LMS CAPITAL

# Annual Report & Accounts 2021

For the year ended 31 December 2021

# Who We Are and Why Invest?

LMS Capital plc ('LMS' or 'the Company') is a listed investment company.

We harness experience, capital and access to deal flow to create enhanced shareholder returns for family offices, high net worth investors and others.

Our competitive advantage lies in our long experience, our relationships with exceptional management teams with knowledge of, and connections in, the sectors where we focus – particularly in real estate, energy and late-stage private equity.

We seek to achieve a balance between preserving and growing wealth. We expect to deliver an attractive rate of return – 12% to 15% per annum over the medium to long term – of which an element will include an annual dividend. Dividends were commenced in 2020 at 1.5% of our year end NAV with the intention to progressively increase as the investment portfolio evolves.

We invest in high quality portfolio companies that generally require a level of management attention which larger funds are unable to support or are too complex for direct investment by individual family offices or individual investors.

For further investor information:
**www.lmscapital.com**

## IN THIS REPORT

## 2021 HIGHLIGHTS

### NET ASSET VALUE ('NAV')

£49.1m

The net asset value ('NAV') at 31 December 2021 was £49.1 million, 60.8 pence per share (31 December 2020: £47.9 million, 59.4 pence per share).

### DIVIDENDS TO SHAREHOLDERS

£0.7m

The Company paid a 2020 final dividend to shareholders of 0.6 pence per share in May 2021 and an interim dividend for the 2021 year of 0.3 pence per share in September 2021.

### GAINS ON PORTFOLIO VALUE

£3.8m

The portfolio showed an overall net increase in value on the year of £3.8 million from net realised and unrealised gains, interest income and foreign exchange movements (2020: £2.1 million net decrease). Within this, the mature portfolio showed an 11.6% return in the year.

### RUNNING COSTS

£1.8m

Running costs, including those incurred by subsidiaries, were £1.8 million and there were an additional £0.3 million of investment related costs, bringing total overheads to £2.1 million (2020: £1.7 million running costs and an additional £0.2 million of investment related costs representing total overheads of £1.9 million).

### PORTFOLIO REALISATIONS

£2.7m

Cash proceeds from portfolio realisations in the year totalled £2.7 million, mainly from the redemption of Northbridge Industrial convertible debt and distributions from ICU Eyewear (2020: £9.3 million).

### YEAR-END CASH BALANCE

£20.1m

Group cash balances at the year end, including amounts held by subsidiaries, were £20.1 million, representing 41.0% of the NAV (2020: £20.6 million and representing 43.0% of the NAV).

## NEW INVESTMENTS

### DACIAN PETROLEUM

£6.7m

Completed our first cornerstone investment in Dacian Petroleum ('Dacian'), a newly formed Romanian oil and natural gas production company that has acquired and now operates, mature onshore energy production assets.

# Company Overview

LMS has a proven record of successfully providing opportunities for wealth creation through nurturing and careful management. Our focus is on realising our mature investments while deploying available cash for new investments that focus on our three key sectors – real estate, energy and late-stage private equity.

## 2021 NAV AT A GLANCE

**CASH**

£20.1m

**MATURE INVESTMENTS**

£23.0m

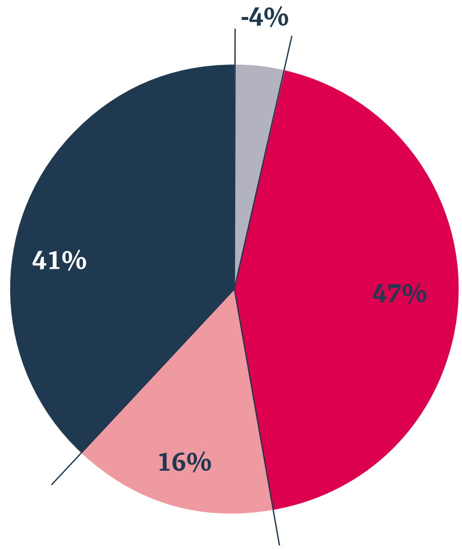
**OTHER NET LIABILITIES**

£(1.9)m

**NEW INVESTMENTS**

£7.9m

- Cash
- Mature Investments
- Other Net Liabilities
- New Investments




## MATURE INVESTMENTS

- investments that originate from the Company's strategy prior to 2012;
- held with a view to optimising realisation proceeds in a 1–3 year period;
- nearly 80% of the portfolio consists of four investments: an unquoted investment in Medhost and three funds – Brockton Capital Fund I, Opus Capital Venture Partners and Weber Capital Partners; and
- these investments are managed mainly by third party managers; the Company has information rights and access to the teams and can seek to influence but does not control decisions.

## NEW INVESTMENTS

- the completion of the investment in Dacian is the first new investment since our return to internal management; and
- Dacian is a cornerstone investment for LMS that highlights our ability to lead a co-investment group that enabled Dacian to complete its first acquisition of onshore oil and gas production fields in Romania.

## CASH AVAILABLE FOR DEPLOYMENTS

- we seek opportunities within our three chosen sectors – real estate, energy and late-stage private equity – that not only offer attractive returns on the direct investment but also allow LMS to have influence and to participate in developing and bringing further capital into the underlying business – both from its own balance sheet and its co-investment network;
- this potentially creates additional fee streams and equity opportunity for LMS. This approach may result in fewer, but more significant transactions; and
- during 2022, we aim to develop the opportunities for additional capital deployment within the acquired Dacian portfolio, and more widely also bringing forward opportunities with our real estate teams.

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.

# Statement from the Chairman and the Managing Director

**ROBERT RAYNE**
CHAIRMAN

**NICHOLAS FRIEDLOS**
MANAGING DIRECTOR

We are delighted to be introducing this, our second set of results, as a self-managed investment business. The Coronavirus pandemic meant that 2021 continued to be a year of disruption and uncertainty in society as a whole and for businesses. Notwithstanding this, we have made progress in improving our NAV and completed our investment in Dacian, our first cornerstone investment since returning to self-management. Whilst the investment took longer to close than initially anticipated, its completion in November 2021 was a highlight and will create further opportunities for us in 2022.

We have considered the impact of the Russian invasion of Ukraine on our portfolio investments and our overall business. We do not hold any investments that have operations in Russia or Ukraine. Elateral, our investment in the digital marketing sector, utilises contract staff in Ukraine, Russia and Belarus for its software development and has developed a contingency plan to manage potential disruption. The situation remains highly uncertain, and we will monitor developments closely.

## FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

### NET ASSET VALUE ('NAV') OVERVIEW

The NAV of the company at 31 December 2021 was £49.1 million, 60.8 pence per share (31 December 2020: £47.9 million, 59.4 pence per share). This represents an increase of £1.2 million on the prior year and comprises:

- net increase of £2.6 million being realised and unrealised net gains on the mature asset portfolio;
- increase of £1.2 million being accrued interest on Dacian;
- net reduction of £1.9 million for other items including running costs, taxation, the investment costs principally associated with developing real estate deal opportunities and foreign exchange gains on non-portfolio assets; and
- reduction of £0.7 million for dividends paid to shareholders.

After adjusting for the 0.9 pence per share distributed as dividends during 2021, the NAV has shown an increase on the year of 4.0%.

The Company's NAV comprises three distinct groups of assets:

### MATURE INVESTMENTS – 31 DECEMBER 2021 NAV £23.0 MILLION (28.5 PENCE PER SHARE)

- these comprise investments which originate from the Company's strategy pre-2012;
- the investments are managed with a view to optimising the realisation values. Where the investment case supports it, we may commit additional capital;

- most of these investments are managed by third parties. Whilst the Company has information rights and regular access to the managers, it has no direct control of decision making;
- it is our expectation that these assets will be substantially realised over the next 1–3 years; and during the year, this group of investments:
  - produced cash realisations of £2.7 million; and
  - showed realised/unrealised gains of £2.6 million, representing an 11.6% return on the opening balance.

NEW INVESTMENTS – 31 DECEMBER 2021
NAV £7.9 MILLION
(9.9 PENCE PER SHARE)

- currently, this comprises the Company's investment in Dacian. The commitment to invest was made in Q3 2020, and funds were set aside; the transaction completed, following obtaining regulatory approvals in November 2021;
- Dacian is the Company's first new investment in accordance with the investment approach set out when it returned to self-management at the beginning of 2020;
- accrued interest on the loans through which the investment is structured, have added £1.2 million to NAV in 2021; and
- the background, rationale and prospects for the investment are discussed further below.

LIQUIDITY – CASH LESS OTHER NET LIABILITIES – 31 DECEMBER 2021
NAV £18.2 MILLION
(22.4 PENCE PER SHARE)

- cash comprises £20.1 million, some 41.0% of the Company's total NAV;
- other net liabilities comprise £1.9 million and relate mainly to accruals for income taxes, historic carried interest liabilities for one remaining asset and other sundry costs; and
- this represents the 'fire power' with which we intend to continue implementing the investment approach which is discussed in more detail in our approach to the deployment of capital below.

Overall, net increases, both realised and unrealised, in the underlying value of the portfolio over the year were £3.8 million.

MATURE ASSETS
- PORTFOLIO OVERVIEW

The four largest assets comprise 79% of the mature portfolio:

- Medhost – Co-investment, alongside Primus Capital, in this US software company serving the mid-sized hospital market in America. A mature business with strong and consistent revenues, earnings and cash flows. The unrealised increase in NAV for the year, excluding the impact of foreign exchange gains, was £0.2 million, a 4.1% return on opening NAV for this investment;

**NAV**

£49.1m

**NAV RETURN**

4.0%

**MATURE PORTFOLIO RETURN**

11.6%

STATEMENT FROM THE CHAIRMAN AND THE MANAGING DIRECTOR CONTINUED

- Brockton Capital Fund I – The remaining asset in this real estate fund, of which the Company holds 16.7%, is a preferred debt investment in a 'Super Prime' residential development in Mayfair, central London. Whilst the pandemic has created delays in both the construction and sales programme for this project, work is nearing completion and sales are being achieved. The investment, which is valued on a discounted cash flow basis showed an unrealised increase in NAV for the year of £1.5 million, representing an unrealised 37.2% return on the opening NAV of the investment. This reflects the annual accrual of interest on the underlying preferred debt and unwind of the discount rate used in the valuation and the recognition of certain reserves previously held to cover potential cost overruns;

- Opus Capital Venture Partners – The Company holds 2.3% of this 2008 vintage US early-stage technology fund, managed by Opus Capital Venture Partners. The fund has two significant remaining investments. The fund life has now been exceeded, the manager is no longer charging annual fees, and the expectation is that an exit will be sought in the reasonably near term. The unrealised increase in NAV during the year was £0.4 million representing an unrealised return of 11.4% on the opening NAV of this investment; and

- Weber Capital Partners – This US micro-cap stock fund is run for the Company by Weber Capital Partners with whom the Company has worked closely for over 20 years. The theme is substantially but not exclusively around technology and medical stocks. Historic returns have been excellent. To September 2021, average rolling five year returns since 2006 and three year returns since 2002 have been 14.3% and 18.6% respectively. Prior to the return to self-management, Weber Capital Partners was instructed to realise and return much of the holding. In Q3 2020, additional capital of $1 million was committed, to rebuild the investment and allow greater diversity within the portfolio. The NAV increase on this investment during 2021 was £0.8 million, a return of 44.2% on the opening balance.

On other mature assets:

- during the year, we have achieved a restructure and injection of additional capital into Elateral (NAV £0.8 million) in conjunction with bringing in a new operating partner who has joined their Board. As noted above, Elateral has outsourced software development resources in Ukraine, Russia and Belarus which are being disrupted. The company has developed a contingency plan to help mitigate the consequences;

- ICU Eyewear (NAV £1.8 million), which produced an unexpected windfall in 2020 from its opportunistic move into distribution of PPE equipment, has returned largely to its core eyewear activity. This investment is managed by San Francisco Equity Partners ('SFEP') and options to exit the business are being explored; and

- the winding up of YesTo in Q4 was a significant disappointment. In April 2020, the Company declined to invest further capital in YesTo, but the indications at the time from the manager, SFEP, were that at least the historic debt investment should be recoverable, albeit the equity was unlikely to have any value. Accordingly, a write down was taken in 2020. A combination of factors, including the pandemic, put additional financial stress on the business and the YesTo board took the decision in Q4 2021 that it was unlikely to raise further debt or equity and to pursue an orderly winding up to repay external creditors. The Company has written off its remaining £0.7 million investment.

As noted above, notwithstanding the outcome on YesTo, the mature asset portfolio overall showed a return of 11.6% for the year on the NAV at 1 January 2021.

## NEW INVESTMENTS – DACIAN

The Company has invested £6.7 million ($9.1 million) in Dacian, a newly formed Romanian oil and gas production company established to acquire and operate mature onshore energy production assets.

LMS assembled a funding package, comprising its own investment and co-investment, to enable Dacian to complete its first acquisition. The Company's $9.1 million investment is structured almost entirely as senior secured loan notes with a coupon of 14% per annum gross before a 10% withholding tax, plus a nominal payment for a 32% equity stake in Dacian.

Dacian was able to conclude its acquisition in November 2021, after a longer than anticipated delay in obtaining the necessary local regulatory approvals.

Under the terms of the August 2020 Dacian investment agreement, the senior secured loan notes carry an entitlement to interest running from the date of original funding by investors, which was in September 2020. Accordingly, accrued interest of £1.2 million ($1.7 million) has been added to the value of the investment. This generated an unrealised return of 18.5% for the year.

The rationale for the investment in Dacian was:

- the business is operationally cash flow positive from day one;
- a business focused on the extension of life of existing production assets that has an environmentally important role to play in the world's transition away from carbon fuels; and
- it was evaluated and the investment decision taken on the basis of:
  - attractive entry pricing;
  - a founder team with extensive industry experience and a Romanian team with prior knowledge of the assets being acquired;
  - a robust operating plan able to withstand volatility in energy prices;
  - the opportunity for gains through production enhancing technology that can extend the productive life of mature assets; and
  - overall, the potential to meet and exceed LMS's target investment returns.

It remains early days for Dacian, having operated for less than four months at time of writing, but initial indications are positive as the company continues to increase production with its workover programme and is generating positive cash flow from operations.

## LIQUIDITY – CASH LESS OTHER NET LIABILITIES

### *CASH*

Cash balances in the Company and its subsidiaries at 31 December 2021 were £20.1 million (31 December 2020: £20.6 million).

Outflows during the year amounted to £3.2 million, this includes £1.8 million of running costs, £0.3 million of investment related costs, £0.7 million of dividend payments and £0.4 million of new capital invested in Elateral.

Inflows were £2.7 million and include a £1.5 million distribution from ICU Eyewear, £0.8 million from the redemption of the Northbridge convertible debt, plus sundry fund distributions.

### *NET LIABILITIES*

Net liabilities of £1.9 million consist primarily of accruals for income taxes, historic carried interest liabilities for one remaining asset and other sundry costs.

## DIVIDEND POLICY

The Company paid £0.7 million in dividends during the year comprising a final dividend for the year ended 31 December 2020 of 0.6 pence per share, paid on 14 June 2021 and an interim dividend for the year ended 31 December 2021 of 0.3 pence per share paid on 3 September 2021.

A final dividend of 0.625 pence per share for the year ended 31 December 2021 is recommended by the Board. The increase reflects the increase in 2021 year end NAV compared to the prior year. Subject to approval by shareholders at the AGM in May 2022, the dividend will be paid to shareholders in early June 2022.

The 2020 dividend and, if the Board's recommendation is approved, the 2021 dividend payment will equate to approximately 1.5% of the respective year end NAV each year. This is in accordance with the policy laid out by the Board in 2020. Whilst the dividends currently exceed the net cash income, the Board is confident of the Company's ability to generate future annual income and has therefore continued the policy.

The Board's ambition is to increase the level of dividend and will keep the current policy under review. The actual level of dividend each year will take account of market conditions generally, the Company's financial position and its distributable reserves.

STATEMENT FROM THE CHAIRMAN AND THE MANAGING DIRECTOR CONTINUED

## APPROACH TO THE DEPLOYMENT OF CAPITAL

Whilst the Dacian deal has now completed, the Company still has 41.0% of its NAV as uninvested cash. As the mature asset portfolio is realised further cash will be generated.

Our approach to the further deployment of capital is to seek opportunities, within our chosen sectors, which not only offer attractive returns on the direct investment but also allow LMS to have influence and, over time, to participate in developing and bringing further capital into the underlying business – both from its own balance sheet and its co-investment network. This potentially creates additional fee streams and equity opportunities for LMS.

This approach results in fewer, but more significant transactions. One consequence of this is that individual deals can take longer – Dacian has been an example of this. However, we believe this approach to be the most effective one given the current size of the Company and our ambition to grow.

## INVESTMENT THEMES

The Company has a widely drawn investment policy, but we are conscious of the importance of bringing forward investments where we have a track record of success and can offer distinct competitive advantage based on our knowledge, past experience and access to exceptional management teams. Our focus is on the following sectors:

### *ENERGY*

The Company has a history of investing in the energy sector and has connections with management teams that enable it to identify and execute on opportunities not readily accessible to others.

In relation to carbon-based energy, we see the extension of life of existing production assets as having a key and environmentally important role to play in the world's transition away from carbon fuels over the next few decades. Dacian has a portfolio of sunset life assets where the extension of life of these ageing assets allows for very low carbon footprint per barrel and molecule produced because the existing industrial infrastructure is put to further use. Dacian is the first investment in this area.

We also see opportunities in renewable energy and in the businesses that service the generation of that energy.

### *REAL ESTATE*

Real estate has been a consistent theme in the LMS portfolio and is an area of deep expertise and access to opportunities and management.

In evaluating the opportunities we see, we remain cautious, noting continued high asset and site acquisition prices against a backdrop of continuing uncertainty, in particular around the inflationary pressures on construction costs.

We see opportunity in developing specialist-use real estate and by working in partnership with landowners and other third parties. We are working to bring opportunities forward.

### *LATE-STAGE PRIVATE EQUITY*

Late-stage private equity covers a wide spectrum of opportunities and we are aware of the need to employ our resources efficiently and in areas where we can show some differentiation and relative competitive advantage.

Whilst we continue to see a range of opportunities, we have focused our resources on looking at those that have some cross over with our real estate or energy themes, for example industrial products whose market includes the energy sector or real estate service businesses.

## INVESTMENT CHARACTERISTICS

The Company sees many opportunities during a typical year but focuses on those where not only the underlying investment merits are attractive, but also where LMS has a competitive advantage. The sources of advantage are:

- working with management teams we know well, who are respected in their sector, experienced and with a track record of successful execution;
- 'hard to access' assets, typically at the smaller end of their respective sectors, allowing more attractive acquisition pricing and giving the opportunity for value creation through more intensive management; and
- the opportunity to introduce co-investment capital alongside our own balance sheet.

The Dacian transaction, which is our first deal since the return to self-management, reflects the approach we seek to adopt and the above characteristics:

- backing a team with whom we have deep and long standing relationships and who have outstanding experience in their sector;
- experience brought to bear to acquire assets at attractive entry prices and which, through operational know how, can be driven to produce excellent returns;
- creating a platform from which the management team and LMS can expand their exposure to the sector; and
- creating the opportunity for LMS to introduce co-investment partners.

## LOOKING FORWARD

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 costs, of between 12% and 15% over the longer period.

Looking forward in 2022, our focus is to:

- use our Board position to nurture the Dacian investment – still less than six months old – and to ensure that there is a clear operating plan to achieve the production objectives envisaged at the time the investment was made;
- develop the opportunities for additional capital deployment within the acquired Dacian portfolio, and more widely; and
- bring forward opportunities with our real estate teams.

We would like to express our appreciation for the support from our team and from the network of people with whom we work on a regular basis. We would also like to express our appreciation for the continued support of our shareholders. We look forward to reporting progress to you during 2022.

**Robert Rayne**
Chairman

**Nicholas Friedlos**
Managing Director

9 March 2022

> **"The completion of the Dacian transaction is an important milestone for all our activities. It allows us to demonstrate to shareholders, to co-investors and to the markets in which we wish to invest, the characteristics of the opportunities we seek to pursue and demonstrates our ability to execute on deals.**
>
> **NICHOLAS FRIEDLOS**
> MANAGING DIRECTOR

# Portfolio Overview

INTRODUCTION

## The following are the principal portfolio investments of the Company, representing nearly 93% of the total portfolio value:

## Dacian Petroleum

REGION: EU | YEAR: 2021 |
% Holding: 32% | NAV: £7.9 million

Dacian is a newly formed Romanian oil and natural gas production company operating over 40 late life, onshore fields with nearly 100 producing wells. The completion of the Dacian transaction, our first cornerstone investment after the return to self-management, demonstrates the ability of LMS to execute its co-investment strategy.

The Company invested £6.7 million ($9.1 million) in Dacian for senior secured loan notes with a 14% per annum coupon and a 32% equity stake in the company, and also led the co-investment group that raised the additional capital allowing Dacian to complete in November 2021 the acquisition of these oil and natural gas fields from OMV Petrom.

Dacian is a business that is operationally cash flow positive from day one and has a business plan to more than double its current level of oil and natural gas production, primarily through a series of intervention and workover projects on existing wells. The investment, through its attractive entry pricing and the potential for Dacian to grow production and thereby its earnings and cash flow, has the potential to meet and exceed our target investment returns.

# Principal Unquoted Investments

## Medhost

REGION: US | YEAR: 2008 |
% Holding: 8.8% | NAV: £6.0 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: £1.7 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.

www.icueyewear.com

## Elateral

REGION: UK | YEAR: 2008 |
% Holding: 62.5% | NAV: £0.8 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 whilst protecting brand identity. Elateral targets large international companies with multi-language requirements and has a concentration of global corporate customers.

www.elateral.com

# Principal Funds

## Brockton Capital Fund I

REGION: UK | YEAR: 2008 |
NAV: £5.6 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

## Opus Capital Venture Partners

REGION: UK | YEAR: 2008 |
NAV: £3.9 million

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

www.opuscapitalventures.com

## Weber Capital Partners

REGION: UK | YEAR: 2008 |
NAV: £2.6 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

# Strategic Report

## INTRODUCTION

LMS Capital is a listed investment company. The Company returned to internal management in January 2020 at which time it was entered by the FCA on the Register of Small Registered AIFMs. 2021 represents its second year of operation as an internally managed investment business.

### OUR INVESTMENT **OBJECTIVES**

To deliver consistent long-term financial returns for our shareholders:

- an overall total return, net of costs, over the long-term of 12% to 15% per annum;
- the total return to include an annual dividend, initially set at 1.5% of NAV and ultimately progressing to 3.0%; 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 access to deal flow.

### OUR INVESTMENT **APPROACH**

We will focus on areas where we have competitive advantages:

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

Our competitive advantage comes from:

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

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 market inefficiencies allow attractive entry pricing;
- situations requiring a level of management attention which larger funds are unable to support or are too complex for direct investment by family offices or individual investors; and
- controlling or influential minority positions:
  - Board or Investment Committee representation; and
  - full information rights.

### OUR CO-INVESTMENT **ACTIVITY**

We seek to bring co-investors to deals to invest alongside the Company's 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, participation in a more diversified range of deals, the possibility of enhanced economics and the ability to recover fees to offset against its costs.

Our first cornerstone investment under internal management, Dacian, is an example of our ability to attract co-investment capital. We invested $9.1 million in senior loan notes and a 32% equity ownership in Dacian and also led a co-investment group that invested an additional $5.0 million in senior loan notes and an 18% equity ownership.

## HOW WE **OPERATE**

We have assembled an experienced Board to oversee the development of our business and also to function as the Investment Committee that closely monitors existing investments and evaluates and approves new investments. Information on our Board is set out on pages 30 to 31 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 of individuals with relevant experience in each of our three areas of focus. The groups provide additional external perspective, access to further investment opportunities in their sectors and guidance for the Company.

**BOARD & INVESTMENT COMMITTEE**

Robert Rayne
Nicholas Friedlos
James Wilson
Peter Harvey
Graham Stedman

**ADVISORY GROUPS**

**CORE TEAM**

Nicholas Friedlos
Doug Mills
Aimee Fraser
Chris Garrod

**REAL ESTATE**

Chris Dancer
Ben Young
Tim Willis

**ENERGY**

Bernard Duroc-Danner
Thomas Bruni

**PRIVATE EQUITY**

Richard Fidler
Tim Willis
Josh Lamstein

**LMS CO-INVEST**

Tim Willis

STRATEGIC REPORT CONTINUED

## STRATEGY

A new Board was appointed in November 2019. Since then, 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 over the longer term of 12% to 15% per annum, net of all costs, and including the annual dividend payment to shareholders.

The Company implemented an annual dividend policy in August 2020 that has been set initially at 1.5% of the 31 December NAV. The dividend policy is intended to be progressive with a target to achieve a dividend of 3% per annum of the Company's NAV and fully covered by 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, available liquidity, other circumstances relevant to the Company's financial condition and overall market conditions.

## 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 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;
- 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 2021 or at the date of this report.

## OUTLOOK AND PROSPECTS

The Board is focused on finding opportunities in our three core sectors that meet our return targets and allow us to have influence over the underlying business.

We are 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.

Our approach to the further deployment of capital is to seek opportunities, within our chosen sectors, which not only offer attractive returns on the direct investment but also allow LMS to have influence and to participate in developing and bringing further capital into the underlying business – both from its own balance sheet and its co-investment network. This potentially creates additional fee streams and equity opportunity for LMS.

This approach results in fewer, but more significant transactions. One consequence of this is that individual deals can take longer – Dacian has been an example of this. However, we believe this approach to be the most effective one given the current size of the Company and our ambition to grow.

# Responsible Investing

The Task Force on Climate-Related Financial Disclosures ('TCFD') Recommendations, first launched in 2017, are designed to encourage consistent and comparable reporting on climate-related risks and opportunities by companies to their stakeholders. The TCFD Recommendations are structured around four content pillars: (i) Governance; (ii) Strategy; (iii) Risk Management; and (iv) Metrics & Targets. This responsible investing section reflects a summary of our progress made to date towards our goal of incorporating climate risk and opportunity identification and management into our overall business strategy.

## OUR APPROACH

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 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 environmental, social and governance ('ESG') standards today.

As a small investment company, much of our ESG impact is driven by the companies in which we choose to invest. We believe that investing in businesses that place an emphasis on ESG issues both protects and creates value for our shareholders.

### GOVERNANCE AND STRATEGY

The Board has overall responsibility for the development and implementation of our ESG principles, including climate risks and opportunities. The Board has ensured that ESG principles are integrated into the Company's investment strategy. We are committed to maintaining high standards of corporate governance. As a company listed on the London Stock Exchange, we are diligent in our own internal procedures and reporting to shareholders.

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, that minimise the risks associated with poor ESG practices; and
- maintain high standards of corporate governance.

### RISK MANAGEMENT

Our risk management procedures include carrying out an assessment of the principal risks within our business and considering the likelihood and potential impact of each risk and the effectiveness of the procedures to mitigate each risk (see page 20).

We have a broad investment universe in the sectors we focus on, and we aim to increase the potential for long-term success by minimising our exposure to companies which are at risk of disruption, litigation, regulation or loss of business as a result of poor ESG practices. As part of our investment process, we aim to integrate ESG considerations throughout – from the identification of potential investments in our pipeline of opportunities, to time of investment, throughout our ownership and ultimately to exit. We also target new investments where we have influence over the management team.

New investments are subject to a rigorous multi-stage assessment and approval process by the Investment Committee and Board. Our evaluation of investments includes, but not limited to, consideration of climate change impacts, the business ethics of an investee company, its human resource practices, health and safety record and overall, the way it implements, monitors and manages its own ESG policies. The relative significance of individual factors will vary from business to business according to the nature of its operations.

We work closely with the management teams of our investee businesses, with input from our Advisory Groups with specific sector knowledge, to drive responsible, long-term decisions and ensure alignment with our own responsible investment principles.

### METRICS

The Company monitors its greenhouse gas ('GHG') emissions annually (see page 54) and continues to maintain low GHG emissions levels due to its small size and limited office footprint. The Company also engages with its portfolio investments on their ESG governance and strategies.

## CASE STUDY – DACIAN PETROLEUM

Dacian, completed in November 2021, was the first new investment by the Company since return to internal management. Dacian is a Romanian oil and natural gas production company with 40 mature fields. The production of natural resources, while essential to our current daily lives, also contributes to some of the environmental issues at the forefront of society today. The Company considered the climate change impact and other ESG factors when making its decision to invest in Dacian. The key factors the Company considered were:

- Dacian has a portfolio of later life assets where the extension of life of these ageing assets allows for low carbon footprint per barrel and molecule produced because the existing industrial infrastructure is put to further use;
- the business is primarily focused on a workover programme that extends the life of existing wells as opposed to exploration and drilling activity that has a significantly higher carbon footprint;
- the natural gas production is primarily utilised in the generation of electricity and displaces coal, which has a much higher carbon footprint, in that mix of natural resources;
- the company retained a local, Romanian workforce and has a minimal number of expatriates; and
- the company has an experienced management team that puts the health and safety of its employees at the forefront of its business operations.

The Board is pleased that a new investment was completed in a company that is expected to generate financial returns that meet or exceed our strategic target, plays a role in the global energy transition and has a positive presence in the region in which it operates by maintaining good corporate stewardship of its assets and its employees.

# Company Performance in 2021 and Objectives for 2022

A detailed review of the management of the portfolio is set out on pages 24 to 29 of this Annual Report. The detailed financial results are set out in the accounts on pages 66 to 93.

The Board's overall aim is to create value for the Company's shareholders, through a combination of annual dividends and share price appreciation. To achieve this aim, the Board is focused on delivering its stated target returns, and its success will be measured by the Total Shareholder Return generated by the Company's shares over the longer term. The Board is also aware of the need to expand and diversify the capital base of the Company.

The Board determines annual priorities and objectives for the Company with a view to achieving its long-term goals. These priorities and objectives will generally be focused on the following areas:

- achieving the annual returns target by:
  - effectively managing its active investments;
  - sourcing new investment opportunities, which meet its target returns, and deploying surplus cash; and
  - exercising strict control over its running costs.
- building the profile of the Company in the public markets and taking advantage of opportunities that arise to expand the capital base.

The table below provides a summary of the outcomes of the annual objectives set for 2021 and an indication of the priorities and objectives for 2022.

## PERFORMANCE INDICATORS

The Board's objective is to create wealth in the Company over the medium to longer-term and takes decisions through the lens of this 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 plus 4.0% (2020: minus 7.8%) and its share price total return was 23.3% for the year ended 31 December 2021. These measures compare to the FTSE All Share Index which showed a return of 18.3% for the year ended 31 December 2021.

Further information on the Company's performance is provided in the Portfolio Management Review on pages 24 to 29.

## DEVELOPMENT OF NEW INVESTMENT OPPORTUNITIES

### ENERGY

Completion of the Dacian transaction in November 2021 was an important milestone for the Company – this being a large deal, just below 15% of NAV at the time of investment, and also the first deal since the return to self-management.

The delays in completion were frustrating and during the year the Board kept its options under active review, including the option to unwind its investment. However, in conjunction with the local management team, the Board continued to support the efforts to get the transaction approved in Romania and complete the investment.

**Objective for 2022 – With the transaction now completed, the focus is two-fold:**

- **working with the Dacian team to implement the business plan, in particular around the capital programme to achieve increases in the oil and gas production of the assets acquired; and**
- **identifying further opportunities to build an energy business focused on mature production assets.**

## DEVELOPMENT OF NEW INVESTMENT OPPORTUNITIES

### REAL ESTATE

We are looking for opportunities which

- deliver our target returns; and
- provide the potential to create an ongoing business – not sporadic one-offs.

The current market broadly is characterised by continuing high acquisition prices and escalating construction costs. In evaluating opportunities, we are therefore cautious and prepared to be patient before committing capital. During the year we have invested time and external resource with our real estate teams in developing a pipeline of opportunities.

**Objectives for 2022 – to bring forward the opportunities under development, which meet our two criteria set out above, and commit capital to our real estate pipeline.**

### LATE-STAGE PRIVATE EQUITY

Whilst the Company's main themes are energy and real estate, it also looks at other late-stage investment opportunities, particularly where there is some cross over in the investment with either of our two main themes.

The Company has assembled a small group of investment professionals who provide support in its initial evaluation of opportunities. A number of opportunities were reviewed during the year, but none were considered a suitable investment fit in the Company's portfolio.

**Objectives for 2022 – to identify and deploy capital in at least one opportunity.**

## CO-INVESTMENT

An important part of the Company's strategy is to build its network of co-investors who invest alongside LMS. The completion of the Dacian transaction represents a significant milestone – the Company having led the sourcing of all of the investor debt and equity required.

**Objectives for 2022 – to continue to build the co-investment network and to bring co-investment capital into our next investment opportunity.**

## PUBLIC MARKETS PROFILE AND SHAREHOLDER COMMUNICATIONS

The Company recognises the importance of building a wider understanding of its strategy and its approach in the public markets. The delay in completing Dacian, the Company's first significant investment since the return to self-management, delayed progress in this area.

**Objectives for 2022 – With Dacian now complete, the Company is well positioned to expand its communications both with existing and potential shareholders and other partners in its chosen areas of activity.**

## MANAGING THE MATURE PORTFOLIO

The bulk of the mature portfolio comprises interests in funds and minority equity positions where the Company has access to information and is able to engage with and seek to influence management but does not have control of decisions.

The mature portfolio overall has shown an 11.6% unrealised return in the year, broadly in line with the Board's expectations for this portfolio of assets. The investments in Brockton and Weber have performed well, and Medhost and ICU have shown modest gains. The decision by SFEP during Q4 to wind up YesTo, resulting in its write off, was a disappointment. The only remaining asset with SFEP is ICU.

At Elateral the Company led a restructuring, which resulted in the former investment partner being bought out by LMS together with a new operating partner who joined the board and, with the chairman, also provided funding in conjunction with LMS.

**Objectives for 2022 – To introduce further third-party capital to Elateral in conjunction with our new operating partner. Whilst the Company does not control the realisation strategy on most of the mature asset portfolio, it regularly reviews options including secondary market sales – although generally continuing to hold to maturity represents a better option.**

# 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. 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 of 12% to 15% to shareholders or that the Board is unable to implement its strategy or cannot pay its target dividend.

### Market risk

Risk that macro market and geopolitical uncertainties 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, including the Company's Environmental, Social and Governance 'ESG' direction.

### 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 legal regulatory framework to which it is subject, including but not limited to 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. 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 with KPIs 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 the individual asset level.

The current significant level of cash held by the Company 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 assessment and approval process by the Investment Committee and Board.

The Board also integrates ESG considerations throughout the whole investment process, including consideration of how an investee company monitors and manages its own ESG impact.

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 also by 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 regularly reviews its effectiveness through a combination of internal and external 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

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

The Directors have carried out a robust assessment of the emerging and principal risks and concluded that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over a three year period from the date of this report. The three year 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, including the flexibility in the dividend policy and lack of any external debt;
- the significant cash balances on hand at 31 December 2021 compared to the level of annual running costs;
- 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 macroeconomic environment, geopolitical uncertainties and possible legal and regulatory changes.

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

- many of the Company's investments are in private companies for which the timing and amount of income and/or realisation is uncertain. The fair value of some investments recovered during 2021 as global markets improved, and the Company continues to hold 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 considered the downside risk in the value of marketable securities, where realisations of these form part of the liquidity forecast. This risk typically includes factors impacting the price of the security and the exchange rate against sterling of the currency in which it is denominated and uncertainty about the timing of its realisation; and
- in making its assessment, the Board has carried out a robust assessment of the emerging and principal risks, including taking 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.

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

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 the Net Asset Value. A final dividend payment on the 2020 year of 0.6 pence per share was paid in June 2021 and an interim dividend of 0.3 pence per share was paid in September 2021. A final dividend for the year of 0.625 pence per share 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's initial £6.7 million investment in Dacian was completed in November 2021. It has also invested an additional £0.4 million in Elateral. 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 at which 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, governance, risk and internal control issues. In January 2022, the Board completed an internal review, led by the Chairman, of its effectiveness. 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
9 March 2022

# Portfolio Management Review

## INTRODUCTION

During 2021, the Company recorded an 11.6% return on its mature portfolio investments and an additional 18.5% on its first new investment under internal management, Dacian. Portfolio realisations totalled £2.7 million during 2021, primarily from cash distributions from ICU Eyewear and the redemption of the Northbridge convertible debt, funding the Company's overheads and follow-on investment in Elateral.

Cash in the group at 31 December 2021 was £20.1 million (31 December 2020: £20.6 million), including £14.5 million held by the Company and £5.6 million held by subsidiaries. Inflows, as noted above were £2.7 million. Significant outflows have been £0.7 million of dividend payments and £0.4 million invested in Elateral. Other net cash movements amount to an outflow of £2.1 million, include £1.8 million of running costs and £0.3 million of investment related costs.

## MARKET BACKGROUND

Coming out of a volatile 2020 that was significantly impacted by the Covid-19 pandemic, 2021 was a year of uncertainty and anticipation for a return to normality. The rollout of vaccine programmes and easing of lockdown restrictions generated an overall economic recovery during 2021, although the identification of new Covid-19 variants during the year contributed to the continued volatility. The economic expansion was also impacted by global supply chain issues, labour shortages and rising inflation. Despite the economic growth and rising inflation, central banks continued to provide fiscal and monetary stimulus, although that began to taper at the end of the year. Sterling strengthened against the US dollar during the year and global equity markets improved, with the FTSE 100 having its best returns in five years, up over 14%, while the US S&P 500 Index gained nearly 27%. The FTSE AIM 100 and SmallCap indices ended the year up 2.0% and 20.0%, respectively.

Domestically, continued economic growth is expected in 2022, albeit at a slower pace than the previous year. The year could face some continued uncertainty related to rising consumer prices due to inflation, increasing energy prices, sustained labour shortages and supply chain disruptions.

The consequences of recent developments and the impact of macroeconomic and domestic issues will continue to be monitored closely by the Board.

## PERFORMANCE REVIEW

The movement in NAV during the year was as follows:

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Opening NAV | **47,923** | 55,958 |
| Profit/(loss) on investments | **2,556** | (2,053) |
| Investment interest income | **1,241** | – |
| Dividends | **(727)** | (3,673) |
| Overheads and other net movements | **(1,884)** | (2,309) |
| **Closing NAV** | **49,109** | 47,923 |

Cash realisations and new and follow-on investments from the portfolio were as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Proceeds from the sale of investments | – | 8,011 |
| Proceeds from redemption of convertible debt | **750** | – |
| Distributions from funds and loan repayments | **1,916** | 1,304 |
| Total – gross cash realisations | **2,666** | 9,315 |
| New and follow-on investments | **(7,153)** | (976) |
| Fund calls | **(43)** | (169) |
| **Total – net** | **(4,530)** | 8,170 |

Realisations of £2.7 million in 2021 include:

- £1.5 million of distributions from ICU Eyewear related to cash generated in 2020 from their Health business line that sold personal protective equipment;
- proceeds of £0.8 million from the redemption of Northbridge convertible debt;
- £0.1 million of distributions from Eden Two LLP; and
- other realisations and fund distributions of £0.3 million.

The new and follow-on investments are primarily £6.7 million for Dacian and £0.4 million of additional equity and working capital funding for Elateral, a UK direct investment. The Dacian investment was initially cash funded in September 2020 and classified as other current assets in one of the Company's subsidiaries until the transaction closed in November 2021.

The fund calls are primarily for SFEP management fees.

Below is a summary of the investment portfolio of the Company and its subsidiaries, which reflects all investments held by the group:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | | 2020 | | |
| **Mature investment portfolio** | **UK £'000** | **US £'000** | **Total £'000** | UK £'000 | US £'000 | Total £'000 |
| Quoted | **218** | **165** | **383** | 119 | 78 | 197 |
| Unquoted | **924** | **7,744** | **8,668** | 1,226 | 8,912 | 10,138 |
| Funds | **7,242** | **6,687** | **13,929** | 5,808 | 6,050 | 11,858 |
| | **8,384** | **14,596** | **22,980** | 7,153 | 15,040 | 22,193 |
| **New investment portfolio** | **UK £'000** | **US £'000** | **Total £'000** | UK £'000 | US £'000 | Total £'000 |
| Quoted | **–** | **–** | **–** | – | – | – |
| Unquoted | **–** | **7,958** | **7,958** | – | – | – |
| Funds | **–** | **–** | **–** | – | – | – |
| | | **7,958** | **7,958** | | | |
| **Total investments** | **8,384** | **22,554** | **30,938** | 7,153 | 15,040 | 22,193 |

## 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 active 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 an established business which is generating sustainable revenue or earnings but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows;
- 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; and
- convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model.

### 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 2021 was as follows:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | | 2020 | | |
| **Asset type** | **Realised gains/ (losses) £'000** | **Unrealised gains/ (losses) £'000** | **Total £'000** | Realised gains/ (losses) £'000 | Unrealised gains/ (losses) £'000 | Total £'000 |
| Quoted | **–** | **186** | **186** | (335) | (598) | (933) |
| Unquoted | **(5)** | **(90)** | **(95)** | 121 | 949 | 1,070 |
| Funds | **–** | **2,473** | **2,473** | – | (2,190) | (2,190) |
| | **(5)** | **2,569** | **2,564** | (214) | (1,839) | (2,053) |
| Charge for incentive plans | | | **(9)** | | | – |
| | | | **2,555** | | | (2,053) |
| Operating and similar income/ (expense) of subsidiaries | **–** | **–** | **1,282** | – | – | (1,194) |
| | | | **3,837** | | | (3,247) |

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The credit for incentive plans for the Company is £1,000 and for subsidiaries a charge of £10,000 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 73% of the portfolio at 31 December 2021 is denominated in US dollars (31 December 2020: 68%) and the above table includes the impact of currency movements. In the year ended 31 December 2021, the weakening of the US dollar against sterling over the year as a whole resulted in an unrealised foreign currency gain of £0.02 million (2020: unrealised loss of £0.2 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

| | | 31 December | |
|---|---|---|---|
| **Company** | **Sector** | **2021 £'000** | 2020 £'000 |
| IDE Group Holdings | UK technology | **218** | 118 |
| Global Green Solutions | US energy | **139** | 62 |
| Others | – | **26** | 17 |
| **Total – net** | | **383** | 197 |

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

| | Year ended 31 December | |
|---|---|---|
| **Gains/(losses), net** | **2021 £'000** | 2020 £'000 |
| **Realised** | | |
| Solaredge Technologies | **–** | 265 |
| Gresham House | **–** | (716) |
| Realised foreign currency gain | **–** | 116 |
| | **–** | (335) |
| **Unrealised** | | |
| IDE Group Holdings | **100** | (663) |
| Global Green Solutions | **78** | 72 |
| Other quoted holdings | **9** | 3 |
| Unrealised foreign currency losses | **(1)** | (10) |
| | **186** | (598) |
| **Total net gains/(losses)** | **186** | (933) |

*IDE GROUP HOLDING*

The performance of IDE Group Holdings improved during 2021 as the company's share price began to recover after it was significantly impacted by the Coronavirus pandemic in 2020, resulting in a £0.1 million unrealised gain. In January 2022, the company announced that it had won several new customer contracts and expects further revenue growth in 2022.

## UNQUOTED INVESTMENTS

| Company | Sector | Year ended 31 December 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| Dacian | US energy | **7,959** | – |
| Medhost Inc | US technology | **5,997** | 5,704 |
| ICU Eyewear* | US consumer | **1,746** | 3,143 |
| Northbridge | UK technology | **–** | 755 |
| Elateral | UK technology | **817** | 399 |
| IDE loan notes | UK technology | **107** | 73 |
| YesTo* | US consumer | **–** | 64 |
| | | **16,626** | 10,138 |

*These are co-investments with SFEP.

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

| | Year ended 31 December 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Realised** | | |
| Entuity | **–** | 115 |
| Penguin Computing | **–** | 6 |
| Northbridge | **(5)** | – |
| | **(5)** | 121 |
| **Unrealised** | | |
| Medhost | **235** | 374 |
| IDE Group | **35** | – |
| Elateral | **21** | (1,436) |
| Northbridge | **–** | 25 |
| YesTo | **(74)** | (268) |
| ICU Eyewear | **(313)** | 2,459 |
| Unrealised foreign currency gains/(losses) | **6** | (205) |
| | **(90)** | 949 |
| **Total net (losses)/gains** | **(95)** | 1,070 |

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 2021, with similar Revenue and EBITDA compared to the prior year. This resulted in a small increase to the valuation with an unrealised gain of £0.2 million for 2021.

*ELATERAL*

The Company invested an additional £0.4 million in Elateral during 2021, increasing its ownership from 50% to 62.5% from the purchase of additional shares for £0.1 million and providing working capital funding of £0.3 million. The additional capital provided by the Company was part of a buyout of another significant shareholder interest completed by LMS, the Elateral chairman and a new operating partner who also joined the board of Elateral. Elateral experienced a net reduction in revenue and EBITDA during 2021 as the economic impact of the Covid-19 pandemic continued to negatively impact the company. The increase in the valuation is mainly attributable to the new capital invested in 2021.

*ICU EYEWEAR*

During 2020, ICU was able to generate surplus cash flow from the US distribution of PPE manufactured by one of its international suppliers. This was a one-off opportunity from which the company was able to benefit. The cash generated was used to repay shareholder debt to LMS during 2020 and a further cash distribution of £1.5 million was made in February 2021. The PPE business for ICU was an opportunistic response to the Covid-19 pandemic in 2020, and the ICU board has decided that this does not represent an ongoing line of business for the company, and further activity will cease. The reduction in carrying value arises principally from the distribution of £1.5 million, initially reflected in the December 2020 valuation and received in early 2021. The unrealised loss for the period reflects a valuation reduction following cessation of PPE activities, partly offset by an uplift in valuation of the eyewear business.

*NORTHBRIDGE*

During 2021, Northbridge offered its convertible debt holders the option to redeem the outstanding principal at a 25% premium. The Company elected to redeem its convertible debt, receiving proceeds of £0.8 million and recognising a nominal realised loss on the conversion.

PORTFOLIO MANAGEMENT REVIEW CONTINUED

## FUND INTERESTS

| General partner | Sector | 31 December 2021 £'000 | 31 December 2020 £'000 |
|---|---|---|---|
| Brockton Capital Fund 1 | UK real estate | **5,635** | 4,107 |
| Opus Capital Venture Partners | US venture capital | **3,948** | 3,505 |
| Weber Capital Partners | US micro-cap quoted stocks | **2,644** | 1,813 |
| EMAC ILF | UK | **733** | 839 |
| Eden Ventures | UK venture capital | **494** | 501 |
| Simmons | UK | **381** | 361 |
| **General partner** | **Sector** | **31 December 2021 £'000** | **31 December 2020 £'000** |
| San Francisco Equity Partners | US consumer & technology | **55** | 699 |
| Other interests | – | **39** | 33 |
| | | **13,929** | 11,858 |

The net gains and losses on the Company's funds portfolio for the year ended 31 December 2021 were as follows:

| Gains/(losses), net | Year ended 31 December 2021 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|
| **Realised** | | |
| Other funds | **–** | – |
| | **–** | – |
| **Unrealised** | | |
| Brockton Capital Fund I | **1,528** | (1,422) |
| Weber Capital Partners | **801** | 555 |
| Opus Capital Venture Partners | **398** | 907 |
| Eden Ventures | **118** | (157) |
| Simmons Parallel Energy | **53** | (22) |
| San Francisco Equity Partners ('SFEP') | **(389)** | (1,729) |
| Others (net) | **(51)** | (315) |
| Unrealised foreign currency gains/(losses) | **15** | (7) |
| | **2,473** | (2,190) |
| **Total net (losses)/gains** | **2,473** | (2,190) |

*SAN FRANCISCO EQUITY PARTNERS*

LMS is the majority investor in SFEP as opposed to the other fund interests where the Company has only a minority stake. SFEP's remaining investment carrying value is £0.1 million (31 December 2020: £0.7 million). SFEP's investment in YesTo carrying value is £nil (31 December 2020: £0.7 million). It was fully written off in 2021. The YesTo board decided to wind up the business by selling all assets of the company and repaying the senior secured lenders. The Company had previously written off all the equity of YesTo and with the winding up of the business has now written off the outstanding loan notes.

In addition to the fund investments noted above, the Company has a directly held co-investment in YesTo of £nil million (31 December 2020: £0.1 million). The Company's total investment in YesTo at 31 December 2021, via its SFEP fund interest and its co-investment was £nil (31 December 2019: £0.7 million), reflecting a £0.7 million unrealised loss for the write-off of YesTo.

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

*OTHER FUND INTERESTS*

- Brockton Capital Fund I – The Company's investment represents its share (via the Brockton Fund) of preferred debt investments in a Super Prime central London residential development. The investment showed an increase in the valuation of £1.5 million for 2021 due to unrealised gains from the unwinding of the discount rate as the investment is valued on a discounted cash flow basis;
- Weber Capital – holds US publicly traded micro-cap securities and showed an unrealised gain of £0.8 million reflecting an increase in the underlying equity prices;
- Opus Capital – a US venture fund, showed an unrealised gain of £0.4 million from valuation gains in its two main assets; and
- Eden Ventures – Eden has now sold all but one of its assets. The unrealised gain of £0.1 million reflects primarily the increase in value of its sole remaining asset.

## COSTS

Group costs for the year (including £1.8 million incurred by the Company and £0.3 million by subsidiaries) were £2.1 million (2019: £1.9 million) and include running costs of £1.8 million and investment related costs of £0.3 million for 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 £0.1 million (2020: £0.01 million).

## FINANCIAL RESOURCES AND COMMITMENTS

At 31 December 2021 cash holdings, including cash in subsidiaries, were £20.1 million (31 December 2020: £20.6 million) and neither the Company nor any of its subsidiaries had any external debt (2020: nil external debt).

At 31 December 2021, subsidiary companies had commitments of £2.7 million (31 December 2020: £2.7 million) to meet outstanding capital calls from fund interests.

**LMS CAPITAL PLC**
9 March 2022

# Board of Directors

**ROBERT RAYNE**
NON-EXECUTIVE CHAIRMAN

**NICHOLAS FRIEDLOS**
MANAGING DIRECTOR

"**Our Board operates through both formal and informal interactions and is closely involved with the direction of the business.**

**ROBERT RAYNE**
CHAIRMAN

**NICHOLAS FRIEDLOS**
MANAGING DIRECTOR

## Robert Rayne

*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:** Chairman of The Rayne Foundation and a Non-Executive Director/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.

## Nicholas Friedlos

*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 for 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 CEO and CFO 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:** 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.

# Corporate Governance Report

## The work of the Board during the year was conducted through four formal meetings and regular informal engagement with executive management.

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

### UK CORPORATE GOVERNANCE CODE AND S172 REPORTING

Section 172 of the Companies Act 2006 (s172) requires Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, having regard to the factors, including stakeholder factors, set out in section 172(1)(a) to (f) of the CA 2006.

The Board of LMS Capital plc is committed to delivering strong value to shareholders while 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 consider the likely consequences of its decisions in the long-term and the importance of maintaining a reputation for high standards of business conduct and to ensure that in 2022 any changes will be monitored to guarantee adherence of the Code is applied.

### GOVERNANCE KEY EVENTS

- Over the course of the year, the Company has continued to keep under review its documented policies and procedures, where required to comply with the various areas of regulation. A policy relating to co-investment by Directors, employees or consultants was added and is described below. 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 2021, following the developing situation with Coronavirus (Covid-19) including the guidance from the UK Government and Public Health England on public gatherings and considering the possible health risks arising from attending the AGM, the Board concluded that it was appropriate for shareholders not to attend the AGM in person and, instead, shareholders were encouraged to submit proxy votes. At the 2021 AGM, shareholders were given the opportunity to submit questions before and after the meeting. It is intended that the 2022 AGM will be held as per the normal process, but the Company shall continue to monitor any relevant advice from the UK Government and Public Health England. 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.

## 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 that the Chair of the Company 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 are 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 Director being present. In January 2021 and in January 2022 the Board reviewed the performance of the Executive Director for the preceding year and agreed performance objectives, and such meetings were held without the Executive Director present.

Provision 19 of the Code requires that 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. A Board effectiveness review, facilitated by an external consultant, was undertaken in respect of 2020. In respect of 2021, the Board conducted an internal review of its effectiveness in January 2022.

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 carried 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 from other former executives who in some cases also retained carried interest entitlements. There have been no new carried interest plans introduced since the Company returned to internal management.

## 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. Nicholas 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 2021, all discussions have been held by telephone, having regard to the Coronavirus pandemic. It is anticipated that during 2022 in person meetings can occur. Nicholas Friedlos, our Managing Director, and each of our Committee Chairmen are available to engage with shareholders on significant matters related to their area of responsibility.

All Directors will be available at our AGM in 2022 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 2021 it was subject of an Advisory vote at the AGM and will be again in 2022.

In accordance with the Code, the Remuneration Committee determine Executive Director remuneration policy and practices and address the following factors: clarity, simplicity, risk, predictability, proportionality and alignment to culture.

When determining remuneration schemes and the remuneration policy, the Committee consider 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 42 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 form 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 12 to 15 and the Audit Committee Report on pages 39 to 41.

## DIVERSITY AND SUCCESSION PLANNING

The Board has reviewed the combination of skills and experience on the Board and 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.

## CO-INVESTMENT POLICY

An important part of the Company's strategy is developing a co-investment network, and this can include one or more of the Company's Directors, employees or consultants (the 'LMS Team'). The Board has adopted a co-investment policy to provide guidance in situations where one or more members of the LMS Team proposes to become a co-investor in one of the Company's new investments. The policy states that any such co-investment should be on the same or no better terms and at the same time as the Company's investment. The policy also sets out the regulatory requirements and requires all proposed LMS Team co-investments be reviewed and approved by an Independent Board, being the Board, but excluding any Board members who are part of the proposed co-investment. Should all Board members be proposed co-investors, the arrangement would be reviewed by the Company's financial advisor.

## 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.

*BOARD EVALUATION*

The Board considers the guidance on Board Effectiveness issued by the FRC in July 2018. The Board reviews its own performance annually. The assessment covers the effectiveness and performance of the Board as a whole, the Board Committees and an evaluation of each Director. It is led by the Chairman, and includes an independent evaluation of the Chairman by the Senior Independent Non-Executive Director.

In respect of 2021, the Board conducted an internal review of its effectiveness in January 2022, that was led by the Chairman. The assessment concluded that the Board and each Committee continue to operate effectively and that all Board members (including the Chairman) continue to operate effectively and are committed to providing support, advice and challenge to the Chairman and Managing Director. It also concluded that the Board had been able to act effectively and responsively during the Covid-19 pandemic despite all the challenges.

The overall conclusion was that the Board was operating effectively with no significant areas requiring to be addressed.

*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 30 to 31. 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. 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.

Nicholas 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 2021 committed sufficient time to fulfilling their duties as members of the Board.

## CORPORATE GOVERNANCE REPORT CONTINUED

*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. This was not used during the year, however all Directors have access to the advice and services of the Company Secretary. In addition, newly appointed Directors would be 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 MEETINGS*

Four scheduled Board meetings were held in 2021. At each scheduled meeting, the Board considered 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 2021. They attended the following number of scheduled meetings of the Board and (where they were members) its Committees during the year:

| 2021 | Board | Audit | Nomination | Remuneration | Investment |
|---|---|---|---|---|---|
| **Meetings held** | **4** | **3** | **1** | **3** | **3** |
| Robert Rayne | 4 | – | 1 | – | 3 |
| Nicholas Friedlos | 3* | – | 1 | – | 3 |
| Peter Harvey | 4 | 3 | 1 | 3 | 3 |
| Graham Stedman | 4 | 3 | 1 | 3 | 3 |
| James Wilson | 4 | 3 | 1 | 3 | 3 |

* Nicholas Friedlos was unable to attend due to illness on one occasion in the year

In addition to the scheduled Board meetings noted above, the Board held one ad-hoc meeting during 2021 with all Directors attending. The Remuneration Committee also held one ad-hoc meeting during 2021 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.

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 page 39.

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, continue 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 continue 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. Although the Company has no internal audit function, the Committee reviews the effectiveness of the internal controls throughout the year and will take any necessary corrective 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 are comfortable that these are adhered to. More information on the results of these reviews during 2021 are set out in the Audit Committee Report on pages 39 to 41. Details of the principal risks and uncertainties potentially facing the Company can be found in the Strategic Report on pages 12 to 15.

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.

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 and provide additional internal controls for the safeguarding and record keeping of its assets.

## 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 gender and ethnic 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, and 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 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 45 to 51.

## FINANCIAL REPORTING

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 57 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 58 to 65, 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
9 March 2022

# Audit Committee Report

## INTRODUCTION FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

I am pleased to present the report of the Audit Committee for 2021 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;
- risk management and internal control; and
- the day-to-day accounting responsibilities are undertaken by a third-party service provider, IQ-EQ Administration Services (UK) Limited.

Throughout 2021, the Committee 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 Committee carried out its responsibilities during 2021, as well as the more significant issues addressed, is set out in the report.

**Peter Harvey**
Chairman, Audit Committee
9 March 2022

## CORPORATE REPORTING

The Committee had three scheduled meetings during 2021 and also met on 3 March 2022; each meeting was attended by the external auditor.

Since the publication of the 2020 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 2021;
- the 2021 half year results and announcement;
- reports from BDO on the planning of their audit for the year ended 31 December 2021;
- the report from BDO on their audit of the results for the year ended 31 December 2021;
- the preliminary announcement of 2021 results; and
- the 2021 Annual Report.

## ANNUAL REPORT 2021

The Committee advises the Board on whether it believes that the 2021 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;

AUDIT COMMITTEE REPORT CONTINUED

- 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 2021 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 2021:

- ensuring that the valuation methodology complied with the International Private Equity and Venture Capital Valuation Guidelines (December 2018 edition), and the Company's stated accounting policy, and that the Guidelines had been applied on a consistent basis;
- the availability of third-party information to corroborate valuation results at individual investment level, including:
  - reports from general partners for the Company's fund interests;
  - market prices for its quoted investments; and
  - the nature and reason for any adjustments made to third party information for the Company's valuation purposes.

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

- consideration of current trading and future prospects in determining the appropriate revenues or earnings base for valuation purposes;
- consistency of approach in the valuation, satisfying itself that any change made was appropriate;
- ensuring that metrics from comparable quoted companies were appropriate and up to date; 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, the significant cash balances on hand at 31 December 2021, the latest report on the investment portfolio and the ongoing impact of the Company's operations, portfolio and liquidity from the Coronavirus global pandemic.

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 judgemental differences and misstatements they had found during the course of their work.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Committee reviews the operation of the Company's internal financial control system to ensure it is sufficiently resourced and has the appropriate processes and controls over financial reporting to fulfil its duties. That assessment is taken into account by the Board that reviews and approves the risk matrix annually. 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 2021 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 2021 and to the date of this report covered:

- the results of their audit of the 2020 financial statements and annual report;
- the results of their review of the 2021 half year report;
- their plans and proposed audit scope for 2021; and
- the results of their audit of the 2021 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.

BDO have been auditors for the company for six years. The audit Partner (Neil Fung-On) has also been the Responsible Individual (RI) for five years therefore a new audit partner Orla Reilly was rotated onto the engagement in July 2021 in advance of the half-year review. The Chairman of the Committee and the executive team met with the new partner both by video conference and in person as part of the familiarisation process and discussed feedback from the Committee's assessment of prior year audits.

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 £23,250 (2020: £17,000). These permissible non-audit related services were in respect of the interim review for the six months to June 2021 and 2020 and the client money and custody assets limited assurance report for a subsidiary in 2021.

## AUDIT COMMITTEE EFFECTIVENESS

The annual Board evaluation described on page 35 included the work of the Committee and concluded that it was working satisfactorily.

**Peter Harvey**
Chairman, Audit Committee
9 March 2022

# Remuneration Report

## INTRODUCTION FROM THE CHAIRMAN

I am pleased to present our Remuneration Committee Report, which summarises the work of the Remuneration Committee ('the Committee'), as well as the remuneration policy and remuneration paid to Directors during the year.

Our Directors' Remuneration Policy was approved by shareholders at the AGM 2020, with 99.83% of votes in favour, and last year's Directors' Remuneration Report received 95.92% of votes in favour, indicating on-going and strong support from our shareholders.

## 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 two 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.

The Committee invested considerable time during the first part of 2020 in developing and implementing the remuneration policy for the Company, following its return to self-management. 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 the Company to apply the principles set in Provision 40 of the Code and in so doing helped to ensure that the terms of our Remuneration Policy are transparent, simple and predictable. At the same time, 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 pages 45 to 51 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 2021 Directors' Remuneration Report will be the subject of an advisory vote at the 2022 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.

## 2021 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 2021.

The performance criteria for the Managing Director's bonus for 2021 included the continuing development of the Company's pipeline of investment opportunities in its chosen sectors of energy, real estate and late-stage private equity and, in particular, supporting the Dacian team in obtaining the necessary regulatory consents for its acquisition, thereby enabling the Company's investment in Dacian to proceed to completion. Criteria also included the management of the existing assets and the development of the Company's profile in the public markets. The Committee has reviewed the performance of the Managing Director in 2021 against these criteria, in conjunction with the Chairman, and has approved a bonus for the year equal to 48% of his base salary. Further information on the 2021 performance review and 2022 objectives is set out on pages 18 to 19.

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
9 March 2022

## PART 1 – ANNUAL REPORT ON REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2021

### SINGLE TOTAL FIGURE OF REMUNERATION

The tables below (which have been subject to audit) set out amounts paid to each Director during the financial years ended 31 December 2021 and 31 December 2020:

| | | Fixed Remuneration | | | Variable Remuneration | | | |
|---|---|---|---|---|---|---|---|---|
| **2021** | **Salary/Fees £'000** | **2020 Accrued Fee £'000** | **Taxable Benefits £'000** | **Pension £'000** | **Carried Interest £'000** | **LTIP £'000** | **Bonus £'000** | **Total £'000** |
| R Rayne | **75.0** | **–** | **18.2**[1] | **–** | **–** | **–** | **–** | **93.2** |
| N Friedlos | **220.0** | **–** | **4.1** | **19.4** | **–** | **–**[3] | **105.6** | **349.1** |
| P Harvey | **50.0** | **–** | **–** | **–** | **–** | **–** | **–** | **50.0** |
| G Stedman | **50.0** | **–** | **–** | **–** | **–** | **–** | **–** | **50.0** |
| J Wilson | **50.0** | **–** | **–** | **–** | **–** | **–** | **–** | **50.0** |
| | **445.0** | **–** | **22.3** | **19.4** | **–** | **–** | **105.6** | **592.3** |

| | | 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 recognised in the accounts evenly over the five-year vesting period. The charge for the year ended 31 December 2021 was £31,000 (2020: £32,000).

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.

### 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.

No amounts of carried interest became payable to Mr. Rayne in 2021. 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 2021, Mr. Rayne would be entitled to further carried interest payments of £267,000.

### 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 new employees added in the group during 2021.

The table below shows the spend on staff costs in 2021 and 2020, compared to the profit/(loss) before tax and dividends:

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Staff costs | **£1,025** | £877 |
| Average number of staff | **10** | 9 |
| Profit/(loss) before tax | **£1,872** | (£4,396) |
| Annual Dividends (excluding Special Dividends) | **£727** | £242 |

REMUNERATION REPORT CONTINUED

One member of the team was initially engaged as a contractor in 2020 and joined the team as an employee in Q3 2020; his costs were not included in average staff and staff costs statistics in 2020.

A special dividend of £3.4 million (4.25p per share) were paid in 2020, no such dividend was paid in 2021. There were no share buy-backs undertaken in either year.

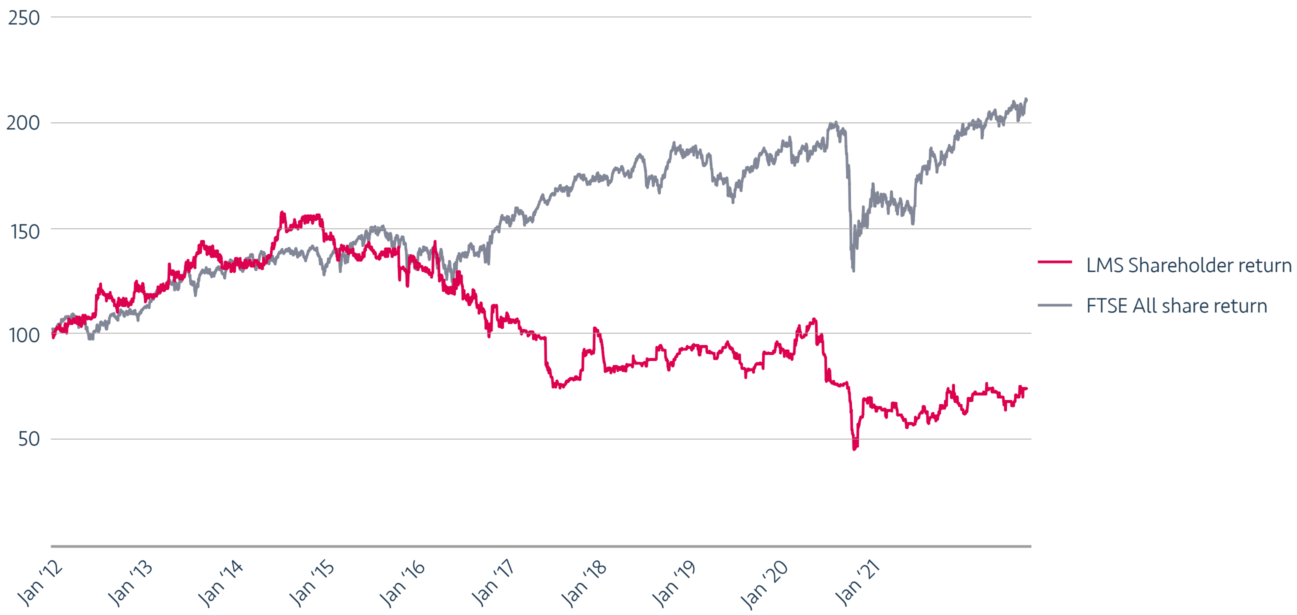
## PAYMENTS TO PAST DIRECTORS IN 2021

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

## PERFORMANCE GRAPH

The Committee considers the FTSE All-Share Index a relevant index for the Company's Total Shareholder Return performance 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 2021 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 | |
|---|---|---|
| | **2021** | 2020 |
| R Rayne | **2,670,124** | 2,670,124 |
| N Friedlos | **161,410** | 161,410 |
| P Harvey | **20,000** | 20,000 |
| G Stedman | **20,000** | 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 2021 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 and no new awards were granted. 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 AND REMUNERATION COMMITTEE

The remuneration policy for the three-year period commencing 1 January 2020 which the Committee developed with advice from independent external advisers MM&K, 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.<br><br>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.<br><br>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.<br><br>No recovery or withholding provisions. |
| Performance Metrics | None. |

### 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 are provided with family private medical insurance cover and death-in-service insurance. The extent of cover may be amended or adjusted in line with market practice.<br><br>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.<br><br>Executive Directors are also eligible to receive other minor benefits and expense payments in line with other employees of the Company.<br><br>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.<br><br>No recovery or withholding provisions. |
| Performance Metrics | None. |

REMUNERATION REPORT CONTINUED

## 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.<br><br>Bonus is not pensionable. |
| Opportunity and recovery or withholding provisions | The maximum bonus payable in a twelve-month period is up to 100% of base salary.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Potential Performance metrics are likely to include:<br>• Deployment of capital in new deals;<br>• Performance of the underlying investment portfolio companies;<br>• Realisations and cash generation;<br>• Building the Company's co-investment capability;<br>• Development of a deal pipeline;<br>• 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;<br>• Developing an effective shareholder communication programme; and<br>• Attainment of personal objectives. |

## 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.<br><br>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.<br><br>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.<br><br>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.<br><br>The VCP is governed by a set of rules approved by shareholders at the AGM on 24 June 2020.<br><br>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.<br><br>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:<br><br>TSR up to 6% per annum compound: £nil.<br><br>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.<br><br>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.<br><br>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.<br><br>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).<br><br>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. |

## REMUNERATION REPORT CONTINUED

| | |
|---|---|
| Opportunity and recovery or withholding provisions continued | 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.<br><br>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.<br><br>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.<br><br>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.<br><br>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 Metrics | The Company's TSR Performance over the five years commencing on the award date.<br><br>The TSR targets have been set by the Remuneration Committee with the aim of delivering increasing reward for greater outperformance.<br><br>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. |
| 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.<br><br>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.<br><br>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 benefiting 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. |

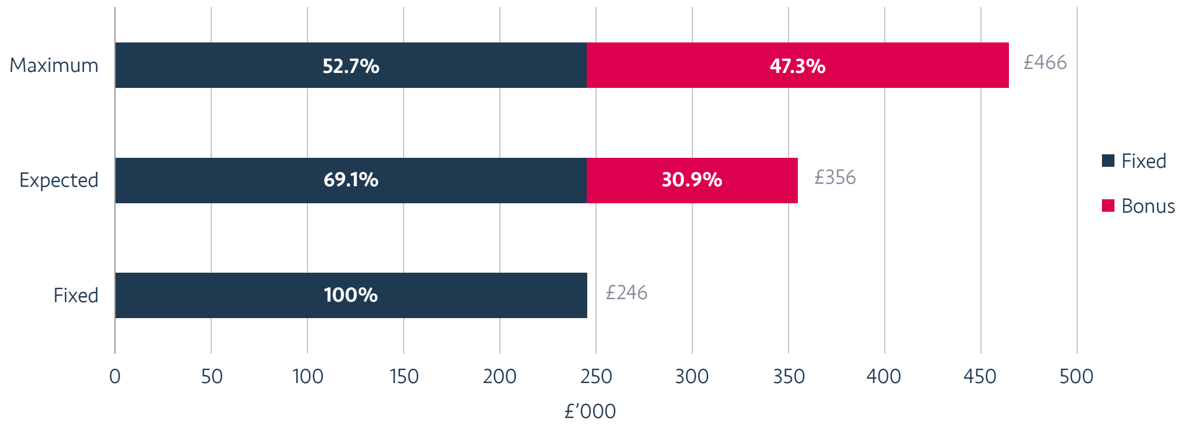
The table below sets out each component of the Chairman's and the Non-Executive Directors' remuneration and the approach taken by the Company in relation thereto:

## 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.<br>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.<br>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 there is no adjustment for share price movement, there are no amounts included for the VCP in the Expected scenario; and
- the Maximum scenarios illustrate the levels of remuneration which would be payable if a maximum bonus award was received (100% of base salary). As the VCP does not pay out until year five and there is no adjustment for share price movement, there are no amounts included for the VCP in the Maximum scenario.

The total remuneration for the Managing Director in 2021 was £349,100, which was just below the Expected scenario.

REMUNERATION REPORT CONTINUED

## 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 TSR 50% or less over the period 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 the eventual closing share price, would need to be 52.8p, representing a total shareholder return over the performance period of 56%, or 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 £0.5m, 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.

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 to a 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, a number of the shareholders were consulted by the Chair of the Committee to ascertain their views in respect of planned remuneration prior to the policy being submitted for approval at the AGM in 2020.

REMUNERATION REPORT CONTINUED

## PART 3 – IMPLEMENTATION OF REMUNERATION POLICY

### BASE SALARIES AND BENEFITS

For 2021, there was 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.

The Remuneration Committee, at its meeting in January 2022, considered the recent increase in annual inflation and therefore whether any adjustment should be made to the base salaries of the core team including the Managing Director. The Committee determined that it would not make any adjustment in respect of the higher paid employees, including the Managing Director, but would review the situation at the 2022 half year stage. An inflationary adjustment has been made for some more junior employees.

### ANNUAL BONUS – SUMMARY OF KPIS FOR 2021

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 2021 included the continuing development of the Company's pipeline of investment opportunities in its chosen sectors of energy, real estate and late-stage private equity and, in particular, supporting the Dacian team in obtaining the necessary regulatory consents for its acquisition thereby enable the Company's investment in Dacian to proceed to completion. Criteria also included the management of the existing assets and the development of the Company's profile in the public markets.

Progress has been made in developing the investment pipeline and supporting Dacian to reach completion. The mature assets portfolio overall has performed satisfactorily, generating cash proceeds of £2.7 million and an unrealised return of 11.6% in the year. The relatively late stage of the year when the completion of Dacian occurred, and the continuing development of the real estate pipeline has meant that the development of the Company's public markets profile was delayed for most of the year.

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 48% of base salary for the Managing Director in respect of 2021 that was paid in February 2022. This compares to a bonus equal to 55% of base salary for the 2020 year.

The Committee in conjunction with the Board has also considered performance goals for 2022. The weighting given to individual goals is changed compared to 2021, with further weighting on deal flow, capital deployment and developing the Company's profile generally and in particular in the public markets. These three areas together account for 65% of the weighting. Goals relating to optimising the existing portfolio account for a further 20%. 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 2021 was £41,400 (2020: £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 2022.

## 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 including the design of the VCP and its documentation in 2020. In 2021 MM&K has assisted with the 2021 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 9 March 2022 and signed on its behalf by:

**Graham Stedman**
Chairman of the Remuneration Committee
9 March 2022

# Directors' Report

LMS Capital plc is an investment company whose shares are traded on the London Stock Exchange. Details of the Company's strategy, risk management and performance in 2021 are included in the Strategic Report on page 12 and the Portfolio Management Review on page 24.

The Corporate Governance report set out on page 32 of the Annual Report forms part of the Directors' Report.

## DIRECTORS

The names and biographical details of the current Directors of the Company are given on pages 30 to 31. In addition, further information about the Board is set out in the Corporate Governance Report on page 32.

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:

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Male** | **Female** | **Total** | Male | Female | Total |
| Directors[1] | **5** | **–** | **5** | 5 | – | 5 |
| Staff | **3** | **2** | **5** | 2 | 2 | 4 |
| | **8** | **2** | **10** | 7 | 2 | 9 |

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. Since June 2020 and throughout 2021, the Company occupied office space under a rental agreement, which comprises 596 square feet. The table below includes greenhouse gas emissions by scope:

### TOTAL EMISSIONS

| | | **Year ended 31 December** | |
|---|---|---|---|
| Scope | Source | **2021 (tonnes $CO_2e$)** | 2020 (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 | **1.60** | 1.65 |
| Scope 3 | Emissions from employee vehicles and commuting | **0.00** | 0.01 |
| **Total** | | **1.60** | 1.66 |
| Intensity – emissions per unit floor area | | **Tonnes $CO_2e$** | Tonnes $CO_2e$ |
| | Per square metre | **0.04** | 0.09 |

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 a low emission company.

## CHARITABLE DONATIONS

The Company did not make any charitable contributions during 2021 (2020: £nil).

## POLITICAL DONATIONS

The Company did not make any political donations during 2021 (2020: £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 12 and the Portfolio Management Review on page 24. The Directors have carried out a robust assessment of the emerging and principal risks and concluded that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over a three year period from the date of this report. This assessment included reviewing the liquidity forecasts of the Company that include the flexibility in the dividend policy and lack of any external debt, the significant cash balances on hand at 31 December 2021, 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 ongoing 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 twelve months from the date of this report. The Directors have adopted the going concern basis of accounting in preparing the financial statements. The Viability Statement of the Company is included in the Strategic Report on page 12.

## CONTRACTUAL ARRANGEMENTS

There are no 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 22 to the financial statements.

## DIVIDENDS

The Company paid a £0.5 million final dividend in June 2021 of 0.6 pence per share for the year ended 31 Dec 2020 and £0.2 million or 0.3 pence per share for the 2021 interim dividend in September 2021.

## SHARE CAPITAL

At 31 December 2021, 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 9 March 2022, 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 | 42.08 |
| Charles Stanley & Co Ltd | 10.80 |
| Armstrong Investment Management LLP | 7.25 |
| Rath Dhu Limited | 5.82 |
| Lady R Lacey[1] | 4.53 |
| Schroders Plc | 4.83 |
| Ms T Woods[1] | 4.40 |
| 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 18 May 2022. 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
9 March 2022

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with UK adopted international accounting standards 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 UK adopted international accounting standards. 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 of the Company for that period.

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 UK adopted international accounting standards, 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.

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 have ensured 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.

## 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, 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
9 March 2022

# 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 2021 and of the profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of LMS Capital plc (the 'Company') for the year ended 31 December 2021 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 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 UK adopted international accounting standards.

## 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 ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is six years, covering the years ended 31 December 2016 to 31 December 2021. 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.

## 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 the Director's assessment of the going concern status of the Company. Management's assessment focused on the year end cash position and any future commitments and expected dividends in the next 12 months and compared this to annual running costs to make a determination on whether the entity could continue as a going concern;

- evaluating the Director's method of assessing the going concern in light of market volatility and the present uncertainties, by considering whether all plausible items which could impact the cash position over the next 12 months were factored into the assessment;
- challenging the Director's assumptions and judgements made with regards to stress-testing forecasts by stress testing the dividends and the expenditure and corroborating the commitments figure to third party supporting documentation;
- calculating financial ratios, namely Net Asset Value, net current assets/ liabilities and running costs as a multiple of cash, to ascertain the financial health of the Company; and
- considering any other factors which could impact on going concern such as non-compliance with laws and regulation, legal matters and the presence of contingencies and commitments.

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 Company's ability to continue as a going concern for a period of at least twelve 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

| | | **2021** | 2020 |
|---|---|---|---|
| Key audit matters | Valuation and ownership of investments | ✓ | ✓ |
| Materiality | Financial statements as a whole | | |
| | £730,000 (2020: £710,000) based on 1.5% (2020: 1.5%) of net assets. | | |

## 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.

| Key audit matter | How the scope of our audit addressed the key audit matter |
|---|---|
| **Valuation and ownership of investments (note 1 and note 11)**<br><br>We consider the valuation and ownership 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.<br><br>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. The quoted investments are less subjective but comprise part of the investment balance and so have been included in the KAM.<br><br>There is a risk that the Company does not have the appropriate title for the investments.<br><br>There is a further risk that investment disclosures in the financial statements are incomplete or inaccurate. | **Quoted investments (1% of total investments)**<br><br>In respect of 100% of the quoted investment valuations we:<br><br>• Confirmed that bid price has been used, by obtaining the year end bid prices from independent third-party sources and undertook a recalculation of the valuations.<br>• Corroborated FX rates used by obtaining independent FX rates from third party sources.<br>• Confirmed there were no contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value.<br>• For 100% of the quoted investments we agreed existence and ownership to depositary confirmation.<br><br>**Unquoted Investments (54% of total investments).**<br><br>In respect of 100% of the unquoted investments, which were not written down to nil, our procedures included, inter alia:<br><br>• 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 UK-adopted International Financial Reporting Standards (IFRS).<br>• Re-performing the calculation of the investment valuations, having regard to the application of enterprise value across the capital structures of the investee companies.<br>• Agreeing unquoted investments to supporting third party valuation reports or third-party data, where these were available. These valuations were agreed to the valuations per the financial statements. Variations were discussed with the Directors to obtain their explanation and corroborated to independent supporting evidence.<br>• 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 against the management accounts and financial statements provided independently by the investee companies.<br>• Evaluating the significant judgements made by the Directors, such as discounts on multiples and discount rates, 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. |

| Key audit matter | How the scope of our audit addressed the key audit matter |
|---|---|
| **Valuation and ownership of investments (note 1 and note 11) continued** | • Performing sensitivity analysis on the valuation calculations in respect of investments where there was sufficient evidence to suggest reasonable alternative inputs might exist.<br>• For 100% of unquoted investments, by value, we agreed ownership to direct confirmation from the underlying investee company.<br>• We also agreed existence and ownership to other supporting documents including share certificates or loan agreements as applicable.<br><br>**Fund Investments (45% of total investments)**<br>For the fund investments our procedures included, inter alia:<br>• Reviewing the underlying fund manager report and assessing the quality and reliability of the information. This was achieved through considering any audit report qualifications, considering the expertise of the administrators preparing the reports and the valuation guidelines utilised by the administrators.<br>• 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).<br>• Where appropriate, assessing the performance of the underlying investments using the steps noted under the unquoted investments above.<br>• 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.<br>• Where appropriate, performing sensitivity analysis on the valuation calculations in respect of investments where there is sufficient evidence to suggest reasonable alternative inputs might exist.<br>• For 99.7% of fund investments, by value, we agreed ownership to direct confirmation from the underlying investee company.<br><br>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.<br><br>We also agreed existence and ownership to other supporting documents including share certificates or loan agreements as applicable.<br><br>**Key observations:**<br>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 ownership.<br><br>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 | |
|---|---|---|
| | **2021<br>£** | 2020<br>£ |
| Materiality | **730,000** | 710,000 |
| Basis for determining materiality | **1.5% of net assets** | 1.5% of net assets |
| Rationale for the benchmark applied | **Net assets has been used as we consider this to be the most significant determinant of the Company's financial performance used by shareholders and other users of the financial statements.** | 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. |
| Performance materiality | **540,000** | 530,000 |
| Basis for determining performance materiality | **75% of materiality.**<br><br>**This percentage was selected by considering a number of factors including the level of expected misstatements and historic misstatements identified, management's attitude towards proposed adjustments and the number of accounts subject to estimation uncertainty.** | 75% of materiality.<br><br>This percentage was selected by considering a number of factors including the level of expected misstatements and historic misstatements identified, management's attitude towards proposed adjustments and the number of accounts subject to estimation uncertainty. |

### REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £14,000 (2020: £14,000). 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 and accounts 2021 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.

## 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 Code 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 to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and<br>• The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate. |
| Other Code provisions | • Directors' statement on fair, balanced and understandable;<br>• Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;<br>• The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and<br>• 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:<br>• 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<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br>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:<br>• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or<br>• the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• 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 through discussions with the Company and our brought forward knowledge, 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 UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006.

The engagement partner made an assessment that the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

No non-compliance with laws and regulations and no fraud was identified during the audit. The engagement team were reminded to remain alert to any potential indicators of non-compliance with laws and regulations or of fraud.

We considered fraud was most likely to occur in the financial statements in areas subject to significant estimates or judgements, namely the unquoted and fund valuations and also through the posting of inappropriate journal entries:

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

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's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Orla Reilly (Senior Statutory Auditor)**
For and on behalf of BDO LLP, Statutory Auditor
London, UK
9 March 2022

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

# Income Statement
## For the year ended 31 December 2021

| | Notes | Year ended 31 December 2021 £'000 | 2020 (Restated) £'000 |
|---|---|---|---|
| Net gain/(loss) on investments | 2 | **3,837** | (3,247) |
| Interest income | 3 | **23** | 94) |
| Dividend income | 4 | **–** | 58,849 |
| Reduction in carrying value of subsidiary due to distribution | | **–** | (58,849) |
| Total gain/(loss) on investments | | **3,860** | (3,153) |
| Operating expenses | 5 | **(1,988)** | (1,243) |
| **Profit/(loss) before tax** | | **1,872** | (4,396) |
| Taxation | 8 | **–** | – |
| **Profit/(loss) for the year** | | **1,872** | (4,396) |
| Attributable to: | | | |
| Equity shareholders | | **1,872** | (4,396) |
| Profit/(loss) per ordinary share – basic | 9 | **2.3p** | (5.4)p |
| Profit/(loss) per ordinary share – diluted | 9 | **2.3p** | (5.4)p |

All activities of the Company are classed as continuing.
The Notes on pages 71 to 93 form part of these Financial Statements.

# Statement of Other Comprehensive Income
## For the year ended 31 December 2021

| | Year ended 31 December | |
|---|---|---|
| | **2021** **£'000** | 2020 £'000 |
| Profit/(loss) for the year | **1,872** | (4,396) |
| Other comprehensive income | **–** | – |
| Total comprehensive income/(loss) for the year | **1,872** | (4,396) |
| Attributable to: | | |
| Equity shareholders | **1,872** | (4,396) |

The Notes on pages 71 to 93 form part of these Financial Statements.

# Statement of Financial Position

## As at 31 December 2021

Company registration number 05746555

| | | 31 December | | 1 January |
|---|---|---|---|---|
| | Notes | **2021 £'000** | 2020 (Restated) £'000 | 2020 £'000 |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Right of use assets | 19 | **97** | 125 | – |
| Investments | 11 | **68,461** | 65,235 | 132,454 |
| Amounts receivable from subsidiaries | 14 | **5,191** | 5,375 | 1,829 |
| Total non-current assets | | **73,749** | 70,735 | 134,283 |
| **Current assets** | | | | |
| Operating and other receivables | 12 | **51** | 67 | 166 |
| Cash and cash equivalents | 13 | **14,518** | 16,385 | 25,079 |
| Total current assets | | **14,569** | 16,452 | 25,245 |
| Total assets | | **88,318** | 87,187 | 159,528 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Operating and other payables | 15 | **(394)** | (415) | (1,585) |
| Amounts payable to subsidiaries | 16 | **(38,740)** | (38,747) | (101,985) |
| Total current liabilities | | **(39,134)** | (39,162) | (103,570) |
| **Non-current liabilities** | | | | |
| Other long-term liabilities | 15 | **(75)** | (102) | – |
| Total non-current liabilities | | **(75)** | (102) | – |
| Total liabilities | | **(39,209)** | (39,264) | (103,570) |
| Net assets | | **49,109** | 47,923 | 55,958 |
| **Equity** | | | | |
| Share capital | 17 | **8,073** | 8,073 | 8,073 |
| Share premium | | **508** | 508 | 508 |
| Capital redemption reserve | | **24,949** | 24,949 | 24,949 |
| Share-based equity | 18 | **75** | 34 | – |
| Retained earnings | | **15,504** | 14,359 | 22,428 |
| Total equity shareholders' funds | | **49,109** | 47,923 | 55,958 |
| Net asset value per ordinary share | 25 | **60.83p** | 59.36p | 69.30p |

The Financial Statements on pages 66 to 70 were approved by the Board on 9 March 2022 and were signed on its behalf by:

**Robert Rayne**
Director

The Notes on pages 71 to 93 form part of these Financial Statements.

# Statement of Changes in Equity
## For the year ended 31 December 2021

| | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Share-based equity £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2020 | 8,073 | 508 | 24,949 | – | 22,428 | 55,958 |
| **Comprehensive loss for the year** | | | | | | |
| 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 | – | – | – | – | (3,673) | (3,673) |
| **As at 31 December 2020** | 8,073 | 508 | 24,949 | 34 | 14,359 | 47,923 |
| **Comprehensive income for the year** | | | | | | |
| Profit for the year | **–** | **–** | **–** | **–** | **1,872** | **1,872** |
| **Equity after total comprehensive income for the year** | **8,073** | **508** | **24,949** | **34** | **16,231** | **49,795** |
| **Contributions by and distributions to shareholders** | | | | | | |
| Share-based payments | **–** | **–** | **–** | **41** | **–** | **41** |
| Dividends | **–** | **–** | **–** | **–** | **(727)** | **(727)** |
| **As at 31 December 2021** | **8,073** | **508** | **24,949** | **75** | **15,504** | **49,109** |

The Notes on pages 71 to 93 form part of these Financial Statements.

# Cash Flow Statement
## For the year ended 31 December 2021

| | Notes | Year ended 31 December 2021 £'000 | Year ended 31 December 2020 (Restated) £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax | | **1,872** | (4,396) |
| Adjustments for non-cash income and expense: | | | |
| Equity settled share-based payment | 18 | **41** | 34 |
| Depreciation on right of use assets | 19 | **28** | 14 |
| Interest expense on lease | 19 | **8** | 4 |
| (Gains)/losses on investments | 2 | **(3,837)** | 3,247 |
| Interest income | 3 | **(23)** | (94) |
| Other income | | **–** | (6) |
| Adjustments to incentives plans | 2 | **1** | (68) |
| Exchange gains on cash and cash equivalents | | **(4)** | (113) |
| | | **(1,914)** | (1,378) |
| **Change in operating assets and liabilities** | | | |
| Decrease in operating and other receivables | | **16** | 91 |
| Decrease in operating and other payables | | **(23)** | (1,195) |
| Decrease/(increase) in amounts receivable from subsidiaries | | **119** | (3,545) |
| Decrease in amounts payable to subsidiaries | | **(7)** | (4,389) |
| **Net cash used in operating activities** | | **(1,809)** | (10,416) |
| **Cash flows from investing activities** | | | |
| Interest received | 3 | **23** | 102 |
| Other income received | | **–** | 6 |
| Proceeds from sale of investments | | **–** | 5,190 |
| Proceeds from redemption of convertible debt | 11 | **750** | – |
| Investment in subsidiaries | | **(75)** | – |
| **Net cash from investing activities** | | **698** | 5,298 |
| **Cash flows from financing activities** | | | |
| Dividends paid | 10 | **(727)** | (3,673) |
| Repayment of principal lease liabilities | 19 | **(25)** | (12) |
| Repayment of lease interest | 19 | **(8)** | (4) |
| **Net cash used in financing activities** | | **(760)** | (3,689) |
| **Net decrease in cash and cash equivalents** | | **(1,871)** | (8,807) |
| Exchange gains on cash and cash equivalents | | **4** | 113 |
| Cash and cash equivalents at the beginning of the year | 13 | **16,385** | 25,079 |
| **Cash and cash equivalents at the end of the year** | | **14,518** | 16,385 |

The Notes on pages 71 to 93 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

LMS Capital plc transitioned to UK-adopted International Accounting Standards in its Financial Statements on 1 January 2021. This change constitutes a change in accounting framework. However, the move to UK-adopted international accounting standards for accounting period starting from 1 January 2021, does not represent a change in the basis of accounting which would necessitate a prior year restatement, therefore, there is no impact on the recognition, measurement or disclosure in the period reported.

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 12 to 15 and in the Portfolio Management Review on pages 24 to 29. In addition, Note 20 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 Financial Statements are prepared on a going concern basis and the Directors considered this and concluded that the use of the going concern basis continued to be appropriate. 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 12 and the Portfolio Management Review on page 24. The Directors have carried out a robust assessment of the emerging and principal risks and concluded that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over a three year period from the date of this report. This assessment included reviewing the liquidity forecasts of the Company that include the flexibility in the dividend policy and lack of any external debt, the significant cash balances on hand at 31 December 2021, 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 ongoing 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 twelve months from the date of this report.

### NEW AND REVISED ACCOUNTING STANDARDS AND AMENDMENTS EFFECTIVE FOR THE CURRENT PERIOD

New and revised accounting standards and amendments that are effective for annual periods beginning 1 January 2021 which have been adopted for the first time by the Company:

- Amendments to IFRS 9: Interest Rate Benchmark Reform – Phase 2.
- Amendment to IFRS 16, Leases: Covid-19-Related Rent Concessions beyond 30 June 2021.

The adoption of the standards and amendments listed above have no material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2021 that have had a material effect on the Company's Financial Statements.

## 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

### NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE, AND WHICH HAVE NOT BEEN EARLY ADOPTED

Other standards and amendments that are effective for subsequent reporting periods beginning on or after 1 January 2021 and have not been early adopted by the Company include:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) (effective 1 January 2023).
- Annual Improvements 2018–2020 (effective 1 January 2022).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective 1 January 2023).
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023).

Upon preliminary assessment, these standards and amendments are not expected to have a significant impact on the Financial Statements in the period of initial application and therefore detailed disclosures have not been provided.

### AMENDMENT TO IFRS 16 LEASES: COVID-19-RELATED RENT CONCESSIONS BEYOND 30 JUNE 2021

IFRS 16 Leases was issued in January 2016 and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

In May 2020, the IASB issued its first amendment to IFRS 16, Leases to ease the accounting for lessees while still providing useful information to the users of the financial statements (Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions).

The amendment, effective for annual reporting periods beginning on or after 1 June 2020, exempted lessees from having to consider individual lease contracts to determine whether rent concessions, as a direct consequence of Covid-19, are lease modifications, hence allowing lessees to account for the concessions as if they were not lease modifications. Although IFRS 16 specifies how lessees should account for the change, this 'optional exemption' permitted in the amendment lessens the large volume of Covid-19-related rent concessions and stakeholders' difficulties and gives timely relief to lessees.

As the Covid-19 pandemic has persisted, on 31 March 2021 the IASB extended the period of application until 30 June 2022 via Amendment to IFRS 16, Leases: Covid-19-Related Rent Concessions beyond 30 June 2021. Such extension applies to accounting periods beginning on or after 1 April 2021.

The adoption of the amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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.

In June 2020, the Company entered into lease agreement with The Rayne Foundation. 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 renegotiated 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. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. 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.

## 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 Interests 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 24.

### 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 investments held in Funds – Note 11; and
- recognition of deferred tax asset for carried forward tax losses – Note 8 .

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 investments held in Funds – Note 11;
- estimates in calculating the fair value of equity awards – Note 18; and
- estimate percentage of incremental borrowing rate on lease liability – Note 19.

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, interest income 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 or 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 bid price at the reporting date.

### UNQUOTED DIRECT INVESTMENTS

Unquoted direct investments for which there is no active 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 an established business which is generating sustainable revenue or earnings 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;
- the Company has adopted the 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.

## 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.

### 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 commonplace 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 reporting date, would be achieved if the remaining assets in that scheme were realised at their fair value at the reporting date. An accrual is made equal to the amount which the Company would have to pay to any remaining scheme participants from a realisation of the reported value at the reporting date.

### 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.

### RIGHT OF USE ASSETS

Right of use assets are initially measured at the amount of the lease liability. Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

### INTERCOMPANY RECEIVABLES

The Company measured intercompany receivables and other receivables at fair value less any expected credit losses. Expected credit losses are 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 intercompany receivables and other receivables if the credit risk has increased significantly since initial recognition.

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

FINANCIAL ASSETS HELD AT AMORTISED COST

The Company recognises trade receivables as financial assets classified at amortised cost. These are recognised initially at fair value. Subsequent to initial recognition, these are measured at amortised cost, less any expected credit losses.

Expected credit losses for these financial assets are measured using the simplified approach to the credit loss model. Under the simplified credit loss model approach, a provision is recognised based on the expectation of default rates over the full lifetime of the financial assets without the need to identify significant increases on credit risk on these assets.

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 Financial Statements when approved at an annual general meeting by the shareholders. Interim dividend approved during the year is recorded upon payment.

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 recognised 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

## 1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

### PRIOR PERIOD ADJUSTMENTS

*DIVIDEND INCOME FROM SUBSIDIARY*

For the year ending 31 December 2020, one of the subsidiaries, (LMS Capital Group Limited), declared dividends of £58,849,364 to the Company, resulting in an increase of income from dividends of £58,849,364 and a reduction in the carrying value of the subsidiaries due to this distribution of £58,849,364. In the prior year Financial Statements, this movement was incorrectly offset against each other and was not presented in the Income Statement. In the current year, this presentation has been restated as:

- Dividend income increased by £58,849,364.
- Carrying value of subsidiaries due to distribution decreased by £58,849,364.

There is no impact on the profit/(loss) for the year.

*AMOUNTS RECEIVABLE FROM SUBSIDIARIES*

In prior years, the Company's receivable from subsidiaries was incorrectly added against the investment in subsidiary balance. As a result, the Company's receivable from subsidiaries was understated by £5,375,914 and the investments balance was overstated by £5,375,914. This presentation was corrected during the current year Financial Statements, and the comparative figures in the Statement of Financial Position and Investment note (Note 11) were restated as:

- Investments decreased by £5,375,914.
- Amount receivable from subsidiaries increased by £5,375,914.

Consequently, further changes were needed to the related 'Financial Risk Management' note (Note 20). These comprised firstly, a change in the 'Financial instruments by category' note to show the 'amounts receivable from subsidiaries' of £5.375 million separately as an asset measured at 'amortised cost' as opposed to being included in 'Investments' in the 'fair value through profit or loss' category. Secondly, the 'Credit Risk' note was restated to show the £5.375 million 'Amounts receivable from subsidiaries' in this note. Thirdly, the 'Liquidity Risk' note was restated to show the £5.375 million separately as 'Amounts receivable from subsidiaries' as opposed to being included in the 'investments' category. Finally, the 'Currency Risk' note was restated to show the £5.375 million 'Amounts receivable from subsidiaries' separately as opposed to being included in the 'investments' figure. As a result of the change stated above, the presentation in the Cash flow statement has also been updated. In the prior year, the net movement is presented in one line which was a decrease in amounts payable to subsidiaries. However, this year the comparatives were updated as per below:

- Amounts receivable from subsidiaries increased by £3,545,422.
- Amounts payable to subsidiaries decreased by £3,545,422.

This change does not have any impact on the overall change in operating assets and liabilities.

*RECLASSIFICATION OF LIQUIDITY RISK ANALYSIS FOR FINANCIAL LIABILITIES*

In prior years, the amount payable to subsidiaries was incorrectly included in the 'Over 5 years' category in the financial liabilities liquidity risk note (Note 20). Given that the amounts are repayable on demand, these amounts have been correctly restated to be included in the 'Up to 3 months' category. As such, in the 2020 comparative disclosure 'Amounts payable to subsidiaries' of £38,746,850 has been restated from the 'Over 5 years' category to the 'Up to 3 months' category.

## 2. NET GAINS/LOSSES ON INVESTMENTS

Gains and losses on investments were as follows:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| Investment portfolio of the Company<br>**Asset type** | **Realised £'000** | **Unrealised £'000** | **Total £'000** | Realised £'000 | Unrealised £'000 | Total £'000 |
| Quoted | **–** | **–** | **–** | (716) | – | (716) |
| Unquoted | **(5)** | **–** | **(5)** | – | 25 | 25 |
| Funds | **–** | **–** | **–** | – | – | – |
| | **(5)** | **–** | **(5)** | (716) | 25 | (691) |
| Credit/(charge) for incentive plans | | | **1** | | | (68) |
| | | | **(4)** | | | (759) |
| Investment portfolio of subsidiaries<br>**Asset type** | | | | | | |
| Quoted | **–** | **186** | **186** | 381 | (598) | (217) |
| Unquoted | **–** | **(90)** | **(90)** | 121 | 924 | 1,045 |
| Funds | **–** | **2,473** | **2,473** | – | (2,190) | (2,190) |
| | **–** | **2,569** | **2,569** | 502 | (1,864) | (1,362) |
| **Total** | **(5)** | **2,569** | **2,565** | (214) | (1,839) | (2,121) |
| (Charge)/credit for incentive plans | | | **(10)** | | | 68 |
| | | | **2,555** | | | (2,053) |
| Operating and similar income/(expense) of subsidiaries* | | | **1,282** | | | (1,194) |
| | | | **3,837** | | | (3,247) |

* 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. On 19 November 2021, the transaction was completed, recognising investment acquisition cost of £6.7 million. The investment is structured primarily as debt with a seven-year maturity and bearing compounded interest at 14% per annum from 20 September 2020. During the year, a net interest of £1.2 million (2020: £nil) was recognised.

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The credit for incentive plans for the Company is £1,000 and other incentives relating to historic arrangements. The charge for subsidiaries is included in the net gains/ losses on investments in the Income Statement.

## 3. INTEREST INCOME

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

## 4. DIVIDEND INCOME

Dividend income received is 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 2021 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|
| Directors remuneration (Note 6) | **716** | 708 |
| Staff expenses (Note 7) | **309** | 169 |
| Depreciation on right of use assets | **28** | 14 |
| Other administrative expenses | **752** | 572 |
| Foreign currency exchange differences | **130** | (275) |
| Auditor's remuneration | | |
| Fees to Company auditor | **53** | 55 |
| – parent company | ***35*** | *38* |
| – interim review for LMS Capital plc | ***18*** | *17* |
| | **1,988** | 1,243 |

The audit fee comprises of £34,500 (2020: £38,000) for LMS Capital plc, £18,250 (2020: £17,000) for the interim review. Audit fees for the subsidiaries of £72,500 (2020: £75,000) directly charged to subsidiaries.

## 6. DIRECTORS' REMUNERATION

| | Year ended 31 December 2021 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|
| Directors' remuneration | **570** | 593 |
| Directors' social security contributions | **92** | 62 |
| Directors' other benefit | **54** | 53 |
| | **716** | 708 |
| The highest paid Director was Nicholas Friedlos (2020 – Nicholas Friedlos) | **349** | 362 |

The average number of Directors was as follows:

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Male** | **Female** | **Total** | Male | Female | Total |
| Average number of Directors | **5** | **–** | **5** | 5 | – | 5 |
| | **5** | **–** | **5** | 5 | – | 5 |

## 7. STAFF EXPENSES

| | Year ended 31 December 2021 £'000 | Year ended 31 December 2020 £'000 |
|---|---|---|
| Wages and salaries | **253** | 144 |
| Employers' social security contributions | **30** | 13 |
| Employers' other benefits | **26** | 12 |
| | **309** | 169 |

Staff benefits includes pension and health insurance. These benefits are recognised as expenses on an accrual basis as they are incurred.

The average number of staff was as follows:

| | 2021 | 2020 |
|---|---|---|
| Average number of staff | **5** | 4 |
| | **5** | 4 |

## 8. TAXATION

| | Year ended 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| **Current tax expense** | | |
| Current year | **–** | – |
| Total tax expense | **–** | – |

### RECONCILIATION OF TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Profit/(loss) before tax | **1,872** | (4,396) |
| Corporation tax using the Company's domestic tax rate – 19% (2020: 19%) | **356** | (835) |
| Fair value adjustments not currently taxed | **(486)** | 390 |
| Non-deductible expenses/(income) | **(214)** | 238 |
| Difference between taxable and accounting profit on disposal | **29** | 301 |
| Capital allowances | **(3)** | – |
| Company relief | **406** | 672 |
| Deferred tax asset not recognised | **155** | – |
| Transfer pricing | **(243)** | (766) |
| Total tax expense | **–** | – |

As at year end, there are cumulative potential deferred tax assets of £2.205 million (2020: £1.512 million) in relation to the Company's cumulative tax losses of £8.819 million (2020: £7.956 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. PROFIT/(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 | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| **Profit/(loss)** | | |
| Profit/(loss) for the purposes of profit/(loss) per share being net profit/(loss) attributable to equity holders of the parent | **1,872** | (4,396) |
| | **Number** | Number |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic profit/(loss) per share | **80,727,450** | 80,727,450 |
| | **Pence** | Pence |
| **Profit/(loss) per share** | | |
| Basic | **2.3** | (5.4) |
| Diluted | **2.3** | (5.4) |

The Company share awards issued will be dilutive when vested.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 10. DIVIDENDS PAID

Dividends declared during the year ending 31 December 2021 are as follows.

| | Dividend date | Payment Date | Dividend £'000 | Dividend per share £ |
|---|---|---|---|---|
| First dividend payment for 2020 | 20 December 2019 | 09 January 2020 | 3,431 | 0.0425 |
| Second dividend payment for 2020 | 14 August 2020 | 07 September 2020 | 242 | 0.0030 |
| **Total as at 31 December 2020** | | | **3,673** | **0.0455** |
| Final dividend payment for 2020 | 21 May 2021 | 14 June 2021 | **484** | **0.6000** |
| Interim dividend payment for 2021 | 13 August 2021 | 03 September 2021 | **243** | **0.3000** |
| **Total as at 31 December 2021** | | | **727** | **0.9000** |

A final dividend of 0.6p per share is recommended by the Board and, subject to approval by shareholders at the AGM on May 2022, will be paid out in early June 2022.

## 11. INVESTMENTS

The Company's investments comprised the following:

| | Year ended 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 (Restated) £'000 |
| Total investments | **68,461** | 65,235 |
| These comprise: | | |
| Investment portfolio of the Company | **–** | 755 |
| Investment portfolio of subsidiaries | **30,938** | 21,438 |
| Investment portfolio – total | **30,938** | 22,193 |
| Other net assets of subsidiaries | **37,523** | 43,042 |
| | **68,461** | 65,235 |

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

| **Investment portfolio of the Company** | **31 December 2021** | | 31 December 2020 (Restated) | |
|---|---|---|---|---|
| **Asset type** | **£'000** | **£'000** | £'000 | £'000 |
| Quoted | | **–** | | – |
| Unquoted direct | | **–** | | 755 |
| Funds | | **–** | | – |
| | | **–** | | 755 |
| **Investment portfolio of subsidiaries** | | | | |
| **Asset type** | | | | |
| Quoted | **383** | | 197 | |
| Unquoted direct | **16,626** | | 9,383 | |
| Funds | **13,929** | | 11,858 | |
| | **30,938** | | 22,193 | |
| **Other net assets of subsidiaries** | **37,523** | | 43,042 | |
| | **68,461** | **68,461** | 65,235 | 65,235 |
| | | **68,461** | | 65,235 |

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 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 |
| | **Quoted securities £'000** | **Unquoted securities £'000** | **Funds £'000** | **Total £'000** |
| Balance at 1 January 2021 | **197** | **10,138** | **11,858** | **22,193** |
| Purchases | **–** | **8,394** | **–** | **8,394** |
| Proceeds from disposal | **–** | **(750)** | **–** | **(750)** |
| Distributions from partnerships | **–** | **(1,586)** | **(445)** | **(1,916)** |
| Contribution to partnerships | **–** | **115** | **43** | **43** |
| Fair value adjustments | **186** | **(95)** | **2,473** | **2,564** |
| Reclassification of withholding tax* | **–** | **410** | **–** | **410** |
| **Balance at 31 December 2021** | **383** | **16,626** | **13,929** | **30,938** |

* As at 31 December 2020, unquoted securities investment fair value included a provision for withholding tax on distributions. This distribution was received in the first quarter of 2021 and the remaining estimated withholding tax liability of £0.4 million was reclassified to current liabilities as at 31 December 2021.

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 20 – Financial risk management).

The Company's investments are analysed as follows:

| | **31 December** | |
|---|---|---|
| | **2021 £'000** | 2020 (Restated) £'000 |
| Level 1 | **–** | – |
| Level 2 | **–** | 755 |
| Level 3 | **68,461** | 64,480 |
| | **68,461** | 65,235 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 11. INVESTMENTS CONTINUED

Level 3 includes:

| | 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 (Restated) £'000 |
| Investment portfolio of subsidiaries | **30,938** | 21,438 |
| Other net assets of subsidiaries | **37,523** | 43,042 |
| | **68,461** | 64,480 |

Investment portfolio of subsidiaries includes quoted investments of £383,000 (2020: £197,000). There were no transfers between levels during the year ending 31 December 2021.

## 12. OPERATING AND OTHER RECEIVABLES

| | 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Other receivables and prepayments | **51** | 67 |
| | **51** | 67 |

## 13. CASH AND CASH EQUIVALENTS

| | 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Bank balances | **351** | 2,221 |
| Demand deposits | **14,167** | 14,164 |
| | **14,518** | 16,385 |

At 31 December 2021, the total Group's cash balance is £20.113 million (2020: £20.590) which includes cash held in subsidiaries of £5.595 million (2020: £4.205 million).

## 14. AMOUNTS RECEIVABLE FROM SUBSIDIARIES

| | 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Amounts receivable from subsidiaries | **5,191** | 5,375 |
| | **5,191** | 5,375 |

## 15. OPERATING AND OTHER PAYABLES

| | 31 December 2021 £'000 | 2020 £'000 |
|---|---|---|
| Carried interest provision | **35** | 68 |
| Trade payables | **43** | 32 |
| Other non-trade payables and accrued expenses | **316** | 315 |
| | **394** | 415 |
| Other long-term lease liabilities | **75** | 102 |
| | **469** | 517 |

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 2021, £35,000 (2020: £68,000) has been accrued for in the Company and £438,000 (2020: £424,000) 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.

## 16. AMOUNTS PAYABLE TO SUBSIDIARIES

| | 31 December 2021 £'000 | 2020 £'000 |
|---|---|---|
| Amounts payable to subsidiaries | **38,740** | 38,747 |
| | **38,740** | 38,747 |

## 17. CAPITAL AND RESERVES

### SHARE CAPITAL

| **Ordinary shares** | **2021 Number** | **2021 £'000** | 2020 Number | 2020 £'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.

### 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.

## 18. SHARE AWARDS

In the prior year, 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 annualised 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 recognised as equity settled share awards.

The first share awards were granted in 2020 with respect to the performance year ended 31 December 2020. There were no share awards granted for the year ending 31 December 2021.

| 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 5 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 5 years provided the employee is still in service of the Company. | 30 June 2025 |

The fair value of the option granted in 2020 has been estimated using the Monte Carlo simulation. The principal assumption used in the calculation were as follows:

| | 2020 |
|---|---|
| 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 | Weighted 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** |
| Granted | **–** | **–** |
| Settled in equity | **–** | **–** |
| **Outstanding at 31 December 2021** | **625** | **413.48** |

## 19. 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 at 1 July 2020 | 139 |
| Depreciation for the year | (14) |
| Balance at 31 December 2020 | **125** |
| Depreciation for the year | **(28)** |
| **Balance as at 31 December 2021** | **97** |

| **Rental lease liability** | £'000 |
|---|---|
| Leased asset recognised under IFRS 16 at 1 July 2020 | 139 |
| Unwinding of the discount on lease liability | 4 |
| Payments for lease | (16) |
| Balance at 31 December 2020 | **127** |
| Unwinding of the discount on lease liability | **8** |
| Payments for lease | **(33)** |
| **Balance as at 31 December 2021** | **102** |

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

## 20. 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** | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | | 2020 (Restated) | | |
| **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 | **68,461** | **–** | **68,461** | 65,235 | – | 65,235 |
| Amounts receivable from subsidiaries | **–** | **5,191** | **5,191** | – | 5,375 | 5,375 |
| Operating and other receivables | **–** | **41** | **41** | – | 67 | 67 |
| Cash and cash equivalents | **–** | **14,518** | **14,518** | – | 16,385 | 16,385 |
| Total | **68,461** | **19,750** | **88,211** | 65,235 | 21,827 | 87,062 |

| | **31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | | 2020 | | |
| **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 | **–** | **367** | **367** | – | 390 | 390 |
| Amounts payable to subsidiaries | **–** | **38,740** | **38,740** | – | 38,747 | 38,747 |
| Lease liabilities | **–** | **102** | **102** | – | 127 | 127 |
| Total | **–** | **39,209** | **39,209** | – | 39,264 | 39,264 |

## 20. FINANCIAL RISK MANAGEMENT CONTINUED

Intercompany payables to subsidiaries are all repayable on demand thus there are no discounted 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 | |
|---|---|---|
| | **2021 £'000** | 2020 (Restated) £'000 |
| Amounts receivable from subsidiaries | **5,191** | 5,375 |
| Operating and other receivables | **41** | 67 |
| Debt Investments | **–** | 600 |
| Cash and cash equivalents | **14,518** | 16,385 |
| | **19,750** | 22,427 |

The Company limits its credit risk exposure by only depositing funds with highly rated institutions. Cash holdings at 31 December 2021 and 2020 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 2021 and 31 December 2020 was determined as follows for trade receivables:

| **2021** | **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%** | **–** |
| Other receivables | **41** | **–** | **–** | **–** | **41** |
| **Total** | **41** | **–** | **–** | **–** | **41** |

| 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 |
| Loss allowance | – | – | – | (59) | (59) |
| Total | 67 | – | – | – | 67 |

The Company recognised credit losses of the full value of receivable for trade receivables not recovered after four months. As at 31 December 2021, the Company does not have outstanding trade receivable (2020: £59,000). For the year ending 31 December 2021, the Company did not witness significant increase in the credit risk since the initial recognition of the outstanding receivable from subsidiaries and other receivables, therefore, no expected losses were recognised during the year (2020: £nil).

## 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 2021 and 31 December 2020.

*FINANCIAL ASSETS:*

| **2021** | **Up to 3 months £'000** | **3-12 months £'000** | **1-5 years £'000** | **Over 5 years £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Investment | **–** | **–** | **–** | **68,461** | **68,461** |
| Amounts receivable from subsidiaries | **–** | **–** | **–** | **5,191** | **5,191** |
| Operating and other receivables | **41** | **–** | **–** | **–** | **41** |
| Cash and cash equivalents | **14,518** | **–** | **–** | **–** | **14,518** |
| Total | **14,559** | **–** | **–** | **73,652** | **88,211** |

| 2020 (Restated) | Up to 3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | Over 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| Investment | – | – | – | 65,235 | 65,235 |
| Amounts receivable from subsidiaries | – | – | – | 5,375 | 5,375 |
| Operating and other receivables | 67 | – | – | – | 67 |
| Cash and cash equivalents | 16,385 | – | – | – | 16,385 |
| Total | 16,452 | – | – | 70,610 | 87,062 |

*FINANCIAL LIABILITIES:*

| **2021** | **Up to 3 months £'000** | **3-12 months £'000** | **1-5 years £'000** | **Over 5 years £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Operating and other payables | **367** | **–** | **–** | **–** | **367** |
| Amount payable to subsidiaries | **38,740** | **–** | **–** | **–** | **38,740** |
| Lease liabilities | **6** | **21** | **75** | **–** | **102** |
| Total | **39,113** | **21** | **75** | **–** | **39,209** |

| 2020 (Restated) | 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 | 39,143 | 19 | 102 | – | 39,264 |

In addition, some of the Company's subsidiaries have uncalled capital commitments to funds of £2,665,000 (31 December 2020: £2,717,000) for which the timing of payment is uncertain (see Note 21).

## 20. FINANCIAL RISK MANAGEMENT CONTINUED

### MARKET RISK

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the 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 73% 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 | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 (Restated) | | |
| | **GBP £'000** | **USD £'000** | **Other £'000** | GBP £'000 | USD £'000 | Other £'000 |
| Investments | **44,794** | **22,554** | **1,113** | 48,995 | 15,040 | 1,200 |
| Amounts receivable from subsidiaries | **5,172** | **11** | **8** | 5,375 | – | – |
| Right of use assets | **97** | **–** | **–** | 125 | – | – |
| Operating and other receivables | **41** | **–** | **–** | 67 | – | – |
| Cash and cash equivalents | **14,018** | **500** | **–** | 15,830 | 555 | – |
| Operating and other payables | **(434)** | **(35)** | **–** | (517) | – | – |
| Amount payable to subsidiaries | **(31,597)** | **(7,011)** | **(132)** | (38,747) | – | – |
| Gross exposure | **32,091** | **16,019** | **989** | 31,128 | 15,595 | 1,200 |
| Forward exchange contracts | **–** | **–** | **–** | – | – | – |
| Net exposure | **32,091** | **16,019** | **989** | 31,128 | 15,595 | 1,200 |

The aggregate net foreign exchange profit/(loss) recognised in profit or loss were:

| | 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Net foreign exchange profit/(loss) on investment | **21** | (90) |
| Net foreign exchange profit/(loss) on non-investment | **172** | (577) |
| Total net foreign exchange profit/(loss) recognised in profit before income tax for the year | **193** | (667) |

At 31 December 2021, the rate of exchange was USD \$1.35 = £1.00 (31 December 2020: \$1.37 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity and increased profit by £1.8 million at 31 December 2021 (31 December 2020: increased equity and increased profit by £1.7 million). This assumes that all other variables, in particular interest rates, remain constant. A weakening of the US dollar by 10% against the pound sterling would have decreased equity and decreased the profit for the year by £1.5 million (2020: decreased equity and increased the loss by £1.7 million). This level of change is considered to be reasonable based on observations of current conditions.

### 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 £155,000 (31 December 2020: increase of £207,000) and increased the profit for the year by £155,000 (2020: decreased the loss £207,000). 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 USA. 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 2021 in measuring investments categorised as level 3 in Note 11 are considered below:

1. Unquoted securities (carrying value £16.6 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 of approximately five times dependent on the business of each individual company, its performance and the sector in which it operates;
   - revenue multiples in the range 0.30–1.5 times, also dependent on attributes at individual investment level; and
   - discounts applied of up to 40%, 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 £14 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 2021). The Company also carries out its own review of individual funds and their portfolios to satisfy themselves that the underlying valuation bases are consistent with the basis of valuation and knowledge of the investments and the sectors in which they operate. However, the degree of detail on valuations varies significantly by fund and, in general, details of unobservable inputs used are not available.

## 20. FINANCIAL RISK MANAGEMENT CONTINUED

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 profit for the year ended 31 December 2021 would have decreased by £6.8 million (2020: loss increased by £6.5 million). An increase in the valuation of level 3 category investments by 10% at the reporting date would have an equal and opposite effect.

### CAPITAL MANAGEMENT

The Company's total capital at 31 December 2021 was £49 million (31 December 2020: £48 million) comprising equity share capital and reserves. The Company had borrowings at 31 December 2021 of £nil (31 December 2020: £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.

## 21. CAPITAL COMMITMENTS

| | 31 December | |
|---|---|---|
| | **2021 £'000** | 2020 £'000 |
| Outstanding commitments to funds | **2,665** | 2,717 |

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 2021, the Company has no other contingencies or commitments to disclose (2020: £nil).

## 22. RELATED PARTY TRANSACTION

The Directors' fees paid for the year were £722,000 (2020: £708,000).
In the prior year, 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 £32,780 (2020: £16,390) to The Rayne Foundation. Robert Rayne is the Chairman of The Rayne Foundation.

## 23. SUBSEQUENT EVENTS

The Company is monitoring the impact of the Russian invasion of Ukraine on each of its portfolio investments and overall business. The ultimate outcome is highly uncertain and difficult to predict.

Elateral, an investment in the digital marketing sector, utilises contract staff in Ukraine, Russia and Belarus for its software development and has developed a contingency plan to manage any disruption that may occur.
The situation remains highly uncertain, and the Company will continue monitoring developments closely.

There are no other subsequent events that would materially affect the interpretation of these Financial Statements.

## 24. 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 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 | Dormant |
| 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 |

During the year, LMS Capital (General Partner) Limited was liquidated.

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

Subsidiaries incorporated in England and Wales: 3 Bromley Place, London, United Kingdom, W1T 6DB.

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

## 25. NET ASSET VALUE PER SHARE

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

| | 31 December | |
|---|---|---|
| | **2021** | 2020 |
| NAV (£'000) | **49,109** | 47,923 |
| Number of ordinary shares in issue | **80,727,450** | 80,727,450 |
| NAV per share (in pence) | **60.83 pence** | 59.36 pence |

# Corporate Information

## DIRECTORS

Robert Rayne
Nicholas Friedlos
Peter Harvey
Graham Stedman
James Wilson

## SECRETARY

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## SOLICITORS

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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 2022

Annual General Meeting – 18 May 2022
Half-year results – July 2022

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