of the Company's annual and periodic reporting.

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.

In the second half of 2016 the Committee decided to undertake a competitive tender process, as a result of which BDO were appointed as external auditor.

Reports presented to the Committee by BDO during 2017 and to the date of this report covered:

- The results of their audit of the 2016 financial statements and annual report;
- The results of their review of the 2017 half year report;
- Their plans and proposed audit scope for 2017; and
- The results of their audit of the 2017 financial statements and annual report.

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.

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 2016 Audit Quality Inspections Annual Report and the Public Report on BDO by the FRC's Audit Quality Review Team. For 2017 the Committee was satisfied with the effectiveness and quality of the external audit process as provided by the firm.

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.

During the year the amount of fees paid for non-audit services provided by BDO was £nil (2016: £nil).

AUDIT COMMITTEE EFFECTIVENESS

The annual Board evaluation described on page 20 included the work of the Committee and concluded that it was working satisfactorily.

NEIL LERNER
CHAIRMAN, AUDIT COMMITTEE

15 March 2018

REMUNERATION REPORT

INTRODUCTION FROM THE CHAIRMAN

I am pleased to present our report on Directors' remuneration for 2017, which includes amounts actually paid to Directors in 2017, on which shareholders will be asked to vote in an advisory manner at the AGM in April. It includes information subject to audit. The members of the Remuneration Committee during 2017, prior to its being disbanded on 14 November 2017, were Martin Knight (Committee Chairman), Rod Birkett and Neil Lerner.

The Board's policy is to set Directors' remuneration at a level commensurate with the skills and experience necessary for the effective stewardship of the Company and the expected contribution of the Board as a whole in continuing to achieve the investment objectives. The Company's remuneration policy was approved by shareholders at the AGM in May 2017 and that policy has remained unchanged for the year ended 31 December 2017. The Company is only permitted to make a payment to a Director if that payment is in line with the policy. The policy is set out on page 30.

MARTIN KNIGHT
CHAIRMAN

15 March 2018

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2017

The tables below (which have been subject to audit) set out amounts paid to each Director during the financial years ended 31 December 2017 and 2016:

	2017					
	Annual fees £'000	Taxable benefits £'000	Carried interest £'000	Consulting Fees £'000	Bonus £'000	Total £'000
M Knight	**60**	–	–	–	–	**60**
R Birkett	**40**	–	–	–	–	**40**
B Duroc-Danner(1)	–	–	–	–	–	–
N Lerner	**45**	–	–	–	–	**45**
R Rayne	**40**	**18**(2)	**119**	–	–	**177**
	185	**18**	**119**	–	–	**322**

(1) On 25 May 2017 Mr Duroc-Danner resigned as a Director; with effect from 1 January 2017 Mr Duroc-Danner did not receive a fee for his services as a non-executive Director.

(2) Amounts included for taxable benefits are insurance premiums for private healthcare and income protection.

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 were entitled to receive a total of £1,598,000 and £742,000 respectively, being the maximum outstanding amount of their bonus entitlements. Payment of the bonus amounts was 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 during the year ended 31 December 2016 below;
- 17.5% – being £279,650 for Mr Friedlos and £129,850 for Mr Sweet – was payable on the earlier of the date of the first subsequent tender offer of up to £6 million or 31 March 2017. It was paid on 31 March 2017; and
- 17.5% – being £279,650 for Mr Friedlos and £129,850 for Mr Sweet – was payable on the earlier of the date of the second subsequent tender offer of up to £5 million or 31 December 2017. It was paid on 30 September 2017.

	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

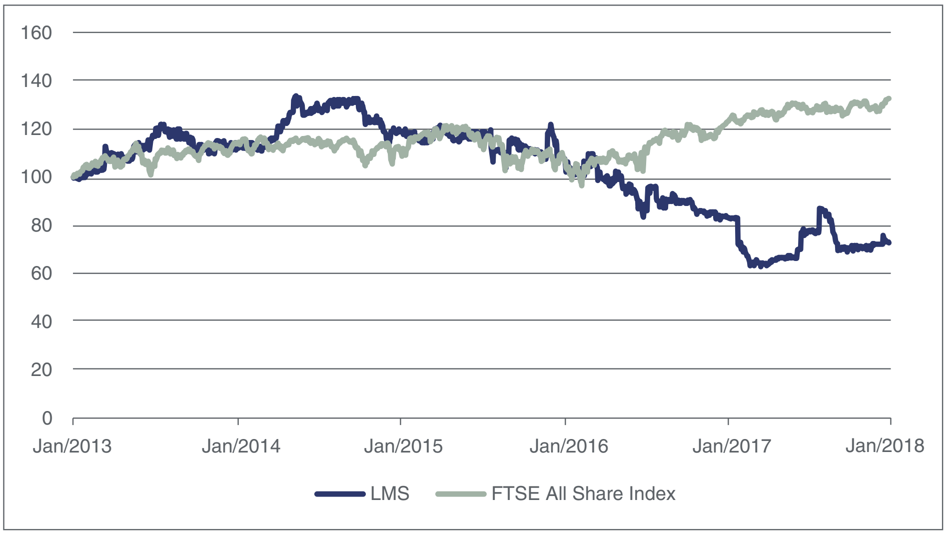
CARRIED INTEREST

Robert Rayne participated in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio. Amounts paid in 2017 were in accordance with these arrangements. At 31 December 2017, there were no amounts earned but unpaid. If the Company's investment portfolio was realised at its valuation at 31 December 2017, under these arrangements he would be entitled to further carried interest of £474,000.

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 2017 compared with that of the FTSE All-Share Index.



DIRECTORS' LETTERS OF APPOINTMENT

The following table provides details of the 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
N Lerner	4 January 2012	17 May 2018
R Rayne	6 April 2006	30 September 2019

DIRECTORS' INTERESTS IN SHARES

The beneficial interests of the Directors in the ordinary shares of the Company are set out below:

	31 December	
	2017	2016
M Knight	**36,828**	52,490
R Birkett	**47,652**	25,000
N Lerner	**30,748**	37,787
R Rayne	**3,076,866**	3,076,866

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

Except as stated above:

- There have been no changes in the above Directors' interests between 31 December 2017 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.

2017 ANNUAL GENERAL MEETING

At the AGM held on 25 May 2017 shareholders voted to approve the Remuneration Committee Report in an advisory capacity as follows: votes in favour were 96.79%, against 3.21%; 47,196 votes were withheld.

This report has been approved by the Board.

MARTIN KNIGHT
CHAIRMAN

15 March 2018

DIRECTORS' REMUNERATION POLICY

At the AGM held on 25 May 2017 shareholders voted to approve the Company's remuneration policy for the three years commencing 1 January 2017 (as set out below) as follows: votes in favour were 99.77%, against 0.23%; 1,570,457 votes were withheld.

REMUNERATION POLICY

The Board is composed solely of non-executive Directors none of whom has a service contract with the Company. The Board has therefore concluded that there is no need for a remuneration committee. There is no provision for compensation upon early termination of appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available at the AGM from 15 minutes before the start of the meeting until its conclusion.

The Directors' fees are reviewed annually and are set out in the table below. Any alterations will reflect market changes from current levels.

Name	Annual fee £
M Knight	60,000
R Birkett	40,000
B Duroc-Danner[1]	Nil
N Lerner	45,000
R Rayne	40,000

[1] retired on 25 May 2017.

Robert Rayne also has a consultancy agreement with the Manager for the provision of advice in relation to the portfolio of investments and potential investments. He is entitled to a fee of £60,000 per annum under the consultancy agreement.

There are no pension arrangements for Directors.

Robert Rayne participates in the Company's carried interest plans and is entitled to cover under the Company's 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 2017 are included in the Strategic Report on pages 4 to 7 and the Manager's Review on pages 9 to 16.

DIRECTORS

The names and biographical details of the current Directors of the Company are given on page 18. In addition, further information about the Board is set out in the Corporate Governance Report on pages 19 to 22.

Details of the current Directors' letters of appointment, together with their interests in the Company's shares, are shown in the Remuneration Report on pages 27 to 29. Directors' and officers' liability insurance is maintained by the Company.

The Directors may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's Articles of Association.

CORPORATE SOCIAL RESPONSIBILITY

Environment

LMS Capital has a limited direct impact upon the environment and there are few environmental risks associated with its 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.

From the end of March 2018 the Company will no longer have any office space as all of its operations have been outsourced.

Greenhouse gas emissions by scope:

Total emissions

		Year ended 31 December	
Scope	**Source**	**2017 (tonnes CO_2e)**	**2016 (tonnes CO_2e)**
Scope 1	Emissions from combustion of fuel	**17.8**	18.7
	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	**42.3**	55.1
Total		**60.1**	73.8
		$kgCO_2e$	**$kgCO_2e$**
Intensity – emissions per unit floor area			
	Per square foot	**8.2**	10.1
	Per square metre	**88.3**	108.6

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 17.8 tCO_2e in 2017 and 83.3 tCO_2e in 2016. This is based on emission factors for electricity supply, which were 0.00 $kgCO_2/kWh$ in 2017 and 0.48284 $kgCO_2/kWh$ in 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 the financial statements. The Company has no responsibility for any emissions sources which 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 2017 and emission factors relating to electricity supply and the UK grid mix.

Charitable donations

For a number of years, the Company has provided without charge office accommodation and services within its premises for The Rayne Foundation, a registered charity (www.raynefoundation.org.uk). The estimated monetary value of this for the first six months of 2017 was £30,000 (full year 2016: £65,000).

The Company has been transitioning out of its former offices during 2017 in line with the outsourcing of management and administration services and, as a result, the Rayne Foundation was required to find alternative office premises from 1 July 2017. To compensate the Foundation for the additional costs which it will incur, the Company made a one-off contribution to these additional costs of £275,000. The Company will make no further payments to the Rayne Foundation.

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.

Political donations

The Company did not make any political donations during 2017 (2016: £nil).

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Strategic Report on pages 4 to 7 and the Manager's Review on pages 9 to 16. The Directors have considered these factors for a period not less than twelve months from the date of this report.

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 7.

CONTRACTUAL ARRANGEMENTS

Details of the Company's contractual arrangements are given in the Strategic Report on pages 4 to 7.

There are no other contracts or arrangements with third parties which the Board deems essential to the operation of the Company, or which take effect, alter or terminate on a change of control of the Company following a takeover bid.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 19 to the financial statements.

DIVIDENDS

The Board does not recommend the payment of a dividend in respect of the year ended 31 December 2017 (2016: £nil).

SUBSEQUENT EVENTS

There have been no events subsequent to 31 December 2017 that would materially affect the interpretation of the financial statements included in this Annual Report.

SHARE CAPITAL

On 26 July 2017, the Company published a circular to shareholders setting out details of a tender offer to return up to £11 million to shareholders. The tender offer was approved by shareholders at a general meeting of the Company held on 11 August 2017 and the results of the tender offer were announced on 15 August 2017. As a result, 15,714,285 ordinary shares in the capital of the Company (with a nominal value of £1,571,428.50) were purchased by the Company through its brokers. These shares were then cancelled, reducing the Company's issued share capital from 96,441,735 ordinary shares to 80,727,450 ordinary shares. The tender offer price was set at 70p and the total value of all ordinary shares purchased was £11 million.

At 31 December 2017, the Company's issued share capital remains at 80,727,450 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 15 March 2018, 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
Robert Rayne[(1),(2)]	13.46
Trustees of Lord Rayne's Will Trust	13.40
Lady Jane Rayne[(1)]	11.57
Charles Stanley & Co Limited	7.19
Rath Dhu Limited	5.20
Armstrong Investment Management LLP	5.10
Schroders plc	3.59

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 the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL at 12.00 noon on 27 April 2018. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the AGM, is included at the end of this document and is also available to view on the Company's website at www.lmscapital.com.

AUDITORS

The auditors, BDO LLP, have indicated their willingness to continue in office and a resolution 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 themselves 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

15 March 2018

STATEMENT OF DIRECTORS' RESPONSBILITIES

The Directors who served during the year ended 31 December 2017 and to the date of this Annual Report are as set out on page 18. 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, subject to any material departures disclosed and explained in the financial statements;
- 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 requirements of 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of 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; and
- the Annual Report includes 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

15 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LMS CAPITAL PLC

OPINION

We have audited the financial statements of LMS Capital Plc ("the Company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

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.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 6 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 7 in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 32 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 7 in the annual report as to how they have assessed the prospects of the company, 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 company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter	Audit response
Valuation of Investments We consider the valuation of investments to be the most significant audit area as investments represent the most significant balance in the financial statements and underpin the principal activity of the entity. 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 initially prepared by the Investment Manager, who is remunerated based on the net asset value of the company.	**Quoted Investments** In respect of 100% of the quoted investment valuations we: • Confirmed the bid price has been used, by obtaining the year end bid prices from independent third party sources and undertaking a recalculation of the valuations. • Confirmed 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 through to a third party valuation report or third party data. • 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. • Challenging the investment manager regarding significant judgements made and obtaining corroborating evidence where available. • Where appropriate, performing sensitivity analysis on the valuation calculations where there is sufficient evidence to suggest reasonable alternative inputs might exist. • 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** Our testing was stratified according to risk. For the fund investments sampled our procedures included, inter alia: • Reviewing the underlying fund manager report and assessing the quality and reliability of the information.

Matter	Audit response
	• Challenging 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). • Assessing the performance of the underlying investments using the steps noted under the 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. **Observations** Based on our procedures performed we concluded that the valuation of the investment portfolio was 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 reasonably influence the economic decisions of users that are taken on the basis of the financial statements.

The application of these key considerations gives rise to Financial Statement Materiality, Specific Materiality and Performance Materiality; the quantum and purpose of which are tabulated below. In setting materiality, we had regard to the nature and disposition of the investment portfolio.

Materiality Measure	Purpose	Basis and key considerations	Quantum YE 2017 (£)	Quantum YE 2016 (£)
Financial Statement Materiality	Assessing whether the financial statements as a whole give 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.	955,000	1,149,000
Performance Materiality	In performing the audit we apply a lower level of materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality.	Based on 75% of materiality.	717,000	861,000
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.	37,000	80,000

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £17,000 (2016: £22,000).

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the formation included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 22 – the statement given by the directors that they consider 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, is materially inconsistent with our knowledge obtained in the audit; or

- Audit committee reporting set out on pages 23 to 26 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

- Directors' statement of compliance with the UK Corporate Governance Code set out on pages 19 to 34 – the parts of the directors' statement required under the Listing Rules 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 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS 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 the directors' report have been prepared in accordance with applicable legal requirements.

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.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by The Board of Directors in November 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.

We were reappointed by the members of the Company at the Annual General Meeting held on 27 May 2017. The period of total uninterrupted engagement is 2 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

NEIL FUNG-ON (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF BDO LLP, STATUTORY AUDITOR
LONDON, UK

15 March 2018

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

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Net gains/(losses) on investments	2	**9,898**	(16,161)
Directors' and other fees from investments		**–**	48
Interest income	3	**66**	20
		9,964	(16,093)
Operating expenses	4	**(2,364)**	(4,738)
Profit/(loss) before tax		**7,600**	(20,831)
Taxation	6	**–**	–
Profit/(loss) for the year		**7,600**	(20,831)
Attributable to:			
Equity shareholders		**7,600**	(20,831)
Earnings/(loss) per ordinary share – basic	7	**8.4p**	(20.6)p
Earnings/(loss) per ordinary share – diluted	7	**8.4p**	(20.6)p

The notes on pages 45 to 60 form part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Year ended 31 December	
	2017 £'000	**2016 £'000**
Profit/(loss) for the year	**7,600**	(20,831)
Other comprehensive income	**–**	–
Total comprehensive profit/(loss) for the year	**7,600**	(20,831)
Attributable to:		
Equity shareholders	**7,600**	(20,831)

The notes on pages 45 to 60 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Non-current assets			
Property, plant and equipment	8	–	32
Investments	9	**141,964**	148,312
Non-current assets		**141,964**	148,344
Current assets			
Operating and other receivables	10	**281**	248
Cash and cash equivalents	11	**2,283**	1,249
Current assets		**2,564**	1,497
Total assets		**144,528**	149,841
Current liabilities			
Operating and other payables	12	**(1,292)**	(4,078)
Amounts payable to subsidiaries		**(78,748)**	(76,743)
Current liabilities		**(80,040)**	(80,821)
Non-current liabilities			
Provisions and other liabilities	13	–	(904)
Non-current liabilities		–	(904)
Total liabilities		**(80,040)**	(81,725)
Net assets		**64,488**	68,116
Equity			
Share capital	14	**8,073**	9,644
Share premium		**508**	508
Capital redemption reserve		**24,949**	23,378
Retained earnings		**30,958**	34,586
Total equity shareholders' funds		**64,488**	68,116

The financial statements on pages 40 to 44 were approved by the Board on 15 March 2018 and were signed on its behalf by:

MARTIN KNIGHT
DIRECTOR

The notes on pages 45 to 60 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	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
Total comprehensive income for the year					
Profit for the year	–	–	–	7,600	7,600
Transactions with owners, recorded directly in equity					
Repurchase of shares	(1,571)	–	1,571	(11,228)	(11,228)
Balance at 31 December 2017	**8,073**	**580**	**24,949**	**30,958**	**64,488**

The notes on pages 45 to 60 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities			
Profit/(loss) for the year		**7,600**	(20,831)
Adjustments for:			
Depreciation	4	**32**	233
(Gains)/losses on investments		**(9,898)**	16,161
Interest income		**(66)**	(20)
		(2,332)	(4,457)
Change in operating and other receivables		**(33)**	(92)
Change in operating and other payables		**(3,690)**	(120)
Change in amounts payable to subsidiaries		**18,296**	9,585
Net cash from operating activities		**12,241**	4,916
Cash flows from Investing activities			
Interest received		**21**	19
Purchase of investments		**–**	(1,621)
Acquisition of property, plant and equipment		**–**	(4)
Net cash from/(used in) investing activities		**21**	(1,606)
Cash flows from financing activities			
Repurchase of own shares		**(11,000)**	(6,144)
Transaction costs relating to tender offer		**(228)**	–
Net cash used in financing activities		**(11,228)**	(6,144)
Net increase/(decrease) in cash and cash equivalents		**1,034**	(2,834)
Cash and cash equivalents at the beginning of the year		**1,249**	4,083
Cash and cash equivalents at the end of the year		**2,283**	1,249

The notes on pages 45 to 60 form part of these 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 15 March 2018.

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.

The Company's business activities and financial position are set out in the Strategic Report on pages 4 to 7 and in the Manager's Review on pages 9 to 16. In addition note 16 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.

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 21.

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" addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018. It will not have a material impact on the Company's classification, measurement or disclosure of its financial assets and financial liabilities.
- IFRS 15, 'Revenue from Contracts with Customers' will supersede all current revenue recognition requirements under IFRS. It is effective for periods beginning on or after 1 January 2018. The Company is not exposed to IFRS 15 given its business model and it is not expected to have any impact.
- IFRS 16 "Leases" primarily affects accounting by lessees and will result in the recognition of most leases in the statement of financial position. The standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The standard is effective for accounting periods beginning on or after 1 January 2019. The Company's lease of its premises at 100 George Street, London W1U 8NU would fall to be accounted for under the new requirements but that lease expires on 24 March 2018. At 1 January 2019 the Company is not expected to have any leases and for the 2018 comparative period the amount will be insignificant in terms of impact.

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.

1. PRINCIPAL ACCOUNTING POLICIES continued

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.

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.

1. PRINCIPAL ACCOUNTING POLICIES continued

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.

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.

1. PRINCIPAL ACCOUNTING POLICIES continued

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.

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. NET GAINS/(LOSSES) ON INVESTMENTS

Gains and losses on investments were as follows:

	Year ended 31 December					
	2017			2016		
Asset type	Realised £'000	Unrealised £'000	Total £'000	Realised £'000	Unrealised £'000	Total £'000
Quoted	**190**	**787**	**977**	9	(1,291)	(1,282)
Unquoted	**2,488**	**(3,077)**	**(589)**	–	(15,879)	(15,879)
Funds	**3,595**	**6,472**	**10,067**	491	492	983
	6,273	**4,182**	**10,455**	500	(16,678)	(16,178)
(Charge)/credit for incentive plans			**(44)**			737
			10,411			(15,441)
Operating and similar expenses of subsidiaries*			**(513)**			(720)
			9,898			(16,161)

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

3. INTEREST INCOME

Interest income comprises interest receivable on bank deposits.

4. OPERATING EXPENSES

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December	
	2017 £'000	2016 £'000
Depreciation	**32**	127
Personnel costs (note 5)	**421**	1,198
Operating lease expense	**(22)**	269
Reorganisation costs	**–**	2,157
Management fees	**1,055**	573
Other administrative expenses	**350**	471
Foreign currency exchange differences	**420**	(202)
Auditor's remuneration		
Fees to Group auditor		
– parent company	**32**	27
– subsidiary companies	**76**	63
Non-audit related services		
– other assurance services*	**–**	55
	2,364	4,738

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

The reorganisation costs in 2016 comprised 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 that was surplus to requirements – £579,000 (including £105,000 accelerated depreciation on fixtures and fittings).

5. PERSONNEL EXPENSES

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	**323**	1,010
Compulsory social security contributions	**79**	125
Contribution to defined contribution plans	**19**	63
	421	1,198

The wages and salaries expense includes a credit of £nil (2016: credit of £179,000) in relation to carried interest.

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Gains on investments	**–**	(179)
Operating expenses	**323**	189
	323	1,010

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 £nil is accrued at 31 December 2017 (31 December 2016: £904,000) 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, calculated on the assumption that the investment portfolio is realised at its year-end carrying amount. As at 31 December 2017, £nil has been accrued (2016: £nil).

The average number of Directors and staff was as follows:

	31 December 2017			31 December 2016		
Asset type	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	**4**	**–**	**4**	6	–	6
Senior Management	**–**	**–**	**–**	–	–	–
Other employees	**1**	**1**	**2**	1	3	4
	5	**1**	**6**	7	3	10

6. TAXATION

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax expense		
Current year	–	–
Total tax expense	–	–

Reconciliation of tax expense

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit/(loss) before tax	7,600	(20,831)
Corporation tax using the Company's domestic tax rate – 19.25% (2016: 20%)	1,463	(4,166)
Fair value adjustments not currently taxed	516	3,811
Non-deductible expenses	6	(212)
Non-taxable income	(3,139)	27
Deferred tax asset not recognised	230	686
Group relief	924	(204)
Overseas tax paid	–	39
Prior year adjustment	–	19
Total tax expense	–	–

7. EARNINGS/(LOSS) 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 2017 £'000	Year ended 31 December 2016 £'000
Earnings		
Earnings/(loss) for the purposes of earnings/(loss) per share being net profit/(loss) attributable to equity holders of the parent	7,600	(20,831)
	Number	**Number**
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	90,457,391	101,203,640
Effect of dilutive potential ordinary shares:		
Share options and performance shares*	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	90,535,922	101,203,640
	Pence	**Pence**
Earnings per share		
Basic	8.4	(20.6)
Diluted	8.4	(20.6)

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

8. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2016	329	1,023	1,352
Additions	4	–	4
Balance at 31 December 2016	333	1,023	1,356
Balance at 1 January 2017	**333**	**1,023**	**1,356**
Additions	**–**	**–**	**–**
Balance at 31 December 2017	**333**	**1,023**	**1,356**
Depreciation and impariment losses			
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
Balance at 1 January 2017	**328**	**996**	**1,324**
Depreciation charge for the year	**5**	**27**	**32**
Balance at 31 December 2017	**333**	**1,023**	**1,356**
Carrying amounts			
At 31 December 2016	5	27	32
At 31 December 2017	**–**	**–**	**–**

9. INVESTMENTS

The Company's investments comprised the following:

	Year ended 31 December	
	2017 £'000	2016 £'000
Total investments	**141,964**	148,312
Investment portfolio of the Company	**4,123**	2,481
Investment portfolio of the subsidiaries	**59,695**	70,951
Investment portfolio – total	**63,818**	73,432
Other net assets of subsidiaries	**78,146**	74,880
	141,964	148,312

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

	31 December 2017			31 December 2016		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Quoted	**6,874**	**1,770**	**8,644**	2,481	2,995	5,476
Unquoted direct	**8,400**	**14,504**	**22,904**	9,384	21,987	31,371
Funds	**7,806**	**24,464**	**32,270**	11,149	25,436	36,585
	23,080	**40,738**	**63,818**	23,014	50,418	73,432

9. INVESTMENTS continued

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 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
Balance at 1 January 2017	**5,476**	**31,371**	**36,585**	**73,432**
Purchases	**3,957**	**675**	**68**	**4,700**
Disposals	**(1,576)**	**(6,331)**	**–**	**(7,907)**
Distributions from partnerships	**–**	**–**	**(11,313)**	**(11,313)**
Fair value adjustments	**787**	**(2,811)**	**6,930**	**4,906**
Balance at 31 December 2017	**8,644**	**22,904**	**32,270**	**63,818**

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 16 – Financial risk management).

The Company's investments are analysed as follows:

	Year ended 31 December	
	2017 £'000	2016 £'000
Level 1	**3,304**	2,366
Level 2	**–**	–
Level 3	**138,660**	145,946
	141,964	148,312

Level 3 amounts include £59,695,000 (2016: £70,951,000) relating to the investment portfolios of subsidiaries (including quoted investments of £4,521,000 (2016: £2,995,000)) and £78,146,000 (2016: £74,880,000) in relation to the other net assets of subsidiaries.

10. OPERATING AND OTHER RECEIVABLES

	31 December 2017 £'000	31 December 2016 £'000
Trade receivables	**35**	60
Other receivables and prepayments	**246**	188
	281	248

11. CASH AND CASH EQUIVALENTS

	31 December 2017 £'000	31 December 2016 £'000
Bank balances	**40**	117
Short-term deposits	**2,243**	1,132
	2,283	1,249

12. OPERATING AND OTHER PAYABLES

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	**335**	1,470
Other non-trade payables and accrued expenses	**957**	2,608
	1,292	4,078

13. PROVISIONS AND OTHER LIABILITIES

	31 December 2017 £'000	31 December 2016 £'000
Executive incentive plan (note 5)	**–**	904

14. CAPITAL AND RESERVES

Share capital

Ordinary shares	2017 Number	2017 £'000	2016 Number	2016 £'000
Balance at the beginning of the year	**96,441,735**	**9,644**	103,584,592	10,358
Repurchase of shares	**(15,714,285)**	**(1,571)**	(7,142,857)	(714)
Balance at the end of the year	**80,727,450**	**8,073**	96,441,735	9,644

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 August 2017 for £11 million (2016: £6 million).

Share premium account

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

15. SHARE-BASED PAYMENTS

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.

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 2017 there were no option grants outstanding under this plan (2016: 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 2017 options over 49,999 ordinary shares were outstanding (2016: 49,999). There were no grants or exercises of options under this plan during 2017 (2016: 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 2017 was £nil (31 December 2016: £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 2017 options over 28,352 ordinary shares were outstanding (2016: 28,352). There were no grants or exercises of options under this plan during 2017 (2016: 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 2017 was £nil (31 December 2016: £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 2017 or 2016 and there was no charge or credit recognised in the income statement in respect of share based incentive plans in 2017 (2016: £nil).

16. 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:

	Year ended 31 December					
	2017			2016		
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	**141,964**	**–**	**141,964**	148,312	–	148,312
Operating and other receivables	**–**	**281**	**281**	–	248	248
Cash and cash equivalents	**–**	**2,283**	**2,283**	–	1,249	1,249
Total	**141,964**	**2,564**	**144,528**	148,312	1,497	149,809

	Year ended 31 December					
	2017			2016		
Liabilities	Fair Value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair Value through profit or loss £'000	Loans and receivables £'000	Total £'000
Operating and other payables	**–**	**1,292**	**1,292**	–	4,078	4,078
Provisions and other liabilities	**–**	**–**	**–**	–	904	904
Amounts payable to subsidiaries	**–**	**78,748**	**78,748**	–	76,743	76,743
Total	**–**	**80,040**	**80,040**	–	81,725	81,725

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.

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	
	2017 £'000	2016 £'000
Operating and other receivables	**281**	248
Cash and cash equivalents	**2,283**	1,249
	2,564	1,497

The Company limits its credit risk exposure by only depositing funds with highly rated institutions. Cash holdings at 31 December 2017 and 2016 were in funds currently rated A or better 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.

16. FINANCIAL RISK MANAGEMENT CONTINUED

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 £3,133,000 (31 December 2016: £3,577,000) for which the timing of payment is uncertain (see note 18).

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 64% 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.

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

	Year ended 31 December					
	2017			2016		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**99,205**	**41,441**	**1,318**	94,190	52,628	1,494
Operating and other receivables	**281**	**–**	**–**	247	1	–
Cash and cash equivalents	**1,995**	**288**	**–**	853	396	–
Operating and other payables	**(80,040)**	**–**	**–**	(80,821)	–	–
Gross exposure	**21,441**	**41,729**	**1,318**	14,469	53,025	1,494
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**21,441**	**41,729**	**1,318**	14,469	53,025	1,494

At 31 December 2017, the rate of exchange was USD 1.35 = £1.00 (31 December 2016: USD 1.23 = £1.00). The average rate for the year ended 31 December 2017 was USD 1.32 = £1.00 (2016: USD 1.34 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity by £4.4 million at 31 December 2017 (31 December 2016: increase of £5.4 million) and decreased the loss for the year ended 31 December 2017 by £4.4 million (2016: decreased the loss by £5.4 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.

16. FINANCIAL RISK MANAGEMENT CONTINUED

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 £18,000 (31 December 2016: increase of £27,000) and decreased the loss for the year by £18,000 (2016: decreased the loss by £27,000). 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.

The significant unobservable inputs used at 31 December 2017 in measuring investments categorised as level 3 in note 9 are considered below:

1. Unquoted securities (carrying value £22.9 million) are valued using the most appropriate valuation technique such as the price of recent investment, an earnings or revenue 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 £32.3 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 2017). 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 2017 would have increased by £13.9 million (2016: loss increased by £14.6 million). An increase in the valuation of level 3 category investments by 10% at the reporting date would have an equal and opposite effect.

16. FINANCIAL RISK MANAGEMENT CONTINUED

Capital management

The Company's total capital at 31 December 2017 was £64 million (31 December 2016: £68 million) comprising equity share capital and reserves. The Company had borrowings at 31 December 2017 of £nil (31 December 2016: £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.

17. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December	
	2017 £'000	**2016 £'000**
Less than one year	**139**	406
Between one and five years	**–**	–
	139	406

The operating lease obligations are significantly reduced, due to the termination of the lease on 24 March 2018.

18. CAPITAL COMMITMENTS

	31 December	
	2017 £'000	**2016 £'000**
Outstanding commitments to funds	**3,133**	3,577

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

19. 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 2017 were £1,055,000 (2016: £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 paid an annual rent of £406,000 (2016: £406,000) to Derwent London plc plus certain service charges. Robert Rayne is Chairman of Derwent London plc. The lease will terminate on 24 March 2018.

For a number of years, the Company has provided without charge office accommodation and services within its premises for The Rayne Foundation, a registered charity (www.raynefoundation.org.uk). The estimated monetary value of this for the first six months of 2017 was £30,000 (full year 2016: £65,000). The Company has been transitioning out of its offices during 2017 in line with the outsourcing of management and administration services and, as a result, the Rayne Foundation was required to find alternative office premises from 1 July 2017. To compensate the Foundation for the additional costs which it will incur, the Company made a one-off contribution to these additional costs of £275,000. The Company will make no further payments to the Rayne Foundation. Robert Rayne is Chairman of the Board of Trustees of The Rayne Foundation.

19. RELATED PARTY TRANSACTIONS CONTINUED

As part of the transition referred to above the Company gave notice on its annual contract with a financial news service. To reduce the ongoing cost to the Company of this service, SQP Limited agreed to assume the Company's obligations under its contract with the news service provider. In connection with this transfer the Company paid SQP Limited £13,000 as a contribution to the contract costs. Robert Rayne is the controlling shareholder and a director of SQP Limited

Compensation arrangements for Directors are set out in the Remuneration Committee Report on pages 27 to 29.

20. SUBSEQUENT EVENTS

In February 2018 the majority owners of Brockton Capital LLP agreed terms for the sale of the business, completion of which is conditional on customary conditions including obtaining regulatory approval. Assuming the conditions are met, the sale will result in the realisation by the Company of its minority investment for proceeds expected to be in the region of £2.5 million. The carrying value at 31 December 2017 reflects the expected outcome for the Company of this transaction.

21. 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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting of LMS Capital plc (the "Company") will be held at 12 noon on 27 April 2018 at the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL to transact the following business. Resolutions 1 to 9 will be proposed as ordinary resolutions and Resolutions 10 to 12 will be proposed as special resolutions.

1. To receive the Company's annual report and accounts for the year ended 31 December 2017.

2. To approve the Remuneration report.

3. To re-elect Rod Birkett as a director.

4. To re-elect Martin Knight as a director.

5. To re-elect Neil Lerner as a director.

6. To re-elect Robert Rayne as a director.

7. To reappoint BDO LLP as auditor of the Company.

8. To authorise the Directors to determine the auditor's remuneration.

9. That, the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act') and in substitution for all existing authorities under that section, to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for, or to convert any security into, shares in the Company ('Rights') up to an aggregate nominal amount of £2,690,915 and this authority shall expire at the conclusion of the next Annual General Meeting of the Company or on 30 June 2019, whichever is earlier, and provided further that the Company shall be entitled before such expiry to make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors shall be entitled to allot shares and grant Rights under such offer or agreement as if this authority had not expired.

10. That, subject to the passing of resolution 9 above, the Directors be empowered under section 570 of the Act to allot equity securities as defined in section 560 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment or allotments of equity securities up to a nominal amount or (in the case of any other equity securities) giving the right to subscribe for or convert into relevant shares having a nominal amount, not exceeding in aggregate £403,637 and this power shall expire, unless previously revoked, renewed or varied, at the conclusion of the next Annual General Meeting of the Company or on 30 June 2019, whichever is earlier, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot securities under such offers or agreements as if this power had not expired.

11. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10 pence each in the capital of the Company, provided that:

    a. the maximum number of shares which may be purchased is 12,109,118;

    b. the minimum price (exclusive of expenses) that may be paid for a share is 10 pence;

    c. the maximum price, exclusive of expenses, which may be paid for a share shall be an amount equal to 5% above the average market value for the Company's shares for the five business days immediately preceding the day on which the share is contracted to be purchased; and

    d. the authority conferred by this resolution shall, unless previously renewed, expire at the end of the next Annual General Meeting of the Company, or on 30 June 2019, whichever is earlier, save that the Company may, before such expiry, enter into a contract for the purchase of shares which would or might be completed wholly or partly after such expiry and the Company may purchase shares under any such contract as if this authority had not expired.

12. That a general meeting of the Company (other than an annual general meeting) may be called on not less than 14 clear days' notice.

By Order of the Board

AUGENTIUS CORPORATE SERVICES LIMITED
COMPANY SECRETARY

Registered Office
Two London Bridge
London SE1 9RA

29 March 2018

NOTES:

Right to attend and vote

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders entered in the register of members of the Company as at close of business on 25 April 2018 or, if the meeting is adjourned, at close of business two days (excluding non-working days) before the day of any adjourned meeting, shall be entitled to attend, speak and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after close of business on 25 April 2018 or, if the meeting is adjourned, after close of business two days (excluding non-working days) before the day of the adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting or at any such adjournment.

Voting rights

At 29 March 2018, (being the latest practicable date prior to the publication of this notice) the issued share capital of the Company consisted of 80,727,450 Ordinary Shares of 10p each in the capital of the Company. Each share carries one vote. The Company held no shares in treasury, therefore the total voting rights in the Company as at 29 March 2017 were 80,727,450.

Proxies

A member of the Company is entitled to appoint a proxy to attend, speak and vote instead of them. The proxy need not be a member of the Company. A member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to different shares.

To be effective, the instrument appointing a proxy and any authority under which it is executed (or a copy of such authority notarially certified or certified in some other way approved by the board) must be deposited with the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours (excluding non-working days) before the time for holding the meeting or, in the event of an adjournment, not less than 48 hours (excluding non-working days) before the time of the adjournment. A form of proxy and a reply-paid envelope are enclosed. A member can also appoint a proxy online using the service provided on the Company's registrars' website, www.signalshares.com, where full instructions are given. In order to register their votes online, members will require their investor code, which can be found on their personalised proxy form.

If a shareholder is a CREST member, they can use the electronic proxy service provided by Euroclear (see below). Forms of proxy may not be submitted via the LMS Capital website or via any email address given on the LMS Capital website. The valid appointment of a proxy will not preclude members from attending and voting in person at the meeting or any adjournment of the meeting.

CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting (and any adjournment(s) of the meeting) by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Link Asset Services (CREST participant ID RA10), no later than 48 hours (excluding non-working days) before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.

In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Nominated persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the Act) to enjoy information rights (a "Nominated Person") may have a right, under an agreement between them and the member by whom they were nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

The statement of the above rights of the members in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by members of the Company.

Corporate representatives

Any corporation which is a member may appoint one or more corporate representatives to exercise all of its powers as a member on its behalf, provided that not more than one corporate representative may exercise powers over the same share.

Right to ask questions

Under section 319A of the Act, shareholders (or their proxies) have the right to ask questions in relation to the business being dealt with at the meeting. However, the Company is not obliged to answer a question raised at the meeting if: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Website publication of audit concerns

Under section 527 of the Act shareholders who meet the threshold requirements that are set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstances connected with the auditor of the Company ceasing to hold office since the previous meeting at which the annual report and accounts were laid in accordance with section 437 of the Act.

The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with either section 527 or 528. Where the Company is required to place a statement on a website under section 527, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on a website under section 527.

Documents available for inspection

Copies of the terms of appointment of the non-executive Directors will be available for inspection at the registered office of the Company, Two London Bridge, London, SE1 9RA during normal business hours from the date of this notice until the date of the meeting and also at the meeting for 15 minutes before the meeting until its conclusion.

Company's website

A copy of this notice of Annual General Meeting and any other information required by section 311A of the Act can be found in the investor relations section of the Company's website, www.lmscapital.com. The website also contains a copy of the annual report.

EXPLANATION OF BUSINESS

Resolution 1: To receive the annual report and accounts

Company law requires the Directors to present the annual report and accounts of the Company to shareholders in respect of each financial year.

Resolution 2: To approve the remuneration report

The remuneration report is set out on pages 27 to 30 of the annual report. It describes the Group's policy on remuneration and gives details of Directors' remuneration for the year ended 31 December 2017. The vote is advisory and does not affect the actual remuneration paid to any individual Director.

Resolutions 3 to 6: To re-elect Directors

In line with the recommendations set out in the UK Corporate Governance Code, all Directors will be standing down and offering themselves for re-election by shareholders at this year's AGM. Directors' biographical details are given on page 18 of the annual report.

Resolutions 7 and 8: To reappoint the auditor and authorise the Board to determine their remuneration

The Company is required to appoint an auditor at each general meeting at which accounts are laid before the members, to hold office until the conclusion of the next such meeting. Resolution 7 is for members to reappoint BDO LLP as auditor of the Company and resolution 8 proposes that shareholders authorise the Board to determine the remuneration of the auditor. In practice, the audit committee will consider the audit fees and recommend them to the Board.

Resolution 9: Directors' authority to allot shares

Resolution 9 gives the directors authority until the conclusion of the next AGM or 30 June 2019, whichever is earlier to allot shares. The resolution would give the Directors authority to allot ordinary shares, and grant rights to subscribe for or convert any security into shares in the Company, up to an aggregate nominal value of £2,690,915. This amount represents one-third of the issued ordinary share capital of the Company as at 29 March 2018, the latest practicable date prior to the publication of this document. The Directors have no present intention to allot new shares.

Resolution 10: Disapplication of pre-emption rights

If Directors of a Company wish to allot shares in the Company, or to sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

The purpose of Resolution 10 is to authorise the Directors to allot ordinary shares in the Company, or sell treasury shares, for cash (i) in connection with a rights issue; and, otherwise, (ii) up to a nominal value of £403,637, equivalent to 5 per cent of the total issued ordinary share capital of the Company as at 29 March 2018 without the shares first being offered to existing shareholders in proportion to their holdings.

Resolution 11: Authority to buy back shares

Under company law, the Company requires authorisation from shareholders if it wishes to purchase its own shares. The resolution specifies the maximum number of shares that may be purchased (approximately 15 per cent of the Company's issued share capital as at 29 March 2018) and the highest and lowest prices at which they may be bought.

If the Company buys back its own shares it may cancel them immediately or hold them in treasury. Treasury shares may be sold for cash or cancelled. The Directors believe that it is desirable for the Company to have this choice as it will give flexibility in the management of its capital base.

The Directors have no present intention of exercising this authority but will keep under review the Company's potential to buy back its shares, taking into account other investment and funding opportunities. The authority will only be used if in the opinion of the Directors this would be in the best interests of shareholders generally.

No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares.

Resolution 12: Authority to call general meetings on 14 days' notice

Under company law, the Company is required to give 21 clear days' notice for a general meeting of the Company unless shareholders approve a shorter notice period, which cannot be less than 14 clear days (AGMs must continue to be held on at least 21 clear days' notice).

Resolution 12 seeks shareholder approval to enable the Company to call general meetings, other than AGMs, on at least 14 clear days' notice. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The flexibility offered by this resolution will be used where, taking into account the circumstances, the Directors consider it to be appropriate in relation to the business to be considered at the meeting in question and where it is thought to be to the advantage of shareholders as a whole. In order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

CORPORATE INFORMATION

DIRECTORS
Martin Knight
Rod Birkett
Neil Lerner
The Hon Robert Rayne

SECRETARY
Augentius Corporate Services Limited
2 London Bridge
London SE1 9RA

INVESTMENT MANAGER
Gresham House Asset Management Limited
Octagon Point
5 Cheapside
London EC2V 6AA
Tel: 020 3837 6270

AIFM
G10 Capital Limited
136 Buckingham Palace Road
London SW1W 9SA

AUDITOR
BDO LLP
55 Baker Street
London W1U 7EU

BROKERS
J.P. Morgan Cazenove
25 Bank Street
London E14 5JP

BANKERS
Barclays Bank plc
1 Churchill Place
London E14 5HP

REGISTRARS
Link Asset Services
The Registry 34 Beckenham Road
Beckenham Kent BR3 4TU Tel:
(UK) 0871 664 0300
(Outside UK) +44 (0)20 8639 3399
Email: enquiries@linkgroup.co.uk

SOLICITORS
Travers Smith LLP
10 Snow Hill
London EC1A 2AL

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
Two London Bridge
London SE1 9RA
Registered number 5746555

LMS CAPITAL PLC

www.lmscapital.com