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WEDNESDAY

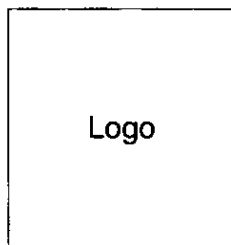


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COMPANIES HOUSE

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LMS Capital plc is an independent investment company. We aim to achieve medium to long-term growth through a risk-diversified portfolio of investments in public and private companies and funds.

These are focused in sectors where management has extensive experience including energy, applied technology, media and leisure, healthcare and medical.

LMS Capital was demerged from London Merchant Securities plc in June 2006 and is quoted on AIM.

Highlights of 2006

Financial highlights

- ▶ The valuation of the investment portfolio at 31 December 2006 was £234.9 million (31 March 2006 £226.6 million)
- ▶ Realised gains on investments and income from investments were £6.4 million in the nine months ended 31 December 2006 (year ended 31 March 2006 £9.3 million, excluding discontinued activities)
- ▶ Net unrealised losses on the investment portfolio were £11.5 million (year ended 31 March 2006 £7.6 million)
- ▶ Net Asset Value per share at 31 December 2006 was 90p (31 March 2006 76p)
- ▶ The initial trading price of the Company's shares on admission to AIM on 12 June 2006 was 57p, the closing share price on 13 March 2007 was 73p

Operational highlights

- ▶ Successful demerger from London Merchant Securities in June 2006 to launch LMS Capital as an independent investment company on AIM
- ▶ Completion of a tender offer in July 2006, returning £30.2 million to shareholders
- ▶ Sale of nine positions in US private equity funds for US\$21.1 million (£11.1 million) at a premium to book value
- ▶ Sale of investment in Advanced Communication and Information Systems Limited which realised a gain of £2 million and an IRR of 100%
- ▶ Refinancing of Energy Cranes, the largest unquoted investment, enabling that company to return £5 million to LMS Capital
- ▶ Strengthening of investment management team

Portfolio split by sector

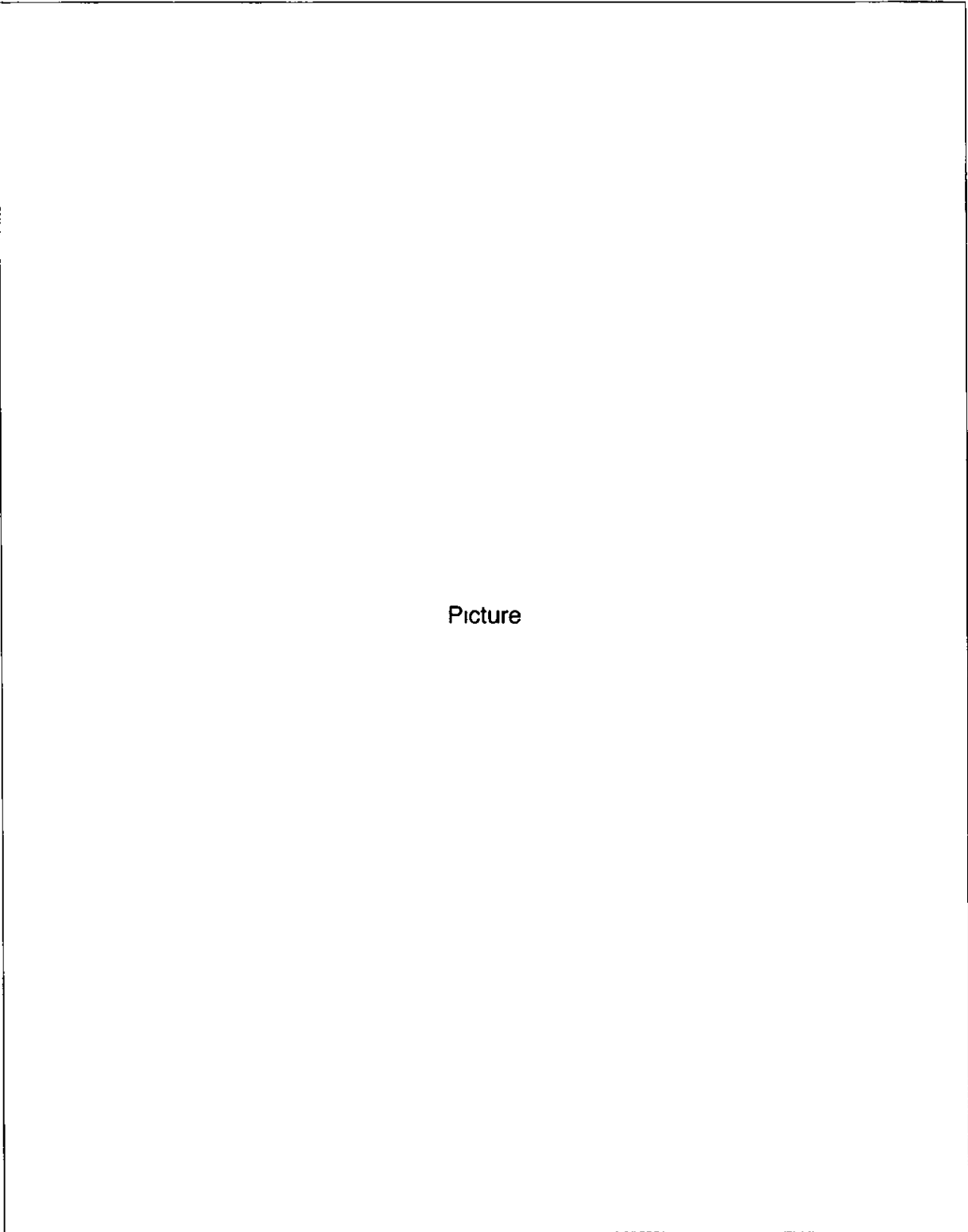
1 Financial services	3%	£7.5m
1 Media and leisure	20%	£46.5m
1 Healthcare and medical	10%	£23.5m
1 Energy	28%	£66.6m
1 Applied technology	36%	£84.8m
1 General funds	3%	£6.0m
Total	100%	£234.9m

Portfolio split by asset type and geography

1 US Unquoted	5%	£11.9m
1 UK Unquoted	37%	£87.4m
1 US Quoted	19%	£43.7m
1 UK Quoted	11%	£25.7m
1 US Funds	23%	£54.7m
1 UK Funds	5%	£11.5m
Total	100%	£234.9m

Graph

Graph

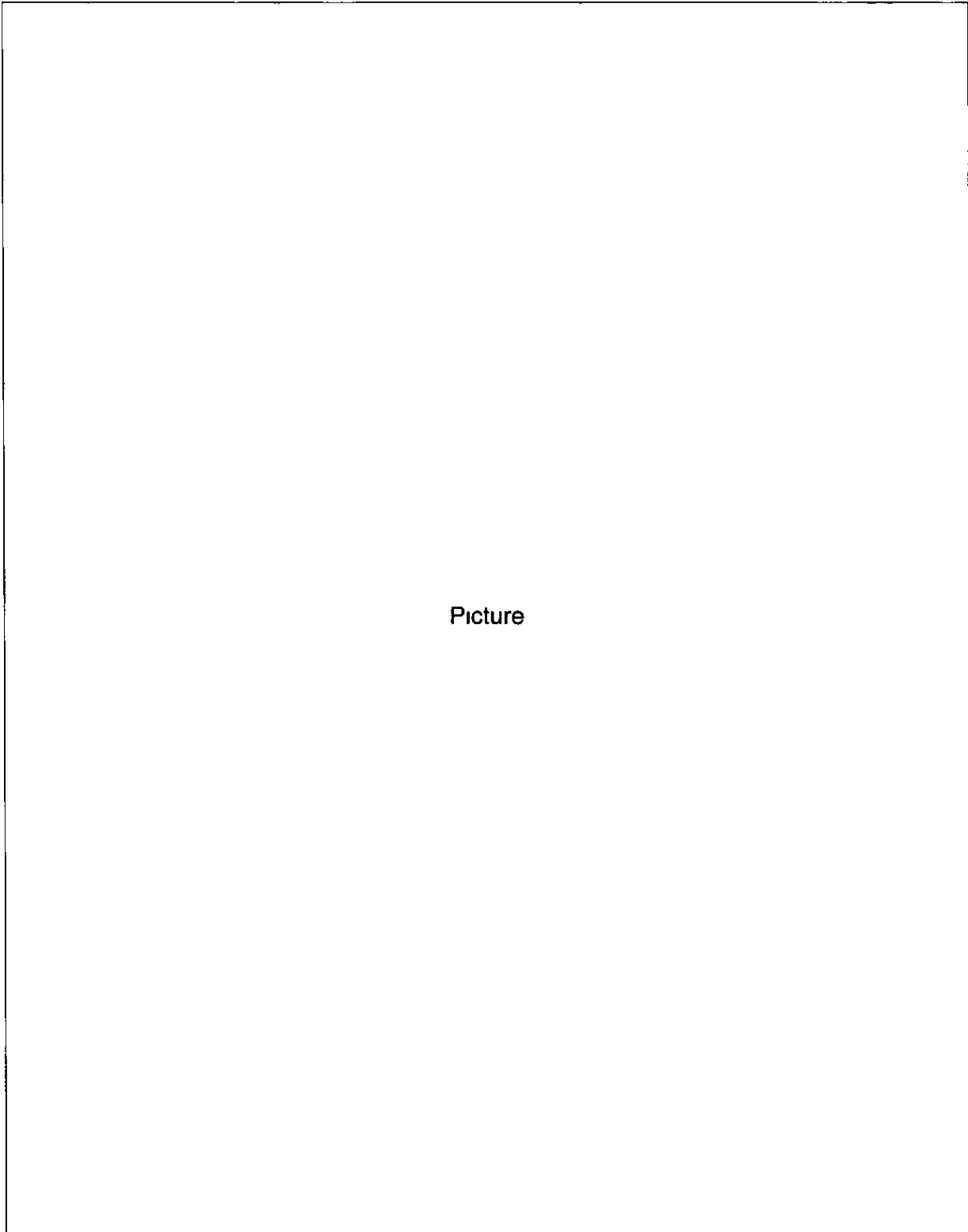


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Experience and insight

We have over 30 years of experience as an investment group in the sectors in which we are active. This experience affords insight and value. We understand economic cycles and how these can produce investment opportunities which others may overlook. Over time we have developed strong networks which add to our direct management capabilities and lead to further investment opportunities.

Commitment and partnership
We have permanent capital which enables us to take a longer term view than funds with fixed investment periods. The creation of great companies requires strong management, commitment and time. We provide not only finance, but support and guidance to management and relevant expertise.

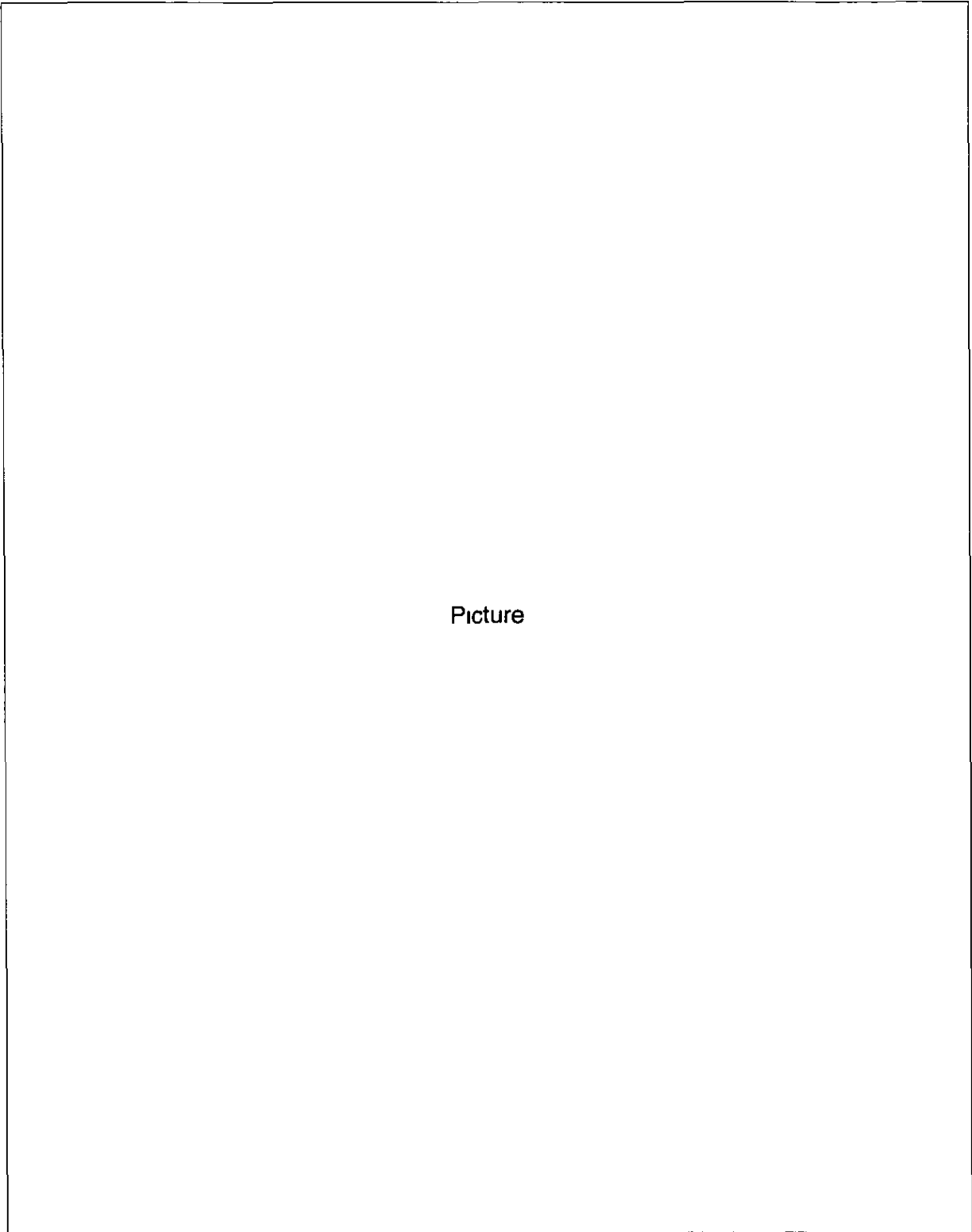


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Agility and diversity

We can move quickly and decisively to seize opportunities. We believe in managing risk through diversification, by investing in different geographies, industry sectors and stages of maturity. We invest in early stage companies, where investment periods can be ten years or more, through to pre- and post-IPO companies with much shorter horizons.

Chairman's statement

In this first annual report from LMS Capital I am pleased to report a number of significant achievements in the development of the business

We completed the demerger from London Merchant Securities in June 2006 and LMS Capital was successfully launched as an independent investment company quoted on AIM. This independence provides the business with greater focus to pursue our objective to deliver medium to long-term growth for our shareholders.

In June 2006 we also initiated a successful share buyback through a tender offer to provide shareholders with an opportunity to realise their investment in the Company. The tender offer was completed in July 2006 when we bought back 42.6 million shares in the Company at an average price of 71.03 pence per share, thereby returning £30.2 million to shareholders.

We now have the right team in place to deliver our strategy and have implemented the necessary reporting and control systems for the business on a stand alone basis. We have also completed a thorough review and evaluation of the investments within our portfolio and, in the case of the UK unquoted investments, have ensured that their operating plans are aligned with our strategy.

Results

The Group achieved realised gains on investments and income from investments of £6.4 million in the nine months ended 31 December 2006 (year ended 31 March 2006 – £9.3 million, excluding discontinued activities). Net unrealised losses on the investment portfolio were £11.5 million (year ended 31 March 2006 – £7.6 million) which

includes unrealised losses of £13.4 million (year ended 31 March 2006 – unrealised gain of £1.5 million) arising from the weakening of the US dollar against £ sterling.

The loss attributable to shareholders for the nine months ended 31 December 2006 was £10.8 million (year ended 31 March 2006 – profit of £12.5 million). The Board is not recommending payment of a dividend in respect of the nine months ended 31 December 2006.

The valuation of the investment portfolio at 31 December 2006 was £234.9 million, an increase of £8.3 million, 3.7%, compared to 31 March 2006. The net asset value per share of the Group at 31 December 2006 was 90p.

Board and management

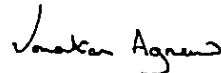
I am delighted that Robert Rayne will continue as Chief Executive Officer and Antony Sweet as Chief Financial Officer of the Company on a permanent basis, and that Martin Pexton has joined the Board as Managing Director from 1 February 2007.

I also welcome Pieter Hooft and Ed Snow to the investment management team. They have significant experience of the buyout and technology sectors in the UK. I should also like to record my thanks to the directors, management and staff of the Company for their efforts in establishing the business as an independent company.

Outlook

The Company has a broadly-based, risk-diversified portfolio of investments in sectors where the management team has considerable experience. Following the recent Board and management appointments we are now assured of the strength in depth of our team to move the business forward after this transitional period.

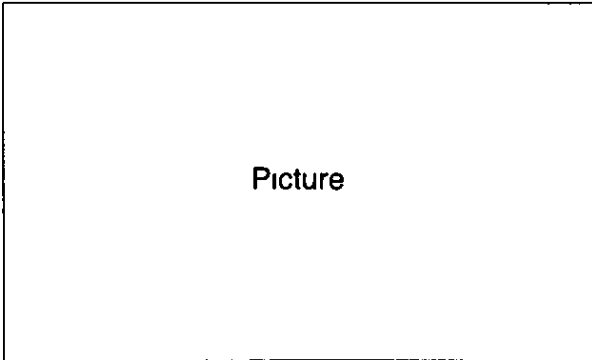
We are also seeing a sustained inflow of new investment opportunities and are pursuing a number of opportunities for realisation within the existing portfolio. Your Board is confident that the Company's strategy will result in medium to long-term growth in shareholder value.



Jonathan Agnew
Chairman

14 March 2007

From left to right: Jonathan Agnew, Chairman
and Robert Rayne, Chief Executive Officer



Business review

A new company with an established business LMS Capital's business has a 27 year history of successful investment in a wide range of companies, principally in the UK and the US. The Company was formed to acquire by way of demerger the investment activities of London Merchant Securities (now part of Derwent London plc). The acquisition completed on 9 June 2006.

As part of the demerger arrangements, LMS Capital acquired a diversified portfolio of investments valued at over £220 million and £70 million in cash, approximately half of which was earmarked for the tender offer in July 2006. The tender offer, once completed, absorbed £30.2 million.

Our objective is to deliver sustained medium to long-term growth for our shareholders. One of the principal characteristics of LMS Capital which differentiates us from other private equity investors is the time horizon over which we are able to invest. We are not constrained by the fixed investment periods (typically three to five years) of most private equity funds. It is not uncommon for us to hold investments for longer than this where we believe that this will deliver greater shareholder value.

Our strategy

We invest in companies and industries which we believe have the potential for superior growth over the medium to long term. These include the following sectors where management has extensive prior investment experience: energy, applied technology, media and leisure and healthcare and medical.

We understand the drivers of demand in these sectors and this enables us to recognise the potential of both new ideas and young companies requiring growth funding. A deep knowledge of our chosen sectors acquired over many years allows LMS Capital to invest in and with leading management teams.

We also understand the cyclical nature of the sectors we are working in and through taking long-term positions are able to adjust our economic interest to reflect the longer holding period.

Having reviewed each of our investments in detail we are currently assessing each of the sectors that we invest in. This will take account of the returns generated and future prospects, as

well as the skills and expertise of our strengthened management team. It is likely that over the coming months we shall refine our existing range of sectors, as well as looking for other opportunities in new ones, in particular real estate where management has a strong track record.

Since the technology boom in the late 1990s and early 2000s we have been nurturing this element of our portfolio which has resulted in our owning significant stakes. In the medium term we are looking to liquidate some of these holdings and introduce new investors into others.

We retain the freedom to invest outside our core sectors in order to take advantage of opportunities when they arise. In addition, approximately 30% of our portfolio is in quoted securities, which for the most part we first invested in when they were still private companies. Where we perceive there are opportunities for value creation we invest further funds in this part of the portfolio with the aim of maximising returns on any surplus cash holdings.

We have had a presence in North America for over 25 years during which time we have built up a strong network of contacts. This allows us access to the most experienced providers of venture and development capital, many of whom are our partners in private equity funds. The relationships we have established with these funds continue to generate significant co-investment opportunities.

At 31 December 2006 47% of our portfolio was US based (31 March 2006 – 50%), which includes £54.7 million (31 March 2006 – £61.1 million) invested in US private equity funds. This allows us exposure to both the US dollar and £ sterling and helps to balance cash flow.

The portfolio is structured to have a proportion in early stage companies where we expect high return multiples, as well as in companies requiring development finance where the normal holding period would be three to five years. We also look for short-term investment in the pre- and post-IPO market and these investments usually provide liquidity within a maximum of three to four years.

One of the key factors in our decision to invest is our assessment of the management team. We back good people in our chosen sectors. We expect them to run their businesses and we

aim to help them do what they do better. Individuals who create new businesses are typically first class at identifying products, services and markets. However, they often welcome our expertise in areas such as managing expansion. We act as enablers and catalysts, using our sector knowledge and experience of nurturing businesses to support management.

We are privileged to have a Board that has considerable experience in our core sectors. They bring invaluable expertise to the making of investment decisions. Members of our Board (including the non-executive directors) also sit on the boards of the companies we invest in. This enables them to share their insights and offer support at company level.

One of our most important investments is in people, both in the companies in which we invest and in the team that manages those investments for the Company. Two new members have recently joined our investment team – Pieter Hooft with responsibility for our UK investment activities and Ed Snow who now leads our investment operations in the UK technology sector. Both have significant previous experience, having worked at major investment houses in the UK.

The nature of our business exposes it to a number of risk factors, the impact of which the Board seeks to mitigate through its investment strategy.

- We have a diversified portfolio covering quoted securities, unquoted securities and funds in both the UK and the US across a range of sectors. In this way we seek to avoid undue reliance on any one security type, market or sector,
- Our primary focus is to invest in unquoted companies which may be small, with limited resources and likely to undergo significant change during our period of ownership,

The experience of the executive management team is a key factor in mitigating our risk of loss on such investments,

- We have significant holdings of quoted securities in both the UK and the US and are therefore exposed to price movements in those markets. Our management of these positions draws extensively on our experience of the sectors in which we have quoted investments, which are principally our core sectors set out above, and
- Many of our investments produce little or no recurring income and the timing of realisations of unquoted investments cannot be ascertained with certainty. We rely on our budgeting and forecasting procedures to ensure that the cash requirements of the Group are met.

A key driver of our business is deal flow and, in following up these opportunities, we undertake rigorous inquiries before committing to invest. These include:

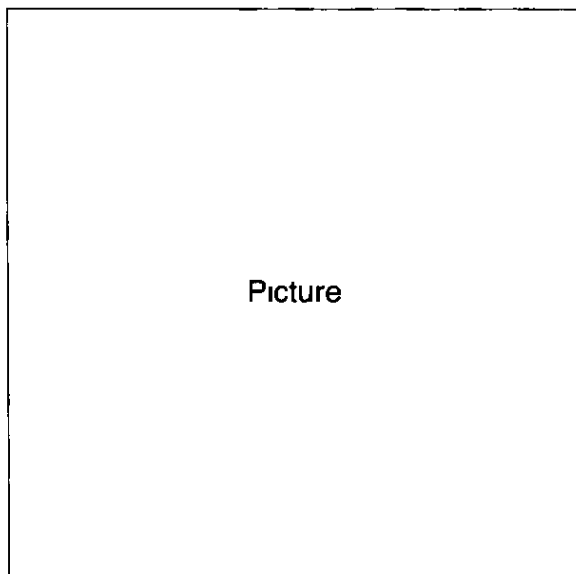
- Understanding the company's business plan,
- Evaluating information on the market place and competition,
- Meeting management, directors and existing shareholders, and
- Commissioning reports from external experts as necessary on appropriate areas of the business.

Operational review

The Group's portfolio is risk-diversified, containing holdings in quoted and unquoted companies at different stages of development in the UK and the US, together with a number of fund investments.

The analysis of investments by type and geography is as follows:

	31 December 2006			31 March 2006		
	US £'000	UK £'000	Total £'000	US £'000	UK £'000	Total £'000
Quoted securities	43,726	25,658	69,384	37,897	18,924	56,821
Unquoted securities	11,907	87,442	99,349	13,316	84,018	97,334
Funds	54,712	11,465	66,177	61,090	11,355	72,445
Total	110,345	124,565	234,910	112,303	114,297	226,600



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Company	Energy Cranes International Limited
Investment type	UK unquoted
Sector	Energy

Based in Aberdeen and Houston, Energy Cranes International Limited is the world's leading offshore crane and lifting services contractor supporting the oil and gas industry. Operating through its three principal divisions, Sparrows Offshore, Titan and American Aero, the Energy Cranes group is uniquely equipped to deliver global lifting solutions.

Sparrows Offshore was established in the North Sea in 1974, and is now the world's first truly integrated offshore lifting and mechanical handling contractor, encompassing services from lifting study through crane procurement and installation to whole life operation and maintenance, specialist lifting services, training, rigging equipment and crew management.

Complementing the activities of Sparrows Offshore, the company's Titan and American Aero subsidiaries bring 25 years of experience in pedestal crane manufacture and maintenance. Both ranges are manufactured to American Petroleum Institute specification, shipping to inter-tropical energy provinces worldwide such as the Gulf of Mexico, West Africa, the Mediterranean, the Middle East, the Caspian Sea, India and South East Asia. After-sales care is delivered from 20 locations on six continents.

Energy Cranes International currently employs over 1,200 people.

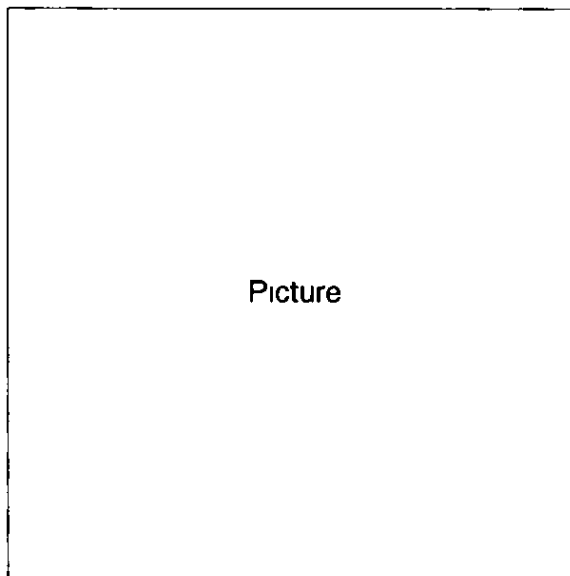
Company	Cityspace Limited
Investment type	UK unquoted
Sector	Applied technology

Cityspace Limited is a UK-based technology company that has been providing urban digital networks in partnership with local authorities for almost ten years. It is the market leader in outdoor communication and information networks through its pioneering product and service portfolio of intelligent transport systems, iPlus Point information terminals and wireless broadband city networks.

Through its Transport division, Cityspace provides real-time information services, online journey planning and self-service ticketing via interactive terminals and broadcast screens at bus stops and stations, and direct to mobile phones. The company launched its first intelligent transport system in Portsmouth in 2004, and has since deployed networks in Bristol, Kent and York amongst others.

Via its Interactive Media division, Cityspace provides networks of self-service information and transactional terminals for use by the public. The company's flagship product, iPlus Point, which features a range of content such as Freemail and BBC News, can be found at hundreds of locations in the UK, and further afield in Brussels and Moscow.

Cityspace also delivers wireless outdoor broadband hotzones through its Wireless division. These networks provide community Wi-Fi access, secure high-speed internet for mobile workers, and connectivity for fixed and temporary infrastructure such as CCTV monitoring equipment. The company recently implemented the UK's largest Wi-Fi hotzone in Islington.



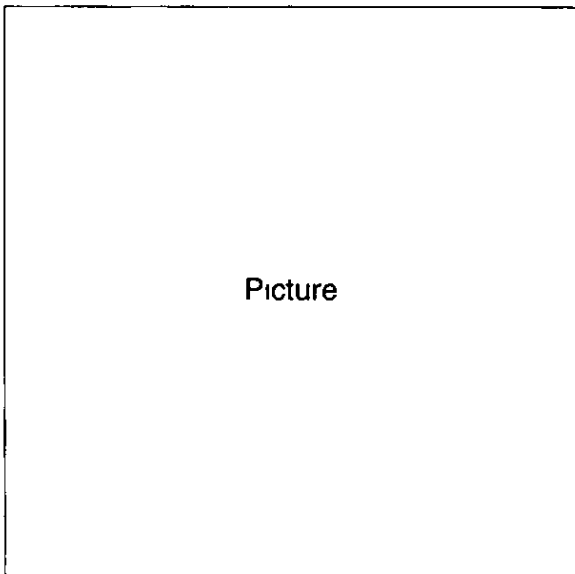
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Our business

Company	Vio Worldwide Limited
Investment type	UK unquoted
Sector	Applied technology

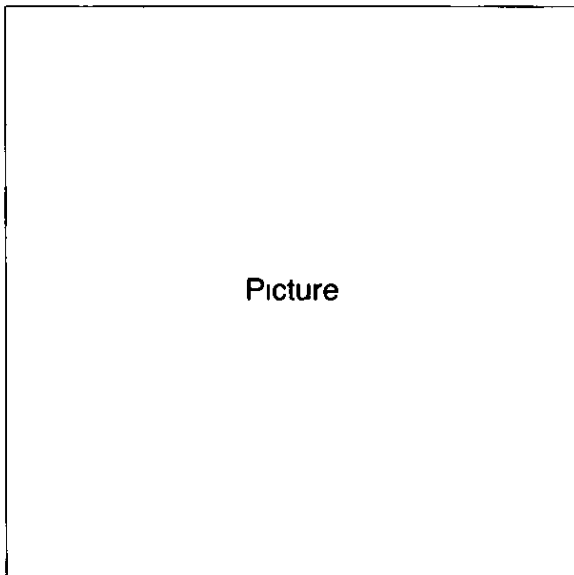
Vio Worldwide Limited sells software solutions to the printing, publishing and graphic arts industries. The Vio Digital Workflow Suite integrates all stages of the digital supply chain involved in publishing, from creative design through to production, prepress and printing, linking into users' booking, tracking and billing systems. This secure end-to-end solution increases customers' productivity, improving cash flows and reducing duplication of work and lead times.

In December 2006, the company strengthened its US presence with the acquisition of AdSEND from Associated Press. Vio now has more than 1,500 customers, ranging from some of the world's largest publishers, prepress providers and printers, to ad agencies, retailers, consumer products manufacturers, packagers and government departments. Customers include Associated Newspapers, Telegraph Group, EMAP, National Magazine Group, United Business Media, the New York Times and Trinity Mirror.



Corporate governance

Financial statements



Company	AssetHouse Technology Limited
Investment type	UK unquoted
Sector	Applied technology

AssetHouse Technology Limited sells software for managing digital products to providers of digital content services. The AssetHouse solution, AssetServer, enables media distributors to target and package their material according to viewers' preferences and increase their return on investment in content assets.

AssetServer operates across different delivery channels, including television, computers and mobile phones. In addition to selecting, packaging and distributing digital content, it also manages the complicated back-office functions, such as supply chain management, pricing, billing and dispatch.

British Telecom's BT Vision subsidiary, one of the pioneers of this form of media management, has selected AssetServer as the basis for its digital content commerce operations. This customer win has already attracted much attention both in BT's home market and abroad, generating a number of strategic partnerships with companies such as Techmahindra, News Data Services and Microsoft TV.

The investments are included in the balance sheet at fair value as set out in Note 1 to the financial statements. During the nine months ended 31 December 2006, realisations from the portfolio generated cash of £33.3 million (year ended 31 March 2006 – £36.8 million, excluding

discontinued activities). Cash invested totalled £48.1 million, of which £15.9 million was invested in funds, £14.5 million in quoted securities, £1 million in new unquoted securities and £16.7 million was follow-on financing for existing investments.

Unquoted securities

The following is a summary of the Group's ten largest unquoted investments by value at 31 December 2006

Name	Country	Activity	Book value	
			31 December 2006 £ 000	31 March 2006 £ 000
Energy Cranes	UK	Offshore crane operations	34,000	21,474
Cityspace	UK	Urban information networks	12,500	5,000
Rave Reviews Cinemas	US	Movie theatre operators	7,854	8,244
Citizen (Vio Worldwide)	UK	Digital workflow management solutions	7,000	7,819
AssetHouse Technology	UK	Content services infrastructure software	6,000	5,703
Entuity	UK	Network management software	5,300	8,439
Wesupply	UK	Supply chain execution management software	4,000	6,694
7 Global	UK	Software hosting services	3,000	5,985
First Index	US	B2B marketplace for custom-manufactured products	3,000	2,566
Corizon	UK	Software solutions to access multiple applications	2,700	1,923

The book value has been determined in accordance with industry guidelines and is based on the directors' review of each company's performance, progress and stage of development.

Energy Cranes is our largest unquoted investment. It comprises three businesses specialising in offshore cranes which we brought together over the period 2003 to 2005. By mid-2006 the business had made excellent progress and we agreed with management that the company should obtain more favourable third party financing arrangements. This refinancing was completed in September 2006 and Energy Cranes repaid a total of £5 million to the Company, including £1.4 million of preference dividends.

A major focus has been to ensure that each of our unquoted investments has a clear strategic and operating plan which aligns them to our overall objective of achieving growth in value for the Company's shareholders. The operating plans of individual companies can encompass any of a number of approaches to achieve this overall objective – cost reduction, greater focus, an acquisition, finding a new external investor

Examples drawn from our UK technology portfolio of how we have recently applied this policy include

7 Global

The company's management has prepared an operational plan which will mean cost reductions to achieve break-even by the middle of 2007. This should provide a base for growth, supported by positive recent feedback from customers and potential customers.

Citizen (trading as Vio Worldwide)

Following a strategic review of options for this business, the company made a significant acquisition in the US in December 2006. This acquisition brings with it a significant customer base which provides cross-selling opportunities for the complementary Vio products.

AssetHouse

This company's software is now an established product in its market place and the company needs further funding to expand its sales and marketing and continue its development programme. It is currently seeking an investor to inject the necessary funds in return for a significant equity stake.

In November 2006 we sold our interest in Advanced Communications and Information Systems Limited ('ACIS') for £3.0 million. The Company made a £1 million co-investment in ACIS in April 2005 (alongside the Inflexion 2003

Buyout Fund) and the sale proceeds represented an internal rate of return on our investment of 100%. Co-investment with funds where the Company is a limited partner continues to be an important element of our investment strategy.

Funds

The Group's ten largest fund investments by value at 31 December 2006 are

Fund	Country	Activity	Book value	
			31 December 2006 £ 000	31 March 2006 £ 000
San Francisco Equity Partners	US	Technology, media and retail	21,729	16,514
Spectrum IV	US	Communications/IT	8,208	8,762
Boston Ventures LP VI	US	Media and leisure	5,466	7,537
Amadeus II LP	UK	Early stage technology	4,994	4,628
Boston Ventures LP V	US	Media, publishing, communications and leisure	3,511	4,048
Scottish Equity Partners II	UK	Technology and energy	3,189	2,510
Gene Weber (Bermuda) Partnership	US	Software	2,357	2,688
Inflexion II	UK	Mid-market buyouts	2,248	1,714
Bank of America New Century Fund	US	Buyout funds	1,471	1,489
Brynwood Partners V	US	Mid-market buyouts	1,334	1,012

Following a review of our interests in US private equity funds, we decided to take advantage of the buoyant secondary market for such interests during the year. Accordingly in October 2006 we agreed to sell nine of our interests for US\$21.1 million (£11.1 million). The sale proceeds resulted in a premium over the book value of the interests of £0.9 million.

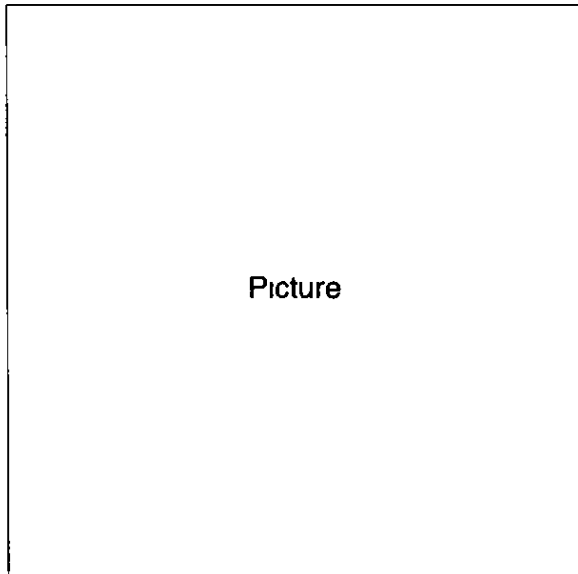
We continue to monitor our portfolio of fund interests and will take advantage of further opportunities in the secondary market if we consider it appropriate.

San Francisco Equity Partners ('SFEP') is a US limited partnership in which the Group has a 99% interest. It is the principal vehicle through which the Group invests in unquoted companies in the US. During the nine months ended 31 December 2006 SFEP acquired an 18% interest in Luxury Link, an online provider of luxury travel packages, for US\$4.5 million (£2.4 million) and invested a further US\$6.3 million (£3.4 million) in its existing portfolio companies.

Quoted securities

The Group's ten largest quoted investments by value at 31 December 2006 are

Name	Country	Activity	Book value	
			31 December 2006 £ 000	31 March 2006 £ 000
Weatherford International	US	Oilfield services	19,630	18,612
ProStrakan Group	UK	Speciality pharmaceuticals	19,427	17,392
Grant Prideco	US	Oil and gas exploration	8,233	1,208
Chyron Corporation	US	Media technology	4,846	2,086
Bridgwell Group	UK	Investment banking	3,632	-
Ivanhoe Energy	US	Oil and gas exploration	1,964	4,520
Atheros Communications	US	Manufacture of wireless chips	1,700	2,357
Covad Communications	US	Business communications	1,624	2,886
Monogram Biosciences	US	Drug discovery	1,401	2,111
Gourmet Holdings	UK	Pub/restaurant operator	1,355	1,254



Picture

Company	Rave Reviews Cinemas LLC
Investment type	US unquoted
Sector	Media & Leisure

Based in Dallas, Texas, Rave Reviews Cinemas LLC is an independent cinema operator in the US. Since its foundation in 1999, the company has grown rapidly and now has 27 multiplex cinemas across 11 states: Alabama, Arkansas, Florida, Illinois, Indiana, Louisiana, Michigan, Ohio, Pennsylvania, Tennessee and Texas.

screens, better projection quality, and more comfortable seating than traditional sloped-floor cinemas. The company is currently introducing digital technology to all its theatres, offering superior quality, alternative content attractions, and new applications such as 3-D. The digital conversion of all Rave's multiplexes is scheduled for completion by mid-2007.

Rave is committed to high quality in every aspect of its operations, enriching the cinema-going experience through unrivalled technology, customer service and theatre design. Its stadium cinemas offer unobstructed sight lines, larger

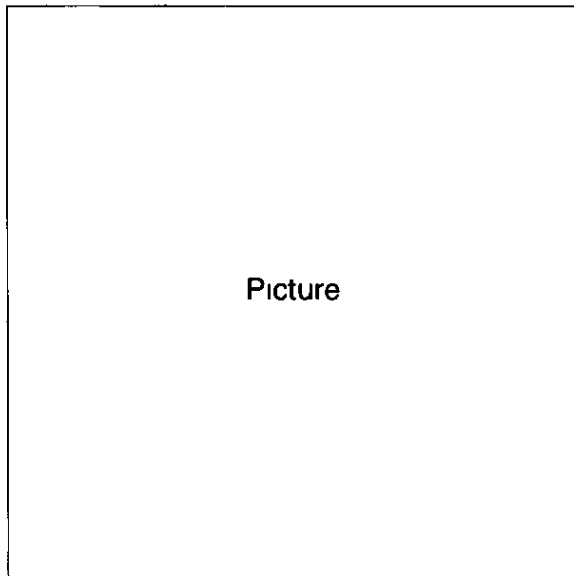
Company	ProStrakan Group plc
Investment type	UK quoted
Sector	Healthcare & Medical

ProStrakan is a rapidly growing specialty pharmaceutical company engaged in the licensing, development and commercialisation of prescription medicines for the treatment of unmet therapeutic needs in major markets. The company's current strategic focus is on the treatment of conditions related to women's health, the ageing male and bone disease, and it plans to launch five new products in Europe by the end of 2008, and three in the US by mid-2009.

people at its offices in the UK, France, Germany and Spain. Its development team comprises around 30 professionals who have significant track records within research, product development and approvals, in both big pharmaceutical and biotech environments.

In June 2006, ProStrakan completed its initial public offering on the London Stock Exchange.

The company is headquartered in Scotland and has commercial operations throughout Europe, employing approximately 260



Picture

Our business

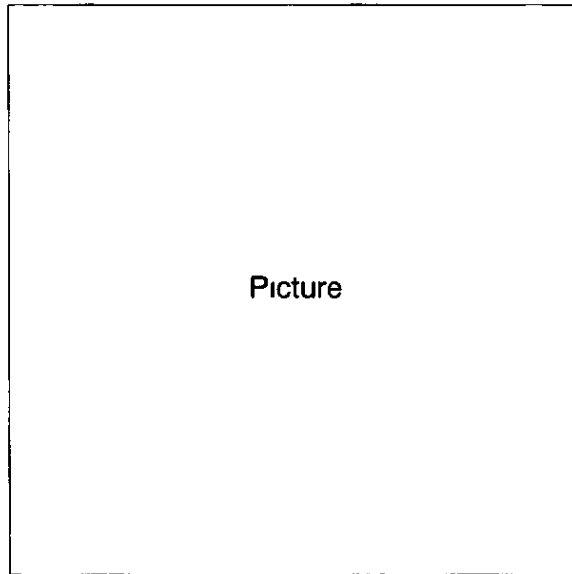
Company	Weatherford International Ltd
Investment type	US quoted
Sector	Energy

Weatherford International Limited is one of the world's largest diversified upstream oilfield service companies. Its principal activity is to provide equipment and services to the oil and gas exploration and production industries.

The group operates in two segments: Evaluation, Drilling and Intervention (EDI) and Completion & Production Systems (CPS). The EDI division provides a wide range of products and services, including drilling services and equipment, well installation services and cementing products and equipment. The CPS division

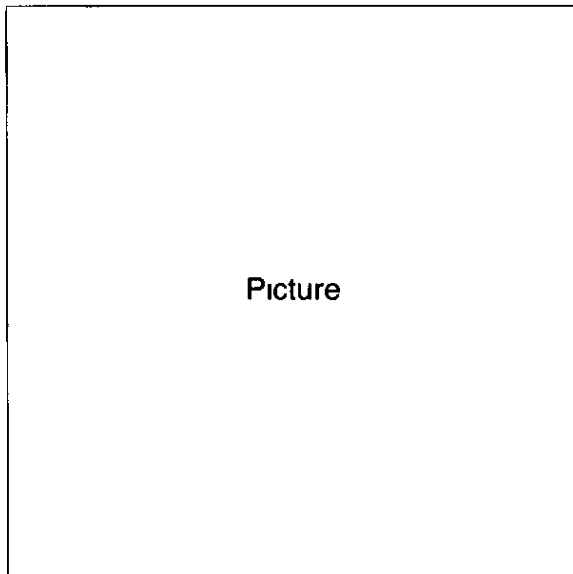
designs, manufactures, sells and services a complete line of artificial lift equipment, including progressing cavity pumps, reciprocating rod lift systems, gas lift systems, electrical submersible pumps, product optimisation services and automation and monitoring of wellhead production.

The company has over \$6 billion in annual revenues, approximately 33,000 employees in over 100 countries, and 87 manufacturing facilities supporting 730 service bases.



Corporate governance

Financial statements



Company	First Index Inc
Investment type	US unquoted
Sector	Applied technology

First Index Inc has been bringing together buyers and suppliers of complex, custom-made parts and assemblies since 1992, and has steadily grown into the leading online sourcing service and marketplace of its kind worldwide.

Thousands of buyers of manufactured parts around the world use the First Index sourcing platform to identify the suppliers which are precisely matched to their requirements. First Index's comprehensive database provides information against an unparalleled range of criteria, allowing buyers to identify the suppliers with the quality and reliability to deliver ongoing value and sustainable savings. This enables them to overcome the risks associated with switching sources.

First Index offers a robust technology platform to facilitate requests for quotation (RFQs). In addition to this, the company offers expert sourcing support both in the US and abroad, with on-the-ground representatives in key low-cost countries, enabling buyers to make informed decisions, communicate effectively with suppliers, and provide feedback between parties.

First Index covers the full spectrum of manufacturing processes including machining, casting, forging, metal stamping and forming, sheet metal fabrication, heavy fabrication, plastic moulding and electronics. It serves buyers from a number of industries, ranging from automotive and industrial to aerospace and oil and gas equipment.

Quoted investments continue to form an important part of our investment strategy, and most of our holdings have resulted from private companies in which we originally invested (either directly or through private equity funds) obtaining a public listing for their shares. During 2006 we have

- Invested cash (approximately £12.5 million) in quoted stocks in the oilfield services sector, principally Weatherford International and Grant Prideco which we believed were undervalued, and
- Realised a number of our smaller holdings by value to enable us to focus on a smaller number of stocks, principally in the oilfield services and technology sectors

Financial review

Basis of preparation of financial information

The financial information of the Group for the nine months ended 31 December 2006 and the year ended 31 March 2006 has been prepared on a merger accounting basis as if it had been in existence in its current form throughout both these periods. The Company was formed on 17 March 2006 and commenced operations on 9 June 2006, accordingly it has no statutory comparative figures. The results for the Group for the year ended 31 March 2006, together with the financial position at that date, have been presented in the financial statements on a pro-forma basis for comparative purposes. Further details of the basis of preparation are set out in Note 1 to the financial information.

In March 2006 Inflexion plc, in which the Group has a 58% interest, disposed of its business and its shareholders approved a members' voluntary liquidation of the company. The results of Inflexion are shown as discontinued activities in the financial information for the year ended 31 March 2006.

Results of operations

The Group's return on its investment portfolio during the nine months ended 31 December 2006 was a loss of £5.0 million (year ended 31 March 2006 – profit of £1.7 million, excluding the discontinued activities).

Profit on realisation of investments was £5.1 million (year ended 31 March 2006 – £9.3 million, excluding realised losses of the discontinued activities of £1.7 million). This includes £2.0 million on the sale of ACIS and £0.9 million on the sale of nine of our US fund interests, as well as realised gains on distributions from our interests in funds and gains on sales of quoted investments. The higher profit on realisations in the year ended 31 March 2006 includes gains on the sale of two quoted securities which were not repeated in the nine months ended 31 December 2006.

Unrealised losses on investments, being the net impact of fair value adjustments to the Group's investment portfolio, were £11.5 million (year ended 31 March 2006 – £7.6 million, there were no unrealised gains or losses in the discontinued activities). The most significant factor in the nine months ended 31 December 2006 was the impact of the weakening of the US dollar against £ sterling on our US investments, this resulted in an unrealised loss of £13.4 million (year ended 31 March 2006 – unrealised gain of £1.5 million). The positive fair value adjustment of £1.9 million, excluding the currency impact, includes a £2.4 million unrealised gain as a result of no longer recognising a marketability discount on one of our quoted investments and £2.5 million in respect of increases in value of our fund investments, offset by net adjustments of £3.0 million reducing the value of our quoted and unquoted securities.

We have carried out a detailed review of the value of each of our unquoted securities as at 31 December 2006. The most significant change is the increase in the fair value of Energy Cranes by £16.2 million (after the impact on our carrying value of the refinancing during the year) to £34 million, which reflects the continuing excellent performance of that business. We have reduced the fair value of our other unquoted investments by £18.9 million, including £16.8 million in respect of our UK technology investments.

Our business

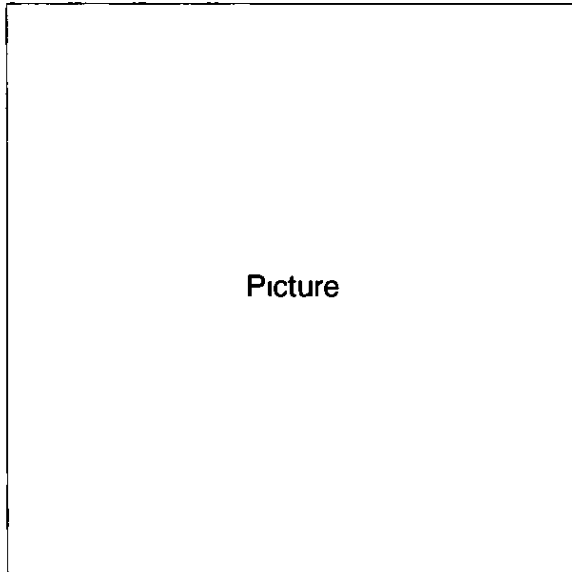
Company	Method Products, Inc.
Investment type	US unquoted (SFEP)
Sector	Consumer

Method Products, Inc is a consumer products company that was formed with the goal of transforming the household cleaner from a toxic object that hides under the sink to an all-natural, biodegradable, and stylish countertop accessory. Through design, fragrance and wit, the company elevates mundane household goods to objects that provide consumers with sensory and aesthetic pleasure.

The company's product line started with all-purpose cleaners and has rapidly expanded to include kitchen soaps, specialty cleaners and wipes, hand and body personal care items, laundry detergents, and air care.

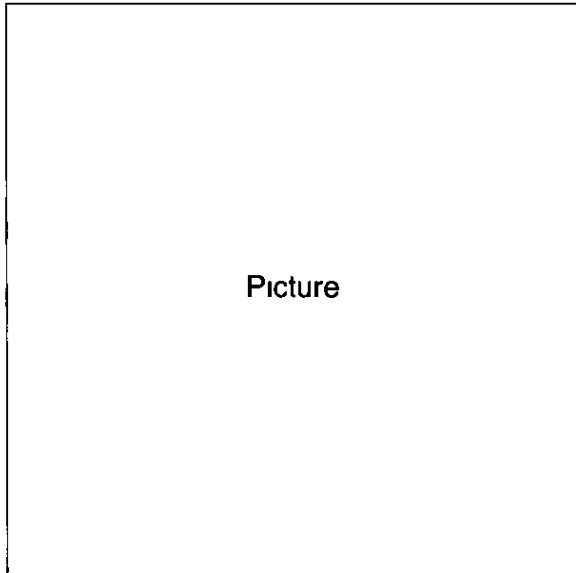
In 2006, Method was named as America's seventh fastest growing private company in Inc Magazine's Inc 500, and has received considerable coverage in the consumer and business media, featuring in Time Magazine, Business 2.0, House & Garden, GQ, Good Housekeeping and the New York Times Magazine amongst others.

The company's customers include Target, Costco, Safeway, Tesco, John Lewis and Waitrose.



Corporate governance

Financial statements



Company	Wesupply Limited
Investment type	UK unquoted
Sector	Applied technology

Wesupply Limited is a leading provider of supply chain management software, offering a fully configurable, on-demand and collaborative web-based solution. It allows rapid implementation and links an organisation to differing systems and technologies across internal divisions, plants, branches, suppliers, logistics providers and customers. The Wesupply solution is delivered as an SAAS (Software as a Service) model, requiring no hardware or software, and is externally hosted 24/7.

Wesupply has already provided solutions for companies in a wide range of industries, including automotive and industrial, aerospace, building materials, consumer packaged goods, pharmaceutical and chemical, and retail. The company has offices in the UK and US and currently serves over 250 customers including Coca Cola Amatil, Amcor, Saint-Gobain and Lear Corporation.

The net charge for fair value adjustments in the year ended 31 March 2006 comprised £28.4 million net unrealised gains, principally on the Group's quoted securities and fund investments (including the favourable foreign currency impact referred to above) offset by increased provisions against the valuation of unquoted securities of £33.4 million

Income from investments in the nine months ended 31 December 2006 was £1.4 million (year ended 31 March 2006 – £nil, excluding £0.2 million in the discontinued activities) and comprises preference dividends paid by Energy Cranes

Administration expenses for the nine months ended 31 December 2006 were £4.9 million (year ended 31 March 2006 – £7.9 million, of which £3.5 million related to the discontinued activities) The proportionately higher costs in the nine months ended 31 December 2006 reflect the Company's change of status to a stand-alone AIM-quoted company in that period

Exceptional costs of £3.1 million were incurred in respect of the demerger (£2.4 million) and the tender offer (£0.7 million) There were no exceptional costs in the year ended 31 March 2006

Net interest income for the nine months ended 31 December 2006 was £1.3 million (year ended 31 March 2006 – £1.8 million)

The tax charge for the nine months ended 31 December 2006 was a credit of £0.7 million (year ended 31 March 2006 – credit of £15.7 million) Included in the credit for the year ended 31 March 2006 is a credit of £17.4 million receivable from London Merchant Securities as consideration for tax losses surrendered as group relief before the demerger

Investments

The Group's investments are included in the balance sheet at fair values determined in accordance with industry guidelines Details of the Group's accounting policy for the valuation of investments are set out in Note 1 to the financial information

At 31 December 2006 these investments amounted to £234.9 million (31 March 2006 – £226.6 million) – an increase of £8.3 million (3.7%)

New investments during the year were £48.1 million (year ended 31 March 2006 – £71.5 million, of which £13.6 million related to the discontinued activities) Proceeds of realisations were £33.3 million (year ended 31 March 2006 – £73.1 million, of which £36.3 million related to the discontinued activities)

At 31 December 2006 the Group had commitments to meet capital calls from private equity funds in the UK and the US totalling £45.6 million

Financial position

The Group balance sheet at 31 December 2006 includes cash of £24.1 million (31 March 2006 – £44.0 million) of which £1.6 million (31 March 2006 – £43.1 million) is held in Inflexion and will be distributed to shareholders on completion of the members' voluntary liquidation The first such distribution was paid in April 2006

The Group had no third party indebtedness at 31 December 2006

Outlook

During the second half of 2006 we have concentrated on ensuring that each of our existing direct investments has a strategy which is aligned to the Company's goal to deliver medium to long-term growth for our shareholders We expect to make further progress on this in 2007

We have made no significant new direct investments in the nine months ended 31 December 2006 However we continue to see a steady flow of opportunities and we expect to make further new investments in 2007 The new members of our investment team are already making a significant contribution in this area



Robert Rayne
Chief Executive Officer
14 March 2007



Principal direct investments

Logo

Company	7 Global Limited
Description	IT managed services, encompassing network services, infrastructure services, datacentre services and hosted applications
CEO	Richard Sheppard
Website	www.7global.com

Logo

Company	Agilisys Holdings Limited
Description	End-to-end IT and business process services suites for public and private sector clients
CEO	Manoj Badale
Website	www.agilisys.co.uk

Logo

Company	AssetHouse Technology Limited
Description	Product management solution for providers of digital content services, enabling media distributors to target television, web and mobile content according to viewer preferences
CEO	Jonathan Callcut
Website	www.assethouse.com

Logo

Company	Cityspace Limited
Description	Provision of urban digital networks, supplying and servicing intelligent transport systems, iPlus Points and wireless broadband city networks
CEO	Marc Meyohas
Website	www.cityspace.com

Logo

Company	CopperEye Limited
Description	Specialised search solutions for business transaction data that facilitates quick retrieval of specific records from months or years of history and billions of business transactions
CEO	Kate Mitchell
Website	www.coppereye.com

Logo

Company	Conzon Limited
Description	Software solutions which allow enterprise users, such as contact centre agents, to access multiple applications from a single user interface
CEO	Eric Guilloteau
Website	www.conzon.com

Logo

Company	Elateral Limited
Description	Supply chain software to streamline and automate marketing processes, from creative design and marketing to printing and fulfilment, via an online collaborative workflow tool
CEO	Paul Goater
Website	www.elateral.com

Logo

Company	Emerging Markets Advisory Corporation Limited
Description	Asset management and advisory services focused on the transitional markets of Eastern Europe and Transcaucasia
CEO	David Stewart-Howitt/Matthew Gilpin
Website	www.emac-global.com



Logo

Company	Energy Cranes International Limited
Description	Offshore crane and lifting services supporting the global oil and gas industry from 20 locations across six continents
CEO	John Jordan
Website	www.energycranes.com



Logo

Company	Entury Limited
Description	Network management software that facilitates the deployment and management of IP services, reduction of network downtime, and compliance with service level commitments
CEO	Michael Jannery
Website	www.entury.com



Logo

Company	FirstIndex Inc
Description	Business-to-business marketplace for industrial custom-manufactured parts
CEO	John Jung
Website	www.firstindex.com



Logo

Company	ITS Engineered Systems Inc
Description	Oil and gas production/recovery systems, encompassing custom engineering, fabrication, installation, training and service
CEO	John Ladd
Website	www.itsec.com



Logo

Company	LifeMasters Supported SelfCare Inc
Description	Disease management programs and services for individuals living with chronic conditions
CEO	David Strand
Website	www.lifemasters.com



Logo

Company	Prime Foods Limited
Description	Moscow-based chain of sandwich outlets
CEO	Patrick Decloux



Logo

Company	Rave Reviews Cinemas LLC
Description	Operator of multiplex cinemas in the United States
CEO	Tom Stephenson
Website	www.ravemotionpictures.com



Logo

Company	Telespree Communications
Description	Network solution to transform any wireless device into a customer self-service terminal
CEO	Bill DeKay
Website	www.telespree.com



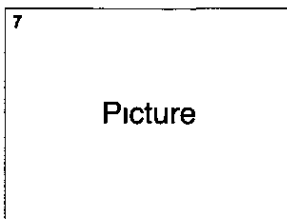
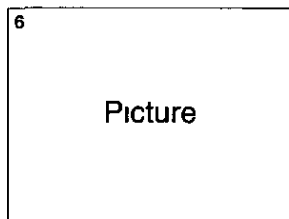
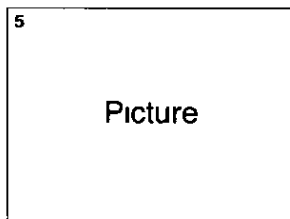
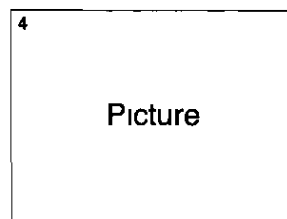
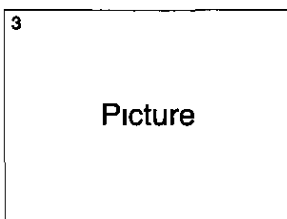
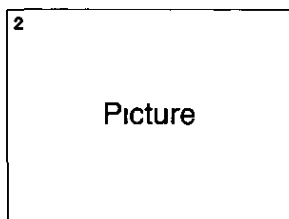
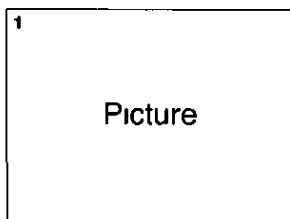
Logo

Company	Vio Worldwide Limited
Description	Supply chain software solutions for the printing, publishing and graphic arts industries
CEO	Rick Dool
Website	www.vio.com



Logo

Company	Wesupply Limited
Description	Supply chain management software, offering a fully configurable on-demand and collaborative web-based solution
CEO	Brian Marsden
Website	www.wesupply.com



Board of directors

1 Jonathan Agnew *Chairman*
Age 65 Appointed 7 April 2006

Committee Memberships Nomination (chairman)
Directorships Chairman of Nationwide Building Society, Beazley Group plc and The Cayenne Trust plc, and senior independent non-executive director of Rightmove plc

Experience He was a managing director of Morgan Stanley and subsequently group chief executive of Kleinwort Benson and has been chairman of Limit plc, Gerrard Group plc and Henderson Geared Income & Growth Trust plc

2 Robert Rayne *Chief Executive Officer*
Age 58 Appointed 6 April 2006

Committee Memberships Investment (chairman) and Nomination
Directorships Non-executive chairman of Derwent London plc and non-executive director of Weatherford International Ltd, amongst others

Experience Joined London Merchant Securities in 1968 and appointed investment director in 1983, joint managing director in 1998 and chief executive in May 2001 His previous non-executive directorships include First Leisure Corporation plc and Crown Sports plc

3 Martin Pexton *Managing Director*
Age 50 Appointed 1 February 2007

Committee Memberships Investment
Directorships Director of Energy Cranes International Limited, a number of other investee companies and London Human Resource Group

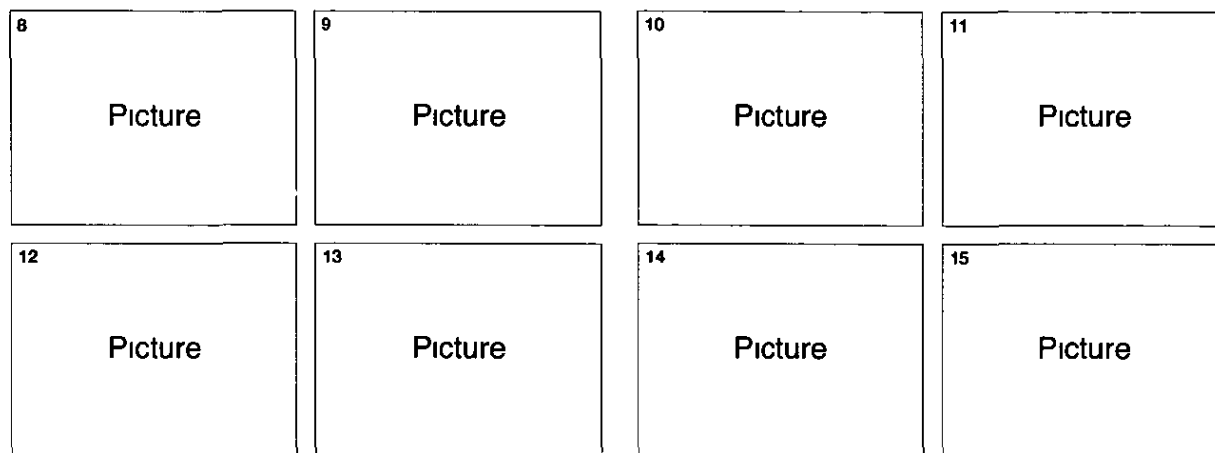
Experience He was a director of London Merchant Securities until its recent merger He previously worked as a director at Allen & Overy and with Deloitte, Haskins & Sells (now PricewaterhouseCoopers), and in the insurance and nuclear industries

4 Antony Sweet *Chief Financial Officer*
Age 52 Appointed 6 April 2006

Committee Memberships Investment
Directorships No external directorships, but is a director of a number of Group companies
Experience Most recently, he was chief financial officer of Systems Union Group plc Prior to that, he was at PricewaterhouseCoopers (the last 13 years as a partner) where he gained experience of a variety of sectors and geographies, working for large multinational companies, as well as smaller entrepreneurial businesses

5 John Barnsley *Senior Independent Non-Executive Director*
Age 58 Appointed 7 April 2006

Committee Memberships Audit (chairman), Nomination and Remuneration
Directorships Non-executive director of Grainger Trust plc, American Appraisal Associates LLP and European Cardiovascular Genetics Foundation, chairman of KCS Global Holdings Limited and senior independent non-executive director of Northern Investors Company plc
Experience Chairman of North London Research Committee, non-executive director of Syltone plc He previously spent 22 years as a partner of PricewaterhouseCoopers, including four years as UK managing partner

**6 Richard Christou Non-Executive Director**

Age 62 Appointed 7 April 2006

Committee Memberships Audit, Nomination and Remuneration (chairman)

Directorships Executive chairman of Fujitsu Services Holdings plc In February 2007, he was also appointed corporate senior vice-president of Fujitsu Limited and head of the Fujitsu Group's EMEA operations

Experience He has previously worked with STC Telecommunications Limited and subsequently as company secretary and legal director of Solaglas (UK) Limited He returned to STC plc as director, commercial and legal affairs He then moved to ICL (now Fujitsu Services Holdings plc), becoming chief executive

7 Bernard Duroc-Danner Non-Executive Director

Age 53 Appointed 7 April 2006

Committee Membership Nomination

Directorships Chairman, president and chief executive officer of Weatherford International Ltd and director of a number of oilfield service sector companies

Experience He has been a non-executive director of London Merchant Securities and president and chief executive officer of EVI, Inc (now Weatherford International Ltd) Previously, he held positions at Arthur D Little and Mobil Oil Inc

Investment team**8 Pieter Hooft UK**

Pieter is responsible for LMS Capital's UK investment activities He has over 15 years' investment experience in the UK and Europe, and previously worked at Apax Partners and JPMorgan Partners

9 Ed Snow UK

Ed leads the Company's UK technology investing, and has been involved in technology ventures for most of his career, both as operator and investor He was previously at Amadeus Capital Partners and Deutsche Bank

10 Jamie Rhodes UK

Jamie is involved in the UK direct investment portfolio, UK fund investments and quoted stocks Prior to joining the Company, Jamie seed funded, operated and sold three successive ventures

11 Carolhne Andrewes UK

Caroline carries out research and analysis across the UK investment portfolio, as well as supporting new transactions She previously worked at PricewaterhouseCoopers and for an early stage technology venture capital firm

12 Scott Potter US

Scott established and runs San Francisco Equity Partners, a fund set up in partnership with LMS Capital, which invests in expansion-stage companies Scott was previously CEO of Quiver, in which LMS Capital was a major investor

13 Cameron Steele US

Cameron joined San Francisco Equity Partners in 2005 and focuses on the US private equity portfolio He has spent the past eight years working with expansion-stage technology companies, both as an adviser and an investor

14 Gene Weber US

Gene founded Weber Capital Management and operates a number of funds in which LMS Capital invests Gene was previously a partner with Weiss, Peck & Greer and before that he was at McKinsey & Company

15 Brian Bank US

Brian has been working with LMS Capital for over six years and is responsible for its investments in US venture capital and private equity partnerships Previously, Brian was a manager in Ernst & Young's consulting practice

Corporate governance report

The Board of LMS Capital plc is committed to maintaining high standards of corporate governance and business ethics. As an AIM-quoted company, LMS Capital is not required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code'). However, given the high degree of importance the Board places on good governance, the Company has stated its intention to comply with the Code so far as reasonably practicable. This report explains how the Company has applied the principles set out in section 1 of the Code and the extent to which it has complied with the detailed provisions of the Code. The period under review is the nine months ended 31 December 2006.

The Board considers that the Company has complied with all of the provisions of the Code throughout the period under review, with the following exceptions explained below:

- The membership of the Remuneration Committee did not entirely comprise independent directors. During this period, Bernard Duroc-Danner, who was considered at the time to be non-independent for the purposes of the Code, was a member of the Committee. He is no longer a member of the Committee.
- No board performance evaluation was conducted during the period under review since the Board was not constituted until April 2006. The Board considered this Code recommendation and took the view that it was too early for any meaningful review of the performance of the Board or its committees to be conducted. It is intended that an evaluation will be conducted during 2007.

Board of directors

The Board's role

The Board is responsible to the Company's shareholders for the performance of the Group and for its overall strategic direction, its values and its governance. It provides the leadership necessary to enable the Group's business

objectives to be met within the framework of the internal controls detailed below.

Composition

The Board currently comprises seven directors: four non-executive directors (including the non-executive Chairman) and three executive directors. Six of these were appointed as directors in early April 2006 and on 6 February 2007 the Company announced the appointment of an additional executive director, Martin Pexton. Brief biographies of the directors appear on page 24. The Board considers that it has an appropriate balance of expertise and ability available to it.

The Chairman and Chief Executive Officer

There is a clear separation of the roles of the Chairman and the Chief Executive Officer. Broadly, the Chairman is responsible for the effective running of the Board, whilst the Chief Executive Officer is responsible for the executive management and performance of the Group's operations.

Non-executive directors

The non-executive directors are appointed for an initial term of three years. Subject to agreement, satisfactory performances and re-election by shareholders, their directorships may be renewed for further terms.

In the opinion of the Board, John Barnsley, Richard Christou and Bernard Duroc-Danner are each considered to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the directors' judgement. On appointment, Bernard Duroc-Danner was considered to be non-independent. However, since the year end and following his resignation as a director of London Merchant Securities, the Board has reconsidered his status and is now satisfied that he is independent.

The Board is of the view that the Chairman and each of the non-executive directors committed sufficient time during 2006 to fulfilling their duties as members of the Board.

Senior independent director

John Barnsley acts as the senior independent non-executive director. In this role he is available to shareholders if they have concerns which cannot be resolved by discussions with the Chairman, the Chief Executive Officer or the Chief Financial Officer or where such contact is inappropriate. In addition, the senior independent director is available to attend meetings with major shareholders in order to develop an understanding of their issues and concerns.

External non-executive directorships

The Board believes that executive directors should be able to accept external non-executive directorships in other companies in order to widen their skills and knowledge for the benefit of the Company, whilst continuing to discharge their executive responsibilities to the Company. Any executive director who wishes to take on an external non-executive directorship must obtain prior board approval and may not take on more than one such directorship. He may retain any fees paid in respect of such directorships.

Board meetings

Five scheduled board meetings were held in 2006. In addition, a number of ad hoc formal meetings of the Board took place during the year, principally in relation to the demerger and the tender offer.

The Chairman and the Chief Executive Officer maintain regular contact with the other directors. The Chairman also holds informal meetings as necessary with the non-executive directors without any of the executive directors being present in order to discuss management issues.

At each scheduled meeting, the Board considers a report from the Chief Executive Officer on current trading and significant business issues, such as major investment or divestment proposals and strategy. A financial report is provided by the Chief Financial Officer and other reports and presentations are provided by senior management. Papers for each scheduled board meeting are usually provided four working days before the meeting.

Attendance at board meetings

The following were directors of the Company and attended the following number of meetings

of the Board and (where they were members) its committees during the nine months ended 31 December 2006

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Meetings held	5	1	1	1
Meetings attended¹				
Jonathan Agnew	5	–	1	–
Robert Rayne	5	–	1	–
Antony Sweet	5	–	–	–
John Barnsley	5	1	1	1
Richard Christou	4	1	1	1
Bernard Duroc-Danner	4	–	–	–

Notes

1 Attendance by non-members is not shown

2 Martin Pexton was appointed as a director after the year end

Powers and delegation

The Board delegates specific responsibilities to the Audit, Nomination and Remuneration Committees, which operate within clearly defined terms of reference approved by the Board. These committees report regularly to the Board. The Board has adopted a schedule of matters reserved to it for approval. These include the approval of financial statements, strategic plans, annual budgets, acquisitions and disposals and major capital and operating expenditure proposals.

Board procedures

There are agreed procedures for the directors to take independent professional advice, if necessary, at the Company's expense. All directors have access to the advice and services of the company secretary, who is responsible to the Chairman for ensuring that board procedures are complied with and that applicable rules and regulations are followed and for advising and supporting the Chairman and the Board on corporate governance matters.

Continuing professional development

Following appointment, directors have benefited from a familiarisation process designed to assist them in their understanding of the Group and its activities. Furthermore, the Board receives presentations and reports on investments, information on market developments and regulatory and compliance issues affecting the Group.

Insurance

The Company maintains directors' and officers' liability insurance and provides the directors and officers with a qualifying third party indemnity within the limits allowed by the Companies Acts. Neither the Company's indemnity nor insurance provides cover in the event that a director is proved to have acted fraudulently or dishonestly.

Board Committees

Each Board Committee has established clear and defined terms of reference detailing their responsibilities and powers. The terms of reference for each Board Committee were established during the year and are available on the Company's website at www.lmscapital.com.

Audit Committee

The Audit Committee currently comprises John Barnsley, who chairs the Committee, and Richard Christou. John Barnsley is considered by the Board to have recent and relevant financial experience, for the purpose of the Code. A representative of the Group's external auditors, the Chief Financial Officer and other directors attend meetings of the Audit Committee at the invitation of the Chairman of the Committee.

The Audit Committee met once during 2006 and has held a further meeting during 2007. Its role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Group's financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal control systems in place within the Group.

Additionally, the Audit Committee keeps under review the conduct of the external audit and its cost effectiveness. The Audit Committee makes recommendations to the Board regarding the re-appointment or removal of the external auditors, 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 auditors.

A policy regarding the engagement of the external auditors to supply non-audit services is currently under review. The policy will recognise the importance of maintaining the objectivity and independence of the external auditors by minimising 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 to involve the external auditors in non-audit related work, principally comprising further assurance services relating to due diligence and other duties carried out in respect of acquisitions and disposals and tax services.

Nomination Committee

The Nomination Committee currently comprises Jonathan Agnew, who chairs the Committee, Robert Rayne, John Barnsley, Richard Christou and Bernard Duroc-Danner. The Committee is responsible for assisting the Board in determining the composition and make-up of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as directors, as the need may arise. The Committee will also determine succession plans for each of the directors. The Committee meets as required, but at least once each year. During 2006, the Committee met once.

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 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.

Remuneration Committee

The Remuneration Committee currently comprises Richard Christou, who chairs the Committee, and John Barnsley. Until 27 February 2007 Bernard Duroc-Danner was also a member. The composition and role of the Remuneration Committee is described more fully in the Remuneration Report.

Investment Committee

In addition to the principal Board Committees described above, the Board has also established an Investment Committee. This currently comprises Robert Rayne, who chairs the Committee, Martin Pexton and Antony Sweet. The Committee is responsible for assisting the Board in reviewing all investment and divestment proposals. It also makes proposals relating to the Company's investment policy for the Board to adopt and for regularly reporting to the Board on the performance and management of the Company's investments. The Committee meets as required.

Board re-appointments

In accordance with the Code and the Company's Articles of Association, each of the directors (whose names appear on page 24), having been appointed by the Board during 2006, will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election at such meeting.

Shareholder communications

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

Additionally, the Board will use the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the directors.

At the AGM the level of proxy votes lodged on each resolution will be made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution and the Chairmen of the Audit, Nomination and Remuneration Committees will be available to answer questions from shareholders.

The notice of the AGM and related papers will be posted to shareholders more than 20 working days before the meeting.

The interim and preliminary 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.

Internal control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

A review of the effectiveness of internal controls has been conducted, including financial, operational and compliance controls and risk management systems. The Board intends to review the effectiveness of the Company's internal controls on an annual basis and to take any necessary actions should any significant failings or weaknesses be identified.

Operational matters and the responsibility for the day-to-day management of the businesses are delegated to the Chief Executive Officer and through him, as appropriate, to other managers acting within delegated authority limits and in accordance with clearly defined systems of control.

Policies and procedures, which are subject to ongoing review and updated as required, are communicated across the Group and designed to ensure they are properly and consistently applied in relation to significant risks, investment decisions and management issues arising within the Group. The Board believes that this delegated management structure ensures a strong link between overall corporate strategy and its implementation within an effective control environment.

The Company has no internal audit department, relying on in-house resource and external advisers, which is currently considered adequate. A review of the need for such a department will be conducted during 2007.

The Audit Committee has responsibility for reviewing the effectiveness of financial and other internal controls

Risk review

The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place during the period under review and up to the date of this report

Risk review is a continuing process embedded within the business. The business is also required to have processes to formally identify risks, consider financial and non-financial implications and, so far as possible, take action to reduce those risks

Financial reporting

The directors have acknowledged, in the Statement of directors' responsibilities set out on page 38, their responsibility for preparing the financial statements of the Company and the Group. The external auditors have included, in the Independent auditors' report set out on page 39, a statement about their reporting responsibilities

The directors are also responsible for the publication of an unaudited interim report of the Company, which provides a balanced and understandable assessment of the Group's financial position for the first six months of each accounting period

Going concern

After making appropriate enquiries, the directors consider that the Company and the Group have adequate resources to remain in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements

Jonathan Agnew
Chairman

14 March 2007

Remuneration report

Introduction

This Remuneration report describes the Group's overall remuneration policy and gives details of the remuneration arrangements for directors for the year ended 31 December 2006. The report has been prepared in accordance with the Companies Act 1985, as amended (the Act) and the Combined Code.

In accordance with the Act, a resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting.

The information set out in the section headed Directors' remuneration in 2006 is, in accordance with the Act, subject to audit by the Company's auditors. The remainder of the information in this report is not subject to audit.

The Remuneration Committee

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the remuneration strategy and policies for the Company and for setting the remuneration of the executive directors. To achieve this, the responsibilities of the Committee are to

- Review and recommend annually employee compensation strategies,
- Review and recommend remuneration policy for the Company's annual compensation review,
- Set the remuneration for executive directors and monitor the level and structure of remuneration for senior management, and
- Approve targets for any performance-related pay schemes applicable to executive directors.

The Committee is made up of non-executive directors, the members during 2006 being

- Richard Christou (Committee Chairman)
- John Barnsley and
- Bernard Duroc-Danner (until 27 February 2007)

Under the Combined Code and the terms of reference of the Committee, at least two independent non-executive directors must serve on the Committee. Both Richard Christou and John Barnsley are considered by the Board to be independent non-executive directors. Bernard Duroc-Danner stood down from the Committee on 27 February 2007. The Committee invites the Chairman, the Chief Executive Officer and the Managing Director to attend Committee meetings, when appropriate, to provide a management perspective on all aspects of employee compensation.

The Committee takes advice on technical aspects of compensation policy from independent external consultants appointed by the Committee. Towers Perrin and Clifford Chance have provided advice on long-term incentive arrangements. The Committee has also considered remuneration data published by Deloitte.

Remuneration policy

The Group's remuneration policy is designed to ensure that the Company is able to attract, motivate and retain the talent required to run the Company successfully. The Company aims to structure the remuneration of executive directors in such a way as to motivate them to perform in the best interests of shareholders.

The Company compensates its executive directors and senior executives by balancing the following elements of compensation:

- base salary, payable in cash,
- benefits-in-kind,
- bonus,
- grants of share options, and
- carried interest.

The mix of these components is managed to create a total compensation package which should be

- directly linked to the Group's overall performance and profitability,

- based upon individual and business contribution,
- retentive in the long-term, and
- market competitive

The Committee reviews remuneration policy on a regular basis and, where appropriate, it will propose or implement changes to ensure that the Company has appropriate policies to enable it to attract executives of the highest calibre

Base salaries The fixed compensation costs of executive directors and senior executives are reviewed annually by the Committee, having regard to individual performance and comparative market data. Base salaries are generally set between the median and upper quartile of the market compared with other quoted companies of similar size. Base salary is the only element of remuneration which is pensionable.

Benefits-in-kind The benefits-in-kind available to executive directors are a car allowance, pension contribution (with the exception of Robert Rayne), private healthcare, life assurance, personal accident cover and permanent health insurance.

Bonuses Annual bonuses, which are non-pensionable, are based upon achievement of targets set by the Committee, having regard to the performance of the Group and the external market. Consideration is given to the Group's performance in terms of movement in Net Asset Value and Total Shareholder Return. The aim is to incentivise executive directors and senior executives to achieve outstanding performance, and to ensure the majority of their total remuneration is provided in the form of variable compensation. The maximum bonus payments are 150% of base salary for Robert Rayne and Martin Pexton and 100% of salary for Antony Sweet.

Share options The Committee considers the grant of options to executive directors and other executives. No option awards were made during 2006. However, the Committee intends to make awards under the Deferred Share Bonus Plan and the Executive Share Option Scheme following publication of the Company's results for 2006.

Deferred Share Bonus Plan

This Plan, approved by shareholders, was established as an inducement to recruitment for key executives of the Company. Participants will receive only one grant. The rules permit an award up to a normal maximum of 0.5% of the shares in issue, although in exceptional circumstances the Committee may grant an award in excess of this. No more than 3% of the shares in issue may be awarded under this Plan, and in any ten year period the number of shares issued under this Plan, the Executive Share Option Plan and the Performance Share Plan together may not exceed 5% of the shares in issue.

The performance condition is that the increase in the Net Asset Value per share must exceed the increase in the Retail Prices Index by an average of at least 3% per annum. In the case of an award of up to 0.5% of the shares in issue, one third may be released on the first anniversary of the award date, the second third on the second anniversary and the final third on the third anniversary. Where an award exceeds 0.5%, the release takes place over a four year period. The Committee may decide at its discretion that, when shares are due to be released, the participant may be given the cash equivalent of the market value of the shares.

Executive Share Option Plan

Under this Plan, approved by shareholders, the Company grants share options to executive directors and other executives within the Group. The maximum value of a grant is three times the individual's basic salary, provided the participant does not receive an award under the Performance Share Plan in that year. Options are normally exercisable between three and ten years following the grant, subject to the performance condition having been satisfied. The performance condition requires that, for 25% of the shares under option to vest, the Net Asset Value of the Company must increase by at least 3% per annum above the increase in the Retail Prices Index, starting with the Net Asset Value at the end of the financial year preceding the date of grant. If the increase in the Net Asset Value exceeds the growth in the Retail Prices Index by at least 8% per annum, the option can be exercised in respect of all the shares under option. There is a straight-line scale for increases in Net Asset Value between 3% and 8% per annum.

Performance Share Plan

The rules of the Plan, approved by shareholders, permit an annual award of performance shares up to 150% of the participant's basic salary, if no grant is made to that person under the Executive Share Option Plan in that year

For one half of the award, the performance condition is that Total Shareholder Return (TSR) over the measurement period must exceed the median Total Shareholder Return of the FTSE 250 Index. At the 50th percentile TSR, 12.5% of the total shares will vest, rising on a straight-line basis to 50% vesting at the 75th percentile TSR and above.

For the other half of the award, the increase in Net Asset Value over the period must exceed the increase in the Retail Prices Index by at least 3% per annum. At RPI plus 3%, 12.5% of the total shares that are subject to the award will vest, rising on a straight-line basis to 50% vesting if the increase in Net Asset Value exceeds RPI by 8% per annum.

Carried interest

The Committee aims to ensure that incentive arrangements are competitive with the private equity industry. The executive directors will participate in the carried interest arrangements being put in place for staff involved in the management and development of the investment portfolio.

Carried interest will be payable in respect of pre-tax net capital gains on investments, excluding third party fund investments, after a preferred return to the Company, currently at the rate of 6% per annum. The preferred return is a threshold beyond which carried interest is payable and consequently more demanding than the hurdle rate commonly found in private equity funds. The percentage of capital gains, after the preferred return which may be allocated to participants in aggregate, may not exceed 20%. No carried interest payments were made in the year ended 31 December 2006.

Performance graph

The performance graph below shows the Company's Total Shareholder Return performance compared with that of the AIM All-Share Index.

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

Service contracts

The Committee's general policy is that all executive directors should have rolling contracts of employment with notice periods of 12 months from the Company and six months from the director. Each contract will terminate on the director reaching age 65.

Graph

The following table provides details of the executive directors' service contracts

	Date of appointment	Date of contract	Notice period from Company	Notice period from director
Robert Rayne	6 April 2006	14 March 2007	12 months	6 months
Martin Pexton	1 February 2007	14 March 2007	12 months	6 months
Antony Sweet	6 April 2006	14 March 2007	12 months	6 months

Notes

1 Each of these contracts is a rolling contract

2 The executive directors' service contracts enable the Company at its option to make payment in lieu of notice upon early termination of the contract. Following a change of control, there is provision for either the Company or the executive director to terminate employment upon payment of 95% of annual salary and benefits

Non-executive directors

The Committee's policy is for all non-executive directors to have letters of appointment with the Company. Under their letters of appointment, both non-executive directors and the Company are required to give one month's notice to

terminate appointments. Non-executive directors are subject to the re-election requirements under the Company's Articles of Association. There are no provisions for non-executive directors to receive compensation upon early termination.

The following table provides details of the non-executive directors' letters of appointment

	Date of appointment	Date of appointment letter	Date of expiry of current term
Jonathan Agnew	7 April 2006	11 April 2006	6 April 2009
John Barnsley	7 April 2006	11 April 2006	6 April 2009
Richard Christou	7 April 2006	11 April 2006	6 April 2009
Bernard Duroc-Danner	7 April 2006	11 April 2006	6 April 2009

Fees for non-executive directors are determined every two years by the Board as a whole (upon the recommendation of the executive directors), based on market information and in accordance with the restrictions contained in the Company's Articles of Association. The current fees for non-executive directors, which are non-pensionable, are

Chairman	£75,000
Remuneration Committee Chairman	£45,000
Audit Committee Chairman	£45,000
Non-executive not chairing Committee	£40,000

Non-executive directors do not participate in the Group's incentive plans or pension schemes, with the exception of the Matching Share Plan, established as a recruitment incentive.

Matching Share Plan

Under this Plan, approved by shareholders, all non-executive directors have purchased shares to the value of their annual gross fee. Provided they remain in office at the date of the first results announcement 12 months following the date of admission to AIM, they will receive shares to the current market value of the shares they have purchased, after deductions have been made for Income Tax and National Insurance contributions. No further awards will be made under this Plan.

Directors' remuneration in 2006

The following table shows the total remuneration earned in respect of 2006 by the directors in service at 31 December 2006

Director	Salary/Fees £ 000	Benefits- in-kind £'000	Pension £'000	Annual Cash Bonus £ 000	2006 Total £ 000	2005 Total £ 000
Jonathan Agnew	55	-	-	-	55	-
Robert Rayne	221	10	-	190	421	-
Antony Sweet	131	6	16	66	219	-
John Barnsley	33	-	-	-	33	-
Richard Christou	33	-	-	-	33	-
Bernard Duroc-Danner	29	-	-	-	29	-
Total	502	16	16	256	790	-

Notes

- The appointments of the directors shown in the table were all with effect from 6 or 7 April 2006 and the emoluments are therefore for a part year
- Robert Rayne was employed and paid by London Merchant Securities during the period and seconded to the Company for a part of his time. The amounts shown in the table are the amounts charged by London Merchant Securities to the Company for the provision of his services
- Salaries for Executive Directors with effect from 1 February 2007 are
 - Robert Rayne £385,000
 - Martin Pexton £235,000
 - Antony Sweet £185,000

Directors' pension entitlements

Martin Pexton and Antony Sweet receive a contribution into a personal pension arrangement of 20% and 15% of base salary respectively. Robert Rayne does not receive a pension contribution.

Directors' share interests

The beneficial interests of those Directors who held office at 31 December 2006 in the ordinary shares of the Company are set out below

	At 1 April 2006 (or date of appointment)	At 31 December 2006
Jonathan Agnew	-	119,479
Robert Rayne	7,645,793	7,645,793
Antony Sweet ¹	-	-
John Barnsley	-	150,000
Richard Christou	-	100,000
Bernard Duroc-Danner	-	500,000

Notes

- Antony Sweet was allocated 1,702 ordinary shares for nil consideration on 30 January 2007 by the LMS Quest Trust
- Martin Pexton was appointed as a director following the year end. At the date of this report, he has a beneficial interest in 165,658 ordinary shares in the Company

The following directors had non-beneficial interests in the ordinary share capital of the Company

- Robert Rayne holds a non-beneficial interest in 21,582,900 ordinary shares held in trust
- Two subscribers' shares were transferred on 6 April 2006 to directors: one ordinary share was transferred to Jonathan Agnew and Antony Sweet and one ordinary share was transferred to John Barnsley and Antony Sweet. These jointly-held shares were each subsequently sub-divided into ten shares, which continue to be held by these directors as non-beneficial interests

Except as stated above

- no changes in the above directors' interests have taken place between 31 December 2006 and the date of this report
- the Company is not aware of any other interests of any director (or any member of his immediate family) in the ordinary share capital of the Company

Richard Christou
Chairman, Remuneration Committee

14 March 2007



Directors' report

The directors present their report and the audited financial statements of the Company for the nine months ended 31 December 2006

Name change

On 13 March 2007 the Company changed its name from Leo Capital plc to LMS Capital plc

Principal activities and Business review

LMS Capital plc is an independent investment company whose shares are traded on AIM. The investment portfolio comprises investments in both the UK and the US, with a spread of early stage and second round technology investments, development capital and mature company buy-outs.

A detailed review of the Group's activities and performance during the period, together with details of events since the year end and likely future developments, is included in the Business review. The principal risks and uncertainties facing the business are also set out in the Business review.

Results and dividends

The results for the period are considered in detail in the Business review.

The Board has decided not to recommend the payment of a dividend in respect of the nine months ended 31 December 2006.

Directors

The names and biographical details of the current directors of the Company are given on page 24. In addition, further information about the Board is set out in the Corporate governance report.

Details of the current directors' service contracts and letters of appointment, together with their interests in the Company's shares, are shown in the Remuneration report. Qualifying third party indemnities are in force for each of the directors.

Share capital and tender offer

The Company's share capital is comprised of ordinary shares of 10p each and, at 14 March 2007, there were 286,429,228 ordinary shares in issue. Upon admission to trading on AIM on 12 June 2006, 329,001,513 shares were in issue.

In order to provide shareholders who had received shares in the demerger, but were unable or did not wish to retain them, with an opportunity to realise their investment, the Company purchased 42,572,285 shares (with a nominal value of £4,257,229) pursuant to a tender offer announced on 19 June 2006. The consideration for this purchase was £30.2 million and the shares purchased represented 12.9% of the then issued share capital. No further purchases of shares have taken place at the date of this report. No shares are currently held in treasury.

Substantial shareholdings

As at 14 March 2007, the Company has been notified of the following persons who, directly or indirectly, are interested in 3% or more of the Company's issued share capital.

Name	Number of shares or voting rights held	% of issued share capital
Michael Conn ¹	52,438,539	18.31%
Executors of Lord Rayne ¹	44,612,624	15.58%
Schroder Investment Management Limited	35,684,423	12.46%
Lady Jane Rayne ¹	27,428,734	9.58%
HBOS plc	12,363,661	3.76%

Notes

¹ The number shown represents the number of shares over which voting rights are held. There are common interests in certain of these shares.

² In addition, the Company is aware that Robert Rayne has a substantial shareholding.

Employees

The Company had no employees at 31 December 2006 or at 14 March 2007. The services of key executives and staff have to date been provided to the Company by London Merchant Securities under the terms of a transitional services agreement and, in the case of executive directors, secondment agreements. During March 2007, service contracts were entered into by the three executive directors. For other employees, it is intended that contracts of employment will be entered into as these transitional arrangements come to an end.

Those people working within the business are kept informed about significant business issues and the Group's performance by means of regular meetings, email updates and other in-house communications.

Donations

During the period under review, neither the Company nor any of its subsidiaries made any charitable or political donations.

Creditor payment policy

The Group's policy and practice in the UK is to agree terms of payment with suppliers at the time of contract and to make payment in accordance with those terms, subject to satisfactory performance. The Group does not follow any code or standard on payment practice. At 14 March 2007, trade creditors of the Company had an average of approximately 32 days outstanding.

Annual General Meeting

The Company's Annual General Meeting will be held at the offices of JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA at 10.00 am on 10 May 2007. Shareholders will receive a separate notice of meeting, together with explanatory notes, which provide full details of the resolutions being proposed at the Annual General Meeting.

Auditors and disclosure of information to auditors


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 the Companies Act 1985) of which the Company's auditors are unaware, and
- they have each taken all the steps that ought to have been taken as a director of the Company to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and resolutions will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors and to authorise the directors to fix their remuneration.

By order of the Board

Edis-Bates Associates Limited
Company Secretary
Carlton House
33 Robert Adam Street
London W1U 3HR



14 March 2007

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent company, and of the profit or loss of the Group and parent company for that period.

In preparing each of the Group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent auditors' report to the members of LMS Capital plc

We have audited the Group and parent company financial statements (the 'financial statements') of LMS Capital plc for the period ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Group and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 38.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2006 and of the Group's loss for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

14 March 2007

KPMG Audit Plc

Consolidated profit and loss account

	Notes	Nine months ended 31 December 2006			Pro-forma year ended 31 March 2006		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Realised gains on investments		–	5,051	5,051	–	7,638	7,638
Unrealised losses on investments	1	–	(11,470)	(11,470)	–	(7,593)	(7,593)
Income from investments		1,384	–	1,384	196	–	196
		1,384	(6,419)	(5,035)	196	45	241
Investment management fees	1	162	–	162	1,834	–	1,834
Administration expenses	1	(4,855)	–	(4,855)	(7,855)	–	(7,855)
Exceptional costs	2	(3,097)	–	(3,097)	–	–	–
Net finance income	3	1,290	–	1,290	1,849	–	1,849
(Loss)/profit before taxation	4	(5,116)	(6,419)	(11,535)	(3,976)	45	(3,931)
Taxation	6	–	688	688	–	15,686	15,686
(Loss)/profit after taxation		(5,116)	(5,731)	(10,847)	(3,976)	15,731	11,755
Equity minority interest		–	–	–	766	–	766
(Loss)/profit for the period		(5,116)	(5,731)	(10,847)	(3,210)	15,731	12,521
(Loss)/earnings per ordinary share	7			(3.6)p			3.8p

The total columns of this statement represent the consolidated profit and loss prepared in accordance with the Companies Act. The revenue and capital columns are supplementary to this and are prepared under guidance from the Association of Investment Trust Companies.

The revenue and capital columns above for the nine months ended 31 December 2006 relate to continuing operations. The amounts for the year ended 31 March 2006 include discontinued operations – see note 16.

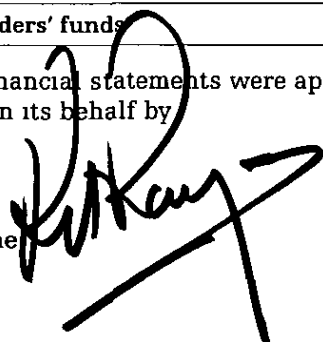
The notes on pages 44 to 60 form part of these financial statements.

Balance sheets

	Notes	Group 31 December 2006 £'000	Pro-forma Group 31 March 2006 £'000	Company 31 December 2006 £'000
Fixed assets				
Tangible fixed assets	8	9	–	–
Investments	9	234,910	226,600	293,510
		234,919	226,600	293,510
Current assets				
Debtors	10	1,472	1,172	16,791
Cash and short-term deposits	11	24,120	44,013	21,908
		25,592	45,185	38,699
Creditors amounts falling due within one year	12	(1,331)	(2,470)	(74,369)
Net current assets		24,261	42,715	(35,670)
Total assets less current liabilities		259,180	269,315	257,840
Deferred taxation	13	–	(1,364)	–
Net assets		259,180	267,951	257,840
Capital and reserves				
Called up share capital	14	28,643	32,900	28,643
Capital redemption reserve	15	4,257	–	4,257
Merger reserve	15	84,083	35,837	–
Profit and loss account	15	141,478	182,356	224,940
		258,461	251,093	257,840
Minority interests	22	719	16,858	–
Shareholders' funds		259,180	267,951	257,840

These financial statements were approved by the Board of directors on 14 March 2007 and were signed on its behalf by

RA Rayne
Director



The notes on pages 44 to 60 form part of these financial statements

Consolidated cash flow statement

	Notes	Nine months ended 31 December 2006 £ 000	Pro-forma year ended 31 March 2006 £ 000
Net cash outflow from operating activities	17a	(9,374)	(4,555)
Returns on investments and servicing of finance			
Interest received		1,278	1,246
Interest paid		(50)	(87)
Investment income received		1,384	195
Net cash inflow from returns on investments and servicing of finance		2,612	1,354
Taxation paid		(676)	(442)
Capital expenditure and financial investment			
Acquisition of tangible fixed assets	8	(10)	(514)
Proceeds on disposal of tangible fixed assets		-	555
Purchases of investments	9	(48,070)	(72,465)
Proceeds on realisations of investments		33,341	73,533
Net cash (outflow)/inflow from capital expenditure and financial investment		(14,739)	1,109
Net cash outflow before management of liquid resources and financing		(22,177)	(2,534)
Financing			
Distribution to minority shareholders		(16,138)	-
Redemption of preference shares	14	(50)	-
Redemption of shares by tender offer	15	(30,239)	-
Funding from LMS Group	17b	48,661	25,330
Issue of preference shares	14	50	-
Net cash inflow from financing		2,284	25,330
(Decrease)/increase in cash in the period	17c	(19,893)	22,796

The notes on pages 44 to 60 form part of these financial statements

Consolidated statement of total recognised gains and losses

	Nine months ended 31 December 2006 £'000	Pro-forma year ended 31 March 2006 £ 000
(Loss)/profit for the financial period	(10,847)	12,521
Waiver of inter-company debt	–	22,500
Currency translation differences on foreign currency net investments	208	171
Total recognised (losses)/gains relating to the financial period	(10,639)	35,192

Note of consolidated historical cost profits and losses

	Nine months ended 31 December 2006 £ 000	Pro-forma year ended 31 March 2006 £ 000
Profit on ordinary activities before taxation	(11,535)	(3,931)
Realisation of investment revaluation (deficits)/surpluses of previous periods	3,012	4,747
Historical cost (loss)/profit on ordinary activities before taxation	(8,523)	816
Historical cost (loss)/profit retained after taxation, minority interests and dividends	(7,835)	17,268

Reconciliation of movements in shareholders' funds

	Group Nine months ended 31 December 2006 £ 000	Group Pro-forma year ended 31 March 2006 £ 000
Total recognised (losses)/gains relating to the financial period	(10,639)	35,192
Repurchase of shares by tender offer	(30,239)	–
Movement in merger reserve	48,246	(14,602)
Movement in shareholders' funds	7,368	20,590
Minority interests	719	16,858
Shareholders' funds at beginning of period	251,093	230,503
Shareholders' funds at end of period	259,180	267,951

The notes on pages 44 to 60 form part of these financial statements

Notes to the financial information

1. Principal accounting policies

Basis of preparation

On 9 June 2006, the Investment Division of London Merchant Securities was demerged to form the LMS Capital Group. The consolidated financial statements have been prepared in accordance with the principles of merger accounting as set out in the Financial Reporting Standard 6 'Acquisitions and Mergers', as if the LMS Capital Group had been in existence from 1 April 2005. The financial year end for the Group has changed to 31 December with comparative figures for the year ended 31 March 2006.

On demerger share capital of £32,900,151 was issued by the Company. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of the net assets acquired at the date of demerger has been credited to merger reserve.

The Company was formed on 17 March 2006 and commenced operations on 9 June 2006, accordingly it has no statutory comparative figures. The results for the Group for the year ended 31 March 2006, together with the financial position at that date, have been presented in these financial statements on a pro-forma basis for comparative purposes.

The principles set out below have been applied in preparing the consolidated financial statements.

Accounting convention

The financial information has been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments and in accordance with applicable accounting standards and with the Companies Act. The accounting policies applied are consistent in dealing with items deemed material in relation to the Group's financial information.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its operating subsidiaries up to 31 December 2006. Operating subsidiary undertakings acquired as part of the demerger have been accounted for using merger accounting.

All intra Group transactions and profits or losses are eliminated on consolidation.

Certain subsidiary undertakings which are fixed asset investments are carried at valuation in accordance with the Group's normal accounting policy for such investments, and are not consolidated as required by FRS 2 'Accounting for Subsidiary Undertakings'. These investments within the LMS Capital Group portfolio are held for resale with a view to the realisation of capital gains. The LMS Capital Group's exposure to these companies is limited to its investment at the balance sheet date. Consequently, the directors consider that consolidation would not give a true and fair view of the LMS Capital Group's interest in these investments. See note 9 on the effect of non-consolidation of certain subsidiaries.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Investments

Investments are included in the balance sheet at fair value. Fair values have been determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines require the valuer to make judgements as to the most appropriate valuation method to be used and the results of the valuations.

1. Principal accounting policies (continued)

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

- *Quoted investments*

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

- *Unquoted direct investments*

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

- Recent investments are valued at cost subject to an impairment review.
- Investments in which there has been a recent funding round involving significant financing from external investors are valued at the price of the recent funding, discounted if an external investor is motivated by strategic considerations.
- Investments in an established business which is generating sustainable profits and positive cash flows are valued using earnings multiples.
- Investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation.
- Investments in an established business which is generating sustainable profits and positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted value of future cash flows or earnings.
- Investments in a business which is not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the discounted cash flow of the investment to the investors. This valuation basis will primarily be used in determining whether there is any impairment to the carrying value of the asset. Due to the subjective nature of the calculation and the dependence on the outcome of unknown future events, it will only give rise to a valuation increase in exceptional circumstances and where there is also additional evidence of an increase in value, such as additional funding or profit generation.

- *Funds*

Investments in managed funds are valued at fair value. The General Partners of the funds will provide periodic valuations on a fair value basis which the LMS Capital Group will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the Group's valuation methods.

Tangible fixed assets

These comprise computer equipment which is depreciated on a straight-line basis over its estimated useful life of between three and five years.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, and exchange differences are included in the profit and loss account.

Investments denominated in foreign currencies are translated at the closing rates ruling at the balance sheet date as part of the fair value adjustment and are taken as a gain or loss in the current year's profit and loss account.

1 Principal accounting policies (continued)

The results and balance sheets of overseas operations are translated at the closing rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets are dealt with through reserves.

Cash and liquid resources

Cash for the purpose of the cash flow statement comprises cash in hand and short-term deposits, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources include short-term cash deposits.

Taxation

Corporation tax payable both in the UK and overseas is provided on taxable profits at the current rate. Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation. In accordance with FRS 19 'Deferred Tax', deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in the near future. Deferred tax is measured on a non-discounted basis and is provided for at 30%. No deferred tax is recognised in the period to 31 December 2006, as the Group's ability to recover the amounts in the near future is not certain.

Unrealised losses on investments

This represents fair value adjustments arising during the period.

Investment management fees

Investment management fees comprise fees receivable from investments.

Administration costs

Included in both the 31 December and pro-forma 31 March 2006 profit and loss accounts is an allocation of pre-demerger expenses borne by London Merchant Securities. The allocation basis for historical purposes has been calculated as follows:

Pre-demerger*Remuneration of directors and employees*

There were no staff or directors directly employed in LMS Capital plc prior to demerger. There were seven full time staff employed by London Merchant Securities who spent substantially all of their time on activities relating to the LMS Capital Group. 100% of their remuneration has been recharged to the LMS Capital Group.

Other administrative costs

An allocation has been made and recharged, primarily based on staff costs, to reflect estimated usage by the LMS Capital Group in respect of other administrative support such as office space and related costs, depreciation, insurance, staff welfare costs, legal and professional fees, etc.

Post-demerger*Remuneration of directors and employees*

There are seven full time staff employed by London Merchant Securities who spend substantially all of their time on activities relating to the LMS Capital Group. 100% of their remuneration has been recharged to the LMS Capital Group under the terms of a Transitional Services Agreement with London Merchant Securities.

Other administrative costs

These are based on agreed annual charges set out in the Transitional Services Agreement referred to above.

2. Exceptional costs

	Nine months ended 31 December 2006 £ 000	Year ended 31 March 2006 £ 000
Demerger costs	2,201	–
Tender offer costs	896	–
	3,097	–

The above costs relate to professional services incurred by the Company in connection with the demerger in June 2006 and the repurchase of shares by tender offer in July 2006

3. Net finance income

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £ 000
Interest payable		
Short-term loan	(50)	(66)
Interest receivable		
Cash and short-term deposits	1,340	1,237
Exchange (loss)/gain on dollar deposits	–	678
	1,340	1,915
	1,290	1,849

4. Loss before taxation

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £ 000
Loss before taxation is stated after charging		
Depreciation of fixed assets	1	64
Auditors' remuneration	102	61
Audit related services		
– to parent company	40	–
– to subsidiary companies	62	61
Non-audit related services		
– taxation advisory services	13	21
– audit and related services	–	30
– demerger transactional services	156	–

5. Staff costs

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £'000
- Wages and salaries	1,499	3,299
- Social security costs	150	388
- Pension contributions	137	377
	1,786	4,064
Number of employees	7	16

Staff costs provided in the table above include amounts recharged by London Merchant Securities for employees and directors. The reduction from last year in the average number of full-time staff working for the LMS Capital Group reflects the sale by Inflexion plc of its business in March 2006 and that company's subsequent liquidation.

Details of directors' remuneration are included in the Remuneration report.

6. Taxation

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £'000
Analysis of taxation credit for period		
UK corporation tax charge on profit for the period	46	137
Group relief receivable	-	(17,431)
Adjustments relating to prior periods	(6)	(98)
US taxation on disposal of venture capital investments	636	521
Other US taxation	-	256
Total current tax	676	(16,615)
Total deferred tax (credit)/charge	(1,364)	929
Total tax credit for the period	(688)	(15,686)

The group relief receivable of £17.4 million at 31 March 2006 relates to capital losses that were surrendered to the London Merchant Securities group.

Factors affecting the tax credit for the year

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £'000
Loss before taxation	(11,535)	(3,931)
Multipled by the standard UK rate of corporation tax at 30%	(3,461)	(1,179)
Capital profits sheltered by losses	(465)	(32)
Group relief receivable	-	(17,431)
Fair value adjustments not currently taxable	4,908	2,299
Overseas (profits)/losses not available for current deduction	(2,004)	60
Non-deductible expenditure	930	-
Non-taxable income	(424)	-
Deferred tax asset not recognised	(108)	-
Adjustments to tax charge in respect of prior periods	(6)	(98)
Other items	(58)	695
Current tax credit for the period	(688)	(15,686)

7. (Loss)/earnings per ordinary share

The loss per share at 31 December 2006 of 3 6p (31 March 2006 – earnings per share of 3 8p) is based on the loss for the period of £10,847,000 (31 March 2006 – profit £12,521,000) and the weighted average number of shares in issue during the period of 303,383,617 (31 March 2006 – 329,001,513). There is no dilution effect in either period.

8. Tangible fixed assets

	Group 31 December 2006 £'000	Group 31 March 2006 £'000	Company 31 December 2006 £'000
Cost			
At the beginning of the period	–	314	–
Additions at cost	10	514	–
Disposals	–	(828)	–
At the end of the period	10	–	–
Accumulated depreciation			
At the beginning of the period	–	209	–
Charge for the period	1	64	–
Disposals	–	(273)	–
At the end of the period	1	–	–
Net book value beginning of the period	–	105	–
Net book value end of the period	9	–	–

Tangible fixed assets at 31 December 2006 comprise computer equipment

9. Investments**Group**

	Funds £ 000	Quoted £ 000	Unquoted £'000	Inflexion investments £ 000	Total Group £ 000
At 31 March 2005	46,331	29,269	128,116	24,509	228,225
Reclassification	8,557	13,296	(21,853)	–	–
Additions at cost	24,909	9,712	23,305	13,540	71,466
Disposals	(19,522)	(8,212)	(2,356)	(38,049)	(68,139)
Revaluations	12,170	12,756	(29,878)	–	(4,952)
At 31 March 2006	72,445	56,821	97,334	–	226,600
Reclassification	–	3,266	(3,266)	–	–
Additions at cost	15,909	14,526	17,635	–	48,070
Disposals	(17,472)	(2,677)	(8,141)	–	(28,290)
Revaluations	(4,705)	(2,552)	(4,213)	–	(11,470)
At 31 December 2006	66,177	69,384	99,349	–	234,910

The fund investment, quoted investment and unquoted investment categories shown above comprise the portfolio of investments managed directly by the LMS Capital Group

9. Investments (continued)

The top ten investments by valuation as at 31 December 2006 are provided in the table below

Name	Activity	Geography	Stake	Original cost £ 000	Valuation £ 000
Energy Cranes International	Offshore crane operations	UK	82%	17,816	34,000
San Francisco Equity Partners	Technology, media and retail	US	99%	19,528	21,729
Weatherford International Ltd	Oilfield services	US	<1%	11,833	19,704
ProStrakan Group plc	Pharmaceuticals	UK	9%	21,260	19,427
Cityspace Limited	Applied technology	UK	81%	16,332	12,500
Grant Prideco	Oilfield services	US	<1%	8,641	8,233
Spectrum IV	Communications and IT	US	1%	7,192	8,208
Rave Reviews Cinemas	Cinema operator	US	13%	6,406	7,854
Citizen (Vio Worldwide)	Software	UK	84%	15,600	7,000
AssetHouse Technology Limited	Applied technology	UK	78%	9,933	6,000

The LMS Capital Group's unquoted investments are structured using a number of different financial instruments, including loan notes, preference shares, ordinary equity and warrants 'Stake' represents the LMS Capital Group's percentage share in the equity holding by the relevant investee company, assuming full dilution for options and warrants (assuming such options and warrants are vested and are in the money) after all fixed and preferred interests have been satisfied (including such interests owing to the LMS Capital Group) Such percentage shareholdings therefore do not reflect the Company's total economic interest in the underlying companies

For quoted investments, 'Stake' means the number of shares held expressed as a percentage of the total issued share capital of the investee company as at 31 December 2006

For fund investments, 'Stake' means the LMS Capital Group's total commitment to the fund expressed as a percentage of the fund's commitments

Unquoted investments

Additional information is provided below for the unquoted investments that are included in the top ten investments table by valuation above All amounts are in £'000 The financial information is based on the most recent audited accounts, or management accounts where not available

Energy Cranes International Limited

Based in Aberdeen and Houston, Energy Cranes provides crane operation and management services to the offshore energy industry and also manufactures cranes under the American Aero and Titan brands

	31 December 2006 £ 000	31 March 2006 £ 000		Year ended 31 December 2006 £'000
Amounts invested	17,816	21,473	Sales	100,590
Valuation	34,000	21,473	Retained profit	2,321
Stake	82%	82%	Net assets	24,295

Cityspace Limited

Cityspace Limited provides digital urban infrastructure solutions by providing street level access to modern digital services working with local authorities, transportation systems and wireless operators

	31 December 2006 £ 000	31 March 2006 £'000		Year ended 31 December 2006 £ 000
Amounts invested	16,332	13,832	Sales	4,021
Valuation	12,500	5,000	Retained (loss)	(2,330)
Stake	81%	81%	Net assets	468

9. Investments (continued)***Rave Reviews Cinemas***

Rave constructs and operates megaplex cinemas in the South East and South West of the US

	31 December 2006 £ 000	31 March 2006 £ 000		Year ended 31 December 2006 £'000
Amounts invested	6,406	6,406	Sales	78,787
Valuation	7,854	8,244	Retained (loss)	(8,313)
Stake	13%	13%	Net assets	16,310

Citizen (Vio Worldwide)

Vio provides network, network management and digital asset transportation software and services to the printing, publishing, advertising and graphics industries

	31 December 2006 £ 000	31 March 2006 £ 000		Year ended 30 June 2006 £ 000
Amounts invested	15,600	10,600	Sales	3,414
Valuation	7,000	7,819	Retained (loss)	(1,839)
Stake	84%	84%	Net (liabilities)	(15,757)

AssetHouse Technology Limited

AssetHouse Technology Limited is a software and services company providing solutions to telecommunications providers to enable the packaging and wholesaling of digital content

	31 December 2006 £ 000	31 March 2006 £ 000		Year ended 31 May 2006 £ 000
Amounts invested	9,933	8,703	Sales	819
Valuation	6,000	6,694	Retained (loss)	(3,520)
Stake	78%	78%	Net (liabilities)	(2,352)

Impact of non-consolidated subsidiaries

There were a number of investments that were subsidiaries which were not consolidated

Investment	Activity	31 December 2006 Stake %	31 March 2006 Stake %
Energy Cranes International Limited	Crane manufacture and crane-related services to offshore energy industry	82	82
Offshore Tool and Energy Corporation	Specialist engineering design and fabrication	87	87
Entuity Limited	Network management software	68	68
AssetHouse Technology Limited	Content services infrastructure software	78	78

9. Investments (continued)

The impact of the non-consolidation of these subsidiaries for the relevant periods is set out in the table below

Nine months ended 31 December 2006	As Reported £'000	Impact of non- consolidation £'000	Adjusted for consolidation £'000
Profit and loss account			
Turnover	162	82,161	82,323
Loss before taxation	(11,535)	(1,532)	(13,067)
Loss for the period	(10,847)	(2,570)	(13,417)
Balance Sheet			
Net assets/(liabilities)	259,180	(10,496)	248,684
Statement of recognised gains and losses			
Loss for the year	(10,847)	(2,570)	(13,417)
Foreign exchange and other	208	(53)	155
Total recognised loss related to the period	(10,639)	(2,622)	(13,261)

Year ended 31 March 2006	As Reported £'000	Impact of non- consolidation £'000	Adjusted for consolidation £'000
Profit and loss account			
Turnover	1,834	17,125	18,959
Loss before taxation	(3,931)	(1,172)	(5,103)
Profit/(loss) for the year	12,521	(2,288)	10,223
Balance Sheet			
Net assets/(liabilities)	48,590	(2,432)	46,158
Statement of recognised gains and losses			
Profit/(loss) for the year	35,021	(2,288)	32,733
Foreign exchange and other	171	-	171
Total recognised profit/(loss) related to the period	35,192	(2,288)	32,904

Company Investments

These comprise the Company's investment in its operating subsidiary undertakings

10. Debtors

	Group 31 December 2006 £'000	Group 31 March 2006 £'000	Company 31 December 2006 £'000
Overseas taxation	-	77	-
Other debtors	1,427	1,074	167
Other prepayments and accrued income	45	21	-
Amounts due by subsidiary undertakings	-	-	16,624
	1,472	1,172	16,791

11. Cash and short-term deposits

	Group 31 December 2006 £'000	Group 31 March 2006 £'000	Company 31 December 2006 £'000
Short-term deposits	22,999	43,979	21,030
Bank and cash balances	1,121	34	878
	24,120	44,013	21,908

The LMS Capital Group's cash and short-term deposits include £1 6 million as at 31 December 2006 (31 March 2006 – £43 1 million) held by Inflexion

Revolving facility agreement

On 11 April 2006 a US\$53 million revolving facility agreement was entered into with The Royal Bank of Scotland Interest is payable on the loans made at the percentage rate per annum, which is the aggregate of the margin (0 9% per annum), London Interbank Offered Rate (LIBOR) and the mandatory cost The purpose of the facility is to fund the liquidity requirements of the LMS Capital Group No part of the facility was used during the period

12. Creditors: amounts falling due within one year

	Group 31 December 2006 £'000	Group 31 March 2006 £'000	Company 31 December 2006 £'000
Other creditors	536	2,414	–
Accruals	795	56	181
Amounts owed to subsidiary undertakings	–	–	74,188
	1,331	2,470	74,369

13. Deferred taxation

	Group 31 December 2006 £'000	Group 31 March 2006 £'000	Company 31 December 2006 £'000
Opening balance	1,364	435	–
Current period profit and loss movement	(1,364)	929	–
Closing balance	–	1,364	–

At 31 December 2006 the LMS Capital Group had capital losses of £6 3 million (31 March 2006 – £3 8 million) available to offset future capital profits based on realisations in prior periods

In addition, were the LMS Capital Group to dispose of its investment portfolio at book value at 31 December 2006, it would realise further net capital losses of £32 2 million (31 March 2006 – £24 8 million) This has not been reflected in the balance sheet

14. Called up share capital

	Authorised	Allotted called up and fully paid
Number of ordinary shares of 10p each		
At 31 March 2006	500,000,000	329,001,513
At 31 December 2006	500,000,000	286,429,228
Nominal Value		
At 1 April 2005 and 31 March 2006		32,900,151
Repurchase of shares by tender offer		(4,257,228)
At 31 December 2006		£28,642,923

On incorporation the share capital of the Company was £50,000 divided into 50,000 ordinary shares of £1 each. On 6 April 2006 the authorised share capital was subdivided into ordinary shares of 10p each. On 11 April 2006 the authorised ordinary share capital was increased to £50,000,000 by creating 499,500,000 ordinary shares of 10p each.

On 9 June 2006 the Company issued 329,001,493 ordinary shares to the shareholders of London Merchant Securities as part of the demerger arrangements.

On 13 July 2006 shareholders approved the tender offer by the Company to purchase shares of the Company up to a maximum value of £35 million. On 14 July 2006 42,572,285 shares were purchased at a strike price of 71.03p for a total consideration of £30,239,094. Following the completion of the tender offer a total 286,429,228 shares remain in issue.

The Company is authorised to issue non-voting redeemable preference shares. On 7 April 2006 the Company issued 49,998 redeemable preference shares with a nominal value of £1 each. These preference shares were redeemed at nominal value in July 2006.

15. Reserves**Group**

	Profit/(loss) account £'000	Merger reserve £'000	Capital redemption reserve £'000
At 1 April 2005	147,164	50,439	-
Exchange difference	171	-	-
Waiver of inter-company debt	22,500	-	-
Retained profit for the year	12,521	-	-
Movement in merger reserve	-	(14,602)	-
At 31 March 2006	182,356	35,837	-
Exchange difference	208	-	-
Share buyback	(30,239)	-	4,257
Retained (loss) for the year	(10,847)	-	-
Movement in merger reserve	-	48,246	-
At 31 December 2006	141,478	84,083	4,257

The reserves at 31 March 2006 have been adjusted to reflect the refinancing of the Group. As part of the demerger arrangements, the intra group funding within the former group headed by London Merchant Securities was waived. The Group position reflects the current financing of the Group from 31 March 2006.

15. Reserves (continued)**Company**

	Share premium £ 000	Profit/(loss) account £ 000	Capital redemption reserve £ 000
On incorporation	–	–	–
Arising on share issue in connection with demerger	259,646	–	–
Court sanctioned reduction in capital	(259,646)	259,646	–
Repurchase of shares by tender offer	–	(30,239)	4,257
Total recognised (losses)/gains relating to the financial period	–	(5,430)	–
Other	–	963	–
31 December 2006	–	224,940	4,257

16. Segmental analysis and discontinued activities

During the nine months ended 31 December 2006, LMS Capital Group derived its income from investments in shares, securities and investments managed directly by its management. The directors consider this to be one business segment. During the year ended 31 March 2006, the Group's investment business was conducted through two business segments: those managed directly by its management and those managed by Inflexion.

As set out in note 22, on 16 March 2006 Inflexion disposed of its business and related assets and on 29 March 2006 its shareholders approved the voluntary liquidation of the company. Consequently, the comparative information set out in the tables below for the Inflexion segment relates to discontinued activities.

The tables below provide details of the results and net assets of the two business segments for the year ended and as at 31 March 2006.

Segmental analysis of net assets

	31 March 2006		
	Managed £ 000	Inflexion £ 000	Group total £ 000
Tangible assets	–	–	–
Investments	226,600	–	226,600
Fixed assets	226,600	–	226,600
Debtors	1,096	76	1,172
Cash and short-term deposits	870	43,143	44,013
Creditors – amounts falling due within one year	(1,009)	(1,461)	(2,470)
Total assets less current liabilities	227,557	41,758	269,315
Provisions for liabilities and charges	(1,364)	–	(1,364)
Net (liabilities)/assets	226,193	41,758	267,951

16. Segmental analysis and discontinued activities (continued)**Segmental analysis of results**

	Year ended 31 March 2006						
	Managed			Inflexion			Group
	Revenue £ 000	Capital £'000	Total £ 000	Revenue £'000	Capital £ 000	Total £ 000	Total £'000
Realised gains on investments	-	9,339	9,339	-	(1,701)	(1,701)	7,638
Unrealised (losses) on investments	-	(7,593)	(7,593)	-	-	-	(7,593)
Income from investments	3	-	3	193	-	193	196
	3	1,746	1,749	193	(1,701)	(1,508)	241
Investment management fees	132	-	132	1,702	-	1,702	1,834
Administration expenses	(4,402)	-	(4,402)	(3,453)	-	(3,453)	(7,855)
(Loss)/profit before net finance income and taxation	(4,267)	1,746	(2,521)	(1,558)	(1,701)	(3,259)	(5,780)

The directors consider that the Group's business operates in two geographical segments – the UK and the US

Geographical analysis of results

	Nine months ended 31 December 2006						
	UK			US			Group
	Revenue £ 000	Capital £ 000	Total £ 000	Revenue £ 000	Capital £ 000	Total £ 000	Total £ 000
Realised gains on investments	-	1,465	1,465	-	3,586	3,586	5,051
Unrealised gains/(losses) on investments	-	1,876	1,876	-	(13,346)	(13,346)	(11,470)
Income from investments	1,384	-	1,384	-	-	-	1,384
	1,384	3,341	4,725		(9,760)	(9,760)	(5,035)
Investment management fees	162	-	162	-	-	-	162
Administration expenses	(3,897)	-	(3,897)	(958)	-	(958)	(4,855)
Exceptional expenses	(3,097)	-	(3,097)	-	-	-	(3,097)
Net finance income	1,256	-	1,256	34	-	34	1,290
(Loss)/profit before taxation	(4,192)	3,341	(851)	(924)	(9,760)	(10,684)	(11,535)
Taxation	-	1,397	1,397	-	(709)	(709)	688
(Loss)/profit after taxation	(4,192)	4,738	546	(924)	(10,469)	(11,393)	(10,847)
Equity minority interest	-	-	-	-	-	-	-
(Loss)/profit for the year	(4,192)	4,738	546	(924)	(10,469)	(11,393)	(10,847)

16. Segmental analysis and discontinued activities (continued)

Geographical analysis of results

	Year ended 31 March 2006						
	UK			US			Group
	Revenue £ 000	Capital £ 000	Total £ 000	Revenue £ 000	Capital £ 000	Total £ 000	Total £ 000
Realised gains on investments	-	(417)	(417)	-	8,055	8,055	7,638
Unrealised gains/(losses) on investments	-	(35,902)	(35,902)	-	28,309	28,309	(7,593)
Income from investments	196	-	196	-	-	-	196
	196	(36,319)	(36,123)	-	36,364	36,364	241
Investment management fees	1,834	-	1,834	-	-	-	1,834
Administration expenses	(7,023)	-	(7,023)	(832)	-	(832)	(7,855)
Net finance income	1,849	-	1,849	-	-	-	1,849
(Loss)/profit before taxation	(3,144)	(36,319)	(39,463)	(832)	36,364	35,532	(3,931)
Taxation	-	14,909	14,909	-	777	777	15,686
(Loss)/profit after taxation	(3,144)	(21,410)	(24,554)	(832)	37,141	36,309	11,755
Equity minority interest	-	766	766	-	-	-	766
(Loss)/profit for the year	(3,144)	(20,644)	(23,788)	(832)	37,141	36,309	12,521

Geographical analysis of net assets

	Group 31 December 2006			Pro-forma Group 31 March 2006		
	UK £ 000	US £ 000	Group total £ 000	UK £ 000	US £ 000	Group total £ 000
Fixed assets						
Tangible fixed assets	9	-	9	-	-	-
Investments	124,565	110,345	234,910	114,297	112,303	226,600
	124,574	110,345	234,919	114,297	112,303	226,600
Current assets						
Debtors	555	917	1,472	1,155	17	1,172
Cash and short-term deposits	23,585	535	24,120	43,047	966	44,013
	24,140	1,452	25,592	44,202	983	45,185
Creditors amounts falling due within one year	(1,170)	(161)	(1,331)	(2,417)	(53)	(2,470)
Net current assets	22,970	1,291	24,261	41,785	930	42,715
Total assets less current liabilities	147,544	111,636	259,180	156,082	113,233	269,315
Deferred taxation	-	-	-	(1,364)	-	(1,364)
Net assets	147,544	111,636	259,180	154,718	113,233	267,951

17. Notes to consolidated cash flow statement

(a) Reconciliation of operating loss to net cash outflow from operating activities

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £ 000
Loss before taxation	(11,535)	(3,931)
Depreciation	1	64
Realised gains on investments	(5,051)	(7,638)
Unrealised losses on investments	11,470	7,593
Income from investments	(1,384)	(1,834)
Net finance income	(1,290)	(1,849)
Other non-cash movements	-	2,761
Translation differences	(208)	(171)
(Increase)/decrease in debtors	(238)	715
Increase/(decrease) in creditors	(1,139)	(265)
Net cash outflow from operating activities	(9,374)	(4,555)

(b) Funding from LMS group

	Nine months ended 31 December 2006 £'000	Year ended 31 March 2006 £ 000
Cash on demerger	70,106	-
Inflexion distribution	(23,877)	-
Final settlement of loan stock	(958)	-
Other	3,390	-
Financing	-	25,330
	48,661	25,330

(c) Analysis of Group movement in net debt

	31 December 2006 £'000	Cash flow £ 000	31 March 2006 £ 000
Bank and cash balances*	1,121	1,087	34
Short-term deposits*	22,999	(20,980)	43,979
Net cash	24,120	(19,893)	44,013

*Totalled on balance sheet as cash and short term deposits

18. Capital commitments

	Group 31 December 2006 £ 000	Group 31 March 2006 £ 000
Outstanding commitments to funds	45,580	54,034

19. Financial instruments

The LMS Capital Group holds a portfolio of investments diversified by risk across industry sector, type of investment (quoted investments, externally managed funds and directly managed investments) and geography

The LMS Capital Group's principal financial instruments comprise quoted investments (quoted on the main stock exchanges in London, the US, Canada and AIM), and equity and debt instruments in unquoted businesses. A proportion of its unquoted investments are held through funds managed by external managers

As is common practice in the venture and development capital industry, the investments in unquoted companies are structured using a variety of instruments including ordinary shares, preference shares and other shares carrying special rights, options and warrants and debt instruments with and without conversion rights. The investments are held for resale with a view to the realisation of capital gains. Generally, the investments do not pay significant income. The principal risks associated with the LMS Capital Group's financial instruments are

- liquidity risk,
- market price risk, and
- currency risk

Liquidity risk

The LMS Capital Group's investment portfolio comprises investments at differing stages of maturity and with different levels of liquidity. The LMS Capital Group also has cash resources available and has access to bank facilities designed to provide additional working capital in order to help manage short-term variations in cash flow. Its financing requirements are met through a combination of liquidity from the sale of investments and the use of cash resources

Market price risk

Market price risk arises from uncertainty about the future value of the LMS Capital Group's investments. It represents the potential loss the Group might suffer through holding positions in quoted or unquoted securities in the face of price movements. It is mitigated through stock selection and management of the portfolio

Currency risk

Part of the LMS Capital Group's investment portfolio is held in assets denominated in US and Canadian dollars. The Group is therefore exposed to exchange rate risk arising from changes in the value of these currencies in relation to £ sterling, its reporting currency. The Group regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return and does not seek to mitigate that risk through the use of financial derivatives. The Group monitors its overall exposure to foreign currencies at a portfolio level

20. Contingent liabilities

Guarantees have been given in respect of warranties on the sale of certain subsidiaries and other liabilities in the ordinary course of business

The subsidiaries of LMS Capital Group have no guarantees in place in relation to the amounts owed to the parent company

21. Principal subsidiary undertakings

Name	Country of incorporation	Holding	Activity
LMS Capital Group Limited	England and Wales	100%	Investment holding
LMS Capital Holdings Limited	England and Wales	100%	Investment holding
LMS Capital (ECI) Limited	England and Wales	100%	Investment holding
Lion Investments Limited	England and Wales	100%	Investment holding
LMS Capital (Bermuda) Limited	Bermuda	100%	Investment holding
LMS Capital (GW) Limited	Bermuda	100%	Investment holding
LMS Capital (General Partner) Limited	Bermuda	100%	Investment holding
Tiger Investments Limited	England and Wales	100%	Investment holding
LMS Tiger Investments (II) Limited	England and Wales	100%	Investment holding
International Oilfield Services Limited	Bermuda	100%	Investment holding
Westpool Investment Trust plc	England and Wales	100%	Investment holding
LMS Tiger Investments Limited	England and Wales	100%	Investment holding

22. Inflexion

Minority interest relates to the 42% of Inflexion not owned by the LMS Capital Group

On 16 March 2006 Inflexion disposed of its business and related assets for cash proceeds of £41.8 million. This resulted in a loss on disposal to the Group of £1.7 million. On 29 March 2006 the shareholders of Inflexion approved a members' voluntary liquidation of the company. The proceeds to the Group were £24.5 million, of which, under the terms of the demerger, £22.8 million was payable to London Merchant Securities.

23. Related party transactions

Debtors

	Group 31 December 2006 £'000	Group 31 March 2006 £'000
Due from London Merchant Securities	335	-

Creditors

	Group 31 December 2006 £'000	Group 31 March 2006 £'000
Due to London Merchant Securities	664	-

As set out in note 1, during the nine months ended 31 December 2006, the LMS Capital Group was charged by London Merchant Securities for payroll and administration costs under the Transitional Services Agreement. The amounts paid during the period were as follows:

Transactions during the year

	Group 31 December 2006 £'000	Group 31 March 2006 £'000
London Merchant Securities		
- Payroll costs	1,433	-
- Transitional Services Agreement	1,277	-
- Loan interest	50	-

24. Ultimate parent company

LMS Capital plc is the ultimate parent company of the Group.

Shareholder information

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Shareholder enquiries

All administrative enquiries relating to shareholders, such as notification of change of address or the loss of a share certificate, should be made to the Company's registrars, Capita Registrars, whose address is given above

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Financial calendar	
Year end	31 December
Preliminary announcement	15 March 2007
Annual General Meeting	10 May 2007
Interim results	September 2007

Logo

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