

27 July 2016

This announcement does not constitute an offer to purchase, or solicitation of an offer to sell, Ordinary Shares.

LMS Capital plc

Proposed change to the Company's investment policy and return of capital to shareholders

LMS Capital plc (the "**Company**") is today announcing proposals to change the Company's investment policy and to return up to £6 million to Shareholders through a tender offer and repurchase of up to 7.72% of the issued share capital of the Company at a 5 per cent. discount to its net asset value per share as at 30 June 2016 (the "**Tender Offer**").

If the Tender Offer is completed it will bring the total returned to shareholders to £161 million since the commencement of the Company's realisation strategy. This exceeds the Company's market capitalisation of £155 million at the start of its realisation strategy. As explained below, the Company is intending to make further returns to shareholders that will increase the total returned.

A Circular ("the **Circular**") setting out the full details of the proposals and containing a Notice of General Meeting is being sent to shareholders today and will shortly be available on the Company's website at www.lmscapital.com.

In accordance with the Listing Rules of the Financial Conduct Authority, a copy of the Circular has been submitted to the FCA and will be submitted to the National Storage Mechanism. It will shortly be available for inspection at www.morningstar.co.uk/uk/NSM.

Change to the Company's investment policy

The Company is proposing to change its investment policy from the current realisation strategy to a new policy predominantly focused on private equity investment. If the proposed investment policy is approved by shareholders, the Company will target a return on equity, after running costs, of between 12 per cent. and 15 per cent. per annum over the long term.

If this change is approved, the Company will appoint Gresham House Asset Management Limited ("**GHAM**") (a subsidiary of Gresham House plc) as its investment manager to carry out the new investment policy and to manage the Company's assets on a discretionary basis.

The board believes that the proposal to change the investment policy will:

- result in cost savings under the arrangements with GHAM as costs are absorbed into a larger management business and economies of scale can be achieved;
- improve prospects for long-term capital growth in the net asset value of the Company through the implementation of a new investment policy and the strategic relationship with GHAM and the skills and expertise of the GHAM management team;
- allow those of the Company's assets with growth potential to be managed for a longer period, generating additional returns;
- avoid the Company incurring costs in connection with the winding-up of its legal structure.

In consideration of the value of awarding GHAM the position of investment manager, the Company will receive £1 million worth of new ordinary Gresham House shares on the date on which the agreement appointing GHAM becomes effective. The Company will also receive further new ordinary Gresham House shares with a value of up to £1.25 million on the second anniversary of that agreement, subject to the satisfaction of certain conditions as set out in the Circular. In order to give Shareholders the opportunity to benefit further from any accretion in value derived by Gresham House from the management of the Company's assets, the Company will commit up to £1.5 million in acquiring a further interest in shares and/or warrants in Gresham House.

The Company requires approval from both the FCA and shareholders for any material change to its investment policy. The Company has received FCA approval for the proposed change and is now seeking shareholder approval.

If the new investment policy is approved, Nicholas Friedlos and Antony Sweet will cease to be employees of the Company and will step down from the board. The Company will be governed by a non-executive board comprising Martin Knight, Rod Birkett, Bernard Duroc-Danner, Neil Lerner and Robert Rayne. Nicholas Friedlos and Antony Sweet will both become employees of GHAM and will continue to work on matters relating to the Company's portfolio.

Further details on the change to the investment policy, including the text of the proposed investment policy and of the investment management agreement and other arrangements with Gresham House, are set out in the Circular.

Tender offer

The Company is proposing a return of capital to shareholders (other than certain overseas shareholders) by way of tender offer and associated repurchase of up to £6 million at a 5 per cent. discount to the net asset value per share of the Company as at 30 June 2016. The maximum number of ordinary shares subject to the repurchase under the Tender

Offer will be 8,000,000, equivalent to 7.72 per cent. of the issued share capital of the Company. On the date of the General Meeting, the Company will calculate the Tender Offer price based on the unaudited net asset value of the Company as at 30 June 2016 less 5 per cent. Shareholders, other than certain overseas shareholders, are today being sent a tender form to enable them to participate in the Tender Offer

Further tender offers

The Company is proposing two further tenders (and associated repurchases) together representing 50 per cent. of the net proceeds of further disposals of assets in the Company's existing portfolio. The further tenders (and associated repurchases) will be for a maximum of £11 million and it is intended that distributions of up to £6 million and up to £5 million are to be made. These further tenders (and associated repurchases) will be carried out when sufficient disposals have been made, after the date of the Circular, such that the required tender and associated repurchase amount can be satisfied from 50 per cent. of the net proceeds of such disposals, and will be at a 5 per cent. discount to the net asset value of the Company at the relevant time. The further tenders (and associated repurchases) are described in more detail in the Circular.

Rule 9 Waiver

Subject to the adoption of the new investment policy, members of the Rayne Family and associated trusts together holding 34.04 per cent. of the ordinary shares in the Company (the "**Concert Party**") have undertaken not to participate in the Tender Offer. This will result in the Concert Party's holding in the share capital of the Company increasing to a maximum possible holding of 36.89 per cent once the subsequent repurchase occurs (assuming full take up of the Tender Offer). Consequently the Company has applied to the Panel for a waiver of Rule 9 of the Takeover Code in order to permit the Tender Offer to occur without triggering an obligation on the part of the Concert Party to make a general offer to shareholders. The Panel has agreed, subject to the approval of shareholders (excluding the Concert Party) (the "**Independent Shareholders**") on a poll vote, to waive the requirement for the Concert Party to make a general offer to all shareholders that would arise as a result of the Tender Offer (the "**Waiver**").

Support for proposals

The Company has received irrevocable undertakings from the Concert Party representing 34.04 per cent. of the ordinary shares to vote in favour of the resolutions to approve the change in investment policy and to approve the Tender Offer.

The Company has also received non-binding letters of support from shareholders representing approximately 19.58 per cent. of the ordinary shares confirming their intention to vote in favour of the resolutions to approve the change in investment policy, the Tender Offer and the Waiver.

General Meeting

A General Meeting is being convened for 3.00 p.m. on 16 August 2016 to consider and, if thought fit, pass the resolutions to change the investment policy, approve the Waiver and approve the Tender Offer as set out in full in the Notice of General Meeting at the end of the Circular. The implementation of the Tender Offer is conditional on the passing of the resolution to approve the Waiver. If such approval is obtained at the General Meeting, the Tender Offer is expected to open on 16 August 2016. Full details of the Tender Offer timetable, mechanics and settlement procedure are set out in the Circular.

Recommendation

The Board considers the change to investment policy and Tender Offer to be in the best interest of shareholders as a whole. Accordingly, the Board is recommending that shareholders vote in favour of the resolutions to approve the change in investment policy and to approve the Tender Offer at the General Meeting, as the Directors intend to do in respect of their own beneficial holdings of, in aggregate, 3,389,815 ordinary shares, representing approximately 3.28 per cent. of the ordinary shares currently in issue.

The directors (excluding Robert Rayne) (the "**Independent Directors**"), who have been so advised by J.P. Morgan Cazenove, consider the Waiver to be fair and reasonable and in the best interests of the Independent Shareholders. In providing advice to the Independent Directors, J.P. Morgan Cazenove has taken into account, among other things, the Independent Directors' commercial assessments. The Independent Directors also consider the Waiver to be in the best interests of the Company as a whole. Accordingly, the Independent Directors are unanimously recommending that the Independent Shareholders vote in favour of the Waiver at the General Meeting, as the Independent Directors intend to do in respect of their own beneficial holdings of, in aggregate, 419,379 ordinary shares, representing approximately 0.40 per cent. of the ordinary shares currently in issue.

Timeline to change of investment policy

Latest time and date for receipt of Forms of Proxy.....	3.00 p.m. on 12 August 2016
General Meeting	3.00 p.m. on 16 August 2016
Effective date of change of investment policy	On or around 16 August 2016
Announcement of results of the General Meeting	7.00 a.m. on 17 August 2016
Tender Offer opens	17 August 2016

Announcement of Tender Offer Price.....	7.00 a.m. on 17 August 2016
Announcement of Basic Entitlement.....	7.00 a.m. on 17 August 2016
Latest time and date for receipt of Tender Forms and share certificates in relation to the Tender Offer	1.00 p.m. on 31 August 2016
Latest time and date for receipt of TTE instructions in relation to the Tender Offer	1.00 p.m. on 31 August 2016
Tender Offer Record Date.....	6.00 p.m. on 31 August 2016
Announcement of results of the Tender Offer	1 September 2016
CREST accounts credited in respect of Tender Offer proceeds for uncertificated Ordinary Shares.....	From 6 September 2016
Cheques despatched in respect of Tender Offer proceeds for certificated Ordinary Shares.....	From 6 September 2016
Despatch of balancing share certificates for revised, certificated holdings of Ordinary Shares.....	From 6 September 2016

Commenting on the proposed Change of Investment Policy, Martin Knight, Chairman of LMS Capital plc, said:

“We have continued with the realisation strategy during the first half of the year but the Board is mindful that, as the portfolio reduces in size, the management time and costs involved in running the portfolio, together with the requirement to maintain sufficient working capital requirements, could increasingly impact returns to shareholders.

The Board is excited by the prospect of working with the new investment manager which it believes is an opportunity to create long term value for shareholders”

LMS Capital plc

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