05746555

LMS Capital plc
Annual Report 2008

LMS Capital plc is an international investment company. Our objective is to deliver sustained medium to long-term growth for our shareholders through a risk diversified portfolio of investments in public and private companies.

We understand the drivers of demand in the sectors in which we invest and this enables us to recognise the potential of both new ideas and young companies requiring growth funding. These sectors currently include applied technology, energy, healthcare and medical, media and leisure and real estate.

Financial highlights*

- Net Asset Value per share was 89p (31 December 2007: 101p)
- Net realised gains on investments were £17.3 million (2007: £6.7 million)
- The loss for the year was £40.8 million (2007: profit of £29.8 million)
- Portfolio diversification has resulted in significant benefits from the strengthening of the US dollar against the pound
- The investment management business had cash of £41.3 million at 31 December 2008 and no debt

Operational highlights

- Energy Cranes sold in March 2008 for cash proceeds of £83 million
- AssetHouse Technology sold in June 2008 at a book loss of £3.7 million
- Investment of £2.5 million in Pims Group, a supplier of waste water pumping systems and services
- Cityspace acquired Kizoom Limited which delivers transport information to internet and mobile devices

* Investment management business

Chairman's statement

Image removed

In spite of significant progress in the first half, in particular the profitable disposal of Energy Cranes, 2008 proved to be an extremely difficult year. The Company ended 2007 with a Net Asset Value per share of 101p and this declined by 12% to end 2008 at 89p. At the year end the strong balance sheet showed net cash of £41.3 million and no borrowings.

Results

Our investment management business achieved realised net gains on investments of £17.3 million for the year ended 31 December 2008 (31 December 2007: £6.7 million).
Net unrealised losses on the investment portfolio were £54.1 million (31 December 2007: net unrealised gains of £30.0 million). The loss for the year ended 31 December 2008 was £40.8 million (31 December 2007: profit of £29.8 million).

The investment portfolio at 31 December 2008 was £202.0 million (last year excluding Energy Cranes, £217.1 million, a decline of £15.1 million or 7%).

We have conducted a rigorous review of all the Company's unquoted interests to ensure that their year end valuations fully take into consideration the prevailing market conditions, including the current lack of liquidity in the market.

The quoted portfolio declined in value in the second half when there was significant deterioration in the value of our listed energy holdings; this was in part offset by the strengthening of the US dollar.

For the Group as a whole (including portfolio subsidiaries) the consolidated loss for the year was £6.1 million (31 December 2007: loss of £0.4 million).

The Board is not recommending payment of a dividend for the year ended 31 December 2008 (31 December 2007: Nil).

Balance sheet

At the year end the Company had no direct debt. Further, as the primary method of funding development capital is equity there is very little external debt in the unquoted portfolio.

We believe that our continued strategy of a risk diversified portfolio will enable us to surmount the challenges ahead.

Board and management

On behalf of the Board I would like to record our thanks to the management and employees of LMS Capital for their work during the year.

Share capital

As in previous years, at the forthcoming Annual General Meeting the Company will be seeking authority to purchase up to 14.99% of its issued share capital. The Company also needs to obtain a waiver in respect of the Takeover Code obligations that a repurchase of shares above a certain limit would place on the Rayne family shareholders.

During the year, 13,788,276 shares were purchased in the market by the Company at an average price of £0.62. These shares were subsequently cancelled, making the current number of ordinary shares in issue 272,640,952.

Outlook

As we expect difficult conditions to continue in 2009 our investment portfolio may be further impacted by market turmoil.
We expect that traditional sources of finance will remain scarce.

We believe that our continued strategy of a risk diversified portfolio and our experienced management team, as well as our debt free basis, will enable us to surmount the challenges ahead. We remain focused on each investment within our portfolio to ensure that it adapts to the present environment of reduced demand and tight liquidity.

The Company remains in a strong financial position but we are not complacent. We shall continue to seek exit opportunities for selected investments while ensuring that capital outlays are subject to rigorous review and due diligence.

With no debt and a strong team committed to the careful management of resources, your Board is confident that the Company is well positioned to protect its existing assets and take advantage of investment opportunities as they arise.

Jonathan Agnew
Jonathan Agnew
Chairman
27 March 2009

The Company's strategy is to obtain superior asset growth through exposure to different levels of risks in US and UK companies.

LMS Capital plc is an international investment company. Our objective is to deliver sustained medium to long-term growth for our shareholders through a risk diversified portfolio of investments in public and private companies.

We understand the drivers of demand in the sectors in which we invest and this enables us to recognise the potential of both new ideas and young companies requiring growth funding. These sectors currently include applied technology, energy, healthcare and medical, media and leisure and real estate. We do, however, retain the freedom to invest outside our core sectors in order to take advantage of opportunities when they arise.

Investments are principally in the UK and US, although the Company is not restricted from expanding into other markets.

A deep knowledge of our chosen sectors acquired over many years allows LMS Capital to invest in and with leading management teams. The Company undertakes rigorous inquiry and carries out full due diligence into new investments to understand the investee company's business, evaluate information on their marketplace and competition, meet their management, directors and existing shareholders and, if necessary commission reports from external experts.

We also understand the cyclical nature of the sectors in which we are working and through taking long-term positions are able to adjust our economic interest to reflect the longer holding period. 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. As an active, and supportive, long-term investor we are not constrained by the fixed investment periods of most private equity funds. It is not uncommon for us to hold investments for long periods of time where we believe that this will deliver greater shareholder value.

The Board will continue to manage the Company's portfolio in line with its overall objective. In this regard, we may make realisations from within the existing portfolio where we believe that the proceeds of realisation could generate better returns if deployed elsewhere.

Investment portfolio

The portfolio is risk diversified and comprises:
- early stage companies where we expect high return multiples and investment periods of 10 to 12 years;
- companies requiring development finance where the normal holding period would be five to seven years; and
- shorter term investments in the pre- and post-IPO market which usually provide liquidity within three to four years.

At 31 December 2008, 59% of our portfolio was US based (31 December 2007: 42%), which includes £72.4 million (31 December 2007: £57.8 million) in US private equity funds.

Graph removed

Operating review

Image removed

After a successful first half of the year which included the sale of Energy Cranes International ('Energy Cranes') and the acquisition of a number of new investments, the Company was affected by the turbulence in international financial markets in the closing months of 2008. Consequently our final results for the year reflect the impact on our business of the global financial crisis in the form of the unrealised losses which have had a significant impact on our Net Asset Value. However, we believe that the principles of our diversified investment strategy will enable us to see out these difficulties while at the same time taking advantage of opportunities which the current economic environment presents.

Our objective remains unchanged. We aim to deliver sustained medium to long-term growth for our shareholders through a risk and geographically diversified portfolio of investments in public and private companies. In particular we are not constrained by the fixed investment periods of most private equity funds and we are therefore able to hold investments for longer than many other funds where we believe that this will deliver greater shareholder value. We understand the drivers of demand in the sectors in which we invest and this enables us to recognise the potential of both new ideas and young companies requiring growth funding.

Investment portfolio

The investment portfolio has decreased by 28% during the year to £202.0 million (2007: £282.1 million) which can be summarised as follows:

	£million
1 January 2008	282.1
Additions in the year	51.6
Book value of realisations	(77.6)
Valuation adjustments	(99.6)
Foreign currency gains	45.5
31 December 2008	202.0

Additions include £12.4 million of new investments and £39.2 million of follow on funding, including £15.8 million of capital calls from funds. The figure for realisations relates principally to Energy Cranes and also includes adjustments for distributions from our fund investments.

The valuation adjustments include £45.5 million in respect of quoted securities of which £36.2 million relates to our oilfield services interests – Weatherford International, Gulfmark Offshore, BJ Services and Stratic Energy. £35.2 million arises on our unquoted interests and the balance relates to our fund positions.

We aim to deliver sustained medium to long-term growth for our shareholders through a risk and geographically diversified portfolio of investments in public and private companies.

The foreign currency gains are unrealised and reflect the strengthening of the US dollar against the pound in the latter part of the year. It is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Applied technology

In January 2008 a new Chief Executive was appointed at Cityspace and since then there has been a significant reorganisation of the business. In May we advanced £1.9 million to Cityspace to fund its purchase of Kizoom Limited. Kizoom is a market leader in delivering real-time transport information to the internet and mobile devices. The acquisition of Kizoom reflects an important milestone in the Cityspace strategic growth plan – its established connections to many public transport real-time and timetabled data feeds open up opportunities for Cityspace in these complementary organisations and transport regions.

In August 2008, Eye-Fi, Inc. the developer and manufacturer of the world's first wireless memory card for digital cameras, secured $11 million in series B funding from a number of investors, including $2 million from the Company. Eye-Fi's technology works with Wi-Fi networks to send photos automatically from a digital camera to online, in-home and retail destinations. Eye-Fi has received numerous product awards, including being named one of the "100 Best Products of 2008" by PC World magazine.

Following a strategic review of AssetHouse Technologies Limited we concluded that the development potential of the company would only be realised if it were part of a larger group operating in its business sector. In June 2008 we sold our interest in the company to Amino Technologies plc for £1.4 million on a debt-free basis, payable in cash. Net cash proceeds were £0.7 million and the realised loss on sale was £3.7 million.

Energy and water

On 31 March 2008 we sold our entire interest in Energy Cranes to a management buyout team backed by Close Brothers Private Equity. This transaction placed an enterprise value on the business of £142 million and the net proceeds to LMS Capital were £82.9 million in cash resulting in a realised gain (over 31 December 2007 book value) of £17.9 million. The Company's return on equity from its investment in Energy Cranes was in excess of 4.5 times, giving an internal rate of return of approximately 40%.

Continued on page 10

Image removed

○ Healthcare Management Systems

Healthcare Management Systems ('HMS') develops and supplies bespoke integrated IT solutions for healthcare providers in the United States. Based in Nashville, HMS integrated clinical and financial information systems are now in use and supported in more than 600 hospitals across the US and in Puerto Rico.

HMS technology allows hospitals to create an electronic medical record environment that is fully integrated with its financial management systems, giving both clinicians and business decision-makers real-time access to patient information. While currently focused on community-based acute hospitals and behavioural and long-term acute care hospitals, HMS currently has around 30 for-profit hospital corporate clients.

In addition to the provision of IT solutions, HMS offers clients a number of complementary and support services which include training and best practice consulting; back office management solutions including outsourced billing and collections; technical consulting and disaster recovery. HMS is also able to offer clients an ASP external hosting model as well as the traditional hardware/software purchase route.

The Company holds a stake of 8% in HMS with a book value of £3.4 million as at 31 December 2008.

○ ProStrakan Group plc

ProStrakan Group plc ('ProStrakan') is a rapidly growing specialty pharmaceutical business engaged in the development and commercialisation of prescription medicines for the treatment of unmet therapeutic needs in major markets. The company markets a range of products in major EU markets through its commercial operations based in the UK, Germany, France, Spain, Sweden and the Benelux.

ProStrakan has had a number of successes in 2008. In November, the company undertook its first launch in the US with Sancuso, a patch used to treat nausea in chemotherapy patients. The company also received marketing approval earlier than expected in the UK for its cancer pain treatment Abstral for which it has exclusive rights in Europe and North America from Swedish pharmaceutical group Orexo. Abstral is expected to be launched in the UK and EU during 2009. Both Abstral and Sancuso are expected to be launched in Canada during 2009 via a distribution agreement with Paladin Labs Inc. In November, ProStrakan also granted an exclusive licence to Bayer Schering Pharma to develop and commercialise its Tostran testosterone replacement gel in 65 countries worldwide.

The Company holds a stake of 9% in ProStrakan with a book value of £15.3 million as at 31 December 2008.

During the year we increased our holding in Weatherford International to 2,050,000 shares and acquired 250,000 shares in Gulfmark Offshore, Inc., a US company that provides marine services to companies involved in offshore exploration and production of oil and natural gas. Grant Prideco was acquired by National Oilwell Varco for a mixture of cash and shares – we subsequently sold the shares we received in exchange.

In June 2008, we invested £2.5 million in Pims Group, a private UK-based company which designs and installs pumping systems for domestic and commercial sewage and storm water. It also provides maintenance services for such systems. Based in the South East, Pims has national coverage and operates in both the domestic and commercial markets. This was a co-investment with Inflexion 2006 Buyout Fund.

Healthcare and medical

We made no purchases or sales in this sector during 2008 but our existing portfolio has made strong progress during the year. In particular, there was a significant increase in the share price of ProStrakan during the year following a number of successes for this business.

Healthcare Management Systems, which provides clinical and financial information systems for hospitals, achieved a significant increase in sales and operating profit. The company now provides its programmes to over 600 community hospitals in the USA.

Other

In July, San Francisco Equity Partners (SFEP) invested $5.0 million in Yes To, Inc., a consumer products company that created and owns the Yes To Carrots line of natural personal care products. Yes To Carrots has become one of the fastest growing brands in the worldwide natural personal care market, and its award-winning products are currently sold by leading retailers in 17 countries across North America, Europe and Asia.

SFEP's investment in Method Products, Inc. (which comprises 58% by value of our interest in this fund) continues to do well with a further significant increase in sales during 2008.

Financial review

Basis of preparation of financial information

The Company reports its results under International Financial Reporting Standards as adopted for use in the European Union ('Adopted IFRS'), and the consolidated financial statements include the consolidation of portfolio companies which are also subsidiaries ("portfolio subsidiaries"). Since the Board manages the Company as an investment business, this financial review focuses on the results of the investment management operations. Note 2 to the financial information includes the separate results and net assets of the investment management business. Where appropriate, this review includes comments on the results and financial position of the portfolio subsidiaries.

Results of operations

Net Asset Value at 31 December 2008 was £241.5 million (31 December 2007: £289.0 million), a decrease of £47.5 million or 16%. The Net Asset Value per share was 89p (31 December 2007: 101p).

The Group's return on its investment portfolio for the year ended 31 December 2008 was a loss of £36.7 million (year ended 31 December 2007: gain of £36.7 million) as follows:

	Year ended 31 December	
	2008 £'000	2007 £'000
Realised gains/(losses)		
Quoted securities	574	2,910
Unquoted securities	14,620	–
Funds	2,114	3,794
	17,308	6,704
Unrealised gains/(losses)		
Quoted securities	(31,122)	8,240
Unquoted securities	(27,506)	15,374
Funds	4,572	6,421
	(54,056)	30,035
Total gain/(loss)	(36,748)	36,739

Approximately 59% of the portfolio at 31 December 2008 is denominated in US dollars (2007: 42%) and the above table includes the impact of currency movements. In the year ended 31 December 2008 the strengthening of the US dollar against the pound resulted in an unrealised foreign currency gain of £45.5 million. During the year ended 31 December 2007 there was a slight overall weakening of the dollar and the unrealised loss for that year was £1.4 million.

○ Continued on page 14

Image removed

Yes To, Inc

Yes To, Inc. is a natural personal care company whose products were originally developed in the Dead Sea region of Israel. Founded in 2005, the company is now headquartered in San Francisco and markets a family of paraben-free personal care products around the world.

Yes To's initial product line Yes To Carrots is a new concept in skin and hair care combining the anti-oxidant power of beta carotene from orange organic fruits and vegetables and the purifying and moisturising properties of 26 Dead Sea minerals. The company recently launched two extensions to the range with similar properties; Yes To Tomatoes, for oily/combination skin and Yes To Cucumbers, for normal to sensitive skin.

Yes To has seen strong growth in customer demand for its products in the US, where they are now available in more than 8,500 stores. This includes distribution agreements with national chains such as Walgreens, Target, Safeway, and Duane Read. The company has also seen significant expansion in its international business in the last year, with products now available in 15 countries across Europe and Asia, as well as in Canada and Australia.

San Francisco Equity Partners is an investor in Yes To, Inc., having led a $14 million financing of the company in June 2008. This was in partnership with Simon Equity Partners, the private investment arm of the Simon family, founders of Simon Property Group.

Their stake in Yes To is 12% with a book value of £2.5 million as at 31 December 2008.

Elateral Limited

Elateral is a marketing services business supporting the marketing communications of many large brands, including Coca-Cola, Cisco and SAP.

Elateral's primary area of expertise is the streamlining and automation of materials production processes for which it has developed web-based software which can be used by a client and its partners to integrate and customise all aspects of the marketing mix. Elateral's software allows businesses to achieve global brand consistency while increasing speed to market and reducing the cost of their marketing activities. Users access a bespoke system that allows them to choose layout, copy, images and format from a central, common standard before creating local, ready to publish artwork and content before directly delivering it to the required channel, partner or production house.

In January 2009, Elateral was selected by Toyota GB to provide the platform for its end to end dealer marketing system in the UK. Using Elateral MSP, Toyota's new platform will enable Toyota dealers across the UK to create and order all of the sales and marketing materials they require quickly and easily online, without Toyota GB losing any control of its content.

The Company holds a stake of 42% in Elateral with a book value of £3.5 million as at 31 December 2008.

Image removed

Overview
Business review
Governance
Financial statements

We are pleased with the progress made by most of the holdings in our portfolio. Unrealised losses reflect the impact of the changes in the capital markets in the last few months of the year. This is reflected particularly in the decline in the value of our quoted portfolio year on year, most of which arose in the final three months of the year. Offsetting this, ProStrakan Group continued to make excellent progress during the year and its share price at the end of 2008 was higher than the previous year.

The principal constituents of the net unrealised loss for the year on our unquoted securities are as follows:

	Unrealised gain/(loss) £'000
Cityspace	(11,025)
Vio Worldwide	(8,100)
Corizon	(3,550)
Wesupply	(3,679)
Elateral	1,813
	(24,541)
Other investments	(2,965)
Total net unrealised loss	(27,506)

The unrealised losses reflect the impact on our valuation criteria of the current market volatility and in particular the revenue and profitability multiples of comparable businesses which are used in the underlying calculations. Accordingly, in most cases we have reduced the multiples applied to our unquoted interests in determining the appropriate carrying value. In addition the results of Cityspace, Vio and Corizon in 2008 were below plan and were a contributory factor to the reduction in the carrying value. Wesupply has continued to make good progress during 2008 and has generated higher levels of interest and orders from its target market. However, this progress was not sufficient to offset market factors in the valuation process. In the case of Elateral, its excellent progress during 2008 has more than offset the impact of market factors.

The unrealised valuation gain on our fund interests reflects the fact that many of these are US funds and the net increase in our carrying value arises from the strengthening of the US dollar against the pound. In line with other funds of funds we normally rely on reports from general partners as at the end of the third quarter in establishing our year end carrying value, with adjustments made for calls, distributions and foreign currency movements since that date.

Given the events of the last quarter of 2008 we have where possible updated the portfolio using values as at the end of the year from fund managers; in the absence of such updates we have used our own judgement on underlying portfolio values to arrive at what we consider to be an appropriate carrying value for each position.

Income from investments in the year was £0.6 million (year ended 31 December 2007: £1.5 million) and comprises dividends on quoted securities and management charges made to portfolio companies. Administration expenses for the year were £5.6 million (year ended 31 December 2007: £7.4 million); the current year benefited from a one-off VAT refund of £1.1 million. Net interest income for the year was £1.8 million (year ended 31 December 2007: £0.8 million) reflecting the higher levels of uninvested cash during the year. The tax charge for the year was £0.6 million (year ended 31 December 2007: £0.4 million).

Investments

The Group's investments are included in the balance sheet at fair values determined in accordance with industry guidelines.

Additions to the investment portfolio during the year were £51.6 million (year ended 31 December 2007: £57.2 million) of which £12.4 million was for new investments and £39.2 million for follow on investments including £15.8 million for capital calls from funds.

Additions to quoted stocks were £17.5 million, with a focus on the energy sector, in particular oilfield services. New investments included £6.7 million in Gulfmark Offshore Inc, listed on the New York Stock Exchange; we also acquired additional shares in Venture Production and Weatherford International.

We invested £18.3 million in unquoted investments of which £12.0 million was follow on funding for our UK portfolio. Proceeds of realisations were £97.1 million (year ended 31 December 2007: £46.8 million), the majority of which was from the sale of Energy Cranes. Distributions from funds were £8.1 million (year ended 31 December 2007: £14.3 million), including £2.5 million from Brockton Capital Fund I, a real estate opportunity fund which made its first realisation in 2008.

○ Continued on page 18

Image removed

Image removed

oCityspace Limited

Cityspace is a UK market leader in intelligent transport information networks. Its product portfolio delivers real-time transport information and services to users, including online journey planning, self-service ticketing via interactive terminals, broadcast screens at bus stops and stations and feeds to mobile devices.

In May 2008, Cityspace acquired Kizoom Limited, adding to its development capability and extending its established client relationships in the mobile and web arena. Founded in 1999, Kizoom develops and operates mobile software applications for the major transport operators as well as selling bespoke customer information software services to public transport companies. The business is well known for its application development skills and has a client list which includes the five largest UK mobile operators, Transport for London and the Department for Transport.

LMS Capital provided £1.9 million of acquisition finance for the purchase of Kizoom.

The Company holds a stake of 94% in Cityspace with a book value of £6.0 million as at 31 December 2008.

oWesupply Limited

Wesupply is a provider of web-based electronic trading and complete supply chain collaboration solutions across multiple business sectors. The Wesupply platform allows customers to integrate their systems internally and with all of their supply chain partners, without the need for specialist hardware and regardless of differences in communications technology, data formats and back-office applications.

Wesupply offers a suite of products to customers, ranging from a basic web hosted connection to transmit transaction information, to an intelligent trading system that allows partners to share all key data in a multi-enterprise trading network and directly measure and improve supply chain performance.

Wesupply has customers of all sizes across the UK, Continental Europe and the US and supports all sectors including retail, consumer packaged goods, manufacturing, energy and the building trade. In addition to a number of other significant client wins in 2008, in December a Wesupply platform was selected by Screwfix, the UK's leading multi-channel supplier of tools, accessories and hardware products to the trade, to improve its purchase order management process by improving supplier collaboration and supply chain visibility. In addition, in January 2009, a Wesupply platform was selected by EDF Energy networks, one of the UK's largest electricity distributors, to manage its inbound energy shipment process.

The Company holds a stake of 99% in Wesupply with a book value of £5.5 million as at 31 December 2008.

Image removed

CopperEye Limited

CopperEye is a specialist provider of enterprise data management solutions that allow businesses and government agencies to more efficiently retain, access and process very large amounts of data, ensuring compliance with growing data regulation. CopperEye technology is designed to support enterprises that generate and are required to manage data quantities ranging from 2.5 terabytes to up to a pentabyte, allowing them to access and manipulate the data with the same speed and efficiency as they would a much smaller volume.

CopperEye currently operates a number of strategic partnerships. With Sun Microsystems, it markets a Secure Data Retrieval Server to many European telecoms providers, allowing them to cost effectively comply with EU Data Retention regulations.

Through ThorpeGlen, a UK based security technology business, CopperEye technology is used in government and security agency surveillance systems, including those in new markets such as the Middle East and Asia. And, through its relationship with In-Q-Tel, CopperEye technology is being used in an increasing number of projects within the US government and intelligence communities. The company expects to be able to announce a number of additional partnership agreements in 2009, taking the business into new markets.

The Company holds a stake of 76% in CopperEye with a book value of £4.0 million as at 31 December 2008.

Image removed

Pims Group Limited

Pims Group is a leading supplier of waste water support services in the UK. Pims was founded in 1972 and is a specialist in waste water pumping systems, installing and maintaining pumps within systems for sewage and storm water. Based in the South East but with national coverage, Pims operates in both the domestic and commercial markets and in 2007 installed over 700 pumping stations as well as operating over 4,000 maintenance contracts, including some large contracts with major retailers.

In November 2008, Pims Group extended its service operations into package sewage treatment and oil separator systems with the acquisition of Conder's Hydroserve business, acquiring service agreements with a large number of new clients.

LMS Capital's investment in Pims Group is a co-investment with Inflexion.

The Company holds a stake of 10% in Pims with a book value of £2.5 million as at 31 December 2008.

At 31 December 2008 the Group had commitments of £71.1 million to meet capital calls from its fund interests which the directors estimate will be called over the next five years.

Financial position

The consolidated balance sheet at 31 December 2008 includes cash and cash equivalents of £42.6 million (31 December 2007: £14.5 million) and borrowings of £2.8 million (31 December 2007: £44.7 million) in the portfolio subsidiaries.

Cash in the investment management business of £41.3 million was £33.1 million higher than at the end of 2007, reflecting the disposal of Energy Cranes during the year. Part of the Company's cash has been and will be committed during 2009 to meet calls from funds and to provide further funding for existing unquoted investments.

The business also has a $53 million (£36.35 million) borrowing facility with The Royal Bank of Scotland, of which £5 million was used for a short period during the year. The facility is due to expire in April 2009 and the Company is in discussions with the bank for the renewal of the facility at a lower level of £15 million. The investment management business had no borrowings at the end of 2008 or to date in 2009.

Robert Rayne
Chief Executive Officer

27 March 2009

Principal investments

The top 20 investments by valuation at 31 December 2008 (excluding fund interests where the Company has only a minority position) are as follows:

Name	Country	Activity	2008 £'000	2007 £'000
San Francisco Equity Partners	US	Technology, media and retail	**34,691**	21,731
ProStrakan Group plc	UK	Specialty pharmaceuticals	**15,314**	11,705
Weatherford International Ltd	US	Oilfield services	**15,173**	28,349
Rave Reviews Cinemas	US	Cinema operations	**8,859**	7,253
Cityspace Limited	UK	Transport information services	**6,000**	12,902
Wesupply Limited	UK	Supply chain connectivity software	**5,500**	6,650
Gulfmark Offshore Inc	US	International offshore services	**4,070**	–
CopperEye Limited	UK	Indexing technology software	**4,000**	4,000
Elateral Limited	UK	Marketing software	**3,500**	1,500
Healthcare Management Systems	US	Hospital information systems	**3,420**	2,520
Entuity Limited	UK	Network management software	**3,000**	4,000
Chyron Corporation	US	Media technology	**2,818**	7,303
Pims Group	UK	Waste water systems and services	**2,500**	–
Telespree Communications	US	Network solutions for mobile devices	**2,185**	2,182
Venture Production plc	UK	Operation of stranded oil and gas assets	**2,125**	1,980
7 Global Limited	UK	IT managed services	**2,000**	3,000
Offshore Tool and Energy Corporation	US	Specialist engineering design and fabrication	**2,000**	2,256
Vio Worldwide Limited	UK	Advertising workflow services	**2,000**	7,000
BJ Services Company	US	Oil and gas field services	**1,991**	3,056
Envestnet Asset Management	US	Wealth management solutions	**1,537**	1,427

Principal unquoted investments

Logo removed

Company	**7 Global Limited**
Description	Portfolio of IT services, including fully Managed Hosting; Datacentre Services; Software as a Service (SaaS); Hosted Microsoft Dynamics CRM and Infrastructure & Network Services.
MD	Chris Bithell
Website	www.7global.com

Logo removed

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

Logo removed

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 removed

Company	**Agilisys Holdings Limited**
Description	An IT services and outsourcing provider which designs, builds and operates an integrated end-to-end suite of IT and business process services, for public and private sector clients.
CEO	Kay Andrews
Website	www.agilisys.co.uk

Logo removed

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	Carmen Carey
Website	www.coppereye.com

Logo removed

Company	**Emerging Markets Advisory Corporation Limited**
Description	An alternative asset management business focused primarily on the transition markets of South Eastern Europe.
CEO	Matthew Gilpin
Website	www.emac-global.com

Logo removed

Company	**Pims Group Limited**
Description	A supplier of waste water pumping systems and services across the UK.
CEO	Charlie White
Website	www.pimsgroup.co.uk

Logo removed

Company	**Corizon 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.corizon.com

Logo removed

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

Logo removed

Company	**Entuity 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.entuity.com

Logo removed

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

Logo removed

Company	**Telespree Communications**
Description	Self-service platform for automated activation, ongoing account management and location-based advertising for mobile devices.
CEO	Bill DeKay
Website	www.telespree.com

Logo removed

Company	**Healthcare Management Systems, Inc**
Description	Integrated clinical and financial hospital information systems and services, focusing on rural, community, behavioural, rehabilitation and multi-entity healthcare organisations.
CEO	Thomas M Stephenson
Website	www.hmstn.com

Logo removed

Company	**Envestnet Asset Management**
Description	A provider of wealth management solutions, via web-based tools, to the financial advisory sector.
CEO	Judson Bergman
Website	www.envestnet.com

Logo removed

Company	**Vio Worldwide Limited**
Description	Supply chain software solutions for the advertising, publishing and graphic arts industries.
MD	Chris Friend
Website	www.vio.com

Logo removed

Company	**ITS Engineered Systems Inc**
Description	Oil and gas production/recovery systems, encompassing custom engineering, fabrication, installation, training and service.
President	Mike Decarlo
Website	www.itses.com

Logo removed

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

Logo removed

Company	**Eye-Fi, Inc.**
Description	Developer of wireless memory cards which integrate with Wi-Fi networks to automatically send photos from a digital camera to online, in-home and retail destinations.
CEO	Jef Holove
Website	www.eye.fi

Board of Directors

Image removed

Jonathan Agnew
Chairman
Age: 67

Directorships:
Chairman of Ashmore Global Opportunities Ltd, Beazley Group plc and The Cayenne Trust plc, and senior independent director of Rightmove plc.

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

Image removed

Robert Rayne
Chief Executive Officer
Age: 60

Directorships:
Chairman of Derwent London plc and a non-executive director of Weatherford International Ltd and Chyron Corporation, as well as a number of unlisted companies.

Experience:
Robbie established LMS Capital's investment activities in the early 1980s as investment director and later managing director and chief executive of London Merchant Securities plc. He has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. Previous directorships include First Leisure Corporation and Crown Sports plc.

Image removed

Martin Pexton
Managing Director
Age: 52

Directorships:
Non-executive director of Cityspace Ltd, Elateral Ltd, Kizoom Ltd, Vio Worldwide Ltd and Wesupply Ltd.

Experience:
Martin has broad experience across several sectors including oil and gas, technology, real estate and professional services. He was a director at Allen & Overy and Deloitte, Haskins & Sells and has also worked in the insurance and nuclear industries. Previous directorships include London Merchant Securities plc, Inflexion plc and Energy Cranes International Limited.

Image removed

Antony Sweet
Chief Financial Officer
Age: 54

Directorships:
Wesupply Ltd (non-executive), and a number of Group companies.

Experience:
In addition to his finance responsibilities Tony participates actively in investment activities, particularly supporting portfolio companies in formulating strategic plans and funding requirements. Before joining the Company, 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.

Image removed

John Barnsley
Senior Independent Non-Executive Director
Age: 60

Directorships:
Non-executive director of Grainger plc, American Appraisal Associates LLP and European Cardiovascular Genetics Foundation, chairman of Westover Medical Ltd and senior independent non-executive director of Northern Investors Company plc.

Experience:
John was chairman of North London Research Committee, chairman of KCS Global Holdings Ltd and non-executive director of Syltone plc. Prior to December 2001, he spent 22 years as a partner of PricewaterhouseCoopers, including four years as UK managing partner.

Image removed

Richard Christou
Non-Executive Director
Age: 64

Directorships:
President of the Global Business Group of Fujitsu Limited.

Experience:
Richard began his career in 1967 and has held various positions within the telecommunications industry, joining ICL in 1990. In April 2002 ICL changed its name to Fujitsu and he moved into the role of executive chairman. He is now president of the global business group at Fujitsu Ltd where he has responsibility for all of Fujitsu's overseas regions including EMEA, The Americas, APAC and China.

Image removed

Bernard Duroc-Danner
Non-Executive Director
Age: 55

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

Experience:
Bernard was a non-executive director of London Merchant Securities plc 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.

Audit Committee
John Barnsley (chairman)
Jonathan Agnew
Richard Christou

Remuneration Committee
Richard Christou (chairman)
John Barnsley

Nomination Committee
Jonathan Agnew (chairman)
Robert Rayne
John Barnsley
Richard Christou
Bernard Duroc-Danner

Investment Committee
Robert Rayne (chairman)
Martin Pexton
Antony Sweet
Pieter Hooft

Investment team

Image removed

Pieter Hooft
UK

Pieter joined LMS Capital in November 2006 and leads the Group's UK investment activities. Pieter has over 15 years' investment experience in MBOs and development capital in the UK and across Europe. He has been involved in deals in a broad range of sectors including media, consumer, business services and industrial. As well as Apax Partners, Pieter has previously worked for JPMorgan Partners, Botts & Company and Bain and has also had operational experience as chairman of Germany's second largest chain of fitness clubs. Since joining LMS Capital, Pieter has joined the boards of 7 Global Limited, Entuity Limited, ITS Engineered Systems Inc and First Index Inc.

Image removed

Edward Snow
UK

Edward leads the Group's UK technology investments, having joined LMS at the start of 2007 from Amadeus Capital Partners, a venture capital firm specialising in backing start-ups. Prior to Amadeus, Edward was with Deutsche Bank's global markets division for two years. Edward also co-founded and later floated a vehicle technology start-up in the 1990s.

Edward has investment and operational experience gained from a range of sectors including infrastructure software, medical technology and comms hardware. Edward has served on four LMS portfolio company boards since joining and is currently a director of CopperEye Ltd, Corizon Ltd and Vio Worldwide.

Image removed

Jamie Rhodes
UK

Jamie joined LMS Capital in 2004 and works across the Group's UK direct investment portfolio as well as being responsible for UK fund investments and quoted stocks.

Jamie is a specialist in consumer products, retail, leisure, logistics and distribution and has extensive operational and entrepreneurial experience having funded, operated and sold three successive ventures in the food and beverage sector; including an award winning restaurant in London and a chain of sandwich bars in the North of England.

He is on the boards of Richoux Group plc, PrimeStar Restaurant Group and Emerging Markets Advisory Corporation Limited.

Image removed

Jamie Szpiro
UK

Jamie joined LMS Capital in June 2008 from Singer & Friedlander where he was a director in the Corporate and Structured finance team focusing on mid-market buy-outs.

Jamie has a broad range of financial experience spanning Corporate Finance, Property Finance and Leveraged Finance at organisations including Hill Samuel and ING Barings. He also has direct operational and M & A experience having been a senior director of Wintrust plc.

He is currently a director of Cityspace Ltd and CopperEye Ltd.

Image removed

Scott Potter
US

Scott joined LMS Capital in 2003 with responsibility for the Group's US private equity portfolio and in 2005 established San Francisco Equity Partners (SFEP), with LMS Capital as the primary limited partner.

Scott has broad operational experience having served as SVP, Field Operations for Inktomi Corporation and chief executive of Quiver, a venture backed content management business that was acquired by Inktomi in 2002 and in which LMS Capital was a significant investor. Previous to that, he was an executive vice president of WorldRes Inc., one of the first private equity backed online travel companies. Scott's career began as a corporate finance attorney for leading Silicon Valley law firm Venture Law Group.

Image removed

Cameron Steele
US

Cameron joined SFEP in 2005 focusing on consumer internet and technology investments. Cameron currently serves on the board of directors of the Guild, Modviz, and CopperEye. Prior to joining SFEP, he held senior equity research positions at McMorgan & Company, RBC Capital Markets, and Dain Rauscher Wessels. Prior to these roles, he held marketing and finance/planning roles at Verity, Inc. and Oracle Corporation.

Image removed

Gene Weber
US

Gene is the managing partner of Weber Capital Management, a firm that operates a number of funds in which LMS Capital invests. He founded Weber Capital Management in 1994 and is a long-term private and public investor in growth companies in the information technology, communications and healthcare sectors in the US. From 1983 to 1994, Gene was a partner with the investment management firm Weiss, Peck & Greer in their San Francisco venture capital office having joined them from McKinsey & Company.

Gene has over 25 years' experience in investment management and has managed four funds holding positions in over 125 companies.

Image removed

Brian Bank
US

Brian has been working with LMS Capital for over seven years and is responsible for selecting and managing the Group's investments in US venture capital and private equity partnerships as well as overseeing LMS Capital's US based co-investment portfolio.

Brian was previously with Ernst & Young's management consulting group where he was a specialist in the high tech and healthcare supply chain management sectors. Prior to Ernst & Young, Brian spent several years working as a municipal bond underwriter for Miller and Schroeder, Inc and as an international political-military analyst at the Center for Strategic and International Studies

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 year ended 31 December 2008.

The Board considers that the Company has complied with all of the provisions of the Code throughout the period under review.

Board of Directors

The Board's role
The Board is responsible to the Company's shareholders for the performance of the Company and for its overall strategic direction, its values and its governance. It provides the leadership necessary to enable the Company's business objectives to be met within the framework of the internal controls detailed below.

Composition
Throughout the period under review, the Board was comprised of seven directors: four non-executive directors (including the non-executive Chairman) and three executive directors. Brief biographies of the directors appear on page 22. 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 Company's operations.

Non-executive directors
The non-executive directors were appointed in 2006 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.

The Board is of the view that the Chairman and each of the non-executive directors committed sufficient time during 2008 to fulfilling their duties as members of the Board.

New letters of appointment will be signed in April 2009. Each of the non-executive director's will be reappointed for the period until the Annual General Meeting at which they are due to retire by rotation, as follows:

Jonathan Agnew	May 2011
John Barnsley	May 2009
Richard Christou	May 2009
Bernard Duroc-Danner	May 2010

Assuming that John Barnsley and Richard Christou are both reappointed at the Annual General Meeting in May 2009, they will be appointed for a period of three years or until the Annual General Meeting at which either of them has to retire by rotation, whichever is the earlier.

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 (not including those companies in which the Company has invested and where he represents the Company). He may retain any fees paid in respect of such directorships.

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 Act.

Neither the Company's indemnity nor insurance provides cover in the event that a director is proved to have acted fraudulently or dishonestly.

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.

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 meetings

Six scheduled board meetings were held in 2008. In addition, one strategy board meeting was held.

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 year ended 31 December 2008:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held	7	3	2	1
Meetings attended				
Jonathan Agnew	7	–	–	1
Robert Rayne	7	–	–	1
Martin Pexton	6	–	–	–
Antony Sweet	7	–	–	–
John Barnsley	7	3	2	1
Richard Christou	5	3	2	1
Bernard Duroc-Danner	5	–	–	1

Board committees

Each Board Committee has established clear and defined terms of reference detailing their responsibilities and powers. These are available to review on the Company's website at www.lmscapital.com.

Audit Committee
During 2008, the Audit Committee members were John Barnsley (Committee Chairman), and Richard Christou. On 1 January 2009, Jonathan Agnew was appointed a member of the Committee as now allowed under the Code. John Barnsley is considered by the Board to have recent and relevant financial experience, for the purpose of the Code. A representative of the Company'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 three times during 2008. 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 Company and Group 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 Company.

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 reappointment 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 was introduced in early 2008. The policy recognises 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.

Remuneration Committee
The Remuneration Committee currently comprises Richard Christou, who chairs the Committee, and John Barnsley. The composition and role of the Remuneration Committee is described more fully in the Remuneration Report.

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 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.

The Committee will also determine succession plans for each of the directors. When considering succession planning, the Committee will look at the balance, structure and composition of the Board and take into account the future challenges and opportunities facing the Company.

The Committee meets as required, but at least once each year. During 2008, the Committee met once.

Investment Committee
In addition to the principal Board committees described above, there is also an Investment Committee. This currently comprises Robert Rayne, who chairs the Committee, Martin Pexton, Antony Sweet and Pieter Hooft. The Committee is responsible for reviewing and implementing 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 is scheduled to meet twice a month, but may meet more often as circumstances require.

Board reappointments

In accordance with the Code and the Company's Articles of Association, at least a third of the directors on the Board must retire and offer themselves for re-election. Messrs. Barnsley, Christou and Pexton will retire at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election at the meeting. The biography for each director can be found on page 22.

Board appraisal

Towards the end of 2007, an appraisal of the Board was undertaken. The suggestions resulting from the appraisal were that there could be a more detailed explanation of the investment and valuation processes used for the Group's unquoted investments and that risk management should be reviewed more regularly by the Audit Committee. Accordingly, a detailed paper stating the processes used when considering new investments and the valuation of existing investments was provided to the Board in early 2008 and risk management is now a standing agenda item for the Audit Committee to consider at each meeting.

No appraisal took place during 2008 as it is felt to be appropriate for a company of LMS Capital's size to have appraisals every two years.

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

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

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. The website also contains an archive of all documents sent to shareholders, as well as details on the Company's investments, strategy and share price.

Internal control

Process
The Board has overall responsibility for the Company'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.

The Board reviews the effectiveness of the Company's internal controls on an annual basis and will 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 Company and designed to ensure they are properly and consistently applied in relation to significant risks, investment decisions and management issues arising within the Company. 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. The Audit Committee has responsibility for reviewing the effectiveness of risk management, financial and other internal controls.

In the Board's view, the information it has is sufficient to enable it to review the effectiveness of the Company's system of internal controls in accordance with the 'Internal Control Revised Guidance for Directors' in the Combined Code (Turnbull).

Directors' conflicts of interests
The directors' statutory duty to avoid conflicts of interest with the Company came into force during 2008. The Company's new Articles of Association adopted in June 2008 allow the directors to authorise conflicts of interest and a register has been set up to record all conflict situations declared. The register is maintained and updated by the Company Secretary and the Board review it at each Board meeting.

Risk review

The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Company was in place during 2008 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. Details of risks potentially facing the Company can be found on page 71.

Financial reporting

The directors have acknowledged, in the Statement of directors' responsibilities set out on page 36, 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 37, 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 Company and Group financial position for the first six months of each accounting period.

Going concern

Taking account of the financial resources available to it, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

Jonathan Agnew
Chairman

27 March 2009

Remuneration report

Introduction

This Remuneration report describes the Company's overall remuneration policy and gives details of the remuneration arrangements for directors for the year ended 31 December 2008. 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 2008' 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 2008 being:

- Richard Christou (Committee Chairman)
- John Barnsley

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. 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 Company'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;
- long-term incentives; and
- carried interest.

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

- directly linked to the Company'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 elements for 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 Company and the external market. Consideration is given to the Company's performance in terms of movement in Net Asset Value per share and individual achievement of operational goals. The aim is to incentivise executive directors and senior executives to achieve outstanding performance, and to ensure that 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.

Long-term incentives The Committee considers the grant of long-term incentives to executive directors and other executives. The Committee made awards under the Executive Share Option Scheme following publication of the Company's results for 2007.

Deferred Share Bonus Plan

This Plan, approved by shareholders, was established as an inducement to recruitment for key executives of the Company. Participants may receive only one grant. 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 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.

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.

In the event of a change of control awards may be released early provided that the performance condition has been satisfied or the Remuneration Committee determines that the performance condition should be treated as satisfied, but the Committee may at its discretion reduce the award to take into account the length of time between the date of award and the date of the change of control.

Awards in the form of nil-cost options were made on 30 March 2007 as follows:

	Number of shares	First release date	Final release date	Expiry date
Robert Rayne	2,864,292	30 March 2008	30 March 2011	30 March 2017
Martin Pexton	1,432,146	30 March 2008	30 March 2010	30 March 2017

The performance condition for the first release at 30 March 2008 has been satisfied, but no options were exercised during the year. The performance condition for the second release at 30 March 2009 has not been satisfied.

Executive Share Option Plan

Under this Plan, approved by shareholders, the Company grants share options to executive directors and other executives within the Company. 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 per share 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 per share at the end of the financial year preceding the date of grant. If the increase in the Net Asset Value per share 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 of release for increases in Net Asset Value per share between 3% and 8% per annum.

In the event of a change of control awards may be released early provided that the performance condition has been satisfied. If the change of control occurs before the end of the full period over which performance would otherwise be measured, the Remuneration Committee will determine the extent to which the performance condition has been satisfied.

Awards of options to executive directors have been made as follows:

	Grant date	Number of shares	Exercise price	First exercise date	Expiry date
Robert Rayne	2 April 2007	523,809	73.5p	2 April 2010	1 April 2017
	1 April 2008	537,837	74.0p	1 April 2011	31 March 2018
Martin Pexton	2 April 2007	319,727	73.5p	2 April 2010	1 April 2017
	1 April 2008	329,729	74.0p	1 April 2011	31 March 2018
Antony Sweet	2 April 2007	251,700	73.5p	2 April 2010	1 April 2017
	1 April 2008	518,918	74.0p	1 April 2011	31 March 2018

The market price of an ordinary share at 31 December 2008 was 45.5p and the range during the year was 43.5p to 75.75p.

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 three year 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 per share 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 per share exceeds RPI by 8% per annum.

In the event of a change of control awards may be released early provided that the performance condition has been satisfied or the Remuneration Committee determines that the performance condition should be treated as satisfied, but the Committee may at its discretion reduce the award to take into account the length of time between the date of award and the date of the change of control.

No awards have been made to date under this Plan.

Carried interest The Committee aims to ensure that incentive arrangements are competitive with the private equity industry. The executive directors participate in the carried interest arrangements 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%.

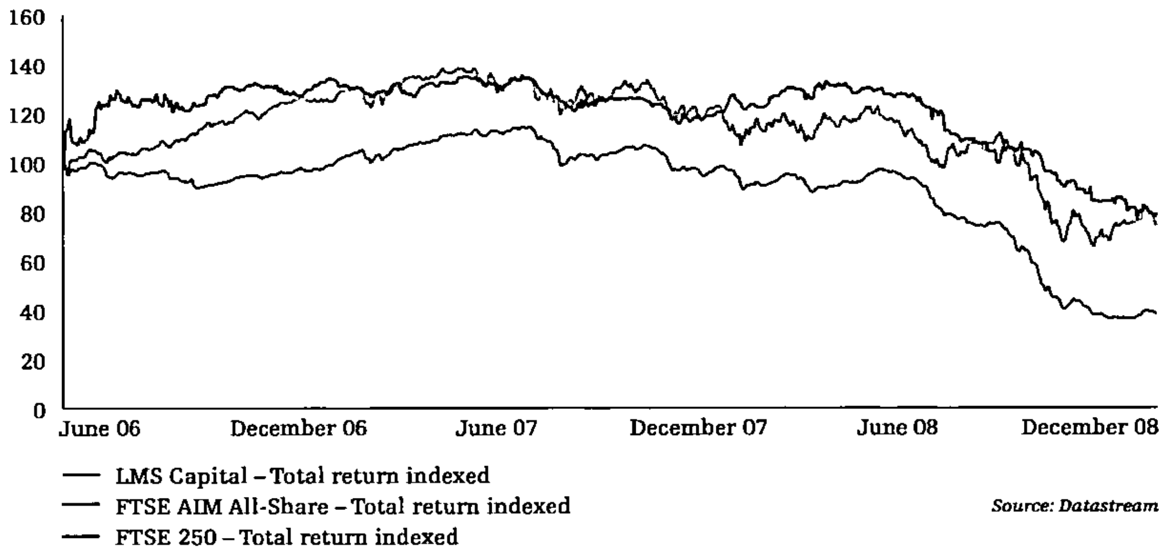
No carried interest payments were made in the year ended 31 December 2008.

Performance graph

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.

The performance graph below shows the Company's Total Shareholder Return performance since admission to AIM on 12 June 2006 compared with that of the AIM All-Share Index. In addition, since the performance measurement criteria for long-term incentives are linked to the FTSE250 Index, this is also shown.

Total Shareholder Return graph since 12 June 2006



Source: Datastream

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.

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 usually 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 Company's incentive plans or pension schemes.

Directors' remuneration in 2008

The following table shows the total remuneration earned in respect of 2008.

	Salary/ fees £'000	Car allowance £'000	Benefits-in-kind¹ £'000	Pension £'000	Bonus £'000	2008 Total £'000	2007 Total £'000
Jonathan Agnew	75	–	–	–	–	75	75
John Barnsley	45	–	–	–	–	45	45
Richard Christou	45	–	–	–	–	45	45
Bernard Duroc-Danner	40	–	–	–	–	40	40
Martin Pexton	244	15	9	49	75	392	602
Robert Rayne	398	20	19	–	80	517	958
Antony Sweet	192	15	8	29	40	284	395
Total	1,039	50	36	78	195	1,398	2,160

Notes:

1. Benefits-in-kind for executive directors are insurances.
2. Salaries for executive directors with effect from 1 January 2009 are:
   - Robert Rayne £398,000
   - Martin Pexton £251,000
   - Antony Sweet £197,750
3. Fees payable in respect of executive directors serving as non-executive directors of companies to which they were nominated by LMS Capital are not retained by them but paid to LMS. Robert Rayne is Chairman of Derwent London plc and receives a fee at the rate of £150,000 per annum, which he retains.
4. Fees payable to non-executive directors in 2008 from companies to which they were nominated as directors by LMS Capital were as follows:
   - John Barnsley £24,000
   - Richard Christou £3,000

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 2008 in the ordinary shares of the Company are set out below.

	At 31 December 2008	At 31 December 2007
Jonathan Agnew	291,058	291,058
John Barnsley	317,000	317,000
Richard Christou	169,965	169,965
Bernard Duroc-Danner	550,800	550,800
Martin Pexton	615,660	615,660
Robert Rayne	7,853,626	7,593,626
Antony Sweet	1,702	1,702

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

- Robert Rayne holds a non-beneficial interest in 21,748,571 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 2008 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

27 March 2009

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2008.

Principal activities

LMS Capital plc is an international 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.

Business review

A detailed review of the Company's activities and performance during the year, together with details of events since the year-end and likely future developments, can be found within the following sections of this Annual Report. All the information detailed in these sections is incorporated by reference into this report and deemed to form part of this report:

- Operating review on page 6;
- Financial review on page 11; and
- Principal risks and uncertainties facing the business on page 71.

Employees

LMS Capital plc had 18 employees at 31 December 2008 (31 December 2007: 16). The employees are kept informed about significant business issues and the Company's performance by means of regular meetings, email updates and other in-house communications.

The total number of employees employed by the Group, as at 31 December 2008, was 294 (31 December 2007: 1,417). The decrease in numbers is primarily due to the sale of Energy Cranes International Limited.

Charitable donations

During 2008, LMS Capital plc made charitable donations totalling £5,125 (2007: £nil): £125 to FINCA UK, a non-profit organisation which supports the provision of small loans to the lowest-income entrepreneurs in the developing world; £2,500 to Fairbridge, a charity which works with young people aged between 13 to 25 that other organisations find difficult to engage with; and £2,500 was donated to Care & Repair, England, a charity which helps to improve the lives of poorly housed older people.

Political donations

The Company did not make any political donations during 2008 (2007: £nil).

Creditor payment policy

The Company'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 Company does not follow any code or standard on payment practice. At 31 December 2008, trade creditors of the Company had an average of approximately 31 days outstanding (31 December 2007: 31 days).

Dividends

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2008 (31 December 2007: £nil).

Directors

The names and biographical details of the current directors of the Company are given on page 22. 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 on pages 31 to 33. Qualifying third party indemnities are in force for each of the directors.

Shares and voting rights

The Company's share capital is comprised of ordinary shares of 10p each and, as at 27 March 2009, there were 272,640,952 shares in issue. Each issued share carries one vote, accordingly the total voting rights in the Company are 272,640,952.

No shares are currently held in treasury. Only options over shares have been granted during the year and these are subject to performance conditions before they can be exercised – further details can be found in the Remuneration report on pages 29 and 30. There are no restrictions on the transfer of shares.

On 1 January 2008, the Company had 286,429,228 ordinary shares of 10p each in issue. During 2008, 13,788,276 shares were bought back by the Company for a consideration of £8,573,328.86 (excluding commission costs), being an average price of £0.62 each and representing 4.81%. of the issued share capital as at 1 January 2008. The Board considered the purchases of shares to be in the best interests of shareholders and were at prices below the prevailing Net Asset Value per ordinary share at the time of purchase.

Substantial shareholdings

As at 27 March 2009, the Company has been notified of the following persons who, directly or indirectly, are interested in 3% or more of the Company's voting rights.

Name	Number of shares or voting rights held	Percentage of issued share capital
Withers Trust Corporation Limited[1]	50,063,179	18.36
Trustees of Lord Rayne's Will Trust[1]	44,462,624	16.31
Schroders plc[2]	35,476,480	13.01
Lady Jane Rayne[1]	27,494,405	10.09
Taube Hodson Stonex Partners Limited	16,896,994	6.20
Jupiter Asset Management Ltd[3]	15,007,547	5.51
Mineworkers Pension Scheme[2]	8,830,834	3.24
British Coal Staff Superannuation Scheme[2]	8,410,952	3.09

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. Schroders plc manages the shares for the Mineworkers Pension Scheme and British Coal Staff Superannuation Scheme and therefore these shares are included within their own interest.
3. 14,817,277 shares (5.43%) are managed on behalf of The Rayne Foundation who control the voting rights to these shares.
4. In addition, the Company is aware that Robert Rayne has a substantial shareholding, as shown in the Remuneration report on page 33.

Annual General Meeting

The Company's Annual General Meeting will be held at Durrants Hotel, George Street, London W1H 5BJ at 11.00 am on 19 May 2009. 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 2006) 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 reappoint them as auditors and to authorise the directors to fix their remuneration.

By order of the Board.

Matthew Jones
Company Secretary

27 March 2009

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the 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 a 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 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 year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Company balance sheet, the Statements of recognised income and expense, the Consolidated cash flow statement, the Company cash flow statement, 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 International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of directors' responsibilities on page 36.

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. The information given in the Directors' report includes that specific information presented in the Business review and Remuneration report that are cross referred from the Directors' report.

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.

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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- 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

KPMG Audit Plc

27 March 2009

Consolidated income statement

	Notes	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Revenue from sales of goods and services	2	**19,790**	15,541
Gains and losses on investments		**(32,137)**	10,899
Interest income	3	**1,802**	825
Investment and other income	4	**582**	507
		(9,963)	27,772
Operating expenses	5	**(46,114)**	(28,810)
Loss before finance costs		**(56,077)**	(1,038)
Finance costs	7	**(221)**	(75)
Loss before tax		**(56,298)**	(1,113)
Taxation	8	**(579)**	(387)
Loss from continuing operations		**(56,877)**	(1,500)
Discontinued operations			
Profit from discontinued operations (net of taxation)	9	**50,755**	1,108
Loss for the year		**(6,122)**	(392)
Attributable to:			
Equity holders of the parent		**(5,929)**	(529)
Minority interests		**(193)**	137
		(6,122)	(392)
Loss per ordinary share	10	**(2.1)p**	(0.2)p
Continuing operations			
Loss per ordinary share	10	**(20.1)p**	(0.5)p

The notes on pages 44 to 70 form part of these financial statements.

Consolidated balance sheet

	Notes	31 December 2008 £'000	31 December 2007 £'000
Non-current assets			
Property, plant and equipment	11	3,216	14,255
Intangible assets	12	26,798	71,257
Investments	13	179,546	183,512
Other non-current assets		15	197
Non-current assets		209,575	269,221
Current assets			
Inventories	14	319	5,738
Operating and other receivables	15	8,309	46,299
Cash and cash equivalents	16	42,615	14,548
Current assets		51,243	66,585
Total assets		260,818	335,806
Current liabilities			
Bank overdrafts	16	–	(285)
Interest-bearing loans and borrowings	17	(1,656)	(7,842)
Operating and other payables	18	(10,335)	(29,891)
Deferred income	19	(3,426)	(2,199)
Current tax liabilities		(410)	(601)
Current liabilities		(15,827)	(40,818)
Non-current liabilities			
Interest-bearing loans and borrowings	17	(1,170)	(36,576)
Deferred income	19	(2,697)	(2,582)
Deferred tax liabilities	20	(41)	–
Provisions	21	–	(1,384)
Non-current liabilities		(3,908)	(40,542)
Total liabilities		(19,735)	(81,360)
Net assets		241,083	254,446
Equity			
Share capital		27,265	28,643
Capital redemption reserve		5,635	4,257
Merger reserve		84,083	84,083
Foreign exchange translation reserve		1,212	(867)
Retained earnings		122,741	133,047
Equity attributable to owners of the parent		240,936	249,163
Minority interest		147	5,283
Total equity	22	241,083	254,446

The financial statements on pages 38 to 70 were approved by the Board on 27 March 2009 and were signed on its behalf by:

RA Rayne
Director

The notes on pages 44 to 70 form part of these financial statements.

Company balance sheet

	Notes	31 December 2008 £'000	31 December 2007 £'000
Non-current assets			
Property, plant and equipment	11	**288**	311
Investments in subsidiaries	31	**293,510**	293,510
Non-current assets		**293,798**	293,821
Current assets			
Operating and other receivables	15	**297**	483
Amounts receivable from subsidiaries	15	**5,548**	17,252
Cash and cash equivalents	16	**12,018**	5,816
Current assets		**17,863**	23,551
Total assets		**311,661**	317,372
Current liabilities			
Operating and other payables	18	**(1,556)**	(2,214)
Amounts payable to subsidiaries		**(66,363)**	(60,640)
Current liabilities		**(67,919)**	(62,854)
Net assets		**243,742**	254,518
Equity			
Share capital		**27,265**	28,643
Capital redemption reserve		**5,635**	4,257
Retained earnings		**210,842**	221,618
Equity attributable to owners of the parent	22	**243,742**	254,518

The financial statements on pages 38 to 70 were approved by the Board on 27 March 2009 and were signed on its behalf by:

RA Rayne
Director

The notes on pages 44 to 70 form part of these financial statements.

Statements of recognised income and expense

Group

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Exchange differences on translation of foreign operations	**1,083**	56
Net income recognised directly in equity	**1,083**	56
Loss for the year	**(6,122)**	(392)
Total recognised income and expense	**(5,039)**	(336)
Attributable to:		
Equity holders of the parent	**(4,846)**	(469)
Minority interests	**(193)**	133
	(5,039)	(336)

Company

The Company has no recognised income or expense other than its loss for the year of £3,027,000 (year ended 31 December 2007: loss of £4,099,000).

The notes on pages 44 to 70 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Cash flows from operating activities			
Loss for the year		(6,122)	(392)
Adjustments for:			
Depreciation and amortisation		1,199	2,190
Goodwill impairment		11,224	–
(Gains)/losses on investments		32,137	(10,899)
Gain on discontinued operations, net of income tax		(49,436)	–
Translation differences		(1,958)	207
Share-based payments		889	3,522
Finance costs		221	2,445
Interest income		(1,802)	(918)
Income tax expense		579	3,055
		(13,069)	(790)
Change in inventories		(9,878)	4,224
Change in trade and other receivables		13,342	(12,183)
Change in trade and other payables		(3,397)	1,977
		(13,002)	(6,772)
Interest paid		(221)	(2,445)
Income tax paid		(183)	(2,997)
Net cash used in operating activities		(13,406)	(12,214)
Cash flows from investing activities			
Interest received		1,802	918
Acquisition of property, plant and equipment		(1,685)	(4,764)
Proceeds from disposals of property, plant and equipment		12	2,757
Disposal of discontinued operations, net of cash disposed of		80,543	–
Acquisition of investments		(40,019)	(54,671)
Acquisition of subsidiaries		(5,645)	(12,388)
Proceeds from sale of investments		11,503	46,849
Net cash from/(used in) investing activities		46,511	(21,299)
Cash flows from financing activities			
Repurchase of own shares		(8,638)	-
Drawdown of interest bearing loans		1,855	18,364
Distribution to minority shareholders		(575)	–
Net cash (used in)/from financing activities		(7,358)	18,364
Net increase/(decrease) in cash and cash equivalents		25,747	(15,149)
Cash and cash equivalents at the beginning of the period		14,263	29,566
Effect of exchange rate fluctuations on cash held		2,605	(154)
Cash and cash equivalents at the end of the year		42,615	14,263
Cash and cash equivalents above comprise			
Cash and cash equivalents		42,615	14,548
Bank overdrafts		-	(285)
Cash and cash equivalents at the end of the year	16	42,615	14,263

The notes on pages 44 to 70 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Cash flows from operating activities			
Loss for the year		(3,027)	(4,099)
Adjustments for:			
Depreciation		134	35
Share-based payments		889	777
Interest income		(336)	(784)
Income tax expense		(1,906)	2,533
		(4,246)	(1,538)
Change in Operating and other receivables		186	(316)
Change in Operating and other payables		(658)	716
Amounts due to subsidiaries		19,333	(15,392)
Net cash from/(used in) operating activities		14,615	(16,530)
Cash flows from investing activities			
Interest received		336	784
Acquisition of property, plant and equipment		(111)	(346)
Net cash from investing activities		225	438
Cash flows from financing activities			
Repurchase of own shares		(8,638)	–
Net cash used in financing activities		(8,638)	–
Net increase/(decrease) in cash and cash equivalents		6,202	(16,092)
Cash and cash equivalents at the beginning of the period		5,816	21,908
Cash and cash equivalents at the end of the year		12,018	5,816
Cash and cash equivalents above comprise			
Cash and cash equivalents		12,018	5,816
Bank overdrafts		–	–
Cash and cash equivalents at the end of the year	16	12,018	5,816

The notes on pages 44 to 70 form part of these financial statements.

Notes to the financial information

1. Principal accounting policies

Reporting entity

LMS Capital plc ('the Company') is domiciled in the United Kingdom. These financial statements are presented in pounds because that is the currency of the principal economic environment of the Company's operations. The consolidated financial statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (together 'the Group').

The Company was formed on 17 March 2006 and commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities plc. The consolidated financial statements are prepared as if the Group had always been in existence. 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 is an investment company but because it holds majority stakes in certain investments it is required to prepare Group accounts that consolidate the results of such investments. In order to present information that is comparable with other investment companies, the results of the Group's investment business on a stand alone basis are set out in Note 2.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ('Adopted IFRS').

The Group's business activities and financial position are set out in the Operating and Financial review on pages 6 to 18. In addition Note 24 to the financial information includes a summary of the Group's financial risk management processes, details of its financial instruments and its exposure to credit risk and liquidity risk. Taking account of the financial resources available to it the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

The Group decided to adopt early IFRS 8: Operating Segments ('IFRS 8') during the year ended 31 December 2007, which defines requirements for the disclosure of financial information of an entity's operating segments. IFRS 8 replaces IAS 14: Segment Reporting. It follows the 'management approach', which requires the disclosure of segment information based on the internal reports regularly reviewed by management in order to assess each segment's performance and to allocate resources to them. IFRS 8 is effective for reporting periods beginning on or after 1 January 2009. Early adoption is permitted.

These financial statements were authorised for issue by the directors on 27 March 2009.

The accounting policies set out below have been applied consistently for all periods.

The financial statements have been prepared on the historical cost basis except for the following:

- investments held at fair value through profit or loss are measured at fair value, and
- derivative financial instruments are measured at fair value.

Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis; revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 1 – valuation of investments held at fair value through profit or loss;
- Note 12 – measurement of the recoverable amounts of cash-generating units containing goodwill.

1. Principal accounting policies (continued)

Basis of consolidation

The financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 December 2008. The Company's subsidiary undertakings fall into two categories:

- investment companies through which the Group conducts its investment activities; and
- certain portfolio companies which form part of the Group's investment activities but which, by virtue of the size of the Group's shareholding or other control rights, fall within the definition of subsidiaries under Adopted IFRS ('portfolio subsidiaries'). The portfolio subsidiaries are included within the consolidated financial information although they continue to be managed by the Group as investments held for capital appreciation. Note 31 includes details of the companies concerned.

Subsidiaries

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The portfolio subsidiaries' UK GAAP financial statements are consolidated and restatements are made to comply with Adopted IFRS.

On acquisition the assets and liabilities of a subsidiary are measured at fair value and any excess of the cost of acquisition over the fair values of the identifiable net assets and contingent liabilities acquired is recognised as goodwill. If the cost of acquisition is lower than the fair value of the identifiable net assets and contingent liabilities acquired, the amount is credited to the income statement in the period of acquisition.

The interest of minority shareholders is stated at their share of the fair value of the identifiable assets, liabilities and contingent liabilities recognised, except to the extent that losses applicable to the minority exceed minority interest.

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

Associates

Associates are those entities in which the Group has significant influence, but not control, over financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28: Investment in Associates, which requires investments held by investment companies to be excluded from its scope where those investments are designated upon initial recognition as investments held at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. The Group has no interest in associates through which it carries on its business.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments the difference between net disposal proceeds and the corresponding carrying amount is recognised in the income statement.

Intangible assets

Intangible assets purchased separately from a business are capitalised at their cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably; fair values are restricted to an amount that does not create, or increase, negative goodwill.

Concessions, patents, licences and trademarks purchased by the Group are amortised to nil by equal annual instalments over their useful economic lives of 20 years.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

1. Principal accounting policies (continued)

Investments

The Group manages its investments with a view to profit from the receipt of dividends and changes in fair value of equity investments. Therefore all quoted investments, unquoted equity investments and managed funds investments are designated at fair value through profit and loss and carried in the balance sheet at fair value. Other investments including loan investments are classified as loans and receivables and carried in the balance sheet at amortised cost less impairment.

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.

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 or 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 or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings.
- Investments in 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 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.

Derivative financial instruments

The Group uses derivative financial instruments to reduce the exposure to foreign exchange risk and interest rate risk. The Group does not hold or use derivative financial instruments for speculative purposes.

Economic hedge

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition derivatives are measured at fair value and changes therein are recognised in profit or loss.

1. Principal accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment loss.

Cost includes expenditure that is directly attributable to the asset, including where appropriate the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Depreciation is charged using the straight-line method over the estimated useful lives of the assets as follows:

- Freehold property 50 years
- Leasehold improvements the term of the lease
- Plant and equipment 3–10 years
- Fixtures and fittings 3–5 years

When parts of an item of property, plant and equipment have different useful lives, these components are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of fair value and the present value of the future minimum lease payments at inception of the lease, less accumulated depreciation and any impairment loss.

Other leases are operating leases and are not recognised on the Group's balance sheet.

Impairment of assets

Loans and receivables

Loans and receivables are considered to be impaired if objective evidence indicates that events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of loans and receivables measured at amortised cost is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant loans and receivables are tested for impairment on an individual basis. The remaining loans and receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Principal accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies at the 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.

On consolidation the assets and liabilities of the Group's overseas operations including goodwill and fair value adjustments arising on consolidation are translated at the closing rates ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on these items are classified as equity and transferred to the Group's foreign exchange translation reserve. Such exchange differences are recognised as income or expense in the period in which the related overseas operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of an overseas operation are treated as assets and liabilities of the overseas entity and translated at the closing rate.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is based on the average cost principle. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes a share of overheads based on normal working capacity.

Trade and other receivables

Trade and other receivables are carried at original cost or invoice amount, less an estimate for impairment of any uncollectable items. Bad debts are written off when identified.

Cash and cash equivalents

Cash, for the purpose of the cash flow statement, comprises cash in hand and cash equivalents, less overdrafts payable on demand.

Cash equivalents are 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. Cash equivalents include short-term cash deposits with original maturity of less than three months.

Financial liabilities

The Group's financial liabilities include borrowings, operating and other payables.

Interest bearing loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are stated at amortised cost which is the initial cost less any principal repayments.

Operating and other payables with short duration are not discounted. They are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

1. Principal accounting policies (continued)

Income tax expense (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Income

Revenue from sales of goods and services

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from sales of services is recognised by reference to the stage of completion of the transaction at the reporting date. Revenue is estimated by applying to the total expected contract revenue, the proportion of total contract costs incurred to date over total expected costs for each contract.

Revenues from software and related services are predominantly project based with transactions typically including the sale of a software licence and related implementation services which are invoiced to customers on their acceptance of the installation. Since these projects are normally short-term in nature, revenue is generally recognised in line with customer acceptance.

Maintenance contracts for hardware and software are invoiced to customers in advance and these contracts typically cover a period of one year or more. Where such maintenance services extend beyond the balance sheet date the related income is deferred and recognised over the remaining life of the contract, generally on a straight-line basis.

Revenues from specialist manufacturing are recognised on delivery of the product to the customer.

Interest income

Interest income is recognised as it accrues using the effective interest method.

Investment income

Investment income comprises investment management fees receivable from portfolio companies and dividend income. Dividend income is recognised on the date the Group's right to receive payment is established. Dividends relating to pre-acquisition profits are not recognised as income but as a reduction of the carrying amount of the investment.

Expenditure

Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or carried interest incentive arrangements if the Group has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

1. Principal accounting policies (continued)

Expenditure (continued)

Share-based payments

The Group has issued share options to certain employees. Such options are treated as equity-settled share-based payments and measured at fair value at the date of grant and the fair value is recognised as an expense with a corresponding increase in equity on a straight-line basis over the vesting period.

Fair value is calculated by use of a binomial option valuation model taking into account the terms and conditions under which the equity-settled share-based payments were issued. Service and non-market performance conditions attached to transactions are not taken into account in determining fair value.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

2. Operating segments

The information below has been prepared using the definition of an operating segment in IFRS 8: Operating Segments which sets out the requirements for the disclosure of financial information of an entity's operating segments. IFRS 8 requires an entity to present segment information on the same basis as the financial information which is reviewed regularly by management to assess performance and to allocate resources.

As an investment company, the Group's primary focus is on the performance of its investment management business. Financial information for this segment is prepared on the basis that all investments are accounted for at fair value.

The information set out below therefore presents summarised financial information for the investment management business on a stand alone basis as a single segment, together with the adjustments arising from the summarised results and financial position of the portfolio subsidiaries. Adjustments for Energy Cranes International Limited ('Energy Cranes') are shown separately because of the size of this business relative to the others.

The consolidation adjustments included below reflect the adjustments necessary to restate the portfolio subsidiaries from the basis included in the investment management segment (investments carried at fair value) to full consolidation in the Group's financial statements.

2. Operating segments (continued)

Consolidated income statement

Year ended 31 December 2008	Investment management £'000	Portfolio subsidiaries £'000	Reconciliation – Discontinued operations – Energy Cranes £'000	Reconciliation – Discontinued operations – Other £'000	Reconciliation – Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	19,790	–	–	–	19,790
Gains and losses on investments	(36,748)	–	–	–	4,611	(32,137)
Interest income	1,754	48	–	–	–	1,802
Investment and other income	582	–	–	–	–	582
Finance costs	–	(4,267)	–	–	4,046	(221)
Continuing operations	(40,796)	(13,514)	–	–	(2,567)	(56,877)
Discontinued operations	–	–	57,556	(6,801)	–	50,755
Profit/(loss) for the year	(40,796)	(13,514)	57,556	(6,801)	(2,567)	(6,122)

Year ended 31 December 2007(Restated)	Investment management £'000	Portfolio subsidiaries £'000	Reconciliation – Discontinued operations – Energy Cranes £'000	Reconciliation – Discontinued operations – Other £'000	Reconciliation – Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	15,541	–	–	–	15,541
Gains and losses on investments	36,739	(260)	–	–	(25,580)	10,899
Interest income	814	11	–	–	–	825
Investment and other income	1,508	–	–	–	(1,001)	507
Finance costs	–	(1,564)	–	–	1,489	(75)
Continuing operations	29,836	(6,256)	–	–	(25,080)	(1,500)
Discontinued operations	–	–	1,425	(2,095)	1,778	1,108
Profit/(loss) for the year	29,836	(6,256)	1,425	(2,095)	(23,302)	(392)

2. Operating segments (continued)

Consolidated statement of net assets

31 December 2008	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	288	2,928	–	3,216
Intangible assets	–	3,196	23,602	26,798
Investments	202,049	1	(22,504)	179,546
Other non-current assets	–	15	–	15
Non-current assets	202,337	6,140	1,098	209,575
Cash and cash equivalents	41,293	1,322	–	42,615
Other current assets	309	8,319	–	8,628
Total assets	243,939	15,781	1,098	260,818
Total liabilities	(2,283)	(70,604)	53,152	(19,735)
Net assets/(liabilities)	241,656	(54,823)	54,250	241,083

The Net Asset Value of the investment management business at 31 December 2008 includes £241,509,000 attributable to the equity holders of the parent and £147,000 attributable to minority interests.

31 December 2007	Investment management £'000	Reconciliation: Portfolio subsidiaries: Energy Cranes £'000	Reconciliation: Portfolio subsidiaries: Others £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	311	11,197	2,747	–	14,255
Intangible assets	–	32,497	–	38,760	71,257
Investments	282,120	–	200	(98,808)	183,512
Other non-current assets	–	197	–	–	197
Non-current assets	282,431	43,891	2,947	(60,048)	269,221
Cash and cash equivalents	8,240	5,060	1,248	–	14,548
Other current assets	1,557	43,878	6,602	–	52,037
Total assets	292,228	92,829	10,797	(60,048)	335,806
Total liabilities	(2,504)	(71,391)	(40,954)	33,489	(81,360)
Net assets/(liabilities)	289,724	21,438	(30,157)	(26,559)	254,446

The Net Asset Value of the investment management business at 31 December 2007 includes £289,005,000 attributable to the equity holders of the parent and £719,000 attributable to minority interests.

2. Operating segments (continued)

The carrying amount and gains and losses of the investments of the investment management business can be further analysed as follows:

	31 December 2008			31 December 2007		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	29,911	72,390	102,301	28,579	57,795	86,374
Quoted	19,409	27,097	46,506	17,476	46,348	63,824
Unquoted	33,686	19,556	53,242	116,551	15,371	131,922
	83,006	119,043	202,049	162,606	119,514	282,120

	Year ended 31 December 2008			Year ended 31 December 2007		
Asset type	Realised gains £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains £'000	Unrealised losses £'000	Total £'000
Funds	2,114	4,572	6,686	3,794	6,421	10,215
Quoted	574	(31,122)	(30,548)	2,910	8,240	11,150
Unquoted	14,620	(27,506)	(12,886)	–	15,374	15,374
	17,308	(54,056)	(36,748)	6,704	30,035	36,739

Revenues

The Group's revenues from external customers comprise:

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Continuing operations		
Software and related services	12,431	5,530
Specialist manufacturing	7,359	10,011
	19,790	15,541

Geographical information

	Revenues		Non-current assets	
	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
Continuing operations				
United Kingdom	7,066	3,211	99,378	115,442
United States of America	6,521	11,346	110,197	152,629
Other countries	6,203	984	–	1,150
	19,790	15,541	209,575	269,221

Geographical information on revenue is based on the location of customers and on assets is based on the location of the assets.

Major customers

Revenues from the ten largest customers represent approximately 33% of the Group's total revenues.

3. Interest income

Interest income comprises interest receivable on bank deposits.

4. Investment and other income

Investment and other income comprise the following:

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Dividends from quoted securities	159	269
Other	423	238
	582	507

5. Operating expenses

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Cost of sales	8,451	9,525
Administrative expenses	37,663	19,285
	46,114	28,810

Operating expenses include the following:

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Depreciation	1,142	341
Goodwill impairment loss	11,224	–
Refund of value added tax	(1,078)	–
Auditors' remuneration		
Audit related services		
– to parent company	65	59
– to subsidiary companies	141	175
Non-audit related services		
– taxation advisory services	4	10
– other	–	55

6. Personnel expenses

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Wages and salaries	16,172	11,721
Compulsory social security contributions	1,634	1,130
Contributions to defined contribution plans	552	284
Equity-settled share based payment transactions	889	777
	19,247	13,912

The Group operates carried interest incentive arrangements in line with normal practice in the private equity industry based on the performance of its investment management business. No amounts were payable under these arrangements for the year ended 31 December 2008 (year ended 31 December 2007: Nil). If the Group's investment portfolio were realised at its carrying amount at 31 December 2008, carried interest of £0.1 million would become payable (year ended 31 December 2007: £4.2 million).

7. Finance costs

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Interest on bank loans and overdrafts	76	75
Other interest costs	145	–
	221	75

8. Taxation

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Current tax expense		
Current period	579	325
Adjustment for prior periods	–	62
Total current tax	579	387
Deferred tax expense		
Origination and reversal of timing differences	–	–
	–	–
Total tax expense	579	387

Reconciliation of effective tax rate

	Year ended 31 December 2008 £'000	Restated Year ended 31 December 2007 £'000
Profit/(loss) before tax	(56,298)	(1,113)
Income tax using the Company's domestic tax rate – 28.5% (2007: 30%)	(16,045)	(334)
Recognition of previously unrecognised tax losses	(619)	(548)
Fair value adjustments not currently taxed	14,120	(2,537)
Overseas tax rate differences	67	–
Non-deductible expenses	4,879	1,571
Non-taxable income	(4,533)	(1,583)
Deferred tax not recognised	2,710	3,756
Under/(over) provided in prior periods	–	62
Total tax expense	579	387

9. Discontinued Operations

In March 2008 the Group sold its entire interest in Energy Cranes International Limited and in June 2008 the Group sold its entire interest in AssetHouse Technology Limited. These businesses were not discontinued operations or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operations separately from continuing operations.

Results of discontinued operations

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenues	33,142	114,243
Expenses	(31,240)	(110,467)
Results from operating activities	1,902	3,776
Taxation	(583)	(2,668)
Results from operating activities, net of tax	1,319	1,108
Gain on sale of discontinued operations, net	49,436	–
Tax on gain on sale of discontinued operations	–	–
Profit for the period	50,755	1,108
Basic earnings per ordinary share	18.0p	0.4p
Diluted earnings per ordinary share	17.7p	0.4p

Cash flows from/(used in) discontinued operations

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Net cash (used in)/from operating activities	(8,977)	1,609
Net cash used in investing activities	(849)	(16,325)
Net cash from financing activities	7,375	15,497
Net cash (used in)/from discontinued operations	(2,451)	781

Effect of disposal on the financial position of the Group

	31 December 2008 £'000
Property, plant and equipment	12,216
Intangible assets	39,587
Investments	527
Other non-current assets	–
Inventories	15,326
Trade and other receivables	25,763
Cash and cash equivalents	3,043
Bank overdrafts	–
Interest bearing loans and borrowings	(43,447)
Trade and other payables	(10,813)
Provisions	(8,052)
Net assets and liabilities	34,150
Consideration received, satisfied in cash	83,586
Cash disposed of	(3,043)
Net cash inflow	80,543

10. Loss per ordinary share

The calculation of loss per ordinary share is based on the loss of £5,929,000 (year ended 31 December 2007: loss of £529,000), being the loss for the year attributable to the parent, divided by the weighted average number of ordinary shares in issue during the year 281,758,491 (year ended 31 December 2007: 286,429,228).

The calculation of loss per ordinary share for continuing operations is based on the loss of £56,684,000 (year ended 31 December 2007: loss of £1,381,000), being the loss for the year attributable to the parent, divided by the weighted average number of ordinary shares in issue during the period of 281,758,491 (year ended 31 December 2007: 286,429,228).

There was no dilution effect on the loss from continuing operations or the Group loss in either year.

11. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 January 2007	5,421	12,758	201	18,380
Additions	361	3,730	673	4,764
Acquisitions through business combinations	–	1,836	157	1,993
Disposals	(2,212)	(1,397)	(163)	(3,772)
Effect of movement in exchange rates	(23)	(86)	(2)	(111)
Balance at 31 December 2007	3,547	16,841	866	21,254
Balance at 1 January 2008	**3,547**	**16,841**	**866**	**21,254**
Additions	**87**	**1,538**	**60**	**1,685**
Acquisitions through business combinations	**–**	**180**	**31**	**211**
Disposals	**–**	**(75)**	**–**	**(75)**
Disposals of subsidiaries	**(2,288)**	**(14,538)**	**(549)**	**(17,375)**
Effect of movement in exchange rates	**439**	**361**	**9**	**809**
Balance at 31 December 2008	**1,785**	**4,307**	**417**	**6,509**
Depreciation and impairment losses				
Balance at 1 January 2007	709	5,007	106	5,822
Depreciation charge for the year	165	1,956	69	2,190
Disposals	(44)	(939)	(33)	(1,016)
Effect of movement in exchange rates	–	4	(1)	3
Balance at 31 December 2007	830	6,028	141	6,999
Balance at 1 January 2008	**830**	**6,028**	**141**	**6,999**
Depreciation charge for the year	**71**	**947**	**124**	**1,142**
Disposals	**–**	**(63)**	**–**	**(63)**
Disposals of subsidiaries	**(210)**	**(4,855)**	**(94)**	**(5,159)**
Effect of movement in exchange rates	**231**	**136**	**7**	**374**
Balance at 31 December 2008	**922**	**2,193**	**178**	**3,293**
Carrying amounts				
At 31 December 2006	4,712	7,751	95	12,558
At 31 December 2007	2,717	10,813	725	14,255
At 31 December 2008	**863**	**2,114**	**239**	**3,216**

At 31 December 2008 land and buildings with a carrying amount of £863,000 (31 December 2007: £2,078,000) are subject to a registered debenture to secure bank loans.

At 31 December 2008 the carrying amount of plant and equipment includes £nil held under finance leases (31 December 2007: £899,000).

11. Property, plant and equipment (continued)

Company

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2007	–	–	–
Additions	51	295	346
Balance at 31 December 2007	51	295	346
Balance at 1 January 2008	51	295	346
Additions	111	–	111
Balance at 31 December 2008	162	295	457
Depreciation and impairment losses			
Balance at 1 January 2007	–	–	–
Depreciation charge for the year	11	24	35
Balance at 31 December 2007	11	24	35
Balance at 1 January 2008	11	24	35
Depreciation charge for the year	82	52	134
Balance at 31 December 2008	93	76	169
Carrying amounts			
At 31 December 2006	–	–	–
At 31 December 2007	40	271	311
At 31 December 2008	69	219	288

12. Intangible assets

Group

	Software Licence £'000	Goodwill £'000	Total £'000
Cost			
Balance at 1 January 2007	–	40,379	40,379
Acquisitions through business combinations	–	35,427	35,427
Effect of movement in exchange rates	–	116	116
Balance at 31 December 2007	–	75,922	75,922
Balance at 1 January 2008	–	75,922	75,922
Acquisitions through business combinations	2,088	4,320	6,408
Disposals of businesses	–	(39,586)	(39,586)
Effect of movement in exchange rates	–	–	–
Balance at 31 December 2008	2,088	40,656	42,744
Impairment losses			
Balance at 1 January 2007	–	4,665	4,665
Impairment loss	–	–	–
Balance at 31 December 2007	–	4,665	4,665
Balance at 1 January 2008	–	4,665	4,665
Impairment loss	–	11,224	11,224
Amortisation	57	–	57
Balance at 31 December 2008	57	15,889	15,946
Carrying amounts			
At 31 December 2006	–	35,714	35,714
At 31 December 2007	–	71,257	71,257
At 31 December 2008	2,031	24,767	26,798

12. Intangible assets (continued)

For the purpose of impairment testing, goodwill is allocated to each portfolio subsidiary which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The recoverable amount of each unit has been determined on the basis of fair value. Fair value is determined using the principles set out in Note 1 for the Group's investments.

An analysis of goodwill is set out below:

	Goodwill impairment recognised in the year ended 31 December 2008 £'000	Carrying amount 2008 £'000	Carrying amount 2007 £'000
Energy Cranes International Limited	–	–	32,458
Offshore Tool and Energy Corporation	610	1,572	2,182
Entuity Limited	2,846	4,981	7,827
AssetHouse Technology Limited	–	–	7,129
Wesupply Limited	–	5,120	5,120
CopperEye Limited	–	3,011	3,011
Cityspace Limited	7,768	6,927	13,530
Citizen Limited	–	3,156	–
	11,224	24,767	71,257

13. Investments

Group

The movements in investments were as follows:

	Quoted securities £'000	Unquoted securities Equity £'000	Unquoted securities Loans £'000	Funds £'000	Total £'000
Carrying value					
Balance at 1 January 2007	69,384	34,419	18,390	66,177	188,370
Purchases	11,740	11,287	3,354	28,290	54,671
Disposals	(25,539)	(6)	–	–	(25,545)
Distributions from partnerships	–	–	–	(14,522)	(14,522)
Fair value adjustments	8,239	(8,868)	–	6,429	5,800
Impairment loss	–	–	(1,605)	–	(1,605)
Transfers to portfolio subsidiaries	–	(16,607)	(7,050)	–	(23,657)
Balance at 31 December 2007	63,824	20,225	13,089	86,374	183,512
Balance at 1 January 2008	63,824	20,225	13,089	86,374	183,512
Purchases	17,525	1,336	5,383	15,775	40,019
Disposals	(3,721)	–	(352)	–	(4,073)
Distributions from partnerships	–	–	–	(6,313)	(6,313)
Fair value adjustments	(31,122)	2,142	(4,084)	6,465	(26,599)
Transfers to portfolio subsidiaries	–	–	(7,000)	–	(7,000)
Balance at 31 December 2008	46,506	23,703	7,036	102,301	179,546

14. Inventories

	Group	
	2008 £'000	2007 £'000
Work in progress	71	791
Finished goods	248	4,947
	319	5,738

Changes in finished goods and work in progress recognised as cost of sales amounted to £54,000 (year ended 31 December 2007 (restated): £680,000).

15. Operating and other receivables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade receivables	6,497	41,167	–	–
Other receivables and prepayments	1,812	4,778	297	483
Amounts receivable from subsidiaries	–	–	5,548	17,252
Derivative financial instruments	–	354	–	–
	8,309	46,299	5,845	17,735

16. Cash and cash equivalents

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Bank balances	1,438	5,454	147	13
Short-term deposits	41,177	9,094	11,871	5,803
Cash and cash equivalents	42,615	14,548	12,018	5,816
Bank overdrafts	–	(285)	–	–
	42,615	14,263	12,018	5,816

17. Interest bearing loans and borrowings

	Group	
	2008 £'000	2007 £'000
Non-current liabilities		
Secured bank loans	1,170	27,663
Other unsecured loans	–	8,207
Finance lease liabilities	–	706
	1,170	36,576
Current liabilities		
Secured bank loans	254	7,827
Other unsecured loans	1,402	–
Finance lease liabilities	–	15
	1,656	7,842

17. Interest bearing loans and borrowings (continued)

Terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Maturity	Group 2008 £'000 Carrying amount	Group 2007 £'000 Carrying amount
Secured bank loan	£	LIBOR plus 2.25%	2013	–	24,432
Secured bank loan	£	LIBOR plus 2.50%	2013	–	11,058
Secured bank loan	USD	7.51%	2020	897	661
Other secured loans	USD	Various	2009/10	527	185
Unsecured loan	£	LIBOR plus 2.00%	2008	–	6,462
Unsecured loan	USD	12.00%	2009	1,402	899
Finance lease liabilities	£	6.75%	2011	–	721
				2,826	44,418

Finance lease liabilities are payable as follows:

	2008 Future minimum lease payments £'000	2008 Interest £'000	2008 Present value of minimum lease payments £'000	2007 Future minimum lease payments £'000	2007 Interest £'000	2007 Present value of minimum lease payments £'000
Less than one year	–	–	–	16	1	15
Between one and five years	–	–	–	654	41	613
More than five years	–	–	–	99	6	93
	–	–	–	769	48	721

18. Operating and other payables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade payables	2,271	10,749	62	–
Non-trade payables and accrued expenses	8,064	19,142	1,494	2,214
	10,335	29,891	1,556	2,214

19. Deferred income

Deferred income comprises amounts invoiced to customers in respect of goods or services which had not been delivered at the balance sheet date. It arises principally on maintenance contracts for hardware and software which typically cover a period of one year or more.

20. Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax liabilities were attributable to the following:

	Group 2008 £'000	Group 2007 £'000
Property, plant and equipment	–	–
Financial assets at fair value through profit or loss	41	–
	41	–

Unrecognised deferred tax liabilities

The Group has no unrecognised deferred tax liabilities.

20. Deferred tax liabilities (continued)

Deferred tax assets

The Group's investment management business has capital losses for tax purposes of £4.7 million at 31 December 2008 (31 December 2007: £4.7 million) available to offset future profits chargeable to tax. In addition, if the Group were to dispose of its investment portfolio at book value at 31 December 2008 it would realise further net capital losses for tax purposes of £65.5 million (31 December 2007: £22.4 million). Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The Group's portfolio subsidiaries have tax losses of £118.4 million at 31 December 2008 (31 December 2007: £84.3 million) available to offset future profits chargeable to tax.

21. Provisions

	Group	
	2008 £'000	2007 £'000
Deferred consideration on acquisition of a subsidiary	–	600
National insurance payable on exercise of share options	–	784
	–	1,384

22. Capital and reserves

Group

Reconciliation of movement in capital and reserves

	Share capital £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2007	28,643	4,257	84,083	(927)	130,548	246,604	4,344	250,948
Total recognised income and expense	–	–	–	60	(529)	(469)	133	(336)
Share-based payments	–	–	–	–	3,028	3,028	494	3,522
Minority interest on acquisitions	–	–	–	–	–	–	312	312
Balance at 31 December 2007	28,643	4,257	84,083	(867)	133,047	249,163	5,283	254,446
Total recognised income and expense	–	–	–	1,083	(5,929)	(4,846)	(193)	(5,039)
Distribution to minority	–	–	–	–	–	–	(575)	(575)
Disposal of portfolio subsidiaries	–	–	–	996	3,372	4,368	(4,368)	–
Repurchase of shares	(1,378)	1,378	–	–	(8,638)	(8,638)	–	(8,638)
Share-based payments	–	–	–	–	889	889	–	889
Balance at 31 December 2008	**27,265**	**5,635**	**84,083**	**1,212**	**122,741**	**240,936**	**147**	**241,083**

Company

	Share capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2007	28,643	4,257	224,940	257,840
Total recognised income and expense	–	–	(4,099)	(4,099)
Share-based payments	–	–	777	777
Balance at 31 December 2007	28,643	4,257	221,618	254,518
Total recognised income and expense	–	–	(3,027)	(3,027)
Repurchase of shares	(1,378)	1,378	(8,638)	(8,638)
Share-based payments	–	–	889	889
Balance at 31 December 2008	**27,265**	**5,635**	**210,842**	**243,742**

22. Capital and reserves (continued)

	2008 Number	2008 £'000	2007 Number	2007 £'000
			Ordinary shares	
Balance at beginning of the period	**286,429,228**	**28,643**	286,429,228	28,643
Repurchase of shares	**(13,788,276)**	**(1,378)**	–	–
Balance at end of the period	**272,640,952**	**27,265**	286,429,228	28,643

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Capital redemption reserve

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

Treasury shares

The Company has no shares held in treasury.

Merger reserve

The Company commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities plc. Consolidated financial statements were prepared for the nine months ended 31 December 2006 to reflect the two step demerger process: this comprised an initial common control transaction followed by a subsequent demerger of the Group. The consolidated financial statements are prepared as if the Group had always been in existence. 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.

Translation reserve

The translation reserve comprises all foreign currency arising from the translation of the financial statements of foreign operations.

23. Share-based payments

Company

Executive share option plan

The Company has a share option plan that entitles certain employees to purchase shares in the Company at the market price of the shares at the date of grant of the option, subject to Company performance criteria. Under the terms of the scheme, options may be exercised between three and ten years after the date of grant.

Options granted under the plan are subject to the following vesting criteria. If the Net Asset Value per share of the Company increases by at least 3% per annum above the increase in the Retail Prices Index based on the Net Asset Value per share at the financial year end preceding the date of grant 25% of the shares under option will vest three years after the date of grant. If the increase in the Net Asset Value per share exceeds the growth in the Retail Prices Index by at least 8% per annum 100% of the options will be exercisable three years after the date of grant. There is a straight-line scale of release for increases in Net Asset Value per share between 3% and 8% per annum.

On 1 April 2008 the Company granted options over 2,493,641 ordinary shares under this scheme to eligible employees; during the year options over 409,901 ordinary shares lapsed as a result of employees leaving the Company.

Deferred share bonus plan

The Company also has a deferred share bonus plan for key executives. Shares awarded under this scheme are released over three or four years (depending on the size of the award) and the first release may take place no earlier than the first anniversary of the award subject to the increase in the Net Asset Value per share of the Company exceeding the increase in the Retail Prices Index by an average of at least 3% per annum.

On 30 March 2007 the Company awarded 4,296,438 shares under this scheme to eligible executives and of this amount 1,193,455 shares became eligible for release on 31 March 2008; no shares have been released to date.

23. Share-based payments (continued)

Company (continued)

Deferred share bonus plan (continued)

Based on the performance of the Company for the year ended 31 December 2008 the award of a further 1,193,455 shares available for release on 30 March 2009 has lapsed. The remaining 1,909,528 shares will be released as follows if the performance criteria are met:

Date	Number of shares
30 March 2010	1,193,455
30 March 2011	716,073

Recognition and measurement

The fair value of services received in return for share options granted and deferred shares awarded is based on their fair value measured using a binomial valuation model. Share options granted during 2008 were valued using the following inputs:

	Executive share option plan
Fair value at grant date	£0.24
Share price	£0.74
Exercise price	£0.74
Expected volatility	14%
Option life	10 years
Expected dividends	–
Risk-free interest rate	5.0%

The expense recognised in the income statement for the year ended 31 December 2008 was £318,000 (year ended 31 December 2007: £127,000) in respect of the executive share option plan and £571,000 (year ended 31 December 2007: £650,000) in respect of the deferred share bonus plan.

Total options issued by the Company and outstanding were as follows:

	2008 Number	2007 Number
Outstanding at 1 January	**6,258,505**	–
Granted during the year	**2,493,641**	6,258,505
Lapsed during the year	**(1,603,356)**	–
Outstanding at 31 December	**7,148,790**	6,258,505

The options outstanding at 31 December 2008 include 4,045,807 under the executive share option plan and 3,102,983 under the deferred share bonus plan.

The options outstanding under the deferred share bonus plan have an exercise price of nil; the options outstanding under the executive share option plan are exercisable at the following prices:

	Number	Exercise price
	1,765,679	73.5p
	2,280,128	74.0p
Total options granted	4,045,807	

Group

The Group share option plans in the year ended 31 December 2007 were in respect of Energy Cranes International Limited which was sold during 2008.

24. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its policies for measuring and managing risk, and its management of capital.

Credit risk

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

	2008 £'000	2007 £'000
Operating and other receivables	**8,309**	46,299
Cash and cash equivalents	**42,615**	14,548
	50,924	60,847

Operating and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Each new customer is analysed individually for creditworthiness before payment and delivery terms are offered. The conduct of customer accounts is reviewed regularly.

The Group establishes an allowance for impairment that represents an estimate of incurred losses in respect of operating and other receivables. This allowance includes a specific loss component that relates to individually significant exposures and a collective loss component for groups of similar assets. This is determined based on historical payment data statistics and is intended to cover losses that have been incurred but not yet identified.

The maximum exposure to credit risk for operating and other receivables by geographic region was:

	2008 £'000	2007 £'000
UK	**3,883**	32,145
United States	**2,842**	12,251
Other regions	**1,584**	1,903
	8,309	46,299

The ageing of trade receivables was:

	2008		2007	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	**4,052**	**–**	27,738	–
Past due 0–30 days	**1,356**	**–**	6,765	378
Past due 31–120 days	**851**	**170**	4,263	111
More than 120 days	**801**	**393**	2,992	102
	7,060	**563**	41,758	591

Cash and cash equivalents

The Group limits its credit risk exposure by only depositing funds with highly rated institutions. Given these ratings the Group does not expect any counterparty to fail to meet its obligations and therefore no allowance for impairment is made for bank deposits.

24. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Its financing requirements are met through a combination of liquidity from the sale of investments, the use of cash resources and bank borrowing facilities. The Company has a $53,000,000 revolving facility agreement with The Royal Bank of Scotland. Interest is payable 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 Company drew down £5 million under this facility in March 2008 and repaid the amount in April 2008. No part of the facility was used during the year ended 31 December 2007.

The facility is due to expire in April 2009 and the Company is in discussions with the bank for the renewal of the facility at a lower level of £15 million.

The following are the contractual maturities of financial liabilities:

31 December 2008	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Bank overdrafts	–	–	–	–	–	–	–
Interest bearing loans and borrowings	2,826	3,852	140	2,032	109	270	1,301
Finance lease liabilities	–	–	–	–	–	–	–
Operating and other payables	10,335	10,335	10,335	–	–	–	–
	13,161	14,187	10,475	2,032	109	270	1,301

31 December 2007	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Bank overdrafts	285	307	11	296	–	–	–
Interest bearing loans and borrowings	43,697	54,414	7,346	7,345	7,945	23,835	7,943
Finance lease liabilities	721	852	85	85	170	341	171
Operating and other payables	29,891	29,891	29,891	–	–	–	–
	74,594	85,464	37,333	7,726	8,115	24,176	8,114

Market risk

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

Currency risk

The Group is exposed to currency risk on those of its investments which are denominated in a currency other than the Group's functional currency which is the pound. The only other significant currency within the investment portfolio is the US dollar; approximately 59% of the investment portfolio within the Group's investment management business is denominated in US dollars.

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

24. Financial risk management (continued)

Market risk (continued)

Currency risk (continued)

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

	31 December 2008			31 December 2007		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	60,502	119,044	–	63,998	119,514	–
Operating and other receivables	4,626	3,476	207	29,598	14,898	1,803
Cash and cash equivalents	40,621	1,822	172	7,114	7,290	144
Bank overdrafts	–	–	–	(285)	–	–
Interest bearing loans and borrowings	–	(2,826)	–	(24,209)	(19,488)	–
Finance lease liabilities	–	–	–	(715)	(6)	–
Operating and other payables	(7,118)	(3,209)	(8)	(22,688)	(5,784)	(1,414)
Gross balance sheet exposure	98,631	118,307	371	52,813	116,424	533
Forward exchange contracts	–	–	–	–	(1,256)	–
Net exposure	98,631	118,307	371	52,813	115,168	533

At 31 December 2008 the rate of exchange was USD1.46 = £1.00 (31 December 2007: USD1.98 = £1.00). The average rate for the year ended 31 December 2008 was USD1.84 = £1.00 (year ended 31 December 2007: USD1.95 = £1.00). A 10% strengthening of the US dollar against the pound would have increased equity by £12.2 million at 31 December 2008 (31 December 2007: increase of £14.3 million) and decreased the loss from continuing operations for the year ended 31 December 2008 by £13.5 million (31 December 2007 (restated): would have decreased the loss by £13.2 million). This assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	2008 £'000	2007 £'000
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	2,826	(1,745)
	2,826	(1,745)
Variable rate instruments		
Financial assets	42,615	14,548
Financial liabilities	–	(41,952)
	42,615	(27,404)

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £238,000 (year ended 31 December 2007: increase of £132,000) and decreased the loss from continuing operations by £238,000 (year ended 31 December 2007 (restated): would have decreased the loss by £170,000).

Fair values

The carrying amounts of financial assets (excluding investments) and liabilities, shown in the balance sheet, approximate their fair values.

The fair values of financial liabilities are based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

24. Financial risk management (continued)

Market risk (continued)

Other market price risk

Equity price risk arises from equity securities held as part of the Group's portfolio of investments. The Group's investments comprise quoted investments (quoted on the main stock exchanges in London, 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 Group's management of risk in its investment portfolio focuses on diversification in terms of geography, sector, type and stage of investment.

If the investment valuation declined by 10% from the amount at the balance sheet date, with all other variables held constant, the loss for the year ended 31 December 2008 would have increased by £17.9 million (year ended 31 December 2007: the loss would have increased by £18.4 million). An increase in the valuation of investments by 10% at the balance sheet date would have an equal and opposite effect on the loss for the year.

Capital management

The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future growth of the business. The Board monitors the results of the Group and its financial position. This includes the issue of potentially dilutive financial instruments and whether or not to buy back the Company's shares.

No member of the Group is subject to externally imposed capital requirements.

25. Acquisitions of subsidiaries

The following acquisitions were made during the year ended 31 December 2008:

Citizen Limited

In September 2008 the above company underwent a capital reconstruction which took the Group's voting interest from less than 50% to 84% and the company has been included in the consolidated financial statements of the Group with effect from this restructuring.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts £'000
Property, plant and equipment	**186**
Intangible assets	**2,088**
Inventories	**29**
Operating and other receivables	**480**
Cash and cash equivalents	**(83)**
Loans and borrowings	**(4,050)**
Operating and other payables	**(1,805)**
Net identifiable assets and liabilities	**(3,155)**
Group share of net identifiable liabilities	**(3,155)**
Goodwill	**3,155**
Group equity carrying value on acquisition date	**-**

No adjustments were made to pre-acquisition carrying amounts.

Citizen (through its wholly owned subsidiary Vio Worldwide Limited) provides supply chain software solutions for the advertising, publishing and graphic arts industries. In the four months to 31 December 2008 the company contributed a loss of £679,000 to the consolidated results of the Group.

25. Acquisitions of subsidiaries (continued)

Kizoom Limited

In May 2008 Cityspace acquired 100% of the issued share capital of Kizoom Limited. The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amounts £'000
Property, plant and equipment	25
Operating and other receivables	635
Cash and cash equivalents	459
Operating and other payables	(313)
Net identifiable assets and liabilities	806
Goodwill on acquisition	1,165
Consideration paid	1,971

No adjustments were made to pre-acquisition carrying amounts.

The consideration was paid in cash on completion.

Kizoom provides solutions to deliver real-time transport information to the internet and mobile devices. In the eight months to 31 December 2008 the company contributed a loss of £261,117 to the consolidated results of the Group.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2008		2007	
	Group £'000	Company £'000	Group £'000	Company £'000
Less than one year	716	400	256	200
Between one and five years	1,160	1,000	1,217	700
More than five years	–	–	411	–
	1,876	1,400	1,884	900

27. Capital commitments

	2008 £'000	2007 £'000
Outstanding commitments to funds	71,104	62,460
	71,104	62,460

The outstanding commitments to funds comprise unpaid calls in respect of funds where a member of the Group is a limited partner.

28. Contingent liabilities

The Company has guaranteed the indebtedness of certain of the Group's investments; the amount outstanding under these arrangements at 31 December 2008 was £2.3 million.

29. Related party transactions

During the period 1 January 2007 to 30 April 2007 the Group was charged by London Merchant Securities plc for payroll, office and administration costs under the Transitional Services Agreement. The amounts paid were £790,000 for payroll costs and £223,000 for office and administration costs.

There were no such transactions during the year ended 31 December 2008 and no amounts payable or receivable at 31 December 2008 or 31 December 2007 under these arrangements.

29. Related party transactions (continued)

With effect from 1 May 2007 the Company entered into a lease agreement with Derwent London plc in respect of the premises comprising its head office and registered office. Under the terms of the lease the Company pays an annual rent of £400,000 to Derwent London plc plus certain service charges.

Under an arrangement with Derwent London plc the Company is entitled to charge that company £50,000 per annum as a recharge of office and related costs of Mr Robert Rayne. Mr Rayne is chairman of Derwent London plc. Amounts outstanding under this arrangement at 31 December 2008 were £14,000 (31 December 2007: £44,000).

With effect from 29 September 2007 the Company entered into a sub-lease agreement with Weatherford UK under which the latter is a sub-tenant of part of the Company's head office premises at an annual rental of £200,000 plus service charges. Mr Rayne and Dr Duroc-Danner are directors of Weatherford International, the ultimate parent undertaking of Weatherford UK. Amounts outstanding under these arrangements at 31 December 2008 were £12,000 (31 December 2007: £nil).

Compensation arrangements for key management are set out in the Remuneration report on page 31.

30. Subsequent events

There were no events subsequent to the balance sheet date that would materially affect the interpretation of these financial statements.

31. Subsidiaries

The subsidiaries comprising the Group's investment management business (as set out in Note 2) are as follows:

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

In addition to the above, the Group's carried interest arrangements (see Note 6) are operated through three limited partnerships (LMS Capital 2007 L.P., LMS Capital 2008 L.P. and LMS Capital 2009 L.P.) which are registered in Bermuda.

The following companies form part of the Group's investment activities but, by virtue of the size of the Group's shareholding or other control rights, fall within the definition of subsidiaries under IFRS. These portfolio subsidiaries are included within the consolidated financial information although they continue to be managed by the Group as investments held for capital appreciation.

Name	Country of incorporation	Holding %	Activity
Citizen Limited	England and Wales	84	Services to the advertising, publishing and graphic arts industries
Cityspace Limited	England and Wales	94	Intelligent transport information networks
CopperEye Limited	England and Wales	76	Specialised search solutions for business transaction data
Entuity Limited	England and Wales	68	Network management software
Offshore Tool and Energy Corporation	United States of America	100	Specialist engineering design and fabrication
Wesupply Limited	England and Wales	99	Supply chain management software

Risk factors

The Group has an ongoing process for identifying, evaluating and managing the risks which the business is exposed to and this is monitored by the Audit Committee at each meeting. The key risks, and how the Group mitigates their effects, are as follows:

Economic risk

The Group is subject to economic factors such as high inflation and high interest rates which may negatively impact corporate performance and growth rates. The investment portfolio may not achieve the Company's growth targets which may result in the Company's Net Asset Value declining. We manage this by monitoring the trading outlook and cash flows of our portfolio companies on an ongoing basis which allows us to act quickly should there be a need to do so.

Many of our investments produce little or no recurring income and the timing of realisations of unquoted investments cannot be ascertained with certainty. Accordingly, we rely on our budgeting and forecasting procedures to ensure that the cash requirements of the Group are met.

Due to the lack of liquidity in the capital markets, the Company may not be able to raise funds for its corporate purposes, including the funding of new or existing investments. The Company has sufficient funds to meet its expected cash obligations for the foreseeable future and the Company's existing working capital facility is undrawn. However, this facility is due to be renewed and we are in talks with a number of lenders to renew it on a reasonable cost basis. We can also raise funds from the sale of our quoted portfolio investments if required.

The Company is subject to the impact of changes in market prices for our quoted investments, movements in interest rates and exchange rates and prevailing market conditions to raise capital.

A significant proportion of our investment portfolio is denominated in a currency other than the pound, principally US dollars. Changes in the value of the US dollar affect the valuation of the Company's US investments, and therefore impact the valuation of the portfolio as a whole. It is the Board's current policy not to hedge the Company's underlying non-sterling investments. The Company regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return and monitors its overall exposure to foreign currencies at a portfolio level. Any realisations or distributions from US investments are retained in US dollars to be utilised for future investments.

The Group has made fund investments and by virtue of these investments may be obliged to make further capital contributions. Whilst the maximum amount of the future commitment is known, the timing of such capital calls cannot be predicted with certainty. As set out above we retain US dollars to meet these commitments.

Investment risk

The Group's investment risk arises as a result of its investment strategy, individual investment decisions and the performance of its investments, including the impact of their economic environments.

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

Before the Group makes a new investment, we undertake rigorous inquiries into the business concerned. We understand the company's business plan, evaluate information on its marketplace and competition, meet management, directors and existing shareholders and we commission reports from external experts as necessary.

Our investment management process requires regular monitoring of the performance and prospects of each investment. This typically includes board representation or equivalent at each company. The experience of the executive management team is a key factor in mitigating our risk of loss on individual investments. The progress of each investment is reported regularly to the Board of the Company.

There may not be a clear exit route for the Company from any individual investment which could result in negative liquidity and have a cash flow impact on the Company. If an investment is not performing well, and is absorbing too much management time, the Company will seek an exit from that investment. If necessary, the Company will seek a solvent closure of any companies where we consider this to be in the Company's best interest.

Operational risk

The ability to recruit, develop and retain capable people is of fundamental importance to the Group's strategy and the loss of key staff could adversely affect investment returns. The Group operates in a competitive industry and aims to remunerate staff in line with market practice.

Shareholder information

Registered office

Carlton House
33 Robert Adam Street
London W1U 3HR
Tel: +44 (0)20 7935 3555
Email: enquiries@lmscapital.com
Website: www.lmscapital.com

Company registered in England

Number 5746555

Company Secretary

Matthew Jones FCIS

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA
Tel: (UK) 0871 664 0300
(Outside UK) +44 (0)20 8639 3399
Email: ssd@capitaregistrars.com

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.

Share dealing service

A telephone dealing service has been arranged with Stocktrade, which provides a simple way of buying or selling LMS Capital plc ordinary shares. Full details can be obtained by telephoning 08456 010995, quoting the reference: 'Low Co 0236'. For further information, please visit: www.stocktrade.co.uk/LMS/

Company website

The Company's website provides further information on the Company's investments, its strategy and its share price, as well as an archive of all press releases, presentations and shareholder documents. You can sign up to be notified by email when press releases are announced. For further information, please visit www.lmscapital.com

Nominated adviser

J.P. Morgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Brokers

J.P. Morgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

The Royal Bank of Scotland plc
36 St. Andrew Square
Edinburgh EH2 2YB

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

Financial calendar

Annual General Meeting 19 May 2009

Interim results September 2009

Year-end December 2009

LMS
CAPITAL

Carlton House, 33 Robert Adam Street, London W1U 3HR
Telephone +44 (0)20 7935 3555 www.lmscapital.com