14 March 2017

LMS Capital plc
Preliminary Results for the year ended 31 December 2016

The Board of LMS Capital plc, ("LMS Capital" or "the Company"), is today announcing the Company's preliminary results for the year ended 31 December 2016.

- At the general meeting on 16 August 2016 shareholders voted in favour of proposals to change the Company's investment policy so that the Company may now make new investments focused on private equity opportunities. On the same date the Company appointed Gresham House Asset Management Limited ("GHAM") to manage its investment portfolio.

- The meeting also approved a further tender offer which returned £6 million to shareholders, bringing to £161 million the amount returned since the beginning of the realisation strategy in 2012. The Company also undertook to return up to a further £11 million to shareholders on the basis of realisations from the existing investment portfolio.

- The Net Asset Value at 31 December 2016 was £68.1 million, 71p per share (31 December 2015: £95.1 million, 92p per share).

- The 23% decline in NAV per share reflects a disappointing performance from the investment portfolio, particularly in the second half of 2016. Net losses on the investment portfolio were £16.2 million (2015: gains of £6.6 million) leading to an overall loss for the year of £20.8 million (2015: profit of £0.5 million.

- GHAM has initiated a staged approach to achieving the objectives outlined in 2016 including: optimising the value of existing assets, reducing costs and facilitating the return of capital to shareholders before investing in line with the new investment policy and seeking to grow the business.

Martin Knight, Chairman of LMS Capital, said:

"2016 was a transformational year for the Company. The performance of the investment portfolio in the second half of the year was disappointing but following the appointment of GHAM as investment manager, the Board looks forward to improved performance in 2017 and beyond."

For further information please contact:

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Chairman's statement

2016 was a transformational year for the Company. In August shareholders voted to change the Company's investment policy and at the same time your Board, with the support of shareholders, took the decision to appoint Gresham House Asset Management Limited ("GHAM") to manage the Company's operations. The GHAM team has a successful investment track record, underpinned by proven operating and technical expertise in private and public equity investments.

The Company has also acquired shares in Gresham House plc (parent company of GHAM) to align the Company's interests in the long term with those of the Manager. The Company's interest is currently 801,985 ordinary shares and 909,908 warrants to subscribe for ordinary shares exercisable at 323.27p per share no later than 30 June 2018.

Change of investment objective

The first seven months of the year saw the continuation of the realisation strategy which the Company had been following since November 2011. However, your Board was aware that as the realisation strategy progressed and the Company reduced in size, its expense ratio would likely deteriorate. The Company could also have been seen as a forced seller of its investments impacting its ability to maximise value through longer term engagement. In consequence, potential shareholder returns from continuing with the realisation strategy were therefore likely to be lower than those achieved historically.

Your Board believed that a change in the investment objective would present an attractive alternative to the existing realisation strategy. At a general meeting on 16 August shareholders approved a change to a policy predominantly focused on private equity investment whilst optimising the value of existing assets.

At the same time shareholders approved a return of capital of £6 million (by way of a tender offer and associated repurchase of shares). This was completed on 1 September and brought to £161 million the amount returned to shareholders since November 2011.

The Company has also undertaken to make two further tender offers up to a combined maximum of £11 million. The first of these up to £6 million will be made when net realisation proceeds from the existing portfolio reach £12 million. Realisations since the circular sent to shareholders on 27 July 2016 have totalled £6.9 million and your Board and GHAM are focused on initiating and progressing sale processes for appropriate holdings.

Performance review
Net Asset Value per share at the end of 2016 was 71p, slightly higher than announced on 25 January, but a 23% decrease from 92p a year ago.

Portfolio losses (realised and unrealised) for the year before carried interest charges were £16.2 million (2015: gains of £6.6 million), the key elements of which were:

- Unquoted investments contributed net losses of £15.9 million (2015: net gains of £10.1 million), most of which arose on three US investments – ICU Eyewear, Medhost and Nationwide Energy Partners;
- Quoted investments generated a net loss of £1.3 million for the year (2015: net loss of £1.0 million); and
- Our fund interests showed net gains of £1.0 million (2015: net loss of £2.5 million).

The portfolio losses for the year are stated after the impact of exchange gains of £11.6 million (2015: gains of £6.2 million), primarily due to the weakness of sterling against the US dollar.

Overhead costs were £3.3 million, similar to the previous year (2015: £3.2 million). One-off charges (including staff redundancy and surplus property costs) were £2.2 million; as a result of these there will be future benefits from annual overhead cost savings targeted at £1 million which are expected to start during the first half of 2017.

Board composition
In June we welcomed Rod Birkett as a non-executive Director. Rod has over 25 years' experience in the investment company sector.

Bernard Duroc-Danner has confirmed that he will not be standing for re-election at the forthcoming 2017 AGM and I should like to take this opportunity to thank Bernard for his contribution to the Company over the last ten years.

Following the appointment of GHAM, Nick Friedlos and Tony Sweet resigned as Directors and I should like to thank them for their role in the management of the Company. They now form part of the GHAM team managing the Company's operations.

As a result of these changes, your Board is now wholly non-executive.

Conclusion and outlook
2016 was a transformational year for the Company. The performance of the investment portfolio in the second half of the year was disappointing but following the appointment of GHAM as investment manager, the Board looks forward to improved performance in 2017 and beyond.

Martin Knight
Chairman
14 March 2017

Strategic report

LMS Capital plc is an investment company whose shares are traded on the London Stock Exchange.

Investment objective and strategy

Until 16 August 2016 the Directors of the Company were conducting an orderly realisation of the assets of the Company, in line with the strategy previously approved by shareholders at a general meeting in November 2011. The focus of the Company was to optimise realisations from the investment portfolio and return the proceeds to shareholders. No investments were made in new opportunities; follow-on investments were made in existing assets to honour commitments made at the time of the initial investment and/or to which the Company was legally obligated, or where the investment was made to protect or enhance the value of an existing asset or to facilitate its orderly realisation.

At a general meeting on 16 August 2016 shareholders voted to change the Company's investment policy from the realisation strategy to a new policy focused predominantly on private equity investment. At the same time Gresham House Asset Management Limited ("GHAM" or "the Manager") was appointed by the Board to manage the Company's assets.

The Company's investment objective is to achieve total returns over the medium to longer term, principally through capital gains and supplemented with the generation of a longer term income yield. The Company is targeting a return on equity, after running costs, of between 12% and 15% per annum over the long term on new capital invested.

The disposal proceeds of the Company's existing portfolio less amounts required for working capital and net of anticipated further returns of capital to shareholders (see below) will be invested in accordance with the investment policy.

New investments will be primarily focused on direct private equity investments and specialist asset classes (including funds managed by GHAM), with the majority of the portfolio expected to be invested in direct private equity opportunities.

No investment in any single company will (at the time of investment) represent more than 15% of the Company's net assets. Any investment in securities of a single company or investment fund, which represents more than 10% of the Company's net assets at the time the investment is made, requires the Board's approval.

The Company may invest in public or private securities; investments may be made in the form of, *inter alia*, equity, equity-related instruments, derivatives and indebtedness. The Company may hold controlling or non-controlling positions and may invest directly or indirectly. The Company may also invest in Gresham House plc, to benefit from the potential growth of GHAM.

The Company is not restricted to specific sectors; its assets are and will continue to be predominantly invested in the United Kingdom, Europe and North America, with an increasing focus on the United Kingdom.

Indebtedness of the Company will not exceed 25% of net assets measured at the time of drawdown. The Company had no indebtedness at 31 December 2016 or at the date of this report.

Further returns to shareholders

In the circular to shareholders dated 27 July 2016 the Company undertook to make two further returns of capital to shareholders by way of tender offers. These returns of capital will in total represent 50% of the net proceeds of further disposals of assets in the Company's existing portfolio made after the date of the circular. These further tenders will be for a maximum of £11 million and distributions of up to £6 million and up to £5 million are expected to be made. Both these future tender offers will be at a five per cent discount to the net asset value of the Company at the relevant time.

It is intended that the first of the tender offers will return up to £6 million to shareholders (after net realisation proceeds from the Company's existing portfolio, after the date of the Circular, exceed £12 million). It is intended that the second of the tender offers will return up to £5 million to shareholders (after net realisation proceeds from the Company's existing portfolio, after the date of this Circular, exceed £22 million in total).

Portfolio management

The Company's operations are managed by Gresham House Asset Management Limited ("GHAM") who was appointed as the Manager on 16 August 2016. GHAM manages the Company's assets and investments in accordance with guidelines determined by the Directors and as specified in a formal portfolio management agreement. Further information about GHAM can be found in the Manager's review.

In order to comply with the requirements of the AIFMD, the Company has appointed an alternative investment fund manager ("AIFM"). In due course, the Company's AIFM will be GHAM, once GHAM has obtained a variation of its permissions under Part 4A of FSMA to enable it to act as a full-scope UK AIFM. For an initial period, however, before GHAM has obtained this permission, the Company has appointed G10 Capital Limited, a specialist provider of regulated services, as its initial AIFM and G10 Capital has delegated certain functions in relation to the portfolio management of the Company's assets to GHAM.

The Company has appointed Ipes (UK) Limited as its depositary.

Under the AIFM and portfolio management agreement, the Manager is entitled to an annual management fee as follows:

a) 1.50% of the net asset value of the Company, to the extent that the Company's net assets under management are £100 million or less;
b) 1.25% of the net asset value of the Company, to the extent that the Company's net assets under management exceed £100 million but are £150 million or less: and
c) 1.00% of the net asset value of the Company to the extent that Company's net assets under management exceed £150 million.

The Manager is also entitled to a performance fee on new investments which is designed to align the interests of GHAM, as portfolio manager, with those of the Company. If certain hurdle return requirements are satisfied, GHAM earns a performance fee of 15% of the gain in the net asset value of new investments made after 16 August 2016. No performance fee will be payable in respect of investments held at the date of GHAM's appointment.

GHAM is the regulated subsidiary of Gresham House plc, the specialist asset manager quoted on the London Stock Exchange. Its investment team has a successful track record, underpinned by proven operating and technical expertise. GHAM adopts a differentiated and rigorous approach to private and public equity investments through its specialist asset management strategies which are focused on capitalising on the growth in demand for alternative investment strategies, illiquid assets and for discretionary co-investment.

A dedicated investment committee of GHAM is responsible for the Company's portfolio and oversees the investment appraisal process in relation to investments made in respect of the Company's portfolio. The Company has the right to nominate a member to this committee and as at the date of this report has exercised that right.

The committee assesses existing assets and new investment opportunities and is also responsible for approving due diligence costs, abort costs exposure, capital allocation and appropriate risk management.

All investment opportunities are appraised by the investment team and a short list of deals progresses for review by the Investment Committee. The Investment Committee assist in due diligence, investment appraisal and the team can leverage their extensive network as required.

Representatives of GHAM are available to attend all meetings of the Board and provide regular reports on the investment portfolio and the affairs of the Company generally. The performance of each underlying investment is monitored regularly with commentary on trends and risks both company specific and market related. GHAM may also have representatives on the boards of portfolio investment companies.

Distribution policy
In future the Company intends to return in the region of 30% of annual cash realised profits from new investments and in so doing, to generate a dividend yield over the longer term.

Performance
The following are the key performance indicators ("KPIs") considered by the Board and the Manager in assessing the Company's performance against its objectives. These KPIs are:

Return on equity over the long term
The Company's objective is to achieve a return on equity (on new investments) of between 12% and 15% per year over the long term.

The NAV per ordinary share total return
The Company's net asset value per share total return was negative for the year ended 31 December 2016. This compared with 16.8% for the FTSE All-Share Index.

The share price total return
The Company's share price total return was negative over the year ended 31 December 2016.

Further information on the Company's performance is given in the Chairman's Statement and the Manager's review.

Personnel
The average number of Directors and staff was as follows:

	2016			2015		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	**6**	**–**	**6**	6	–	6
Senior management	**–**	**–**	**–**	–	–	–
Other staff members	**1**	**3**	**4**	2	5	7
	7	**3**	**10**	8	5	13

Environment
The Company has a limited direct impact upon the environment and there are few environmental risks associated with the Company's activities.

Risk management and principal risks and uncertainties
On 16 August 2016 the Company appointed G10 Capital Limited ("G10 Capital"), an independent investment manager, as its AIFM to act in accordance with the Company's investment objective and the AIFMD rules. This includes portfolio management and risk management services. At the same time GHAM was appointed to perform on behalf of G10 Capital day-to-day portfolio management services.

GHAM is responsible for the ongoing process of identifying, evaluating, monitoring and managing the risks facing the Company. The Board keeps G10 Capital's and GHAM's performance of these responsibilities under review as part of its overall responsibility for ensuring that the Company has an effective risk management and internal control framework.

On behalf of the Board the Audit Committee has responsibility for ensuring that the Company has an effective process to identify, document and assess those risks which might impact the Company's performance and its achievement of its strategy.

The Board has carried out a robust assessment of the principal risks facing the Company throughout the year ended 31 December 2016, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the principal risks and uncertainties that could have a material adverse effect on the Company's strategy, performance and financial condition is set out below.

Principal risks	**Consequences**	**Company procedures**
Market risk		
Economic instability, political uncertainty and low growth in the markets where the Company's investments operate. Lack of liquidity in capital markets.	Economic conditions may result in reduced demand for the products and services supplied by investee companies. Such a negative impact on performance and growth rates may result in lower individual company valuations resulting in a decline of the Company's NAV and its failure to meet its return targets and investment objective.	Regular monitoring of the trading, cash flows and prospects (including exit opportunities) of the investment portfolio to identify the impact on individual investments and on the Company's strategy.

Volatility in listed equity prices, foreign currency rates and interest rates.	At 31 December 2016 69% of the Company's investment portfolio was denominated in US dollars. Movements in the USD/GBP exchange rate have a significant impact on the Company's NAV.	The Board regularly receives reports on the Company's foreign currency exposure in its investment portfolio. The Company does not currently hedge its underlying non-sterling investments.

Investment risk

Investments fail to perform in line with original expectations or management's plans. Investment performance may be impacted by competition, regulatory changes or other market developments. Where the Company has only minority stakes in investments it may not be able to influence performance initiatives or exit strategy.	Poor performance by portfolio companies may result in the Company not meeting its investment return objectives or its realisation and cash distribution plans. This could impact the NAV and the market's view of the Company's prospects, with a consequent negative impact on its share price	Regular monitoring of the trading of individual companies in the investment portfolio as well as of the Company's overall investment performance.

Financial risk

Many of the Company's investments produce little or no recurring income and the timing of realisations to provide working capital and liquidity cannot be ascertained with certainty. The Company has made investments in private equity funds under the terms of which it may be obliged to make further capital contributions. Whilst the maximum amount of the future commitment is known, the timing of such capital contributions cannot be predicted with certainty.	Failure to meet future financial obligations (including capital calls to funds) could expose the Company to potential legal action and/or loss of value (to a fund investment).	Working capital requirements (including exposure to uncalled fund commitments) are reviewed regularly.

Operational risk

Failure of the Company's internal processes and systems to ensure that it complies with all legal, regulatory and financial reporting obligations.	Reputational damage and/or financial loss.	The Audit Committee, on behalf of the Board, regularly reviews the systems in respect of the principal operational risks, as well as reports on the Company's related risk management procedures.

Viability statement

The Directors have assessed the Company's current position and prospects as described in the Chairman's Statement and the Manager's review, as well as the principal risks and uncertainties set out above.

The Directors concluded that the appropriate period for this assessment should be the three years commencing 1 January 2017 since this timeframe reflects the Company's internal planning horizon as well as that of most of the companies in which it is invested. Given the illiquid nature of much of its investment portfolio, investment/divestment decisions tend to reflect a time period which can be up to three years.

In performing their assessment the Directors considered principally:

1. The Company's liquidity forecast for the three years from 1 January 2017; and
2. The Manager's latest report on the investment portfolio which includes (for every Board meeting) an assessment of operational issues as well as broader market factors and each asset's cash needs (if any) and likely future cash generation (amount and timing).

The Directors' consideration of these reports was made against the background of the following considerations:

- Many of the Company's investments are in private companies for which the timing and amount of income and/or realisation is uncertain;

- The Board has reviewed the liquidity of the Company and considered commitments to private equity investments, long-term cash flow projections and the potential availability of gearing. It has also satisfied itself that assumptions regarding future cash inflows are reasonable;

- The Company has undertaken to make further returns of capital to shareholders. These future returns will be made only after ensuring that the Company has retained sufficient cash or other liquid resources to meet its working capital requirements, including its obligations in the form of uncalled capital commitments to its fund interests;

- The Board has also considered likely downside risk in the value of marketable securities where realisations of these form part of the liquidity forecast. This risk typically includes factors impacting the price of the security and the exchange rate against £ sterling of the currency in which it is denominated;

- In making its assessment, the Board has taken into account the threats to the Company's solvency or liquidity incorporated I the Principal risks and uncertainties and satisfied itself that they are being addressed as outlined above.

Taking account of the above factors the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of this assessment.

For and on behalf of the Board

Martin Knight
Chairman
14 March 2017

Manager’s review

Transition to external manager

GHAM has made significant progress since being appointed investment manager in August. With input from the LMS Capital Board it has adopted a staged approach toward achieving the objectives outlined in 2016.

The ‘first stage’ has been to transition to external management, including:

- Implementing a new investment process and governance structure, including the newly appointed Investment Committee;

- Detailed review of portfolio holdings to frame future strategy and drive potential growth and liquidity opportunities;

- Significant engagement with the management teams of underlying portfolio investments in order to identify catalysts for stabilisation, value creation and long term growth. This includes members of GHAM joining the Boards of Entuity, Elateral, Nationwide Energy Partners and 365iTMS;

- Appointing external administrators and driving targeted annualised cost savings.

The ‘second stage’ of development is focused on realisation and return of capital to shareholders alongside investing appropriately to optimise the value of the portfolio where there is a clear plan for longer term value creation with portfolio companies.

The ‘third stage’ will be focused primarily on new investment in direct private equity opportunities at the smaller end of the market, leveraging the expertise, experience and network of the investment team and newly formed Investment Committee. The team will also seek to scale the Company appropriately to generate additional shareholder value.

Investment approach

As a result of changes in 2016 to the investment policy, new investment is now focused predominantly on private equity investment using the experience of the GHAM team in asset management, private equity and public markets:

- The manager will invest in and partner with management teams of profitable and cash generative businesses to create value, targeting an annual return on equity of 12% -15% net of costs over the long-term;

- The focus will primarily be on smaller private companies below £50 million enterprise value where the manager believes there to be significant market inefficiencies which create opportunities for superior long-term returns and to leverage the experience of the investment team;

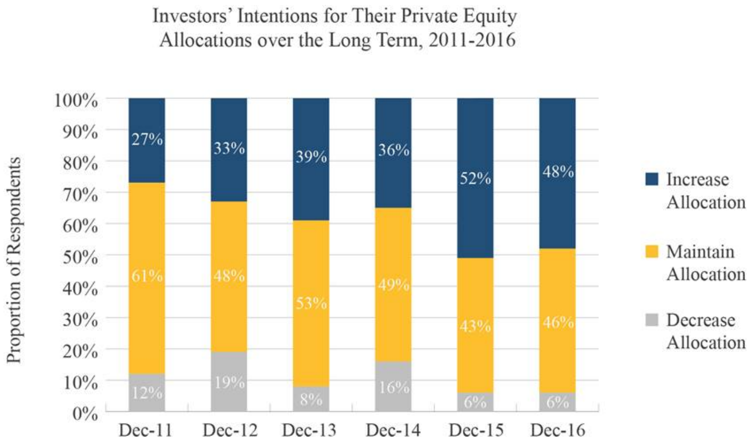
- The focus is on optimising the value of existing holdings and where growth prospects are clear to preserve and support value creation.

Market background

Equity markets were strong in 2016, especially in Q4, both in the UK and US, despite significant political uncertainty with Brexit and the US presidential election, and pedestrian global growth. Expectations of fiscal loosening, increased expenditure on infrastructure, a shift in focus to deregulation and reflationary pressures buoyed the stock markets in the UK and US.

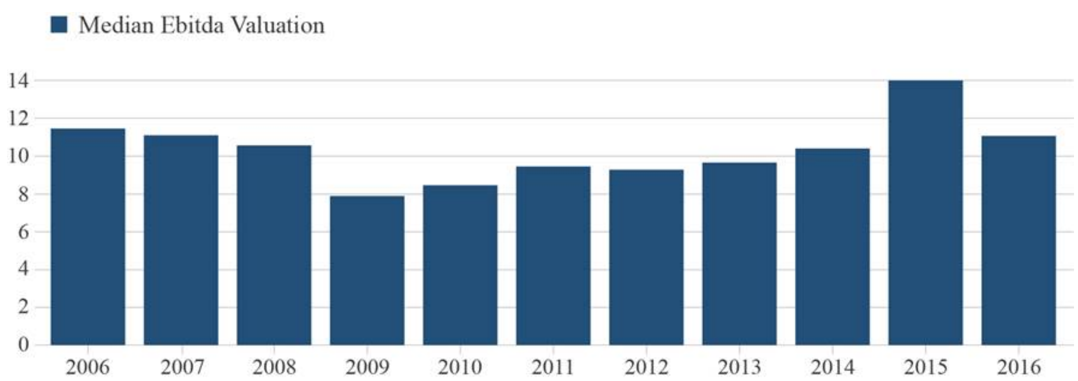
Last year also saw continued strong private equity activity. New capital raised for Private Equity has been significant over the last three years as pension funds, endowments and institutions increase allocations to private equity, seeking above market returns. Valuations have been driven to levels last seen in 2006/2007 with average multiples reaching around 14x EBITDA in 2015 and remaining in excess of 10x in 2016.

A research study recently published by Preqin shows that 40% of investors surveyed intend to invest more capital in private equity over the next year than in the last, compared with only 11% that plan to invest less. Almost half (48%) of respondents plan to increase their allocations to private equity over the longer term; a further 46% will maintain their allocations. Importantly these are some of the highest levels seen over the past six years.



Source: Preqin 2017 Global Private Equity and Venture Capital report

This is driving increasing competition for deals, with the availability of debt resulting in continued high prices and valuations, particularly we believe at the larger end of the market.



Source: Bloomberg – Mean EV/EBITDA for private equity buyouts valued at more than US$100 million

High valuations, increasing allocation and fund raising and increased competition for deals means private equity firms have record levels of uninvested funds, particularly for the larger enterprise value deals.

However, we believe that there are significant inefficiencies at the smaller end of the market, focusing on established smaller private companies between £25 and £50 million enterprise value that are often overlooked, where there can be less competition for deals and valuations are attractive. They tend to be off radar for venture and early stage funding providers and sub-threshold for mid-market private equity investors. This creates an opportunity to generate superior long term returns.

Performance review

On 16 August 2016 GHAM was appointed to manage the affairs of the Company. This is the first annual report since that appointment and since the change in investment strategy approved by shareholders at the general meeting on 16 August 2016.

This review covers:

1. The first seven months of the year during which the Company was undertaking a realisation strategy; and
2. Progress with implementation of the new investment objective since 16 August 2016.

Change in accounting policy

With effect from 1 January 2016, the Company has adopted the amendment to IFRS 10 (Consolidated Financial Statements) which requires it to report its operating subsidiaries (which act as the intermediate holding companies of the investment portfolio) at fair value rather than consolidate them as previously. Amounts reported for the year ended 31 December 2015 have been restated – there was no change to 2015 reported net asset value.

Realisations in 2016

These were as follows:

	Year ended 31 December	
	2016	**2015**
	£'000	**£'000**
Cash realisations from the investment portfolio – gross	**10,602**	43,731
Cash realisations from the investment portfolio – net	**9,040**	41,409
Cash returned to shareholders	**6,000**	40,000

Net cash realisations from the portfolio were as follows:

	2016 £'000	2015 £'000
Sales of investments	**5,927**	29,350
Capital restructurings and loan repayments	**-**	2,756
Distributions from funds	**4,675**	11,625
Total – gross	**10,602**	43,731
Fund calls	**(438)**	(390)
Other follow-on investments	**(851)**	(804)
Carried interest payments	**(273)**	(1,128)
Total – net	**9,040**	41,409

The principal follow-on investments were:

- £522,000 (US$750,000) to ICU Eyewear to provide working capital and funding for new customer trials; and
- £300,000 to provide working capital for Elateral, a UK direct investment.

Net realisations of £9,040,000 in 2016 bring to £159,529,000 the total of such net realisations since the commencement of the realisation strategy on 1 January 2012. Including the £6.0 million returned to shareholders in 2016, total cash returned during the same period was £161.0 million.

Realisations after the change in investment strategy were £1,974,000 to the end of 2016. To date in 2017 realisations from the portfolio have been £4,925,000 including the following:

- The Company has concluded an agreement to a two stage sale of Nationwide Energy Partners for total consideration of £7,703,000 (US$9,500,000), which was the Company's carrying value at the end of 2016. The stage 1 payment of US$4,500,000 was received on 23 January 2017. The second and final stage will be settled either as a one off payment of US$5,000,000 in January 2018 or a loan note repayable with interest in instalments over 4 years.
- The Company has also agreed the realisation of its long term and successful holdings in the Weber Capital funds at an amount equal to the Company's carrying value at the end of 2016. The realisation is expected to complete in stages during the first half of 2017. The first stage has been completed and proceeds of US$1,300,000 have been received. The balance is due to be paid in the second quarter of 2017.

Performance of the investment portfolio

Below is a summary of the Company's investment portfolio:

Asset type	31 December 2016 UK £'000	US £'000	Total £'000	31 December 2015 UK £'000	US £'000	Total £'000
Quoted	**2,481**	**2,995**	**5,476**	1,564	8,197	9,761
Unquoted	**9,384**	**21,987**	**31,371**	12,347	33,765	46,112
Funds	**11,149**	**25,436**	**36,585**	18,602	21,168	39,770
	23,014	**50,418**	**73,432**	32,513	63,130	95,643

The Company's principal investments at 31 December 2016 comprising 80% of the total portfolio were:

Name	Geography	Sector	Carrying value 31 December 2016 £'000	2015 £'000	% of Net asset value 2016
Quoted investments					
Weatherford International	US	Energy	**2,909**	8,064	**4.2%**
Gresham House	UK	Financial	**2,481**	-	**3.6%**
Unquoted investments					
Medhost Inc	US	Technology	**12,070**	14,157	**17.7%**
Elateral	UK	Technology	**3,900**	4,250	**5.7%**
Entuity	UK	Technology	**3,000**	4,500	**4.4%**
365iTMS	UK	Technology	**2,100**	3,500	**3.1%**
Fund investments					
San Francisco Equity Partners					
Penguin Computing*	US	Technology	**10,133**	6,834	**14.9%**
Yes To, Inc*	US	Consumer	**8,387**	7,089	**12.3%**
Others					
Brockton Capital	UK	Property	**6,651**	12,339	**9.8%**
Opus Capital Venture Partners	US	Technology	**4,505**	5,424	**6.6%**
Eden Venture Partners	UK	Technology	**2,964**	4,085	**4.4%**

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

Basis of valuation:

- *Quoted investments – bid price of security quoted on relevant securities exchange;*
- *Unquoted investments – multiple of revenues or earnings of comparable quoted companies with appropriate discounts for marketability;*
- *Fund interests – based on amounts reported by the general partner unless the reported value is not in line with the Company's valuation policy.*

The return on investments for 2016 was as follows:

Asset type	2016 Realised gains/(losses) £'000	2016 Unrealised gains/(losses) £'000	2016 Total £'000	Restated 2015 Realised gains/(losses) £'000	Restated 2015 Unrealised gains/(losses) £'000	Restated 2015 Total £'000
Quoted	**9**	**(1,291)**	**(1,282)**	1,511	(2,479)	(968)
Direct	**-**	**(15,879)**	**(15,879)**	8,948	1,142	10,090
Funds	**491**	**492**	**983**	2,518	(5,025)	(2,507)
	500	**(16,678)**	**(16,178)**	12,977	(6,362)	6,615
Credit/(charge) for incentive plans			**737**			(1,951)
			(15,441)			4,664
Operating and similar expenses of subsidiaries			**(720)**			(949)
			(16,161)			3,715

The credit for incentive plans includes £737,000 (2015: charge £1,348,000) for carried interest and £nil (2015: charge £603,000) in respect of the Executive Directors' incentive plan.

Approximately 69% of the portfolio at 31 December 2016 is denominated in US dollars (31 December 2015: 66%) and the above table includes the impact of currency movements. In the year ended 31 December 2016, the strengthening of the US dollar against pound sterling (year on year) resulted in an unrealised foreign currency gain of £11,319,000 (2015: unrealised gain of £3,565,000). 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

The loss on the quoted portfolio arose as follows:

Gains/(losses), net	2016 £'000	2015 £'000
Realised		
Weatherford International	**(158)**	709
ChyronHego Corporation	**-**	777
Bond International	**155**	-
Other quoted holdings	**10**	-
Dividend income	**2**	25
	9	1,511

Unrealised		
Weatherford International	**(1,781)**	(2,927)
Bond International	**71**	93
Other quoted holdings	**(205)**	(220)
Unrealised foreign currency gains	**624**	575
	(1,291)	(2,479)
Total net losses	**(1,282)**	(968)

During the year the Company sold 700,000 shares (2015: 426,000 shares) of its opening holding of 1,419,000 shares of a long term holding in Weatherford International for net proceeds of £3,820,000 (2015: £3,839,000). The losses on this investment during the year (both realised and unrealised) reflect the continuing pressure on this company's share price during 2016.

Other sales during the year:

- The Company sold its entire holding in Imperial Innovations Group (now renamed Touchstone Innovations) for net proceeds of £865,000, a £39,000 uplift on the 2015 closing value; and
- The Company sold 550,000 shares (around 70% of its holding) in Bond International Software for net proceeds of £678,000, a gain of £155,000 over the opening 2016 value. This left 227,850 shares to participate in the liquidation of the company; the first distribution from the liquidators - £287,000 - was received in January 2017; the final distribution is not expected to be a significant amount.

The Company acquired its interest in Gresham House plc in line with the proposals set out in the circular to shareholders dated 27 July 2016 and at the end of the year held:

- 801,985 ordinary shares; and
- 909,908 warrants to subscribe for ordinary shares exercisable at 323.27p per share. The warrants are exercisable no later than 30 June 2018.

Direct investments

There were no purchases or sales of unquoted investments during 2016. The unrealised net loss was £15,879,000 (2015: unrealised net gain of £1,142,000), after unrealised foreign currency gains of £6,454,000 (2015: gains of £1,959,000).

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.

In most cases the multiples used this year are similar to those prevailing at the end of 2015 and therefore the unrealised gains or losses set out in the table below arise principally as a result of the companies' performance.

Valuation movements were as follows:

Name	Unrealised gain/(loss) 2016 £'000	2015 £'000
ICU Eyewear	**(9,165)**	-
Medhost	**(4,878)**	-
Nationwide Energy Partners	**(3,521)**	(1,497)
Entuity	**(1,878)**	40
365iTMS	**(1,400)**	1,000
Elateral	**(650)**	(300)
Others, net	**(841)**	(60)
Unrealised foreign currency gains	**6,454**	1,959
Total net unrealised (losses)/gains	**(15,879)**	1,142

Comments on individual companies are set out below.

Medhost
Medhost is a co-investment with one of the Company's fund interests, Primus Capital, who are the lead investment manager. The business faced challenging market conditions during 2016 which impacted its profitability and resulted in a write down of the carrying value compared to last year. The Company has based its carrying value on the carrying value reported by the general partner.

ICU Eyewear
The business encountered difficult trading conditions in 2016 and has exited a potential sales process. It requires additional capital, the source of which has not yet been determined. Consequently, the Company has fully written off its interest.

Nationwide Energy Partners ("NEP")
In December 2016 the Company reached conditional agreement to sell its interest back to the founder in a two stage transaction. The stage 1 payment of $4.5 million was due and received in January 2017. The second and final stage will be settled either as a one off payment of $5 million in January 2018 or a loan note repayable with interest in instalments over 4 years. The 31 December carrying value is based on amounts receivable under this two stage deal.

Entuity
The pressure on revenues seen in 2015 continued during 2016 and in the first quarter LMS Capital appointed an interim chairman at Entuity to conduct a strategic review of the business which also led to the search for a new CEO. These issues resulted in the write down of the Company's carrying value at the half year.

The actions taken following the completion of the strategic review are expected to bring benefits in 2017 but were unable to affect the decline in revenues in 2016. As a result the Company has made a further write down of its carrying value for the business at the end of the year. The new CEO took up his post in February 2017 and GHAM has appointed a new investment director to work with the board of Entuity to stabilise and focus on future value growth.

365iTMS
The company successfully completed its first acquisition in the first half of 2016 but experienced a slowdown in its core business during the second half of the year. As a result of the impact of this on its profitability, the Company's carrying value has been reduced accordingly. The recently appointed GHAM investment director is focusing with management on strategic options which would enable a return to profitable growth and maximise equity value.

Elateral
Elateral has invested heavily in recent years to re-engineer and upgrade its technology platform as a precursor to retaining and growing its multinational client base. The company has made good progress in 2016 and is seeing year on year growth in underlying recurring revenue in its financial year to March 2017.

The write down of the Company's carrying value principally reflects changes to the funding structure in the second half of the year whereby Elateral's working capital funding has been supplemented by a short term loan from a third party, reducing the need for additional capital from existing investors. GHAM has appointed an investment director to work with management to maintain the growth momentum in revenues.

Fund interests
The return on the Company's funds portfolio for the year was a net gain of £983,000 (2015: net loss of £2,507,000) including unrealised foreign currency gains of £4,240,000 (2015: £1,031,000).

Fund investments are valued using latest general partner valuations.

The Company's principal fund interests are:

		31 December	
		2016	**2015**
General partner	**Sector**	**£'000**	**£'000**
San Francisco Equity Partners	US consumer & technology	**16,748**	11,752
Brockton Capital	UK property	**6,651**	12,339
Opus Capital Venture Partners	US venture capital	**4,505**	5,424
Weber Capital Partners	US micro-cap quoted stocks	**3,784**	3,263
Eden Ventures	UK venture capital	**2,964**	4,085
Other interests	-	**1,933**	2,907
		36,585	39,770

Gains/(losses) on fund interests were as follows:

Gains/(losses), net	2016 £’000	2015 £’000
San Francisco Equity Partners	**1,993**	(3,264)
Brockton Capital	**(2,518)**	(2,829)
Opus Capital Venture Partners	**(1,415)**	1,245
Weber Capital	**459**	526
Eden Ventures	**(1,189)**	276
Amadeus Capital Partners	**-**	(922)
Boston Ventures	**4**	(1,081)
Voreda	**86**	1,527
Inflexion Private Equity	**184**	608
Other funds, net	**(861)**	376
Unrealised foreign currency gains	**4,240**	1,031
Total gains/(losses), net	**983**	(2,507)

San Francisco Equity Partners (“SFEP”)

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 two remaining investments:

- Penguin Computing – fund carrying value £8,685,000. The company’s revenues grew strongly (in line with expectations), reflecting the benefit of a major contract win in the previous year;
- Yes To – fund carrying value £7,622,000. 2016 was the first year of a turnaround plan for the business under a new CEO appointed in 2015. 2016 results were in line with that plan.

Other fund interests

- In April 2016 Brockton Capital completed the partial realisation of the principal remaining asset in the fund, a high end central London residential development not due for completion for several years. As part of these arrangements the fund was able to make a distribution to investors – the Company received £3,304,000. At the end of the year, the carrying value of the Company’s interest in the fund was written down by £2,518,000 to reflect current market circumstances resulting in uncertainty over the timing and value of future distributions;

- Opus Capital, a US venture fund, made stock distributions in kind during 2016 totalling £594,000; this and a downward valuation of the portfolio reduced the Company’s interest by around £1.4 million and was partly offset by unrealised foreign currency gains;

- The Company’s interest in Weber Capital Partners includes two funds, both of which performed well in 2016. The Company has agreed with the fund manager that its positions in both funds will be liquidated during the first half of 2017;

- Eden Ventures' portfolio performed below expectations during the year which is reflected in the reduction in the carrying value of the Company's interest compared to last year.

Other income statement items

As well as the investment portfolio return, the loss for the year of £20.8 million (2015: profit of £0.5 million) includes the following:

- Directors' and other fees from portfolio companies were £48,000 (2015: £55,000);
- The recurring overhead costs in 2016 (including amounts incurred by subsidiaries) were £3,301,000 (2015: £3,229,000);
- One-off costs associated with the change in investment strategy and transition to external management were £2,157,000 (2015: £823,000);
- Interest income for the year was £20,000 (2015: £78,000).

Taxation

There is no tax charge for the year ended 31 December 2016 or 2015 – in both years tax deductible expenses exceed taxable income. The excess of these tax deductible expenses have been surrendered to subsidiaries of the Company to offset taxable income in those companies.

Financial resources and commitments

Including cash in subsidiaries, cash holdings were £1,632,000 (31 December 2015: £6,105,000) with no debt. Since the end of 2016 to the date of this report cash realisations from the portfolio have been £4,925,000.

At 31 December 2016 subsidiary companies had commitments of £3,577,000 (31 December 2015: £3,961,000) to meet outstanding capital calls from fund interests.

Outlook

GHAM has engaged with portfolio companies and is working with the management teams to identify catalysts for growth, to drive long term value creation. The Company is committed to return up to £11 million to shareholders from realisations of the existing portfolio and we are focused on progressing and initiating sale processes for certain holdings. Alongside any return to shareholders we will look to access and reinvest primarily in direct private equity opportunities at the smaller end of the market, leveraging the expertise and experience of our investment team and Investment Committee.

Gresham House Asset Management Limited
14 March 2017

Income statement

	Notes	Year ended 31 December 2016 £'000	Restated Year ended 31 December 2015 £'000
Net (losses)/gains on investments	3	**(16,161)**	3,715
Directors' and other fees from investments		**48**	55
Interest income		**20**	78
		(16,093)	3,848
Operating expenses		**(4,738)**	(3,393)
(Loss)/profit before tax		**(20,831)**	455
Taxation		**-**	-
(Loss)/profit for the year		**(20,831)**	455
Attributable to:			
Equity shareholders		**(20,831)**	455
(Loss)/earnings per ordinary share - basic	4	**(20.6)p**	0.3p
(Loss)/earnings per ordinary share - diluted	4	**(20.6)p**	0.3p

Statement of other comprehensive income

	Year ended 31 December 2016 £'000	Restated Year ended 31 December 2015 £'000
(Loss)/profit for the year	**(20,831)**	455
Other comprehensive income	**-**	-
Total comprehensive (loss)/profit for the year	**(20,831)**	455
Attributable to:		
Equity shareholders	**(20,831)**	455

Statement of financial position

	Notes	31 December 2016 £'000	Restated 31 December 2015 £'000
Non-current assets			
Property, plant and equipment		**32**	261
Investments		**148,312**	220,505
Non-current assets		**148,344**	220,766
Current assets			
Operating and other receivables		**248**	156
Cash and cash equivalents		**1,249**	4,083
Current assets		**1,497**	4,239
Total assets		**149,841**	225,005
Current liabilities			
Operating and other payables		**(4,078)**	(1,472)
Amounts payable to subsidiaries		**(76,743)**	(125,622)
Current liabilities		**(80,821)**	(127,094)
Non-current liabilities			
Provisions and other liabilities		**(904)**	(2,820)
Non-current liabilities		**(904)**	(2,820)
Total liabilities		**(81,725)**	(129,914)
Net assets		**68,116**	95,091
Equity			
Share capital		**9,644**	10,358
Share premium		**508**	508
Capital redemption reserve		**23,378**	22,664
Retained earnings		**34,586**	61,561
Total equity shareholders' funds		**68,116**	95,091

Statement of changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015 as previously reported	14,525	508	18,497	35,422	812	65,344	135,108
Effect of change in accounting policy (note 2)	-	-	-	(35,422)	(812)	36,234	-
Balance at 1 January 2015 as restated	14,525	508	18,497	-	-	101,578	135,108
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	455	455
Transactions with owners, recorded directly in equity							
Repurchase of shares	(4,167)	–	4,167	–	–	(40,472)	(40,472)
Balance at 31 December 2015	10,358	508	22,664	-	-	61,561	95,091
Total comprehensive income for the year							
Loss for the year	-	-	-	-	-	(20,831)	(20,831)
Transactions with owners, recorded directly in equity							
Repurchase of shares	(714)	-	714	-	-	(6,144)	(6,144)
Balance at 31 December 2016	**9,644**	**508**	**23,378**	**-**	**-**	**34,586**	**68,116**

Cash flow statement

	Year ended 31 December 2016 £'000	Restated Year ended 31 December 2015 £'000
Cash flows from operating activities		
(Loss)/profit for the year	**(20,831)**	455
Adjustments for:		
Depreciation	**233**	127
Losses/(gains) on investments	**16,161**	(3,715)
Interest income	**(20)**	(78)
	(4,457)	(3,211)
Change in operating and other receivables	**(92)**	(20)
Change in operating and other payables	**(120)**	(1,260)
Change in amounts payable to subsidiaries	**9,585**	45,792
Net cash from operating activities	**4,916**	41,301
Cash flows from investing activities		
Interest received	**19**	78
Purchase of investments	**(1,621)**	-
Acquisition of property, plant and equipment	**(4)**	(1)
Net cash (used in)/from investing activities	**(1,606)**	77
Cash flows from financing activities		
Repurchase of own shares	**(6,144)**	(40,472)
Net cash used in financing activities	**(6,144)**	(40,472)
Net (decrease)/increase in cash and cash equivalents	**(2,834)**	906
Cash and cash equivalents at the beginning of the year	**4,083**	3,177
Cash and cash equivalents at the end of the year	**1,249**	4,083

Notes

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

This financial information has been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("Adopted IFRS") although the financial information in this announcement is not sufficient to comply with Adopted IFRS. The accounting policies adopted are consistent with those of the previous financial year except;

1. as set out in Note 2 with effect from 1 January 2016 the Company has adopted the amendment to IFRS 10 (Consolidated Financial Statements) which requires the Company to report its operating subsidiaries (which act as the intermediate holding companies of the investment portfolio) at fair value rather than consolidate them as previously; and
2. following the change in investment strategy the financial statements for 2016 have been prepared on a going concern basis.

The financial statements have been prepared on the historical cost basis except for investments held at fair value through profit or loss which are measured at fair value.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their report on the accounts for 2016 was (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The auditor's report on the accounts for 2015 was (i) unqualified (ii) drew attention by way of emphasis without qualifying their report to the accounts not being prepared on a going concern basis and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Change in accounting policy

With effect from 1 January 2016, the Company has adopted the amendment to IFRS 10 (Consolidated Financial Statements) which requires it to report its operating subsidiaries (which act as the intermediate holding companies of the investment portfolio) at fair value rather than consolidate them as previously.

The impact of this change in accounting policy on the income statement for the year ended 31 December 2015 is set out below:

	Year ended 31 December 2015		
	Consolidated As previously reported	Impact of change in accounting policy	Company Restated
	£'000	£'000	£'000
Net gains on investments	4,664	(949)	3,715
Directors' and other fees from investments	55	-	55
Interest income	78	-	78
	4,797	(949)	3,848
Operating expenses	(4,052)	659	(3,393)
Profit before tax	745	(290)	455
Taxation	(294)	294	-
Profit for the year	451	4	455
Attributable to:			
Equity shareholders	451	4	455
Earnings per ordinary share - basic	0.3p	-	0.3p
Earnings per ordinary share - diluted	0.3p	-	0.3p

The impact of this change in accounting policy on the statement of financial position at 31 December 2015 is set out below:

	31 December 2015		
	Consolidated As previously reported £'000	Impact of change in accounting policy £'000	Company Restated £'000
Non-current assets			
Property, plant and equipment	261	-	261
Investments	95,643	124,862	220,505
Non-current assets	95,904	124,862	220,766
Current assets			
Operating and other receivables	602	(446)	156
Cash and cash equivalents	6,105	(2,022)	4,083
Current assets	6,707	(2,468)	4,239
Total assets	102,611	122,394	225,005
Current liabilities			
Operating and other payables	(3,985)	2,513	(1,472)
Amounts payable to subsidiaries	-	(125,622)	(125,622)

Current tax liabilities	(715)	715	-
Current liabilities	(4,700)	(122,394)	(127,094)
Non-current liabilities			
Provisions and other long-term liabilities	(2,820)	-	(2,820)
Non-current liabilities	(2,820)	-	(2,820)
Total liabilities	(7,520)	(122,394)	(129,914)
Net assets	95,091	-	95,091
Equity			
Share capital	10,358	-	10,358
Share premium	508	-	508
Capital redemption reserve	22,664	-	22,664
Merger reserve	23,918	(23,918)	-
Foreign exchange translation reserve	816	(816)	-
Retained earnings	36,827	24,734	61,561
Total equity shareholders' funds	95,091	-	95,091

The impact of this change in accounting policy on the statement of cash flows for the year ended 31 December 2015 is set out below:

	Year ended 31 December 2015		
	Consolidated As previously reported £'000	**Impact of change in accounting policy £'000**	**Company Restated £'000**
Cash flows from operating activities			
Profit for the year	451	4	455
Adjustments for:			
Depreciation and amortisation	127	-	127
Net gains on investments	(4,664)	949	(3,715)
Translation differences	(329)	329	-
Interest income	(78)	-	(78)
Income tax expense	294	(294)	-
	(4,199)	988	(3,211)
Dividends received	-	31,308	31,308
Change in operating and other receivables	(361)	341	(20)
Change in operating and other payables	(2,206)	946	(1,260)
Change in amounts payable to subsidiaries	-	14,484	14,484
	(6,766)	48,067	41,301
Income tax paid	(72)	72	-
Net cash (used in)/from operating activities	(6,838)	48,139	41,301
Cash flows from investing activities			
Interest received	78	-	78
Acquisition of property, plant and equipment	(1)	-	(1)
Acquisition of investments	(1,194)	1,194	-

Proceeds from sale of investments	43,731	(43,731)	-
Other income from investments	1,310	(1,310)	-
Net cash from investing activities	43,924	(43,847)	77
Cash flows from financing activities			
Repurchase of own shares	(40,472)	-	(40,472)
Net cash used in financing activities	(40,472)	-	(40,472)
Net (decrease)/increase in cash and cash equivalents	(3,386)	4,292	906
Cash and cash equivalents at the beginning of the year	9,158	(5,981)	3,177
Effect of exchange rate fluctuations on cash held	333	(333)	-
Cash and cash equivalents at the end of the year	6,105	(2,022)	4,083

3. Net gains on investments

Gains and losses on investments were as follows:

						Restated
	Year ended 31 December 2016			**Year ended 31 December 2015**		
	Gains/(losses)			**Gains/(losses)**		
	Realised	**Unrealised**	**Total**	**Realised**	**Unrealised**	**Total**
Asset type	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Quoted	**9**	**(1,291)**	**(1,282)**	1,511	(2,479)	(968)
Unquoted direct	**-**	**(15,879)**	**(15,879)**	8,948	1,142	10,090
Funds	**491**	**492**	**983**	2,518	(5,025)	(2,507)
	500	**(16,678)**	**(16,178)**	12,977	(6,362)	6,615
Credit/(charge) for incentive plans			**737**			(1,951)
			(15,441)			4,664
Operating and similar expenses of subsidiaries*			**(720)**			(949)
			(16,161)			3,715

*Includes operating and legal costs and taxation charges of subsidiaries

The credit/(charge) for incentive plans includes (i) a credit of £179,000 (2015: charge of £1,348,000) for carried interest and £nil (2015: charge of £603,000) in respect of the Executive Directors' incentive plan.

4. (Loss)/earnings 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	
		Restated
	2016 £'000	2015 £'000
(Loss)/earnings		
(Loss)/earnings for the purposes of (loss)/earnings per share being net (loss)/profit attributable to equity holders of the parent	**(20,831)**	455
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	**101,203,640**	143,424,774
Effect of dilutive potential ordinary shares:		
Share options and performance shares*	**-**	78,531
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	**101,203,640**	143,503,305
(Loss)/earnings per share	**Pence**	**Pence**
Basic	**(20.6)**	0.3
Diluted	**(20.6)**	0.3

*There are no potentially dilutive shares in 2016 since the Company has made a loss

5. Capital commitments

	31 December	
	2016 £'000	2015 £'000
Outstanding commitments to funds	**3,577**	3,961

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