LMS CAPITAL

Preserving and creating wealth

Annual Report & Accounts 2020

For the year ended 31 December 2020

LMS Capital plc ('LMS' or the 'Company') is a fully listed investment company. We harness experience, capital and access to specialist investment teams to create enhanced shareholder returns for family offices, high net worth investors and others.

We seek to achieve a balance between preserving and growing wealth. We expect to deliver an overall total return, net of costs, over the longer term of 12% to 15% per annum, of which an element will include an annual distribution.

IN THIS REPORT

For further investor information:
www.lmscapital.com

FINANCIAL HIGHLIGHTS

NET ASSET VALUE ('NAV')

£47.9m

The NAV at 31 December 2020 was £47.9 million, 59.4p per share (31 December 2019: £56.0 million, 69.3p per share).

DIVIDENDS TO SHAREHOLDERS

4.55p

The Company paid a special dividend to shareholders of 4.25p per share in January 2020 and an interim dividend of 0.3p per share in September 2020.

SECOND HALF NAV INCREASE

£1.7m

Excluding the impact of dividends to shareholders, NAV over the year reduced by a net £4.4 million, 5.3p per share, comprising a reduction of £6.1 million in the first half of the year, in large part due to the impact of Covid-19 on portfolio investment valuations, and an increase of £1.7 million in the second half.

NET REDUCTION IN PORTFOLIO VALUE

£2.1m

The portfolio showed an overall net reduction in value on the year of £2.1 million from net realised and unrealised losses and foreign exchange movements (2019: £0.8 million).

RUNNING COSTS

£1.7m

Running costs, including those incurred by subsidiaries, were £1.7 million and there were an additional £0.2 million of investment related costs, bringing total overheads to £1.9 million (2019: £1.8 million running costs and an additional £1.4 million of non-recurring costs of legal and advisory fees, bringing total 2019 overheads to £3.2 million).

CONTINUED REALISATIONS

£9.3m

Continued cash proceeds from portfolio realisations in the year totalled £9.3 million (2019: £13.2 million).

YEAR-END CASH BALANCE

£20.6m

Group cash balances at the year-end, including amounts held by subsidiaries, were £20.6 million, representing 43.0% of the NAV (2019: £26.6 million and representing 47.5% of the NAV). The Company had no debt.

NON-FINANCIAL HIGHLIGHTS

- successfully completed the first year of transition to internal management while maintaining tight control over overhead costs;
- the Board announced the initiation of a progressive annual dividend policy targeting a dividend equal to approximately 1.5% of each financial year's closing NAV and targeting that this should be fully covered by distributable profits, subject to the Company's liquidity and market conditions. The first interim dividend under this policy of £0.2 million (0.3p per share) was paid to shareholders in September 2020. A final dividend of 0.6p per share is recommended by the Board and subject to approval by shareholders at the Annual General Meeting ('AGM'); and
- progressed with the Company's real estate and energy teams, creating a pipeline of opportunities including $9.0 million deposited for the investment in Dacian, a Romanian oil and gas production company, for which final approval by the Romanian authorities is pending.

Company Overview

LMS has a proven record of successfully providing opportunities for wealth creation through nurturing and careful management.

SECTORS

Real estate

LMS has a long history of investing in real estate and providing cornerstone funding to entrepreneurs for the creation of niche real estate businesses.

Energy

LMS has deep relationships in the energy sector giving it a competitive advantage in sourcing opportunities.

Late-stage private equity

LMS has a track record of success in late-stage private equity investment, creating wealth for both its shareholders and entrepreneurs.

HOW WE OPERATE

Sector knowledge and experience

Focus in sectors where we have competitive advantage based on our long history of investing, depth of understanding and relationships.

Hard to access assets

At the smaller end of their respective sectors where pricing inefficiencies typically allow for more attractive entry pricing. Giving the opportunity for value creation through nurturing and careful management, for which larger funds may have no appetite.

Collaborative and rigorous business model

A disciplined process of deal selection. Working alongside our management teams with Investment Committee involvement and support of our Advisory Groups at all stages.

Outstanding management teams

Teams that have demonstrable success in their respective sectors and have the reputation and experience to access and execute on exceptional opportunities.

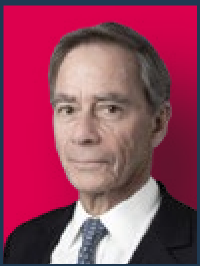
High standards of corporate governance

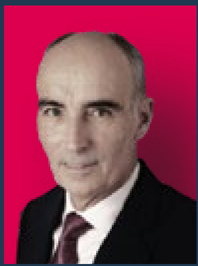
As an internally managed business the Board takes full responsibility for the performance of the Company. The Board and its committees provide rigorous challenge around all aspects of the Company's decision making and operations.

Co-investment

We have a network of partners who co-invest in deals alongside us. For every £ LMS invests we aim to source at least as much through co-investment. This allows LMS to access a larger and more diverse universe of deals and offers our partners the opportunity to invest directly in our deal pipeline.

Statement from the Chairman and the Managing Director





It has been a turbulent year for communities, for individuals and families and for business. The uncertainty looks set to continue at least for some time and its effects will work their way through all parts of our society over the coming months and years.

"We are delighted to be writing to you having completed our first year as a self-managed investment company.

ROBERT RAYNE
CHAIRMAN

NICHOLAS FRIEDLOS
MANAGING DIRECTOR

Against this background we are pleased with the progress that has been made in 2020 and believe we have laid strong foundations to accelerate that progress in 2021. The Company has a strong balance sheet and we see new opportunities in our areas of endeavour, although we continue to adopt a cautious approach, mindful of an uncertain world.

FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

NET ASSET VALUE

The NAV of the Company at 31 December 2020 was £47.9 million, 59.4p per share (31 December 2019: £56.0 million, 69.3p per share or £52.6 million, 65.1p per share including the special dividend paid in January 2020). After adjusting for the special dividend in January 2020 and for the first interim dividend in September 2020, the NAV reduced by £4.4 million. This comprises a £6.1 million reduction in the first half of the year, in large part due to the estimated impact on valuations of the Coronavirus pandemic, and a £1.7 million increase in the second half of the year.

Net reductions, both realised and unrealised, in the underlying value of the portfolio over the year were £2.0 million (2019: net reductions £0.3 million). Foreign exchange movements resulted in a further net reduction, realised and unrealised, of £0.1 million (2019: £0.5 million).

Principal movements in the underlying investment valuations were:

- Quoted stocks – Realised losses of £0.5 million from the sale of all of the Company's holdings in Gresham House Asset Management and Solaredge and unrealised losses of £0.6 million principally in relation to IDE Group;
- Medhost – Increase in valuation of £0.4 million. This is a co-investment with Primus Capital who is the lead manager on the investment. The company provides enterprise management software to mid-sized hospitals in the US and the valuation reflects movements in the valuation of comparable quoted companies;
- Brockton Capital Fund 1 – Reduction in valuation of £1.4 million. This investment through Brockton Capital Fund 1 in a central London high end residential development has been valued conservatively reflecting the risk around the project as a result of the Coronavirus pandemic;
- Assets managed by San Francisco Equity Partners ('SFEP')
  - YesTo – Reduction in valuation of £2.0 million. YesTo experienced a difficult 2018 and 2019. In April 2020, its situation was exacerbated by the Coronavirus pandemic, and

funding. Having reviewed the position, LMS decided not to provide additional capital to the SFEP Fund to invest further in YesTo. LMS restructured its management arrangements to incentivise the manager to optimize the value of LMS' holding, notwithstanding it was not participating in the April 2020 funding round. The valuation of the investment has been reduced accordingly.

- ICU – Increase in valuation of £2.5 million from unrealised gains, of which £0.7 million was received as a cash distribution. In the early stages of the Coronavirus pandemic in the US, ICU's main manufacturing partner for its established eyewear business – who is also a major shareholder in ICU – commenced the manufacture of masks and other personal protective equipment ('PPE'). ICU acted as a sales agent in the US, and this has led to the development of a PPE distribution business. This business has significantly improved the cash generation of ICU during the year enabling it to return capital to its shareholders. The increase in valuation reflects the gains made by ICU during the year on the PPE business and an estimate of the additional value of the PPE business going forward.

- Elateral – Reduction in value of £1.4 million. This reduction reflects the ongoing financial losses, exacerbated by the Coronavirus pandemic which has slowed the Company's sales growth;
- Weber Capital Partners – Increase in valuation of £0.6 million. This US micro-cap fund, with which the Company has had a long-standing relationship, has performed exceptionally well during the year, showing a valuation gain of more than 80%;
- Other investments – Net increase in valuations of £0.4 million, the bulk of which was due to the performance of the Opus Capital Venture Partners fund interest.

Other movements in net asset value amounted to a net reduction of £2.3 million and include Group running costs for the year of £1.7 million, (2019: £3.5 million), including subsidiary investment support costs (external diligence costs on Dacian and Cavera support costs) of £0.2 million and non-portfolio foreign exchange losses of £0.6 million. Interest income and other net credits were £0.2 million.

CASH AND LIQUIDITY

Cash balances in the Company and its subsidiaries at 31 December 2020 were £20.6 million (31 December 2019: £26.6 million).

Significant outflows of cash during the year were payments to shareholders of the £3.4 million special dividend in January 2020 and £7.0 million funding of the Company's investment in Dacian in September 2020.

At the outset of the Coronavirus pandemic, the Board considered the risk to the Company's medium-term liquidity from its portfolio, which might be adversely impacted in terms of both timing and amounts realised. In order to reduce the risk of a lack of liquidity and to implement its investment policy going forward, the Company realised substantially all its quoted portfolio in the first half of the year, generating proceeds of £7.7 million.

DIVIDEND POLICY

The Company paid a special dividend of £3.4 million in January 2020.

During the first half of the year, the Board gave consideration as to whether a further one-off return of capital should be made. In light of market conditions generally, and in particular the likely reduced near term liquidity from the existing portfolio, the Board decided not to make any further one-off returns of capital in the near term and concluded that liquidity should be retained in the Company to enable it to implement its investment policy and deliver target long-term returns to its shareholders.

The Board is, however, confident of the Company's ability to generate income on an annual basis and therefore commenced payment of an annual dividend. Initially the dividend payment will be targeted in respect of each financial year as 1.5% per annum of the year end NAV. The actual level of dividend each year will be determined having regard to market conditions generally, the financial position of the Company and the availability of distributable reserves.

An interim dividend of 0.3p per share was paid on 7 September 2020. A final dividend of 0.6p per share is recommended by the Board and, subject to approval by shareholders at the AGM on 12 May 2021, will be paid to shareholders in early June 2021.

Statement from the Chairman and the Managing Director continued

DEVELOPMENT OF DEAL FLOW

The Company has made progress developing deal flow during the year, focusing initially on its energy and real estate sectors. In relation to late-stage private equity, the Company continues to review opportunities and expects to deploy capital in 2021.

ENERGY

DACIAN PETROLEUM ('Dacian')

In August 2020, the Company announced that it had led an investor group to acquire an interest in Dacian, a Romanian oil and gas production company. Dacian's initial transaction would be the acquisition of a business operating some 40 onshore oil fields in Romania.

LMS committed $9.0 million representing a 32% equity holding in Dacian. LMS' co-investment group, including LMS directors, invested a further $5.0 million representing an 18% equity holding. The Dacian founder and management team will hold 50% of the remaining equity. The investment by LMS and its co-investors is structured primarily as debt with a seven-year maturity and a 14% per annum coupon. The debt will be required to be repaid before any distributions to equity holders.

As reported in the August announcement, the acquisition by Dacian is conditional on obtaining certain regulatory and government approvals in Romania (the 'Approvals'). The Approvals had been expected to be obtained during the third or fourth quarter last year, but the process has moved more slowly than originally expected primarily due to the impact of the Coronavirus pandemic.

The Dacian team continue to have a high degree of confidence that the Approvals will successfully be obtained. To the extent that the team has visibility of the approval process, it has evidence that progress is being made and no objections or concerns have been raised by the Romanian authorities.

The investors deposited funds with Dacian during September 2020 in readiness for obtaining the Approvals and proceeding to completion. Assuming the Approvals are obtained, and the transaction completes, which as noted above is still the expectation of the Dacian team, these funds will attract interest at 14% per annum from 20 September 2020. For LMS, this would represent interest income of £0.3 million to 31 December 2020, not at present reflected in the financial results.

In the unlikely event that the Approvals are not obtained within what the parties consider to be an acceptable timeframe, funds would be returned to investors.

LMS' rationale for the acquisition is:

- the opportunity to acquire a business that is cash flow positive from day one;
- attractive entry pricing based on the oil and gas reserves we believe are in place;
- a founder team with extensive industry experience and a local operational team with prior knowledge of the assets being acquired;
- the prospect of production gains from applying maintenance and workover processes to the assets acquired, which have not been a strategic focus for their current owner; and
- a robust business plan that is expected to produce target returns and can withstand volatility in energy prices.

We believe that this remains an attractive investment for the Company and therefore at present our view is to continue to await the conclusion of the approval process, albeit that it is moving more slowly than expected.

Once the Approvals have been obtained and the transaction completes, we will issue updated information on the investment.

REAL ESTATE

The Company has backed two real estate teams each with complementary skills and business plans.

GEORGE CAPITAL ('George')

George is an asset manager specialising in acquiring income producing assets, typically in the £5 million to £20 million range, and through active management reworking and improving the level, quality and duration of the income and also exploiting opportunities to increase the density of use on the site.

George has previously raised and invested in two funds. The George team is now working with LMS, unencumbered by legacy asset positions, to identify and take advantage of market opportunities likely to emerge in the coming months. The investment structure being developed is intended to attract co-investment capital as well as capital from LMS' balance sheet.

CAVERA

Cavera is a wholly owned LMS subsidiary established as a vehicle to work with a successful real estate development team. The team previously ran Voreda, a development business that successfully operated a development partnership with Imperial College London, over a ten-year period obtaining some 1.6m square feet of planning consents and jointly investing in and developing over 900,000 square feet of space in West London, including student and key worker accommodation, commercial office, hotel and residential space and specialist college facilities.

At present, LMS is funding Cavera's operating costs as the team look to source development opportunities that can be structured as ('Project SPVs') providing investment for LMS and its co-investors.

We have proceeded cautiously with both George and Cavera during the year, mindful of the evolving demand for different types of real estate, in particular as the consequences of the Coronavirus pandemic work through the system.

However, in both cases the teams have a pipeline of opportunities, and we believe that we will be in a position to commit capital and also bring co-investors alongside us during 2021.

LONG-TERM OBJECTIVES AND NEAR-TERM GOALS

The Company's objective is the preservation and creation of wealth for its shareholders over the longer term. Its target is to deliver returns, net of all costs, of 12% to 15% per annum over that longer period.

Its approach to selecting investments is to focus on those areas where it has competitive advantage. In practice this means:

- concentrating on areas in which it has and can access depth of knowledge and experience in energy, real estate and late-stage private equity;
- building on our relationships working with a small number of outstanding management teams in our sectors. These are teams we know well, have demonstrable success in their respective sectors and have the ability to access and execute on deal opportunities;
- seeking out 'hard to access' assets, typically at the smaller/medium end of their respective sectors, that offer more attractive entry pricing and require a level of management attention that larger funds and pure financial investors may not wish to support.

An important part of the Company's approach, alongside its own balance sheet capital, is to bring co-investors into the opportunities in which it invests. For the Company, this helps create scale in the capital pool it can access and allows it to participate in a more diverse range of investments. For co-investors, this provides the opportunity to invest in deals which are unlikely to be available to them directly as a family office or high net worth investors.

Achieving the longer-term objective requires meeting shorter-term goals. Entering its first year as a self-managed business, the Board had three key goals:

- as the impact of the Coronavirus pandemic unfolded, the preservation of value in its existing assets, maintaining liquidity and protection of its financial position;
- ensuring it had the necessary resources and systems to operate as a self-managed company; and
- building a pipeline of opportunities in its chosen investment sectors going forward and commencing the deployment of capital.

We believe we have made good progress in the first year and expect during 2021 to build on the foundations laid in 2020.

For 2021 we want to build on these foundations – ultimately the benefit of our efforts needs to be reflected in the returns enjoyed by our shareholders, and we expect to be able to demonstrate this in a meaningful way in 2021. Our focus will be to:

- further develop our deal pipeline and deploy capital in our chosen sectors;
- expand our co-investment programme; and
- identify routes to expand the capital base of the Company.

We would like to express our appreciation to our own team, the management teams and others with whom we work and our shareholders for your continued support. We look forward to reporting progress to you during the coming year.

Robert Rayne
Chairman

Nicholas Friedlos
Managing Director

11 March 2021

Portfolio Overview

INTRODUCTION

The following are the principal portfolio investments of the Company, representing nearly 90% of the total portfolio value:

Principal Unquoted Investments

Medhost

REGION: US | YEAR: 2008
% Holding 8.8% |
NAV £5.7 million

Medhost, a co-investment with funds of Primus Capital, is a healthcare information technology group that provides cloud-based enterprise, departmental and healthcare engagement solutions to over 1,000 community and specialty hospitals. Its products include cloud-based clinical, financial and operational solutions as well as maintenance, support and consulting services.

www.medhost.com

ICU Eyewear

REGION: US | YEAR: 2010
% Holding 50% |
NAV £3.1 million

ICU Eyewear ('ICU'), a co-investment managed by San Francisco Equity partners, is primarily a designer and distributor of glasses and sunglasses made from reclaimed plastic, recycled metal and bamboo. ICU established a new product line in 2020, ICU Health, to distribute personal protective equipment to key workers in the United States in response to the Coronavirus pandemic. ICU Health made a significant contribution to ICU's financial and cash flow performance during 2020.

www.icueyewear.com

Elateral

REGION: UK | YEAR: 2008
% Holding 50% |
NAV £0.4 million

Elateral operates in the digital marketing sector and has developed cloud-based software which allows corporate marketing materials to be distributed to local marketing teams to enable content to be tailored while protecting brand identity. Elateral targets large international companies with multi-language requirements and has a high concentration of leading global customers.

www.elateral.com

Principal Funds

Weber Capital Partners

REGION: US | YEAR: 2008
NAV £1.8 million

Weber Capital GW 2001 is a fund that invests in listed US microcap stocks, primarily in the technology and medical sectors.

www.webercapital.com

Opus Capital Venture Partners

REGION: UK | YEAR: 2008
NAV £3.5 million

Opus is a US fund that invests in early-stage technology opportunities with two principal assets remaining.

www.opuscapitalventures.com

Yes To (Managed by SFEP)

REGION: US | YEAR: 2008
NAV £0.7 million

YesTo, a California-based company, markets skincare products derived from 95% natural ingredients, primarily fruit and vegetables. Their products are distributed in over 27,000 stores worldwide, including large US retail and drug store chains.

www.yesto.co.uk

Brockton Capital Fund I

REGION: UK | YEAR: 2008
NAV £4.1 million

Brockton is a UK real estate fund with one remaining investment in a super prime London residential development. The Company's investment represents its share of preferred debt investments via the Brockton fund.

www.brocktoneverlast.com

Strategic Report

INTRODUCTION

LMS Capital is a listed investment company. The Company's first year of return to internal management commenced in 2020. The termination of its contract with its former external manager became effective on 30 January 2020 from which date the Company was entered by the FCA on the Register of Small Registered AIFMs.

A new Board was appointed in November 2019 to take the Company forward as an internally managed investment business. Following its appointment, the new Board set about concluding the necessary formalities and ensuring the Company had the necessary structures to operate on an internally managed basis, and implementing the investment policy, which remains unchanged from that adopted by shareholders in August 2016.

This Strategic Report is set out in the following parts:

- Strategy
- Investment policy
- Environmental, social and governance policy
- Company performance for the year ended 31 December 2020
- Risk management
- Viability statement

OUR INVESTMENT OBJECTIVES

To deliver financial returns for our shareholders:

- an overall total return, net of costs, over the longer-term of 12% to 15% per annum;
- the total return to include an element of annual distribution to shareholders; and
- to broaden our shareholder base and develop the Company into an attractive investment for family offices, high net worth investors and institutions attracted by the returns we can achieve and our deal flow.

OUR INVESTMENT APPROACH

We will focus on three areas:

- real estate;
- energy; and
- late-stage private equity.

These are the areas where we have a competitive advantage due to:

- our experience and knowledge;
- our track record of successful investing; and
- our ability to access exceptional teams and opportunities.

The characteristics of individual deals will include:

- an opportunity for LMS to contribute expertise as well as financial backing;
- assets at the smaller end of their respective sectors where pricing inefficiencies allow attractive entry pricing;
- situations requiring a level of management attention which larger funds are unable to support and is too complex for direct investment by individual family offices or high net worth investors; and
- controlling or influential minority positions
  - Board or Investment Committee representation;
  - Full information rights.

STRATEGY

Since December 2019 the business has been reshaped, under the management of its own team, to focus on investment in its known areas of expertise in real estate, energy and late-stage private equity. The emphasis across each of these themes is on deals with well-protected downside and a target overall return of 12% to 15% per annum net of all costs over the longer term.

It is the Company's stated intention that part of that return should be paid to shareholders by way of an annual dividend and a dividend policy was announced in August 2020.

The annual dividend has been set initially at 1.5% of net asset value. The dividend policy is intended to be progressive with a target to achieve a dividend equal to 3% per annum of the Company's net asset value, fully covered by the Company's net annual profits. In paying any interim dividend and recommending a final dividend, the Board will take account of progress towards covering the dividend with income, other circumstances relevant to the Company's financial condition and market conditions.

Dividend payments were commenced in September 2020 with an interim dividend of £0.2 million (0.3p per share) for the year to 31 December 2020, and a final dividend for the year of £0.5 million (0.6p per share) is being recommended by the Board to shareholders at the AGM.

HOW WE OPERATE

We have assembled an experienced Board to oversee the development of the business and also to function as the Investment Committee. Information on our Board is set out on pages 26 to 50 of this report.

We operate through a small core team, working closely with the management teams in our investee businesses.

We have a network of investment professionals, with whom our core team work on individual opportunities.

We have appointed Advisory Groups in each of our three areas of focus, real estate, energy and late-stage private equity. These groups comprise a combination of individuals with whom we are working on our investments and third parties with sector expertise. The groups provide additional external perspective and guidance for the Company. Details of our Advisory Groups are on page 28.

OUR CO-INVESTMENT ACTIVITY

The Company will seek to bring co-investors to deals to invest alongside its own capital. Each deal will be different, but LMS sees the opportunity for each £1 of its own capital to bring at least as much again from co-investors.

Our co-investors gain the opportunity to invest directly in deals which they would be unlikely to access directly.

LMS benefits from influencing a larger pool of capital allowing it to participate in a more diversified range of larger transactions than if operating simply with its own resources. Co-investment offers LMS the possibility of enhanced economics and the ability to recover fees to offset against its costs.

OUTLOOK AND PROSPECTS

The Company has a strong balance sheet with significant holdings of cash. In managing the Company's finances, the Board is planning for less liquidity from the existing asset pool over the next year or so than might otherwise have been the case.

The Company is cautious but sees opportunity in its three core sectors. The Company will be looking at all new investments to evaluate whether they meet its long-term return requirements through the lens of the uncertainties and risks created by the Coronavirus crisis.

The Company is also focused on progressing the existing portfolio, either through an orderly realisation or through financial support where the investment case validates this course of action.

Strategic Report
continued

INVESTMENT POLICY

The Company's investment objective, stated in the current investment policy approved by shareholders in August 2016, is to achieve total returns over the medium to longer term, principally through capital gains supplemented with the generation of a longer-term income yield. The Company is targeting a return on equity, after running costs, of 12% to 15% per annum over the long term on new capital invested.

The investment strategy is focused predominantly on private equity investment and alternative, specialist asset classes:

- the Company will invest in profitable and cash-generative businesses and investments, targeting an annual return on equity of 12% to 15% net of costs over the long term;
- the focus will primarily be on smaller private investment opportunities below £50 million value where the Company 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 Company will optimise 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.

Whilst the Company has three focus areas, it is not restricted to specific sectors; its assets are and will continue to be predominantly invested in the United Kingdom, Europe and North America.

The Company may put in place bank facilities to help manage working capital but indebtedness of the Company will not exceed 25% of NAV measured at the time of drawdown. The Company had no indebtedness, other than inter-group indebtedness, at 31 December 2020 or at the date of this report.

RESPONSIBLE INVESTING

The origins of the Company lie in the investment of family wealth, much of it used to endow charitable foundations focused on a wide range of endeavours in our society. The current Board understands its responsibility to build on this history and evolve it to ensure that the Company adopts and adheres to an approach to business that is relevant to ESG standards today.

OUR APPROACH

As a small investment company, much of our ESG impact is driven by the companies in which we choose to invest. As part of this investment process, we aim to integrate ESG considerations throughout – from the time of investment, throughout our ownership and ultimately to exit.

Our evaluation of investments includes, for example, consideration of the business ethics of an investee company, its human resource practices, health and safety and overall the way it monitors and manages its own ESG impacts. The relative significance of individual factors will vary from business to business according to the nature of its operations.

We also believe that sound investments and good business performance enable us to uphold material ESG principles. We work closely with the management teams of our investee businesses, supported by our strong core team and Advisory Groups with specific sector knowledge, to drive responsible, long-term decisions and ensure alignment with our own responsible investment principles.

CORE RESPONSIBLE INVESTMENT PRINCIPLES

Our ESG considerations are guided by our core responsible investment principles:

- integrate ESG considerations throughout our investment process;
- focus on making responsible, long-term decisions, supported by the expertise of our network; and
- maintain high standards of corporate governance.

GOVERNANCE

We are committed to maintaining high standards of corporate governance. As a fully listed company on the London Stock Exchange, we are diligent in our own internal procedures and reporting to shareholders.

COMPANY PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2020

A detailed review of the management of the portfolio is set out on pages 18 to 25 of this annual report. The detailed financial results are set out in the accounts on pages 67 to 92.

This review considers the overall performance of the Company and its progress during the year, towards its overall objective which is, over the longer term, to produce a return of 12% to 15% per annum to investors, net of costs.

2020 was the first year of operation as a self-managed investment company under the Board appointed in November 2019. The year has been dominated for society as a whole by the impact of the Coronavirus pandemic. For the Company this has certainly had an impact but at the same time it has been able to make progress on its goals and strategies.

The Company's goals entering 2020, and the outcomes achieved are set out below:

Implementing the necessary structure and processes to transition to internal management

- Overall, this is substantially complete.
- During 2020, the Company has developed its team and as the business grows it expects this to develop further. The Company has during the year recruited two individuals who jointly provide the senior financial support for the Company and also provide the financial monitoring and support required by the Company's energy and real estate investment activities.
- The Company's investment and co-investment activities are also supported by three individuals who work on a consulting basis as required but typically between one and four days per month.
- The Company's day-to-day financial and Company secretarial administration is outsourced to IQ-EQ. The Company receives specialist advice as required on compliance and other matters from its advisory team.
- Whilst not required to do so as a small AIFM, the Company has retained the services of INDOS Financial Limited to act as its depository.

Deployment of capital on new deals and development of a deal pipeline

- Energy. The Company has funded and continues to await final Romanian government approval for its investment in Dacian, the Romanian oil and gas production company. Although disappointing that approval was not received during Q4 2020, the Board, advised by the Dacian team, continues to expect approval to be received in a reasonable period of time. The deal, once approved, will form a strong foundation for the Company's energy activities and is expected to lead to further opportunities in the sector.
- Real Estate. The Company has worked with its two real estate teams, Cavera and George Capital. In both cases it has adopted a cautious view until the impact of the Coronavirus pandemic is understood. A deal pipeline for both teams is being built and is expected to create opportunity to deploy capital in 2021.

Monitoring and managing the existing assets

- The remaining portfolio is largely passive – LMS does not have any right actively to control decision making. The focus is on maintaining a dialogue with the managers and influencing and supporting decision making where possible.
- Management arrangements with SFEP were amended to promote greater alignment of interest for the remaining life of the SFEP funds.
- LMS nominee has now been appointed to the board of ICU.
- Exit opportunities on three assets continue to be supported.

PERFORMANCE INDICATORS

The Board is setting out to create wealth in the Company over the medium to longer term and takes decisions through the lens of this longer timeframe.

Progress towards the medium to longer-term objective may not be reflected in individual annual performance metrics. However, the Board recognises the need to report the Company's annual performance against these measures.

The Company's NAV per share total return, excluding the impact of dividends, was minus 7.8% (2019: minus 7.1%) and its total shareholder return was minus 22.3% for the year ended 31 December 2020. These measures compare to the FTSE All Share Index which showed a return of minus 9.8% for the year ended 31 December 2020.

Further information on the Company's performance is provided in the Portfolio Management Review on pages 18 to 25.

Risk Management

On behalf of the Board, the Audit Committee has responsibility for ensuring that the Company has an effective process to identify, assess and manage the various risks within its business.

The Company has carried out an assessment of the principal risks within its business and has considered the likelihood and potential impact of each risk and the effectiveness of the procedures to mitigate each risk. In carrying out this assessment in 2020 consideration has been given to any impact from the change to internal management.
A summary of the principal risks identified is set out below.

PRINCIPAL RISKS IN EACH CATEGORY

Strategic risk

Risk that the business model does not deliver target long-term returns to shareholders or that the Board is unable to implement the strategy.

Market risk

Risk that macro market and geo-political uncertainties (including the potential consequences of the Coronavirus pandemic and Brexit outcomes) have an adverse impact on investment values, liquidity and deal flow or otherwise disrupt the markets in which the Company operates.

Investment risk

Risk that the Company's investments may perform below expectations or may not achieve target exit valuations or timing. New investments may not meet investment criteria or fit with the strategy set by the Board.

Financial risk

Risk that the valuation of the investment portfolio is misstated.

Operational and Governance risk

Risk that the Company does not have the appropriate resources in place to support the delivery of its strategy. This includes risk of heavy reliance on a small core team and the risk that Board makeup may no longer be appropriate.

Legal and Regulatory risk

The risk that the Company does not comply with the regulatory framework to which it is subject. Risk that changes to the legal or regulatory framework could impact the Company's business.

MITIGATION

The Board establishes both long-term and annual objectives against which it monitors the Company's performance. It also considers the Company's performance in the context of investment market conditions and developments generally.

Regular assessment at Board level of the macro environment on the Company's business overall and at individual asset level.

The current significant level of cash provides some protection against uncertainty in the short term.

Regular monitoring by the Board of underlying performance and realisation strategy for all investments. Where the Company does not control the investment realisation decision, it maintains dialogue with external managers and regularly considers alternative realisation routes.

New investments are subject to a rigorous multi-stage review and approval by the Investment Committee and Board. This process includes diligence by external specialists where required.

The investment portfolio is valued at fair value in accordance with IPEV Guidelines and supported by third party evidence where available. Valuation judgements are reviewed regularly by the Board and Audit Committee and also subject to external auditor review.

The core team whilst small, is supported by advisers in key areas and outsourced providers. The Company, through its Board, has a wide network of associates who provide additional input on an 'as needs' basis and who could provide additional support were members of the core team to be unavailable.

The Board was appointed in November 2019 and will regularly review its effectiveness through a combination of internal and externally driven reviews.

Compliance with the relevant legal and regulatory requirements is overseen by the Audit Committee and the Board. The Company has in place the necessary procedures and policies required by the regulatory framework and works with external advisers periodically to review its procedures and to ensure it is aware of relevant legislative or regulatory changes.

Viability Statement

INTRODUCTION

The Directors have assessed the Company's current position and prospects as described in the Chairman and Managing Director's Statement and the Portfolio Management 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 2021 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 or more.

In performing their assessment, the Directors considered principally:

- the Company's liquidity forecast for the three years from 1 January 2021;
- the significant cash balances on hand at 31 December 2020;
- the 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); and
- the potential impact on the Company's operations, portfolio and liquidity from the ongoing Coronavirus global pandemic.

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. Although the fair value of some investments declined in 2020 due to the impact of the Coronavirus pandemic on global markets, the Company has sufficient sources of liquidity from its available cash balances;
- 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, including the ongoing uncertainty due to the impact of the Coronavirus global pandemic, 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 the sterling of the currency in which it is denominated and uncertainty about the timing of its realisation; 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, including potential impacts from the ongoing Coronavirus global pandemic, and has 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.

DIRECTORS' RESPONSIBILITIES PURSUANT TO SECTION 172 OF THE COMPANIES ACT OF 2006

The Directors are responsible for acting in a way that they consider, in good faith, is the most likely to promote the success of the Company for the benefit of its members. In doing so, they should have regard for the needs of stakeholders and the wider society.

The Company's objective is to provide investors with an annual return of 12% to 15% per annum over the long term through a combination of share price appreciation and distributions.

Key decisions are those that are either material to the Company or are significant to any of the Company's key stakeholders. The Company's engagement with its key stakeholders is discussed further in the Corporate Governance Report. The below key decisions were made or approved by the Directors during the year, with the overall aim of promoting the success of the Company while considering the impact on its members and wider stakeholders.

DIVIDENDS

The Board approved a special dividend of 4.25p per share which was paid on 20 January 2020. It is the Company's stated intention that a return should be paid to shareholders by way of an annual dividend of 1.5% of Net Asset Value. Dividend payments were commenced in September 2020 with an interim dividend of 0.3p per share for the year to 31 December 2020, and a final dividend for the year of 0.6p will be recommended by the Board to shareholders at the AGM.

In paying the interim dividend and recommending a final dividend, the Board will take account of progress towards covering the dividend with income, other circumstances relevant to the Company's financial condition and market conditions.

ACQUISITIONS

The Company has deposited \$9.0 million for the investment in Dacian that is pending final regulatory approvals for closure. It has also invested an additional £0.8 million in funds managed by Weber Capital Partners. The Board has an Investment Committee that reviews and considers each investment in the context of the Company's Investment Policy, availability of financing and the potential returns to investors as well as the context of sustainability and its impact on the surrounding community.

BOARD COMPOSITION

The Board composition changed significantly in November 2019 when four new Directors were appointed after the conclusion of the Extraordinary General Meeting whereby shareholders approved the return to internal management.

The structure of the Board and committees is designed to ensure that the Board focuses on strategy, monitoring the performance of the portfolio, Company and governance, risk and control issues. The Board took the view that, given its relatively recent appointment, it would undertake an internal evaluation of its effectiveness and wait until the end of 2021 to participate in an external evaluation of itself and its committees to ensure that it can focus on driving transformational change. The Board conducted this internal evaluation of its effectiveness, facilitated by an external consultant, in February 2021. The overall conclusion was that the Board was operating effectively with no significant areas to be addressed.

For and on behalf of the Board.

Robert Rayne
Chairman
11 March 2021

Portfolio Management Review

INTRODUCTION

The Company and the Board became responsible for all aspects of the portfolio management with effect from 30 January 2020, following the Company's shareholder approval of a resolution to return the Company to internal management in November 2019.

Cash in the Group at 31 December 2020 was £20.6 million (31 December 2019: £26.6 million), including £16.4 million held by the Company and £4.2 million held by subsidiaries. Significant outflows have been £3.7 million of dividend payments, £7.0 million deposited for the investment in Dacian and an additional £0.8 million invested in Weber Capital Partners. Cash proceeds from realisations and distributions from funds have totalled £9.3 million. Other net cash movements amount to an outflow of £3.2 million.

MARKET BACKGROUND

2020 was a year dominated by the impact of the Coronavirus pandemic on global markets. The spread of Covid-19 during the first quarter profoundly affected global markets as equities suffered steep declines while government bond yields fell. Sterling hit lows against the US dollar as investors sought safety in cash. Subsequent quarters of 2020 saw a market recovery as the Covid-19 restrictions eased and vaccine breakthroughs created some optimism about the return to economic normality. Equities increased and sterling strengthened against the US dollar. The UK AIM 100 and SmallCap indices ended the year up 19.6% and 4.5%, respectively.

Domestically, the approval and rollout of multiple Covid-19 vaccines beginning in early 2021 could help extend the rally in equities amongst a return to normalcy in the second half of the year. Additionally, a Brexit trade agreement reached at the end of the year removed some of the uncertainty over the future trading relationship with the EU. However, there still remains uncertainty around combatting the pandemic and how that will impact the pace of economic recovery and the domestic and global markets.

The consequences of recent developments and impact of the ongoing pandemic will continue to be monitored closely by the Board.

PERFORMANCE REVIEW

The movement in NAV during the year was as follows:

	2020 £'000	2019 £'000
Opening NAV	**55,958**	60,275
Loss on investments	**(2,053)**	(1,199)
Dividends	**(3,673)**	–
Overheads and other net movements	**(2,309)**	(3,118)
Closing NAV	**47,923**	55,958

Cash realisations from the portfolio in 2020 were as follows:

	Year ended 31 December	
	2020 £'000	**2019 £'000**
Proceeds from the sale of investments	**8,011**	12,411
Distributions from funds and loan repayments	**1,304**	788
Total – gross	**9,315**	13,199
New and follow-on investments	**(976)**	(426)
Fund calls	**(169)**	(898)
Total – net	**8,170**	11,875

Realisations of £9.3 million in 2020 include:

- proceeds of £7.7 million from the sale of the bulk of the Company's listed shares;
- £0.7 million of distributions from ICU Eyewear related to cash generated from their newly created Health business line that sells personal protective equipment;
- £0.3 million of distributions from Eden Two LLP; and
- other realisations and fund distributions of £0.6 million.

A new investment of £0.8 million was made in Weber Capital Partners in light of the continuing strong performance of this fund over both short and longer-term horizons.

The follow-on investments are primarily in respect of an additional £0.2 million of working capital funding for Elateral, a UK direct investment.

The fund calls are primarily for SFEP management fees.

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

	Year ended 31 December					
	2020			2019		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Quoted	**119**	**78**	**197**	6,687	1,734	8,421
Unquoted	**1,226**	**8,912**	**10,138**	2,428	7,285	9,713
Funds	**5,808**	**6,050**	**11,858**	7,795	6,312	14,107
	7,153	**15,040**	**22,193**	16,910	15,331	32,241

BASIS OF VALUATION:

QUOTED INVESTMENTS

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

UNQUOTED DIRECT INVESTMENT

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 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 revenue 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 revenue 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;
- investments in debt instruments or loan notes are determined on a standalone basis, with the initial investment recorded at the price of the transaction and subsequent adjustments to the valuation are considered for changes in credit risk or market rates. Convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model; and
- the Company adopted the IPEV special valuation guidance issued in March 2020 in response to the significant uncertainty surrounding the Coronavirus pandemic.

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, the latest available of 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. Adjustments will be made to the fund valuation where the Company believes there is evidence available for an alternative valuation.

Portfolio Management Review
continued

PERFORMANCE OF THE INVESTMENT PORTFOLIO

The return on investments for the year ended 31 December 2020 was as follows:

	Year ended 31 December					
	2020			2019		
Asset type	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000
Quoted	**(335)**	**(598)**	**(933)**	9	2,700	2,709
Unquoted	**121**	**949**	**1,070**	7,071	(3,870)	3,201
Funds	**–**	**(2,190)**	**(2,190)**	–	(6,708)	(6,708)
	(214)	**(1,839)**	**(2,053)**	7,080	(7,878)	(798)
Charge for incentive plans			**–**			(401)
			(2,053)			(1,199)
Operating and similar expenses of subsidiaries			**(1,194)**			(527)
			(3,247)			(1,726)

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The charge for incentive plans for the Company is for carried interest and other incentives relating to historic arrangements. The charge for carried interest incentive plan is included in the Net losses on Investments in the Income Statement.

Approximately, 68% of the portfolio at 31 December 2020 is denominated in US dollars (31 December 2019: 48%) and the above table includes the impact of currency movements. In the year ended 31 December 2020, the weakening of the US dollar against sterling over the year as a whole resulted in an unrealised foreign currency loss of £0.2 million (2019: unrealised loss of £0.5 million). As a 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	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
IDE Group Holdings	UK technology	**118**	781
Global Green Solutions	US energy	**62**	–
Gresham House	UK financial	**–**	5,906
Solaredge Technologies	US renewable energy	**–**	1,717
Others	–	**17**	17
		197	8,421

The net (losses)/gains on the quoted portfolio arose as follows:

(Losses)/gains, net	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Realised		
Solaredge Technologies	**265**	–
Gresham House	**(716)**	9
Realised foreign currency gain	**116**	–
	(335)	9
Unrealised		
Global Green Solutions	**72**	–
IDE Group Holdings	**(663)**	436
Solaredge Technologies	**–**	1,135
Gresham House	**–**	1,437
Other quoted holdings	**3**	(235)
Unrealised foreign currency gains/(losses)	**(10)**	(73)
	(598)	2,700
Total net (loss)/gain	**(933)**	2,709

GRESHAM HOUSE
The Company sold all of its shares in Gresham House during 2020, resulting in a realised loss of £0.7 million.

SOLAREDGE TECHNOLOGIES
The Company also sold all of its shares of Solaredge Technologies during the year, resulting in a realised gain of £0.3 million.

IDE GROUP HOLDING
The performance of IDE Group Holdings declined during 2020 as the company was impacted by the Coronavirus pandemic and saw the share price fall substantially, resulting in a £0.7 million unrealised loss. In January 2021, the company announced that it had secured a £22.5 million multi-year contract with a new customer to improve the pipeline of future revenue.

Portfolio Management Review
continued

UNQUOTED INVESTMENTS

Company	Sector	Year ended 31 December 2020 £'000	2019 £'000
Medhost Inc	US technology	**5,704**	5,460
ICU Eyewear*	US consumer	**3,143**	1,508
Northbridge	UK technology	**755**	730
Elateral	UK technology	**399**	1,610
IDE Group	UK technology	**73**	88
Yes To*	US consumer	**64**	317
		10,138	9,713

*These are co-investments with SFEP.

The net gains and losses on the unquoted portfolio arose as follows:

Gains, net	Year ended 31 December 2020 £'000	2019 £'000
Realised		
Entuity	**115**	7,177
Penguin Computing	**6**	36
Brockton Capital LLP	**–**	(142)
	121	7,071
Unrealised		
ICU Eyewear	**2,459**	–
Medhost	**374**	(2,672)
Northbridge	**25**	130
YesTo	**(268)**	(722)
Elateral	**(1,436)**	(400)
Unrealised foreign currency losses	**(205)**	(206)
	949	(3,870)
Total net gain	**1,070**	3,201

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.

Comments on individual companies are set out below.

MEDHOST
Medhost is a co-investment with funds of Primus Capital. Medhost's financial performance was relatively flat in 2020, with only a slight decline in both Revenue and EBITDA over the prior year, resulting in a higher valuation by the fund manager Primus Capital and an unrealised gain of £0.4 million for 2020.

ELATERAL
Additional working capital funding of £0.2 million was required by the Company in 2020. Elateral experienced a net reduction in revenue during 2020 due to the economic impact of the Covid-19 pandemic, and overall the company ran at an EBITDA loss. The valuation has been reduced by £1.4 million for the year.

ICU EYEWEAR
During 2020, the company created a new business line, Health, for the distribution and sale of personal protective equipment. The Health business line generated significant sales during 2020 due to the Covid-19 pandemic, resulting in cash distributions to the Company of £0.7 million during the year and an additional £1.5 million received in February 2021. The company's main business line, Eyewear, has also continued to demonstrate its ability to trade profitably. The valuation gain of £2.5 million reflects the cash distribution received in February 2021 and the increased value of the ongoing business lines.

PENGUIN COMPUTING
The Company's total interests are held through its investment in SFEP and directly through a co-investment with SFEP. The amounts shown above relate to the directly held co-investment. As explained below, the business was sold in June 2018 and initial consideration was received, with part of the consideration held in escrow. The remaining investment was fully written off in 2019 but a final distribution of funds from the escrow account was received during 2020.

Portfolio Management Review
continued

FUND INTERESTS

General partner	Sector	Year ended 31 December 2020 £'000	2019 £'000
Brockton Capital Fund 1	UK real estate	**4,107**	5,529
Opus Capital Venture Partners	US venture capital	**3,505**	3,145
Weber Capital Partners	US micro-cap quoted stocks	**1,813**	563
EMAC ILF	UK	**839**	988
San Francisco Equity Partners	US consumer & technology	**699**	2,570
Eden Ventures	UK venture capital	**501**	914
Simmons	UK	**361**	363
Other interests	–	**33**	35
		11,858	14,107

Gains and losses on the Company's funds portfolio for the year ended 31 December 2020 were as follows:

Losses net	Year ended 31 December 2020 £'000	2019 £'000
Realised		
Other funds	**–**	–
	–	–
Unrealised		
Opus Capital Venture Partners	**907**	226
Weber Capital Partners	**555**	–
Simmons Parallel Energy	**(22)**	81
Eden Ventures	**(157)**	(183)
San Francisco Equity Partners ('SFEP')	**(1,729)**	(6,798)
Brockton Capital Fund I	**(1,422)**	607
Others (net)	**(315)**	(433)
Unrealised foreign currency losses	**(7)**	(208)
	(2,190)	(6,708)
Total net loss	**(2,190)**	(6,708)

LMS is the majority investor in SFEP as opposed to the other fund interests where the Company has only a minority stake. SFEP has one remaining investment, YesTo.

- YesTo – The fund carrying value of £0.6 million (31 December 2019: £2.8 million) was further reduced in 2020. A new management team was appointed in 2020 and a plan to restore growth and profitability was implemented. The 2020 sales were in line with the budget but profitability was negatively impacted by higher costs and the impact of Covid-19, resulting in lower than estimated EBITDA. Further working capital was required during 2020, but the Company elected not to participate in that round of funding. YesTo is valued primarily on a sales multiple and the reduction reflects a valuation that is sufficient to recover the outstanding loan notes held by the Company but prescribes no value to the equity.

In addition, to the fund investments noted above the Company has a directly held co-investment in YesTo of £0.1 million (31 December 2019: £0.3 million). The Company's total investment in YesTo at 31 December 2020, via its SFEP fund interest and its co-investment is £0.7 million (31 December 2019: £3.1 million).

The Company also received from SFEP a £0.2 million final distribution of amounts held in escrow related to the 2018 sale of Penguin Computing.

OVERHEAD COSTS

Group overhead costs for the year (including £1.3 million incurred by the Company and £0.6 million by subsidiaries) were £1.9 million (2019: £3.2 million) and include running costs of £1.7 million and investment support costs of £0.2 million for transaction diligence and support costs for real estate and co-investment activities.

TAXATION

The Group tax provision for the year, all of which arose in the subsidiaries, is £0.01 million (2019: £nil).

FINANCIAL RESOURCES AND COMMITMENTS

At 31 December 2020 cash holdings, including cash in subsidiaries, were £20.6 million (31 December 2019: £26.6 million) and neither the Company nor any of its subsidiaries had any debt (2019: nil debt).

At 31 December 2020, subsidiary companies had commitments of £2.7 million (31 December 2019: £3.1 million) to meet outstanding capital calls from fund interests.

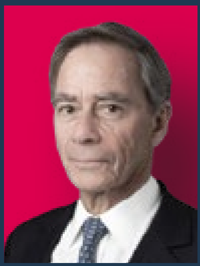
LMS CAPITAL PLC
11 March 2021

Board of Directors

"Key areas of focus this year have been considering our strategy, articulating our purpose and values, reviewing our portfolio and maintaining close dialogue with our shareholders, through both formal and informal interactions.

ROBERT RAYNE
CHAIRMAN

NICHOLAS FRIEDLOS
MANAGING DIRECTOR



ROBERT RAYNE
CHAIRMAN (NON-EXECUTIVE)

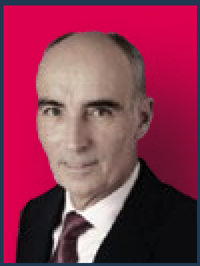
COMMITTEE MEMBERSHIPS:
Chairman of the Investment Committee and the Nomination Committee

DATE APPOINTED TO THE BOARD:
6 April 2006

DATE APPOINTED AS CHAIRMAN:
28 November 2019

Directorships: Non-executive Chairman of Derwent London plc; Chairman of The Rayne Foundation and a Non-Executive trustee of a number of charitable trusts and foundations.

Experience: Robert 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.



NICK FRIEDLOS
MANAGING DIRECTOR

COMMITTEE MEMBERSHIPS:
Member of the Investment Committee and the Nomination Committee

DATE APPOINTED TO THE BOARD:
28 November 2019

DATE APPOINTED AS MANAGING DIRECTOR:
28 November 2019

Role and experience: Managing Director, with overall responsibility of running the Company's operations going forward, working with and supporting the activities of the investment teams as well as overseeing the administrative and regulatory matters.

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.

PETER HARVEY
NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIPS:
Chairman of the Audit Committee, member of the Nomination Committee, Remuneration Committee and Investment Committee

DATE APPOINTED TO THE BOARD:
28 November 2019

DATE APPOINTED AS CHAIRMAN OF AUDIT COMMITTEE:
28 November 2019

Directorships: Peter has a number of other roles with not for profit organisations in Cornwall.

Experience: Peter is a chartered accountant and, prior to his retirement in 2010, was a partner at PricewaterhouseCoopers. He has been involved as Chairman of the shareholder group in a private company in the brewing sector and has worked closely with the board of this business.

GRAHAM STEDMAN
NON-EXECUTIVE DIRECTOR

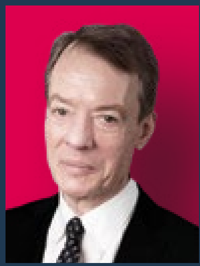
COMMITTEE MEMBERSHIPS:
Chairman of the Remuneration Committee, member of the Audit Committee, Nomination Committee and Investment Committee

DATE APPOINTED TO THE BOARD:
28 November 2019

DATE APPOINTED AS CHAIRMAN OF THE REMUNERATION COMMITTEE:
28 November 2019

Directorships: Graham fulfills a number of advisory roles and has a particular interest in mentoring smaller organisations both in the commercial and in the not for profit sectors to develop their businesses.

Experience: Graham is a lawyer and spent most of his career as a corporate law partner in London advising on mergers and acquisitions, takeovers, and other corporate transactions in both public markets and private equity and venture capital.



JAMES WILSON
SENIOR NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIPS:
Member of the Audit Committee, Nomination Committee, Remuneration Committee and Investment Committee

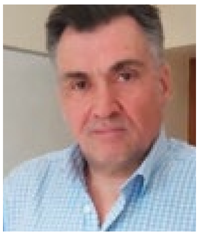
DATE APPOINTED TO THE BOARD:
28 November 2019

Directorships: Chairman and Managing Partner of Source Squared. Serves on the State Board of Advisors for The Salvation Army, and the Advisory Board of the Cambridge Conservation Initiative at Cambridge University in the UK.

Experience: James has expertise in a wide range of sectors. He was a founding partner of Boston Ventures, one of the leading US media private equity funds, responsible for building the firm's practice in the information services industries.

Our Advisory Groups

REAL ESTATE



Chris Dancer
Real Estate Development – development manager for Cavera, previously joint founder of Voreda.

Steve Dykes
Real Estate Development – development manager for Cavera, previously joint founder of Voreda.

Anthony Wardle
Real Estate Investment – Head of asset management at George Capital, previously a director of Ashtenne Investments and with Property Fund Management plc.

Ben Young
Real Estate Investment – Founder George Capital LLP, previously with Delancey and British Land.

PRIVATE EQUITY

Richard Fidler
Strategic and M&A adviser to private businesses. Has previously worked for Rothschild and Deutsche advising in energy, utilities and TMT sectors.

Keith Holdt
Joint managing Partner Voyager Capital Partners. Previously director at LDC leading the Value Enhancement Team.

Pardip Khroud
Joint managing partner Voyager Capital Partners. Previously investment director Gresham House and prior to that LDC and KPMG.

Chris Wetherill
Experienced investor in and adviser to private businesses. Chairman of Oakley Capital Investments Ltd. until September 2018.

ENERGY

Andy Becnel
Experienced energy industry executive and adviser to a number of private projects. Previously CFO of Weatherford International.

Bernard Duroc Danner
Previously CEO of Weatherford International and currently consultant, adviser and investor in a number of energy projects around the world.

Corporate Governance Report

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

Key areas of focus this year have been considering our strategy, articulating our purpose and values, reviewing our portfolio and maintaining close dialogue with our shareholders, through both formal and informal interactions.

UK CORPORATE GOVERNANCE CODE AND S172 REPORTING

The Board of LMS Capital plc is committed to maintaining high standards of corporate governance and business ethics. This report is made under the 2018 UK Corporate Governance Code (the 'Code'). Copies of the Code are available from the Financial Reporting Council's website at www.frc.org.uk.

The Board has adopted the voluntary AIC Code of Corporate Governance issued in February 2019 (the 'AIC Code'). Copies of the AIC Code are available from the AIC's website at https://www.theaic.co.uk.

This report sets out how the Company has applied the principles in the Code, the AIC Code and the extent to which it has complied with the detailed provisions set out therein. The Board considers that the Company has complied with all of the provisions of the Code, except where explanatory statements have been included below. The Board made good progress in the full implementation of the Code and shall continue to ensure that in 2021 any changes will be monitored to ensure adherence of the Code is applied.

GOVERNANCE KEY EVENTS

- Over the course of the year, a review exercise was undertaken to ensure that the Company has in place documented policies and procedures, where required to comply with the various areas of regulation. The Company shall continue to formally review its policies on an annual basis.
- The Company's AGM is usually used as an opportunity to engage directly with shareholders. However, in 2020, the impact of the Coronavirus crisis and restrictions on public gatherings resulted in the Board concluding that it was not appropriate for shareholders to attend the AGM in person. At the 2020 AGM, Shareholders were given the opportunity to submit questions prior and post the meeting, and shareholders were encouraged to vote by proxy. It is intended that the 2021 AGM will be held as per the normal process, but the Company shall continue to monitor updates on the Coronavirus crisis. Further details will be set out in the Notice of AGM that will be circulated ahead of the meeting.
- A continuing review of the Code, with steps taken towards full compliance.

Corporate Governance Report
continued

UK CORPORATE GOVERNANCE CODE – EXPLICIT EXPLANATORY STATEMENTS

Provision 6 of the Code requires the Board to ensure that there is a means in which the workforce may raise concerns in confidence, and if they wish anonymously. During 2020, the Company updated its Whistleblowing policy and provided training to its staff.

Provision 9 of the Code requires the Chair should be independent on appointment when assessed against the circumstances set out in Provision 10. Robert Rayne is not considered to be independent, as defined by the Code, as he previously served as an Executive Director and is a major shareholder in LMS Capital plc. While not independent, the Board considers that Robert Rayne remains to be the most appropriate person to chair the Company to ensure the adherence of good governance whilst the Company continues its transition to internal management. The Board recognises that Robert Rayne continues to offer substantive and intellectual challenge to other Board members and strong leadership. The Board is satisfied that Robert Rayne's role as Chair is clearly separated from that of the Managing Director, and he therefore continues to be appointed accordingly.

Provision 13 of the Code requires the Chair to hold meetings with the Non-Executive Directors without the Executive Directors present. Following the appointment of the Executive Director in November 2019, the Board, in January 2021 reviewed the performance of the Executive Director and agreed performance objectives, and such meetings were held without the Executive Director present.

Provision 19 of the Code requires the Chair should not remain in post beyond nine years from the date of their first appointment to the board. Robert Rayne has been on the Board for over nine years and therefore the Company is not in compliance with Provision 19. Robert Rayne continues to be considered the most appropriate person to chair the Board following the management changes and he remains appointed accordingly.

Provision 20 of the Code requires that an open advertising and/or an external search consultancy should generally be used for the appointment of the Chair and Non-Executive Directors. Given the circumstance around the management changes in November 2019 and detail in the EGM documents, this Provision was not adhered to.

Provision 21 of the Code requires that there should be a formal and rigorous annual evaluation of the performance of the Board, its committees, the Chair and individual Directors. Given the appointment of the new Board towards the end of 2019, the Chairman determined that it was not appropriate in 2020 for an external evaluation of the Board and its committees. An internal Board effectiveness review for the year to December 2020, facilitated by an external consultant, was undertaken in February 2021. In 2021, the Chairman will engage an external evaluator to assess the performance of the Board and its committees.

Provision 34 of the Code states that the remuneration for all non-executive directors should not include share options or other performance-related elements. This Provision was not complied with as Robert Rayne still retains a participation in the Company's historic carried interest plans. The carry interest relates to entitlements earned during previous years when he was an executive of the Company, and in this respect, he is not treated differently than other former executives who in some cases also retained carried interest entitlements.

ENGAGEMENT WITH STAKEHOLDERS

Provision 5 of the Code requires the Board to understand the views of the Company's key stakeholders.

The Board regularly engages with the Company's workforce. We regard our people as our most valuable asset and are committed to responsible employment practices, by promoting the fair treatment of our workforce, providing equal opportunity, preventing discrimination and upholding human rights.
Nick Friedlos is the Managing Director of the Company and was appointed to the Board in November 2019.

The Senior Non-Executive Director, James Wilson together with the Chairman, is available to meet with shareholders as appropriate. During 2020, the Board recognised that it would not be achievable to conduct meetings in person due to the Coronavirus crisis, and in order to protect the health and safety of those involved. Nick Friedlos, our Managing Director, and each of our Committee Chairman are available to engage with shareholders on significant matters related to their area of responsibility.

All Directors will be available at our AGM in 2021 to answer any 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 Committee Chairmen are available to answer questions from shareholders.

SHAREHOLDER COMMUNICATIONS

The Board has stayed in regular contact with its major institutional shareholders and ensures that all its members have an understanding of the views and concerns of investors about the Company. This is achieved by the Directors maintaining contact from time to time with representatives of institutional shareholders to discuss matters of mutual interest relating to the Company and reporting back to the Board.

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.

REMUNERATION

The remuneration policy was approved at the AGM held in 2020.

In accordance with the Code, the Remuneration Committee determines the Executive Directors' remuneration policy and practices and addresses the following factors: clarity, simplicity, risk, predictability, proportionality and alignment to culture.

When determining remuneration schemes and the remuneration policy, the Committee considers the use of discretion by the Committee to override formulaic outcomes.

The Committee reviews at least annually the on-going appropriateness and relevance of the remuneration policy and consult with significant shareholders, as appropriate, on the policy or any other aspects of remuneration. In carrying out its role, the Committee takes advice from external remuneration consultants.

The Committee is further entitled to invoke agreed safeguards, for example, clawback or withholding the payment of any sum or share award in certain circumstances.

Detailed information on the remuneration arrangements for the Directors can be found in the Remuneration Report on pages 39 to 53.

ACCOUNTABILITY AND RISK

The Board formally reviews the Company's risk profile each year and periodically discusses principal and emerging risks facing the Company and appropriate controls. Risk identification and mitigation regularly forms part of the Board's deliberations on strategic decisions. Monitoring the Company's risk and assurance systems is key to the business and forms part of Board meeting discussions.

Detailed information on how the Company manages risk can be found in the Strategic Report on pages 14 to 15 and the Audit Committee Report on pages 36 to 38.

DIVERSITY AND SUCCESSION PLANNING

The Board has reviewed the combination of skills and experience on the Board, has evaluated its composition looking at both the existing and desired skill sets. The Nomination Committee recognises the need to keep this under review and is cognisant in respect of the diversity of the Board.

LEADERSHIP AND BOARD EFFECTIVENESS

The structure of the Board and committees is designed to ensure that the Board applies its focus to the overall objectives of the Company with emphasis on strategy, monitoring the performance of the portfolio, risk and control issues. The Board ensures that the right people and leadership are employed and utilised to achieve the strategy and plans of the Company.

As part of the implementation processes in order to adopt the Code, in 2020, the Board had intended to participate in an externally facilitated evaluation of itself and its committees but subsequently determined that an external evaluation in the first year of the new Board was not appropriate. Therefore, the Board agreed that an internal effectiveness review led by the Senior Independent Director be conducted. This internal review, which was facilitated by an external consultant, was conducted in February 2021. The Chairman will engage an external evaluator to assess the performance of the Board and its committees in 2021 (see further comments on this overleaf).

Corporate Governance Report
continued

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 governance framework detailed below.

COMPOSITION

The Board currently comprises five Directors. Brief biographies of the Directors appear on pages 26 to 27. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

Robert Rayne 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 the Board's effectiveness is regularly evaluated (see further comments on this below). The role description of the Chairman was reviewed by the Board and was documented and approved by the Board in November 2020.

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, Peter Harvey, Graham Stedman and James Wilson 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.

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.

Nick Friedlos is not considered to be independent as he is the Managing Director of the Company.

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.

The Board is of the view that the Chairman and each of the Non-Executive Directors who held office during 2020 committed sufficient time to fulfilling their duties as members of the Board.

INDEPENDENT SENIOR NON-EXECUTIVE DIRECTOR

The Senior Non-Executive Director, James Wilson, acts as a sounding board for the Chairman and acts as an intermediary for other Directors. The Directors consider that the Senior Non-Executive Director is able to ensure significant engagement with shareholders.

DIRECTOR RE-ELECTION

In order to comply with the 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 Company's advisers 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. 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 considers the guidance on Board Effectiveness issued by the FRC in July 2018.

As part of the implementation of the Code, an internal evaluation led by the Senior Independent Director was undertaken. The process was facilitated by an external consultant. The overall conclusion was that the Board was operating effectively with no significant areas requiring to be addressed.

BOARD MEETINGS

Five scheduled Board meetings were held in 2020. 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 2020. They attended the following number of scheduled meetings of the Board and (where they were members) its committees during the year:

In addition to the scheduled Board meetings noted above, the Board held one ad-hoc meeting during 2020 with all directors attending. The Remuneration Committee also held one ad-hoc meeting during 2020 with full attendance by the Committee members.

The Directors maintain a regular dialogue regarding the business of the Company outside of scheduled Board and Committee meetings. In months where no such meetings are scheduled, the Directors will arrange informal meetings, generally by way of conference calls.

BOARD COMMITTEES

The Board has an Audit Committee, a Remuneration Committee, a Nomination Committee and an Investment Committee.

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

AUDIT COMMITTEE

The Audit Committee comprises: Peter Harvey (Committee Chairman), Graham Stedman and James Wilson. Peter Harvey 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.

2020	Board	Audit	Nomination	Remuneration	Investment
Meetings held	**5**	**3**	**1**	**3**	**3**
Robert Rayne	5	–	1	–	3
Nick Friedlos	5	–	1	–	3
Peter Harvey	5	3	1	3	3
Graham Stedman	5	3	1	3	3
James Wilson	5	3	1	3	3

Corporate Governance Report
continued

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 other Directors. A report on the activities of the Audit Committee is set out on pages 36 to 38.

The terms of reference for the Committee, which are reviewed on an annual basis, take into account the requirements of the Code and the AIC Code. 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 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. 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

IQ-EQ Administration Services (UK) Limited, appointed in 2017 continues 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. IQ-EQ Corporate Services (UK) Limited appointed in 2017 also continues as Company Secretary and supports the Board in the delivery of governance procedures, in particular the planning of agendas for the annual cycle of Board and Committee meetings.

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. When reviewing the effectiveness of the internal controls, the Committee considers the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC in September 2014 and is comfortable that these are adhered to. More information on the results of these reviews during 2020 are set out in the Audit Committee Report on pages 36 to 38. Details of the principal risks and uncertainties potentially facing the Company can be found in the Strategic Report on pages 10 to 13.

Following the appointment of IQ-EQ Administration Services (UK) Limited to manage the Company's day-to-day financial and administrative functions, the Board continues to be reliant on third party reports to gain comfort on internal controls operated by IQ-EQ.

The Company has no internal audit function. Although not a regulatory requirement as a small self-managed alternative investment fund, the Company has retained the services of INDOS Financial Limited to act as its depository.

NOMINATION COMMITTEE

All Directors are members of the Nomination Committee, which is chaired by Robert Rayne. The Committee is responsible for assisting the Board in determining the composition, gender equality 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.

REMUNERATION COMMITTEE

The Remuneration Committee comprises: Graham Stedman (Committee Chairman), Peter Harvey and James Wilson. The Remuneration Committee has, under its Terms of Reference been delegated the responsibility of setting remuneration of the Directors. There is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. The Committee consults with external remuneration consultants as part of its annual review process.

The Remuneration Committee meets as required, but at least twice each year.

A report on the activities of the Remuneration Committee is set out on pages 39 to 53.

FINANCIAL REPORTING

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on pages 57 to 58 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 59 to 66, 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.

Robert Rayne
Chairman
11 March 2021

Audit Committee Report

INTRODUCTION FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

I am pleased to present the report of the Audit Committee for 2020 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. The day-to-day accounting responsibilities are undertaken by a third-party service provider, IQ-EQ Administration Services (UK) Limited.

Whilst this Committee was only appointed in November 2019, its initial task, during the first quarter of the year, was to oversee the financial reporting for the year to 31 December 2019.

The Committee has been in place throughout 2020 and has overseen the financial reporting process and discharged its other responsibilities.

As Chairman of the Committee, I report to the full Board at each scheduled Board meeting immediately following a Committee meeting, and other times as appropriate.

A summary of how the both the Committee carried out its responsibilities during 2020 as well as the more significant issues addressed is set out in the report.

Peter Harvey
Chairman, Audit Committee
11 March 2021

CORPORATE REPORTING

The Committee had three scheduled meetings during 2020 and also met on 4 March 2021; each meeting was attended by the external auditor.

Since the publication of the 2019 annual report the Committee has reviewed the following:

- the report from BDO LLP ('BDO') on the results of their review of the half-year report for 2020;
- the 2020 half-year results and announcement;
- reports from BDO on the planning of their audit for the year ended 31 December 2020;
- the report from BDO on their audit of the results for the year ended 31 December 2020;
- the preliminary announcement of 2020 results; and
- the 2020 annual report.

ANNUAL REPORT 2020

The Committee advises the Board on whether it believes that the 2020 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 position and 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 IQ-EQ 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 Portfolio Management 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. In relation to the 2020 full year results, the Committee has received relevant papers prepared by the internal team. These papers 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 2020:

- ensuring that the valuation methodology complied with both the International Private Equity and Venture Capital Valuation Guidelines (December 2018 edition) and the Special Valuation Guidelines (March 2020) issued in response to the significant uncertainties created by the Covid-19 pandemic, 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; and
- 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.

At its meeting to consider the full year results, the Committee considered a detailed report 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.

GOING CONCERN

The financial statements are prepared on a going concern basis and the Committee considered this and concluded that the use of the going concern basis continued to be appropriate. The Committee primarily considered the Company's liquidity forecast for the three years from 1 January 2021, the significant cash balances on hand at 31 December 2020, the latest report on the investment portfolio and the ongoing impact of the Company's operations, portfolio and liquidity from the Coronavirus global pandemic.

Audit Committee Report continued

GOING CONCERN CONTINUED

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 corrected and uncorrected misstatements they had found during the course of their work.

INTERNAL CONTROL AND RISK MANAGEMENT

Risk management and internal controls were reviewed by the Committee at each of its scheduled meetings during the year. Since its appointment, the Committee has reviewed the Company's detailed internal risk analysis and the disclosures in relation to risks and longer-term viability in the Strategic Report. The Committee is of the view that:

- risks have been properly identified;
- the systems were operating satisfactorily during 2020 and up to the date of this report; and
- mitigation of the risks identified is satisfactory and appropriate to the Company's circumstances.

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.

Reports presented to the Committee by BDO during 2020 and to the date of this report covered:

- the results of their audit of the 2019 financial statements and annual report;
- the results of their review of the 2020 half-year report;
- their plans and proposed audit scope for 2020; and
- the results of their audit of the 2020 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 members of the Company's finance team providing their comments and evaluation to the Chairman of the Committee on areas including:

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

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 £17,000 (2019: £15,000). These permissible audit related services are in respect of the interim review for the six months to June.

BDO have been auditors for the Company for five years. The audit Partner (Neil Fung-On) has also been the responsible Individual ('RI') for five years therefore a new audit partner will be rotated in the 2021 financial year.

AUDIT COMMITTEE EFFECTIVENESS

The annual Board evaluation described on page 16 included the work of the Committee and concluded that it was working satisfactorily.

Peter Harvey
Chairman, Audit Committee
11 March 2021

Remuneration Report

INTRODUCTION FROM THE CHAIRMAN

I am pleased to present our Remuneration Committee Report.

REMUNERATION COMMITTEE MEMBERSHIP

The members of the Remuneration Committee, their dates of appointment and the number of meetings attended during the year are as follows:

Member	Date appointed	Meetings attended (held)
G Stedman (Chair)	28 November 2019	3 (3)
J Wilson	28 November 2019	3 (3)
P Harvey	28 November 2019	3 (3)

It is the intention of the Committee to meet whenever important matters of remuneration arise and for the number of meetings to be not less than twice per year.

The Committee was first established by the Board in November 2019 upon the Company's return to internal management, and I was appointed Chairman of the Committee at that time.

Between August 2016 and the end of 2019, the Company did not have any direct employees, and the only remuneration was to the Non-Executive Directors. With the return to self-management this situation changed, and the Committee invested considerable time during the first part of 2020 in developing and implementing the remuneration policy for the Company. In doing this, the Committee took specialist external advice from MM&K Limited ('MM&K'), acting solely as remuneration consultants and who have no other relationship with the Company. MM&K helped to apply principles set in Provision 40 of the Code making the terms of the remuneration policy transparent, simple and predictable. We also consulted with some of our principal shareholders.

The remuneration policy developed was approved by shareholders at the 2020 AGM held on 24 June 2020. Shareholders voted to approve the Company's remuneration policy for the three years commencing 1 January 2020 as follows: votes in favour were 99.83%, against 0.17%; 11,676 votes were withheld. The policy is set out on page 46 of this document.

At the 2020 AGM the shareholders also approved the new long-term incentive plan for Executive Directors and senior management: votes in favour were 96.22%, 3.78% against and 349,288 votes were withheld.

The 2020 Directors' Remuneration Report will be the subject of an advisory vote at the 2021 AGM. It includes information subject to audit.

The Committee has taken into account the principles of the Code when putting together the Report in order to maintain high corporate governance standards.

2020 PERFORMANCE AND INCENTIVE OUTCOMES

Notwithstanding the impact of the global Coronavirus pandemic and the economic environment that surrounded us throughout the year, the Company made good progress on its goals and strategies in 2020.

The performance criteria for the Managing Director's bonus for 2020 included implementing the necessary structure and process to complete the Company's transition to internal management, developing a deal pipeline, building the Company's co-investment capability, monitoring and managing the existing assets through the Coronavirus pandemic and planning to expand the Company's capital base. The Committee has reviewed the performance of the Managing Director in 2020 against these criteria, in conjunction with the Chairman, and has approved a bonus equal to 55% of the base salary of the Managing Director.

The Committee approved the grant of 625 VCP units during 2020 under its long-term incentive plan, of which 500 VCP units were issued to the Managing Director and 125 VCP units to other employees.

The Committee was aware that, due to the Coronavirus crisis, the long-term incentive plan was being implemented at a time of considerable market uncertainty. The design of the plan therefore sought to avoid participants benefitting from a temporary decline in share price during 2020 which corrected within a reasonable period of time. The Committee reviewed the share price at which VCP units were issued during 2020 and concluded that no upward adjustment to the price was appropriate.

The Committee considers that these outcomes appropriately reflect its 'pay for performance' principles, given the Company's performance as a whole for the year.

Graham Stedman
Chairman, Remuneration Committee
11 March 2021

Remuneration Report
continued

Part 1 – Annual Report on Remuneration for the year ended 31 December 2020

SINGLE TOTAL FIGURE OF REMUNERATION

The current fees of the Chairman and the Non-Executive Directors on implementation of the remuneration policy are as follows:

Chairman Fee (including all committees)	£75,000
Basic Non-Executive Director Fee	£40,000
Additional Fee for being the Senior Independent Director	£5,000
Additional Fee for being Chair of a Board Committee	£5,000
Additional Fee for sitting on the Investment Committee	£5,000

The tables below (which have been subject to audit) set out amounts paid to each Director during the financial years ended 31 December 2020 and 31 December 2019:

		Fixed Remuneration			Variable Remuneration			
2020	Salary/Fees £'000	2019 Accrued Fee £'000	Taxable Benefits £'000	Pension £'000	Carried Interest £'000	LTIP £'000	Bonus £'000	Total £'000
R Rayne	**75.0**	**–**	**17.7**[1]	**–**	**32.9**[2]	**–**	**–**	**125.6**
N Friedlos	**220.0**	**–**	**1.5**	**19.6**	**–**	**–**[3]	**121.0**	**362.1**
P Harvey	**50.0**	**–**	**–**	**–**	**–**	**–**	**–**	**50.0**
G Stedman	**50.0**	**–**	**–**	**–**	**–**	**–**	**–**	**50.0**
J Wilson	**50.0**	**4.3**[4]	**–**	**–**	**–**	**–**	**–**	**54.3**
	445.0	**4.3**	**19.2**	**19.6**	**32.9**	**–**	**121.0**	**642.0**

1 Amounts included for taxable benefits are insurance premiums for private healthcare.
2 See below. This payment was part of the run-off of previous carried interest arrangements.
3 The Company issued 500 VCP units to the Managing Director in July 2020. These units will vest in accordance with the rules of the VCP in July 2025. For IFRS 2 purposes these units are estimated to have a fair value of £418.44 per unit, which will be recognized in the accounts evenly over the five-year vesting period. The charge in the year to 31 December 2020 was £32,200.
4 Annual fees of £4.3k were earned by James Wilson for the period from 29 November 2019 to 31 December 2019 and were paid in 2020 for administrative reasons.

	Fixed Remuneration			Variable Remuneration		
2019	Fees £'000	Taxable Benefits £'000	Pension £'000	Carried Interest £'000	Bonus £'000	Total £'000
R Rayne	40.0	26.0[1]	–	–	–	66.0
N Friedlos	18.8	–	1.9	–	–	20.7
P Harvey	4.3	–	–	–	–	4.3
G Stedman	4.3	–	–	–	–	4.3
J Wilson[2]	–	–	–	–	–	–
M Knight[3]	55	–	–	–	–	55.0
R Birkett[4]	36.6	–	–	–	–	36.6
N Lerner[5]	41.2	–	–	–	–	41.2
	200.2	**26.0**	**1.9**	**–**	**–**	**228.1**

1 Amounts included for taxable benefits are insurance premiums for private healthcare.
2 Annual fees of £4.3k were earned by James Wilson for the period from 29 November 2019 to 31 December 2019 but had not been paid at the year end.
3 4 and 5 resigned on 28 November 2019.
There was no long-term incentive plan ('LTIP') in place during the 2019 financial year.

Robert Rayne had a consultancy agreement with the former AIFM for the provision of advice in relation to the portfolio of investments and potential investments. He was entitled to a fee of £60,000 per annum under the consultancy agreement. The agreement terminated on 28 November 2019.

CARRIED INTEREST

Robert Rayne, by virtue of his past executive roles with the business, participated in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio. Mr Rayne's participation in carried interest is in run-off.

At 31 December 2019, earned but unpaid carried interest was £32,900 relating to the sale of Entuity in 2019. This amount was paid in 2020.

No other amounts of carried interest became payable to Mr Rayne in 2020. Following the sale of Entuity there is only one remaining investment in respect of which carry could become payable to Mr Rayne. If this investment was realised at its valuation at 31 December 2020, Mr Rayne would be entitled to further carried interest payments of £258,000.

RELATIVE IMPORTANCE OF SPEND ON PAY

The Board recognises the importance of spend on pay for the current and previous years, and the percentage change, relative to remuneration paid to all employees, amounts paid as dividends and any other significant distributions. There were no employees in the Group for the 2019 financial year other than Mr Friedlos, who was appointed as Managing Director on 28 November 2019. The increase in staff and staff costs in 2020 reflect additional employees to support the Company's return to internal management and a full year of the Managing Director's costs.

The table below shows the spend on staff costs in 2020 and 2019 and the percentage change between the years, compared to the loss before tax and dividends:

	2020 £'000	2019 £'000	% change
Staff costs	**£877.0**	£250.0	250%
Average number of staff	**9**	4	125%
Loss before tax	**£4,396.0**	£4,471.0	(1.7%)
Dividends	**£3,673.0**	–	–

There were no dividends paid or declared during the year ended 31 December 2019 and no share buy-backs were undertaken in either year.

PAYMENTS TO PAST DIRECTORS IN 2020

There were no payments to past Directors and no payments of compensation for loss of office.

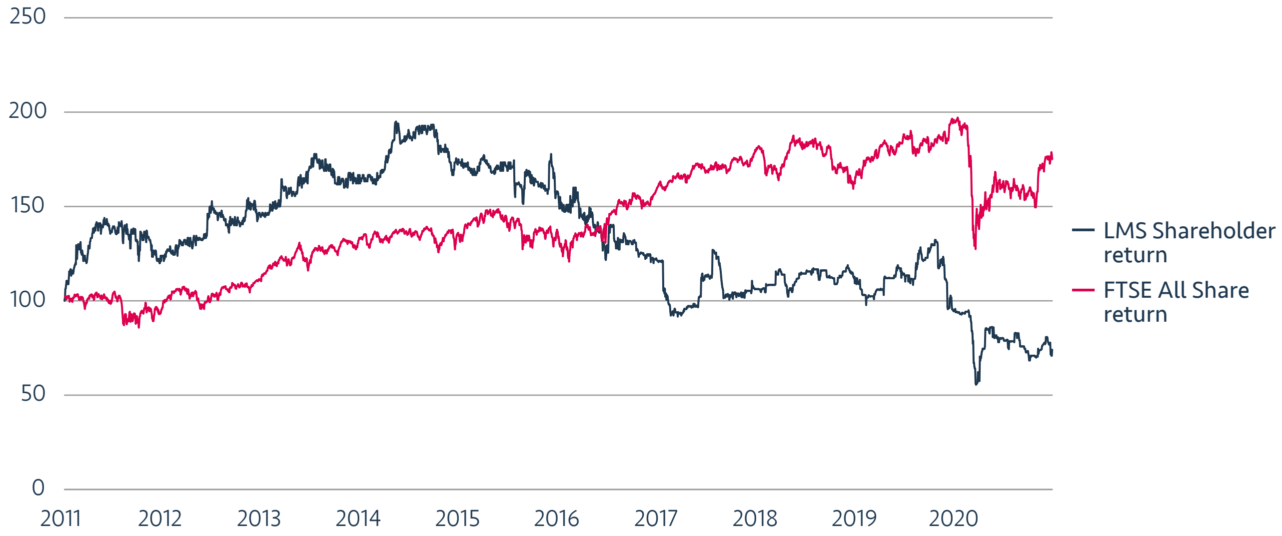
Remuneration Report
continued

Part 1 – Annual Report on Remuneration for the year ended 31 December 2020 continued

PERFORMANCE GRAPH

The Committee considers the FTSE All-Share Index a relevant index for Total Shareholder Return and comparison disclosure as it represents a broad equity market index of which the Company is a member.

The performance graph below shows the Company's Total Shareholder Return performance for the ten-year period ended 31 December 2020 compared with that of the FTSE All-Share Index.



DIRECTORS' INTERESTS IN SHARES

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

	31 December 2020	2019
R Rayne	**2,670,124**	2,670,124
N Friedlos	**161,410**	161,410
P Harvey	**20,000**	20,000
G Stedman	**20,000**	–
J Wilson	**–**	–

In addition, Robert Rayne has a non-beneficial interest in 6,549,473 ordinary shares held in trust.

There have been no changes in the above Directors' interests between 31 December 2020 and the date of this report.

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.

No share awards were vested in the year. In July 2020, the Company issued 500 VCP units to the Managing Director at a share price of 33.816p. For accounting purposes, these units have a fair value of £418.44 per unit.

Part 2 – Directors' Remuneration Policy

The remuneration policy for the three-year period commencing 1 January 2020 which the Committee developed with advice from independent external advisers and which was approved by shareholders at the Company's AGM on 24 June 2020, is set out below.

The table below sets out the Company's policy for each component of the Executive Directors' remuneration.

Salary (fixed pay)

Purpose and link to strategic objectives	Essential to provide a level of fixed cash income to support the recruitment and retention of Executive Directors of the calibre required to manage and grow the Company successfully and to deliver the Group strategy.
Operation	Reviewed annually with increases, if awarded, effective from 1 January each year.
Opportunity and recovery or withholding provisions	Base salaries will be set by the Remuneration Committee taking into account a range of factors. Salary increases are normally awarded by reference to any increase in the cost of living but may take into account other factors such as external market positioning, change in the scope of the individual's responsibilities or level of experience and development in the role. In deciding on any salary increases for an Executive Director, the Remuneration Committee will not sanction an increase any greater than that applied to the Company's workforce generally other than in exceptional circumstances or where there is a change in role and/or responsibilities justifying a larger increase. Year on year increases in basic salaries will not exceed inflation by more than 3%, other than in exceptional circumstances or where there is a change in role or responsibilities. No recovery or withholding provisions.
Performance Metrics	None, although the performance of the individual will be considered by the Committee when reviewing salaries each year.

Pension (fixed pay)

Purpose and link to strategic objectives	To provide a means of retirement saving as part of a range of benefits alongside basic salary to help the recruitment and retention of high calibre Executive Directors.
Operation	Executive Directors are offered a defined contribution, based on a percentage of salary, to a personal pension scheme or a cash salary supplement (or a combination of both) at their choice. Only the base salary is pensionable.
Opportunity and recovery or withholding provisions	Maximum pension contribution by the Company is 10%. This is in line with what is offered to all employees in the Company. No recovery or withholding provisions.
Performance Metrics	None.

Remuneration Report continued

Part 2 – Directors' Remuneration Policy continued

Benefits (fixed pay)

Purpose and link to strategic objectives	To provide a competitive and attractive range of benefits alongside basic salary to help recruit and retain high calibre individuals to Executive Director roles.
Operation	Executive Directors may be provided with family private medical insurance cover and death-in-service insurance. This range may be amended or adjusted in line with market practice. The Executive Directors are also covered by the Company's directors' and officers' liability insurance policy and have the benefit of an indemnity in the form permitted under the Company's Articles of Association. Executive Directors are also eligible to receive other minor benefits and expenses payments in line with other employees of the Company. Additional benefits, which may include relocation or expatriation benefits, housing allowance or other benefits-in-kind, may be provided in certain circumstances if considered appropriate and reasonable by the Committee, typically only as may be required on a new recruitment.
Opportunity and recovery or withholding provisions	The cost of the benefits that are provided fluctuates depending on market conditions and will, therefore, determine the maximum value of benefits under the Policy in any single year. There is therefore no overall maximum opportunity under this component of the Policy. No recovery or withholding provisions.
Performance Metrics	None.

Short-term incentive (variable pay)

Purpose and link to strategic objectives	To provide a simple, competitive short-term incentive plan to reward performance on an annual basis against key financial, operational and individual objectives. A key purpose of the annual bonus plan is to provide a real incentive to achieve the Company's short-term strategic objectives and KPIs.
Operation	Targets and weightings are set annually; performance is measured over a single year. Bonus awards are determined by the Committee after the year-end based on achievement against targets. Bonus is not pensionable.
Opportunity and recovery or withholding provisions	The maximum bonus payable in a 12-month period is up to 100% of base salary. Exceptionally, the Committee may offer a bonus opportunity of up to 200% of salary to a new incoming Executive Director in his or her first full financial year in order to help recruit that executive. The ability to receive the maximum bonus may be split across two or more Performance Metrics. Other than for binary or milestone Performance Metrics, the intention will be that 25% of maximum is payable for Threshold performance and 50% at Target. All bonus payments are subject to the overriding discretion of the Remuneration Committee who may adjust, downwards or upwards, the outcome of the annual bonus plan in any year if it believes that it does not properly reflect overall corporate performance. In order to be entitled to receive an annual bonus, an Executive Director must normally be in the Group's employment and not under notice of termination (either given or received) at the time the bonus is paid. Malus and clawback provisions apply so that in certain circumstances such as serious misconduct by a Director, the material misstatement of financial results or if bonus awards are based on erroneous figures, the Company will be entitled not to pay a bonus in any year or to claw back the value of any cash amount already paid under the annual bonus scheme, for a period of three years following the year end to which the bonus related.
Performance Metrics	The Company's long-term objectives are creating total shareholder return. Its performance metrics on a year-to-year basis will typically be set around the necessary steps to be taken to achieve the longer-term objective. Specific performance targets will vary from year to year in accordance with the Company's short-term KPIs. Potential performance metrics are likely to include: • Deployment of capital in new deals • Performance of the underlying investment portfolio companies • Realisations and cash generation • Building the Company's co-investment capability • Development of a deal pipeline • Putting in place appropriate financial structures to support the Company's business objectives, which might include securing access to debt and consideration of equity structures to expand the capital base • Developing an effective shareholder communication programme • Attainment of personal objectives

Remuneration Report continued

Part 2 – Directors' Remuneration Policy continued

Long-term incentive (variable pay)

Purpose and link to strategic objectives	To provide a competitive long-term incentive plan to reward sustained performance over the long term. A key purpose of the long-term incentive plan is to provide a real incentive to achieve the Company's main long-term strategic objective, to deliver a TSR for Shareholders over five years that is exceptional. It is considered vital that the Company has a truly competitive long-term incentive plan to enable it to recruit and retain the level of talent it needs to deliver on its longer-term strategic plan.
Operation	The long-term incentive plan is structured as a value creation plan or VCP, under which participants share in a pool of VCP Units, awarded at the discretion of the Committee. The Committee may award up to 1,000 VCP units initially. Participants receive a share, proportionate to their share of the pool, in positive TSR generated by the Company measured over a period of five years from the award date. The share is calculated in accordance with the bandings set out below. If the Company raises additional capital, the Committee may award up to 1,000 additional VCP units enabling participants to share proportionately in any positive TSR generated by the Company on that additional capital over the period of five years from the award date in excess of a hurdle rate of return to be set by the Committee. Ordinarily, VCP units, subject to performance, will vest five years after the initial grant date, at which point participants may be granted nil-cost share options to acquire ordinary shares in the Company or receive a cash amount. The VCP is governed by a set of rules approved by shareholders at the AGM on 24 June 2020. Payments under the VCP are not pensionable.
Opportunity and recovery or withholding provisions	For all awards under the Plan, there is a qualifying performance metric, such that if the TSR achieved does not equal or exceed 8% on an annualised basis on the eventual vesting date, then no VCP Units can vest and they will all then lapse on the vesting date. In addition, in respect of any awards made under the Plan, no awards will vest unless the closing share price on the vesting date, when added to the aggregated value of all dividends that are declared on that share over the performance period, equals or exceeds 52.8p. If the qualifying performance metric is met, the share that participants will receive will depend on the TSR performance achieved over the five years commencing on the date of the initial award of VCP Units. In respect of the initial awards, if all 1,000 units are awarded, the share of TSR measured after five years which will be attributable to participants is as follows: TSR up to 6% per annum compound: £zero. If the TSR achieved exceeds 6% per annum compound but does not exceed 12%: 8% of the TSR performance above the 6% per annum hurdle. If the TSR achieved exceeds 12% per annum compound but does not exceed 20%: 8% of the TSR performance between the 6% per annum hurdle and 12% per annum **plus** 15% of the TSR achieved above 12% per annum compound. If the TSR achieved exceeds 20% per annum compound: 8% of the TSR performance between the 6% per annum hurdle and 12% per annum, **plus** 15% of the TSR performance between 12% and 20% per annum, **plus** 17.5% of the TSR performance above 20% per annum.

Long-term incentive (variable pay) continued

Opportunity and recovery or withholding provisions *(continued)*	For the purposes of determining the TSR performance for the initial awards (made soon after the 2020 AGM at which the Plan was approved) as well as the starting point from which the value created is to be measured for these awards, the starting share price was taken as the greater of the average closing share price of an ordinary share over the previous six months and 30p (resulting in a starting price of 33.816p per share). The closing share price, at the end of the performance period, will be taken as the average closing share price of an ordinary share over the three-month period ending on the day immediately preceding the vesting date. The dividend part of this calculation shall be taken as the aggregate value of dividends per share declared over the five-year performance period. On vesting, the value of VCP Units will normally be settled by the Company granting nil-priced options over new ordinary shares which will be exercisable for a period of one year from the option grant date. However, the Remuneration Committee may choose to settle the awards in cash if it considers that there are good reasons for doing so at the time. The maximum value of VCP Units that may vest and therefore the maximum number of shares that may be issued on the exercise of options will be capped so that the shareholder dilution will not exceed 10% of the number of issued shares at the date the initial award was made or the cash equivalent value thereof. Furthermore, this cap will apply to each VCP Unit so that the value of 100 Units (in aggregate) may not exceed 1% of the issued share capital of the Company at the initial award date. Not all VCP Units may necessarily be awarded. If, for example, only 800 Units are awarded, the cap on the maximum level of dilution will be reduced proportionately. Any Units awarded more than 12 months after the initial award date will have the basis of the TSR targets rebased at the then market price of an ordinary share in the Company or, if higher, the market price of an ordinary share on the initial award date. The value of VCP Units at the end of the five-year performance period will in any event be subject to the overriding discretion of the Remuneration Committee who may adjust, downwards or upwards, the outcome of the VCP at the vesting date if the Committee believes that the formulaic outcome does not properly reflect overall corporate performance. Malus and clawback provisions apply so that in certain circumstances, such as serious misconduct by a director, the material misstatement of financial results or if Unit awards or option grants are based on erroneous figures, the Company will be entitled not to grant or permit the exercise of an option in any year or to claw back the value of any shares transferred or cash amount already paid under the VCP, for a period of three years following the year end to which the award or option grant relates. The dilution under all long-term incentives will not exceed 10% of the Company's issued ordinary share capital in any ten-year period.
Performance Metric	The Company's TSR Performance over the five years commencing on the award date. The TSR targets have been set by the Remuneration Committee with the aim of delivering increasing reward for greater outperformance. For the avoidance of doubt, the TSR Performance and the performance hurdles of the Plan for a subsequent award, following a capital raise, will be set at that time by the Remuneration Committee.

Remuneration Report
continued

Part 2 – Directors' Remuneration Policy continued

Long-term incentive (variable pay) continued

Rationale for choice of LTIP Structure and performance measures for the long-term incentive and commentary with regard to the possible longer-term effects of the Coronavirus	The Remuneration Committee has chosen a VCP for the Company's long-term incentive structure because this type of structure most closely resembles a carried interest plan which is the standard type of long-term incentive in the private equity industry. The Company needs to be able to retain and recruit talent of the highest quality. The Committee believes that only by offering participation in such a plan will the Company be able to do this. The choice of TSR performance as the long-term incentive performance measure is one that creates a very strong alignment between participants and shareholders. It also communicates a strong message to participants that over the longer term, the Company's TSR performance is its most important key performance indicator. The Remuneration Committee was aware that, due to the Coronavirus crisis, the Plan was being implemented at a time of considerable market uncertainty. The design of the Plan therefore sought to avoid participants benefitting from a temporary decline in share price during 2020 which corrected within a reasonable period of time. The Committee reviewed the share price at which VCP units were issued during 2020 and concluded that no upward adjustment to the price was appropriate. If there is a longer-term structural change in markets, the Committee will have discretion, subject to consultation with the Company's principal shareholders, to amend the performance metrics and vesting criteria.

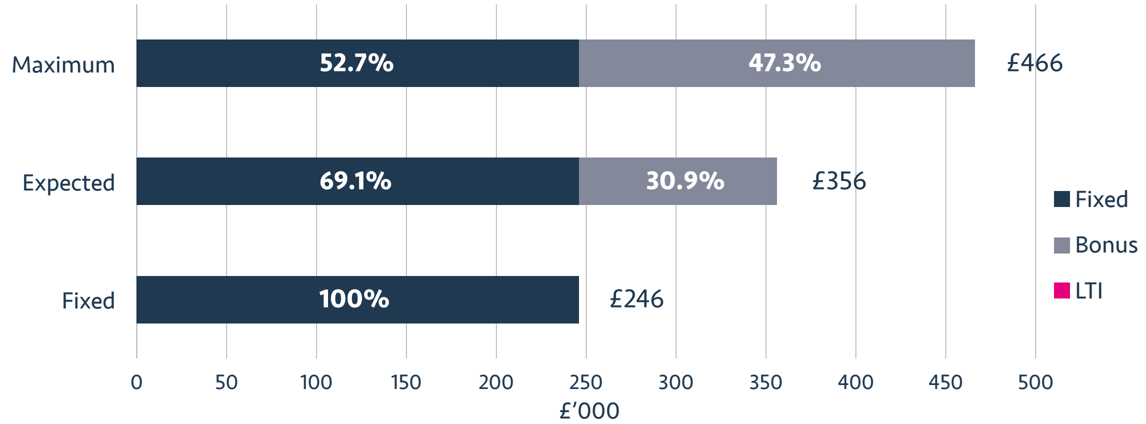
The table below sets out each component of the Chairman's and the Non-Executive Directors' remuneration and the approach taken by the Company in relation thereto:

Chairman and Non-Executive Directors

Component	Approach
Chairman's and Non-Executive Directors' fees	The Chairman's fee is determined by the Remuneration Committee and the Non-Executive Directors' fees are set by the Board. These are reviewed periodically taking into account the responsibilities and time commitments required and Non-Executive Director fee levels generally. The Chairman and the Non-Executive Directors receive basic fees. In addition, special fees are paid for the chairmanship of the Audit and Remuneration Committees and also for the role of being on the Investment Committee and for the role of the Senior Independent Director.
Other pay and benefits	The Chairman previously participated as an executive in the Company's carried interest plans which are now in run off, but under which payments could still arise in relation to unrealised historic investments and is covered under the Company's health insurance policy. The Chairman and the Non-Executive Directors will not be able to participate in any variable pay scheme operated by the Company.

REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS BASED ON FUTURE POLICY

The chart below illustrates remuneration for the Managing Director in 2021 for ‘Fixed’, ‘Expected’ and ‘Maximum’ scenarios.



The above illustrations are based on the following assumptions:

- the Fixed scenarios show the fixed level of remuneration, assuming there is no performance-related pay;
- the Expected scenarios illustrate the amounts receivable if performance is in line with expectations. Bonus awards are 50% of maximum bonus opportunity. As the VCP does not pay out until year five and it is presumed that there is no adjustment for share price movement, then it is modelled that there will be no return in year one of the VCP.; and
- the Maximum scenarios illustrate the levels of remuneration which would be payable if maximum bonus awards (100% of base salary). As the VCP does not pay out until year five and it is presumed that there is no adjustment for share price movement, then it is modelled that there will be no return in year one of the VCP.

ILLUSTRATION OF OUTCOMES OVER THE LIFE OF THE LTIP AWARD

During 2020, 625 VCP units were awarded under the Plan at an initial share price of 33.816p per share, of which 500 VCP units were awarded to the Managing Director. If the Company’s share price was to increase by 50% from the date of the initial awards under the Plan, then this would be below the minimum performance hurdle required under the Plan. As a result, there would be no payout due to the Managing Director and other employees under the LTIP awards.

OTHER SCENARIOS

The scenarios described below are based on the initial share price of 33.816p per share, for the 625 units issued during 2020.

The total shareholder return, including dividends paid during the performance period plus closing share price, would need to be 52.8p, representing a total shareholder return over the performance period of 9.65% per annum before any payout could occur under the LTIP award. At this level, the value of the LTIP for all participants, assuming the maximum number of 1,000 units were issued, would be £0.5 million, representing 1.2% dilution for shareholders.

If the closing price of the share at the end of the performance period plus dividends paid during the performance period were 99p, this would represent a total shareholder return of 24.7% per annum compound over the performance period. The value of the LTIP for all participants, assuming the maximum number of 1,000 units were issued, would be £6.0 million, representing 8.4% dilution for shareholders.

Remuneration Report
continued

Part 2 – Directors' Remuneration Policy continued

If the closing price of the share at the end of the performance period plus dividends paid during the performance period were 145p, this would represent a total shareholder return of 34.8% per annum compound over the performance period. The value of the LTIP for all participants would exceed the 10% dilution limit and would therefore be capped at that limit which would be £11.2 million for all participants, assuming all 1,000 units were issued.

LETTERS OF APPOINTMENT AND SERVICE CONTRACT

The following table provides details of the Non-Executive Directors' and Managing Director's letters of appointment and service contract. The documents are available on request at the Company's registered office during business hours.

Name	Date of Appointment	Date of expiry of current term
R Rayne	6 April 2006	27 November 2022
N Friedlos	28 November 2019	28 November 2022
P Harvey	28 November 2019	28 November 2022
G Stedman	28 November 2019	28 November 2022
J Wilson	28 November 2019	28 November 2022

TERMS OF THE EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND NED LETTERS OF APPOINTMENT

Executive Directors are engaged on rolling service contracts, which provide for six months' written notice of termination from either the individual or the Company – except where there is a change of control of the business. In such circumstances, the notice period extends to 12 months, should the executive be given notice within the six months following the date that the change of control occurs.

Non-Executive Directors are engaged by letter of appointment terminable on one month's written notice from either the individual or the Company – except where termination is due shareholder resolution. Under such circumstances, termination will occur automatically from the date of ceasing to be a Director.

POLICY ON TERMINATION PAYMENTS

Any compensation payment made to an Executive Director for termination of employment will be determined with reference to the terms of the individual's service agreement and the rules of any incentive plan in which the individual is a participant.

The Committee reserves the right to make additional payments, where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

When deciding on the amount of any payment for loss of office, the Committee will seek to minimise the cost to the Company to the extent permitted by the circumstances of the particular case.

APPROACH TO THE REMUNERATION OF NEWLY APPOINTED DIRECTORS

Where an Executive Director is appointed by way of an external hire, their remuneration will be in accordance with the policy outlined above.

Where a suitable external candidate has been identified and can show that their transfer would lead to a loss of incentive payments from their previous employer, the Committee reserves the discretion to 'buy out' the candidate's previous incentives if it deems it necessary to secure the candidate. The Committee will ensure that it avoids paying out more than is necessary to secure the candidate.

Where an Executive Director is appointed by way of internal promotion, the policy described above will apply from the date of promotion. Any pre-existing remuneration will continue until it expires or vests (as appropriate).

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

When making decisions about Directors' remuneration, and particularly the remuneration of Executive Directors, the Committee will take into account the Company's remuneration policy for the wider workforce.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The responsibility for creating the remuneration policy lies with the Committee and has been created by the Committee based upon their experiences and having reviewed relevant market practices. However, as part of the ongoing continual dialogue between the Company and its shareholders, a number of the shareholders were consulted by the Chair of the Committee to ascertain their views in respect of planned remuneration.

Remuneration Report
continued

Part 3 – Implementation of Remuneration Policy

BASE SALARIES AND BENEFITS

For 2021, there will be no change to the Managing Director's annual salary of £220,000.

The Managing Director will continue to have access to Private Medical Insurance and, if implemented by the Company, Life Assurance.

The Company's employer pension contribution will be at 10% of pensionable salary.

ANNUAL BONUS – SUMMARY OF KPIS FOR 2020

The Remuneration Committee, in conjunction with the Board, establishes goals in respect of each year. Individual goals are weighted according to their importance in determining the overall performance achieved in the year.

The performance criteria for 2020 included implementing the necessary structure and processes to complete the Company's transition to internal management, development of a deal pipeline, building the Company's co-investment capability, monitoring and managing the existing assets through the Coronavirus crisis and planning to expand the Company's capital base.

The Remuneration Committee has reviewed performance for the year, in conjunction with the Board, and without the Managing Director present. The Committee has approved a bonus equal to 55% of base salary for the Managing Director in respect of 2020.

The Committee in conjunction with the Board has also considered performance goals for 2021. The weighting given to individual goals is changed compared to 2020, with much greater weighting on deal flow, capital deployment and developing the Company's co-investment strategy.

For 2021, goals relating to deployment of capital in new deals, raising co-investment capital and developing opportunities to expand the capital base of the Company account for 55% of the weighting. Goals relating to optimising the existing portfolio and developing shareholder and market communications account for a further 30%. Other goals relate to internal management objectives.

LTIP – VALUE CREATION PLAN

At the 2020 AGM, shareholders approved the rules of the LMS Capital Value Creation Plan (the 'VCP'). Under the VCP up to 1000 notional 'units' may be awarded to plan participants, at the discretion of the Remuneration Committee. These units will not vest and result in any payment to participants until July 2025. However, for accounting purposes a cost is recognised in the accounts each year based on the estimated value of the units at point of award spread evenly over the vesting period. The units have been estimated to have a value at award for accounting purposes of £418.44 per unit for the units issued in July 2020 and £393.63 for the units issued in November 2020. The charge for the year ended 31 December 2020 was £33,600.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS' FEES

The current fees of the Chairman and the Non-Executive Directors on implementation of the remuneration policy are as follows:

Chairman Fee (including all committees)	£75,000
Basic Non-Executive Director Fee	£40,000
Additional Fee for being the Senior Independent Director	£5,000
Additional Fee for being Chair of a Board Committee	£5,000
Additional Fee for sitting on the Investment Committee	£5,000

These fees will remain at this level for 2021.

EXTERNAL ADVISORS

During the year the Remuneration Committee received advice from MM&K. MM&K is a member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK.

MM&K assisted the Company with the design of the Directors' Remuneration Policy at the beginning of the year, including the design of the VCP and its documentation, and also assisted with the 2020 remuneration outcomes and the preparation of this report. MM&K did not have any other relationship with the Company.

This Directors' Remuneration Report was approved by the Board on 11 March 2021 and signed on its behalf by:

Graham Stedman
Chairman of the Remuneration Committee
11 March 2021

Directors' Report

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. Details of the Company's strategy, risk management and performance in 2020 are included in the Strategic Report on page 10 and the Manager's Review on page 18.

The Corporate Governance report set out on page 29 of the annual report form part of the Directors' Report.

DIRECTORS

The names and biographical details of the current Directors of the Company are given on page 26. In addition, further information about the Board is set out in the Corporate Governance Report on page 29.

Details of the current Directors' letters of appointment, together with their interests in the Company's shares, are shown in the Remuneration Report on page 42. 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

PERSONNEL AND RESOURCES

The average number of Directors and staff was as follows:

	2020			2019		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Directors[1]	**5**	**–**	**5**	4	–	4
Staff	**2**	**2**	**4**	–	–	–
	7	**2**	**9**	4	–	4

1 Following the Board changes on 28 November 2019, the Board size was increased to five Directors, of which one, the Managing Director, was an employee.

ENVIRONMENT

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

From June 2020, the Company occupied office space under a rental agreement, which comprises 596 square feet. From the end of March 2018 and through to June 2020, the Company did not occupy any office space as all of its operations were outsourced. The table below includes greenhouse gas emissions by scope:

TOTAL EMISSIONS

		Year ended 31 December	
Scope	Source	**2020 (tonnes CO_2e)**	**2019 (tonnes CO_2e)**
Scope 1	Emissions from combustion of fuel	**0.00**	0.00
	Process or fugitive emissions	**0.00**	0.00
Scope 2	Emissions from electricity, heat, steam and cooling purchased for own use using location-based method	**1.65**	0.00
Scope 3	Emissions from employee vehicles and commuting	**0.01**	0.00
Total		**1.66**	0.00
Intensity – emissions per unit floor area		**kgCO_2e**	**kgCO_2e**
	Per square metre	**0.09**	0.0

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 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. The Company is considered as a low emission company.

CHARITABLE DONATIONS

The Company did not make any charitable contributions during 2020 (2019: £nil).

POLITICAL DONATIONS

The Company did not make any political donations during 2020 (2019: £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 page 10 and the Portfolio Management Review on page 18. The Directors have prepared liquidity forecasts for a three-year period from 1 January 2021. In preparing these forecasts the Directors have considered the significant cash balances on hand at 31 December 2020, the expected future expenditures and commitments and the latest report on the investment portfolio. In preparing this liquidity forecast, consideration has been given to the expected impact of Covid-19 on the Company and the wider Group as well as the potential impact on the underlying investee companies. The Directors have considered these factors for a period not less than 12 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 included in the Strategic Report on page 10.

CONTRACTUAL ARRANGEMENTS

Details of the Company's contractual arrangements are given in the Strategic Report on page 10.

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 20 to the financial statements.

DIVIDENDS

A special interim dividend of 4.25p per share was paid on 15 January 2020 to shareholders on the register at close of business on 20 December 2019 (2019: £nil); and an interim dividend of 0.3p per share was paid on 14 September 2020 to shareholders on the register at close of business on 14 August 2020 (2019: £nil).

SHARE CAPITAL

At 31 December 2020, 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.

Directors' Report
continued

SUBSTANTIAL SHAREHOLDINGS

As at 11 March 2021, 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
Rayne Family Holdings	42.07
Charles Stanley & Co Ltd	10.01
Armstrong Investment Management LLP	6.13
Rath Dhu Limited	5.82
Lady R Lacey[1]	4.68
Ms T Woods[1]	4.40
Schroders Plc	3.35
Robert Rayne[1,2]	3.31
A P Rayne[1]	3.21

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 7,767,173 ordinary shares held in trust and a personal interest in 2,670,124 ordinary shares.

ANNUAL GENERAL MEETING

The Company intends to hold the AGM on 12 May 2021. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the AGM will be provided separately in due course and will also be available to view on the Company's website at www.lmscapital.com in due course.

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.

IQ-EQ Corporate Services (UK) Limited
Company Secretary
11 March 2021

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 the profit or loss for the Company for that period. The Directors are also required to prepare financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- state whether they have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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, a 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 the financial statements comply with the Companies Act 2006 and, as regards the financial statements, Article 4 of the IAS Regulation.

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 ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the position and performance, business model and strategy.

Statement of Directors' Responsibilities continued

WEBSITE PUBLICATION

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

DIRECTORS' RESPONSIBILITIES PURSUANT TO DTR4

The Directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board.

Robert Rayne
Chairman
11 March 2021

Independent Auditor's Report
to the Members of LMS Capital plc

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

We have audited the financial statements of LMS Capital plc (the 'Company') for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the 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 accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

INDEPENDENCE

Following the recommendation of the Audit Committee, we were appointed by The Board of Directors in November 2016 and subsequently by the members at the Annual General Meeting held on 21 April 2017 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 to audit the financial statements for the year ended 31 December 2020 at the Annual General Meeting held on 24 June 2020. The period of total uninterrupted engagement including retenders and reappointments is five years, covering the years ending 31 December 2016 to 31 December 2020.

We remain 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. The non-audit services prohibited by that standard were not provided to the Company.

The only non-audit services provided pertained to the interim review for LMS Capital plc for the period to June, which is a permissible audit-related service.

Independent Auditor's Report to the Members of LMS Capital plc continued

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining management's assessment of the going concern status and long-term viability of the Company;
- evaluating management's method of assessing the going concern in light of market volatility and the present uncertainties;
- challenging management's assumptions and judgements made with regards to stress-testing forecasts; and
- calculating financial ratios to ascertain the financial health of the Company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OVERVIEW

Coverage	*100% (2019: 100%) of Investments were in scope for testing*		
Key audit matters		2020	2019
	Valuation, existence and title of Investments	✓	✓
Materiality	*Financial statements as a whole* £710,000 (2019: £480,000) based on 1.5% of net assets (2019: based on 1.5% of investments) The change in the basis of materiality is to reflect that a large portion of the Company's investment portfolio is currently held in cash on the balance sheet.		

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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, including 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.

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td rowspan="2">Valuation and existence of, and rights to Investments (Note 1 and Note 10)</td><td>We consider the valuation, existence and title of investments to be the most significant audit area as investments represent the most significant balance and disclosures in the financial statements and underpin the principal activity of the entity.</td><td>Quoted investments
In respect of 100% of the quoted investment valuations we:
• Confirmed that bid price has been used, by obtaining the year end bid prices from independent third party sources and undertaking a recalculation of the valuations.
• Corroborated FX rates used by obtaining independent FX rates from third party sources.
• Confirmed there were no contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value.</td></tr>
<tr><td>The valuation of unquoted and fund investments can be a highly subjective accounting estimate where there is an inherent risk of management override arising from the investment valuations as it is the principal driver of performance of the entity and therefore is a key audit matter.</td><td>Unquoted Investments
In respect of 100% of the unquoted investments, which were not written down to nil, our procedures included, inter alia:
• Evaluating whether the valuation methodology adopted by the Directors was the most appropriate in the circumstances under the International Private Equity and Venture Capital ('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.
• Agreeing unquoted investments to supporting third party valuation reports or third party data, where these were available. These valuations were agreed to the valuation per the financial statements. Variations were discussed with the Directors to obtain their explanation and corroborated to supporting evidence.
• Verifying and benchmarking key inputs and estimates, such as discount rates and volatility to independent information and our own research. Internal inputs such as revenue and earnings were reviewed for consistency with other areas of the financial statements and working projections.
• Evaluating the significant judgements made by the Directors in making their assessments by agreeing them to corroborating evidence where such evidence was available. Where corroborating evidence was not available we used auditor judgement to assess the reasonableness of the Directors' assessment.
• Performing sensitivity analysis on the valuation calculations in respect of investments where there was sufficient evidence to suggest reasonable alternative inputs might exist.</td></tr>
</table>

Independent Auditor's Report to the Members of LMS Capital plc
continued

Key audit matter	How the scope of our audit addressed the key audit matter
	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. • Challenging the appropriateness of any adjustments made by the Directors 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. • 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 valuations as a whole. • Performing sensitivity analysis on the valuation calculations in respect of investments where there is sufficient evidence to suggest reasonable alternative inputs might exist. We also considered the completeness and clarity of disclosures regarding the valuation of investments in the financial statements against the requirements of the accounting standards. For 99.7% of fund investments and 91.8% of unquoted investments, by value, we agreed existence and title to direct confirmation from the underlying investee company. For 100% of the quoted investments we agreed existence and title to depositary confirmation. We also agreed existence and title to other supporting documents including share certificates or loan agreements as applicable. **Key Observations:** Based on the work undertaken, we consider the investment valuations to be within a reasonable range, and did not identify any material exceptions with regards to existence and title. We consider the investment disclosures to be in line with the requirements of the accounting standards.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Financial statements	
	2020 £	2019 £
Materiality	710,000	480,000
Basis for determining materiality	1.5% of net assets	1.5% of investments
Rationale for the benchmark applied	As an investment entity, the value of net assets is the key measure of performance, furthermore there is an increasing ratio of cash to investments in the balance sheet as investment realisations outweigh purchases and as such utilising net assets as the basis takes this into account	As an investment entity, the value of investments is the key measure of performance
Performance materiality	530,000	360,000
Basis for determining performance materiality	75% of materiality	75% of materiality

REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £14,000 (2019: £9,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Independent Auditor's Report to the Members of LMS Capital plc
continued

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• the Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and • the Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate.
Other Code provisions	• the Directors' statement on fair, balanced and understandable; • the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; • the section of the annual report that describes the review of effectiveness of risk management and internal control systems; and • the section describing the work of the Audit Committee.

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. 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.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code and international accounting standards in conformity with the requirements of the Companies Act 2006.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls;
- considering the key judgements and estimates made in valuing the investment portfolio which is a key balance in the financial statements and poses a risk of fraud;
- review of minutes of Board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Independent Auditor's Report to the Members of LMS Capital plc continued

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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.

Neil Fung-On (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
11 March 2021

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

Income Statement

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'000	2019 £'000
Net losses on investments	2	**(3,247)**	(1,726)
Interest income	3	**94**	180
Dividend income	4	**–**	30
Total loss on investments		**(3,153)**	(1,516)
Operating expenses	5	**(1,243)**	(2,955)
Loss before tax		**(4,396)**	(4,471)
Taxation	8	**–**	–
Loss for the year		**(4,396)**	(4,471)
Attributable to:			
Equity shareholders		**(4,396)**	(4,471)
Loss per ordinary share – basic	9	**(5.4)p**	(5.5)p
Loss per ordinary share – diluted	9	**(5.4)p**	(5.5)p

All activities of the Company are classed as continuing.

The notes on pages 72 to 92 form part of these financial statements.

Statement of Other Comprehensive Income

For the year ended 31 December 2020

	Year ended 31 December	
	2020 £'000	**2019 £'000**
Loss for the year	**(4,396)**	(4,471)
Other comprehensive income	**–**	–
Total comprehensive loss for the year	**(4,396)**	(4,471)
Attributable to:		
Equity shareholders	**(4,396)**	(4,471)

The notes on pages 72 to 92 form part of these financial statements.

Statement of Financial Position

As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Right-of-use assets	17	**125**	–
Investments	11	**70,610**	134,283
Total non-current assets		**70,735**	134,283
Current assets			
Operating and other receivables	12	**67**	166
Cash and cash equivalents	13	**16,385**	25,079
Total current assets		**16,452**	25,245
Total assets		**87,187**	159,528
Current liabilities			
Operating and other payables	14	**(415)**	(1,585)
Amounts payable to subsidiaries		**(38,747)**	(101,985)
Total current liabilities		**(39,162)**	(103,570)
Non-current liabilities			
Other long-term liabilities	14	**(102)**	–
Total non-current liabilities		**(102)**	–
Total liabilities		**(39,264)**	(103,570)
Net assets		**47,923**	55,958
Equity			
Share capital	15	**8,073**	8,073
Share premium		**508**	508
Capital redemption reserve		**24,949**	24,949
Share-based Equity		**34**	–
Retained earnings		**14,359**	22,428
Total equity shareholders' funds		**47,923**	55,958
Net asset value per ordinary share	23	**59.36p**	69.30p

The financial statements on pages 67 to 71 were approved by the Board on 11 March 2021 and were signed on its behalf by:

Robert Rayne
Director

The notes on pages 72 to 92 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share-based equity £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019	8,073	508	24,949	–	26,745	60,275
Comprehensive loss for the year						
Prior year's tax adjustments	–	–	–	–	154	154
Loss for the year	–	–	–	–	(4,471)	(4,471)
Equity after total comprehensive loss for the year	8,073	508	24,949	–	22,428	55,958
Contributions by and distributions to shareholders						
Share-based payments	–	–	–	–	–	–
Dividends	–	–	–	–	–	–
As at 31 December 2019	8,073	508	24,949	–	22,428	55,958
Comprehensive loss for the year						
Prior year's tax adjustments	**–**	**–**	**–**	**–**	**–**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**(4,396)**	**(4,396)**
Equity after total comprehensive loss for the year	**8,073**	**508**	**24,949**	**–**	**18,032**	**51,562**
Contributions by and distributions to shareholders						
Share-based payments	**–**	**–**	**–**	**34**	**–**	**34**
Dividends (note 10)	**–**	**–**	**–**	**–**	**(3,673)**	**(3,673)**
As at 31 December 2020	**8,073**	**508**	**24,949**	**34**	**14,359**	**47,923**

The notes on pages 72 to 92 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'000	2019 £'000
Cash flows from operating activities			
Loss for the year		**(4,396)**	(4,471)
Adjustments for non-cash income and expense:			
Equity settled share-based payment		**34**	–
Depreciation on right-of-use assets	17	**14**	–
Interest expense on lease	17	**4**	–
Losses on investments	2	**3,247**	1,726
Interest income		**(94)**	(180)
Other income		**(6)**	–
Adjustments to incentives plans		**(68)**	(710)
Dividend income		**–**	(30)
Exchange (gains)/losses on cash and cash equivalents		**(113)**	197
		(1,378)	(3,468)
Change in operating assets and liabilities			
Decrease/(increase) in operating and other receivables		**91**	(126)
(Decrease)/increase in operating and other payables		**(1,195)**	1,120
(Decrease)/increase in amounts payable to subsidiaries		**(7,934)**	12,100
Net cash (used in)/from operating activities		**(10,416)**	9,626
Cash flows from investing activities			
Interest received	3	**102**	180
Other income received		**6**	–
Dividend received		**–**	30
Proceeds from sale of investments		**5,190**	–
Net cash from investing activities		**5,298**	210
Cash flows from financing activities			
Dividends paid	10	**(3,673)**	–
Repayment of lease liabilities	17	**(16)**	–
Net cash (used in)/from financing activities		**(3,689)**	–
Net increase in cash and cash equivalents		**(8,807)**	9,836
Exchange (gains)/losses on cash and cash equivalents		**113**	(197)
Cash and cash equivalents at the beginning of the year		**25,079**	15,440
Cash and cash equivalents at the end of the year		**16,385**	25,079

The notes on pages 72 to 92 form part of these financial statements.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

REPORTING ENTITY

LMS Capital plc (the 'Company') is domiciled in the United Kingdom. These financial statements are presented in pounds sterling because that is the currency of the principal economic environment of the Company's operations.

The Company was formed on 17 March 2006 and commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities.

BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the requirement of the Companies Act 2006 and adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 10 to 13 and in the Portfolio Management Review on pages 18 to 25. In addition, note 18 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.

The Company is considered to be a going concern and the accounts have been prepared on a going concern basis. In making this assessment the Directors have considered for the Company's financial position as at the 31 December 2020 and have prepared liquidity forecasts for a three-year period from 1 January 2021. In preparing this liquidity forecast, consideration has been given to the expected impact of Covid-19 on the Company and the wider Group.

NEWLY IMPLEMENTED STANDARDS AND INTERPRETATIONS

There are no new standards, amendments to standards or interpretations that are effective for the period beginning 1 January 2020 that may have a material effect on the financial statements of the Company.

IFRS 16 – LEASES

The Company implemented all of the requirements of IFRS 16 – Leases during the year ended 31 December 2020, upon entering into its first and only lease agreement in June 2020. IFRS 16 Leases was issued in January 2016 and provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

To determine the split between principal and interest in the lease, the Company is required to estimate the interest it would have to pay in order to finance payments under the new lease. The interest rate used by the Company is based on the incremental borrowing rate of 6.5%. The term of the lease is five years and when the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount; and
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

IFRS 2 – SHARE-BASED PAYMENT

IFRS 2 – Share-based payment requires an entity to recognise equity-settled share-based payments measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, together with a corresponding increase in other capital reserves, based upon the Company's estimate of the shares that will eventually vest, which involves making assumptions about any performance and service conditions over the vesting period. The vesting period is determined by the period of time the relevant participant must remain in the Company's employment before the rights to the shares transfer unconditionally to them. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates on the number of awards it expects to vest based on the service conditions.

Any awards granted are to be settled by the issuance of equity are deemed to be equity settled share-based payments, accounted for in accordance with IFRS 2 'Share-Based Payment'.

Where the terms of an equity-settled transaction are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

Per the management share plan, the vesting period for any awards issued can be up to five years and subject to certain conditions. The first awards were issued in the year with respect to the performance period ended 31 December 2020.

Notes to the Financial Statements
continued

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 continues to satisfy the three essential criteria to be regarded as an investment entity as defined in IFRS 10, IFRS 12 'Disclosure of lnterests in Other entities' and IAS 27 'Separate Financial Statements'. The three essential criteria are such that the entity must:

- obtain funds from one or more investors for the purpose of providing these investors with professional investment management services;
- commit to its investors that its business purpose is to invest its funds solely for returns from capital appreciation, investment income or both; and
- measure and evaluate the performance of substantially all of its investments on a fair value basis.

In satisfying the second essential criteria, the notion of an investment time frame is critical. An investment entity should not hold its investments indefinitely but should have an exit strategy for their realisation. Although the Company has invested in equity interests that have an indefinite life, it invests typically for a period of up to ten years. In some cases, the period may be longer, depending on the circumstances of the investment, however, investments are not made with intention of indefinite hold. This is a common approach in the private equity industry.

Subsidiaries are therefore measured at fair value through profit or loss, in accordance with IFRS 13 'Fair Value Measurement' and IFRS 9 'Financial instruments'.

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

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. 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.

The areas involving significant judgements are:

- valuation technique selected in estimating fair value of unquoted investments – note 11
- valuation technique selected in estimating fair value of investment held in Funds – note 11
- recognition of deferred tax asset for carried forward tax losses – note 8
- recognition of share option for equity awards – note 16

The areas involving significant estimates are:

- estimate inputs used in calculating fair value of unquoted investments – note 11
- estimated inputs used in calculating fair value of investment held in Funds – note 11
- estimates in calculating the fair value of equity awards – note 16
- estimate percentage of incremental borrowing rate on lease liability – note 17
- estimate percentage on impairment of financial assets – note 18

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have financial impact on the entity and that are believed to be reasonable under the circumstances.

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 increase in fair value of equity investments which can be realised on sale. Therefore, all quoted, unquoted and managed fund investments are designated at fair value through profit and loss which can be realised on sale 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 ('IPEV') Guidelines. These guidelines require the valuer to make judgments as to the most appropriate valuation method to be used and the results of the valuations.

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

QUOTED INVESTMENTS

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

UNQUOTED DIRECT INVESTMENTS

Unquoted direct investments for which there is no ready market are valued using the most appropriate valuation technique with regard to the stage and nature of the investment. Valuation methods that may be used include:

- investments in 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 revenue or earnings;
- 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 revenue 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 debt instruments or loan notes are determined on a standalone basis, with the initial investment recorded at the price of the transaction and subsequent adjustments to the valuation are considered for changes in credit risk or market rates. Convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model.
- the Company has adopted the updated IPEV guidelines which are effective from 1 January 2019. The main changes of the new guidelines are:
  - price of a recent investment removed as a primary valuation technique; and
  - valuing debt investment is expanded;
- the Company adopted the IPEV special valuation guidance issued in March 2020 in response to the significant uncertainty surrounding the Coronavirus pandemic.

Notes to the Financial Statements
continued

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

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, the latest available of 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. Adjustments will be made to the fund valuation where the Company believes there is evidence available for an alternative valuation.

IMPAIRMENT OF FINANCIAL ASSETS

Expected credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses from possible default events within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

Impairment losses on financial assets carried at amortised cost are reversed in subsequent periods if the expected credit losses decrease.

CARRIED INTEREST

The Company historically offered its executives, including Board executives, the opportunity to participate in the returns from successful investments. A variety of incentive and carried interest arrangements were put in place during the years up to and including 2011. No new schemes have been introduced since. As is common place in the private equity industry, executives may, in certain circumstances, retain their entitlement under such schemes after they have left the employment of the Company. The liability under such incentive schemes is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that scheme were realised at their fair value at the balance sheet date. An accrual is made equal to the amount which the Company would have to pay to any remaining scheme participants from a realisation at the balance sheet value at the balance sheet date. Employer's national insurance, where applicable, is also accrued.

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. The assets held at amortised cost are immaterial.

CASH AND CASH EQUIVALENTS

Cash, for the purpose of the cash flow statement, comprises cash in hand and cash equivalents.

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. These are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest method.

DIVIDEND PAYABLE

Dividend distribution to the shareholders is recognised as a liability in the Company's financial statements when approved at an Annual General Meeting by the shareholders for final dividends and interim dividends when paid.

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.

DIVIDEND INCOME

Dividend income is recognised on the date the Company's right to receive payment is established.

EXPENDITURE

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 recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet 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.

Notes to the Financial Statements
continued

2. NET LOSSES ON INVESTMENTS

Losses and gains on investments were as follows:

	Year ended 31 December					
	2020			2019		
Investment portfolio of the Company **Asset type**	Realised £'000	Unrealised £'000	Total £'000	Realised £'000	Unrealised £'000	Total £'000
Quoted	**(716)**	**–**	**(716)**	–	1,437	1,437
Unquoted	**–**	**25**	**25**	–	130	130
Funds	**–**	**–**	**–**	–	–	–
	(716)	**25**	**(691)**	–	1,567	1,567
Charge for incentive plans			**(68)**			(710)
			(759)			857
Investment portfolio of subsidiaries **Asset type**						
Quoted	**381**	**(598)**	**(217)**	9	1,263	1,272
Unquoted	**121**	**924**	**1,045**	7,071	(4,000)	3,071
Funds	**–**	**(2,190)**	**(2,190)**	–	(6,708)	(6,708)
	502	**(1,864)**	**(1,362)**	7,080	(9,445)	(2,365)
Total	**(214)**	**(1,839)**	**(2,121)**	7,080	(7,878)	(1,508)
Credit for incentive plans			**68**			309
			(2,053)			(1,199)
Operating and similar expenses of subsidiaries*			**(1,194)**			(527)
			(3,247)			(1,726)

* Includes operating and legal costs and taxation charges of subsidiaries

In September 2020, a subsidiary of the Company deposited £7.0 million for an investment in Dacian Petroleum, a Romanian oil and gas production company. The completion of the transaction is subject to regulatory and local government approvals in Romania, which are progressing. The £7.0 million investment is structured primarily as debt with a seven-year maturity and bearing interest at 14% per annum from 20 September 2020. The subsidiary has not recognised the interest income of £0.3 million during 2020 as the transaction was not complete at 31 December 2020 but continues to believe it is probable that the approvals will be obtained and the transaction will close.

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The charge for incentive plans for the Company is £0.07 million for carried interest and other incentives relating to historic arrangements. The credit for subsidiaries is included in the Net losses on Investments in the Income Statement.

3. INTEREST INCOME

Interest income comprises of interest earned on bank deposits and on loans investments.

4. DIVIDEND INCOME

Dividend income received from quoted equity shares are accounted for when the right to receive payments is established and the amount of the dividend can be measured reliably.

5. OPERATING EXPENSES

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Directors remuneration (note 6)	**708**	101
Staff expenses (note 7)	**169**	149
Depreciation on right-of-use assets	**14**	–
Management fee	**–**	1,284
Other administrative expenses	**572**	1,124
Foreign currency exchange differences	**(275)**	174
Auditor's remuneration		
Fees to Company auditor		
– parent company	**38**	35
– subsidiary companies	**–**	73
– interim review for LMS Capital plc	**17**	15
	1,243	2,955

The audit fee comprises £38,000 (2019: £35,000) for LMS Capital plc, fees directly charged to subsidiaries in the current year are £75,000 (2019: £72,500) and £17,000 (2019: £15,000) for the interim review. The expenses in the table above vary from these numbers due to adjustments for opening and closing accruals.

6. DIRECTORS' REMUNERATION

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Directors' remuneration	**593**	70
Directors' social security contributions	**62**	6
Directors' other benefit	**53**	25
	708	101
The highest paid director was Nicholas Friedlos (2019 – Martin Knight)	**239**	55

The average number of Directors and staff was as follows:

	31 December 2020			31 December 2019		
	Male	Female	Total	Male	Female	Total
Average number of Directors	**5**	**–**	**5**	4	–	4
	5	**–**	**5**	4	–	4

Notes to the Financial Statements
continued

7. STAFF EXPENSES

	Year ended 31 December	
	2020 £'000	2019 £'000
Wages and salaries	**144**	133
Employers' social security contributions	**13**	15
Employers' other benefits	**12**	1
	169	149

8. TAXATION

	Year ended 31 December	
	2020 £'000	2019 £'000
Current tax expense		
Current year	**–**	–
Total tax expense	**–**	–

RECONCILIATION OF TAX EXPENSE

	Year ended 31 December	
	2020 £'000	2019 £'000
Loss before tax	**(4,396)**	(4,471)
Corporation tax using the Company's domestic tax rate – 19% (2019: 19%)	**(835)**	(850)
Fair value adjustments not currently taxed	**390**	94
Non-deductible expenses	**238**	100
Non-taxable expense/(income)	**301**	(6)
Deferred tax asset not recognised	**–**	534
Transfer pricing	**(766)**	(700)
Company relief	**672**	828
Total tax expense	**–**	–

As at the year end, there are cumulative potential deferred tax assets of £1.512 million (2019: £1.677 million) in relation to the Company's cumulative tax losses of £7.956 million (2019: £8.826 million). It is unlikely that the Company will generate sufficient taxable profits in future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

9. 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	
	2020 £'000	2019 £'000
Loss		
Loss for the purposes of loss per share being net loss attributable to equity holders of the parent	**(4,396)**	(4,471)
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	**80,727,450**	80,727,450
	Pence	Pence
Loss per share		
Basic	**(5.4)**	(5.5)
Diluted	**(5.4)**	(5.5)

The Company has share awards issued not yet vested which were not dilutive in 2020.

10. DIVIDENDS

Dividends declared during the year ending 31 December 2020 are as follows.

	Dividend date	Payment Date	Dividend £'000	Dividend per share £
First dividend	20 December 2019	09 January 2020	**3,431**	**0.0425**
Second dividend	14 August 2020	07 September 2020	**242**	**0.0030**
Total 2020			**3,673**	**0.0455**

A final dividend of 0.6p per share is recommended by the Board and, subject to approval by shareholders at the AGM on 12 May 2021, will be paid out in early June 2021.

11. INVESTMENTS

The Company's investments comprised the following:

	Year ended 31 December	
	2020 £'000	2019 £'000
Total investments	**70,610**	134,283
These comprise:		
Investment portfolio of the Company	**755**	6,636
Investment portfolio of subsidiaries	**21,438**	25,605
Investment portfolio – total	**22,193**	32,241
Other net assets of subsidiaries	**48,417**	102,042
	70,610	134,283

Notes to the Financial Statements
continued

11. INVESTMENTS CONTINUED

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

Investment portfolio of the Company Asset type	31 December 2020 £'000	31 December 2020 £'000	31 December 2019 £'000	31 December 2019 £'000
Quoted		**–**		5,906
Unquoted direct		**755**		730
Funds		**–**		–
		755		6,636
Investment portfolio of subsidiaries **Asset type**				
Quoted	**197**		2,515	
Unquoted direct	**9,383**		8,983	
Funds	**11,858**		14,107	
Other net assets of subsidiaries	**48,417**		102,042	
	69,855	**69,855**	127,647	127,647
		70,610		134,283

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 2019	5,761	18,324	20,798	44,883
Purchases	–	514	573	1,087
Disposal proceeds	(178)	(7,694)	(681)	(8,853)
Distributions from partnerships	–	–	(66)	(66)
Fair value adjustments	2,838	(1,431)	(6,517)	(5,110)
Balance at 31 December 2019	8,421	9,713	14,107	32,241

	Quoted securities £'000	Unquoted securities £'000	Funds £'000	Total £'000
Balance at 1 January 2020	**8,421**	**9,713**	**14,107**	**32,241**
Purchases	**424**	**249**	**906**	**1,579**
Disposal proceeds	**(7,715)**	**–**	**–**	**(7,715)**
Distributions from partnerships	**–**	**(894)**	**(965)**	**(1,859)**
Fair value adjustments	**(933)**	**1,070**	**(2,190)**	**(2,053)**
Balance at 31 December 2020	**197**	**10,138**	**11,858**	**22,193**

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 18 – Financial risk management).

The Company's investments are analysed as follows:

	31 December	
	2020 £'000	2019 £'000
Level 1	**–**	5,906
Level 2	**755**	730
Level 3	**69,855**	127,647
	70,610	134,283

Level 3 amounts include £21,438,000 (2019: £25,605,000) relating to the investment portfolios of subsidiaries including quoted investments of £197,000 (2019: £2,515,000) and £48,417,000 (2019: £102,042,000) in relation to the other net assets of subsidiaries.

There were no transfers between levels during the year ending 31 December 2020.

12. OPERATING AND OTHER RECEIVABLES

	31 December	
	2020 £'000	2019 £'000
Other receivables and prepayments	**67**	166
	67	166

13. CASH AND CASH EQUIVALENTS

	31 December	
	2020 £'000	2019 £'000
Bank balances	**2,221**	10,951
Short-term deposits	**14,164**	14,128
	16,385	25,079

At 31 December 2020, a balance of £14.164 million (2019: £14.128 million) was held in short-term deposit accounts with no maturity date meaning it was immediately available. In accordance with the definition of cash and cash equivalents, the amounts in both the current and prior year are included as a current asset on the face of the balance sheet.

Notes to the Financial Statements
continued

14. OPERATING AND OTHER PAYABLES

	31 December 2020 £'000	31 December 2019 £'000
Carried interest provision	**68**	710
Trade payables	**32**	225
Other non-trade payables and accrued expenses	**316**	650
	415	1,585
Other long-term lease liabilities	**102**	–
	517	1,585

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 2020, £68,000 (2019: £710,000) has been accrued for in the Company and £424,000 (2019: £629,000) has been accrued for in the subsidiaries. Carried interest accrued for in the subsidiaries is included in the amounts owing to subsidiaries on the statement of financial position.

15. CAPITAL AND RESERVES

SHARE CAPITAL

Ordinary shares	2020 Number	2020 £'000	2019 Number	2019 £'000
Balance at the beginning of the year	**80,727,450**	**8,073**	80,727,450	8,073
Repurchase of shares	**–**	**–**	–	–
Balance at the end of the year	**80,727,450**	**8,073**	80,727,450	8,073

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.

There were no issue or repurchases of shares in the year (2019: £nil).

SHARE PREMIUM ACCOUNT

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

CAPITAL REDEMPTION RESERVE

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

16. SHARE AWARDS

On 24 June 2020, the Company established a long-term incentive plan for the employees of the Company. The plan grants the Board the authority to allot up to 1,000 Value Creation Plan ('VCP') units with both performance and service conditions attached. The VCP units can only be awarded at the end of the five-year vesting period, 30 June 2025, if certain minimum performance conditions are met. These minimum performance conditions include two performance targets over the measurement period, including a minimum hurdle rate such that the annualized total shareholder return ('TSR') over the measurement period must be not less than 8% and a minimum share price of 52.8p. If the minimum performance targets are met, the amount that the plan participants will receive will depend on the TSR performance of the Company achieved over the five-year vesting period. The Board retains the right to settle these awards in either shares or cash. As the Company does not have a present obligation to settle in cash, the awards are all recognized as equity-settled share awards.

The first share awards were granted in 2020 with respect to the performance period ended 31 December 2020.

Grant date	Type of award	Number of shares awarded	Fair value/ share £	Vesting conditions	Final vesting date
30 June 2020	Shares	500	418.44	Awards vest quarterly over five years provided the employee is still in service of the Company.	30 June 2025
17 November 2020	Shares	125	393.63	Awards vest quarterly over five years provided the employee is still in service of the Company.	30 June 2025

The fair value of the option granted during the year has been estimated using the Monte Carlo simulation. The principal assumption used in the calculation were as follows:

	2020	2019
Share price at 30 June 2020	**£ 0.328**	–
Share price at 17 November 2020	**£ 0.299**	–
Exercise price	**–**	–
Expected life	**5 years**	–
Weighted average risk free rate	**(0.04%)**	–
Dividend yield	**2.0%**	–

	Number of awards	Average of fair value of instrument
Outstanding at 1 January 2020	–	–
Granted	625	413.48
Settled in equity	–	–
Outstanding at 31 December 2020	**625**	**413.48**

Notes to the Financial Statements
continued

17. LEASES

LEASE COMMITMENTS

The Company leases rental space and information with regards to this lease is outlined below:

Rental lease asset	£'000
Leased asset recognised under IFRS 16 on 1 July 2020	139
Depreciation for the year	(14)
At 31 December 2020	**125**

Rental lease liability	£'000
Leased asset recognised under IFRS 16 on 1 July 2020	139
Unwinding of the discount on lease liability	4
Payments for lease	(16)
At 31 December 2020	**127**

Further information regarding the adoption of IFRS 16 is detailed in note 1.

18. 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 IFRS 9. Assets and liabilities outside the scope of IFRS 9 are not included in the table below:

	31 December					
	2020			2019		
Financial assets	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000
Investments	**70,610**	**–**	**70,610**	134,283	–	134,283
Operating and other receivables	**–**	**67**	**67**	–	166	166
Cash and cash equivalents	**–**	**16,385**	**16,385**	–	25,079	25,079
Total	**70,610**	**16,452**	**87,062**	134,283	25,245	159,528

	31 December					
	2020			2019		
Financial liabilities	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000
Operating and other payables	**–**	**390**	**390**	–	1,585	1,585
Amounts payable to subsidiaries	**–**	**38,747**	**38,747**	–	101,985	101,985
Lease liabilities	**–**	**127**	**127**	–	–	–
Total	**–**	**39,264**	**39,264**	–	103,570	103,570

Intercompany payables to subsidiaries are all repayable on demand thus there are no undiscounted contractual cash flows to present.

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	
	2020 £'000	**2019 £'000**
Operating and other receivables	**67**	166
Debt Investments	**600**	600
Cash and cash equivalents	**16,385**	25,079
	17,052	25,845

The Company limits its credit risk exposure by only depositing funds with highly rated institutions. Cash holdings at 31 December 2020 and 2019 were held in institutions 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.

The loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables:

2020	**Current £'000**	**More than 30 days past due £'000**	**More than 60 days past due £'000**	**More than 120 days past due £'000**	**Total £'000**
Expected loss rate	**–**	**–**	**–**	**100%**	**–**
Trade receivables	**–**	**–**	**–**	**59**	**59**
Other receivables	**67**	**–**	**–**	**–**	**67**
Prepayments and accrued income	**–**	**–**	**–**	**–**	**–**
Loss allowance	**–**	**–**	**–**	**(59)**	**(59)**
Total	**67**	**–**	**–**	**–**	**67**

2019	**Current £'000**	**More than 30 days past due £'000**	**More than 60 days past due £'000**	**More than 120 days past due £'000**	**Total £'000**
Expected loss rate	–	–	–	100%	–
Trade receivables	–	–	–	59	59
Other receivables	166	–	–	–	166
Prepayments and accrued income	–	–	–	–	–
Loss allowance	–	–	–	(59)	(59)
Total	166	–	–	–	166

Notes to the Financial Statements
continued

18. 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.

The following table shows an analysis of the financial assets and financial liabilities by remaining expected maturities as at 31 December 2019 and 31 December 2020.

Financial assets:

2020	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Investment	–	–	–	70,610	70,610
Operating and other receivables	67	–	–	–	67
Cash and cash equivalents	16,385	–	–	–	16,385
Total	**16,452**	**–**	**–**	**70,610**	**87,062**

2019	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Investment	–	–	–	134,283	134,283
Operating and other receivables	166	–	–	–	166
Cash and cash equivalents	25,079	–	–	–	25,079
Total	25,245	–	–	134,283	159,528

Financial liabilities:

2020	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Operating and other payables	390	–	–	–	390
Amount payable to subsidiaries	–	–	–	38,747	38,747
Lease liabilities	6	19	102	–	127
Total	**396**	**19**	**102**	**38,747**	**39,264**

2019	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Operating and other receivables	1,585	–	–	–	1,585
Amount payable to subsidiaries	–	–	–	101,985	101,985
Total	1,585	–	–	101,985	103,570

In addition, certain of the Company's subsidiaries have uncalled capital commitments to funds of £2,717,000 (31 December 2019: £3,065,000) for which the timing of payment is uncertain (see Note 19).

MARKET RISK

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company aims to manage this risk within acceptable parameters while optimising the return.

CURRENCY RISK

The Company is exposed to currency risk on those of its investments which are denominated in a currency other than the Company's functional currency which is pounds sterling. The only other significant currency within the investment portfolio is the US dollar; approximately 68% 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:

	31 December					
	2020			2019		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**54,370**	**15,040**	**1,200**	117,601	15,331	1,351
Right-of-use assets	**125**	**–**	**–**	–	–	–
Operating and other receivables	**67**	**–**	**–**	166	–	–
Cash and cash equivalents	**15,830**	**555**	**–**	24,498	581	–
Operating and other payables	**(39,264)**	**–**	**–**	(103,570)	–	–
Gross exposure	**31,128**	**15,595**	**1,200**	38,695	15,912	1,351
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**31,128**	**15,595**	**1,200**	38,695	15,912	1,351

The aggregate net foreign exchange losses recognised in profit or loss were:

	31 December	
	2020 £'000	2019 £'000
Net foreign exchange loss on investment	**(90)**	(478)
Net foreign exchange loss on non-investment	**(577)**	(272)
Total net foreign exchange losses recognised in profit before income tax for the year	**(667)**	(750)

At 31 December 2020, the rate of exchange was USD 1.37 = £1.00 (31 December 2019: USD 1.33 = £1.00). The average rate for the year ended 31 December 2020 was USD 1.28 = £1.00 (2019: USD 1.28 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity by £1.7 million at 31 December 2020 (31 December 2019: increase of £1.7 million) and decreased the loss for the year ended 31 December 2020 by £1.7 million (2019: decreased the loss by £1.7 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. This level of change is considered to be reasonable based on observations of current conditions.

Notes to the Financial Statements
continued

18. 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 £207,000 (31 December 2019: increase of £203,000) and decreased the loss for the year by £207,000 (2019: £203,000). A decrease of 100 basis points would have decreased equity and increased the loss for the year by the same amounts. This level of change is considered to be reasonable based on observations of current conditions.

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 and the US. 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 2020 in measuring investments categorised as level 3 in note 11 are considered below:

1. Unquoted securities (carrying value £10.1 million) are valued using the most appropriate valuation technique such as a revenue-based approach, an earnings-based approach, or a discounted cash flow approach. These investments are sensitive to both the overall market and industry specific fluctuations that can impact multiples and comparable company valuations. 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 4-8 times dependent on the business of each individual company, its performance and the sector in which it operates;
   - revenue multiples in the range 0.30–3.6 times, also dependent on attributes at individual investment level; and
   - discounts applied of up to 30%, to reflect the illiquidity of unquoted companies compared to similar quoted companies. The discount used requires the exercise of judgement taking into account factors specific to individual investments such as size and rate of growth compared to other companies in the sector.

2. Investments in funds (carrying value £11.9 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 2020). The Company also carries out its own review of individual funds and their portfolios to satisfy itself that the underlying valuation bases are consistent with the basis of valuation and knowledge of the investments and the sectors in which it operates. However, the degree of detail on valuations varies significantly by fund and, in general, details of unobservable inputs used are not available.

CAPITAL MANAGEMENT

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. Changes in any one of the variables, earnings or revenue multiples or illiquidity discounts could potentially have a significant effect on the valuation.

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 2020 would have increased by £7.0 million (2019: loss increased by £12.7 million). An increase in the valuation of level 3 category investments by 10% at the reporting date would have an equal and opposite effect.

The Company's total capital at 31 December 2020 was £48 million (31 December 2019: £56 million) comprising equity share capital and reserves. The Company had borrowings at 31 December 2020 of £nil (31 December 2019: £nil).

In order to meet the Company's capital management objectives, the Board monitors and reviews 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; and
- the annual dividend policy and other possible distributions to shareholders.

19. CAPITAL COMMITMENTS

	31 December	
	2020 £'000	2019 £'000
Outstanding commitments to funds	**2,717**	3,065

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

As of 31 December 2020, the Company has no other contingencies or commitments to disclose.

20. RELATED PARTY TRANSACTION

The Directors fee paid for the year was £708,000 (2019: £101,000).

Gresham House Asset Management Limited was appointed the investment manager of LMS Capital plc on 16 August 2016 and the agreement was terminated on 30 January 2020. Amount charged by the Investment Manager in 2020 is £nil (2019: £1,284,000). During the year, the Company accrued an additional £20,000 (2019: £400,000) in relation to termination fees payable to Gresham House Asset Management Limited. The Company made a payment of £346,000 towards the prior year's accrual of £400,000 and the remaining £54,000 credit was accounted for in the current year. During the year ending 31 December 2020, the Company received a sum of £32,000 from Gresham House Asset Management Limited which related to management fee true up of 2019.

With effect from 24 June 2020, the Company entered into a lease agreement with The Rayne Foundation in respect of the premises comprising its principal office. Under the terms of the lease, the Company paid rent of £16,390 (2019: nil) to The Rayne Foundation. Robert Rayne is the Chairman of The Rayne Foundation.

Notes to the Financial Statements
continued

21. SUBSEQUENT EVENTS

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

22. SUBSIDIARIES

The Company's subsidiaries are as follows:

Name	Country of incorporation	Holding %	Activity
International Oilfield Services Limited	Bermuda	100	Investment holding
LMS Capital (Bermuda) Limited	Bermuda	100	Investment holding
LMS Capital (General Partner) 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
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 Property Investments Limited	England and Wales	100	Investment holding
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
Cavera Limited	England and Wales	100	Trading
LMS Co-Invest Limited	England and Wales	100	Trading

For the year ended 31 December 2020, 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 were registered in Bermuda were liquidated on 30 June 2020. In addition, LMS Capital (ECI) Limited, LMS Capital (GW) Limited, LMS NEP Holdings Inc and LMS Tiger Investments Limited were also liquidated by November 2020.

On 09 January 2020, Lion Cub Investment changed its name to Cavera Limited.

On 10 January 2020, LMS Co-Invest Limited was incorporated as a private company under the Company's subsidiaries.

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

Subsidiaries incorporated in England and Wales: Two London Bridge, London, SE1 9RA.

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

23. NET ASSET VALUE PER SHARE

The net asset value per ordinary shares in issue are as follows:

	31 December 2020	31 December 2019
NAV (£'000)	**47,923**	55,958
Number of ordinary shares in issue	**80,727,450**	80,727,450
NAV per share (in pence)	**59.4 pence**	69.3 pence

Corporate Information

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

FINANCIAL CALENDAR 2021
Annual General Meeting – 12 May
Half-year results – July

Notes

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