LMS Capital plc

Annual Report & Accounts 2011

LMS
CAPITAL

LMS Capital is an investment company focused on small to medium sized companies in its preferred sectors of consumer, energy and business services. Following a general meeting on 30 November 2011, the Company is undertaking a realisation strategy which aims to achieve a balance between an efficient return of cash to shareholders and optimising the value of the Company's investments.

Contents

Highlights

Financial

- Net Asset Value per share was 90p (31 December 2010: 90p).
- The investment portfolio showed a net gain of £8.7 million (2010: £23.9 million) including realised gains of £6.4 million (2010: realised loss of £1.0 million).
- The consolidated loss for the year (including portfolio subsidiaries) from continuing operations was £1.0 million (2010: profit of £25.1 million).
- Proceeds of realisations in the year were £62.7 million (2010: £24.3 million) including sales of quoted securities of £31.6 million (2010: £6.2 million), proceeds from the secondary sales of funds of £14.6 million (2010: £nil) and distributions from funds of £11.7 million (2010: £13.7 million).
- Outstanding commitments to funds were £18.9 million at the end of the year, down from £40.7 million at the end of 2010.
- At 31 December 2011 the investment management business had net cash of £30.6 million (31 December 2010: net debt of £5.0 million).

Operational

Change in strategy:

- On 30 November 2011 shareholders approved proposals to modify the Company's objectives and its investment policy to conduct an orderly realisation of the assets of the Company.
- The orderly wind-down will be effected in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments.
- Based on their realisation plan the Directors aim to make an initial return of cash to shareholders by the end of 2012, with a further distribution by the end of 2013.

Chairman's statement

We believe that the investment portfolio has the potential to release significant cash to shareholders in the medium term

2011 was a year of strategic change for the Company. On 30 November 2011 shareholders voted in favour of the asset realisation strategy recommended to them by the Board. The change of strategy was intended to provide liquidity for shareholders and achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. More information on the implementation of this revised strategy is set out in the Operating Review.

Your Board has made significant progress in establishing a plan to implement this change in strategy and the Directors are satisfied that the Company's plans for the orderly wind-down of the business will achieve a successful outcome for shareholders.

Results

Net Asset Value per share at the end of 2011 was 90p, unchanged from the previous year. Improved performance by many of our unquoted investments led to increased valuations, but the share price of our principal quoted investment, Weatherford International, declined by 36% over the year.

The return on the investment portfolio for the year was a net gain of £8.7 million (2010: £23.9 million). Included in this is a realised net gain for the year of £6.4 million (2010: realised net loss of £1.0 million) which arises principally from gains on sales of certain of our quoted holdings.

The investment portfolio at 31 December 2011 was valued at £218.5 million (31 December 2010: £253.1 million), a reduction of £34.6 million or 14% as proceeds from realisations during the year have not been reinvested. Net cash at 31 December 2011 was £30.6 million (31 December 2010: net debt of £5.0 million).

The Group as a whole (including consolidation of the portfolio subsidiaries) showed a consolidated loss for the year from continuing operations of £1.0 million (2010: profit of £25.1 million).

The Board is not recommending payment of a dividend for the year ended 31 December 2011 (2010: £nil).

Board and management

As a consequence of the change in strategy, Glenn Payne resigned from the Board on 9 December 2011 and left at the end of December. Nick Friedlos took the role of General Manager from 9 December 2011 and was appointed to the Board on 9 February 2012 as Executive Director with responsibility for overseeing the orderly realisation of the assets of the Company.

On 4 January 2012 Neil Lerner and Martin Knight were appointed as independent Non-Executive Directors; on the same date John Barnsley and David Verey resigned from the Board, Robert Rayne stepped down as Chairman but remains on the Board and I was appointed Chairman. These changes completed the reconstitution of the Board agreed at the time of the general meeting. I look forward to working with the re-shaped Board to implement the change in strategy approved by shareholders.

The change in strategy has placed special demands on all our people. Your Board would like to extend its appreciation to all the Company's employees for their contribution in 2011.

Outlook

Your Board and management commenced the implementation of the Company's new strategy following the general meeting last November and believe that the investment portfolio has the potential to release significant cash to shareholders in the medium term. The economic background remains very difficult, particularly for small private companies of the type which makes up much of the portfolio, but on the basis that there is no significant worsening of the business environments in the UK and the US your Board expects to progress the orderly wind-down of the business in the coming year and will focus on optimising value and cash flow for the benefit of shareholders.

Richard Christou
Chairman

15 March 2012

Operating review

Operating review

This review includes an update on developments following the change in the Company's strategy approved by shareholders in the latter part of the year and an outline of the Board's approach to the way forward, as well as a report on the Company's investment activities in 2011.

Corporate strategy and investment policy

At the general meeting on 30 November 2011 shareholders approved proposals to modify the Company's objectives and its investment policy. The revised investment policy is to conduct an orderly realisation of the assets of the Company, to be effected in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments.

Accordingly, no investments will be made in new opportunities. Follow-on investments will be made in existing assets to honour commitments made at the time of the initial investment and/or to which the Company is legally obligated, or where the investment is made to protect or enhance the value of an existing asset or to facilitate its orderly realisation. The portfolio as a whole will be managed with a view to progressively returning funds to shareholders over a period of time.

In the period since the general meeting to the date of this report the Directors have:

- reviewed the realisation prospects for each portfolio holding in the context of seeking to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments;
- established a plan to focus on the realisation of certain key investments over the next one to three years;
- taken action to reduce the cost structure of the Company to a level considered more appropriate to the asset realisation strategy – this has principally taken the form of headcount reductions.

Initial conclusions from the results of this work are:

- given the maturity of many of the investments within the Company's portfolio, the Directors will continue to monitor opportunities within the secondary market (in particular for its fund interests) but do not currently believe that accepting discounted values for investments to achieve earlier cash proceeds is in the best interests of shareholders within the overall objectives of the realisation strategy;
- target prices at which to sell quoted investments will be set based on publicly available research data as well as the Company's internal analysis;
- the Company's investment team will focus on selected direct investments to prepare them for sale within the next one to three years.

Based on this initial plan the Directors aim to make an initial return of cash to shareholders by the end of 2012 with a further distribution by the end of 2013. The Directors currently expect that the full realisation of the portfolio will be completed in approximately three to five years.

Shareholders should note that whilst these are the best estimates of the Board as at the date of this report, they are subject to a number of uncertainties including general market conditions, the future performance of investee companies, the behaviour of other shareholders in investee companies (where the Company is a minority investor) and the level of activity in the mergers and acquisitions market.

The Board will keep shareholders informed on progress through the Company's half-yearly and annual reports; significant individual realisations will be announced as appropriate.

Results and review of portfolio

Our key reportable metrics are:

	2011	2010	2009
Net (loss)/profit (£m)[1]	(0.4)	17.6	(12.7)
Owned EBITDA (£m)[2]	8.9	7.5	(3.0)
NAV per share (pence)	90	90	84

Notes:

1 This is the result of our investment management business as defined in Note 2 to our financial statements.

2 This is our share of the EBITDA of each of the investments in our portfolio, including investments by San Francisco Equity Partners, based on our percentage stake. It is not derived from the consolidated financial information.

Owned EBITDA increased as a result of continued focus on profitability at each company. In aggregate the owned EBITDA of £8.9 million is an improvement of 19% on 2010.

Quoted investments

In 2011 we realised £31.6 million from our quoted portfolio, comprising:

- £22.9 million from the sale of our interest in ProStrakan Group plc following that company's acquisition by KHK in April. This resulted in a gain of £4.7 million over our 31 December 2010 carrying value;
- £6.4 million from the sale of our shares in Gulfmark Offshore, realising a gain of £1.5 million;
- £2.3 million from the sale of other smaller holdings, realising a loss of £0.5 million.

At the end of December our remaining quoted holdings were valued at £24.2 million (31 December 2010: £63.2 million), of which our interest in Weatherford International at £19.4 million is the principal element. The Weatherford share price performed poorly in 2011 – the price at the end of December 2011 was significantly lower than at December 2010 and this reduced our NAV per share year on year by 4p.

Fund interests

We sold seven of our stakes in private equity funds located in the UK, US and Europe for aggregate gross consideration of £14.6 million which represented 97% of book value at 31 December 2010. Exiting these funds reduced our outstanding capital commitments by £6.8 million. Other distributions from funds were £11.7 million for the year.

Our uncalled fund commitments continue to decrease and at 31 December 2011 stood at a maximum of £18.9 million (down from £40.7 million at the end of 2010).

Our fund holdings at the end of 2011 had a book value of £63.5 million (excluding San Francisco Equity Partners) – the principal interests were:

	31 December 2011		
General partner	Book value £ million	IRR for the year	
Brockton Capital	15.8	15%	UK property
BV investments	10.9	15%	US buyouts
Voreda Capital	5.3	0%	UK property
Primus Capital	4.7	32%	US buyouts
Amadeus Capital Partners	3.8	22%	UK venture capital
Brynwood Capital Partners	3.2	15%	US consumer
Opus Capital Venture Partners	3.2	4%	US venture capital

The above holdings represent 73% of the funds portfolio (excluding San Francisco Equity Partners).

Operating review continued

Direct investments
The performance of our direct investments contributed an increase of £13.1 million to our Net Asset Value being a 17% increase over their valuation at 31 December 2010. Key contributors were:

- HealthTech Holdings – accounted for £11.2 million of this increase. The business has continued to perform strongly with revenues and profits significantly ahead of the prior year.
- Apogee – £2.7 million increase – has also generated revenues and profits significantly ahead of last year. This improvement combines organic growth and the benefit of small, internally funded bolt-on acquisitions.
- Updata – £1.7 million increase – continued to perform strongly as well as completing a refinancing which enabled it to repay shareholder loans of £2.9 million and accrued interest of £1.4 million.
- Entuity and Elateral – both experienced mixed trading conditions and we have reduced our carrying values for these two investments by a total of £2.3 million.

We completed the exits of the underperforming investments Kizoom and Coppereye, and ITS sold its trading operations – all with no significant impact on our Net Asset Value.

We made only one new investment during 2011 – in September we backed the buyout of the IT solutions business by its management from 365iT plc, a business in which LMS Capital already has a small interest. We acquired a stake of 84% in the business at a cost of £2.6 million. Since renamed 365iTMS, the business is a UK IT services provider covering design, deployment and support of IT systems.

The principal holdings are:

	31 December 2011		
	Book value £ million	IRR for the year	
HealthTech Holdings	23.9	89%	US technology
Method Products*	18.9	7%	US consumer
Updata Infrastructure	12.7	22%	UK technology
Apogee Corporation	11.5	33%	UK technology
Nationwide Energy Partners	10.5	9%	US energy
Yes To, Inc*	8.3	72%	US consumer
Rave Reviews	7.4	0%	US consumer
Penguin Computing*	5.5	(23)%	US technology
Luxury Link*	5.1	0%	US consumer
Entuity	4.0	(18)%	UK technology

The above holdings represent 82% of the direct portfolio (including San Francisco Equity Partners). Items marked * are held by San Francisco Equity Partners.

Financial review

Basis of preparation of financial information
The financial statements have not been prepared on a going concern basis as the Company is seeking to realise the investment portfolio, return the capital to shareholders and then liquidate the Company, as outlined in the strategy approved by shareholders on 30 November 2011 – see note 1 to the consolidated financial information. No adjustments were necessary to the investment valuations included in these consolidated financial statements as a consequence of the change in the basis of preparation.

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 consolidated 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.

Investment management
Net Asset Value at 31 December 2011 was £245.0 million, unchanged from a year ago (31 December 2010: £245.0 million). The Net Asset Value per share was 90 pence (31 December 2010: 90 pence).

The Group's return on its investment portfolio for the year ended 31 December 2011 was a gain of £8.7 million (2010: £23.9 million) as follows:

	Year ended 31 December	
	2011 £'000	2010 £'000
Realised gains/(losses)		
Quoted securities	5,758	1,128
Unquoted securities	(119)	(3,154)
Funds	719	1,037
	6,358	(989)
Unrealised gains/(losses)		
Quoted securities	(13,486)	14,100
Unquoted securities	13,114	1,293
Funds	2,748	9,510
	2,376	24,903
Total	8,734	23,914

Approximately 65% of the portfolio at 31 December 2011 is denominated in US dollars (31 December 2010: 61%) and the above table includes the impact of currency movements. In the year ended 31 December 2011 the slight strengthening of the US dollar against pound sterling (year on year) resulted in an unrealised foreign currency gain of £0.3 million (2010: £5.6 million). It is the Board's current policy not to hedge the Company's underlying non-sterling investments. Realised gains on quoted securities include £4.7 million in connection with the sale of our shares in ProStrakan Group and £1.5 million on the sale of our Gulfmark Offshore holding.

The unrealised loss on our quoted portfolio reflects the net impact of the changes in the capital markets during the year. Of the total of £13.5 million, £10.7 million is attributable to our holding in Weatherford International and £1.4 million to Chyron Corporation.

Financial review continued

The principal constituents of the net unrealised gain on our unquoted securities are as follows:

	Unrealised gain/(loss) £'000
HealthTech Holdings	11,243
Apogee Corporation	2,750
Updata	1,741
Nationwide Energy Partners	855
Elateral	(1,350)
Entuity	(928)
Other unquoted, net	(1,197)
Total unrealised gain, net	13,114

The unrealised gains/losses above reflect the impact on our valuations of changes in the revenue and profitability multiples of comparable businesses, which are used in the underlying calculations, combined with the operating performance of the individual businesses within the portfolio.

In most cases the multiples used are similar to those prevailing at the end of 2010. The unrealised gains or losses set out above for 2011 arise principally as a result of the companies' performance. The results of HealthTech, Apogee and Updata in 2011 have resulted in valuation improvements for those businesses. Lower than planned results from Elateral and Entuity have resulted in write-downs of our carrying values for those investments.

For the valuation of our fund interests we utilise reports from the general partners of our funds 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. We also carry out our own review of individual funds and their portfolios to satisfy ourselves that the underlying valuation bases are consistent with our knowledge of the investments and the sectors in which they operate.

Income from investments in the year was £3.7 million (2010: £0.9 million) and comprises interest and dividends from portfolio companies, dividends on quoted securities and management charges made to portfolio companies.

Administration expenses for the year were £12.9 million (2010: £6.9 million). The figure for 2011 includes one-off costs of £5.0 million comprising £1.6 million of one-off charges for professional fees incurred in relation to the change in investment policy of the Company, £0.9 million compensation payments to staff members who left before the end of the year and £2.5 million to provide for the costs of a management fee commitment regarded as onerous following the change in strategy.

Interest expense for the year was £0.2 million (2010: £0.3 million) reflecting the fact that the Company repaid its loan facility in May. There was a tax credit for the year of £0.2 million (2010: charge of £0.4 million).

Investments

The Group's investments are carried at fair values determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Additions to the investment portfolio during the year were £19.3 million (2010: £38.9 million) of which £2.6 million (2010: £17.6 million) was for a new investment, £13.1 million (2010: £17.1 million) to meet capital calls from funds and £3.6 million (2010: £4.2 million) for follow-on investments. There were no purchases of quoted securities during the year (2010: £nil); the new investment in 2011 was 365iTMS.

Proceeds of realisations were £62.7 million (2010: £24.3 million) including sales of quoted securities of £31.6 million (2010: £6.2 million), proceeds from the secondary sales of funds of £14.6 million (2010: £nil) and distributions from funds of £11.7 million (2010: £13.7 million).

At 31 December 2011 the Group had commitments of £18.9 million (31 December 2010: £40.7 million) to meet capital calls from its fund interests. Cash in the investment management business was £30.6 million (31 December 2010: £9.3 million) with no debt (31 December 2010: borrowings of £14.3 million).

Consolidated results
Consolidated revenues for the year from continuing operations were £47.3 million (2010: £38.1 million), all in the portfolio subsidiaries. The increase over the previous year reflects the inclusion of Nationwide Energy Partners for a full year (acquired in May 2010) and the acquisition of 365iTMS at the end of September, as well as increased revenues at Entuity and Wesupply of 9% and 15% respectively.

Consolidated operating expenses of continuing operations were £55.9 million (2010: £40.6 million). The increase in operating expenses reflects principally the inclusion of Nationwide Energy Partners (for a full year) and the acquisition of 365iTMS as set out above, as well as the higher costs incurred in the investment management business.

The portfolio subsidiaries continued to make good progress during 2011:

- Updata's revenues in 2011 were flat compared to last year but this masks a significant change in the mix of the business with a greater contribution from rental (contractual) revenues as installation revenues and margins have declined. Since our investment in 2009, the revenue stream from rental contracts has grown approximately four fold.
- Nationwide Energy Partners grew revenues by 15% in 2011 and EBITDA by 9%. The company also invested in its business development function such that at the end of 2011 a large proportion of new units budgeted for 2012 are either contracted or close to signing.
- Wesupply grew revenues by 15% but its order intake (bookings) increased by 50% over 2010, much of which is future contracted revenues. It posted a full year operating profit for the first time and has continued this momentum into 2012.
- Entuity grew revenues by 7% year on year but experienced difficult market conditions in the second half. Further progress is expected in 2012.
- 365iTMS was acquired at the end of September and in its first few months of our ownership has performed in line with our expectations.

The consolidated loss from continuing operations was £1.0 million (2010: profit of £25.1 million), the downturn compared to last year being in the investment management business. Discontinued operations (being the impact of the sales of Kizoom Limited and Coppereye Limited in April and the sale by ITS Holdings, Inc of its trading subsidiaries in October) contributed a net gain of £2.2 million (2010: net loss of £12.6 million).

Financial position
The consolidated statement of financial position at 31 December 2011 includes cash and cash equivalents of £34.9 million (31 December 2010: £13.2 million) and borrowings of £11.8 million (31 December 2010: £23.4 million). Cash in the investment management business was £30.6 million (31 December 2010: £9.3 million) and borrowings were £nil (31 December 2010: £14.3 million).

Nick Friedlos
Director

Antony Sweet
Chief Financial Officer

15 March 2012

Board of Directors

Richard Christou
Non-Executive Chairman
Age: 67

Directorships:
Fujitsu EMEA plc

Experience:
Richard is currently an adviser to Fujitsu Limited and Chairman of Fujitsu EMEA plc. He was previously president of the global business group at Fujitsu where he had responsibility for all of the overseas regions including EMEA, the Americas, APAC and China. At Fujitsu he was instrumental in setting many of its global strategies, including its current brand strategy. He will retire from full-time employment with Fujitsu in April 2012. He is a solicitor and holds a law degree from Trinity College Cambridge.

Nicholas Friedlos
Director
Age: 54

Directorships:
None

Experience:
Nick has held financial and operational leadership positions in financial services businesses holding real estate and other assets in both the public markets and in private equity. He was Chief Financial Officer of London Merchant Securities, the real estate and investment business out of which LMS Capital was created. Nick has managed change in the businesses he has been involved with including mergers, reconstructions and portfolio disposals. Most recently he was Chief Executive Officer of Mapeley and was previously a partner at PricewaterhouseCoopers.

Antony Sweet
Chief Financial Officer
Age: 57

Directorships:
Wesupply Ltd (Non-Executive), and a number of Group companies.

Experience:
In addition to his finance responsibilities Tony oversees the Company's HR requirements and also participates as a member of the operations committee. 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.

Bernard Duroc-Danner
Non-Executive Director
Age: 58

Directorships:
Chairman, President and Chief Executive Officer of Weatherford International Ltd and director of a number of oilfield service sector companies.

Experience:
Previously, Bernard was a Non-Executive Director of London Merchant Securities and President and Chief Executive Officer of EVI, Inc. (now Weatherford International Ltd). Prior to this, he held positions at Arthur D. Little and Mobil Oil Inc.

Martin Knight
Non-Executive Director
Age: 62

Directorships:
Chairman of Imperial Innovations Group plc, Non-Executive director of Chrysalis VCT plc and Toumaz Holdings Limited.

Experience:
Martin was previously a director of Morgan Grenfell & Co Limited and subsequently became the principal adviser to South Audley Street Investments. He was a governor and council member of Imperial College from 1992 to 2010.

Neil Lerner
Non-Executive Director
Age: 64

Directorships:
Non-Executive director at the Royal Brompton & Harefield NHS Foundation Trust and council member of the RNLI and SOAS.

Experience:
Neil retired in September 2006 as Risk Management partner for KPMG where he had responsibilities for managing all aspects of professional risk and reputation. Until September 2009 he was Special Advisor to KPMG International's captive insurer.

Robert Rayne
Non-Executive Director
Age: 63

Directorships:
Non-Executive chairman of Derwent London plc and a Non-Executive Director of Weatherford International Ltd and Chyron Corporation, as well as a number of charitable trusts and foundations.

Experience:
Robbie has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. He established the Company's investment activities in the early 1980s as investment director and later managing director and chief executive of London Merchant Securities plc.

Mark Sebba
Non-Executive Director
Age: 63

Directorships:
The Net-a-Porter Group Limited.

Experience:
Mark has been the Chief Executive Officer of The Net-a-Porter Group since 2003. Previously he was Finance Director at Video Networks Limited and Golden Rose Communications Plc. He has also worked in investment banking and is a qualified chartered accountant.

Corporate governance report

The Board of LMS Capital plc is committed to maintaining high standards of corporate governance and business ethics. This report is made under the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 ('the Code'). Copies of the Code are available from the Financial Reporting Council's website at www.frc.org.uk.

This report explains how the Company has applied the main principles set out in the Code and the extent to which it has complied with the detailed provisions of the Code. The Board considers that the Company has complied with all of the provisions of the Code throughout the year ended 31 December 2011, except as follows:

- Robert Rayne served as Chairman of the Company throughout 2011, having previously been Chief Executive Officer. On 4 January 2012, Mr Rayne stood down as Chairman, remaining on the board as a Non-Executive Director.
- No formal evaluation of the Board, its committees or individual directors was carried out during 2011. In the second half of the year, the Board conducted a strategic review which culminated in a change of strategy and changes in the composition of the Board. Against this background, the Board is of the opinion that it was not appropriate that a board evaluation be conducted in 2011. An evaluation will be carried out in 2012.
- Shares were awarded to Robert Rayne, a Non-Executive director, during 2011 under the Company's Performance Share Plan in recognition of his executive service in 2010. Details of the award are set out in the Remuneration Report on pages 20 to 27. He also participated in the Company's carried interest plan. The Board believes that this was appropriate in order to recognise Mr Rayne's contribution to the management of the investment portfolio.

Board of Directors

How the Board Operates

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

Composition

The Board currently comprises eight directors, including the Non-Executive Chairman and five other Non-Executive directors and two Executive directors. Throughout 2011, John Barnsley and David Verey served as Non-Executive directors; both resigned on 4 January 2012. Glenn Payne served as Chief Executive Officer during the year until his resignation on 9 December 2011. Martin Knight and Neil Lerner were appointed as Non-Executive directors on 4 January 2012 and Nick Friedlos was appointed as an Executive director on 9 February 2012. Brief biographies of all the directors appear on pages 10 to 11. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

The Chairman's and the Chief Executive Officer's Roles

During 2011 there was a clear separation of the roles of the Chairman and the Chief Executive Officer, with the Chairman responsible for the effective running of the Board and the Chief Executive Officer responsible for the executive management and performance of the Company's operations.

Executive Directors

During the year under review, the Chief Executive Officer was Glenn Payne until his resignation on 9 December 2011. Since that date, no Chief Executive Officer has been appointed. Following the strategic changes agreed by shareholders on 30 November 2011, the Board no longer considers it necessary to appoint a Chief Executive Officer, in particular because the Board wishes to participate extensively in the realisation of the assets of the Company. To this end, the Board appointed Nick Friedlos as Executive director with responsibility for overseeing the orderly realisation of the assets of the Company.

Non-Executive Directors

From time to time during the year the Chairman holds meetings with the Non-Executive directors without the executive directors being present. In addition, the Non-Executives meet without the Chairman being present to appraise the Chairman's performance.

Each Non-Executive director is appointed for a term of three years. Subject to agreement, satisfactory performance and re-election by shareholders, their directorships may be renewed for further terms. During the year under review, no new directors were appointed to the Board. However, following the year end, Martin Knight and Neil Lerner were appointed as Non-Executive directors on 4 January 2012. Subject to re-election by shareholders at the forthcoming Annual General Meeting to be held on 17 May 2012, these directors will serve an initial term of three years and the Board will then decide whether to extend their terms of office.

Director Independence and Commitment
In the opinion of the Board, the following Non-Executive directors 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: Richard Christou (who was independent upon his appointment as Chairman on 4 January 2012), Martin Knight, Neil Lerner and Mark Sebba. In addition, John Barnsley and David Verey, who are no longer directors, were also considered to be independent during the year under review. Bernard Duroc-Danner is a director and shareholder of Weatherford International Ltd and does not participate in board decisions concerning the Company's investment in Weatherford International Ltd. Notwithstanding this interest, the Board considers him to be independent in character and judgment. Given his extensive business and energy sector experience, he provides a valuable contribution to board discussions. Robert Rayne is not considered to be independent.

The Board is of the view that the Chairman and each of the Non-Executive directors who held office during 2011 committed sufficient time to fulfilling their duties as members of the Board.

Senior Independent Director
Throughout 2011, John Barnsley acted as the Company's senior independent Non-Executive director. In this role he was available to shareholders if they had concerns which could not be resolved by discussions with the Chairman, the Chief Executive Officer or the Chief Financial Officer or where such contact was inappropriate. In addition, the Senior Independent Director was available to attend meetings with major shareholders in order to develop an understanding of their issues and concerns.

Following John Barnsley's resignation on 4 January 2012, no senior independent Non-Executive director has been appointed. The directors consider that the revised composition of the Board provides sufficient channels of communication between the Board and shareholders. In particular, the recently appointed Non-Executive directors, each of whom has been appointed as a chairman of a board committee, are both independent and are able to fill this role.

Director Re-elections
In accordance with the Code and the Company's Articles of Association, all directors are subject to election by shareholders at the first Annual General Meeting following their appointment. Thereafter at least a third of the directors on the Board must retire and offer themselves for re-election. Martin Knight and Neil Lerner (who were appointed to the Board on 4 January 2012) and Nick Friedlos (who was appointed as Executive director on 9 February 2012) will retire at the forthcoming Annual General Meeting and, being eligible, each will offer himself for re-election at the meeting. A brief biography for each of these directors can be found on pages 10 to 11.

External Non-Executive Directorships
With the Board's prior agreement, Executive directors are permitted to accept one external Non-Executive directorship in other companies and may retain any fees received in that role.

Directors' Conflicts of Interests
The Company's Articles of Association allow the directors to authorise conflicts of interest and a register has been set up to record all conflict situations declared. A register of these interests is maintained and updated by the Company Secretary and the Board reviews it at each Board meeting. All declared conflicts have been approved by the Board.

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.

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. The Board delegates specific responsibilities to the Audit, Nomination and Remuneration Committees, which operate within written terms of reference approved by the Board. These committees report regularly to the Board.

Corporate governance report continued

Board Meetings
Five scheduled board meetings were held in 2011. At each scheduled meeting, the Board considers a report on current operations and significant business issues, such as major 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 during the week before the meeting.

Attendance at Board Meetings
The following were directors of the Company during 2011. They attended the following number of scheduled meetings of the Board and (where they were members) its committees during the year:

	Board	Audit	Remuneration
Meetings held	5	2	5
Richard Christou	4	–	4
John Barnsley	5	2	5
Bernard Duroc-Danner	5	–	–
Glenn Payne	5	–	–
Robert Rayne	5	–	–
Mark Sebba	5	2	5
Antony Sweet	5	–	–
David Verey	5	2	4

Attendances set out above include attendance in person or by telephone or video link. In addition to the scheduled Board meetings specified above, the Board held fourteen ad-hoc meetings during 2011. During 2011, no meetings of the Nomination Committee took place, but the Committee's responsibilities were carried out by the Special Committee. Four meetings of the Special Committee (described below) took place in December 2011 and January 2012 and these were attended by all members of the committee.

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

Audit Committee
The Audit Committee currently comprises Neil Lerner (Committee Chairman), Martin Knight and Mark Sebba. Messrs Knight and Lerner joined the Committee on 4 January 2012. During 2011 John Barnsley chaired this committee and was considered by the Board to have recent and relevant financial experience for the purpose of the Code. Of the present committee members, Neil Lerner is considered by the Board to have recent and relevant financial experience. The Chairman of the Committee may invite non-members to attend committee meetings and these typically include: a representative of the Company's external auditor, the Chief Financial Officer and other directors.

The Audit Committee met twice during 2011. Its role is to assist the Board with the discharge of its responsibilities in relation to the Company and Group financial statements including internal controls and external audits.

Additionally, the Audit Committee keeps under review the conduct of the external audit and its effectiveness. The Committee makes recommendations to the Board regarding the re-appointment or removal of the external auditor, their terms of engagement and the level of their remuneration. The Committee also reviews the process which is in place to ensure the independence and objectivity of the external auditors.

A policy regarding the engagement of the external auditors to supply non-audit services is in place. 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. During 2011, KPMG provided non-audit services, principally corporate tax advice. The fees paid to them for this work were £27,000.

The Audit Committee also monitors the Company's whistleblowing policy. Throughout 2011 John Barnsley, as the Company's senior independent Non-Executive director, acted as the contact for staff who may have a concern that they cannot raise under their normal chain of management. Neil Lerner now fulfils that role.

Nomination Committee

The Nomination Committee currently comprises Richard Christou, who chairs the Committee, Bernard Duroc-Danner, Martin Knight, Neil Lerner, Robert Rayne and Mark Sebba. Martin Knight and Neil Lerner joined the Committee on 4 January 2012. Throughout 2011 John Barnsley and David Verey served as members of this Committee. The Committee is responsible for assisting the Board in determining the composition and make-up of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as directors, as the need arises. The selection process is, in the Board's view, both rigorous and transparent in order to ensure that appointments are made on merit and against objective criteria set by the Committee. In the process by which Martin Knight and Neil Lerner were appointed, an external executive search consultant was engaged and, prior to the decision being taken, there was an opportunity for other directors to meet the proposed candidates. These appointments were handled by the Special Committee appointed on 24 November 2011, rather than by the Nomination Committee, in line with the delegation to that committee of certain specific duties by the Board following the change in strategic direction approved by shareholders on 30 November 2011. In reviewing potential candidates, directors took into account the need to consider the benefits of diversity on the Board.

When considering succession planning, the Committee looks at the balance, structure and composition of the Board and takes into account the future challenges and opportunities facing the Company.

The Nomination Committee normally meets as required, but at least once each year. During 2011, no meetings of this Committee took place, but the Committee's responsibilities were carried out in December 2011 by the Special Committee which met three times that month. Following the year end, the Special Committee and the Nomination Committee each met once, dealing with the appointment of new directors and officers, and the composition of committees.

Remuneration Committee

The Remuneration Committee currently comprises Martin Knight, who chairs the Committee, Richard Christou and Mark Sebba. Martin Knight joined the Committee on 4 January 2012 and was appointed Committee Chairman in place of Richard Christou with effect from 10 February 2012. Throughout 2011 John Barnsley and David Verey served as members of this Committee. Further information about the Remuneration Committee is set out in the Remuneration Report on pages 20 to 27.

Corporate governance report continued

Other Committees
In addition to the principal Board committees described above, the Special Committee was established as a formal committee of the Board on 24 November 2011. Its members were: Mark Sebba, who chaired the Committee, Richard Christou and Robert Rayne. Its remit included conducting the search for and appointing two new Non-Executive directors, and reviewing the executive management team in the context of the revised investment strategy. These duties having been completed, the Committee was dissolved on 4 January 2012.

There is also an Operations Committee (previously known as the Investment Committee) which is not a formal committee of the Board. This currently comprises Robert Rayne, who chairs the Committee, Nick Friedlos and Antony Sweet, and Pieter Hooft and Jamie Szpiro from the investment team. The Committee meets regularly and is responsible for implementing investment and divestment decisions. It also makes proposals relating to the Company's investment and divestment policy for the Board to consider and for regularly reporting to the Board on the performance and management of the Company's investments.

Internal Control

Process
The Audit Committee, on behalf of the Board, has overall responsibility for the Company's system of internal and financial controls 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 Audit Committee reviews the effectiveness of the Company's internal controls at least once a year and will take any necessary actions should any significant failings or weaknesses be identified. Internal controls, included within risk management, are a standing agenda item for each Audit Committee meeting.

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

Financial matters and the responsibility for the day-to-day financial aspects of the business are delegated to the Chief Financial Officer and through him, as appropriate, to members of his financial team acting within delegated authority limits and in accordance with clearly defined systems of control. The Chief Financial Officer reports to the Board on financial matters at each board meeting.

Policies and procedures, which are subject to ongoing review and updated as required, are communicated across the Company and designed to ensure that 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 to gain comfort on internal controls. In the Audit Committee's view, the information it has is sufficient to enable it to review the effectiveness of the Company's system of internal controls.

Risk Review
The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place during 2011 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 Group can be found on pages 18 to 19.

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 Annual General Meeting as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the directors. At the Annual General Meeting 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, Nomination and Remuneration Committees are available to answer questions from shareholders.

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

Financial Reporting
The directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 31, their responsibility for preparing the financial statements of the Company and the Group. The external auditor has included, in the independent auditor's report set out on pages 32 to 33, a statement about their reporting responsibilities.

The directors are also responsible for the publication of an unaudited half-year management statement for the Company, which provides a balanced and fair assessment of the Company and Group financial position for the first six months of each accounting period. In addition, the Company produces two interim management statements, usually in May and November, which provide an unaudited quarterly review of the Company's financial position.

Going Concern
The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Operating Review on pages 4 to 6. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 7 to 9.

In previous years, the consolidated financial statements have been prepared on a going concern basis. However, on 30 November 2011 the shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, these consolidated financial statements have not been prepared on a going concern basis. No adjustments were necessary to the investment valuations included in these consolidated financial statements as a consequence of this change in basis of preparation. 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 for the foreseeable future.

Richard Christou
Chairman

15 March 2012

Principal risks and uncertainties

This section provides a summary of the principal risks and uncertainties that could have a material adverse effect on the Group's strategy, performance and financial condition. The Group has an ongoing process for identifying, evaluating and managing risk with the aim of mitigating the impact of the risks and uncertainties to which the business is exposed. This process provides reasonable, rather than absolute, assurance in managing risk and cannot eliminate it.

The Group's risk profile derives from a combination of two elements – the Group's own strategy, including the actions taken within that strategic framework, and the effects of changes in the external economic environment in which it operates, including the impact on the companies in its investment portfolio. The Board has taken into account the impact of the change in strategy agreed at the general meeting on 30 November 2011 in assessing the risks which could have a material effect on the achievement of the Group's revised objectives. This change has principally impacted communication with stakeholders and counterparties and staff retention and incentivisaton (see further details below). The Board is satisfied that the Group's risk management process is appropriate in the context of the revised strategy.

The Audit Committee oversees the Group's risk management process and is provided with a report on risk management at each of its meetings. The management of specific risks is the responsibility of the executive directors and members of the Group's senior management team.

The principal risks and uncertainties summarised below are not set out in order of probability of occurrence or materiality; the Group may also be adversely affected by other risks and uncertainties besides those described here.

Economic and financial risk

The Group is subject to economic factors (such as the market demands of the sectors in which its investments operate) which may negatively impact the performance and growth rates of the Company's investments, which may result in the Company's Net Asset Value and net income declining. We seek to mitigate the potential impact of this by monitoring the trading performance and cash flows of our portfolio companies on a regular basis which allows us to act quickly should there be a need to do so.

A lack of liquidity in the capital markets could mean that the Company may not be able to realise its investments in line with planned timings and values. This could impact the timing and amount of capital returned to shareholders under the Company's asset realisation strategy. Difficulties could arise in agreeing the Company's plans to realise investments with investee companies' management and investing partners leading to realisations being lower and/or later than planned.

Many of our investments produce little or no recurring income and the timing of realisations of unquoted investments (which itself may be a function of underlying economic conditions) cannot be ascertained with certainty. We rely on our detailed budgeting and forecasting procedures to ensure that the cash requirements of the Group are met. The Board regularly reviews the Company's working capital requirements and believes it has sufficient liquid resources to meet its expected cash obligations for the foreseeable future.

The Group is subject to the impact of changes in market prices for its quoted investments, as well as to movements in interest rates and exchange rates. A significant proportion of our investment portfolio is denominated in a currency other than pounds sterling, 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. The Group 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. It is the Board's current policy not to hedge the Company's underlying non-sterling investments.

The Group has made 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. The monitoring of this exposure is included in the Group's budgeting and forecasting procedures referred to above.

Investment risk

The Group's investment risk arises as a result of individual investment decisions and the performance of its investments. Our investment management process requires regular monitoring of the performance and prospects of each investment; this is usually achieved by board representation or equivalent at each investment. 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 including an update on expected realisation timing and value.

Operational risk

The Group has a number of internal processes and systems to ensure that it complies with all legal and regulatory obligations, as well as internal controls designed to ensure the integrity of its financial information and reporting. The Audit Committee, on behalf of the Board, regularly reviews these systems, which include reports on the Company's risk management procedures.

The ability to 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. The asset realisation strategy initiated at the end of 2011 has increased the risk that staff retention will decline, particularly if the Company is unable to offer employment conditions which at least match other companies in our industry.

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 2011. The report has been prepared in accordance with the Companies Act 2006 ("the Act") and the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 ("the 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 2011" is, in accordance with the Act, subject to audit by the Company's auditor. 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 2011 being:

- Richard Christou (Committee Chairman)
- John Barnsley
- Mark Sebba
- David Verey

John Barnsley and David Verey resigned as directors on 4 January 2012 and Martin Knight was appointed a member of the Committee on that date. He became Chairman of the Committee at the conclusion of its meeting on 9 February 2012.

Under the Code and the terms of reference of the Committee, at least two independent Non-Executive directors must serve on the Committee. Richard Christou, John Barnsley, Mark Sebba and David Verey are considered by the Board to be independent Non-Executive directors, as is Martin Knight. The Committee invites the Chairman and the Executive directors to attend Committee meetings, when appropriate, to provide a management perspective on all aspects of employee compensation.

The Committee takes advice, where it considers it appropriate, on technical aspects of compensation policy from independent external consultants appointed by the Committee. Clifford Chance has provided advice on long-term incentive arrangements.

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 and senior management in such a way as to motivate them to perform in the best interests of shareholders.

The Company compensates its Executive directors and senior management 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. A review is currently underway as a consequence of the Company's change in strategy, following its general meeting in November 2011. As stated in the letter to shareholders of 7 November 2011, the intention is to establish arrangements for 2012 and beyond which will align management's interests with those of shareholders in the wind down process and will, if required, be subject to shareholder approval.

Base salaries The fixed compensation elements of Executive directors and senior management are reviewed annually by the Committee, having regard to individual performance and comparative market data. Base salaries are generally around the median of the market compared with other entities of similar size in the private equity sector. Base salary is the only element of remuneration which is pensionable.

Benefits-in-kind The benefits-in-kind available to Executive directors are pension contribution, private healthcare, life assurance, personal accident cover, permanent health insurance and subsidised gym membership.

Bonuses Annual bonuses, which are non-pensionable, are based upon achievement of targets set by the Committee, having regard to the Company's performance and individual achievement of operational goals. The aim is to incentivise Executive directors and senior management to achieve outstanding performance, and to ensure that a significant proportion of their total remuneration is provided in the form of variable compensation. For 2011 the bonus target was 100% assuming a good market and the achievement of the targets set by the Committee.

Share-based incentives The Committee considers the grant of share-based incentives to Executive directors and other executives. The Committee made awards under the Performance Share Plan following publication of the Company's results for 2010. The Committee has determined that in the context of a realisation strategy, further share based awards are not an effective form of incentive. Accordingly no further awards are proposed under the existing share incentive plans. The schemes in operation during 2011 are described below.

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 individual 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. However 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.

Remuneration report continued

Awards in the form of nil-cost options have been made as follows:

	No. of shares	First release date	Final release date	Expiry date	Outstanding at 31 December 2011
Award made on 13 April 2010					
Glenn Payne	1,500,000	13 April 2011	31 December 2011*	30 June 2013	1,125,000
Antony Sweet	100,000	13 April 2011	13 April 2013	12 April 2020	66,667
Total					1,191,667

* This is the date on which Mr Payne's service contract came to an end.

Movements in the year were as follows:

	Glenn Payne	Antony Sweet	Total 2011	Total 2010
Outstanding at 1 January	1,500,000	100,000	1,600,000	716,073
Awards during the year	–	–	–	1,600,000
Lapsed during the year	(375,000)	(33,333)	(408,333)	(716,073)
Outstanding at 31 December	1,125,000	66,667	1,191,667	1,600,000

For those shares awarded on 13 April 2010, the performance condition for the first release was satisfied and shares were released on 13 April 2011 as follows:

- 375,000 shares with a market value of £230,000 were released to Mr Payne;
- 33,333 shares with a market value of £20,000 were released to Mr Sweet.

In addition the performance condition over 750,000 shares awarded to Mr Payne was deemed satisfied on his leaving date such that the shares (market value £417,000) were released to him and the related options are exercisable by him until 30 June 2013.

The performance condition for the second release is not expected to be satisfied and the related share award is shown as lapsed during 2011. The lapses in 2010 relate to a previous award to Mr Rayne in 2007.

Executive Share Option Plan

The Company has a share option plan that entitles directors and employees to purchase shares in the Company at the market price of the shares at the date of grant of the option, subject to Company performance criteria. Under the terms of the scheme, options may be exercised between three and ten years after the date of grant. At 31 December 2011 there were no option grants outstanding under this plan (2010: nil).

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 those awards granted in 2009, the performance conditions are that for one half of the award the 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 the Net Asset Value per share over the period must exceed the increase in the Retail Prices Index (RPI) 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.

For those awards granted in 2010 and onwards, the performance conditions are that, for 25% of the total award to vest, TSR over the three year measurement period must exceed the median Total Shareholder Return of the FTSE All-Share Index. For the remaining 75% of the award, the increase in Net Asset Value per share over the period must exceed the increase in RPI by at least 3% per annum. At RPI plus 3%, 18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to the remaining 75% vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum.

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. However 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 of shares in the form of nil-cost options which remain outstanding are as follows:

	Grant date	No. of shares	Release date	Expiry date
Robert Rayne	13 April 2010	683,451	13 April 2013	12 April 2020
	11 April 2011	509,298	11 April 2014	10 April 2021
Antony Sweet	13 April 2010	259,789	13 April 2013	12 April 2020
	11 April 2011	252,111	11 April 2014	10 April 2021

There were no releases of performance share awards in 2011 (2010: nil). A performance share award was made to Mr Payne in 2011, but it lapsed on 31 December 2011 on termination of his employment.

Carried interest

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

For the 2009 and previous pools, 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.

For the 2010 and 2011 pools, carried interest will be payable in respect of pre-tax net capital gains on investments, after a hurdle of 8% is reached, which is more usual practice in the private equity sector.

The percentage of eligible capital gains which may be allocated to participants in aggregate may not exceed 20%. Participants are allocated a proportion of the overall maximum at the commencement of each annual pool and may be diluted by new joiners during the life of the pool up to a maximum of 20%. The rules also include provision for reduction in the proportion allocated to each participant in the event that person ceases to be an employee.

No carried interest payments were made in the year ended 31 December 2011 (2010: £nil).

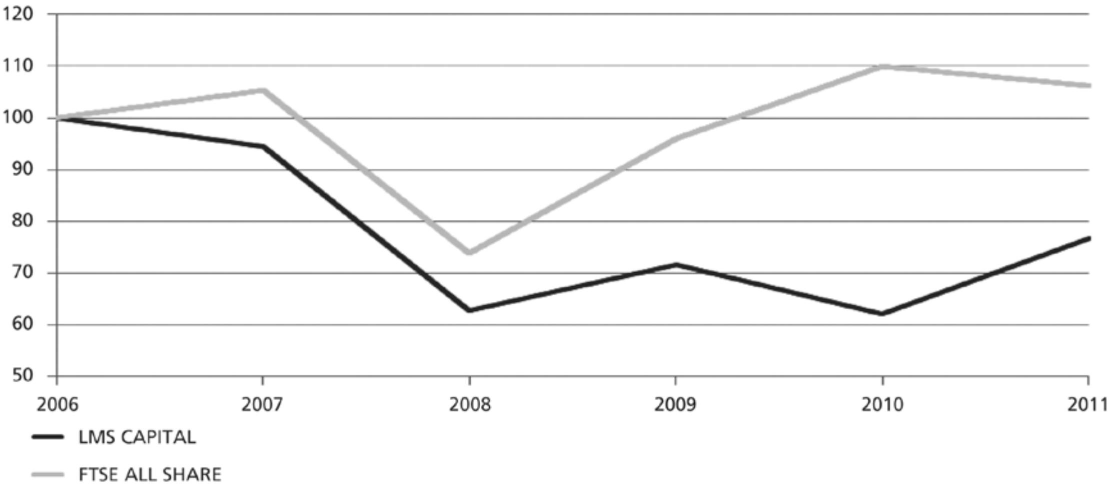
Remuneration report continued

Performance graph

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

The performance graph below shows the Company's Total Shareholder Return performance for the five year period ended 31 December 2011 compared with that of the FTSE All-Share Index.

Total Shareholder Return graph since 1 January 2007



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 states that it 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
Nick Friedlos	9 February 2012	21 March 2012	12 months until December 2013, reducing in stages to 6 months by June 2014	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. Mr Friedlos is entitled to a basic salary of £220,000 per annum plus benefits-in-kind. He is not entitled to a pension contribution.
3. 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 expiry of current term
John Barnsley	7 April 2006	Resigned 4 January 2012
Richard Christou	7 April 2006	11 May 2014
Bernard Duroc-Danner	7 April 2006	13 May 2013
Martin Knight	4 January 2012	17 May 2012
Neil Lerner	4 January 2012	17 May 2012
Robert Rayne	6 April 2006	1 October 2013
Mark Sebba	28 September 2010	11 May 2014
David Verey	7 September 2009	Resigned 4 January 2012

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 £100,000
- Remuneration Committee Chairman £45,000
- Audit Committee Chairman £45,000
- Non-Executive not chairing a committee £40,000

Mr Rayne was an Executive director from 6 April 2006 to 1 October 2010, whereupon he became Non-Executive Chairman. Under Mr Rayne's letter of appointment as Non-Executive Chairman, he participated in the carried interest plan and share option schemes up to the end of 2011, and was entitled to cover under the Company's various insurance policies. The other Non-Executive directors do not participate in the Company's incentive plans or share schemes or other benefits.

With effect from 4 January 2012, Mr Rayne stepped down as Chairman, remaining a Non-Executive director. His fee has reduced accordingly. He also has a consulting agreement with the Company to provide advice in connection with the Company's realisation plans. He is entitled to a fee of £60,000 per annum under this consultancy arrangement.

Remuneration report continued

Directors' remuneration in 2011

The following table shows the total remuneration earned in respect of 2011.

	Salary/ Fees £000	Benefits in kind[1] £000	Pension £000	Bonus £000	Compensation payment £000	2011 Total £000	2010 Total £000
John Barnsley	45	–	–	–	–	45	45
Richard Christou	45	–	–	–	–	45	45
Bernard Duroc-Danner	40	–	–	–	–	40	40
Glenn Payne[2]	330	6	50	200	360	946	590
Robert Rayne Executive	–	–	–	–	–	–	456
Robert Rayne[3] Non-Executive	100	20	–	–	–	120	30
Mark Sebba	40	–	–	–	–	40	10
Antony Sweet	215	11	32	200	–	458	453
David Verey	40	–	–	–	–	40	40
Jonathan Agnew	–	–	–	–	–	–	31
Total	855	37	82	400	360	1,734	1,740

Notes:

1. Benefits-in-kind for Executive directors shown above are insurances and subsidised gym membership.
2. The amounts for Mr Payne are up to the date of his leaving the Company, being 31 December 2011. He was paid £360,000 (comprising compensation for salary, bonus and benefits for the 12 month notice period to which he was entitled under the terms of his service contract) as a termination payment and he remains interested in the carried interest plan. In addition the performance condition over 750,000 shares awarded to him in 2010 under the Deferred Share Bonus Plan was deemed satisfied such that the shares were released to him and the related options are exercisable by him at nil cost within 18 months of his leaving date.
3. Under Mr Rayne's letter of appointment as Non-Executive Chairman, he was entitled to cover under the Company's various insurance policies.

Fees payable in respect of Executive directors serving as Non-Executive directors of companies to which they were nominated by the Company are not retained by them but paid to the Company.

In setting Executive directors' salaries for 2011, the Committee took into account current economic and market factors as well as the salaries and benefits received by other employees of the Company. For 2012, Mr Sweet's salary is unchanged from 2011.

Directors' pension entitlements

Mr Sweet receives contributions into a personal pension arrangement of 15% of base salary.

Directors' share interests

The beneficial interests of those directors who held office at 31 December 2011 in the ordinary shares of the Company are set out below.

	At 31 December 2011	At 31 December 2010
John Barnsley	350,000	317,000
Richard Christou	169,965	169,965
Bernard Duroc-Danner	550,800	550,800
Robert Rayne	8,208,356	8,208,356
Mark Sebba	210,000	210,000
Antony Sweet	51,702	1,702
David Verey	309,000	309,000

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.

Except as stated above:

- no changes in the above directors' interests have taken place between 31 December 2011 and the date of this report; and
- 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.

Martin Knight
Chairman, Remuneration Committee

15 March 2012

Directors' report

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2011.

Principal Activities

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. The investment portfolio comprises publicly quoted and private company investments in both the UK and the US held directly and through funds.

On 30 November 2011, shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, they have not prepared the financial statements on a going concern basis. The effect of this is explained in note 1 to the consolidated financial information.

Business Review

A detailed review of the Group'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, which are deemed to be incorporated by reference into this report:

- Operating review on pages 4 to 6;
- Financial review on pages 7 to 9;
- Corporate governance report on pages 12 to 17;
- Principal risks and uncertainties facing the business on pages 18 to 19;
- Directors' remuneration report on pages 20 to 27; and
- Directors' responsibilities in relation to the financial statements on page 31.

Corporate Social Responsibility

The Group has analysed and considered its social, environmental and ethical risks and found none to be material. The Company Secretary of LMS Capital monitors the Company's corporate and social responsibility and feedback to the Board is provided where applicable.

As part of the due diligence undertaken when making an investment, the Company looks at the potential investment's record on environmental and social matters to satisfy itself that the investment is responsibly managed in this area.

Employees

The total number of employees employed by the Group, as at 31 December 2011, was 243 (31 December 2010: 251). Employees are kept informed about significant business issues and the Group's performance by means of regular meetings, email updates and other in-house communications.

Should an LMS Capital employee become disabled while in the Company's employ, the Company will continue to employ that person in the same role if possible, or do its utmost to find a role suitable for that employee, including arranging appropriate training. The Company gives full and fair consideration to applications for employment by disabled people, having regard to their particular aptitudes and abilities.

Environment

The Group ensures that it reduces its environmental impact wherever possible. In January 2011 the Company moved to and refitted new premises. As part of the refit, it installed environmentally friendly fittings (such as motion sensor lighting) and used recycled materials wherever possible. Some of the materials removed as part of the fit out were recycled by an investee company in their new premises. Any surplus office equipment resulting from the move was either given away to charities or disposed of in a responsible and environmentally friendly manner. Video conferencing facilities are available to reduce business travel where possible.

The new premises are more modern and energy efficient than the previous premises and under the lease for the new premises the Company and its landlord have agreed to devise and comply with an energy management plan; to operate initiatives to reduce, reuse and recycle waste; and to maintain and share data about energy and resource consumption to ensure that the premises are used in accordance with the energy management plan and in a way which improves energy efficiency.

Office waste is recycled and segregated wherever possible. During 2011, the Company produced 932 bags of waste of which nearly half were recycled. The Company will endeavour to increase the proportion recycled during 2012.

The majority of the Company's employees travel to the office using public transport.

Charitable donations
The Group did not make any charitable donations during 2011 (2010: £nil). However LMS Capital does provide without charge office accommodation and services within its premises for The Rayne Foundation (www.raynefoundation.org.uk). The estimated monetary value of this in 2011 was £44,000 (2010: £23,000). The Rayne Foundation aspires to understand and engage with the needs of UK society, and to find ways and means to help address those needs. It focuses on work which has wider than just local application or which is of national importance. It does this within four sectors: the Arts; Education; Health & Medicine; and Social Welfare & Development.

In addition, LMS Capital provides the use of its meeting rooms and facilities to two charities: The Chicken Shed Theatre Company (www.chickenshed.org.uk) and The Place2Be (www.theplace2be.org.uk), for their trustee meetings and other functions.

Individual fund raising activities by employees of the Group are supported by their respective employers and colleagues.

Political donations
The Group did not make any political donations during 2011 (2010: £nil).

Creditor payment policy
LMS Capital'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 2011, trade creditors of the Company had an average of approximately 31 days outstanding (31 December 2010: 31 days). There is no creditor payment policy in force for the Group as a whole.

Contractual Arrangements
There are no contracts or arrangements with third parties which the Board deem essential to the operation of the Company.

Related Party Transactions
In January 2011, the Company moved office to 100 George Street, London W1U 8NU. The landlord of this property is Derwent London plc. Robert Rayne is Non-Executive Chairman of Derwent London plc. Weatherford International Ltd, which previously occupied a floor of Carlton House, 33 Robert Adam Street, London W1U 3HR (the Company's previous office), contributed £450,000 towards the Company's office move so that it could take on the lease for the whole of Carlton House. Both Robert Rayne and Bernard Duroc-Danner are directors of Weatherford International Ltd and LMS Capital plc holds shares in Weatherford International Ltd.

Dividends
The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2011 (2010: £nil).

Directors
The names and biographical details of the current directors of the Company are given on pages 10 to 11. In addition, further information about the Board is set out in the corporate governance report on pages 12 to 17.

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 20 to 27. The Company maintains directors' and officers' liability insurance and provides the directors and officers with a qualifying third party indemnity within the limits permitted by the Companies Act 2006.

Shares and Voting Rights
The Company's share capital is comprised of ordinary shares of 10p each and, as at 15 March 2012, there are 272,674,285 shares in issue. Each share carries one vote. No shares are currently held in treasury. There are no restrictions on the transfer of shares.

Directors' report continued

Substantial Shareholdings

As at 15 March 2012, the Company has been notified that the following persons are interested (directly or indirectly) in 3% or more of the Company's voting rights:

Name	Number of shares or voting rights held	Percentage of issued share capital
Schroders plc[1]	49,414,714	18.12
Withers Trust Corporation Ltd[2]	41,803,802	15.33
Trustees of Lord Rayne's Will Trust[2]	35,152,624	12.89
Lady Jane Rayne[2]	27,494,405	10.08
Jupiter Asset Management Ltd[3]	22,123,614	8.11
Mantra Investissement SCA[4]	13,645,222	5.00
Taube Hodson & Stonex Partners LLP	12,573,061	4.61
Mineworkers Pension Scheme[1]	8,830,834	3.24
British Coal Staff Superannuation Scheme[1]	8,410,952	3.09
Robert Rayne	8,208,356	3.01

1. The figure includes shares held by Schroders plc in their own right as well as shares managed by Schroders plc on behalf of the Mineworkers Pension Scheme and British Coal Staff Superannuation Scheme.
2. There are common interests in certain of these shares.
3. 14,817,277 shares (5.43%) are managed by Jupiter Asset Management Ltd on behalf of The Rayne Foundation, which controls the voting rights attached to these shares.
4. Notification of this holding was received on 11 January 2012. The notification in force at the year end related to 8,786,373 shares, equivalent to 3.2% of the Company's issued share capital.

Annual General Meeting

The Company's Annual General Meeting will be held at Durrants Hotel, George Street, London W1H 5BJ at 12 noon on 17 May 2012. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the Annual General Meeting, is available to view on the Company's website at www.lmscapital.com.

Auditor and Disclosure of Information to Auditor

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

The directors who held office at the date of approval of this report each confirm that, so far as they are aware, there is no relevant audit information (as defined by Section 418 (3) of the Companies Act 2006) of which the Company's auditor is unaware; and each director has taken all the steps that ought to have been taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board.

Jon Edis-Bates
Company Secretary

15 March 2012

Statement of directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they 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.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether 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 will continue in business. As explained in note 1 to the consolidated financial information, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and 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 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Nick Friedlos
Director

Antony Sweet
Chief Financial Officer

15 March 2012

Independent auditor's report to the members of LMS Capital plc

We have audited the financial statements of LMS Capital plc for the year ended 31 December 2011 set out on pages 34 to 79. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Emphasis of matter – non-going concern basis of preparation
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 17, in relation to going concern;
- the part of the Corporate Governance Statement on pages 12 to 17 in this Annual Report relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Iain Bannatyne (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

8 Salisbury Square
London
EC4Y 8BB

15 March 2012

Consolidated income statement

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Continuing operations			
Revenue from sales of goods and services	2	47,334	38,132
Gains and losses on investments	2	7,912	29,331
Interest income	3	65	34
Dividend income	4	801	35
Other income from investments	4	360	878
		56,472	68,410
Operating expenses	5	(55,903)	(40,589)
Profit before finance costs		569	27,821
Finance costs	7	(941)	(1,160)
(Loss)/profit before tax		(372)	26,661
Taxation	8	(595)	(1,567)
(Loss)/profit from continuing operations		(967)	25,094
Discontinued operations			
Gain/(loss) from discontinued operations (net of taxation)	9	2,232	(12,559)
Profit for the year		1,265	12,535
Attributable to:			
Equity holders of the parent		561	10,984
Non-controlling interests		704	1,551
		1,265	12,535
Earnings per ordinary share - basic	10	0.2p	4.0p
Earnings per ordinary share - diluted	10	0.2p	3.9p
Continuing operations			
Earnings/(loss) per ordinary share - basic	10	(0.6)p	8.6p
Earnings/(loss) per ordinary share - diluted	10	(0.6)p	8.5p

The notes on pages 42 to 79 form part of these financial statements.

Consolidated statement of comprehensive income

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit for the year	1,265	12,535
Exchange differences on translation of foreign operations	216	(113)
Total comprehensive profit for the year	1,481	12,422
Attributable to:		
Owners of the Parent	777	10,871
Non-controlling interests	704	1,551
	1,481	12,422

The notes on pages 42 to 79 form part of these financial statements.

Consolidated statement of financial position

	Notes	31 December 2011 £'000	31 December 2010 £'000
Non-current assets			
Property, plant and equipment	11	6,931	9,491
Intangible assets	12	33,381	28,123
Investments	13	185,201	220,703
Other long-term assets		20	43
Non-current assets		225,533	258,360
Current assets			
Inventories	14	200	1,851
Operating and other receivables	15	14,881	12,818
Cash and cash equivalents	16	34,858	13,229
Current assets		49,939	27,898
Total assets		275,472	286,258
Current liabilities			
Interest-bearing loans and borrowings	17	(2,420)	(18,812)
Operating and other payables	18	(10,163)	(13,859)
Deferred income	19	(7,221)	(5,014)
Current tax liabilities		(1,406)	(2,276)
Current liabilities		(21,210)	(39,961)
Non-current liabilities			
Interest-bearing loans and borrowings	17	(9,406)	(4,597)
Deferred income	19	(1,777)	(2,084)
Deferred tax liabilities	20	(469)	(614)
Provisions and other long-term liabilities	21	(2,222)	(172)
Non-current liabilities		(13,874)	(7,467)
Total liabilities		(35,084)	(47,428)
Net assets		240,388	238,830
Equity			
Share capital	22	27,268	27,265
Share premium		17	–
Capital redemption reserve		5,635	5,635
Merger reserve		84,083	84,083
Foreign exchange translation reserve		1,115	899
Retained earnings		118,794	117,827
Equity attributable to owners of the parent		236,912	235,709
Non-controlling interests		3,476	3,121
Total equity	22	240,388	238,830

The financial statements on pages 34 to 79 were approved by the Board on 15 March 2012 and were signed on its behalf by:

Nick Friedlos
Director

The notes on pages 42 to 79 form part of these financial statements.

Company statement of financial position

	Notes	31 December 2011 £'000	31 December 2010 £'000
Non-current assets			
Property, plant and equipment	11	759	339
Investments in subsidiaries	13	281,801	281,801
Non-current assets		282,560	282,140
Current assets			
Operating and other receivables	15	179	198
Amounts receivable from subsidiaries	15	23,766	26,231
Cash and cash equivalents	16	10,650	2,679
Current assets		34,595	29,108
Total assets		317,155	311,248
Current liabilities			
Interest bearing loans	17	–	(14,281)
Operating and other payables	18	(3,485)	(2,292)
Amounts payable to subsidiaries	18	(94,557)	(70,018)
Current liabilities		(98,042)	(86,591)
Net assets		219,113	224,657
Equity			
Share capital	22	27,268	27,265
Share premium		17	–
Capital redemption reserve		5,635	5,635
Retained earnings		186,193	191,757
Equity attributable to owners of the parent	22	219,113	224,657

The financial statements on pages 34 to 79 were approved by the Board on 15 March 2012 and were signed on its behalf by:

Nick Friedlos
Director

The notes on pages 42 to 79 form part of these financial statements.

Statements of changes in equity

Group

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2010	27,265	–	5,635	84,083	1,012	106,773	224,768	850	225,618
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	10,984	10,984	1,551	12,535
Exchange differences on translation of foreign operations	–	–	–	–	(113)		(113)	–	(113)
Changes in ownership interests									
Acquisition of non-controlling interest with a change in control	–	–	–	–	–	–	–	967	967
Disposal of non-controlling interest without a change in control	–	–	–	–	–	–	–	(247)	(247)
Transactions with owners, recorded directly in equity									
Share-based payments	–	–	–	–	–	70	70	–	70
Balance at 31 December 2010	27,265	–	5,635	84,083	899	117,827	235,709	3,121	238,830
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	561	561	704	1,265
Exchange differences on translation of foreign operations	–	–	–	–	216	–	216	–	216
Changes in ownership interests									
Acquisition of non-controlling interest with a change in control	–	–	–	–	–	–	–	233	233
Transactions with owners, recorded directly in equity									
Distributions to non-controlling interests	–	–	–	–	–	–	–	(582)	(582)
Share-based payments	–	–	–	–	–	406	406	–	406
Shares issued in the year	3	17	–	–	–	–	20	–	20
Balance at 31 December 2011	27,268	17	5,635	84,083	1,115	118,794	236,912	3,476	240,388

The notes on pages 42 to 79 form part of these financial statements

Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2010	27,265	–	5,635	194,966	227,866
Total comprehensive income for the year					
Loss for the year	–	–	–	(3,279)	(3,279)
Transactions with owners, recorded directly in equity					
Share-based payments	–	–	–	70	70
Balance at 31 December 2010	27,265	–	5,635	191,757	224,657
Total comprehensive income for the year					
Loss for the year	–	–	–	(5,970)	(5,970)
Transactions with owners, recorded directly in equity					
Share-based payments		–	–	406	406
Shares issued in the year	3	17	–	–	20
Balance at 31 December 2011	27,268	17	5,635	186,193	219,113

The notes on pages 42 to 79 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Cash flows from operating activities			
Profit for the year		1,265	12,535
Adjustments for:			
Depreciation and amortisation	5	3,505	2,450
Impairment of intangible assets	12	–	7,665
Gains on investments		(7,912)	(29,331)
(Gain)/loss on sale of discontinued operations, net of income tax	9	(3,300)	2,015
Translation differences		557	(280)
Share-based payments	23	406	70
Finance costs		941	1,234
Interest income		(65)	(37)
Income tax expense		595	1,567
		(4,008)	(2,112)
Change in inventories		1,537	(1,039)
Change in operating and other receivables		(2,860)	(1,056)
Change in operating and other payables		4,563	1,317
		(768)	(2,890)
Interest paid		(941)	(1,234)
Income tax paid		(1,458)	(298)
Net cash used in operating activities		(3,167)	(4,422)
Cash flows from investing activities			
Interest received		65	37
Acquisition of property, plant and equipment	11	(2,628)	(3,737)
Acquisition of deferred installation asset	12	(2,365)	(1,433)
Disposals of property, plant and equipment		39	85
Disposals of discontinued operations, net of cash disposed of	9	1,079	165
Other disposals		–	1,560
Acquisition of investments	13	(15,398)	(26,991)
Acquisition of subsidiaries, net of cash acquired	25	(2,651)	(7,450)
Proceeds from sale of investments		57,967	23,880
Net cash from/(used in) investing activities		36,108	(13,884)
Cash flows from financing activities			
Issue of new shares		20	–
Drawdown of interest bearing loans		7,919	15,133
Repayment of interest bearing loans		(18,685)	–
Distributions paid to non-controlling interests		(582)	–
Disposal of non-controlling interest without a change in control		–	(247)
Net cash (used in)/from financing activities		(11,328)	14,886
Net increase/(decrease) in cash and cash equivalents		21,613	(3,420)
Cash and cash equivalents at the beginning of the year		13,229	16,581
Effect of exchange rate fluctuations on cash held		16	68
Cash and cash equivalents at the end of the year		34,858	13,229
Cash and cash equivalents above comprise			
Cash and cash equivalents		34,858	13,229
Bank overdrafts		–	–
Cash and cash equivalents at the end of the year	16	34,858	13,229

The notes on pages 42 to 79 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Cash flows from operating activities			
Loss for the year		(5,970)	(3,279)
Adjustments for:			
Depreciation	11	141	122
Share-based payments	23	406	70
Interest income		(48)	(24)
		(5,471)	(3,111)
Change in operating and other receivables		19	545
Change in operating and other payables		1,193	332
Change in amounts due to subsidiaries		27,004	(13,366)
Net cash from/(used in) operating activities		22,745	(15,600)
Cash flows from investing activities			
Interest received		48	24
Acquisition of property, plant and equipment		(585)	(303)
Disposal of property, plant and equipment		24	–
Net cash used in investing activities		(513)	(279)
Cash flows from financing activities			
Issue of new shares		20	–
Repayment of interest bearing loans		(14,281)	14,281
Net cash (used in)/from financing activities		(14,261)	14,281
Net increase/(decrease) in cash and cash equivalents		7,971	(1,598)
Cash and cash equivalents at the beginning of the year		2,679	4,277
Cash and cash equivalents at the end of the year		10,650	2,679
Cash and cash equivalents above comprise			
Cash and cash equivalents		10,650	2,679
Bank overdrafts		–	–
Cash and cash equivalents at the end of the year	16	10,650	2,679

The notes on pages 42 to 79 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 sterling 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 2011 comprise the Company and its subsidiaries (together "the Group").

The Company was formed on 17 March 2006 and com menced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities. 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 consistent with other investment companies, the results of the Group's investment business on a standalone 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 Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

In previous years, the consolidated financial statements have been prepared on a going concern basis. However, on 30 November 2011 the shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the Directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, these consolidated financial statements have not been prepared on a going concern basis. No adjustments were necessary to the investment valuations included in these consolidated financial statements as a consequence of the change in the basis of preparation.

The Group's business activities and financial position are set out in the Operating and Financial review on pages 4 to 9. 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 for the foreseeable future.

These financial statements were authorised for issue by the directors on 15 March 2012.

The accounting policies set out below have been applied consistently for all periods. The comparative consolidated income statement has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (see note 9).

The financial statements have been prepared on the historical cost basis except for investments which are measured at fair value, with changes in fair value recognised in the consolidated income statement.

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year.

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; and
- Note 12 – measurement of the recoverable amounts of cash generating units containing goodwill.

Basis of consolidation
The financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 December 2011. 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' financial statements are consolidated and restatements are made to comply with Adopted IFRS. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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.

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 the 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 investment management business.

Notes to the financial information continued

1. Principal accounting policies (continued)

Basis of consolidation (continued)

Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

Acquisitions before 1 January 2010

For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

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.

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

Deferred Installation asset
These are costs related to installation or acquisition of a distribution infrastructure for electric and/or water utilities for a designated housing community.

Such costs are amortised on a straight line basis over the guaranteed service contract period.

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

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 judgments as to the most appropriate valuation method to be used and the results of the valuations.

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

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

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

- Investments in which there has been a recent funding round involving significant financing from external investors are valued at the price of the recent funding, discounted if an external investor is motivated by strategic considerations;
- Investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable profits or positive cash flows;
- Investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation;
- Investments in an established business which is generating sustainable profits or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings; and
- Investments in early stage businesses not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the discounted cash flow of the investment to the investors.

Notes to the financial information continued

1. Principal accounting policies (continued)

Investments (continued)

Funds

Investments in managed funds are valued at fair value. The general partners of the funds will provide periodic valuations on a fair value basis 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.

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 statement of financial position.

Impairment of assets

Loans and receivables

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

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

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

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

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 the 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.

Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date and exchange differences are included in the 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 reporting 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.

Operating and other receivables
Operating and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Notes to the financial information continued

1. Principal accounting policies (continued)

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

Financial liabilities

The Group's financial liabilities include borrowings and 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

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 also predominantly project based with transactions typically including the sale of a software license 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 reporting date the related income is deferred and recognised over the remaining life of the contract, generally on a straight-line basis.

Installation fees are separated from the maintenance fees and are recognised as performance occurs. Consideration accrues as contract activity progresses by reference to the value of the work performed. Hence, revenue in respect of service contracts represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant.

Revenues from energy provision are recognised based on metered consumption by customers; revenues from related services are recognised by reference to the stage of completion of the service provision at the reporting date.

Gains and losses on investments
Realised and unrealised gains and losses on investments are recognised in the profit and loss account in the period in which they arise.

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.

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.

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

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

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.

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.

Notes to the financial information continued

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.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is restated as if the operation has been discontinued from the start of the comparative period.

2. Operating segments

The information below has been prepared using the definition of an operating segment in IFRS 8: Operating Segments. The Group determines and presents information on operating segments based on the information that is provided internally to the directors to enable them to assess performance and 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 standalone basis, together with the adjustments arising from the summarised results and financial position of the portfolio subsidiaries.

The consolidation adjustments included below reflect the adjustments necessary to restate the portfolio subsidiaries from the basis included in the investment management business (investments carried at fair value) to full consolidation in the Group's financial statements. These adjustments include the elimination of intra-group transactions and adjustments in relation to goodwill.

Segment profit or loss

Year ended 31 December 2011	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Discontinued operations £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	47,334	–	–	47,334
Gains and losses on investments	8,734	–	–	(822)	7,912
Interest income	54	11	–	–	65
Dividend income	801	–	–	–	801
Other income from investments	2,861	3	–	(2,504)	360
Impairment of intangible assets	–	–	–	–	–
Finance costs	(179)	(3,081)	–	2,319	(941)
Continuing operations	(434)	112	–	(645)	(967)
Discontinued operations	–	–	2,232	–	2,232
Profit/(loss) for the year	(434)	112	2,232	(645)	1,265

Year ended 31 December 2010	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Discontinued operations £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Revenues from sales of goods and services	–	38,132	–	–	38,132
Gains and losses on investments	23,914	–	–	5,417	29,331
Interest income	24	10	–	–	34
Dividend income	35	–	–	–	35
Other income from investments	920	18	–	(60)	878
Impairment of intangible assets	–	–	–	(776)	(776)
Finance costs	(338)	(2,434)	–	1,612	(1,160)
Continuing operations	17,562	1,290	–	6,242	25,094
Discontinued operations	–	–	(12,559)	–	(12,559)
Profit/(loss) for the year	17,562	1,290	(12,559)	6,242	12,535

Notes to the financial information continued

2. Operating segments (continued)

Segment net assets

31 December 2011	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	759	6,172	–	6,931
Intangible assets	–	17,369	16,012	33,381
Investments	218,476	–	(33,275)	185,201
Other non-current assets	–	20	–	20
Non-current assets	219,235	23,561	(17,263)	225,533
Cash and cash equivalents	30,602	4,256	–	34,858
Other current assets	2,516	12,629	(64)	15,081
Total assets	252,353	40,446	(17,327)	275,472
Total liabilities	(7,360)	(46,775)	19,051	(35,084)
Net assets/(liabilities)	244,993	(6,329)	1,724	240,388

31 December 2010	Investment management £'000	Reconciliation: Portfolio subsidiaries £'000	Reconciliation: Consolidation adjustments £'000	Group total £'000
Property, plant and equipment	339	9,152	–	9,491
Intangible assets	–	11,502	16,621	28,123
Investments	253,140	–	(32,437)	220,703
Other non-current assets	–	43	–	43
Non-current assets	253,479	20,697	(15,816)	258,360
Cash and cash equivalents	9,326	3,903	–	13,229
Other current assets	590	14,661	(582)	14,669
Total assets	263,395	39,261	(16,398)	286,258
Total liabilities	(18,429)	(60,802)	31,803	(47,428)
Net assets/(liabilities)	244,966	(21,541)	15,405	238,830

The net asset value of the investment management business at 31 December 2011 and at 31 December 2010 is wholly attributable to the equity holders of the parent.

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

	31 December 2011			31 December 2010		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	32,610	72,361	104,971	35,164	79,371	114,535
Quoted	860	23,339	24,199	21,091	42,122	63,213
Unquoted	42,570	46,736	89,306	41,361	34,031	75,392
	76,040	142,436	218,476	97,616	155,524	253,140

	Year ended 31 December 2011			Year ended 31 December 2010		
Asset type	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000
Funds	719	2,748	3,467	1,037	9,510	10,547
Quoted	5,758	(13,486)	(7,728)	1,128	14,100	15,228
Unquoted	(119)	13,114	12,995	(3,154)	1,293	(1,861)
	6,358	2,376	8,734	(989)	24,903	23,914

Revenues

The Group's revenues from external customers comprise:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Continuing operations		
IT services and software	34,419	31,152
Energy and related services	12,915	6,980
	47,334	38,132

Geographical information

	Revenues		Non-current assets	
	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Continuing operations				
United Kingdom	28,810	26,635	75,278	93,924
United States of America	15,200	8,391	150,255	164,436
Other countries	3,324	3,106	–	–
	47,334	38,132	225,533	258,360

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

Major customers

No single customer contributed more than 10% of the Group's total revenues. In 2010, revenues from one customer of the Group's portfolio subsidiaries segment represented approximately 12% of the Group's total revenues.

Notes to the financial information continued

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 2011 £'000	Year ended 31 December 2010 £'000
Dividends from quoted securities	7	35
Dividends from unquoted securities	724	–
Dividends from funds	70	–
Investment management fees	128	297
Income from investments	47	18
Other	185	563
	1,161	913

5. Operating expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Cost of sales	23,358	16,894
Administrative expenses	32,545	23,695
	55,903	40,589

Operating expenses include the following:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Depreciation	3,140	1,589
Goodwill impairment loss	–	776
Intangible asset amortisation	365	238
Non-recurring costs	5,020	–
Auditor's remuneration:-		
Fees to group auditors:-		
– parent company	75	70
– subsidiary companies	138	140
Non-audit related services:-		
– taxation advisory services	27	28
Fees to other auditors (non-KPMG)	197	113

Non-recurring costs comprise £1.6 million of one-off charges for professional fees incurred in relation to the change in investment policy of the Company, £0.9 million compensation payments to staff members who left before the end of the year and £2.5 million to provide for the costs of a management fee commitment regarded as onerous following the change in strategy.

6. Personnel expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Wages and salaries	14,014	10,881
Compulsory social security contributions	2,274	1,924
Contributions to defined contribution plans	422	386
Share-based payment transactions	70	64
	16,780	13,255

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. Carried interest of £0.8 million is accrued at 31 December 2011 (31 December 2010: £nil) calculated on the assumption that the Group's investment portfolio is realised at its year end carrying amount.

7. Finance costs

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Interest on bank loans and overdrafts	310	343
Interest on other loans	631	817
	941	1,160

8. Taxation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Current tax expense		
Current period	679	1,569
Adjustment for prior periods	(5)	(2)
	674	1,567
Deferred tax expense		
Origination and reversal of temporary differences	(79)	–
	(79)	–
Total tax expense	595	1,567

Notes to the financial information continued

8. Taxation (continued)

Reconciliation of effective tax rate

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
(Loss)/profit before tax	(372)	26,661
Income tax using the Company's domestic tax rate – 26.5% (2010: 28%)	(99)	7,465
Fair value adjustments not currently taxed	(1,113)	(7,520)
Non-deductible expenses	2,820	1,735
Non-taxable income	(1,800)	(338)
Deferred tax not recognised	866	227
Prior year adjustment	(79)	(2)
Total tax expense	595	1,567

9. Discontinued operations

In April 2011 the Group sold its entire interests in CopperEye Limited and Kizoom Limited.

In October 2011 ITS (US) Holdings Inc, sold its entire interest in its two operating subsidiaries ITS Engineered Systems Inc, and ITS Water Solutions Inc.

In September 2010 the Group sold its entire interest in Citizen Limited.

Results of discontinued operations

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Revenues	5,357	11,445
Expenses	(6,425)	(21,986)
Results from operating activities	(1,068)	(10,541)
Taxation	–	(3)
Results from operating activities, net of tax	(1,068)	(10,544)
Gain/(loss) on sale of discontinued operations, net	3,300	(2,015)
Tax on gain/(loss) on sale of discontinued operations	–	–
Gain/(loss) for the year	2,232	(12,559)
Earnings/(loss) per ordinary share – basic	0.8p	(4.6)p
Earnings/(loss) per ordinary share – diluted	0.8p	(4.6)p

Cashflows from/(used in) discontinued operations

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Net cash used in operating activities	(62)	(683)
Net cash used in investing activities	–	(17)
Net cash from financing activities	106	68
Net cash from/(used in) discontinued operations	44	(632)

Effect of disposal on the financial position of the Group

	31 December 2011 £'000
Property, plant and equipment	(2,160)
Inventories	(221)
Trade and other receivables	(2,825)
Cash and cash equivalents	(310)
Trade and other payables	2,147
Deferred income	3,686
Interest bearing loans and borrowings	816
Net liabilities	1,133
Consideration received, satisfied in cash	1,389
Cash disposed of	(310)
Net cash inflow	1,079

Gain on sale of discontinued operations

	Year ended 31 December 2011 £'000
Consideration received, satisfied in cash	1,389
Net liabilities disposed as at 31 December 2010	2,119
Loss from operating activities, net of tax	1,068
Other non-operating items – investment in the year	(1,276)
Gain on sale of discontinued operations	3,300

Notes to the financial information continued

10. Earnings/(loss) per ordinary share

The calculation of the basic and diluted earnings per share, in accordance with IAS 33, is based on the following data:

Group	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Earnings		
Earnings for the purposes of earnings per share being net profit attributable to equity holders of the parent	561	10,984
(Loss)/earnings for the purposes of continuing earnings per share being net (loss)/profit from continuing operations attributable to equity holders of the parent	(1,671)	23,543
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per shares	272,662,870	272,640,952
Effect of dilutive potential ordinary shares:		
Share options and performance shares	4,230,301	5,625,901
Weighted average number of ordinary shares for the purposes of diluted earnings per share	276,893,171	278,266,853
Earnings per share		
Basic	0.2p	4.0p
Diluted	0.2p	3.9p
Earnings per share – continuing operations		
Basic	(0.6)p	8.6p
Diluted	(0.6)p	8.5p

There was no dilution effect on the loss from continuing operations in the 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 2010	1,614	9,258	926	11,798
Additions	24	3,187	526	3,737
Acquisitions through business combinations	–	1,387	–	1,387
Disposals	–	(328)	(364)	(692)
Disposals of discontinued operations	–	(594)	(9)	(603)
Other disposals	–	–	(318)	(318)
Effect of movement in exchange rates	180	(125)	(21)	34
Balance at 31 December 2010	1,818	12,785	740	15,343
Balance at 1 January 2011	1,818	12,785	740	15,343
Additions	–	1,941	687	2,628
Acquisitions through business combinations	–	259	–	259
Disposals	–	(23)	(38)	(61)
Disposals of discontinued operations	(1,723)	(2,974)	(265)	(4,962)
Effect of movement in exchange rates and other adjustments	(66)	(264)	360	30
Balance at 31 December 2011	29	11,724	1,484	13,237
Depreciation and impairment losses				
Balance at 1 January 2010	921	3,432	388	4,741
Depreciation charge for the year	98	2,003	294	2,395
Disposals	–	(274)	(333)	(607)
Disposals of discontinued operations	–	(441)	(5)	(446)
Other disposals	–	–	(278)	(278)
Effect of movement in exchange rates	244	(179)	(18)	47
Balance at 31 December 2010	1,263	4,541	48	5,852
Balance at 1 January 2011	1,263	4,541	48	5,852
Depreciation charge for the year	–	2,920	254	3,174
Disposals	–	(7)	(14)	(21)
Disposals of discontinued operations	(1,167)	(1,529)	(115)	(2,811)
Effect of movement in exchange rates and other adjustments	(67)	(181)	360	112
Balance at 31 December 2011	29	5,744	533	6,306
Carrying amounts				
At 31 December 2010	555	8,244	692	9,491
At 31 December 2011	–	5,980	951	6,931

Notes to the financial information continued

11. Property, plant and equipment (continued)

At 31 December 2011 land and buildings with a carrying amount of £nil (31 December 2010: £555,000) are subject to a registered debenture to secure bank loans.

At 31 December 2011 the carrying amount of plant and equipment includes £185,706 held under finance leases (31 December 2010: £285,475).

Company	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2010	176	295	471
Additions	126	177	303
Balance at 31 December 2010	302	472	774
Balance at 1 January 2011	302	472	774
Additions	9	576	585
Disposals	–	(38)	(38)
Balance at 31 December 2011	311	1,010	1,321
Depreciation and impairment losses			
Balance at 1 January 2010	147	166	313
Depreciation charge for the year	129	(7)	122
Balance at 31 December 2010	276	159	435
Balance at 1 January 2011	276	159	435
Depreciation charge for the year	21	120	141
Disposals	–	(14)	(14)
Balance at 31 December 2011	297	265	562
Carrying amounts			
At 31 December 2010	26	313	339
At 31 December 2011	14	745	759

12. Intangible assets

Group	Deferred installation asset £'000	Software licence £'000	Goodwill £'000	Total £'000
Cost				
Balance at 1 January 2010	–	2,088	48,094	50,182
Acquisitions through business combinations	1,916	–	7,077	8,993
Acquisition of deferred installation asset	1,433	–	–	1,433
Disposal of discontinued operations	–	(2,088)	(1,860)	(3,948)
Other disposals	–	–	(1,165)	(1,165)
Effect of movement in exchange rates	(126)	–	–	(126)
Balance at 31 December 2010	3,223	–	52,146	55,369
Balance at 1 January 2011	3,223	–	52,146	55,369
Acquisitions through business combinations	–	–	3,717	3,717
Acquisition of deferred installation asset	2,365	–	–	2,365
Disposal of discontinued operations	–	–	(23,273)	(23,273)
Effect of movement in exchange rates	7	–	(452)	(445)
Balance at 31 December 2011	5,595	–	32,138	37,733
Impairment losses/amortisation				
Balance at 1 January 2010	–	170	20,487	20,657
Impairment loss	–	75	7,665	7,740
Disposal of discontinued operations	–	(245)	(1,142)	(1,387)
Amortisation	238	–	–	238
Effect of movement in exchange rates	(2)	–	–	(2)
Balance at 31 December 2010	236	–	27,010	27,246
Balance at 1 January 2011	236	–	27,010	27,246
Disposal of discontinued operations	–	–	(23,273)	(23,273)
Amortisation	365	–	–	365
Effect of movement in exchange rates	14	–	–	14
Balance at 31 December 2011	615	–	3,737	4,352
Carrying amounts				
At 31 December 2010	2,987	–	25,136	28,123
At 31 December 2011	4,980	–	28,401	33,381

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 its fair value less costs to sell.

Notes to the financial information continued

12. Intangible assets (continued)

An analysis of goodwill is set out below:

	Goodwill impairment recognised in the year ended 31 December 2011 £'000	Goodwill impairment recognised in the year ended 31 December 2010 £'000	Carrying amount 2011 £'000	Carrying amount 2010 £'000
365iTMS Limited	–	–	3,717	–
ITS (US) Holdings Inc	–	1,508	–	–
Entuity Limited	–	–	4,981	4,981
Wesupply Limited	–	776	4,344	4,344
CopperEye Limited	–	1,426	–	–
Nationwide Energy Partners LLC	–	–	6,625	7,077
Kizoom Limited	–	3,955	–	–
Updata Infrastructure UK Limited	–	–	8,734	8,734
	–	7,665	28,401	25,136

The goodwill impairment charge for the year ended 31 December 2010 included £6,889,000 attributable to discontinued operations.

The impairment loss in each year reflects the impact of decreases in the fair value of the relevant portfolio subsidiary; fair value is measured in accordance with the Group's valuation policy for investments which is set out in Note 1. Factors impacting fair values are principally individual company performance and changes in valuation multiples for comparable businesses.

13. Investments

The movements in investments were as follows:

		Unquoted securities			
Group	Quoted securities £'000	Equity £'000	Loans £'000	Funds £'000	Total £'000
Carrying value					
Balance at 1 January 2010	51,876	26,278	6,525	103,454	188,133
Purchases	1,104	8,023	744	17,120	26,991
Disposals	(6,240)	(484)	(138)	(2,623)	(9,485)
Distributions from partnerships	–	–	–	(12,566)	(12,566)
Fair value adjustments	14,935	6,252	(2,707)	9,150	27,630
Reclassifications	1,538	(1,538)	–	–	–
Balance at 31 December 2010	63,213	38,531	4,424	114,535	220,703
Balance at 1 January 2011	63,213	38,531	4,424	114,535	220,703
Purchases	308	1	1,823	13,266	15,398
Disposals	(30,466)	–	(637)	(15,704)	(46,807)
Distributions from partnerships	–	–	–	(10,124)	(10,124)
Fair value adjustments	(8,857)	12,755	(865)	2,998	6,031
Balance at 31 December 2011	24,198	51,287	4,745	104,971	185,201

The table below analyses investments carried at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

	2011 £'000	2010 £'000
Level 1	24,198	63,213
Level 2	–	–
Level 3	156,258	153,066
	180,456	216,279

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2011 £'000	2010 £'000
Opening balance	153,066	129,731
Total gain/(loss) in profit or loss	15,753	15,402
Purchases	13,268	25,143
Realisations	(25,829)	(15,672)
Reclassifications	–	(1,538)
Closing balance	156,258	153,066

Company	2011 £'000	2010 £'000
Investments in subsidiaries		
Cost	293,510	293,510
Opening carrying value	281,801	281,801
Impairment loss	–	–
Closing carrying value	281,801	281,801

Details of subsidiaries are set out in Note 31.

The values of the underlying net assets in subsidiary companies are calculated in accordance with the Group's accounting policies set out in Note 1.

Notes to the financial information continued

14. Inventories

	Group	
	2011 £'000	2010 £'000
Work in progress	189	1,671
Finished goods	11	180
	200	1,851

Changes in finished goods and work in progress recognised as cost of sales amounted to a debit of £1,651,000 (2010: credit of £1,039,000).

15. Operating and other receivables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade receivables	10,495	7,937	–	–
Other receivables and prepayments	4,386	4,881	179	198
Amounts receivable from subsidiaries	–	–	23,766	26,231
	14,881	12,818	23,945	26,429

16. Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Bank balances	5,954	7,246	91	341
Short term deposits	28,904	5,983	10,559	2,338
Cash and cash equivalents	34,858	13,229	10,650	2,679

17. Interest bearing loans and borrowings

	Group	
	2011 £'000	2010 £'000
Non-current liabilities		
Secured bank loans	8,646	2,866
Other unsecured loans	640	1,513
Finance lease liabilities	120	218
	9,406	4,597
Current liabilities		
Secured bank loans	425	2,080
Other unsecured loans	1,930	16,664
Finance lease liabilities	65	68
	2,420	18,812

Terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Maturity	Group 2011 £'000 Carrying amount	Group 2010 £'000 Carrying amount
Secured bank loan	£	3.65%	2016	4,737	–
Secured bank loan	£	7.50%	2014	1,393	3,117
Secured bank loan	USD	4.36%	2020	–	742
Secured bank loan	USD	6.00%	2011	–	644
Secured bank loan	£	LIBOR plus 3.00%	2011	–	5,000
Secured bank loan	USD	LIBOR plus 3.00%	2011	–	9,281
Secured bank loan	USD	LIBOR plus 2.62%	2011	–	441
Secured bank loan	USD	LIBOR plus 2.37%	2012	–	140
Secured bank loan	USD	LIBOR plus 2.00%	2018	2,618	–
Secured bank loan	USD	LIBOR plus 1.75%	2012	301	–
Secured bank loan	USD	7.18%	2011	–	11
Secured bank loan	USD	6.06%	2013	23	33
Unsecured loan	£	21.00%	2014	759	1,805
Unsecured loan	USD	4.65%	2011	–	93
Unsecured loan	USD	12.00%	2012	1,810	1,816
Finance lease liabilities	£	25.00%	2014	185	240
Finance lease liabilities	USD	6.45%	2014	–	46
				11,826	23,409

Finance lease liabilities are payable as follows:

	2011			2010		
	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
Less than one year	102	20	82	86	18	68
Between one and five years	126	23	103	260	42	218
	228	43	185	346	60	286

18. Operating and other payables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade payables	4,049	6,040	44	42
Non-trade payables and accrued expenses	6,114	7,819	3,441	16,531
Amounts payable to subsidiaries	–	–	94,557	70,018
	10,163	13,859	98,042	86,591

Non-trade payables and accrued expenses include a provision of £2,467,000 for fund management fees described in note 21.

Notes to the financial information continued

19. Deferred income

Deferred income comprises amounts invoiced to customers in respect of goods or services which had not been delivered at the reporting 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	
	2011 £'000	2010 £'000
Property, plant and equipment	469	549
Financial assets at fair value through profit or loss	–	65
	469	614

Unrecognised deferred tax liabilities

The Group has no unrecognised deferred tax liabilities.

Deferred tax assets

The Group's investment management business has capital losses for tax purposes of £31.9 million at 31 December 2011 (31 December 2010: £11.2 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 2011 it would realise further net capital losses for tax purposes of £31.5 million (31 December 2010: £47.4 million).

The Group's portfolio subsidiaries have tax losses of £59.1 million at 31 December 2011 (31 December 2010: £96.7 million) available to offset future profits chargeable to tax.

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 from.

21. Provisions and other long term liabilities

	Group	
	2011 £'000	2010 £'000
Provisions for fund management fees	2,055	–
Customer security deposits	167	172
	2,222	172

Full provision of £2,467,000 has been made at 31 December 2011 for fees payable under an investment management agreement which is considered onerous following the change in strategy of the Group from 30 November 2011. The fund management fees are expected to be paid annually until 2015. The current element of the provision of £412,000 is included in operating and other payables.

22. Capital and reserves

Share capital

	Ordinary shares			
	2011 Number	2011 £'000	2010 Number	2010 £'000
Balance at beginning of the year	272,640,952	27,265	272,640,952	27,265
Exercise of share options	33,333	3	–	–
	272,674,285	27,268	272,640,952	27,265

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. 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.

Foreign exchange translation reserve

The foreign exchange 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. At 31 December 2011 there were no option grants outstanding under this plan (31 December 2010: nil).

Deferred share bonus plan

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

Notes to the financial information continued

23. Share based payments (continued)

Movements during the year were as follows:

	2011 Number	2010 Number
Outstanding at 1 January	1,870,000	716,073
Awards during the year	–	1,870,000
Exercised during the year	(33,333)	–
Lapsed during the year	(515,000)	(716,073)
Outstanding at 31 December	1,321,667	1,870,000

During the year, 498,333 shares were released having become eligible for release on 13 April 2011; of these, 33,333 were exercised. In addition, 750,000 shares were released in favour of Mr G Payne on his leaving the Company in December 2011, the Remuneration Committee having exercised its discretion and deemed the performance condition satisfied. The weighted average exercise price of the shares released in 2011 was £nil. No shares were eligible for release in 2010.

The shares which lapsed in 2011 and 2010 did so because the performance criteria were not met.

Assuming the performance criteria set out above are met, the awards outstanding and not released at 31 December 2011 (106,667) are eligible for release on 13 April 2013.

The weighted average exercise price of awards outstanding at 31 December 2011 was £nil (31 December 2010: £nil).

Performance share plan

The Company has a performance share plan that entitles certain employees to receive an award of performance shares in the Company. Performance shares granted under the plan are subject to the performance criteria set out below.

In respect of awards granted in 2010 and 2011: for 25% of the total award to vest, Total Shareholder Return (TSR) over the three year measurement period must exceed the median TSR of the FTSE All-Share Index. For the remaining 75% of the award, the increase in Net Asset Value per share over the period must exceed the increase in the Retail Prices Index by at least 3% per annum. At RPI plus 3%, 18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to the remaining 75% vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum.

	2011 Number	2010 Number
Outstanding at 1 January	3,755,901	2,005,201
Granted during the year	2,045,004	1,750,700
Exercised during the year	–	–
Lapsed during the year	(2,892,271)	–
Outstanding at 31 December	2,908,634	3,755,901

Of the awards which lapsed in 2011, 2,005,201 lapsed because the performance criteria were not met and 887,070 lapsed when the beneficiary left the Company.

The weighted average exercise price of awards outstanding at 31 December 2011 was £nil (31 December 2010: £nil).

Recognition and measurement

The fair value of services received in return for grants and awards under the Company's share based incentive plans is based on their fair value measured using a binomial valuation model.

Awards under the performance share plan granted during 2011 were valued using the following inputs:

	Performance share plan
Fair value at grant date	£0.56
Share price	£0.57
Exercise price	–
Expected volatility	30%
Option life	10 years
Expected dividends	–
Risk-free interest rate	3.0%

The expense recognised in the income statement for share-based payments is as follows:

	2011 £'000	2010 £'000
Executive share option plan	–	(260)
Deferred share bonus plan	446	(170)
Performance share plan	(40)	500
	406	70

At 31 December 2011, non-trade payables and accrued expenses include £65,000 (31 December 2010: £51,000) in respect of amounts payable under the Company's long-term incentive plans.

Notes to the financial information continued

24. Financial risk management

Financial instruments by category

The following tables analyse the Group and Company's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are not included in the table below.

Group

Assets	Fair value through profit or loss 2011 £'000	Loans and receivables 2011 £'000	Total 2011 £'000	Fair value through profit or loss 2010 £'000	Loans and receivables 2010 £'000	Total 2010 £'000
Investments	180,456	4,745	185,201	216,279	4,424	220,703
Operating and other receivables	–	14,881	14,881	–	12,818	12,818
Cash and cash equivalents	–	34,858	34,858	–	13,229	13,229
Total	180,456	54,484	234,940	216,279	30,471	246,750

Liabilities	Fair value through profit or loss 2011 £'000	Loans and receivables 2011 £'000	Total 2011 £'000	Fair value through profit or loss 2010 £'000	Loans and receivables 2010 £'000	Total 2010 £'000
Bank overdrafts	–	–	–	–	–	–
Interest bearing loans and borrowings	–	11,826	11,826	–	23,409	23,409
Operating and other payables	–	10,163	10,163	–	13,859	13,859
Total	–	21,989	21,989	–	37,268	37,268

Company

Assets	Fair value through profit or loss 2011 £'000	Loans and receivables 2011 £'000	Total 2011 £'000	Fair value through profit or loss 2010 £'000	Loans and receivables 2010 £'000	Total 2010 £'000
Operating and other receivables	–	179	179	–	198	198
Amounts receivable from subsidiaries	–	23,766	23,766	–	26,231	26,231
Cash and cash equivalents	–	10,650	10,650	–	2,679	2,679
Total	–	34,595	34,595	–	29,108	29,108

Liabilities	Fair value through profit or loss 2011 £'000	Loans and receivables 2011 £'000	Total 2011 £'000	Fair value through profit or loss 2010 £'000	Loans and receivables 2010 £'000	Total 2010 £'000
Interest bearing loans and borrowings	–	–	–	–	14,281	14,281
Operating and other payables	–	3,485	3,485	–	2,292	2,292
Amounts payable to subsidiaries	–	94,557	94,557	–	70,018	70,018
Total	–	98,042	98,042	–	86,591	86,591

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

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the 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.

	2011 £'000	2010 £'000
Operating and other receivables	14,881	12,818
Cash and cash equivalents	34,858	13,229
	49,739	26,047

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.

Notes to the financial information continued

24. Financial risk management (continued)

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:

	2011 £'000	2010 £'000
UK	10,484	8,418
United States	3,433	3,090
Other regions	964	1,310
	14,881	12,818

The aging of trade receivables was:

	2011		2010	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	4,733	–	2,767	–
Past due 0-30 days	3,381	–	1,322	–
Past due 31-120 days	1,864	72	2,975	–
More than 120 days	826	237	1,221	348
	10,804	309	8,285	348

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.

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 and the use of cash resources.

The following are the contractual maturities of financial liabilities:

31 December 2011	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
Interest bearing loans and borrowings	11,640	14,013	678	2,179	542	7,915	2,699
Finance lease liabilities	186	228	60	42	84	42	–
Operating and other payables	10,163	10,163	10,163	–	–	–	–
	21,989	24,404	10,901	2,221	626	7,957	2,699

31 December 2011	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
Interest bearing loans and borrowings	23,123	23,408	16,303	1,264	106	5,238	497
Finance lease liabilities	286	290	35	35	150	70	–
Operating and other payables	13,859	13,897	13,886	9	1	1	–
	37,268	37,595	30,224	1,308	257	5,309	497

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 pounds sterling. The only other significant currency within the investment portfolio is the US dollar; approximately 66% 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 translation 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.

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

	31 December 2011			31 December 2010		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	48,303	132,719	4,179	67,805	146,663	6,235
Operating and other receivables	8,794	5,982	105	8,051	4,689	78
Cash and cash equivalents	23,781	10,911	166	5,827	7,325	77
Interest bearing loans and borrowings	(6,889)	(4,751)	–	(10,013)	(13,110)	–
Finance lease liabilities	(186)	–	–	(240)	(45)	–
Operating and other payables	(6,076)	(4,083)	(4)	(7,218)	(6,642)	–
Gross exposure	67,727	140,778	4,446	64,212	138,880	6,390
Forward exchange contracts	–	–	–	–	–	–
Net exposure	67,727	140,778	4,446	64,212	138,880	6,390

Market risk
At 31 December 2011 the rate of exchange was USD 1.55 = £1.00 (31 December 2010: USD 1. 55 = £1.00). The average rate for the year ended 31 December 2011 was USD 1.61 = £1.00 (year ended 31 December 2010: USD 1.54 = £1.00).

A 10 per cent strengthening of the US dollar against the pound sterling would have increased equity by £12.1 million at 31 December 2011 (31 December 2010: increase of £13.5 million) and decreased the loss from continuing operations for the year ended 31 December 2011 by £14.4 million (year ended 31 December 2010: increased the profit by £14.9 million). This assumes that all other variables, in particular interest rates, remain constant.

Notes to the financial information continued

24. Financial risk management (continued)

Interest rate risk

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

	2011 £'000	2010 £'000
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	11,826	23,409
	11,826	23,409
Variable rate instruments		
Financial assets	34,858	13,229
Financial liabilities	–	–
	34,858	13,229

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £64,000 (31 December 2010: decrease of £4,000) and decreased the loss from continuing activities by £64,000 (year ended 31 December 2010: decreased the profit by £4,000).

Fair values

The carrying amounts of financial assets (excluding investments) and liabilities, shown in the statement of financial position, 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.

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 and sector, as well as type and stage of investment.

If the investment valuation declined by 10% from the amount at the reporting date, with all other variables held constant, the loss from continuing operations for the year ended 31 December 2011 would have increased by £21.8 million (year ended 31 December 2010: decreased the profit by £22.1 million). An increase in the valuation of investments by 10% at the reporting date would have an equal and opposite effect on the profit/loss for the year.

Capital management

The Group's total capital at 31 December 2011 was £240 million (31 December 2010: £239 million) comprising equity share capital and reserves. The Group had borrowings at 31 December 2011 of £11.8 million (31 December 2010: £23.4 million).

The Board monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:

- The current and planned level of gearing, which takes into account working capital requirements and investment capital for portfolio subsidiaries;
- The possible timing and extent of returning capital to shareholders in line with the Company's asset realisation strategy;
- The annual dividend policy.

The Group's objectives, policies and processes for managing capital reflect the change in strategy from November 2011.

25. Acquisitions of subsidiaries

The following acquisition was made during the year ended 31 December 2011:

365iTMS Limited

In September 2011 the Group acquired a 84.1% interest in 365iTMS Ltd ("365iTMS"); the acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Fair value of net assets acquired/ consideration £'000
Property, plant and equipment	259
Inventories	111
Operating and other receivables	1,897
Cash and cash equivalents	22
Operating and other payables	(1,659)
Deferred income	(1,471)
Net identifiable assets and liabilities	(841)
Intangible assets (goodwill)	3,717
Net assets acquired	2,876
Non-controlling interest	(233)
Total payable	2,643
Deferred cash consideration	(743)
Cash consideration paid	1,900

The operating and other receivables comprise gross contractual amounts due of £1,992,124, of which £95,230 was expected to be uncollectable at acquisition date. The non-controlling interest is calculated based on the proportionate interest of the non-controlling interest in the fair value of identifiable net assets acquired.

The goodwill is attributable to the expected profitability of the acquired business. None of the goodwill is expected to be deductible for tax purposes.

365iTMS delivers a range of technology solutions extending from unified communications to network and system infrastructure, security, business continuity and managed services.

In the three months to 31 December 2011 the company contributed a profit of £159,066 to the consolidated results of the Group. If the acquisition had occurred on 1 January 2011, management estimates that consolidated revenue would have been £54,700,762 and the consolidated profit for the period would have been £1,433,182.

Notes to the financial information continued

25. Acquisitions of subsidiaries (continued)

The following acquisition was made during the year ended 31 December 2010:

Nationwide Energy Partners LLC

In May 2010 the Group acquired a 55.4% interest in Nationwide Energy Partners LLC (“NEP”); the acquisition had the following effect on the Group’s assets and liabilities on the acquisition date:

	Fair value of net assets acquired/ consideration £’000
Property, plant and equipment	1,761
Intangible assets	1,571
Operating and other receivables	2,682
Loans and borrowings	(1,086)
Operating and other payables	(2,569)
Long term liabilities	(192)
Net identifiable assets and liabilities	2,167
Intangible assets (goodwill)	7,077
Net assets acquired	9,244
Non-controlling interest	(967)
Cash consideration paid	8,277

The operating and other receivables comprise gross contractual amounts due of £2,922,551, of which £240,859 was expected to be uncollectable at acquisition date. The non-controlling interest is calculated based on the proportionate interest of the non-controlling interest in the fair value of identifiable net assets acquired.

Of the total consideration, £7,450,000 was paid on completion and the remainder was paid in May 2011.

The goodwill is attributable to the expected profitability of the acquired business. None of the goodwill is expected to be deductible for tax purposes.

NEP is an energy service provider in Columbus, Ohio and provides owners of multi-unit residential properties with outsourced meter reading, billing and collection services for water and electricity accounts.

In July 2010 the Group made an additional investment in NEP of £1.2 million and increased its interest in the company to 59.5%.

In the seven months to 31 December 2010 the company contributed a profit of £21,661 to the consolidated results of the Group. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been £52,515,254 and the consolidated profit for the period would have been £12,218,062.

26. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Less than one year	449	289	572	280
Between one and five years	1,652	1,444	1,473	1,155
More than five years	72	72	650	650
	2,173	1,805	2,695	2,085

27. Capital commitments

	2011 £'000	2010 £'000
Outstanding commitments to funds	18,894	40,711

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 2011 was £517,000 (31 December 2010: £1.2 million).

29. Related party transactions

The Company surrendered its lease with Derwent London plc in January 2011 in respect of the premises comprising its head office and former registered office (33 Robert Adam Street). The Company entered a new lease agreement with Derwent London plc for new premises (100 George Street, its current registered office). Under the terms of the lease the Company pays an annual rent of £288,752 to Derwent London plc plus certain service charges. Rent is payable from the 16th January 2011 at a reduced rate of £144,495 for the first 12 months and thereafter at £288,752 per annum.

Weatherford International acquired the lease of 33 Robert Adam Street and in consideration of the Company moving out contributed £450,000 towards the refurbishment of 100 George Street. Mr Rayne and Dr Duroc-Danner are both directors of Weatherford International. Amounts outstanding under these arrangements at 31 December 2011 were £nil (31 December 2010: £6,500).

Compensation arrangements for key management are set out in the Remuneration report on pages 20 to 27.

Notes to the financial information continued

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
LMS Capital (Bermuda) Limited	Bermuda	100	Investment holding
LMS Capital (ECI) Limited	England and Wales	100	Investment holding
LMS Capital (General Partner) Limited	Bermuda	100	Investment holding
LMS Capital (GW) Limited	Bermuda	100	Investment holding
LMS Capital Group Limited	England and Wales	100	Investment holding
LMS Capital Holdings Limited	England and Wales	100	Investment holding
LMS NEP Holdings Inc	United States	100	Investment holding
Lioness Property Investments Limited	England and Wales	100	Investment holding
Lion Property Investments Limited	England and Wales	100	Investment holding
Lion Investments Limited	England and Wales	100	Investment holding
Lion Cub Investments Limited	England and Wales	100	Dormant
Lion Cub Property Investments Limited	England and Wales	100	Investment holding
Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments (II) Limited	England and Wales	100	Investment holding
Westpool Investment Trust plc	England and Wales	100	Investment holding

In addition to the above, the Group's carried interest arrangements are operated through three limited partnerships (LMS Capital 2007 LP, LMS Capital 2008 LP and LMS Capital 2009 LP) 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
365iTMS Limited	England and Wales	84.1	Provider of managed IT services & security, Unified communications, Business continuity, Virtualisation
Entuity Limited	England and Wales	69.9	Network management software
Nationwide Energy Partners LLC	United States of America	59.5	Energy services provider
ITS (US) Holdings Inc	United States of America	100	Specialist engineering design and fabrication
Updata Infrastructure (UK) Limited	England and Wales	47.8	Carrier-class networks
Wesupply Limited	England and Wales	85	Supply chain management software

Shareholders' information

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

Electronic shareholder communications
The Company has opted to send shareholders communications via the Company website rather than via the post. This is more environmentally friendly and cost efficient. If you would like to receive paper copies of these communications, please write 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.

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Financial calendar 2012
Annual General Meeting:
17 May

Interim Management Statements:
May and November

Half-year results:
July*

Year-end 31 December

* This date is provisional and may change.

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