

RNS ANNOUNCEMENT - 15 April 2020

LMS Capital PLC

Final results for the year ended 31 December 2019

The Coronavirus and its impact on individuals, families and the whole of society are at the forefront of our thoughts today. We are alert to the risks to our business and the need to manage those risks as best we are able and if possible, without increasing the distress of our partners and others.

Financial summary

	31 December 2019	31 December 2018
Net asset value (£m)	£56.0m	£60.3m
Cash available at year end (£m)	£26.6m	£17.6m
NAV per share (p)	69.3p	74.7p

Key themes

- Return to internal management approved by shareholders on 28 November 2019;
- Substantial cash balances at year end;
- Resetting of investment focus to sectors: property, energy and late stage private equity;
- New experienced Board appointed;
- Significant progress already made with resulting reorganisation of internal team and administration;
- Sector Advisory Groups established;
- Special dividend of 4.25p per share paid on 15 January 2020;
- The Coronavirus crisis is creating unprecedented market uncertainty and, whilst not changing the Company's objectives, will have a material impact on the environment in which it operates. The Board's priority is to manage the near term risks and to develop its business taking into account the challenges presented by the crisis;
- Recent movements in markets generally and the potential impact on portfolio businesses lead us to expect a potentially material reduction in the value of our investments, post year end. We aim to update the market on the 31 March 2020 position before the end of April.

Financial Highlights for year ended 31 December 2019

- The net asset value ('NAV') at 31 December 2019 was £56.0 million, 69.3 pence per share (31 December 2018: £60.3 million, 74.7 pence per share);
- The special dividend of 4.25 pence per share, declared by the new Board in December 2019 and paid on 15 January 2020 is required to be accounted for on a cash basis and accordingly is not reflected in the audited NAV at 31 December 2019. The impact of the dividend, had it been included, would have been to reduce the NAV per share by 4.25 pence to 65.1 pence per share;
- The portfolio showed an overall net reduction in value on the year of £0.8 million (2018: net reduction £2.3 million);
- The loss for the year was £4.5 million (2018: loss £4.2 million);
- Overhead costs, including those incurred by subsidiaries, were £3.2 million (2018: £1.6 million) including £1.4 million of non-recurring costs;
- Continued realisations in the year totalled £13.2 million (2018: £17.6 million); and
- Cash balances at the year-end were £26.6 million, representing 47.5% (2018: 29.3%) of

the NAV; a further 15% (2018: 9.6%) in quoted stocks. The company had no debt.

Company objectives and the impact of the Coronavirus crisis Since December 2019 the business has been reshaped, under the management of its own team, to be focused on investment in its known areas of expertise in property, energy and late stage private equity, with an emphasis on deals with well protected downside and a target overall return of 12% -15% per annum including a portion paid as a distribution.

This **strategic focus** has not changed since the impact of the Coronavirus shutdown. In fact, we see potentially more opportunity. We cannot foresee with certainty the economic impact of the crisis but are planning for now, on the downside that it could involve a prolonged recession that could last through 2021. In that context, we are changing the tactical implementation of our strategy as follows:

1. **Liquidity:** We are being ultra-cautious about liquidity. We are fortunate to have substantial cash balances and quoted securities; at the year end we held £26.6 million in cash (approximately 33p per share) and £8.4 million in quoted securities (approximately 10.5p per share). Together these represented 62.5% of the net asset value. Since then, £3.4 million of cash was paid as a dividend to shareholders in January 2020 and the value of the quoted holdings has reduced by approximately 12% (after taking account of exchange rate gains). Notwithstanding this, the Company still has a healthy liquidity position. On the downside, we think it will take longer to realise our unquoted investments at reasonable valuations and we may need to support some of them, although we will only do so if the economics are compelling. In this context, we are mindful of our stated intent to make a further return of capital to shareholders, possibly by tender. We believe our shares represent compelling value at current prices, but want more clarity on the business outlook before proceeding.

2. **Filter for new investments:** We will be looking to make sure that new investments meet our return requirements through the lens of a prolonged recession. We will continue to focus on our three target investment areas (property, energy and late stage private equity). Our first two deals, described in this announcement, focus on property and build on our strong relationships with first rate real estate teams and our proven ability to syndicate debt and equity could give us significant opportunities. We believe these relationships and our proven financing ability will give us significant opportunities in this sector. In the energy sector we are looking at one deal that could provide compelling returns even if oil prices remain as low as they are today. In later stage private equity, we are looking increasingly at the secondary market given the significant current and potential distress in the sector. We will want to maintain a high degree of control over the manner and pace of disbursement of capital in all of these deals.

Robert Rayne, Chairman, commented:

"The business has been reshaped since November 2019 as an internally managed investment company. We see many opportunities to deploy capital and to deliver growth for the business and build value and returns for our shareholders. I am particularly pleased to report today two deals in the property sector.

It is too soon to know the impact of the Coronavirus pandemic. LMS has a significant amount of cash and is proceeding with extreme caution in current conditions."

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

For further information, please contact

15 April 2020

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Statement from the Chairman and the Managing Director

We find ourselves writing this statement in unexpectedly turbulent times. The Coronavirus crisis will almost certainly have far reaching implications for individuals, families and society as a whole as well as the financial markets.

The Company is taking steps to protect its people and its business as best as it is able.

The Company has a strong balance sheet, with significant cash balances, and is well positioned for the uncertainty ahead. It is almost certain that underlying valuations of the remaining portfolio will be reduced. The Company plans to issue an update on its 31 March 2020 net asset value before the end of April.

BACKGROUND

LMS Capital is a listed investment company. Following a shareholder meeting on 28 November 2019, a new Board was appointed and initiated the process of transitioning the Company to being internally managed. The Company served notice to terminate its contract with its former external manager on 29 November 2019; the termination became effective on 30 January 2020.

For 2019, the year being reported upon, the Company was managed by its former external manager, but from here on the Company will be internally managed and with a new Board supported by a new advisory team.

In this statement we have commented first upon the results for last year and then on the future direction of the business under the new team. We have considered in particular how this may be affected by the Coronavirus crisis and its aftermath.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The results of the Company for the year ended 31 December 2019 show a reduction in net asset value, but continued progress in realising assets, which has led to healthy cash balances available for deployment. The exit of Entuity was a good result, but we are disappointed in particular with the performance of the assets in San Francisco Equity Partners fund.

Cash position

The cash position of the Company and its subsidiaries has improved from £17.7 million at 31 December 2018 to £26.6 million at 31 December 2019. This includes cash of £25.1 million held by the Company and an additional £1.5 million held by its subsidiaries.

Of this cash, £3.4 million was returned to shareholders after the year end by way of the special dividend of 4.25p per share paid on 15 January 2020.

At the year end, 47.5% of the Company's net asset value (equal to approximately 33p per share) was represented by cash held by the Company and its subsidiaries. Adjusting for the dividend payment in January 2020, this reduces to approximately 44% (equal to approximately 28.75p per share).

Net asset value at 31 December 2019

Net asset value per share at 31 December 2019 was 69.3p. This was a reduction from 74.7p per share at 31 December 2018.

Overall portfolio net losses for the year, both realised and unrealised, were £0.8 million (2018: Losses £2.3 million). This net result is stated after the impact of realised and unrealised exchange losses of £0.5 million primarily from the weakening of the U.S. Dollar against Sterling (2018: exchange gains £1.8 million).

Despite the overall net reduction in value of the portfolio, a number of individual assets, as noted below, have performed in line or ahead of our expectations.

The reductions in value, before the impact of exchange gains, arose principally on:

- Assets managed by San Francisco Equity Partners ("SFEP") which reduced by net £7.7 million. This mainly includes a write down of YesTo, which has experienced a slowdown in growth compared to earlier years, required additional working capital financing from

shareholders in 2019 and required changes in the company's management and operating structure. Additionally, an unrealised loss has been recognised on Penguin for a further reduction in the estimated deferred consideration to be received following the sale of this investment in June 2018;

- Medhost, a co-investment with one of the Company's fund interests, Primus Capital, reduced by £2.7 million reflecting a corresponding reduction in value in the latest available fund report;
- Other net portfolio reductions were £0.2 million.

Portfolio gains, before the impact of exchange gains, arose principally on:

- The sale of Entuity in August 2019, one of the Company's legacy technology investments, which resulted in a realised gain of £7.2 million;
- Shares in Gresham House showed a gain over the year of £1.4 million;
- Solaredge, a quoted investment, which increased by £1.1 million;
- Brockton Capital, included in the fund portfolio, which increased by £0.6 million.

Other movements in net asset value amounted to a net reduction of £3.5 million and include overhead costs of £3.2 million (2018: £1.6 million). Overheads include £1.4 million of non-recurring costs and £0.3 million of non-portfolio foreign exchange losses (2018: gains of £0.1 million).

COMPANY OBJECTIVES

Guiding principles

The current Board members, prior to their appointment, wrote to shareholders in the run up to the General Meeting on 28 November 2019 and set out some guiding principles that the Company should adopt following a return to internal management.

The driving force behind the Company's investment philosophy should be the preservation and creation of wealth over the long term. Shareholders will benefit through share price appreciation and through distributions.

In order to achieve its objective, the Company will focus on areas where it has competitive advantage based on its long history. In practice this means:

- Sector knowledge and experience - focus on the sectors in which the team has deep knowledge and experience and has relationships which it can harness to create opportunities in late stage private equity and in the property and energy sectors.
- In each of its chosen investment areas, working with outstanding management teams that can demonstrate:
 - o Experience and standing in their sector;
 - o The ability to access and execute exceptional opportunities and to deliver attractive risk adjusted returns.
- "Hard to Access" assets that give the opportunity for wealth creation through nurturing and careful management.
 - o Assets will typically be at the smaller/medium end of their respective sectors where pricing inefficiencies allow attractive entry pricing;
 - o Assets will typically require a level of management attention which larger funds and pure financial investors are unable to support.
- Investors are expected to gain exposure to assets and opportunities which are generally not available through larger funds and are too specialist in nature or too management intensive to be accessible to most individual family offices or high net worth investors.

Since taking on its responsibilities in December 2019, the Board has identified several key areas of focus to enable the Company to deliver its strategy:

- Ensuring the Company has the necessary systems, processes, governance and resources;
- Managing the existing assets to optimise value and to provide liquidity for new investment;
- Developing a pipeline of new opportunities, meeting the Company's investment requirements in terms of both total return and current yield;

- Creating a co investment network which would invest in deals alongside the Company, allowing for greater diversification, an expanded pool of capital in the "sphere of influence" of the Company, and the opportunity for the Company to generate additional fee income and so reduce its net running costs.
- The Company has established a new wholly owned subsidiary, LMS Co-Invest Limited, to undertake the co-investment activity. This subsidiary is obtaining the required regulatory permissions and has resources to develop the co-investment activity;
- Identifying opportunities to expand the capital base of the Company through acquisitions.

Impact of the Coronavirus crisis

The Board has considered the potential impact of the Coronavirus crisis on its plans. Its current view is that the overall aims, objectives and approach are not necessarily materially altered, although the context in which the Company is operating is likely to change.

The potential consequences of this could include

- The performance of the existing portfolio is likely to be worse than previously anticipated, both in terms of delayed timing of liquidity events and amounts realised;
- The returns available from deploying new capital could be greater than previously anticipated, but it may take some months for a stable investment environment to return;
- The opportunities for co-investment are likely to be improved in the medium term as deal flow builds post the current crisis. LMS Co Invest Limited is actively developing the co-investment network;
- Expansion of the capital base, always an important objective, becomes a greater priority for the Company.

DEAL DEVELOPMENT AND DEPLOYMENT OF CASH

The Board has given careful consideration to its approach to managing liquidity and the deployment of its available cash resources, in light of the circumstances it faces and is likely to face as a result of the Coronavirus crisis. The context for the Board's consideration has been:

- Its long term objective remains unchanged - to broaden its shareholder base and develop the Company into an attractive investment for family offices, high net worth investors and institutions attracted by the returns it achieves and the character of its investments;
- In order to do this, the Company needs sufficient liquid resources to maintain its ability to operate - which means it can make new investments and can support existing investments where the investment case supports this;
- Operationally, the Company has strong relationships which will continue to be important to delivering its longer term objective. Where possible it will be important to seek to find ways to support these relationships through the current crisis, albeit on a different basis to what might previously have been the case;
- Liquidity from the existing portfolio is likely to be a lower amount and take longer to realise than previously anticipated.

In reaching a decision on priorities for the deployment of its cash:

- The Board is mindful of its stated intent to make a further return of capital to shareholders and its intent to pay a regular dividend from 2021 onwards. In the current market climate, the Board intends to keep under review its options for doing this, pending clarity on the likely amount and timing of liquidity from the existing asset pool and its ability to generate income to cover any dividend;
- The Board believes that it should continue to support two new deals which it has been developing.
 - o In the one case, there is no immediate capital commitment required;
 - o In the other case, the Board proposes to make a conditional commitment, draw down against which will only be agreed if the Company is satisfied that sufficient stability has returned to markets.

The two opportunities which are being backed are:

Cavera

Cavera has been established by LMS as a vehicle to work with a successful real estate development team. The team previously founded Voreda, a management business that developed over 90,000 square metres of space in West London for its partners. LMS was an investor in phase 1 of Voreda's projects which produced an IRR for LMS of 16% in the period 2012-2015. Subsequent phases produced further good returns for investors, although LMS being in realisation mode at the time, was unable to participate.

Cavera does not require a significant capital commitment, but LMS will fund its operating costs to source opportunities for which LMS will then structure a "Project SPV" investment proposal for itself and co-investors.

George Capital

The Company has conditionally committed to invest in a niche real estate strategy based on the repositioning and enhancement of mixed use assets in regional city centres. The initial conditional commitment is £2.5 million. Further amounts may be committed depending on how markets develop.

This strategy has already been successfully implemented by the George Capital team, in its first two funds; Fund 1 is now largely realised.

Prior to unconditional commitment, LMS will need to be satisfied that sufficient stability has returned to financial markets to enable proposed deals to be properly evaluated.

As a cornerstone investor, LMS will receive enhanced economics and certain other rights, including two seats on the investment committee.

The investment strategy is to acquire income producing assets with the opportunity for improvement. Returns in the first two funds have included a significant income component. The team has demonstrated its ability to source well priced assets, taking advantage of pricing inefficiencies in the £5 - £20 million size. The team believes that attractive opportunities will continue to become available and is positioning itself to be able to take advantage of the market.

CONCLUSION AND OUTLOOK

The new Board recognises the need for the Company to deliver returns to its shareholders, both as cash distributions and through share price appreciation. This will be achieved through a combination of underlying investment performance, cost control and expansion of the capital base to increase liquidity in the shares. The development of our co-investment activity is an important contributor. This activity will increase the pool of capital for which the Company speaks, will generate income for the Company to reduce net running costs and, importantly, has the potential to attract investors to LMS.

In this statement we have set out our objectives and how we intend to operate. The Coronavirus crisis changes the landscape in which we will need to operate. However, it does not fundamentally change what we are setting out to do, which is to broaden the Company's shareholder base and develop it into an attractive investment for family offices, high net worth investors and institutions attracted by the returns it achieves and the character of its investments. This is a long term plan based on achieving the balance between preserving and growing wealth. It is also critically dependent on our network of relationships.

The Board's immediate priority is to manage, to the extent it is able to do so, the risks arising from the Coronavirus crisis and to develop its business with due regard to the challenges presented by the crisis. In doing so it will seek to continue to support and build its relationships.

The Company will provide an update on its net asset value at 31 March 2020 by the end of April. It is almost certain that underlying valuations will be reduced, potentially by a material amount. However, the Company has a strong balance sheet with considerable cash balances.

We are still at the beginning of the journey as an internally managed company. We look forward to reporting to you on our progress.

Robert Rayne
Chairman

Nicholas Friedlos
Managing Director

15 April 2020

Portfolio Management Review

Introduction

GHAM was appointed investment manager in August 2016. In November 2019, the Company's shareholders approved a resolution to return the Company to internal management at a more effective cost structure. As explained in the Strategic Report, although the Company's contract with GHAM has now been terminated, for the year under review GHAM was the AIFM. The Company and the new Board will be responsible for all aspects of the portfolio management with effect from 30 January 2020.

2019 was a year of building cash resources. Cash in the group has grown from £17.7 million at the start of the year to £26.6 million at 31 December 2019, following realisations.

Market background

2019 saw a bullish start to the year as equities recovered from a sluggish end to 2018 that was negatively impacted by a global recessionary narrative coupled with ongoing Brexit negotiations in the UK. Markets were strong through most of the year, although there was a correction in October primarily from uncertainty around the U.S.-China trade deal and concerns about the global economic outlook. The domestic environment rebounded at the end of the year after the general election that dispelled some of the uncertainty around Brexit. The UK AIM and Small-cap indices ended the year up 12.1% and 14.2% respectively, and the sterling strengthened against the U.S. dollar hitting an 18-month high. Domestically there is more optimism that Brexit can be completed and end the uncertainty that has kept investors away from UK markets, possibly narrowing the discount to international peers. However, in recent weeks concerns about the impact of the Covid-19 global pandemic have had a significant impact on investment markets and are beginning to have significant implications for the world economy as the virus spreads through Europe and North America. The likelihood of a global recession is increasing, and there remain significant uncertainties about the overall impact that the Covid-19 pandemic will have on investment markets and the economy, including the duration of any shutdown of businesses. The Company is currently unable to assess the financial impact on its portfolio investments, and considers this to be a non-adjusting post balance sheet event and therefore no quantitative adjustment is made in the financial statements. Although the Company is currently unable to quantify any specific amounts, the key future impacts are expected to be as follows:

- Declines in the fair value of quoted investments as a result of the overall decline in the U.S. and U.K. equity markets;
- Potential declines in the fiscal 2020 valuations of unquoted and funds investments that are valued using market multiples. The declines may come from a decrease in the market multiples, or a decline in the underlying financial metric used in the valuation such as revenues or EBITDA; and
- Potential liquidity impacts to the underlying businesses in our portfolio investments from any tightening of the capital markets that could negatively impact the ability to access capital through either debt or equity.

The consequences of recent developments will be monitored closely by the Board.

Performance review

The movement in NAV during the year was as follows:

	2019	2018
	£'000	£'000
Opening NAV	60,275	64,488
Loss on investments	(1,199)	(2,482)
Overheads, and other net movements	<u>(3,118)</u>	<u>(1,731)</u>

Closing NAV

55,95860,275

Cash realisations from the portfolio in 2019 were as follows:

	Year ended	
	31 December	
	2019	2018
	£'000	£'000
Proceeds from the sale of investments	12,411	6,819
Distributions from funds and loan repayments	788	10,815
Total - gross	13,199	17,634
New and follow-on investments	(426)	(1,405)
Fund calls	(898)	(219)
Total - net	11,875	16,010

Realisations of £13.2 million in 2019 include:

- Proceeds of £12.3 million from the sale of the Company's interest in Entuity to a company that acquired the business in August 2019;
- £0.7 million of additional consideration from the 2018 sale of Penguin;
- £0.1 million from the sale of other investments; and
- Other fund distributions of £0.1 million.

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

The fund calls are primarily in respect of SFEP for management fees and additional working capital funding required for YesTo.

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

Asset type	31 December					
	2019			2018		
	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Quoted	6,687	1,734	8,421	4,814	947	5,761
Unquoted	2,428	7,285	9,713	7,223	11,101	18,324
Funds	7,795	6,312	14,107	7,375	13,423	20,798
	16,910	15,331	32,241	19,412	25,471	44,883

The principal investments at 31 December 2019 comprising 47.3% of the NAV shown below (82.1% of the remaining portfolio) are:

Name	Geography	Sector	Book value		% of NAV
			31 December	31 December	
			2019	2018	2019
			£'000	£'000	December 2019
Quoted investments					
Gresham House plc	UK	Financial	5,906	4,469	10.6%
Solaredge	US	Renewable Energy	1,717	658	3.1%
Unquoted investments					
Medhost Inc	US	Technology	5,460	8,276	9.7%
Entuity	UK	Technology	-	4,925	-
Elateral	UK	Technology	1,610	1,610	2.9%
Fund investments					
YesTo, Inc*	US	Consumer	3,096	9,265	5.5%
Brockton Capital	UK	Property	5,529	4,922	9.9%
Opus Capital Venture Partners	US	Technology	3,145	3,115	5.6%

*includes holdings by SFEP and co-investments held by the Company

Basis of valuation:

Quoted investments

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

Unquoted direct investments

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

- investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable revenue or positive cash flows;
- investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation;
- investments in an established business which is generating sustainable revenue or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings; and
- Investments in debt instruments or loan notes are determined on a standalone basis, with the initial investment recorded at the price of the transaction and subsequent adjustments to the valuation are considered for changes in credit risk or market rates. Convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model.
- the Company has adopted the updated IPEV guidelines which are effective from 1 January 2019. The main changes of the new guidelines are:
 - o Price of a recent investment removed as a primary valuation technique; and
 - o valuing debt investment is expanded;

Funds

Investments in managed funds are valued at fair value. The general partners of the funds will provide periodic valuations on a fair value basis, the latest available of which the Company will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the Company's valuation methods. Adjustments will be made to the fund valuation where the company believes there is evidence available for an alternative valuation.

Performance of the investment portfolio

The return on investments for the year ended 31 December 2019 was as follows:

Asset type	Year ended 31 December					
	2019			2018		
	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000
Quoted	9	2,700	2,709	43	(4,009)	(3,966)
Unquoted	7,071	(3,870)	3,201	1,930	1,912	3,842
Funds	-	(6,708)	(6,708)	242	(2,441)	(2,199)
	7,080	(7,878)	(798)	2,215	(4,538)	(2,323)
Charge for incentive plans			(401)			(159)
			(1,199)			(2,482)
Operating and similar expenses of subsidiaries			(527)			(862)
			(1,726)			3,344

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The charge for incentive plans for the Company is £0.7 million and Subsidiaries a credit of £0.3 million for carried interest and other incentives relating to historic arrangements. The credit for subsidiaries is included in the Net losses on Investments in the Income Statement. In 2018 £0.2 million was treated as a net charge for incentive plans in subsidiaries however a charge for incentive plan of £0.2 million of this should have been to the Company and £36,000 treated as a credit for incentive plans in subsidiaries. The overall impact on LMS Capital plc net loss in 2018 is nil.

Approximately 48% of the portfolio at 31 December 2019 is denominated in US dollars (31 December 2018: 57%) and the above table includes the impact of currency movements. In the year ended 31 December 2019, the weakening of the US dollar against sterling over the year as a whole resulted in an unrealised foreign currency loss of £0.5 million (2018: unrealised gain £1.8 million). As is common practice in private equity investment, it is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Quoted investments

Company	Sector	31 December	
		2019	2018
		£'000	£'000
Gresham House plc	UK financial	5,906	4,469
Solaredge	US renewable energy	1,717	658
IDE Group Holdings (formerly Coretx Holdings)	UK technology	781	345
Weatherford International	US energy	7	236
Others	-	10	53
		8,421	5,761

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

Gains/(losses) net	Year ended 31 December	
	2019	2018
	£'000	£'000
Realised		
Intermolecular Inc	9	-
Gresham House plc	-	43
	9	43
Unrealised		
Gresham House plc	1,437	411
Solaredge	1,135	(370)
IDE Group Holdings	436	(2,615)
Weatherford International	(232)	(1,470)
Other quoted holdings	(3)	(51)
Unrealised foreign currency (losses) /gains	(73)	86
	2,700	(4,009)
Total net gain/(loss)	2,709	(3,966)

Gresham House plc

The Gresham House share price rose from 454 pence at 31 December 2018 to 600 pence at 31 December 2019, following a year of substantial growth for the group.

At 31 December 2019 and 2018 the Company held 984,329 shares in Gresham House plc.

Solaredge

At both 31 December 2019 and 2018 the Company held 23,944 shares of Solaredge Technologies, Inc., a US listed company that manufactures a renewable energy solution that changes how solar power is harvested and managed, ultimately reducing the cost of solar energy. The share price increased from \$35.07 at 31 December 2018 to \$95.09 at 31 December 2019 due to significant quarterly revenue growth during 2019 and plans to launch a new product range.

IDE Group

The performance of IDE Group improved during 2019 following a disappointing 2018 that saw the share price fall substantially. In December 2019, the company announced that it secured several multi-year customer contract renewals and new contract wins to improve the pipeline of future revenue. IDE also announced in December 2019 that it raised £1.5 million from the issuance of new secured loan notes, which the Company did not participate.

Weatherford

The unrealised loss in the year reflect the dilutive impact on ordinary shareholder value of the

restructuring following a bankruptcy declaration in May 2019. Weatherford restructured its debt obligations and re-emerged from bankruptcy proceedings in December 2019.

Unquoted investments

		31 December	
		2019	2018
Company	Sector	£'000	£'000
Medhost Inc	US technology	5,460	8,276
Entuity	UK technology	-	4,925
Elaternal	UK technology	1,610	1,610
ICU Eyewear*	US consumer	1,508	1,568
Yes To*	US consumer	317	927
Penguin Computing*	US technology	-	329
Northbridge	UK technology	730	600
IDE Group	UK technology	88	89
		9,713	18,324
Sold in year			
Entuity	UK technology	12,327	-

*These are co-investments with SFEP

The net gains on the unquoted portfolio arose as follows:

		Year ended 31 December	
		2019	2018
		£'000	£'000
Gains, net			
Realised			
Entuity		7,177	-
Eye-Fi		36	-
Penguin Computing		(142)	153
Brockton Capital LLP		-	617
Nationwide Energy Partners		-	633
Others		-	527
		7,071	1,930
Unrealised			
Medhost		(2,672)	(552)
Elaternal		(400)	(890)
ICU Eyewear		-	784
Entuity		-	1,711
Penguin Computing		-	300
YesTo		(722)	1
Northbridge		130	-
Unrealised foreign currency (losses)/gains		(206)	558
		(3,870)	1,912
Total net gain		3,201	3,842

Valuations are sensitive to changes in the following two inputs:

- The operating performance of the individual businesses within the portfolio; and
- Changes in the revenue and profitability multiples and transaction prices of comparable businesses, which are used in the underlying calculations.

Comments on individual companies are set out below.

Entuity

The sale of Entuity was completed in August 2019 and the Company realised £12.3 million in cash proceeds and a gain of £7.2 million during the year. During 2018 and 2019 Entuity

increased its recurring revenues, streamlined its cost base and diversified its mix of clients, and the strategic value to the buyer resulted in a larger than anticipated gain.

Medhost

Medhost is a co-investment with funds of Primus Capital. Medhost's financial performance saw a decline in EBITDA during 2019 on lower revenues from the loss of some customer facilities, resulting in a lower valuation by the fund manager Primus Capital and an unrealised loss of £2.7 million for 2019.

Elatral

Additional funding of £0.4 million was required by the Company in 2019. The new team at Elateral has largely completed the process of re-engineering and upgrading its technology platform and reducing its cost structure. It continues to secure additional multinational "household" names as clients during 2019. The company is a relatively small organisation dealing with large multinational clients and has a long sales cycle. However, its new product has enabled it to accelerate the rate of new business wins in the second half of 2019.

ICU Eyewear

This investment had been written off in 2016. Following a restructuring and refinancing with new investors in 2017 the Company recognised a small positive carrying value at 31 December 2017. During 2019 the company has continued to demonstrate its ability to trade profitably and there was a small movement in the valuation from £1.568 million to £1.508 million due to unrealised foreign exchange losses.

Penguin Computing

The Company's total interests are held through its investment in SFEP and directly through a co-investment with SFEP. The amounts shown above relate to the directly held co-investment. As explained below, the business was sold in June 2018 and initial consideration has been received. The write-off in 2019 represents an estimate that no further proceeds will be received.

Fund interests

		31 December	
		2019	2018
General partner	Sector	£'000	£'000
Brockton Capital Fund 1	UK property	5,529	4,922
Opus Capital Venture Partners	US venture capital	3,145	3,115
San Francisco Equity Partners	US consumer & technology	2,570	9,534
Eden Ventures	UK venture capital	914	1,100
Weber Capital Partners	US micro-cap quoted stocks	563	687
EMAC ILF	UK	988	1,052
Simmons	UK	363	302
Other interests	-	35	86
		14,107	20,798

Losses on the Company's funds portfolio for the year ended 31 December 2019 were as follows:

		Year ended 31 December	
		2019	2018
(Losses)/gains		£'000	£'000
Realised			
Other funds		-	242
		-	242
Unrealised			
San Francisco Equity Partners		(6,798)	(4,072)
Eden Ventures		(183)	421
Brockton Capital Fund I		607	319

Simmons Parallel Energy	81	8
Opus Capital Venture Partners	226	154
Others (net)	(433)	(419)
Unrealised foreign currency (losses)/gains	(208)	1,148
	(6,708)	(2,441)
<hr/>		
Total net loss	(6,708)	(2,199)

LMS Capital is the majority investor in SFEP (as opposed to the other fund interests where the Company has only a minority stake).

SFEP has one remaining investment, YesTo.

- YesTo - fund carrying value £2.8 million (31 December 2018: £8.4 million) was significantly reduced in 2019. A new management team had been appointed in 2016 and pursued an aggressive product launch and sales growth plan. Initially this was successful; there was a partial exit on attractive financial terms in 2017. However, the product range was over expanded, some new launches were unsuccessful, and margins were eroded. Sales volumes have fallen significantly short of budget in 2019 and the company incurred losses. Additional working capital funding was required from investors. A new team has been appointed and a plan to restore growth and profitability is being implemented during 2020. The company is valued primarily on a sales multiple and the reduction reflects the reduced sales for 2019 and projected for 2020, coupled with the impact of the additional financing requirements.

In addition to the fund investments noted above the Company has a directly held co-investment in YesTo of £0.3 million (31 December 2018: £0.9 million). The Company's total investment in YesTo at 31 December 2019, via its SFEP fund interest and its co-investment is £3.1 million (31 December 2018: £9.3 million).

Other fund interests

- Eden Ventures - Eden has reached agreement to sell all but one of its assets in a secondary transaction, and the unrealised loss reflects the write down to the proposed exit values of those assets;
- Brockton Capital Fund I -The Company's investment represents its share (via the Brockton Fund) of preferred debt investments in "High End" central London residential development. The investment showed an increase in the valuation over the prior year as a result of an improvement in the terms and structure of the various debt instruments following refinancing negotiations; and
- Opus Capital, a US venture fund, showed an unrealised gain of £0.2 million from improvements in its two main assets.

Overhead costs

Overhead costs for the year (including amounts incurred by subsidiaries) were £3.2 million (2018: £1.6 million). Amounts in 2019 include £1.4 million of one off exceptional legal and advisory fees.

The one off exceptional costs relate to (a) the costs of the former independent directors in running a tender process for the Company's investment management arrangements; (b) the costs of the circular and other shareholder communications, both for and against the proposals, leading up to the general meeting; (c) other advisory costs incurred by the parties in the course of seeking to resolve differences of view as to the investment management arrangements for the Company; and (d) amounts payable to GHAM in accordance with the termination arrangements agreed between the Company and GHAM.

Taxation

The Group tax benefit for the year, all of which arose in the subsidiaries, is £nil (2018: £0.3 million tax charge).

Financial resources and commitments

At 31 December 2019 cash holdings, including cash in subsidiaries, were £26.6 million (31 December 2018: £17.7 million) and neither the Company nor any of its subsidiaries had any debt (2018: nil debt).

At 31 December 2019 subsidiary Companies had commitments of £3.1 million (31 December 2018: £3.1 million) to meet outstanding capital calls from fund interests.

Income Statement

For the year ended 31 December 2019

	Notes	Year ended 31 December	
		2019	2018
		£'000	£'000
Net losses on investments	2	(1,726)	(3,344)
Interest income	3	180	86
Dividend income	4	30	-
Total loss on investments		(1,516)	(3,258)
Operating expenses	5	(2,955)	(955)
Loss before tax		(4,471)	(4,213)
Taxation	7	-	-
Loss for the year		(4,471)	(4,213)
Attributable to:			
Equity shareholders		(4,471)	(4,213)
Loss per ordinary share - basic	8	(5.5)pence	(5.2)pence
Loss per ordinary share - diluted	8	(5.5)pence	(5.2)pence

Statement of Other Comprehensive Income

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	£'000	£'000
Loss for the year	(4,471)	(4,213)
Other comprehensive income	-	-
Total comprehensive loss for the year	(4,471)	(4,213)

Attributable to:		
Equity shareholders	(4,471)	(4,213)

Statement of Financial Position

As at 31 December 2019

	Notes	31 December	
		2019 £'000	2018 £'000
Non-current assets			
Investments	9	134,283	135,092
Current assets			
Operating and other receivables	10	166	40
Cash and cash equivalents	11	25,079	15,440
Current assets		25,245	15,480
Total assets		159,528	150,572
Current liabilities			
Operating and other payables	12	(1,585)	(465)
Amounts payable to subsidiaries		(101,985)	(89,832)
Current liabilities		(103,570)	(90,297)
Total liabilities		(103,570)	(90,297)
Net assets		55,958	60,275
Equity			
Share capital	13	8,073	8,073
Share premium		508	508
Capital redemption reserve		24,949	24,949
Retained earnings		22,428	26,745
Total equity shareholders' funds		55,958	60,275

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	8,073	508	24,949	30,958	64,488
<i>Total comprehensive income for the year</i>					
Loss for the year	-	-	-	(4,213)	(4,213)
Balance at 31 December 2018	8,073	508	24,949	26,745	60,275
<i>Total comprehensive income for the year</i>					
Prior year's tax adjustments	-	-	-	154	154
Loss for the year	-	-	-	(4,471)	(4,471)
Balance at 31 December 2019	8,073	508	24,949	22,428	55,958

Cash Flow Statement

For the year ended 31 December 2019

Year ended 31 December	
2019	2018

	Note	£'000	£'000
Cash flows from operating activities			
Loss for the year		(4,471)	(4,213)
Adjustments for:			
Losses on investments		1,726	3,344
Charge for incentive plans		(710)	-
Dividend income		(30)	-
Interest income		(180)	(86)
		(3,665)	(955)
Exchange losses/ (gains) on cash and cash equivalents		197	(105)
Change in operating and other receivables		(126)	204
Change in operating and other payables		1,120	(827)
Change in amounts payable to subsidiaries		12,100	15,102
Net cash from operating activities		9,626	13,419
Cash flows from Investing activities			
Interest received	3	180	124
Dividend received		30	-
Purchase of investments		-	(3,541)
Proceeds from sale of investments		-	3,050
Net cash from/(used in) investing activities		210	(367)
Net increase in cash and cash equivalents			
		9,836	13,052
Exchange (losses)/ gains on cash and cash equivalents		(197)	105
Cash and cash equivalents at the beginning of the year		15,440	2,283
Cash and cash equivalents at the end of the year		25,079	15,440

Notes to the Financial Statements

1. Principal accounting policies

Reporting entity

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

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

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("Adopted IFRSs"). These financial statements were authorised for issue by the Directors on 15 April 2020.

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

The Company's business activities and financial position are set out in the Strategic Report on pages 10 to 19 and in the Portfolio Management Review on pages 20 to 29. In addition, note 14 to the financial information includes a summary of the Company's financial risk management processes, details of its financial instruments and its exposure to credit risk and liquidity risk. Taking account of the financial resources available to it, the Directors believe that the Company is well placed to manage its business risks successfully. After making enquiries the Directors have a reasonable expectation that the Company has adequate resources for the foreseeable future.

Accounting for subsidiaries

The Directors have concluded that the Group has all the elements of control as prescribed by IFRS 10 "Consolidated Financial Statements" in relation to all its subsidiaries and that the Company continues to satisfy the three essential criteria to be regarded as an investment entity as defined in IFRS 10, IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Consolidated and Separate Financial Statements". The three essential criteria are such that the entity must:

- obtain funds from one or more investors for the purpose of providing these investors with professional

investment management services;

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

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

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

The Company's subsidiaries, which are wholly-owned and over which it exercises control, are listed in note 18.

New standards effective in the year

IFRS 16 "Leases" is effective on or after accounting period beginning 1 January 2019.

The Company is exposed to IFRS 16 despite not having a lease in 2019 as there was a lease commitment present in 2018. The Company has adopted the 'Modified Retrospective approach'. This means there is no required restatement of comparative periods; instead the cumulative impact of applying IFRS 16 is accounted for as an adjustment to equity at the start of 1 January 2019, being the date of initial application. As there is no leases present in 2019 there is no quantitative impact on the numbers in the financial statements for the adoption of IFRS 16.

The standard removes the distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The Directors will assess the impact of IFRS 16 when the Company signs a lease contract.

Use of estimates and judgements

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

The areas involving significant judgements are:

- valuation technique selected in estimating fair value of unquoted investments - note 9
- valuation technique selected in estimating fair value of investment held in Funds --note 9
- recognition of deferred tax asset for carried forward tax losses - note 7

The areas involving significant estimates are:

- estimate inputs used in calculating fair value of unquoted investments - note 9
- estimated inputs used in calculating fair value of investment held in Funds - note 9
- estimate percentage on impairment of financial assets - note 14

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

Investments in subsidiaries

The Company's investments in subsidiaries are stated at fair value which is considered to be the carrying value of the net assets of each subsidiary. On disposal of such investments the difference between net disposal proceeds and the corresponding carrying amount is recognised in the income statement.

Valuation of investments

The Company and its subsidiaries manage their investments with a view to profit from the receipt of dividends and increase in fair value of equity investments which can be realised on sale. Therefore all quoted, unquoted and managed fund investments are designated at fair value through profit and loss which can be realised on sale and carried in the Statement of Financial Position at fair value.

Fair values have been determined in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines. These guidelines require the valuer to make judgments as to the most appropriate valuation method to be used and the results of the valuations.

The Company and its subsidiaries manage their investments with a view to profit from the receipt of dividends and increase in fair value of equity investments which can be realised on sale. Therefore all quoted, unquoted and managed fund investments are designated at fair value through profit and loss which can be realised on sale and carried in the Statement of Financial Position at fair value.

Fair values have been determined in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines. These guidelines require the valuer to make judgments as to the most appropriate valuation method to be used and the results of the valuations.

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

Quoted investments

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

Unquoted direct investments

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

- investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable revenue or 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; and
- investments in an established business which is generating sustainable revenue or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings;
- investments in debt instruments or loan notes are determined on a standalone basis, with the initial investment recorded at the price of the transaction and subsequent adjustments to the valuation are considered for changes in credit risk or market rates. Convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model.
- the Company has adopted the updated IPEV guidelines which are effective from 1 January 2019. The main changes of the new guidelines are:
 - o price of a recent investment removed as a primary valuation technique; and
 - o valuing debt investment is expanded;

Funds

Investments in managed funds are valued at fair value. The general partners of the funds will provide periodic valuations on a fair value basis, the latest available of which the Company will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the Company's valuation methods. Adjustments will be made to the fund valuation where the company believes there is evidence available for an alternative valuation.

Impairment of financial assets

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

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

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

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

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

Carried interest

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

Foreign currencies

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

Operating and other receivables

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

Cash and cash equivalents

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

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

The Company's financial liabilities include operating and other payables. These are initially recognised at fair value. Subsequent measurement is at amortised cost using the effective interest method.

Dividend payable

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

Income

Gains and losses on investments

Realised and unrealised gains and losses on investments are recognised in the income statement in the period in which they arise.

Interest income

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

Dividend income

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

Expenditure

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

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

Deferred tax is recognised using the balance sheet liability approach, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

2. Net losses on investments

Losses and gains on investments were as follows:

	Year ended 31 December					
	2019			2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Asset type	£'000	£'000	£'000	£'000	£'000	£'000
Investment portfolio of the Company						
Quoted	-	1,437	1,437	43	411	454
Unquoted	-	130	130	-	-	-
Funds	-	-	-	-	-	-
	-	1,567	1,567	43	411	454
Charge for incentive plans			(710)			-
			857			454
Investment portfolio of subsidiaries						
Quoted	9	1,263	1,272	-	(4,420)	(4,420)
Unquoted	7,071	(4,000)	3,071	1,930	1,912	3,842
Funds	-	(6,708)	(6,708)	242	(2,441)	(2,199)
	7,080	(9,445)	(2,365)	2,172	(4,949)	(2,777)
Total	7,080	(7,878)	(1,508)	2,215	(4,538)	(2,323)

Credit/(charge) for incentive plans	309	(159)
	(1,199)	(2,482)
Operating and similar expenses of subsidiaries*	(527)	(862)
	(1,726)	(3,344)

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The charge for incentive plans for the Company is £0.7 million and Subsidiaries a credit of £0.3 million for carried interest and other incentives relating to historic arrangements. The credit for subsidiaries is included in the Net losses on Investments in the Income Statement. In 2018 £0.2 million was treated as a charge for incentive plans in subsidiaries however £0.2 million of this should have been a charge for incentive plans to the Company. The overall impact on LMS Capital plc net loss in 2018 is nil.

*Includes operating and legal costs and taxation charges of subsidiaries.

3. Interest income

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

4. Dividend income

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

5. Operating expenses

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December	
	2019	2018
	£'000	£'000
Directors Remuneration (note 6)	250	230
Operating lease expense	-	69
Management fee	1,284	915
Other administrative expenses	1,124	(139)
Foreign currency exchange differences	174	(220)
Auditor's remuneration		
Fees to Group auditor		
- parent company	35	27
- subsidiary companies	73	63
- interim review for LMS Capital plc	15	10
	2,955	955

The audit fee comprises £35,000 (2018: £27,000) for LMS Capital plc, £72,500 (2018: £63,000) for the subsidiaries and £15,000 (2018: £10,000) for the interim review. The expenses in the table above vary from these numbers due to adjustments for opening and closing accruals.

Included within operating expenses are the following non-recurring costs:

- severance costs for Executive Directors and staff of £nil (2018: £60,000)
- one-off legal and advisory costs of £1,400,000 arising from the review of the investment management arrangements which culminated in the General Meeting on 28th November 2019. These costs include:
 - a) £250,000 cost of the former independent directors in running a tender process for the Company's investment management arrangements (as referenced in the Company's announcement on 26 July 2019);
 - b) £26,000 cost of the circular and other shareholder communications, both for and against the proposals, leading up to the general meeting;
 - c) £724,000 other advisory costs incurred by the parties in the course of seeking to resolve the differences of view as to the investment management arrangements for the Company; and
 - d) £400,000 payable to GHAM for the period January 2020 to May 2020 in accordance with the termination arrangements agreed between the Company and GHAM.

6. Directors Remuneration

Year ended 31

	December	
	2019	2018
	£'000	£'000
Wages and salaries	227	206
Compulsory social security contributions	23	23
Contributions to defined contribution plans	-	1
	250	230

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The charge for incentive plans for the Company is £710,000 and Subsidiaries a credit of £309,000 for carried interest and other incentives relating to historic arrangements. The credit for subsidiaries is included in the Net losses on Investments in the Income Statement. In 2018 £159,000 was treated as a net charge for incentive plans in subsidiaries however a charge for incentive plan of £195,000 should have been to the Company and £36,000 treated as credit for incentive plans in subsidiaries. The overall impact on LMS Capital plc net loss in 2018 is nil.

The average number of Directors and staff was as follows:

	31 December 2019			31 December 2018		
	Male	Female	Total	Male	Female	Total
Directors	4	-	4	4	-	4
	4	-	4	4	-	4

7. Taxation

	Year ended 31 December	
	2019	2018
	£'000	£'000
Current tax expense		
Current year	-	-
Total tax expense	-	-
Reconciliation of tax expense		
	Year ended 31 December	
	2019	2018
	£'000	£'000
Loss before tax	(4,471)	(4,213)
Corporation tax using the Company's domestic tax rate - 19% (2018: 19%)	(850)	(800)
Fair value adjustments not currently taxed	94	1,056
Non-deductible expenses	100	-
Non-taxable income	(6)	(421)
Deferred tax asset not recognised	534	-
Transfer pricing	(700)	(708)
Group relief	828	873
Total tax expense	-	-

As at the year end, there are cumulative potential deferred tax assets of £1.677million (2018: £1.143million) in relation to the Company's cumulative tax losses of £8.826million (2018: £6.015million). It is unlikely that the Company will generate sufficient taxable profits in future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

8. Loss per ordinary share

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

	Year ended 31 December	
	2019	2018
	£'000	£'000
Loss		
Loss for the purposes of loss per share being net loss attributable to equity holders of the parent	(4,471)	(4,213)
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	80,727,450	80,727,450
	Pence	Pence
Loss per share		
Basic	(5.5)	(5.2)

9. Investments

The Company's investments comprised the following:

	Year ended 31 December	
	2019	2018
	£'000	£'000
Total investments	134,283	135,092
These comprise:		
Investment portfolio of the Company	6,636	5,069
Investment portfolio of subsidiaries	25,605	39,814
Investment portfolio - total	32,241	44,883
Other net assets of subsidiaries	102,042	90,209
	134,283	135,092

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

Investment portfolio of the Company	31 December 2019		31 December 2018	
	£'000	£'000	£'000	£'000
Asset type				
Quoted		5,906		4,469
Unquoted direct		730		600
Funds		-		-
		6,636		5,069
Investment portfolio of subsidiaries				
Asset type				
Quoted	2,515		1,292	
Unquoted direct	8,983		17,724	
Funds	14,107		20,798	
Other net assets of subsidiaries	102,042		90,209	
	127,647	127,647	130,023	130,023
		134,283		135,092

The movements in the investment portfolio were as follows:

	Quoted securities	Unquoted securities	Funds	Total
	£'000	£'000	£'000	£'000
Carrying value				
Balance at 1 January 2018	8,644	22,904	32,270	63,818
Purchases	4,133	1,072	51	5,256
Disposals - Carrying value	(3,007)	(6,353)	-	(9,360)
Distributions from partnerships	-	-	(8,495)	(8,495)
Fair value adjustments	(4,009)	701	(3,028)	(6,336)
Balance at 31 December 2018	5,761	18,324	20,798	44,883
Balance at 1 January 2019	5,761	18,324	20,798	44,883
Purchases	-	514	573	1,087
Disposals - Carrying value	(178)	(7,694)	(681)	(8,553)
Distributions from partnerships	-	-	(66)	(66)
Fair value adjustments	2,838	(1,431)	(6,517)	(5,110)
Balance at 31 December 2019	8,421	9,713	14,107	32,241

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

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

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

Level 3: inputs for the asset that are not based on observable market data (unobservable inputs such as trading comparables and liquidity discounts).

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information (see note 14 - Financial risk management).

The Company's investments are analysed as follows:

	31 December	
	2019	2018
	£'000	£'000
Level 1	5,906	4,469
Level 2	730	600
Level 3	127,647	130,023
	134,283	135,092

Level 3 amounts include £25,605,000 (2018: £39,814,000) relating to the investment portfolios of subsidiaries (including quoted investments of £2,515,000 (2018: £1,292,000)) and £102,042,000 (2018: £90,209,000) in relation to the other net assets of subsidiaries.

10. Operating and other receivables

	31 December	
	2019	2018
	£'000	£'000
Other receivables and prepayments	166	40
	166	40

11. Cash and cash equivalents

	31 December	
	2019	2018
	£'000	£'000
Bank balances	10,951	4,096
Short-term deposits	14,128	11,344
	25,079	15,440

At 31 December 2019, a balance of £14.128 million (2018: £11.344 million) was held in short term deposit accounts with no maturity date meaning it was immediately available. In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year are included as a current asset on the face of the balance sheet.

12. Operating and other payables

	31 December	
	2019	2018
	£'000	£'000
Other liabilities	710	-
Trade payables	225	41
Other non-trade payables and accrued expenses	650	424
	1,585	465

The Company operates carried interest arrangements in line with normal practice in the private equity industry, calculated on the assumption that the investment portfolio is realised at its year-end carrying amount. As at 31 December 2019, £710,000 has been accrued for in the Company and £629,000 has been accrued for in the subsidiaries. Carried interest accrued for in the subsidiaries is included in the amounts owing to subsidiaries on the statement of financial position. In 2018 £939,000 was accrued for in the subsidiaries however £195,000 of this should have been accrued for in the Company. The overall impact on LMS Capital plc creditors 2018 is nil, however the amounts payable to third parties was understated by £195,000 and the amounts payable to subsidiaries was overstated by £195,000.

13. Capital and reserves

Share capital

	2019	2019	2018	2018
	Number	£'000	Number	£'000
Ordinary shares				
Balance at the beginning of the year	80,727,450	8,073	80,727,450	8,073
Repurchase of shares	-	-	-	-
Balance at the end of the year	80,727,450	8,073	80,727,450	8,073

The Company's ordinary shares have a nominal value of 10p per share and all shares in issue are fully paid up.

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

There were no issue or repurchases of shares in the year (2018: £nil).

Share premium account

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

Capital redemption reserve

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

14. Financial risk management

Financial Assets and Financial Liabilities

The following tables analyse the Company's financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are not included in the table below:

	31 December					
	2019			2018		
	Fair Value through profit or loss	Measured at amortised cost	Total	Fair Value through profit or loss	Measured at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Investments	134,283	-	134,283	135,092	-	135,092
Operating and other receivables	-	166	166	-	40	40
Cash and cash equivalents	-	25,079	25,079	-	15,440	15,440
Total	134,283	25,245	159,528	135,092	15,480	150,572

	31 December					
	2019			2018		
	Fair Value through profit or loss	Measured at amortised cost	Total	Fair Value through profit or loss	Measured at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities						
Operating and other payables	-	1,585	1,585	-	465	465
Amounts payable to subsidiaries	-	101,985	101,985	-	89,832	89,832
Total	-	103,570	103,570	-	90,297	90,297

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

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

- credit risk;
- liquidity risk; and
- market risk.

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

Credit risk

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

	31 December	
	2019	2018
	£'000	£'000
Operating and other receivables	166	40
Cash and cash equivalents	25,079	15,440
	25,245	15,480

The Company limits its credit risk exposure by only depositing funds with highly rated institutions. Cash holdings at 31 December 2019 and 2018 were held in institutions currently rated A or better by Standard and Poor's. Given these ratings the Company does not expect any counterparty to fail to meet its obligations and therefore no allowance for impairment is made for bank deposits.

The loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade receivables:

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
2019	£'000	£'000	£'000	£'000	£'000
Expected loss rate	-	-	-	100%	
Trade receivables	-	-	-	59	59
Other receivables	166	-	-	-	166
Loss allowance	-	-	-	(59)	(59)
Total	166	-	-	-	166
2018	£'000	£'000	£'000	£'000	£'000
Expected loss rate	-	-	-	100%	
Trade receivables	-	-	-	59	59
Other receivables	40	-	-	-	40
Loss allowance	-	-	-	(59)	(59)
Total	40	-	-	-	40

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Its financing requirements are met through a combination of liquidity from the sale of investments and the use of cash resources.

Operating and other payables are due within six months or less.

In addition, certain of the Company's subsidiaries have uncalled capital commitments to funds of £3,065,000 (31 December 2018: £3,123,000) for which the timing of payment is uncertain (see note 15).

Market risk

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

Currency risk

The Company is exposed to currency risk on those of its investments which are denominated in a currency other than the Company's functional currency which is pounds sterling. The only other significant currency within the investment portfolio is the US dollar; approximately 48% of the investment portfolio is denominated in US dollars.

The Company does not hedge the currency exposure related to its investments. The Company regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return, and does not seek to mitigate that risk through the use of financial derivatives.

The Company is exposed to translation currency risk on sales and purchases which are denominated in a currency other than the Company's functional currency. The currency in which these transactions are denominated is principally US dollars.

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

	31 December					
	2019			2018		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	117,601	15,331	1,351	107,579	26,160	1,353
Operating and other receivables	166	-	-	40	-	-
Cash and cash equivalents	24,498	581	-	14,668	772	-
Operating and other payables	(103,570)	-	-	(90,297)	-	-

Gross exposure	38,695	15,912	1,351	31,990	26,932	1,353
Forward exchange contracts	-	-	-	-	-	-
Net exposure	38,695	15,912	1,351	31,990	26,932	1,353

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

	31 December	
	2019	2018
	£'000	£'000
Net foreign exchange (loss)/gain on investment	(478)	1,779
Net foreign exchange (loss)/gain on non-investment	(272)	99
Total net foreign exchange (losses)/gains recognised in profit before income tax for the period	(750)	1,878

At 31 December 2019, the rate of exchange was USD 1.33 = £1.00 (31 December 2018: USD 1.28 = £1.00). The average rate for the year ended 31 December 2019 was USD 1.28 = £1.00 (2018: USD 1.33 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity by £1.7 million at 31 December 2019 (31 December 2018: increase of £2.8 million) and decreased the loss for the year ended 31 December 2019 by £1.7 million (2018: decreased the loss by £2.8 million). This assumes that all other variables, in particular interest rates, remain constant. A weakening of the US dollar against the pound sterling would have decreased equity and increased the loss for the year by the same amounts. This level of change is considered to be reasonable based on observations of current conditions.

Interest rate risk

At the reporting date the Company's cash and cash equivalents are exposed to interest rate risk and the sensitivity below is based on these amounts.

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £203,000 (31 December 2018: increase of £89,000) and decreased the loss for the year by £203,000 (2018: £89,000). A decrease of 100 basis points would have decreased equity and increased the loss for the year by the same amounts. This level of change is considered to be reasonable based on observations of current conditions.

Fair values

All items not held at fair value in the Statement of Financial Position have fair values that approximate their carrying values.

Other market price risk

Equity price risk arises from equity securities held as part of the Company's portfolio of investments. The Company's management of risk in its investment portfolio focuses on diversification in terms of geography and sector, as well as type and stage of investment.

The Company's investments comprise unquoted investments in its subsidiaries and investments in quoted investments. The subsidiaries' investment portfolios comprise investments in quoted and unquoted equity and debt instruments. Quoted investments are quoted on the main stock exchanges in London and USA. A proportion of the unquoted investments are held through funds managed by external managers.

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

The significant unobservable inputs used at 31 December 2019 in measuring investments categorised as level 3 in note 8 are considered below:

- Unquoted securities (carrying value £9.7 million) are valued using the most appropriate valuation technique such as a revenue-based approach, an earnings-based approach, or a discounted cash flow approach. These investments are sensitive to both the overall market and industry specific fluctuations that can impact multiples and comparable company valuations. In most cases the valuation method uses inputs based on comparable quoted companies for which the key unobservable inputs are:
 - EBITDA multiples in the range 4-8 times dependent on the business of each individual company, its performance and the sector in which it operates;
 - revenue multiples in the range 0.75-3.5 times, also dependent on attributes at individual investment level; and
 - discounts applied of up to 50%, to reflect the illiquidity of unquoted companies compared to similar quoted companies. The discount used requires the exercise of judgement taking into account factors specific to individual investments such as size and rate of growth compared to other companies in the sector.
- Investments in funds (carrying value £14.1 million) are valued using reports from the general partners of the fund interests with adjustments made for calls, distributions and foreign currency movements since the date of the report (if prior to 31 December 2019). The Company also carries out its own review of individual funds and their portfolios to satisfy ourselves that the underlying valuation bases are consistent with our basis of valuation and knowledge of the investments and the sectors in which they operate. However, the degree of detail on valuations varies significantly by fund and, in general, details of unobservable inputs used are not available.

The valuation of the investments in subsidiaries makes use of multiple interdependent significant unobservable inputs and it is impractical to sensitise variations of any one input on the value of the investment portfolio as a whole. Estimates and underlying assumptions are reviewed on an ongoing basis however inputs are highly subjective. Changes in any one of the variables, earnings or revenue multiples or illiquidity discounts could

potentially have a significant effect on the valuation.

If the valuation for level 3 category investments declined by 10% from the amount at the reporting date, with all other variables held constant, the loss for the year ended 31 December 2019 would have increased by £12.7 million (2018: loss increased by £13.0 million). An increase in the valuation of level 3 category investments by 10% at the reporting date would have an equal and opposite effect.

Capital management

The Company's total capital at 31 December 2019 was £56 million (31 December 2018: £60.3 million) comprising equity share capital and reserves. The Company had borrowings at 31 December 2019 or of £nil 31 December 2018.

In order to meet the Company's capital management objectives, the Board monitor and review the broad structure of the Company's capital on an ongoing basis. This review includes:

- Working capital requirements and follow-on investment capital for portfolio investments, including calls from funds;
- Capital available for new investments; and
- The annual dividend policy and possible other distributions to shareholders.

15. Capital commitments

	31 December	
	2019	2018
	£'000	£'000
Outstanding commitments to funds	3,065	3,123

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

16. Related party transaction

The increase in these costs due to the provision was provided for the termination arrangement agreed between the Company and the Gresham House Asset Management Limited.

Gresham House Asset Management Limited was appointed the investment manager of LMS Capital plc on 16 August 2016 and the agreement was terminated on 30 January 2020. Amounts charged by the Investment Manager in 2019 were £1,284,000 (2018: £915,000). During the year, the Company accrued additional £400,000 in relation to termination fees payable to Gresham House Asset Management Limited.

The Directors fee paid for the year was £202,000 (2018: £185,000).p

17. Subsequent events

Lion Cub Investments Limited has changed its name to Cavera Limited, with effect from 9th January 2020. LMS Co-Invest Limited was incorporated in England and Wales on 10th January 2020. LMS Co-Invest Limited is a subsidiary of the Company and its registered address is: Two London Bridge, London SE1 9RA

The Company paid £3,431,000 (4.25p per share) to shareholders on 15 January 2020.

On 30 January 2020, the Company terminated the agreement between GHAM and the Company and with immediate effect upon the entry of the Company on the register of small registered UK AIFMs.

Over recent weeks the Covid-19 global pandemic has spread and is likely to have a material impact on businesses in the Company's investment portfolio in both the UK and the US. This crisis is a developing situation as of the date of this report, and the Company continues to closely monitor the impact on its business and portfolio. At the date of this report, the Company is unable to assess the financial impact on its portfolio investments. This situation is considered to be a non-adjusting post balance sheet event in respect of the Statement of Financial Position and therefore no quantitative adjustment has been made to the financial statements. The Company will provide information to the markets in accordance with its established practice and regulatory requirements.

Although the Company is currently unable to quantify any specific amounts, the key future impacts are expected to be as follows:

- Declines in the fair value of quoted investments as a result of the overall decline in the U.S. and U.K. equity markets;
- Potential declines in the fiscal 2020 valuations of unquoted and funds investments that are valued using market multiples. The declines may come from a decrease in the market multiples, or a decline in the underlying financial metric used in the valuation such as revenues or EBITDA; and
- Potential liquidity impacts to the underlying businesses in our portfolio investments from any tightening of the capital markets that could negatively impact the ability to access capital through either debt or equity.

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

18. Subsidiaries

The Company's subsidiaries are as follows:

Name	Country of incorporation	Holding %	Activity
International Oilfield Services Limited	Bermuda	100	Investment holding
LMS Capital (Bermuda) Limited	Bermuda	100	Investment holding
LMS Capital (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 of America	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, certain of the Company's carried interest arrangements are operated through five limited partnerships (LMS Capital 2007 LP, LMS Capital 2008 LP, LMS Capital 2009 LP, LMS Capital 2010 LP and LMS Capital 2011 LP) which are registered in Bermuda.

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

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

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

Subsidiary incorporated in the United States of America: c/o Two London Bridge, London, SE1 9RA.

19. NAV per share

The NAV per ordinary shares in issue are as follows:

	31 December	
	2019	2018
NAV (£'000)	55,958	60,275
Number of ordinary shares in issue	80,727,450	80,727,450
NAV per share (in pence)	69.3 pence	74.7 pence

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