



LMS
CAPITAL

LMS Capital plc ~ Interim Report 2007

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LMS Capital plc is an independent investment company. We aim to achieve medium to long-term growth through a risk-diversified portfolio of investments in public and private companies and funds. These are focused in sectors where management has extensive experience including applied technology, energy, healthcare and medical, media and leisure, and real estate.

Highlights 30 June 2007

Financial*

£256.0 million valuation of investment portfolio
(31 December 2006 – £234.9 million)

93p Net Asset Value per share (31 December 2006 – 90p)

£10.6 million net gains on investments for the six
months ended 30 June 2007 (nine months ended
31 December 2006 – net loss of £6.4 million)

£7.6 million profit for the six months ended
30 June 2007 (nine months ended 31 December 2006
– loss of £10.8 million)

Operational

Significant progress in the underlying performance
of our unquoted investments

Acquisition of an interest in Brockton Capital Fund I,
a real estate opportunity fund

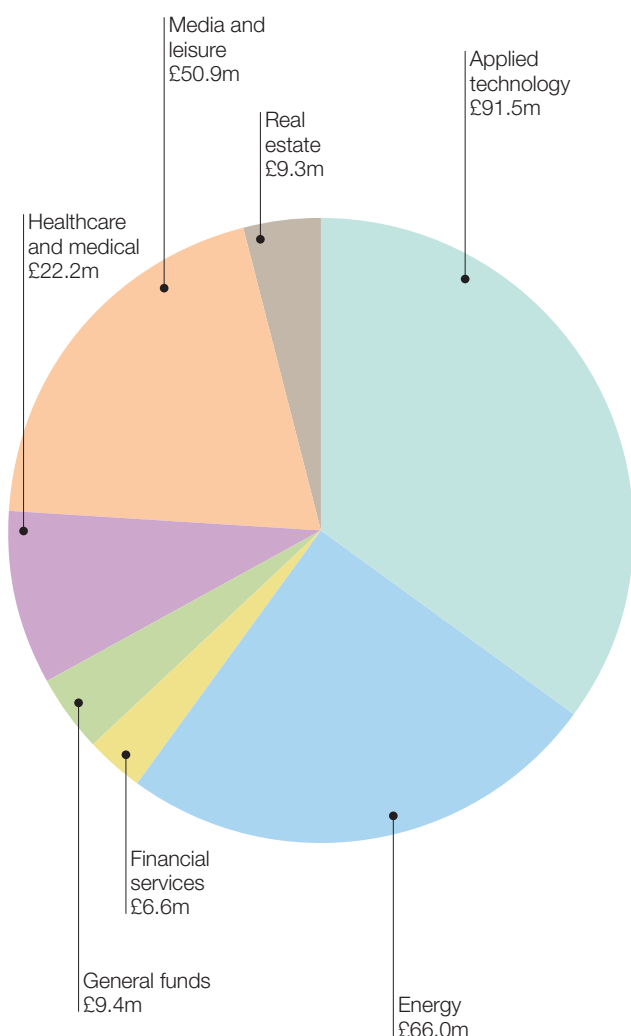
Energy Cranes International performing in line with
expectations and expected to benefit from the
increased scale provided by the acquisitions of
Aberdeen Hydraulics and Marine & Mainland

*The financial highlights are based on the results and net assets of the Group's investment management business as set out in note 2 to the financial information.

Our portfolio

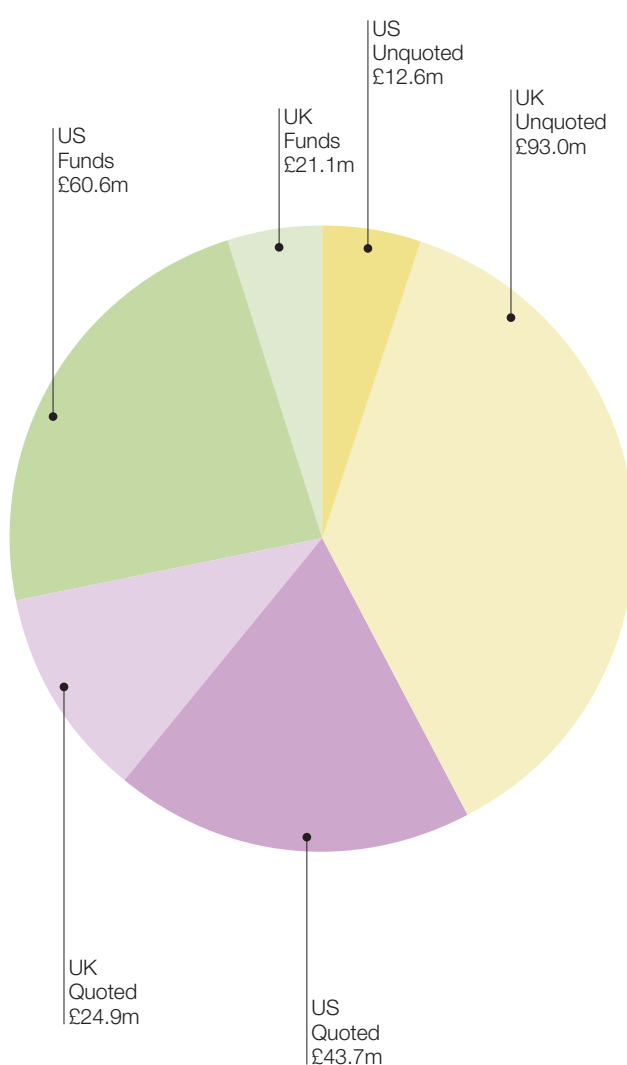
Portfolio split by sector

Applied technology	35%	£91.5m
Energy	25%	£66.0m
Financial services	3%	£6.6m
General funds	4%	£9.4m
Healthcare and medical	9%	£22.2m
Media and leisure	20%	£50.9m
Real estate	4%	£9.3m
Total	100%	£255.9m



Portfolio split by asset type and geography

US Unquoted	5%	£12.6m
UK Unquoted	36%	£93.0m
US Quoted	17%	£43.7m
UK Quoted	10%	£24.9m
US Funds	24%	£60.6m
UK Funds	8%	£21.1m
Total	100%	£255.9m



Half year review 2007

We are pleased to present LMS Capital's results for the six months to 30 June 2007. During our first full year of operation since the demerger in June 2006, we have made steady progress in managing the portfolio, building the investment team and developing our network and deal flow.

Our objective is to deliver sustained medium to long-term growth for our shareholders: our time horizon for investments is generally longer than that of typical private equity investors operating through a fund structure. We invest in companies operating in industries we believe have the potential for superior growth. These include applied technology, energy, healthcare and medical, media and leisure and, more recently, real estate. Management has extensive prior experience in these areas, gained through several economic cycles.

The valuation of our investments for these results has taken place against a background of turbulence in financial markets. We believe that the approach to valuation adopted by the Group is appropriate for current conditions.

Reporting

The Group is for the first time reporting its results under International Financial Reporting Standards (IFRS) as adopted by the European Union ('adopted IFRS'), which require the consolidation of portfolio companies which are also subsidiaries. Since the Board manages the Company as an investment business, we believe that we should focus on the results of our investment management operations. Note 2 to the financial information includes the results and net assets of the investment business without consolidation of portfolio subsidiaries. These are the figures referred to in this review.

Results

Net Asset Value at 30 June 2007 was £266.2 million (31 December 2006 – £258.5 million), an increase of £7.7 million or 3%. The Net Asset Value per share was 93p (31 December 2006 – 90p). The value of the investment portfolio increased by £21.1 million (9%) to £256.0 million (31 December 2006 – £234.9 million).

Profit for the six months to 30 June 2007 was £7.6 million, compared to a loss of £10.8 million in the nine months to 31 December 2006.

Sales of investments totalled £21.1 million. North American quoted investments accounted for £13.9 million of sales, in particular oilfield services stocks Grant Prideco and Ivanhoe.

The realised gain on quoted investments was £0.9 million. Fund distributions totalled £7.0 million, including £3.0 million from Spectrum and £1.4 million from Weiss, Peck & Greer. The realised gain on funds was £1.5 million.

The overall fair value adjustment was an increase of £8.2 million. There were gains on US quoted stocks (notably oilfield services) and on funds, including £2.5 million in relation to San Francisco Equity Partners. These gains were offset by a reduction in the market value of ProStrakan, which was down by £5.2 million during the period, and by the impact of the further weakening of the US dollar. The exchange rate effect was a net unrealised loss of £2.5 million in the six months to 30 June 2007 (nine months to 31 December 2006 – net unrealised loss of £13.4 million). There have been no downward adjustments to the carrying value of UK unquoted investments (nine months to 31 December 2006 – net unrealised loss of £2.7 million).

Additions to the portfolio during the period totalled £31.5 million, of which £19.7 million went into new investments and the balance was follow-on financing into the portfolio or capital calls from funds.

The largest new investment was £7.9 million to acquire an interest in Brockton Capital Fund I, a real estate opportunity fund. This has an associated future funding commitment of £15.7 million. The Brockton team, which is well known to us, has a deep analytical understanding of property and how best to enhance value. As part of the development of our real estate interests we have made two further commitments. One is to a vehicle focusing on commercial property opportunities in California and the other to Illyrian Land Fund II, which concentrates on high growth or undervalued assets in South Eastern and Eastern Europe. The latter is managed by EMAC, in which we have an 8.8% interest.

Purchases of quoted stocks totalled £8.1 million, with a focus on oilfield services: £3.6 million was invested in BJ Services, listed on the New York Stock Exchange, and £3.4 million in Venture Production, a UK company which is involved in acquiring, operating and revitalising oil and gas fields with proven yet untapped potential.

Follow-on investment in the UK unquoted portfolio amounted to £5.7 million, including £2.6 million in Wesupply to support the planned growth of the company.

Portfolio

Our top ten investments at 30 June 2007, comprising £146.3 million by value and 57% of our total portfolio, were:

Name	Activity	Geography	Valuation	
			30 June 2007 £ 000	31 December 2006 £ 000
Energy Cranes	Offshore crane operations	UK	34,000	34,000
San Francisco Equity Partners	Technology, media and retail fund	US	25,712	19,528
Weatherford International	Oilfield services	US	25,330	19,704
ProStrakan Group	Pharmaceuticals	UK	14,223	19,427
Cityspace	Applied technology	UK	12,500	12,500
Brockton Capital	Real estate fund	UK	7,950	–
Citizen (Vio Worldwide)	Software	UK	7,000	7,000
Rave Reviews Cinemas	Cinema operator	US	6,978	7,854
Wesupply	Software	UK	6,650	4,000
Spectrum IV	Communications and IT fund	US	6,190	8,208

Energy Cranes, our largest investment, continues to perform well and is benefiting from the continuing strength of the oilfield services sector. Annual revenues now exceed £100 million and the Group employs over 1,500 staff. Subsequent to the reporting period, Energy Cranes completed the acquisitions of Aberdeen Hydraulics in the UK and Marine & Mainland in the Gulf of Mexico, both of which are complementary to the company's existing activities and enhance earnings.

San Francisco Equity Partners made follow-on investments during the period in Penguin Computing, ModViz and The Guild totalling £1.5 million.

The Group's unquoted technology investments in the UK made steady progress during the period, with combined revenues increasing by 10% over the previous year and sales pipelines strengthening. Active management of the underlying companies, including some personnel changes and restructuring, has had positive results.

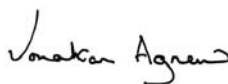
Dividend

The Board does not propose an interim dividend.

Outlook

As financial and other markets adjust to a new environment, sentiment is likely to be more cautious than in the recent past. The re-pricing of risk in global credit markets does not look like a short-term phenomenon.

We believe that our strategy of risk diversification will serve us well in these conditions. Our portfolio is diversified by industry sector, by geography and by stage of investment, ranging from early stage companies to mature buyouts. While the bulk of our portfolio is in unquoted investments and in funds, our quoted securities give us sufficient liquidity if required. We are well placed to deliver good medium to long-term returns to shareholders.



Jonathan Agnew
Chairman



Robert A Rayne
Chief Executive Officer

17 September 2007



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

Principal direct investments



Company	7 Global Limited
Description	IT managed services, encompassing network services, infrastructure services, datacentre services and hosted applications.
MD	Chris Bithell
Website	www.7global.com



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



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



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



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



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



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



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



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



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



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



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



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



Company	PrimeStar Restaurant Group SA
Description	Moscow-based chain of sandwich outlets.
CEO	Tatyana Burdelova



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



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



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



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

Consolidated income statement

	Notes	Six months ended 30 June 2007 £ 000	Nine months ended 31 December 2006 £ 000
Revenue from sales of goods and services		61,288	82,109
Gains and losses on investments held at fair value through profit or loss		10,178	(13,369)
Interest income		548	1,410
Investment and other income		26	157
		72,040	70,307
Operating expenses		(62,786)	(84,039)
Other expenses	3	–	(3,097)
Profit/(loss) before finance costs		9,254	(16,829)
Finance costs		(820)	(4,225)
Profit/(loss) before tax		8,434	(21,054)
Taxation		(1,048)	(573)
Profit/(loss) for the period		7,386	(21,627)
Attributable to:			
Equity holders of the parent		7,127	(21,860)
Minority interests		259	233
		7,386	(21,627)
Basic earnings/(loss) per ordinary share	4	2.5p	(7.6)p
Diluted earnings/(loss) per ordinary share	4	2.5p	(7.6)p

The notes on pages 12 to 26 form part of these financial statements.

Consolidated balance sheet

	30 June 2007 £ 000	31 December 2006 £ 000
Non-current assets		
Property, plant and equipment	13,417	12,558
Intangible assets	42,327	35,714
Investments held at fair value through profit or loss	201,329	188,370
Investments in joint ventures	77	208
Non-current assets	257,150	236,850
Current assets		
Inventories	4,616	8,395
Operating and other receivables	37,253	30,978
Cash and cash equivalents	13,122	29,859
Current assets	54,991	69,232
Total assets	312,141	306,082
Current liabilities		
Bank overdrafts	(6)	(293)
Interest-bearing loans and borrowings	–	(2,188)
Operating and other payables	(22,444)	(26,823)
Deferred income	(2,251)	(1,441)
Current tax liabilities	–	(203)
Current liabilities	(24,701)	(30,948)
Non-current liabilities		
Interest-bearing loans and borrowings	(28,006)	(23,866)
Deferred income	(861)	–
Deferred tax liabilities	(31)	(320)
Non-current liabilities	(28,898)	(24,186)
Total liabilities	(53,599)	(55,134)
Net assets	258,542	250,948
Equity		
Share capital	28,643	28,643
Capital redemption reserve	4,257	4,257
Merger reserve	84,083	84,083
Foreign exchange translation reserve	(980)	(927)
Other reserves	288	–
Retained earnings	137,675	130,548
Equity attributable to owners of the parent	253,966	246,604
Minority interest	4,576	4,344
Total equity	258,542	250,948

The financial statements on pages 8 to 26 were approved by the Board on 17 September 2007 and were signed on its behalf by:

R A Rayne
Director

The notes on pages 12 to 26 form part of these financial statements.

Consolidated statement of recognised income and expense

	Six months ended 30 June 2007 £ 000	Nine months ended 31 December 2006 £ 000
Exchange differences on translation of foreign operations	(80)	(809)
Net income/(loss) recognised directly in equity	(80)	(809)
Profit/(loss) for the year	7,386	(21,627)
Total recognised income and expense	7,306	(22,436)
Attributable to:		
Equity holders of the parent	7,074	(22,446)
Minority interests	232	10
	7,306	(22,436)

The notes on pages 12 to 26 form part of these financial statements.

Consolidated cash flow statement

	Six months ended 30 June 2007 £ 000	Nine months ended 31 December 2006 £ 000
Cash flows from operating activities		
Profit/(loss) for the period	7,386	(21,627)
Adjustments for:		
Depreciation	942	1,258
(Gains)/losses on investments held at fair value	(10,178)	13,369
Translation differences	299	1,322
Share based payments	288	–
Finance costs	820	4,225
Interest income	(548)	(1,410)
Income tax expense	1,048	573
	57	(2,290)
Change in inventories	3,779	(2,357)
Change in trade and other receivables	(5,718)	(4,004)
Change in trade and other payables	(3,952)	6,931
	(5,834)	(1,720)
Interest paid	(820)	(4,225)
Income tax paid	(1,371)	(2,181)
Net cash used in operating activities	(8,025)	(8,126)
Cash flows from investing activities		
Interest received	548	1,410
Acquisition of property, plant and equipment	(1,924)	(5,292)
Acquisition of investments	(28,066)	(45,660)
Acquisition of subsidiary	(1,610)	–
Proceeds from sale of investments	20,675	30,174
Net cash used in investing activities	(10,377)	(19,368)
Cash flows from financing activities		
Issue of preference shares	–	50
Repurchase of own shares	–	(30,239)
Redemption of preference shares	–	(50)
Drawdown of interest bearing loans	1,952	10,041
Distribution to minority shareholders	–	(16,138)
Funding from group pre-demerger	–	48,661
Net cash from financing activities	1,952	12,325
Net decrease in cash and cash equivalents	(16,450)	(15,169)
Cash and cash equivalents at the beginning of the period	29,566	44,735
Cash and cash equivalents at the end of the period	13,116	29,566
Cash and cash equivalents above comprise		
Cash and cash equivalents	13,122	29,859
Bank overdrafts	(6)	(293)
Cash and cash equivalents at the end of the period	13,116	29,566

The notes on pages 12 to 26 form part of these financial statements.

Notes to the financial information

1. Principal accounting policies

Basis of preparation

LMS Capital plc ('the Company') is domiciled in the United Kingdom. This financial information is presented in pounds sterling because that is the currency of the principal economic environment of the Company's operations. The consolidated interim accounts of the Company for the six months ended 30 June 2007 comprise the Company and its subsidiaries (together 'the Group').

The AIM Rules require that the next annual consolidated financial statements of the Company, for the year ending 31 December 2007, be prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS').

This interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRS as at 30 June 2007 that are effective (or available for early adoption) at 31 December 2007, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted IFRS, the directors have applied the accounting policies, as set out below, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 31 December 2007.

However, the adopted IFRS that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2007 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2007.

In particular, the directors have assumed that the following IFRS issued by the International Accounting Standards Board and IFRIC Interpretations issued by the International Financial Reporting Interpretations Committee will be adopted by the European Union in sufficient time that they will be available for use in the annual IFRS financial statements for the year ending 31 December 2007: IFRS 8: Operational Segments.

The interim financial statements do not include all of the information required for full annual financial statements.

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. Consolidated financial statements were prepared for the nine months ended 31 December 2006 to reflect the two step demerger process: this comprised an initial common control transaction followed by a subsequent demerger of the Group. Comparative figures in this interim financial information are for this nine month period. The consolidated financial statements are prepared as if the Group had always been in existence. The difference between the nominal value of the Company's shares issued and the amount of the net assets acquired at the date of demerger has been credited to merger reserve.

The Company is an investment company but because it holds majority stakes in certain investments it is required to prepare group accounts that consolidate the results of such investments. In order to present information that is consistent with other investment companies, the results of the Group's investment business on a stand alone basis are set out in note 2.

1. Principal accounting policies (continued)

In line with the Group's adoption of IFRS for the year ending 31 December 2007, the Group has decided to adopt early IFRS 8: Operating Segments ('IFRS 8'), which defines requirements for the disclosure of financial information of an entity's operating segments. IFRS 8 replaces IAS 14: Segment Reporting. It follows the 'management approach', which is the basis for managing the businesses. IFRS 8, which has not yet been endorsed by the European Union, was approved by the IASB in November 2006 and is effective for reporting periods beginning on or after 1 January 2009. Early adoption is permitted.

The interim financial information was authorised for issue by the directors on 17 September 2007. It does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the six months ended 30 June 2007 and the nine months ended 31 December 2006 is unaudited; the amounts in respect of the nine months ended 31 December 2006 have been derived from the Group's statutory accounts for the nine months ended 31 December 2006 as adjusted to comply with IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 7.

The comparative figures for the nine months ended 31 December 2006 are not the Company's statutory accounts for that financial period. Those accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was: (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The Company was not required to and did not prepare financial information for the six months ended 30 June 2006 because the demerger referred to above did not take place until 9 June 2006. The first financial information prepared and published by the Company was for the nine months ended 31 December 2006 and therefore this financial information is provided in the interim financial information for the prior period.

The accounting policies set out below have been applied consistently for all periods presented in this interim financial information and in preparing the opening IFRS balance sheet at 1 April 2006 for the purpose of transition to IFRS except as described in note 7.

The interim financial information has been prepared on the historical cost basis except for the revaluation of investments held at fair value through profit or loss.

Basis of consolidation

The half year consolidated interim report comprises the interim reports of the Company and its subsidiary undertakings up to 30 June 2007. The Company's subsidiary undertakings fall into two categories:

- Investment companies through which the Group conducts its investment activities; and
- Certain portfolio companies which form part of the Group's investment activities but which, by virtue of the size of the Group's shareholding or other control rights, fall within the definition of subsidiaries under IFRS ('portfolio subsidiaries'). The portfolio subsidiaries are included within the consolidated financial information although they continue to be managed by the Group as investments held for capital appreciation. Note 8 includes details of the companies concerned. The results of these companies are shown as a separate business segment in note 2.

1. Principal accounting policies (continued)

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

The interest of minority shareholders is stated at their share of the fair value of the assets and liabilities recognised, except that any losses attributable to the minority interest, both at acquisition and subsequently, are allocated against the interest of the parent company.

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

Goodwill

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

Investments

Investments are included in the balance sheet at fair value. Fair values have been determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines require the valuer to make 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 balance sheet date.

• *Unquoted direct investments*

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

- Recent investments are valued at cost subject to an impairment review.
- Investments in which there has been a recent funding round involving significant financing from external investors are valued at the price of the recent funding, discounted if an external investor is motivated by strategic considerations.
- Investments in an established business which is generating sustainable profits or positive cash flows are valued using earnings multiples.
- Investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation.
- Investments in an established business which is generating sustainable profits or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings.

1. Principal accounting policies (continued)

- Investments in a business which is not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the discounted cash flow of the investment to the investors. This valuation basis will primarily be used in determining whether there is any impairment to the carrying value of the asset. Due to the subjective nature of the calculation and the dependence on the outcome of unknown future events, it will only give rise to a valuation increase in exceptional circumstances and where there is also additional evidence of an increase in value, such as additional funding or profit generation.

- Funds**

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

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment loss. Depreciation is charged using the straight line method over the estimated useful lives of the assets as follows:

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

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

Leased assets

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

Impairment of assets

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

1. Principal accounting policies (continued)

Non-financial assets

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

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

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

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

Foreign currencies

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

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

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

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

1. Principal accounting policies (continued)

Inventories

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

Cash and cash equivalents

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

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

Income tax expense

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

1. Principal accounting policies (continued)

Income

Revenue from sales of goods and services

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from sales of services is recognised by reference to the stage of completion of the transaction at the reporting date. Revenue is estimated by applying to the total expected contract revenue the proportion of total contract costs incurred to date over total expected costs for each contract.

Interest income

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

Investment income

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

Expenditure

Employee benefits

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

Share based payments

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

Fair value is calculated by use of a binomial option valuation model taking into account the terms and conditions under which the equity-settled share based payments were issued.

Finance costs

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

2. Segment information

Operating segments

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

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

2. Segment information (continued)

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

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

Consolidated income statement

	Six months ended 30 June 2007				
	Investment management £ 000	Portfolio subsidiaries		Consolidation adjustments £ 000	Group total £ 000
		Energy Cranes £ 000	Other £ 000		
Revenues from sales of goods and services to external customers	–	55,030	6,258	–	61,288
Gains and losses on investments held at fair value through profit or loss	10,607	–	(429)	–	10,178
Interest income	546	–	2	–	548
Investment and other income	597	–	–	(571)	26
Finance costs	–	(986)	(405)	571	820
Profit/(loss) for the period	7,585	2,003	(2,539)	337	7,386
	Nine months ended 31 December 2006				
	Investment management £ 000	Portfolio subsidiaries		Consolidation adjustments £ 000	Group total £ 000
		Energy Cranes £ 000	Other £ 000		
Revenues from sales of goods and services to external customers	–	74,827	7,282	–	82,109
Gains and losses on investments held at fair value through profit or loss	(6,419)	–	941	(7,891)	(13,369)
Interest income	1,340	63	7	–	1,410
Investment and other income	1,546	–	–	(1,389)	157
Finance costs	(50)	(3,687)	(488)	–	(4,225)
Profit/(loss) for the period	(10,847)	2,261	(3,761)	(9,280)	(21,627)

2. Segment information (continued)*Consolidated balance sheet*

30 June 2007

	Portfolio subsidiaries			Consolidation adjustments £ 000	Group total £ 000
	Investment management £ 000	Energy Cranes £ 000	Other £ 000		
Property, plant and equipment	20	11,550	1,847	–	13,417
Intangible assets	–	18,688	–	23,639	42,327
Investments held at fair value through profit or loss	255,953	–	237	(54,861)	201,329
Interests in joint ventures	–	77	–	–	77
Non-current assets	255,973	30,615	2,084	(31,222)	257,150
Cash and cash equivalents	10,250	1,681	1,191	–	13,122
Other current assets	2,305	34,785	4,779	–	41,869
Total assets	268,528	66,781	8,054	(31,222)	312,141
Total liabilities	(1,570)	(43,826)	(28,677)	20,474	(53,599)
Net assets/(liabilities)	266,958	22,955	(20,623)	(10,748)	258,542
Attributable to:					
Owners of the parent	266,239	19,097	(20,623)	(10,748)	253,965
Minority interest	719	3,858	–	–	4,577
	266,958	22,955	(20,623)	(10,748)	258,542

31 December 2006

	Portfolio subsidiaries			Consolidation adjustments £ 000	Group total £ 000
	Investment management £ 000	Energy Cranes £ 000	Other £ 000		
Property, plant and equipment	9	10,675	1,874	–	12,558
Intangible assets	–	18,688	–	17,026	35,714
Investments held at fair value through profit or loss	234,910	–	760	(47,300)	188,370
Interests in joint ventures	–	208	–	–	208
Non-current assets	234,919	29,571	2,634	(30,274)	236,850
Cash and cash equivalents	24,120	4,910	829	–	29,859
Other current assets	1,472	33,785	4,116	–	39,373
Total assets	260,511	68,266	7,579	(30,274)	306,082
Total liabilities	(1,331)	(47,161)	(14,885)	8,243	(55,134)
Net assets/(liabilities)	259,180	21,105	(7,306)	(22,031)	250,948
Attributable to:					
Owners of the parent	258,461	17,480	(7,306)	(22,031)	246,604
Minority interest	719	3,625	–	–	4,344
	259,180	21,105	(7,306)	(22,031)	250,948

2. Segment information (continued)

The results and net assets of the investment management business can be further analysed as follows:

	As at and for the six months ended 30 June 2007	
	Gains/(losses) on investments held at fair value £ 000	Fair value at the end of the period £ 000
Type of security		
UK		
Quoted securities	(4,723)	24,885
Unquoted securities	–	93,109
Funds	–	21,102
Total UK	(4,723)	139,096
US		
Quoted securities	9,785	43,630
Unquoted securities	(293)	12,460
Funds	5,838	60,767
Total US	15,330	116,857
Total portfolio	10,607	255,953
	As at and for the nine months ended 31 December 2006	
	Gains/(losses) on investments held at fair value £ 000	Fair value at the end of the period £ 000
Type of security		
UK		
Quoted securities	2,377	25,658
Unquoted securities	(1,157)	87,442
Funds	187	11,465
Total UK	1,407	124,565
US		
Quoted securities	(4,256)	43,726
Unquoted securities	(1,452)	11,907
Funds	(2,118)	54,712
Total US	(7,826)	110,345
Total portfolio	(6,419)	234,910

3. Other expenses

Other expenses in the nine months ended 31 December 2006 relate to professional services in connection with the demerger of the Company in June 2006 and the repurchase of shares by tender offer in July 2006.

4. Earnings/(loss) per ordinary share

Basic

The calculation of basic earnings per ordinary share is based on earnings of £7,127,000 (nine months ended 31 December 2006 – loss of £21,860,000), being the profit/(loss) for the period attributable to the parent, divided by the weighted average number of ordinary shares in issue during the period of 286,429,228 (nine months ended 31 December 2006 – 303,383,617).

Diluted

The calculation of diluted earnings per ordinary share is based on earnings of £7,127,000, divided by the weighted average number of ordinary shares in issue during the period of 290,759,266 after taking account of the potential dilutive effect of share options issued under the Company's share option plans.

There was no dilution effect in the nine months ended 31 December 2006.

5. Reconciliation of movement in capital and reserves

	Share capital £ 000	Capital redemption reserve £ 000	Merger reserve £ 000	Translation reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000	Minority interest £ 000	Total equity £ 000
Balance at 1 April 2006	32,900	–	35,837	(341)	–	182,647	251,043	20,473	271,516
Total recognised income and expense	–	–	–	(809)	–	(21,860)	(22,669)	233	(22,436)
Minority interest share of exchange movement	–	–	–	223	–	–	223	(223)	–
Repurchase of shares by tender offer	(4,257)	4,257	–	–	–	(30,239)	(30,239)	–	(30,239)
Movement in merger reserve	–	–	48,246	–	–	–	48,246	–	48,246
Distribution to minority	–	–	–	–	–	–	–	(16,139)	(16,139)
Balance at 31 December 2006	28,643	4,257	84,083	(927)	–	130,548	246,604	4,344	250,948
Total recognised income and expense	–	–	–	(80)	–	7,127	7,047	259	7,306
Share based payments	–	–	–	–	288	–	288	–	288
Minority interest share of exchange movement	–	–	–	27	–	–	27	(27)	–
Balance at 30 June 2007	28,643	4,257	84,083	(980)	288	137,675	253,966	4,576	258,542

6. Financial instruments

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

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

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

- liquidity risk;
- market price risk; and
- currency risk.

Liquidity risk

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

Market price risk

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

Currency risk

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

7. Explanation of transition to adopted IFRS

The financial information for the six months ended 30 June 2007 is the first period that the Company has presented its results under IFRS. IFRS 1: First time adoption of International Financial Reporting Standards sets out the rules for adopting IFRS in the Group's first statutory accounts under IFRS. The principal accounting policies set out in note 1 have been applied to prepare the financial information for the six months ended 30 June 2007 and the nine months ended 31 December 2006 and for the preparation of the opening balance sheet under IFRS at 1 April 2006 (the Group's date of transition to IFRS).

IFRS 1 contains certain optional exemptions in the transition to IFRS and the Group has elected to use the following:

IFRS 3: Business Combinations – The Group has taken advantage of the optional exemption not to apply the requirements of IFRS 3 to business combinations prior to the date of transition and to account for these business combinations based on the fair value at the date of transition of the assets and liabilities acquired.

IAS 21: The Effects of Changes in Foreign Exchange Rates – The Group has deemed cumulative translation differences relating to foreign operations as zero at the date of transition.

The information below sets out the impact of the transition from UK GAAP to IFRS at the date of transition (1 April 2006) and for the nine months ended 31 December 2006.

The most significant impact of the adoption of IFRS is the requirement for the Group to consolidate certain of its portfolio companies as subsidiaries. The operating results of these portfolio subsidiaries are included in the Group's consolidated income statement and their assets and liabilities are included in the consolidated balance sheet. The portfolio subsidiaries' UK GAAP financial statements are consolidated and restatements are made to comply with IFRS.

The tables below summarise the adjustments made to the UK GAAP financial information in this regard.

Reconciliation of net assets

	31 December 2006 £ 000	Pro forma 1 April 2006 £ 000
Previously reported – UK GAAP		
Net assets	259,180	267,951
Adjustments		
Increase in property, plant and equipment	12,549	9,262
Increase in intangible assets	35,714	36,613
Decrease in investments	(46,332)	(39,549)
Increase in cash and cash equivalents	5,739	722
Increase in inventories	8,395	6,038
Increase in operating and other receivables	29,506	25,802
Increase in current liabilities	(29,617)	(19,310)
Increase in non-current liabilities	(24,186)	(16,013)
Net impact of consolidation of subsidiaries previously classified as investments	(8,232)	3,565
Restated – IFRS		
Net assets	250,948	271,516

7. Explanation of transition to adopted IFRS (continued)

Reconciliation of loss after tax

Nine months
ended
31 December
2006
£ 000

Previously reported – UK GAAP

Loss on ordinary activities after taxation before minority interests	(10,847)
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Adjustments

Increase in revenue from sales of goods and services	82,109
Decrease in gains and losses on investments held at fair value through profit and loss	(6,950)
Increase in interest income	70
Decrease in investment and other income	(1,389)
Increase in operating expenses	(79,184)
Increase in taxation	(1,261)
Increase in finance costs	(4,175)

Net impact of consolidation of subsidiaries previously classified as investments	(10,780)
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Restated – IFRS

Loss for the period after tax	(21,627)
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Reconciliation of net decrease in cash and cash equivalents

Nine months
ended
31 December
2006
£ 000

Previously reported – UK GAAP

Net decrease in cash and cash equivalents	(19,893)
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Adjustments

Increase in net cash used in operating activities	(688)
Increase in net cash used in investing activities	(4,629)
Increase in net cash from financing activities	10,041

Net impact of consolidation of subsidiaries previously classified as investments	4,724
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Restated – IFRS

Net decrease in cash and cash equivalents	(15,169)
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8. Subsidiaries

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

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

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

Name	Country of incorporation	Holding %	Activity
Energy Cranes International Limited	England and Wales	82	Crane manufacture and crane-related services to the offshore energy industry
Offshore Tool and Energy Corporation	United States of America	87	Specialist engineering design and fabrication
Entuity Limited	England and Wales	68	Network management software
AssetHouse Technology Limited	England and Wales	78	Content services infrastructure software
Wesupply Limited	England and Wales	98	Supply chain management software

Independent review report to LMS Capital plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense and the consolidated cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules which require that the interim report must be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

As disclosed in note 1 to the financial information, the next annual financial statements of the Group will be prepared in accordance with IFRS as adopted by the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements.

There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with IFRS as adopted by the European Union. This is because, as disclosed in note 1, the directors have anticipated that certain standards, which have yet to be formally adopted by the European Union, will be so adopted in time to be applicable to the next annual financial statements.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4: *Review of interim financial information* issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

KPMG Audit Plc

Chartered Accountants

17 September 2007

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Shareholder enquiries

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

Share dealing service

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

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Financial calendar

Year end	31 December
Preliminary announcement	March 2008
Annual General Meeting	May 2008
Interim results	September 2008



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