



# Annual Report & Accounts 2023

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For the year ended 31 December 2023

# Who We Are and Why Invest?

LMS Capital plc (“LMS” or “the Company”) is a listed Investment Company.

We harness experience, capital and access to deal flow to create enhanced shareholder returns for family offices, high net worth investors and others.

Our competitive advantage lies in our long experience, our relationships with exceptional management teams with knowledge of, and connections in, the sectors where we focus.

We seek to achieve a balance between preserving and growing wealth. We expect to deliver an attractive rate of return – 12% to 15% per annum over the medium to long term – of which an element will include an annual dividend. Dividends were commenced in 2020 at 1.5% of our year end NAV with the intention to progressively increase as the investment portfolio evolves.

We invest in high-quality portfolio companies that generally require a level of management attention which larger funds are unable to support or are too complex for direct investment by individual family offices or individual investors.

## 2023 HIGHLIGHTS

### BUSINESS DEVELOPMENTS

- Completion in December 2023 of the first investment in the retirement living sector, Castle View Retirement Village in Windsor;
- The sale of Medhost represents a realisation of some 31% of the mature portfolio, as reported at Q3 2023. The exit was for a total consideration of £6.8 million, which after accounting for foreign exchange movements, represents a £1.1 million surplus to NAV.

### NET ASSET VALUE (“NAV”)

£42.1m

The net asset value (“NAV”) at 31 December 2023 was £42.1 million, 52.2 pence per share (31 December 2022: £46.5 million, 57.7 pence per share).

### DIVIDENDS TO SHAREHOLDERS

£0.7m

0.925 pence per share. The Company paid a 2022 final dividend to shareholders of 0.625 pence per share in June 2023 and an interim dividend for the 2023 year of 0.3 pence per share in September 2023.

### PORTFOLIO NET ASSET VALUE MOVEMENTS

£(1.4)m

The portfolio net decrease comprises:

- Unrealised foreign exchange losses £1.2 million;
- Unrealised loss on revaluation of Brockton Fund 1 £3.5 million, partly offset by
  - Realised gain on sale of Medhost £1.4 million;
  - Accrued interest income on Dacian £1.4 million; and
  - Net unrealised gains on other assets £0.5 million.

### NET RUNNING COSTS

£1.8m

Net Running costs, including those incurred by subsidiaries, were £1.8 million (2022: £1.7 million) and there were an additional £1.0 million (2022: £0.4 million) of investment related costs, including £0.6 million acquisition costs relating to Castle View.

### PORTFOLIO REALISATIONS

£5.9m

Cash proceeds from portfolio realisations in the year totalled £5.9 million (2022: £0.4 million), mainly from the sale of Medhost in December 2023 (£5.5 million).

### YEAR END CASH BALANCE

£15.5m

Cash balances at the year end, including amounts held by subsidiaries, were £15.5 million, representing 36.7% of the NAV (2022: £17.9 million and representing 38.5% of the NAV).



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For further investor information:  
[www.lmscapital.com](http://www.lmscapital.com)

LMS Capital is based in Fitzrovia  
in the shadow of the BT Tower

# LMS at a Glance

## 2023 NAV AT A GLANCE

### CASH

£15.5m

### MATURE INVESTMENTS

£11.3m

### OTHER NET LIABILITIES

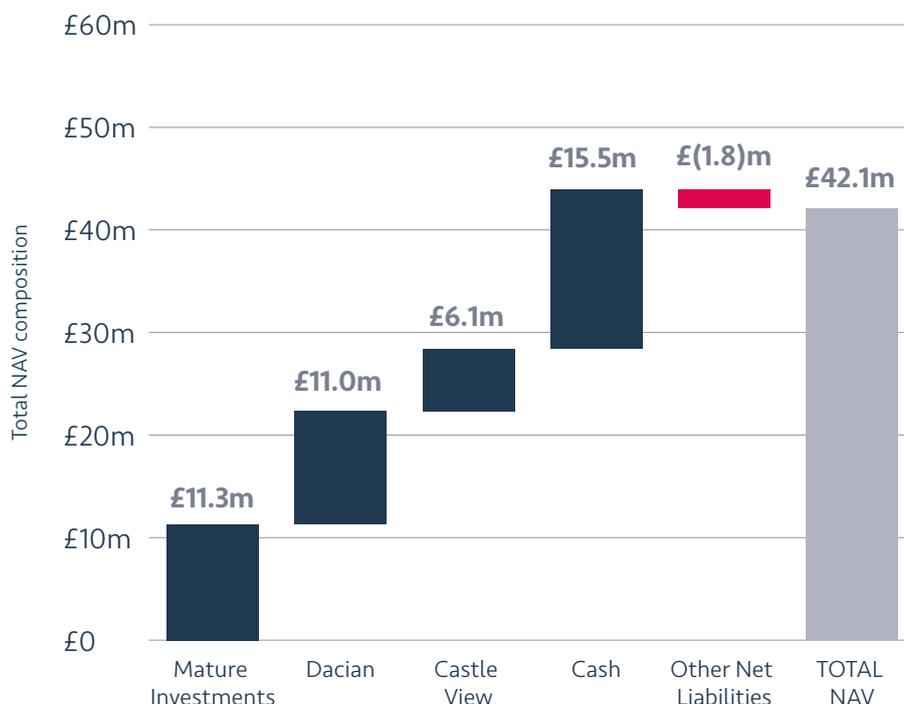
£(1.8)m

### DACIAN

£11.0m

### CASTLE VIEW

£6.1m



### MATURE INVESTMENTS

- originate from the Company's strategy prior to 2012;
- held with a view to optimising realisation proceeds in a one to three-year period;
- approximately 93% of the mature portfolio consists of four investments; and
- managed largely by third-party managers.

### Retirement Living

- Our real estate activity in the retirement living sector has enabled us to acquire our first investment – Castle View Retirement Village, Windsor ("Castle View") – which we see as a foundation for further investment in the sector.

### Energy

- Dacian which was completed in 2021, is a cornerstone investment for LMS that highlights our ability to lead a co-investment group that enabled Dacian to complete its first acquisition of onshore oil and gas production fields in Romania.

### CASH AVAILABLE FOR DEPLOYMENT

- Our focus in the near term will be developing our investment platform in the retirement living sector. We believe the sector offers attractive long-term returns and provides opportunities for LMS to deploy capital from its own balance sheet and its co-investment network.

# Chairman and Managing Director's Report



**Robert Rayne**  
Chairman



**Nicholas Friedlos**  
Managing Director

We are pleased to report our results for the year ended 31 December 2023.

- The 31 December 2023 NAV is £42.1 million and compares with NAV at the prior year end, 31 December 2022 of £46.5 million. Adjusting for £0.7 million dividends paid during the year, the NAV has decreased by a net £3.7 million, 7.9% during the year.
- There was good progress on two fronts in December:
  - Our real estate activity in the retirement living sector has enabled us to make our first investment – Castle View Retirement Village, Windsor (“Castle View”) – which we see as a foundation for further investment in the sector;
  - The sale of Medhost represents a material realisation from our mature asset portfolio, generating \$7.0 million cash in 2023, and a deferred payment of \$1.7 million with a coupon of 11.25% due in December 2024. After accounting for foreign exchange differences, this produces a net gain of £1.1 million.
- A significant contributor to the net decrease was the £3.5 million reduction in valuation of the Company’s interest in Brockton Fund 1, of which the only remaining asset is loan participation in a high-end residential development in Mayfair, London. This reduction reflects the risks for the development in the current market and, following the news on 26 January 2024 that the senior lender to the scheme had appointed a receiver, an allowance for the costs of the receivership process and potential disruption to sales. Brockton continues to expect that the scheme will generate a return for LMS and we will keep the situation under review.
- Notwithstanding the £6.1 million investment in Castle View and with the Medhost proceeds, cash at the year end was £15.5 million. (2022: £17.9 million).
- Dividend – a final dividend of 0.625 pence per share for the year ended 31 December 2023 is recommended by the Board.

## Chairman and Managing Director's Report continued

### REAL ESTATE – RETIREMENT LIVING: NAV £6.1 MILLION (7.6 PENCE PER SHARE)

Our real estate activities in 2022 and 2023 have been focussed on identifying opportunities to invest in specialist use real estate in the retirement living sector. During this time, we have developed our knowledge and understanding and evaluated potential acquisition opportunities.

The sector offers the opportunity for growth and allows us to deploy our real estate investment expertise.

- Underlying demand is driven by demographics in the UK. The number of 75+ year old households is expected to increase by 77% in the 25 years from 2018 to 2043;
- The older population owns in excess of 40% of housing equity which can be released to finance retirement options and also free up stock for the wider family housing market;
- The market is undersupplied, with relatively few developers or operators of scale and an increasing interest from institutional capital.

The investment in Castle View shortly before the end of the year represents the first step in developing an investment platform focussed on retirement living.

There are a variety of business models in the sector. Our goal is initially to establish an investment platform based around Integrated Retirement Communities ("IRC"), in which residents live independently in their own self-contained home, with access to communal facilities and amenities and the availability of optional support and care services, if needed.

Consideration will be given both to investment in development sites as well as in established businesses.

The business is capital intensive but has the capability to generate long-term income streams for investors. Our objective during 2024 is to identify further investment opportunities alongside funding partners, to develop the investment platform.

### MATURE PORTFOLIO – NAV £11.3 MILLION (14.0 PENCE PER SHARE)

#### *MEDHOST*

We had positive news on progress in the realisation of the mature portfolio, with the sale in December 2023, of Medhost, in which LMS had a co investment. The sale produced total proceeds for LMS of \$8.7 million (£6.8 million) of which \$7.0 million (£5.5 million) was received in cash before the year end and a deferred payment of \$1.7 million (£1.3 million) with a coupon of 11.25% is due in December 2024. After accounting for foreign exchange differences, this produces a net gain of £1.1 million.

This was a minority investment, in which LMS did not have a board seat, but LMS nonetheless maintained a dialogue with the Medhost management and the lead fund manager encouraging the push towards an exit and so it is gratifying that this has now been achieved.

#### *OTHER MATURE ASSETS*

Following the Medhost sale and the reduction in valuation of Brockton, the mature portfolio is reduced to £11.3 million, all of which originates from the Company's strategy pre-2012. The portfolio largely comprises positions managed by third-party managers where the Company is not able to control or direct decision making. 92.9% of the mature portfolio is held in four investments.

The Board balances the goals of optimising realisation value of these investments and achieving liquidity within an acceptable time frame. The Board keeps under review progress by the third-party managers towards realisation and monitors opportunities to accelerate realisation of the Company's holdings in the secondary markets.

### ENERGY – DACIAN: NAV £11.0 MILLION (13.6 PENCE PER SHARE)

Although underwritten in August 2020, completion of this investment only occurred, following local Romanian regulatory approvals, in November 2021. The year just ended therefore represents the second full year of operation.

The business was financed at the outset with some \$14.0 million of seven-year high-coupon loan notes from investors (of which LMS was the lead investor, investing \$9.1 million) and an additional \$6.0 million of third-party three-year loan notes provided via the vendor and which are required to be serviced in preference to the investor loan notes.

The investor loan notes also carried with them, for nominal consideration, 50% of the equity of the business. Dividends can only be paid on the shares once the investor loan notes and accrued interest have been paid in full.

The business was budgeted to generate sufficient cash in 2023 to meet its service obligations on the third-party loan notes and also to start servicing the investor notes. Actual performance in 2023 has been below budget due to a significant engineering problem which disrupted gas production in Q2 and Q3 leading to lost revenue. Unaudited revenue, stated net of applicable royalties and taxes, for 2023 was \$19.1 million (2022: \$21.6 million) and EBITDA was \$2.7 million (2022: \$4.5 million).

The business has continued to service the third-party loan notes – which should be fully repaid by November 2024, but has not generated cash this year to service the investor notes.

Notwithstanding the difficulties of 2023, the Board expects the loan notes to be serviced in full.

At present no value is given to the equity in the accounts.

## FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

### NET ASSET VALUE (“NAV”) OVERVIEW

The NAV of the Company at 31 December 2023 was £42.1million, 52.2 pence per share (31 December 2022: £46.5 million, 57.7 pence per share). The balance sheet at the year end can be summarised as follows:

	31 December	
	2023 £'m	2022 £'m
Mature assets	11.3	20.8
Real estate – Retirement Living	6.1	-
Energy – Dacian	11.0	10.1
Debtor – Medhost deferred consideration	1.7	-
Cash	15.5	17.9
Other net liabilities/provisions	(3.5)	(2.3)
	42.1	46.5

This represents a decrease of £4.4 million on the prior year and comprises:

- dividends paid of £0.7 million;
- £3.5 million decrease in valuation of Brockton Fund 1
- net increase on other portfolio investments, including realised and unrealised amounts, of £0.7 million;
- increase of £1.4 million being accrued interest on Dacian;
- other net reductions of £2.3 million, comprising:
  - £0.7 million of interest income;
  - £1.8 million for running costs;
  - £0.4 million of investment costs principally associated with developing real estate deal opportunities;
  - £0.6 million of one off transaction costs; and
  - Taxation of £0.2 million, foreign exchange losses on non-portfolio assets of £0.1 million and other net income of £0.1 million.

After adjusting for the 0.925 pence per share distributed as dividends during 2023, the NAV has shown a decrease on the year of 7.9%.

### MATURE ASSETS

This portfolio showed overall a net reduction in the year of £2.8 million, made up of:

- £1.2 million unrealised foreign exchange losses on US dollar denominated investments, reflecting appreciation of sterling against the US dollar during the year of 5.2%;
- £1.4 million realised gain on the sale of Medhost;
- £3.5 million unrealised loss on Brockton Fund 1 investments; and
- £0.5 million unrealised gains on other mature assets.

**Medhost:** Realised gain £1.4 million – As discussed above, Medhost was realised shortly before the year end. Cash consideration of \$7.0 million was received in December and a further \$1.7 million is payable under a loan note due December 2024.

## Chairman and Managing Director's Report continued

**Brockton Fund 1:** Unrealised loss £3.5 million – Brockton Fund 1's remaining investment is its participation in a "Super Prime" Mayfair residential development. In reporting the Q3 NAV estimate, we reduced the valuation of our share of the fund by £1.1 million to reflect the risk of slower sales and higher interest costs in current market conditions.

Following the decision in January 2024 of the senior lender to the development to appoint a receiver, we have made a further £2.4 million reduction in carrying value as at 31 December 2023.

- The 32 apartments in the scheme were completed in May 2023 and whilst prices on apartments sold to date have been good, the pace of sale has been slower than anticipated;
- Brockton's current expectation is that all parties involved will continue to pursue an orderly sale of the remaining apartments and that there will ultimately be proceeds available to fund investors. We have taken the view that at this stage, given the difficulty in estimating the likely outcome, that it is prudent to reduce the valuation to allow for the costs of the receivership process and any potential disruption to the sale process;
- We will keep the position under review during 2024.

### OTHER MATURE ASSETS PORTFOLIO: UNREALISED GAINS £0.5 MILLION

Net underlying gains were £0.5 million, the principal elements of which were:

- **Elateral** – Unrealised gain £1.1 million, reflecting the improved financial performance, and progress in sales and marketing strategy;

- **GW 2001 Fund** – Unrealised gain £0.2 million, reflecting market movements in the fund's portfolio of micro-cap US companies;
- **Opus Capital Venture Partners** – Unrealised loss £0.9 million, reflecting reductions in the quoted market comparable companies for the fund's two principal remaining investments; and
- **Other investments** – Unrealised net gains £0.1 million.

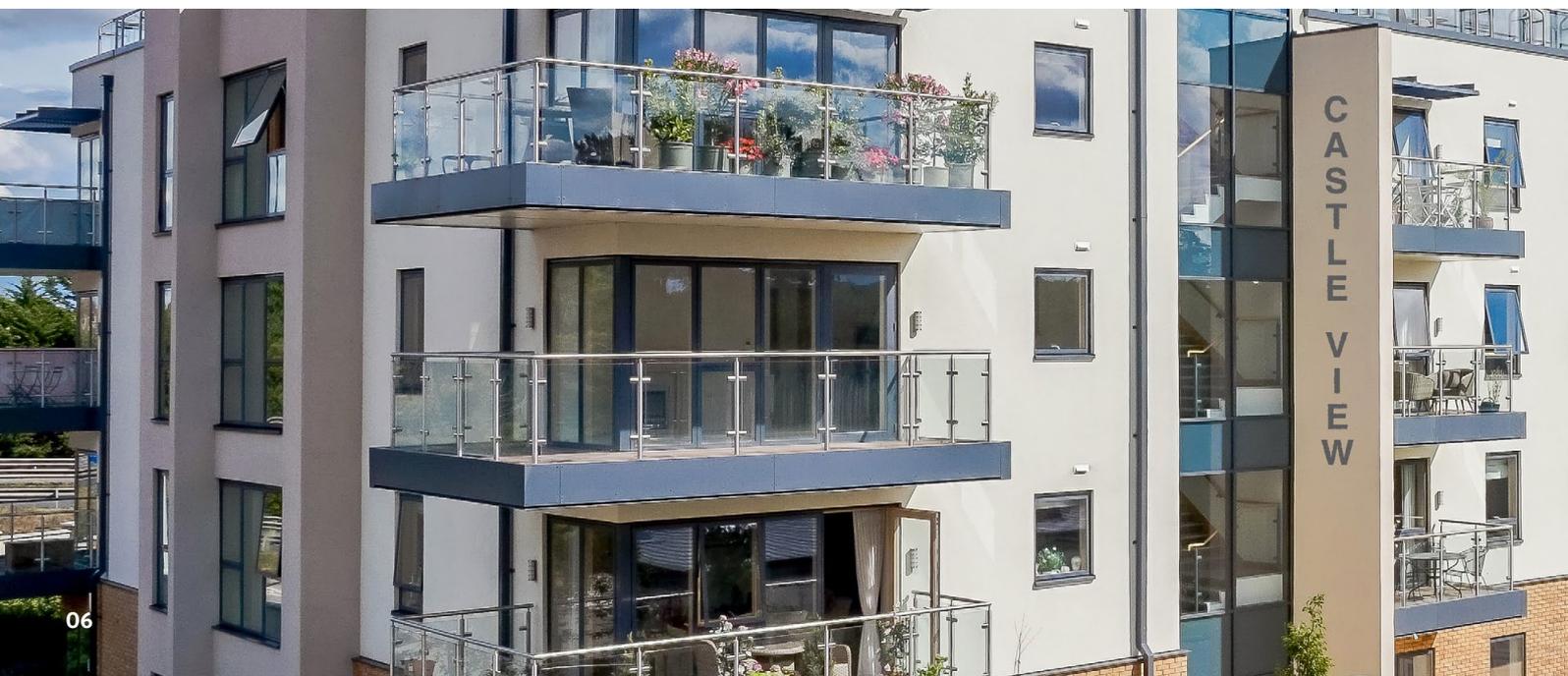
### DACIAN

Interest for the year of £1.4 million is payable on the Company's loan investment in Dacian and has been accrued.

In 2021, LMS led the funding group which, including \$9.1 million from LMS itself, invested in Dacian, a Romanian oil and gas production company newly formed to acquire and operate mature onshore energy production assets.

LMS's \$9.1 million is structured principally as senior secured loan notes, which are entitled to interest of 14% per annum gross before a withholding tax of 10%. LMS's share of equity is 32%. The balance of the equity is held by LMS's co-investors, 18%, and management 50%. Distributions to equity can only occur once the senior loan notes and accrued coupon are fully repaid.

Interest accrued from the time of the investment to date on the loan amounts to £3.8 million, against which £0.4 million of withholding tax has been recognised in the accounts.



### RUNNING COSTS

Running costs, net of Dacian fee income, for the year were £1.8 million. Steps have been taken to make savings across a number of back office functions which are budgeted to result in reductions in 2024.

### INVESTMENT COSTS

Investment costs of £1.0 million include the cost of the advisory group we have assembled to help develop our presence in the retirement living sector, and professional costs associated with evaluating and investigating potential site and business acquisitions. The most significant element of cost in 2023 being the acquisition costs of Castle View.

### REAL ESTATE – CASTLE VIEW: 31 DECEMBER 2023 NAV £6.1 MILLION

The Company, through its wholly owned subsidiaries, completed its investment in Castle View on 20 December 2023. The investment was structured as an investment in the group of companies (“Castle View Group”) which own the asset. Castle View comprises a development of 64 self-contained one and two bedroom apartments close to Windsor town centre, completed in 2018. Communal facilities include 24 hour reception, library, lounges, roof terrace, bars, private dining room and a restaurant facility.

Residents acquire individual apartments on 250 year leases and pay an annual service charge, which covers the day to day running of the scheme, plus a deferred fee on resale of an apartment. Of the 64 apartments, 49 have been sold and 15 remain to be sold.

The value of the Castle View Group, on a debt free and cash free basis was £11.9 million. LMS invested £6.1 million and the balance of the price was funded by a loan of £5.8 million from Terido (part of the Octopus Group). Castle View Group owns the Castle View freehold, including the unsold apartments, employs the team responsible for running the village and holds the right to receive the service charge fees and deferred fees in the future. The loan is repayable over three years from the proceeds of sale of the remaining 15 unsold apartments.

Castle View generates investment returns in two ways:

#### **Sale of 15 unsold apartments**

- Construction was completed at the end of October 2018 and in the year from November 2018 to November 2019, 19 apartments were sold. The pandemic and lockdowns in 2020 and 2021 impacted the rate of sales, but rates have increased again in 2022 and 2023;
- Sales rates for new developments in the sector are recognised to be slower than rates for regular market new build apartments and houses. We have taken a conservative view of sales rates for the remaining apartments in evaluating the investment but expect to maintain or improve upon the historic rates.
- Under the current financing structure of Castle View, proceeds from apartment sales will first be used to pay down the Terido loan as noted above.



NAV

£42.1m

FINAL DIVIDEND

0.625

PENCE PER SHARE

# Chairman and Managing Director's Report continued

## Deferred fees on resale of apartments

- The deferred fees are payable to Castle View, by the vendor, out of the proceeds of resale as and when an apartment is resold. The level of deferred fee depends on length of ownership starting at 4% and increasing to a maximum of 20% from the beginning of the fifth year of ownership. The deferred fee is designed to recover the costs of constructing the communal facilities, to cover their ongoing maintenance and updating and to provide a return on the capital invested;
- The timing and amount of the investment return from the deferred fees will depend on the actual timing and value of resales and will inevitably be uneven year to year. The average period of ownership in independent retirement communities such as Castle View is eight years. Once village occupancy is stabilised, meaning all units are sold and the pattern of occupancy established, on average, approximately 12.5% of the scheme would be expected to be resold each year. Allowing for the time for the village to achieve stabilised occupancy the base case investment appraisal model shows overall income returns in excess of 11%.

## LIQUIDITY – CASH LESS OTHER NET LIABILITIES

### CASH

Cash balances in the Company and its subsidiaries at 31 December 2023 were £15.5 million (31 December 2022: £17.9 million). Net outflows were £2.4 million (31 December 2022: £2.2 million).

### NET LIABILITIES

Net liabilities in the Company and its subsidiaries of £3.5 million (31 December 2022: £2.3 million) consist primarily of deferred consideration payable on the Castle View acquisition, accruals for income taxes, historic carried interest liabilities for one remaining asset and other sundry costs.

## DIVIDEND POLICY

The Company paid £0.7 million in dividends during the year comprising a final dividend for the year ended 31 December 2022 of 0.625 pence per share, paid on 23 June 2023 and an interim dividend for the year ended 31 December 2023 of 0.3 pence per share paid on 12 September 2023.

A final dividend of 0.625 pence per share for the year ended 31 December 2023 is recommended by the Board. Subject to approval by shareholders at the AGM in May 2024, the dividend will be paid to shareholders in early June 2024.

The dividend policy laid out by the Board in 2020 was to pay a dividend in respect of each financial year equal to approximately 1.5% of the closing NAV for that year. The proposed dividend for 2023 will amount to approximately 1.8% of closing NAV. Having regard to the Company's cash position and, whilst the dividends currently exceed the net cash income, the Board is confident of the Company's ability to generate future annual income and has therefore recommended to continue the dividend at the current amount.

The Board's ambition is to increase the level of dividend and will keep the current policy under review. The actual level of dividend each year will take account of market conditions generally, the Company's financial position and its distributable reserves.

## LOOKING FORWARD

The Company's objective is the preservation and creation of wealth for its shareholders over the longer term. Its target is to deliver returns, net of costs, of between 12% and 15% over the longer period.

When the Company returned to self-management in 2020, the Board laid out a strategy for the deployment of capital, making new investments in areas where the Company has clear competitive advantage through its knowledge and experience of particular sectors and its access to teams and opportunities within those sectors. The principal areas of focus have been real estate and energy.

We see our real estate activities, particularly in retirement living as being a key area of focus over the next period in establishing a portfolio which can deliver our long-term goal. In particular we will be focussed on identifying additional investment opportunities and funding partners with whom to develop our investment platform in the retirement living sector.

We will continue to nurture and support our other investments.

We would like to express our appreciation for the support from our team and from the network of people with whom we work on a regular basis. We would also like to express our appreciation for the continued support of our shareholders. We look forward to reporting progress to you during 2024.

**Robert Rayne**  
Chairman

**Nicholas Friedlos**  
Managing Director

18 March 2024

# Portfolio Overview

The following are the principal portfolio investments of the Group, representing 97.2% of the total portfolio value:

## CASTLE VIEW

REGION: UK | YEAR: 2023 |  
% Holding 100% | NAV £6.1 million



**CASTLE VIEW**

RETIREMENT LIVING | WINDSOR

[castleviewwindsor.co.uk](http://castleviewwindsor.co.uk)

Castle View is a retirement living village located in Windsor comprising a development of 64 self-contained one and two bedroom apartments, completed in 2018.



## Portfolio Overview continued

### PRINCIPAL UNQUOTED INVESTMENTS

#### Dacian

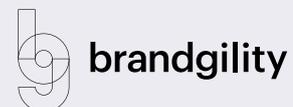


[www.dacianpetroleum.ro](http://www.dacianpetroleum.ro)

REGION: EU | YEAR: 2021 |  
% Holding 32% | NAV £11.0 million (2022: £10.1 million)

Dacian is a newly formed Romanian oil and natural gas production company operating over 40 late-life onshore fields with nearly 100 producing wells.

#### Elaterral



[www.elateral.com](http://www.elateral.com)

REGION: UK | YEAR: 2008 |  
% Holding: 62.5% | NAV £1.7 million (2022: £0.6 million)

Elaterral operates in the digital marketing sector and has developed cloud-based software which allows corporate marketing materials to be distributed to local marketing teams to enable content to be tailored whilst protecting brand identity. Elateral targets large international companies with multi-language requirements and has a concentration of global corporate customers.

### PRINCIPAL FUNDS

#### Brockton Capital Fund I



[www.brocktoneverlast.com](http://www.brocktoneverlast.com)

REGION: UK | YEAR: 2008 |  
NAV £2.5 million (2022: £6.0 million)

Brockton is a UK real estate fund with one remaining investment in a super-prime London residential development. The Group's investment represents its share of preferred debt investments via the Brockton Fund.

#### Opus Capital Venture Partners



[www.opuscapitalventures.com](http://www.opuscapitalventures.com)

REGION: US | YEAR: 2008 |  
NAV £4.1 million (2022: £5.3 million)

Opus is a US fund that invests in early-stage technology opportunities with two principal assets remaining.

#### Weber Capital Partners



[www.webercapital.com](http://www.webercapital.com)

REGION: US | YEAR: 2008 |  
NAV £2.2 million (2022: £2.0 million)

Weber Capital GW 2001 is a fund that invests in listed US micro-cap stocks, primarily in the technology and medical sectors.

# Strategic Report

LMS Capital is a listed investment company. It is self-managed and is entered by the FCA on the Register of Small Registered AIFMs.

This Strategic Report is set out in the following parts:

- Strategy
- Investment policy
- 2023 Company performance and 2024 objectives
- Risk management
- Viability statement

## STRATEGY

The Board is focused on finding opportunities in our three core sectors that meet our return targets and allow us to have influence over the underlying business.

We are also focused on progressing the existing portfolio, either through an orderly realisation or through financial support where the investment case validates this course of action.

Our approach to the further deployment of capital is to seek opportunities, within our chosen sectors, which not only offer attractive returns on the direct investment but also allow LMS to have influence and to participate in developing and bringing further capital into the underlying business – both from its own balance sheet and its co-investment network. This potentially creates additional fee streams and equity opportunity for LMS.

This approach results in fewer, but more significant transactions. One consequence of this is that individual deals can take longer. However, we believe this approach to be the most effective one given the current size of the Company and our ambition to grow.

## OUR INVESTMENT OBJECTIVES

To deliver consistent long-term financial returns for our shareholders:

- an overall total return, net of costs, over the long term of 12% to 15% per annum;
- the total return to include an annual dividend, initially set at 1.5% of NAV and ultimately progressing to 3.0%; and
- to broaden our shareholder base and develop the Company into an attractive investment for family offices, high net worth investors and institutions attracted by the returns we can achieve and our access to deal flow.

## OUR INVESTMENT APPROACH

We will focus on areas where we have competitive advantages:

- real estate;
- energy; and
- late-stage private equity.

Our competitive advantage comes from:

- our significant experience and knowledge;
- our track record of successful investing; and
- our ability to access exceptional management teams, our experienced Advisory Groups and a strong pipeline of opportunities.

The characteristics of individual deals will include:

- an opportunity for LMS to contribute expertise as well as financial backing;
- assets at the smaller end of their respective sectors where market inefficiencies allow attractive entry pricing;
- situations requiring a level of management attention which larger funds are unable to support or are too complex for direct investment by family offices or individual investors; and
- controlling or influential minority positions:
  - board or investment committee representation; and
  - full information rights.

# Strategic Report continued

## HOW WE OPERATE

We have assembled an experienced Board to oversee the development of our business and also to function as the Investment Committee that closely monitors existing investments and evaluates and approves new investments. Information on our Board is set out on pages 24 and 25 of this report.

We operate through a small core team, working closely with the management teams in our investee businesses.

We have a network of investment professionals with whom our core team work on individual opportunities.

### BOARD & INVESTMENT COMMITTEE

Robert Rayne  
Nicholas Friedlos  
James Wilson

Peter Harvey  
Graham Stedman

### CORE TEAM

Nicholas Friedlos  
Gary Cresswell

Caroline Howard  
Chris Garrod

#### RETIREMENT LIVING

Chris Dancer  
Roger Davies  
Karl Hallows



#### ENERGY

Bernard Duroc-Danner  
Thomas Bruni



#### OTHER SUPPORT

Richard Fidler  
Tim Willis



## OUR CO-INVESTMENT ACTIVITY

We seek to bring co-investors to deals to invest alongside the Company's own capital. Each deal will be different, but LMS sees the opportunity for each £1 of its own capital to bring at least as much again from co-investors.

Our co-investors gain the opportunity to invest directly in deals which they would be unlikely to access directly.

LMS benefits from influencing a larger pool of capital, participation in a more diversified range of deals, and the possibility of enhanced economics and the ability to recover fees to offset against its costs.

Our first cornerstone investment under internal management, Dacian, is an example of our ability to attract co-investment capital. We invested \$9.1 million in senior loan notes and a 32% equity ownership in Dacian and also led a co-investment group that invested an additional \$5.0 million in senior loan notes and an 18% equity ownership.

# Investment Policy

The Company's investment objective, stated in the current investment policy approved by shareholders in August 2016, is to achieve total returns over the medium to longer term, principally through capital gains 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 investment strategy is focused predominantly on private equity investment and alternative, specialist asset classes:

- the Company will invest in profitable and cash generative businesses and investments;
- the focus will primarily be on smaller private investment opportunities below £50 million value where the Company believes there to be significant market inefficiencies which create opportunities for superior long-term returns and to leverage the experience of the investment team;
- investments may include alternative, specialist asset classes which target long-term illiquid strategies both through co-investment and fund opportunities on preferred terms; and
- the Company will optimise the value of existing holdings and, where growth prospects are clear, to preserve and support longer-term value creation.

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 Board 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.

Whilst the Company has three focus areas, it is not restricted to specific sectors; its assets are and will continue to be predominantly invested in the United Kingdom, Europe and North America.

The Company may put in place bank facilities to help manage working capital, but indebtedness of the Company will not exceed 25% of NAV measured at the time of drawdown. The Company had no indebtedness, other than inter-group indebtedness, at 31 December 2023 or at the date of this report.

## RESPONSIBLE INVESTING

The origins of the Company lie in the investment of family wealth, much of it used to endow charitable foundations focussed on a wide range of endeavours in society. The Board understands its responsibility to build on this history and evolve it to ensure that the Company adopts and adheres to an approach to business that is relevant to environmental, social and governance ("ESG") standards today.

# 2023 Company Performance and 2024 Objectives

A detailed review of the management of the portfolio is set out on pages 19 to 23 of this Annual Report. The detailed financial results are set out in the accounts on pages 62 to 90.

The Board's overall aim is to create value for the Company's shareholders, through a combination of annual dividends and share price appreciation. To achieve this aim, the Board is focused on delivering its stated target returns, and its success will be measured by the Total Shareholder Return ("TSR") generated by the Company's shares over the longer term. The Board is also aware of the need to expand and diversify the capital base of the Company.

The Board determines annual priorities and objectives for the Company with a view to achieving its long-term goals. These priorities and objectives will generally be focused on the following areas:

- achieving the annual returns target by:
  - effectively managing its active investments;
  - sourcing new investment opportunities, which meet its target returns, and deploying surplus cash; and
  - exercising strict control over its running costs.
- building the profile of the Company in the public markets and taking advantage of opportunities that arise to expand the capital base.

The table below provides a summary of the outcomes of the annual objectives set for 2023 and an indication of the priorities and objectives for 2024.

AREA OF ACTIVITY	COMMENTARY ON ACHIEVEMENTS IN 2023 AND OBJECTIVES FOR 2024
<b>Development of new investment opportunities</b>	<p><b>REAL ESTATE – RETIREMENT LIVING</b></p> <p>Objectives for 2023 were to build on the work previously done in the retirement living sector. The investment in Castle View in December 2023 provides a cornerstone asset in the sector from which the Company can build.</p> <p>Objectives for 2024 are to seek further investments in the sector and to identify funding and operating partners to support the Company in development of its investment platform in the sector.</p> <p><b>ENERGY</b></p> <p>As discussed elsewhere in this report Dacian did not perform as well as expected during 2023 due to disruption to its gas production caused by engineering problems.</p> <p>The production issues in 2023 have been resolved and the objectives for 2024 are to support the team to return to its program of workover projects which should enable production gains to be achieved.</p> <p><b>LATE-STAGE PRIVATE EQUITY</b></p> <p>Our focus during 2023 was on energy and real estate, where we believe we have greatest competitive advantage, and less on late-stage private equity.</p> <p>For 2024, we will continue to consider opportunities, in particular those which have some cross over or connection with the energy or real estate sectors, whilst remaining disciplined in our approach.</p>

AREA OF ACTIVITY	COMMENTARY ON ACHIEVEMENTS IN 2023 AND OBJECTIVES FOR 2024
<b>Managing the mature portfolio</b>	<p>The bulk of the mature portfolio comprises interests in funds and minority equity positions where the Company has access to information and is able to engage with and seek to influence management but does not have control of decisions.</p> <p>The realisation of the Medhost investment in December 2023, was a good outcome producing total proceeds of £6.8 million and a surplus over NAV of £1.1 million.</p> <p>Elateral, in which LMS is the majority investor and has a board seat, has shown improved financial performance during the year which has been reflected in its valuation. This investment continues to be managed with a view to achieving an exit.</p> <p>The objective for 2024 is to continue to manage the portfolio, through our relationships with third-party managers and to seek to exert influence where we believe appropriate. A particular area of focus will be the investment in Brockton Fund 1, as noted elsewhere in this report.</p>
<b>Other</b>	<ul style="list-style-type: none"> <li>• The retirement living platform provides the opportunity for the Company to expand its shareholder base, and objectives include raising the Company's profile in the public markets; and</li> <li>• Other objectives include the implementation of measures to reduce running costs, planned during 2024</li> </ul>

## KEY PERFORMANCE INDICATORS

The Board's objective is to create wealth in the Company over the medium to longer term and takes decisions through the lens of this timeframe.

Progress towards the medium to longer-term objective may not be reflected in individual annual performance metrics. However, the Board recognises the need to report the Company's annual performance against these measures.

The Company's NAV per share total return, excluding the impact of dividends, was minus 7.8% and its share price total return was minus 10% for the year ended 31 December 2023. These measures compare to the FTSE All Share Index which showed a return of 6% for the year ended 31 December 2023.

Further information on the Company's performance is provided in the Portfolio Management Review on pages 19 to 23.

# Risk Management

On behalf of the Board, the Audit Committee has responsibility for ensuring that the Company has an effective process to identify, assess and manage the various risks within its business.

The Company has carried out an assessment of the principal risks within its business and has considered the likelihood and potential impact of each risk and the effectiveness of the procedures to mitigate each risk.

We work closely with the management teams of our investee businesses, with external input where required, to drive responsible, long-term decisions and ensure alignment with our own responsible investment principles

A summary of the principal risks identified is set out below.

## PRINCIPAL RISKS IN EACH CATEGORY

## TREND

	<h3>Strategic risk</h3> <p>Risk that the business model does not deliver target long-term returns of 12% to 15% to shareholders or that the Board is unable to implement its strategy or cannot pay its target dividend.</p>	
	<h3>Market risk</h3> <p>Risk that macro market and geopolitical uncertainties have an adverse impact on investment values, liquidity and deal flow or otherwise disrupt the markets in which the Company operates.</p>	
	<h3>Investment risk</h3> <p>Risk that the Company's investments may perform below expectations or may not achieve target exit valuations or timing.</p> <p>New investments may not meet investment criteria or fit with the strategy set by the Board.</p>	
	<h3>Financial risk</h3> <p>Risk that the valuation of the investment portfolio is misstated.</p>	
	<h3>Operational and Governance risk</h3> <p>Risk that the Company does not have the appropriate resources in place to support the delivery of its strategy. This includes risk of heavy reliance on a small core team and the risk that Board make-up may no longer be appropriate.</p>	
	<h3>Legal and Regulatory risk</h3> <p>The risk that the Company does not comply with the legal regulatory framework to which it is subject, including but not limited to the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code and the UK international accounting standards.</p> <p>Risk that changes to the legal or regulatory framework could impact the Company's business.</p>	

Key:



Increased



No Change



Decreased

## MITIGATION

The Board establishes both long-term and annual objectives with KPIs against which it monitors the Company's performance. It also considers the Company's performance in the context of investment market conditions and developments generally.

Regular assessment at Board level of the macro environment on the Company's business overall and at the individual asset level.

The current significant level of cash held by the Company provides some protection against uncertainty in the short term.

Regular monitoring by the Board of underlying performance and realisation strategy for all investments.

Where the Company does not control the investment realisation decision, it maintains dialogue with external managers and regularly considers alternative realisation routes.

New investments are subject to a rigorous multi-stage assessment and approval process by the Investment Committee and Board.

The investment portfolio is valued at fair value in accordance with IPEV Guidelines and supported by third-party evidence where available. Valuation judgements are reviewed regularly by the Board and Audit Committee and also subject to external audit at each year end.

The core team whilst small, is supported by advisers in key areas and also by outsourced providers. The Company, through its Board, has a wide network of associates who provide additional input on an as needs basis and who could provide additional support were members of the core team to be unavailable.

The Board was appointed in November 2019 and regularly gives consideration to its effectiveness.

Compliance with the relevant legal and regulatory requirements is overseen by the Audit Committee and the Board. The Company has in place the necessary procedures and policies required by the regulatory framework and works with external advisers periodically to review its procedures and to ensure it is aware of relevant legislative or regulatory changes.

# Viability Statement

The Directors have assessed the Company's current position and prospects as described in the Chairman and Managing Director's Report and the Portfolio Management Review, as well as the principal risks and uncertainties set out above. The Directors have carried out a robust assessment of the emerging and principal risks and concluded that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over a three-year period from the date of this report. The three-year 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 or more.

In performing their assessment, the Directors considered principally:

- the Company's liquidity forecast, including the flexibility in the dividend policy and lack of any external debt;
- the significant cash balances on hand at 31 December 2023 compared to the level of annual running costs;
- the 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); and
- the potential impact on the Company's operations, portfolio and liquidity from the macroeconomic environment, geopolitical uncertainties and possible legal and regulatory changes.

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

- many of the Company's investments are in private companies for which the timing and amount of income and/or realisation is uncertain. In many cases the realisation of assets is in the hands of third-party managers and not the Company;
- at 31 December 2023 the Company continues to hold sufficient sources of liquidity from its available cash balances. 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 Board has considered the 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 and uncertainty about the timing of its realisation; and
- in making its assessment, the Board has carried out a robust assessment of the emerging and principal risks, including taking into account the threats to the Company's solvency or liquidity incorporated in the principal risks and uncertainties, including potential impacts from the ongoing conflicts in Ukraine and the Middle East, and has satisfied itself that they are being addressed as outlined above.

## DIRECTORS' RESPONSIBILITIES PURSUANT TO SECTION 172 OF THE COMPANIES ACT 2006

The Directors are responsible for acting in a way that they consider, in good faith, is the most likely to promote the success of the Company for the benefit of its members. In doing so, they should have regard for the needs of stakeholders and the wider society. The Company's objective is to provide investors with an annual return of 12% to 15% per annum over the long term through a combination of share price appreciation and distributions.

Key decisions are those that are either material to the Company or are significant to any of the Company's key stakeholders. The Company's engagement with its key stakeholders is discussed further in the Corporate Governance Report. The below key decisions were made or approved by the Directors during the year, with the overall aim of promoting the success of the Company while considering the impact on its members and wider stakeholders.

Further details relating to this are set out in the long-term consequences of decisions section in the Companies Act Section 172 statement, on page 26.

For and on behalf of the Board

**Robert Rayne**  
Chairman

18 March 2024

# Portfolio Management Review

## MARKET BACKGROUND

Sterling had its best year against the US dollar since 2017. Having begun the year at \$1.21, the pound hit 15-month highs in July of more than \$1.31 as investors bet that UK interest rates could rise as high as 6.5%.

But sterling then fell back through the autumn, as UK inflation eased and the City began to conclude that monetary policy would not need to be quite so restrictive.

With inflation now down to 4.0% (CPI December 2023), and UK interest rates probably at their peak at 5.25%, the pound ended the year at about \$1.27.

Oil has had a volatile year, with prices both pushed down by fears of a global downturn and lifted by concerns that geopolitical tensions would hurt supply.

The price of crude ended the year down by about 10%, despite the Opec cartel's best efforts to prop up prices by cutting production. Having started January at \$86 a barrel, Brent crude finished the year about 10% lower, at \$77.50.

Domestically, the outlook for 2024 looks more positive. Interest rates are expected to begin to be cut and inflation continues to fall.

The consequences of recent developments and the impact of macroeconomic and domestic issues will continue to be monitored closely by the Board.

## PERFORMANCE REVIEW

The movement in NAV during the year was as follows:

	2023 £'000	2022 £'000
Opening NAV	46,541	49,109
Net realised and unrealised reductions on investments	(2,761)	(1,305)
Investment interest income (Dacian)	1,374	1,274
Advisory fee income	160	165
Dividends	(747)	(747)
Overheads and other net movements	(2,426)	(1,955)
<b>Closing NAV</b>	<b>42,141</b>	46,541

Cash realisations and new and follow-on investments from the portfolio were as follows:

	Year ended 31 December	
	2023 £'000	2022 £'000
Proceeds from the sale of investments	5,770	2
Proceeds from redemption of convertible debt	88	-
Proceeds from redemption of preference shares	-	336
Distributions from funds and loan repayments	62	97
<b>Total – gross cash realisations</b>	<b>5,920</b>	435
New and follow-on investments	-	(428)
Fund calls	-	(41)
<b>Total – net</b>	<b>5,920</b>	(34)

Realisations of £5.9 million in 2023 include:

- cash proceeds of £5.5 million from the sale of Medhost;
- Proceeds from the sale of ICU of £0.2 million; and
- Other realisations of £0.2 million.

## Portfolio Management Review continued

Below is a summary of the investment portfolio of the Company and its subsidiaries, which reflects all investments held by the Group:

	Year ended 31 December					
	2023			2022		
	GBP denominated £'000	USD denominated £'000	Total £'000	GBP denominated £'000	USD denominated £'000	Total £'000
<b>Mature investment portfolio</b>						
Quoted	107	38	145	121	39	160
Unquoted	1,680	37	1,717	681	5,945	6,626
Funds	3,139	6,330	9,469	6,676	7,357	14,033
	<b>4,926</b>	<b>6,405</b>	<b>11,331</b>	7,478	13,341	20,819
<b>Other investments</b>						
Castle View	6,130	-	6,130	-	-	-
Dacian	-	10,989	10,989	-	10,145	10,145
	<b>6,130</b>	<b>10,989</b>	<b>17,119</b>	-	10,145	10,145
<b>Total investments</b>	<b>11,056</b>	<b>17,394</b>	<b>28,450</b>	7,478	23,486	30,964

### BASIS OF VALUATION

#### QUOTED INVESTMENTS

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

#### UNQUOTED DIRECT INVESTMENTS

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

- investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable revenue or earnings;
- investments in an established business which is generating sustainable revenue or earnings but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows;
- investments in debt instruments or loan notes are determined on a standalone basis, with the initial investment recorded at the price of the transaction and subsequent adjustments to the valuation are considered for changes in credit risk or market rates; and
- convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model.

#### FUNDS

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

## PERFORMANCE OF THE INVESTMENT PORTFOLIO

The return on investments for the year ended 31 December 2023 was as follows:

Asset type	Year ended 31 December					
	2023			2022		
	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Total £'000
Quoted	(10)	-	(10)	(1)	(220)	(221)
Unquoted	1,498	366	1,864	24	(1,285)	(1,261)
Funds	(9)	(4,509)	(4,518)	-	108	108
	<b>1,479</b>	<b>(4,143)</b>	<b>(2,664)</b>	23	(1,397)	(1,374)
(Charge)/credit for incentive plans			<b>(100)</b>			69
			<b>(2,764)</b>			(1,305)
Operating and similar (loss)/income of subsidiaries			<b>(44,500)</b>			1,081
			<b>(47,264)</b>			(224)

The Company historically operated carried interest arrangements in line with normal practice in the private equity industry. These arrangements have been in run-off since 2012 and only one investment, Medhost, remains subject to the arrangements. Following the sale of Medhost a payment will be due based on the cash consideration received, and a further payment will be due following receipt of the final part of the proceeds in December 2024. The credit for incentive plans for the Company is £3,000 and for subsidiaries a charge of £103,000 for carried interest and other incentives relating to historic arrangements. The charge for carried interest incentive plan is included in the net movement on investments in the Income Statement.

Approximately 61% of the portfolio at 31 December 2023 is denominated in US dollars (31 December 2022: 76%) and the above table includes the impact of currency movements. In the year ended 31 December 2023, the strengthening of sterling against the US dollar over the year as a whole resulted in an unrealised foreign currency loss of £1.14 million (2022: unrealised gain of £2.74 million). As a common practice in private equity investment, it is the Board's current policy not to hedge the Company's underlying non-sterling investments.

### QUOTED INVESTMENTS

Company	Sector	31 December	
		2023 £'000	2022 £'000
Tialis Essential IT plc	UK technology	107	121
Arsenal Digital Holdings Inc	US energy	10	13
Others	-	28	26
		<b>145</b>	160

The net gains and losses on the quoted portfolio arose as follows:

Gains/(losses), net	Year ended 31 December	
	2023 £'000	2022 £'000
<b>Realised</b>		
Weatherford International Inc	(8)	-
Evolving Systems Inc	(2)	-
Tialis Essential IT plc	-	(1)
	<b>(10)</b>	(1)
<b>Unrealised</b>		
Tialis Essential IT plc	(13)	(94)
Arsenal Digital Holdings Inc	(4)	(135)
Other quoted holdings	17	(2)
Unrealised foreign currency gains/(losses)	-	11
	-	(220)
<b>Total net losses</b>	<b>(10)</b>	(221)

## Portfolio Management Review continued

### UNQUOTED INVESTMENTS

Company	Sector	31 December	
		2023 £'000	2022 £'000
Dacian	EU energy	10,989	10,145
Castle View	UK retirement living	6,130	-
Medhost Inc	US technology	-	5,673
Elateral	UK technology	1,680	599
ICU Eyewear	US consumer	-	232
Tialis loan notes	UK technology	-	82
Cresco	US consumer	37	40
		<b>18,836</b>	16,771

The net gains and losses on the unquoted portfolio arose as follows:

Gains/(losses), net	Year ended 31 December	
	2023 £'000	2022 £'000
<b>Realised</b>		
Medhost Inc	1,432	24
Update	86	-
ICU Eyewear	62	-
	<b>1,580</b>	24
<b>Unrealised</b>		
Tialis loan notes	6	(25)
Elateral	1,081	(645)
Medhost Inc	-	(691)
ICU Eyewear	-	(1,778)
Unrealised foreign currency (losses)/gains	(803)	1,854
	<b>284</b>	(1,285)
<b>Total net gains/(losses)</b>	<b>1,864</b>	(1,261)

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.

### FUND INTERESTS

General partner	Sector	31 December	
		2023 £'000	2022 £'000
Brockton Capital Fund 1	UK real estate	2,526	6,036
Opus Capital Venture Partners	US venture capital	4,142	5,275
Weber Capital Partners	US micro-cap quoted stocks	2,180	2,046
EMAC ILF	EU	330	341
Simmons	UK	283	262
Eden Ventures	UK venture capital	-	37
Other interests	-	8	36
		<b>9,469</b>	14,033

The net gains on the Company's fund portfolio for the year ended 31 December 2023 were as follows:

Gains/(losses), net	Year ended 31 December	
	2023 £'000	2022 £'000
<b>Realised</b>		
San Francisco Equity Partners	(9)	-
	<b>(9)</b>	-
<b>Unrealised</b>		
Opus Capital Venture Partners	(896)	755
Brockton Capital Fund I	(3,510)	458
Primus Capital Fund V	(3)	(7)
San Francisco Equity Partners	-	(103)
Simmons Parallel Energy	27	(144)
EMAC Illyrian Land Fund II	(5)	(419)
Eden Ventures	(5)	(457)
Weber Capital Partners Fund 1	222	(855)
Unrealised foreign currency (losses)/gains	(339)	880
	<b>(4,509)</b>	108
<b>Total net (losses)/gains</b>	<b>(4,518)</b>	108

## COSTS

Running costs for the year were £1.8 million (2022: £1.7 million) and investment related costs being support costs for real estate and co-investment activities, were £1.0 million (2022: £0.4 million) which includes £0.6 million of acquisition costs in relation to the Castle View investment.

## TAXATION

The Group tax provision for the year, all of which arose in the subsidiaries, is £0.2 million (2022: £0.4 million). This includes £0.2 million of withholding tax on our foreign sourced income.

## FINANCIAL RESOURCES AND COMMITMENTS

At 31 December 2023 cash holdings, including cash in subsidiaries, were £15.5 million (31 December 2022: £17.9 million) and neither the Company nor any of its subsidiaries had any external debt in either 2023 or 2022.

At 31 December 2023, subsidiary companies had commitments of £2.7 million (31 December 2022: £2.7 million) to meet outstanding capital calls from fund interests.

### **LMS Capital Plc**

18 March 2024



# Board of Directors



**ROBERT RAYNE**  
NON-EXECUTIVE CHAIR



**NICHOLAS FRIEDLOS**  
MANAGING DIRECTOR

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*COMMITTEE MEMBERSHIPS:*  
Chairman of the Investment Committee and the Nomination Committee

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*COMMITTEE MEMBERSHIPS:*  
Member of the Investment Committee and the Nomination Committee

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*DATE APPOINTED TO THE BOARD:*  
6 April 2006

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*DATE APPOINTED TO THE BOARD:*  
28 November 2019

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*DATE APPOINTED AS CHAIRMAN:*  
28 November 2019

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*DATE APPOINTED AS  
MANAGING DIRECTOR:*  
28 November 2019

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**Directorships:** Previously chairman of The Rayne Foundation and a non-executive director/trustee of a number of charitable trusts and foundations, and also a director of Noven Inc.

**Experience:** Robert has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. He established the Company's investment activities in the early 1980s as Investment Director and later Managing Director and Chief Executive Officer of London Merchant Securities plc.

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**Role and Experience:** Managing Director, with overall responsibility for running the Company's operations going forward, working with and supporting the activities of the investment teams as well as overseeing the administrative and regulatory matters.

Nick is a chartered accountant and was a partner at PricewaterhouseCoopers. For the last 20 years he has worked as a consultant to and as CEO and CFO in alternative asset investment businesses including real estate, private equity and renewable energy.



**PETER HARVEY**  
NON-EXECUTIVE DIRECTOR



**GRAHAM STEDMAN**  
NON-EXECUTIVE DIRECTOR



**JAMES WILSON**  
SENIOR NON-EXECUTIVE DIRECTOR

*COMMITTEE MEMBERSHIPS:*  
Chairman of the Audit Committee, member of the Nomination Committee, Remuneration Committee and Investment Committee

*COMMITTEE MEMBERSHIPS:*  
Chairman of the Remuneration Committee, member of the Audit Committee, Nomination Committee and Investment Committee

*COMMITTEE MEMBERSHIPS:*  
Member of the Audit Committee, Nomination Committee, Remuneration Committee and Investment Committee

*DATE APPOINTED TO THE BOARD:*  
28 November 2019

*DATE APPOINTED TO THE BOARD:*  
28 November 2019

*DATE APPOINTED TO THE BOARD:*  
28 November 2019

*DATE APPOINTED AS CHAIRMAN OF AUDIT COMMITTEE:*  
28 November 2019

*DATE APPOINTED AS CHAIRMAN OF THE REMUNERATION COMMITTEE:*  
28 November 2019

**Directorships:** Has a number of other roles with not-for-profit organisations in Cornwall, and is also a director of two substantial private businesses based in Cornwall.

**Directorships:** Number of advisory roles and has a particular interest in mentoring smaller organisations both in the commercial and in the not-for-profit sectors to develop their businesses.

**Directorships:** Chairman and Managing Partner of Source Squared. Serves on the State Board of Advisors for The Salvation Army and the Advisory Board of the Cambridge Conservation Initiative at Cambridge University in the UK. Also a director of ZetaMotion Limited and Cambridge Photon Technology and Chairman of Acumentrics Inc and Aircuity Inc.

**Experience:** Peter is a chartered accountant and prior to his retirement in 2010, was a partner at PricewaterhouseCoopers. He has been involved as Chairman of the shareholder group in a private company in the brewing sector and has worked closely with the board of this business.

**Experience:** Graham is a lawyer and spent most of his career as a corporate law partner in London advising on mergers and acquisitions, takeovers, and other corporate transactions in both public markets and private equity and venture capital.

**Experience:** James has expertise in a wide range of sectors. He was a founding partner of Boston Ventures, one of the leading US media private equity funds, responsible for building the firm's practice in the information services industries.

# Corporate Governance Report

This report sets out the Company's corporate governance arrangements, which reflect the standards of practice required by the 2018 UK Corporate Governance Code (the 'Code') in relation to the management of the Company. The work of the Board during the year was conducted through six formal meetings and regular informal engagement with executive management. The Board has focussed on the investment strategy, including emphasis on retirement living as well as the management of the mature portfolio.

## UK CORPORATE GOVERNANCE CODE AND S172 REPORTING

During 2023, we continued to abide by the overriding principles of the 2018 Code which are designed to:

- promote long-term sustainable success of the Company, business effectiveness, efficiency;
- responsibility and accountability in accordance with section 172 of the Companies Act 2006 (s172) which requires Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, having regard to the factors, including stakeholder factors, set out in section 172(1)(a) to (f) of the CA 2006;
- provide suitable opportunity for employee engagement in the business;
- assist the effective review and monitoring of the Company's activities and successful deployment of our capital;
- help identify and mitigate significant risks to the Company, as set out in our Risk Report on pages 16 and 17; and
- provide the necessary disclosures to stakeholders to make a meaningful analysis of the Company's business activities and its financial position.

The Board is committed to delivering value to shareholders while maintaining high standards of corporate governance and business ethics. This report is made under the 2018 UK Corporate Governance Code ("the Code"). Copies of the Code are available from the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk).

This report sets out how the Company has applied the principles in the Code and the extent to which it has complied with the detailed provisions set out therein. The Board considers that the Company has complied with all of the provisions of the Code, except where explanatory statements have been included below. The Board made good progress in the full implementation of the Code and shall continue to consider the likely consequences of its decisions in the long term and the importance of maintaining a reputation for high standards of business conduct and to ensure that in 2024 any changes will be monitored to guarantee adherence of the Code is applied.

## GOVERNANCE KEY EVENTS

- Over the course of the year, the Company has continued to keep under review its documented policies and procedures, where required to comply with the various areas of regulation. The Company shall continue to formally review its policies on an annual basis.
- The Company's AGM is an opportunity to engage directly with shareholders. In 2022 and 2023, in addition to being invited to attend in person, shareholders were provided with opportunity to listen to the AGM's presentation remotely and, shareholders were encouraged to submit proxy votes and to submit questions before and after the meeting. It is intended that the 2024 AGM will be held as per the normal process, but the Company shall continue to provide the opportunity to join proceedings remotely. Further details will be set out in the Notice of AGM that will be circulated ahead of the meeting.
- A continuing review of the Code, with steps taken towards full compliance.

## UK CORPORATE GOVERNANCE CODE – EXPLICIT EXPLANATORY STATEMENTS

Provision 9 of the Code requires that the Chair of the Company should be independent on appointment when assessed against the circumstances set out in Provision 10. Robert Rayne is not considered to be independent, as defined by the Code, as he previously served as an executive director and is a major shareholder in LMS Capital plc. While not independent, the Board considers that Robert Rayne remains to be the most appropriate person to chair the Company to ensure the adherence of good governance. The Board recognises that Robert Rayne continues to offer substantive and intellectual challenge to other Board members and strong leadership. The Board are satisfied that Robert Rayne's role as Chair is clearly separated from that of the Managing Director, and he therefore continues to be appointed accordingly.

Provision 13 of the Code requires the Chair to hold meetings with the Non-Executive Directors without the Executive Director being present. In February 2023 and again in January 2024 the Board reviewed the performance of the Executive Director for the preceding year and agreed performance objectives, and such meetings were held without the Executive Director present. The Board consider these reviews sufficient.

Provision 19 of the Code requires that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board. Robert Rayne has been on the Board for over nine years and therefore the Company is not in compliance with Provision 19. Robert Rayne continues to be considered the most appropriate person to chair the Board following the management changes and he remains appointed accordingly.

Provision 20 of the Code requires that an open advertising and/or an external search consultancy should generally be used for the appointment of the Chair and Non-Executive Directors. Given the circumstance around the management changes in November 2019 and detail in the EGM documents, this Provision was not adhered to. The Board considers that its current composition is sufficient and will use an external search consultancy should any further appointments be planned.

Provision 21 of the Code requires that there should be a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors. A Board effectiveness review, facilitated by an external consultant, was undertaken in respect of 2020. The Board conducted an internal review of its effectiveness in January 2022 and plans to have a further review during 2024.

Provision 34 of the Code states that the remuneration for all Non-Executive Directors should not include share options or other performance-related elements. This Provision was not complied with as Robert Rayne still retains a participation in the Company's historic carried interest plans. The carried interest relates to entitlements earned during previous years when he was an executive of the Company and, in this respect, he is not treated differently from other former executives who in some cases also retained carried interest entitlements. There have been no new carried interest plans introduced since the Company returned to internal management.

# Corporate Governance Report continued

## ENGAGEMENT WITH STAKEHOLDERS

Provision 5 of the Code requires the Board to understand the views of the Company's key stakeholders.

The Board regards our people as our most valuable asset and is committed to responsible employment practices, by promoting the fair treatment of our workforce, providing equal opportunity, preventing discrimination and upholding human rights.

The Senior Non-Executive Director, James Wilson together with the Chairman, is available to meet with shareholders as appropriate. Nicholas Friedlos, our Managing Director, and each of our Committee Chairmen are available to engage with shareholders on significant matters related to their area of responsibility.

All Directors will be available at our AGM in 2024 to answer any questions. At the AGM the level of proxy votes lodged on each resolution is made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution. The Committee Chairmen are available to answer questions from shareholders.

## SHAREHOLDER COMMUNICATIONS

The Board has stayed in regular contact with its major institutional shareholders and ensures that all its members have an understanding of the views and concerns of investors about the Company. This is achieved by the Directors maintaining contact from time to time with representatives of institutional shareholders to discuss matters of mutual interest relating to the Company and reporting back to the Board.

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

## REMUNERATION

The New Remuneration Policy was approved at the AGM held in 2023 by the majority of shareholders.

In accordance with the Code, the Remuneration Committee determine executive director remuneration policy and practices and address the following factors: clarity, simplicity, risk, predictability, proportionality and alignment to culture.

When determining remuneration schemes and the remuneration policy, the Committee consider the use of discretion by the Committee to override formulaic outcomes.

The Committee reviews at least annually the on-going appropriateness and relevance of the remuneration policy and consult with significant shareholders, as appropriate, on the policy or any other aspects of remuneration. In carrying out its role, the Committee takes advice from external remuneration consultants.

The Committee is further entitled to invoke agreed safeguards, for example, clawback or withholding the payment of any sum or share award in certain circumstances.

Detailed information on the remuneration arrangements for the Directors can be found in the Remuneration Report on pages 36 and 37.

## ACCOUNTABILITY AND RISK

The Board formally reviews the Company's risk profile each year and regularly discusses principal and emerging risks facing the Company and appropriate controls. Risk identification and mitigation regularly form part of the Board's deliberations on strategic decisions. Monitoring the Company's risk and assurance systems is key to the business and forms part of Board meeting discussions.

Detailed information on how the Company manages risk can be found in the Strategic Report on pages 16 and 17 and the Audit Committee Report on pages 33 to 35.

## DIVERSITY AND SUCCESSION PLANNING

The Board has reviewed the combination of skills and experience on the Board and has evaluated its composition looking at both the existing and desired skill sets. The Nomination Committee recognises the need to keep this under review and is cognisant in respect of the diversity of the Board.

## CO-INVESTMENT POLICY

An important part of the Company's strategy is developing a co-investment network, and this can include one or more of the Company's Directors, employees or consultants (the "LMS Team"). The Board has adopted a co-investment policy to provide guidance in situations where one or more members of the LMS Team proposes to become a co-investor in one of the Company's new investments. The policy states that any such co-investment should be on the same or no better terms and at the same time as the Company's investment. The policy also sets out the regulatory requirements and requires all proposed LMS Team co-investments be reviewed and approved by an Independent Board, being the Board, but excluding any Board members who are part of the proposed co-investment. Should all Board members be proposed co-investors, the arrangement would be reviewed by the Company's financial adviser.

## LEADERSHIP AND BOARD EFFECTIVENESS

The structure of the Board and Committees is designed to ensure that the Board applies its focus to the overall objectives of the Company with emphasis on strategy, monitoring the performance of the portfolio, risk and control issues. The Board ensures that the right people and leadership are employed and utilised to achieve the strategy and plans of the Company.

### **BOARD EVALUATION**

The Board considers the guidance on Board Effectiveness issued by the FRC in July 2018.

A further internal review of the Company's strategy, including the effectiveness of its Board and each Committee as well as revision of performance of the Chairman will be carried out during 2024.

### **BOARD OF DIRECTORS**

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

## **COMPOSITION**

The Board currently comprises of five Directors. Brief biographies of the Directors appear on pages 24 and 25. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it, and this is kept under regular review.

Robert Rayne is the Chairman, and he is responsible for the effective running of the Board, including setting the Board's agenda and ensuring that all matters relating to performance and strategy are fully addressed. He is also responsible for ensuring that the Board's effectiveness is regularly evaluated. The role description of the Chairman was reviewed by the Board and was documented and approved by the Board in November 2020, and was reviewed again in January 2023.

### **NON-EXECUTIVE DIRECTORS**

Each Non-Executive Director is appointed for an initial term of three years. Subject to agreement, satisfactory performance and re-election by shareholders, their appointments were renewed for further terms of three years. The appointments expired in November 2022 and have been extended for a further three years, subject to each Director offering themselves for re-election annually at the AGM.

### **DIRECTOR INDEPENDENCE AND COMMITMENT**

In the opinion of the Board, Peter Harvey, Graham Stedman and James Wilson are each considered to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) their judgement.

Robert Rayne is not considered to be independent as he previously served as an executive director and is a major shareholder in LMS Capital plc.

Nicholas Friedlos is not considered to be independent as he is the Managing Director of the Company.

## Corporate Governance Report continued

### *DIRECTORS' CONFLICTS OF INTERESTS*

The Company's Articles of Association allow the Directors to authorise conflicts of interest and a register has been set up to record all actual and potential conflict situations which have been declared. All declared conflicts have been reviewed and approved by the Board at each Board meeting held during 2023. The Company has instituted procedures to ensure that Directors' outside interests do not give rise to conflicts with its operations and strategy.

The Board is of the view that the Chairman and each of the Non-Executive Directors who held office during 2023 committed sufficient time to fulfilling their duties as members of the Board.

### *INDEPENDENT SENIOR NON-EXECUTIVE DIRECTOR*

The Senior Non-Executive Director, James Wilson, acts as a sounding board for the Chairman and acts as an intermediary for other Directors. The Directors consider that the Senior Non-Executive Director is able to ensure significant engagement with shareholders.

### *DIRECTOR RE-ELECTION*

In order to comply with the Code, all Directors will offer themselves for re-election by shareholders at each AGM.

### *BOARD MEETINGS*

Five scheduled Board meetings were held in 2023 and one add-hoc meeting. At each scheduled meeting, the Board considered a report on current operations and significant business issues, such as major investment or divestment proposals and strategy, as well as a financial report. Papers for each scheduled Board meeting are usually provided during the week before the meeting.

### *ATTENDANCE AT BOARD MEETINGS*

The following were Directors of the Company during 2023. They attended the following number of scheduled meetings of the Board and (where they were members) its Committees during the year:

<b>2023</b>	<b>Board</b>	<b>Audit</b>	<b>Nomination</b>	<b>Remuneration</b>	<b>Investment</b>
<b>Meetings held</b>	6	3	2	3	4
Robert Rayne	6	-	2	-	4
Nicholas Friedlos	6	-	2	-	4
Peter Harvey	6	3	2	3	4
Graham Stedman	6	3	2	3	4
James Wilson	6	3	2	3	4

The Directors maintain a regular dialogue regarding the business of the Company outside of scheduled Board and Committee meetings. In months where no such meetings are scheduled, the Directors will arrange informal meetings, generally by way of conference calls.

### *BOARD SUPPORT*

There are agreed procedures for the Directors to take independent professional advice, if necessary, at the Company's expense. This was not used during the year, however all Directors have access to the advice and services of the Company Secretary. In addition, newly appointed Directors would be provided with comprehensive information about the Company and its investee Companies as part of their induction process.

While no formal structured continuing professional development programme has been established for the Non-Executive Directors, every effort is made to ensure that they are fully briefed before Board meetings on the Company's business and its investments. In addition, they receive updates from time to time from the Company's advisers and from the Company Secretary on recent developments in corporate governance and compliance. Each of the Non-Executive Directors independently ensures that they update their skills and knowledge sufficiently to enable them to fulfil their duties appropriately.

The Board has adopted a schedule of matters reserved to it for approval. These include the approval of financial statements, strategic plans and annual budgets, as well as acquisitions and disposals and major capital and operating expenditure. The Board delegates specific responsibilities to its Committees, which operate within written terms of reference approved by the Board. These Committees report regularly to the Board.

## **BOARD COMMITTEES**

The Board has an Audit Committee, a Remuneration Committee, a Nomination Committee, and an Investment Committee.

Each Board Committee has established terms of reference detailing its responsibilities and authority. These are available in the Investor Relations section of the Company's website at [www.lmscapital.com](http://www.lmscapital.com).

## **AUDIT COMMITTEE**

The Audit Committee comprises of: Peter Harvey (Committee Chairman), Graham Stedman and James Wilson. Peter Harvey is considered by the Board to have recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates.

The Chairman of the Committee may invite non-members to attend Committee meetings and these typically include a representative of the Company's external auditor and other Directors. A report on the activities of the Audit Committee is set out on pages 33 to 35.

The terms of reference for the Committee, which are reviewed on an annual basis, take into account the requirements of the Code. The role of the Committee is to assist the Board with the discharge of its responsibilities in relation to the Company's Financial Statements in the areas set out below.

The Committee Chairman reports to the full Board at each scheduled Board meeting immediately following a Committee meeting.

## **CORPORATE REPORTING**

The Committee monitors the integrity of the Financial Statements of the Company and any formal announcements relating to the Company's financial performance, with particular emphasis on reviewing significant financial reporting judgements contained in them. It reviews the draft annual Financial Statements and half-year results statement prior to discussion and approval by the Board and reviews the external auditor's detailed reports on these.

It then reports to the Board any matters which it considers the Board should take into account in ensuring that published financial reports provide a fair, balanced and understandable assessment of the Company's position and prospects. In identifying any such matters, the Committee also takes into account the findings reported to it from the external audit process.

## **EXTERNAL AUDIT**

In order to safeguard the independence and objectivity of the external auditor, the Committee is responsible for the development, implementation and monitoring of the Company's policy on the provision of non-audit services and oversight of the hiring of personnel from the external auditor, should this occur. The Audit Committee reviews the conduct of the external audit, including its effectiveness and independence on an annual basis and makes recommendations to the Board regarding the re-appointment or removal of the external auditor, their terms of engagement and the level of their remuneration. The Committee also reviews the process which is in place to ensure the independence and objectivity of the external auditor.

During the year, the Committee monitors the external audit as it proceeds. The Committee reviews, discusses and approves the external audit plan for the current financial year; the Committee then meets with the external auditor prior to the Board's consideration of the full-year and half-year results to consider their findings.

A policy regarding the engagement of the external auditor to supply non-audit services is in place. The policy recognises the importance of maintaining the objectivity and independence of the external auditor by carefully monitoring their involvement in projects of a non-audit nature. It is, however, also acknowledged that, due to their detailed understanding of the Company's business, it may sometimes be necessary or desirable to involve the external auditor in non-audit related work to the extent permitted.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

IQ-EQ Administration Services (UK) Limited, appointed in 2017, continue to manage the Company's day-to-day financial and administrative functions, acting within delegated authority limits and in accordance with clearly defined systems of control. IQ-EQ Corporate Services (UK) Limited appointed in 2017 also continue as Company Secretary and supports the Board in the delivery of governance procedures, in particular the planning of agendas for the annual cycle of Board and Committee meetings.

# Corporate Governance Report continued

Risk management and internal controls is a standing agenda item for each Audit Committee meeting. Although the Company has no internal audit function, the Committee reviews the effectiveness of the internal controls throughout the year and will take any necessary corrective actions should any significant failings or weaknesses be identified. When reviewing the effectiveness of the internal controls, the Committee considers the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC in September 2014 and are comfortable that these are adhered to. More information on the results of these reviews during 2023 are set out in the Audit Committee Report on pages 33 to 35. Details of the principal risks and uncertainties potentially facing the Company can be found in the Strategic Report on pages 16 and 17.

Following the appointment of IQ-EQ Administration Services (UK) Limited to manage the Company's day-to-day financial and administrative functions, the Board continues to be reliant on third-party reports to gain comfort on internal controls operated by IQ-EQ.

Although not a regulatory requirement as a small self-managed alternative investment fund, the Company has retained the services of INDOS Financial Limited to act as its depository and provide additional internal controls for the safeguarding and record keeping of its assets.

## NOMINATION COMMITTEE

The Board considers that every member of the Board plays an important role in the decision making process and hence all Directors are members of the Nomination Committee, which is chaired by Robert Rayne. The Committee is responsible for assisting the Board in determining the composition, gender equality and make-up of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors, as the need arises. The selection process is, in the Board's view, both rigorous and transparent in order to ensure that appointments are made on merit and against objective criteria set by the Committee. In reviewing potential candidates, the Committee takes into account the need to consider the benefits of gender and ethnic diversity on the Board, while ensuring that appointments are made based on merit and relevant experience.

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

The Nomination Committee meets as required, and at least once each year.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises: Graham Stedman (Committee Chairman), Peter Harvey and James Wilson. The Remuneration Committee has, under its Terms of Reference been delegated responsibility of setting remuneration of the Directors. There is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. The Committee consults with external remuneration consultants as part of its annual review process.

The Remuneration Committee meets as required, but at least twice each year.

A report on the activities of the Remuneration Committee is set out on pages 36 to 50.

## FINANCIAL REPORTING

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 54 their responsibility for preparing the Financial Statements of the Company. The external auditor has included, in the Independent Auditor's Report set out on pages 55 to 61, a statement about its reporting responsibilities.

The Directors are also responsible for the publication of a half-year report for the Company, which provides a balanced and fair assessment of the Company's financial position for the first six months of each accounting period.

**Robert Rayne**  
Chairman

18 March 2024

# Audit Committee Report

## INTRODUCTION FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

I am pleased to present the report of the Audit Committee for 2023 which provides shareholders with an overview of the activities of the Committee during the year. These activities are focused on the following:

- the integrity of the Company's financial reporting;
- the quality and effectiveness of the external audit process, including the independence and objectivity of the external auditor;
- risk management and internal control; and
- the day-to-day accounting responsibilities, which are undertaken by a third-party service provider, IQ-EQ Administration Services (UK) Limited.

Throughout 2023, the Committee has overseen the financial reporting process and discharged its other responsibilities.

As Chairman of the Committee, I report to the full Board at each scheduled Board meeting immediately following a Committee meeting, and other times as appropriate.

A summary of how the Committee carried out its responsibilities during 2023 as well as the more significant issues addressed is set out in the report.

## CORPORATE REPORTING

The Committee had three scheduled meetings during 2023 and also met on 5 March 2024; each meeting was attended by the external auditor.

Since the publication of the 2022 Annual Report the Committee has reviewed the following:

- the 2023 half-year results and announcement;
- reports from BDO on the planning of their audit for the year ended 31 December 2023;
- the report from BDO on their audit of the results for the year ended 31 December 2023;
- the preliminary announcement of 2023 results; and
- the 2023 Annual Report.

## ANNUAL REPORT 2023

The Committee advises the Board on whether it believes that the 2023 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A report confirming this to be the case was presented to the Board at a meeting where it considered the full-year results and Annual Report.

In formulating its report to the Board, the matters considered by the Committee included the following:

- the roles of IQ-EQ in the reporting process;
- the process underlying the preparation of financial and narrative information which is reported to the Board at each of its meetings;
- whether the information in the Strategic Report and the Portfolio Management Review is consistent with that reported to the Board throughout the year;
- ensuring that positive and negative factors affecting the Company's performance are given equal prominence; and
- the appropriateness of the key performance indicators and comments on them.

# Audit Committee Report continued

## SIGNIFICANT ACCOUNTING JUDGEMENTS

During the year, the Committee considered the key accounting matters and judgements in respect of the Financial Statements and these are described below. In relation to the 2023 full-year results, the Committee has received relevant papers prepared by the internal team. These papers were subject to challenge by the Committee, as it considered appropriate in the circumstances.

### INVESTMENT PORTFOLIO VALUATION

The principal focus for the Committee is the investment portfolio valuation; a full valuation is prepared and reported to the Committee at least twice a year and used for the preparation of the Company's half-year and full-year financial reports.

As part of its review of each valuation report the Committee receives comments on the valuations from the external auditor – based on their review of the 30 June (half-year) valuation and audit of the 31 December (full-year) valuation.

The following areas were of particular focus for the Committee in its consideration of the approach to investment valuation in 2023:

- ensuring that the valuation methodology complied with the International Private Equity and Venture Capital Valuation Guidelines (December 2018 edition), and the Company's stated accounting policy, and that the Guidelines had been applied on a consistent basis;
- the availability of third-party information to corroborate valuation results at individual investment level, including:
  - reports from general partners for the Company's fund interests;
  - market prices for its quoted investments; and
  - the nature and reason for any adjustments made to third-party information for the Company's valuation purposes.

The valuation of unquoted investments inevitably requires the exercise of judgement and the Committee studied in detail the variables underpinning the valuation of each unquoted investment, in particular:

- consideration of current trading and future prospects in determining the appropriate revenues or earnings base for valuation purposes;
- consistency of approach in the valuation, satisfying itself that any change made was appropriate;
- ensuring that metrics from comparable quoted companies were appropriate and up to date; and
- for co-investments, comparing the Company's carrying value with (where available) the valuation used by the lead investor and ensuring that there were proper explanations for any differences.

At its meeting to consider the full-year results, the Committee considered a detailed report on the year end investment valuation and concluded that the valuation process had been properly carried out and that the valuation was appropriate in aggregate. In reaching this conclusion the Committee took into account the findings of the external auditor.

## GOING CONCERN

The Financial Statements are prepared on a going concern basis and the Committee considered this and concluded that the use of the going concern basis continued to be appropriate. The Committee primarily considered the Company's liquidity forecast, the significant cash balances on hand at 31 December 2023, the latest report on the investment portfolio.

As part of this review the Committee also satisfied itself that the Viability Statement in the Strategic Report and the statement on going concern under "Basis of preparation" in note 1 to the financial information were appropriate.

## EXTERNAL AUDIT FINDINGS

The auditor also reported to the Committee the corrected and uncorrected judgemental differences and factual misstatements they had found during the course of their work.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Committee reviews the operation of the Company's internal financial control system to ensure it is sufficiently resourced and has the appropriate processes and controls over financial reporting to fulfil its duties. That assessment is taken into account by the Board that reviews and approves the risk matrix annually. Risk management and internal controls were reviewed by the Committee at each of its scheduled meetings during the year. Since its appointment, the Committee has reviewed the Company's detailed internal risk analysis and the disclosures in relation to risks and longer-term viability in the Strategic Report. The Committee is of the view that:

- risks have been properly identified;
- the systems were operating satisfactorily during 2023 and up to the date of this report; and
- mitigation of the risks identified is satisfactory and appropriate to the Company's circumstances.

## EXTERNAL AUDIT

It is the responsibility of the Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the external audit process. The Committee also ensures that the Company complies with the EU audit reform as now implemented in the UK.

Reports presented to the Committee by BDO during 2023 and to the date of this report covered:

- the results of their audit of the 2022 Financial Statements and Annual Report;
- their plans and proposed audit scope for 2023; and
- the results of their audit of the 2023 Financial Statements and Annual Report.

In addition, BDO reported to the Committee their procedures to ensure their independence and objectivity and confirmed the compliance of the partners and staff assigned to the Company's audit with those procedures.

The Committee conducts an assessment of the external audit process each year which includes members of the Committee and members of the Company's finance team providing their comments and evaluation to the Chairman of the Committee on areas including:

- the procedures adopted by the external auditor to ensure their independence and objectivity;
- the appropriateness of risk identification in determining the external audit plan;
- their conduct of the audit process, including the extent of challenge of judgement areas; and
- the nature and content of reports presented to the Committee.

BDO have been auditors for the Company for seven years. Orla Reilly was rotated onto the engagement in July 2021 in advance of the half-year review and was the Responsible Individual (RI) for the 2021, 2022 and 2023 year end audits.

The Company has a formal policy governing the engagement of the external auditor to provide non-audit services, which includes procedures designed to limit such services to areas which would comply with relevant legislation and not result in potential conflict with the objectivity and independence of the external audit process.

During the year the amount of fees paid for non-audit services provided by BDO was £6,000 (2022: £18,250). These permissible non-audit related services were in respect of the interim review for the six months to 30 June in both 2022 and 2023 and the client money and custody assets limited assurance report for a subsidiary in 2022 and 2023.

## AUDIT COMMITTEE EFFECTIVENESS

The Board evaluation arrangements described on page 29 include each year the work of the Committee and have concluded that it was working satisfactorily.

**Peter Harvey**  
Chairman, Audit Committee

18 March 2024

# Remuneration Report

## INTRODUCTION FROM THE CHAIRMAN

I am pleased to present our Remuneration Committee Report, which summarises the work of the Remuneration Committee (“the Committee”).

## REMUNERATION COMMITTEE MEMBERSHIP

The members of the Committee, their dates of appointment and the number of meetings attended during the year are as follows:

Member	Date appointed	Meetings attended (held)
G Stedman (Chair)	28 November 2019	3 (3)
J Wilson	28 November 2019	3 (3)
P Harvey	28 November 2019	3 (3)

It is the intention of the Committee to meet whenever important matters of remuneration arise and for the number of meetings to be not fewer than two per year.

## REMUNERATION POLICY

The current remuneration policy was approved by shareholders at the 2023 AGM held on 17 May 2023 for the three years commencing 1 January 2023 as follows: votes in favour were 95.89%, votes against were 4.11%.

The approved policy, to which no changes have been made since last year’s AGM is reproduced on pages 39 to 49 in Part 2 of this Remuneration Report.

Following approval of the policy at the AGM in May 2023, the Committee made awards to the Managing Director and other staff as set out on page 37 below.

## 2023 PERFORMANCE AND INCENTIVE OUTCOMES

The Company has continued to make progress towards its goals and strategies in 2023.

The performance criteria for the Managing Director’s bonus for 2023 included the continuing development of the Company’s pipeline of investment opportunities in its chosen sectors, supporting the Dacian team and managing the mature assets. Establishing the Company’s investment platform in the retirement living sector was a particular area of emphasis. Making the Company’s first investment in the retirement living sector and the realisations of the mature portfolio were areas of achievement. The Committee has reviewed the performance of the Managing Director in 2023 against these criteria, in conjunction with the Chairman, and has approved a bonus for the year equal to 75% of his base salary. Further information on the 2023 performance review and 2024 objectives is set out on pages 14 and 15 and in this Remuneration Report on page 49.

The Committee considers that these outcomes appropriately reflect its “pay for performance” principles, given the Company’s performance as a whole for the year.

## PART 1 – ANNUAL REPORT ON REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2023 (AUDITED)

### SINGLE TOTAL FIGURE OF REMUNERATION

The tables below (which have been subject to audit) set out amounts paid to each Director during the financial years ended 31 December 2023 and 31 December 2022:

	Fixed Remuneration				Variable Remuneration			
	Salary/fees £'000	Taxable benefits £'000	Pension £'000	Total £'000	LTIP £'000	Bonus £'000	Total £'000	Total £'000
<b>2023</b>								
R Rayne	75.0	19.5 <sup>1</sup>	–	94.5	–	–	–	94.5
N Friedlos	235.4	9.9	20.4 <sup>2</sup>	265.7	– <sup>3</sup>	176.5	176.5	442.2
P Harvey	50.0	–	–	50.0	–	–	–	50.0
G Stedman	50.0	–	–	50.0	–	–	–	50.0
J Wilson	50.0	–	–	50.0	–	–	–	50.0
	<b>460.4</b>	<b>29.4</b>	<b>20.4</b>	<b>510.2</b>	<b>–</b>	<b>176.5</b>	<b>176.5</b>	<b>686.7</b>

2022	Fixed Remuneration				Variable Remuneration			
	Salary/ fees £'000	Taxable benefits £'000	Pension £'000	Total £'000	LTIP £'000	Bonus £'000	Total £'000	Total £'000
R Rayne	75.0	17.5 <sup>1</sup>	–	92.5	–	–	–	92.5
N Friedlos	220.0	7.9	19.4 <sup>2</sup>	247.3	– <sup>3</sup>	120.0	120.0	367.3
P Harvey	50.0	–	–	50.0	–	–	–	50.0
G Stedman	50.0	–	–	50.0	–	–	–	50.0
J Wilson	50.0	–	–	50.0	–	–	–	50.0
	445.0	25.4	19.4	489.8	–	120.0	120.0	609.8

1 Amounts included for taxable benefits are insurance premiums for private healthcare.

2 Pension contributions are based on 10% of salary for all staff including Executive Directors and can be taken as cash in lieu.

3 The Company issued 300 VCP units to the Managing Director in June 2023. These units will vest in accordance with the rules of the VCP in June 2028. For IFRS 2 purposes these units are estimated to have a fair value of £461 per unit, which will be recognised in the accounts evenly over the five-year vesting period. The charge for the year ended 31 December 2023 in relation to Mr. Friedlos was £27,000 (2022: £42,000). The Company also issued 481,147 nil-cost options to Mr. Friedlos in August 2023. These options will vest in August 2026 subject to the performance criteria being achieved. For IFRS2 purposes these options have a fair value of 21p per option, which will be recognised in the accounts evenly over the three-year vesting period. The charge for the year ended 31 December 2023 in relation to Mr. Friedlos was £13,000 (2022: £nil).

#### LTIP – VALUE CREATION PLAN AND SHARE OPTIONS

Following the 2023 AGM, the Committee has made awards under the new LTIP arrangements.

- The July 2020 award of 500 units under the VCP was cancelled;
- 384 VCP units were awarded, of which 300 were awarded to the Managing Director at a share price of 26.46p and with a vesting date in June 2028. Performance of these units will be measured in accordance with the criteria set out on page 46.
- In August 2023, nil-cost share options were awarded to the Managing Director over 481,147 shares vesting, subject to performance criteria, in three years. The performance criteria are linked to deployment of the Company's capital into new investments and the performance in line with expectations of those investments.

#### CARRIED INTEREST

Robert Rayne, by virtue of his past executive roles with the business, continued to participate in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio. Mr. Rayne's participation in the carried interest is in run-off.

No amounts of carried interest became payable to Mr. Rayne in 2022. As previously reported there was only one remaining investment in respect of which carry could become payable to Mr. Rayne. This investment was Medhost which was realised shortly before the year end in December 2023.

The consideration on realisation of Medhost is payable in two stages. \$7 million was received in cash on 27 December 2023 and a further \$1.7 million is due on settlement of a one-year loan note in December 2024.

Mr. Rayne is entitled to a payment of carried interest, reflecting the cash proceeds received to date, of £226,888. A further £90,890 will be due upon receipt of the balance of proceeds in December 2024

The sale of Medhost brings to an end any entitlement to carried interest by Mr. Rayne.

## Remuneration Report continued

### RELATIVE IMPORTANCE OF SPEND ON PAY

The Board recognises the importance of spend on pay for the current and previous years, and the percentage change, relative to remuneration paid to all employees, amounts paid as dividends and any other significant distributions. There were 2 new employees added in the Group during 2023, replacing departed staff members.

The table below shows the spend on staff costs in 2023 and 2022, compared to the loss before tax and dividends:

	Year ended 31 December	
	2023 £'000	2022 £'000
Staff costs	1,298	1,188
Average number of staff	9	9
Loss before tax	(3,732)	(1,874)
Annual Dividends (excluding Special Dividends)	747	747

### PAYMENTS TO PAST DIRECTORS IN 2023 (AUDITED)

There were no payments to past Directors and no payments of compensation for loss of office.

### PERFORMANCE GRAPH

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

The performance graph below shows the Company's Total Shareholder Return performance for the 10-year period ended 31 December 2023 compared with that of the FTSE All-Share Index.



## DIRECTORS' INTERESTS IN SHARES (AUDITED)

The beneficial interests of the Directors in the ordinary shares of the Company are set out below:

	<b>31 December</b>	
	<b>2023</b>	2022
R Rayne	<b>2,670,124</b>	2,670,124
N Friedlos	<b>161,410</b>	161,410
P Harvey	<b>20,000</b>	20,000
G Stedman	<b>20,000</b>	20,000
J Wilson	-	-

In addition, Robert Rayne has a non-beneficial interest in 7,767,173 ordinary shares held in trust.

There have been no changes in the above Directors' interests between 31 December 2023 and the date of this report.

The Company is not aware of any other interests of any Director in the ordinary share capital of the Company. There are no requirements or guidelines concerning share ownership by Directors.

No share awards were vested in the year. In June 2023, the Company issued 300 VCP units to the Managing Director at a share price of 26.46p. For accounting purposes, these units have a fair value of £461 per unit. The Company also issued 481,147 nil-cost options to the Managing Director on 15 August 2023, the share price at the date of grant was 21.00p.

## PART 2 – DIRECTORS' REMUNERATION POLICY AND REMUNERATION COMMITTEE

The Remuneration Policy in place at 31 December 2023, which was developed with advice from independent external advisers MM&K, was approved by shareholders at the Company's AGM on 17 May 2023. No changes to that policy have been made or will be proposed at the 2024 AGM.

The Company is required, by Company Law, to seek shareholders' approval for its Directors' Remuneration Policy in a binding vote every three years. Accordingly, shareholders were asked at the 2023 AGM to approve the Company's proposed remuneration policy for a period of three years starting on the date of the AGM, the previous policy having been approved at the AGM in 2020.

The table below sets out the Company's policy for each component of Directors' remuneration:

### SALARY (FIXED PAY)

Purpose and link to strategic objectives	Essential to provide a level of fixed cash income to support the recruitment and retention of Executive Directors of the calibre required to manage and grow the Company successfully and to deliver the Group strategy.
Operation	Reviewed annually with increases, if awarded, effective from 1 January each year.
Opportunity and recovery or withholding provisions	Base salaries will be set by the Committee taking into account a range of factors. Decisions about salary increases take account of increases in the cost of living but also take into account other factors such as external market positioning, change in the scope of the individual's responsibilities or level of experience and development in the role and the overall structure of total remuneration packages. In deciding on any salary increases for an Executive Director, the Committee will not sanction an increase any greater than that applied to the Company's workforce generally other than in exceptional circumstances or where there is a change in role and/or responsibilities justifying a larger increase.  No recovery or withholding provisions.
Performance metrics	None, although the performance of the individual will be considered by the Committee when reviewing salaries each year.

# Remuneration Report continued

## PART 2 – DIRECTORS’ REMUNERATION POLICY AND REMUNERATION COMMITTEE CONTINUED

### PENSION (FIXED PAY)

Purpose and link to strategic objectives	To provide a means of retirement saving as part of a range of benefits alongside basic salary to help the recruitment and retention of high-calibre Executive Directors.
Operation	Executive Directors are offered a defined contribution, based on a percentage of salary, to a personal pension scheme or a cash salary supplement (or a combination of both) at their choice. Only the base salary is pensionable.
Opportunity and recovery or withholding provisions	Maximum pension contribution by the Company is 10%. This is in line with what is offered to all employees in the Company.  No recovery or withholding provisions.
Performance metrics	None.

### BENEFITS (FIXED PAY)

Purpose and link to strategic objectives	To provide a competitive and attractive range of benefits alongside basic salary to help recruit and retain high-calibre individuals to Executive Director roles.
Operation	Executive Directors are provided with family private medical insurance cover and death-in-service insurance. The extent of cover may be amended or adjusted in line with market practice.  The Executive Directors are also covered by the Company’s directors’ and officers’ liability insurance policy and have the benefit of an indemnity in the form permitted under the Company’s Articles of Association.  Executive Directors are also eligible to receive other minor benefits and expense payments in line with other employees of the Company.  Additional benefits, which may include relocation or expatriation benefits, housing allowance or other benefits-in-kind, may be provided in certain circumstances if considered appropriate and reasonable by the Committee, typically only as may be required on a new recruitment.
Opportunity and recovery or withholding provisions	The cost of the benefits that are provided fluctuates depending on market conditions and will, therefore, determine the maximum value of benefits under the policy in any single year. There is therefore no overall maximum opportunity under this component of the policy.  No recovery or withholding provisions.
Performance Metrics	None.

### SHORT-TERM INCENTIVE (VARIABLE PAY)

Purpose and link to strategic objectives	To provide a simple, competitive short-term incentive plan to reward performance on an annual basis against key financial, operational and individual objectives. A key purpose of the annual bonus plan is to provide a real incentive to achieve the Company’s short-term strategic objectives and KPIs.
Operation	Targets and weightings are set annually; performance is measured over a single year. Bonus awards are determined by the Committee after the year end based on achievement against targets.  Bonus is not pensionable.

## SHORT-TERM INCENTIVE (VARIABLE PAY)

Opportunity and recovery or withholding provisions	<p>The maximum bonus payable in a 12-month period is up to 100% of base salary.</p> <p>Exceptionally, the Committee may offer a bonus opportunity of up to 200% of salary to a new incoming Executive Director in his or her first full financial year in order to help recruit that executive.</p> <p>The ability to receive the maximum bonus may be split across two or more performance metrics. Other than for binary or milestone performance metrics, the intention will be that 25% of maximum is payable for threshold performance and 50% at target.</p> <p>All bonus payments are subject to the overriding discretion of the Committee who may adjust, downwards or upwards, the outcome of the annual bonus plan in any year if it believes that it does not properly reflect overall corporate performance.</p> <p>In order to be entitled to receive an annual bonus, an Executive Director must normally be in the Group's employment and not under notice of termination (either given or received) at the time the bonus is paid.</p> <p>Malus and clawback provisions apply so that in certain circumstances such as serious misconduct by a Director, the material misstatement of financial results or if bonus awards are based on erroneous figures, the Company will be entitled not to pay a bonus in any year or to claw back the value of any cash amount already paid under the annual bonus scheme, for a period of three years following the year end to which the bonus related.</p>
Performance metrics	<p>The Company's long-term objectives are creating total shareholder return. Its performance metrics on a year to year basis will typically be set around the necessary steps to be taken to achieve the longer-term objective. Specific performance targets will vary from year to year in accordance with the Company's short-term KPIs.</p> <p>Potential performance metrics may include:</p> <ul style="list-style-type: none"> <li>• deployment of capital in new deals;</li> <li>• performance of the underlying investment portfolio companies;</li> <li>• realisations and cash generation;</li> <li>• building the Company's co-investment capability;</li> <li>• development of a deal pipeline;</li> <li>• putting in place appropriate financial structures to support the Company's business objectives, which might include securing access to debt and consideration of equity structures to expand the capital base;</li> <li>• maintaining an effective shareholder communication programme; and</li> <li>• attainment of personal objectives.</li> </ul>

## LONG-TERM INCENTIVE (VARIABLE PAY)

Purpose and link to strategic objectives	<p>To provide a competitive long-term incentive plan to reward sustained performance over the long term. A key purpose of the long-term incentive plan is to provide a real incentive to achieve the Company's main long-term strategic objective, to deliver a TSR for shareholders over five years that is exceptional. It is considered vital that the Company has a truly competitive long-term incentive plan to enable it to recruit and retain the level of talent it needs to deliver on its longer-term strategic plan.</p>
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# Remuneration Report continued

## PART 2 – DIRECTORS’ REMUNERATION POLICY AND REMUNERATION COMMITTEE CONTINUED

### LONG-TERM INCENTIVE (VARIABLE PAY)

Changes to the Remuneration Policy approved at the AGM in May 2023

The effect of the changes proposed to the AGM in 2023 and approved by shareholders were:

- to retain the VCP introduced in 2020, but cancel the previously issued units, which had a vesting period which expired in June 2025, and issue a reduced number of new units which will vest, subject to TSR performance measures, in five years from the date of issue;
- the second performance threshold under the scheme was increased to start at 14% rather than 12% following discussions with one of the principal shareholders; and
- to supplement the amended VCP with a new employee share incentive plan (“Share Plan”) under which participants, at the discretion of the Committee, may receive annual option awards which, in normal circumstances vest after not less than three years, related to both continued employment and performance.

The Committee believes the Proposals approved at the AGM in 2023, provide the Company with a relevant long-term incentive plan that is fit-for-purpose in a competitive employment market:

- through the revised VCP, albeit on a reduced basis, the 2023 Proposals retain a significant direct link to TSR. The Committee has resolved to retain a VCP structure because it most closely resembles a carried interest plan which is the standard type of long-term incentive in the private equity industry;
- the selection of TSR as the performance measure creates a strong alignment between participants and shareholders and communicates a strong message to participants that over the longer term the Company’s TSR performance is its most important key performance indicator; and
- through the proposed Share Plan, the 2023 Proposals provide the flexibility to supplement the TSR-based VCP, with an share-based incentive linked to corporate performance measures, which in the opinion of the Committee underlie and contribute to the overall TSR goal.

The 2023 proposals did not provide any element of reward for the period 2020 to 2023. Existing VCP awards were cancelled and the potential value of any new VCP award or award under the Share Plan is measured only by reference to future performance and/or retention criteria from the date of issue.

In addition, in rare circumstances, the Committee may determine that an executive should participate in an incentive pool linked directly to the investment returns in one of the underlying investments (“a Direct Award”) and this is provided for in the Remuneration Policy.

## LONG-TERM INCENTIVE (VARIABLE PAY)

<p>Operation of the VCP</p>	<p>The VCP is governed by a set of rules approved by shareholders at the AGM on 24 June 2020. The cancellation of the existing VCP units awarded and issue of new VCP units following the AGM in 2023, were implemented within the current VCP rules so did not require any change to the existing framework.</p> <p>The VCP, provides for participants, at the discretion of the Committee, to share in a pool of up to 1,000 VCP units, initially.</p> <p>Participants receive a share, proportionate to their share of the pool, in positive TSR generated by the Company measured over a period of five years from the award date. The share is calculated in accordance with the bandings set out below.</p> <p>If the Company raises additional capital, the Committee may award up to 1,000 additional VCP units enabling participants to share proportionately in any positive TSR generated by the Company on that additional capital over the period of five years from the award date in excess of a hurdle rate of return to be set by the Committee.</p> <p>Ordinarily, VCP units, subject to TSR performance, will vest five years after the initial grant date, at which point participants may be granted nil-cost share options to acquire ordinary shares in the Company or the Company may choose to settle by way of a cash amount.</p> <p>The maximum individual award levels for the VCP are 30% of the available pool (300 units) for VCP participants other than the Managing Director, for whom the maximum is 50% of the pool (500 units).</p> <p>Payments under the VCP are not pensionable.</p>
<p>VCP Performance metrics</p>	<p>The Company's TSR Performance over the five years commencing on the award date.</p> <p>The TSR targets have been set by the Committee with the aim of delivering increasing reward for greater outperformance.</p> <p>For the avoidance of doubt, the TSR Performance and the performance hurdles of the VCP for a subsequent award, following a capital raise, will be set at that time by the Committee.</p>

# Remuneration Report continued

## PART 2 – DIRECTORS’ REMUNERATION POLICY AND REMUNERATION COMMITTEE CONTINUED

### LONG-TERM INCENTIVE (VARIABLE PAY)

VCP Opportunity and recovery or withholding provisions

384 VCP units were awarded in 2023, of which 300 units were awarded to the Managing Director and 84 units to other employees, who are not Directors.

For the purposes of determining the TSR performance for these initial awards as well as the starting point from which the value created is to be measured for these awards, the starting share price was taken as 26.46p per share, being the average closing share price of an ordinary share over the previous six months.

If the qualifying performance metric is met, the share that participants will receive will depend on the TSR performance achieved over the five years commencing on the date of the initial award of VCP units:

- TSR up to 8% per annum compound: £nil;
- if the TSR achieved exceeds 8% per annum compound but does not exceed 14%: 8% of the TSR performance above the 8% per annum hurdle;
- if the TSR achieved exceeds 14% per annum compound but does not exceed 20%: 8% of the TSR performance between the 8% per annum hurdle and 14% per annum **plus** 15% of the TSR achieved above 14% per annum compound; and
- if the TSR achieved exceeds 20% per annum compound: 8% of the TSR performance between the 8% per annum hurdle and 14% per annum, **plus** 15% of the TSR performance between 14% and 20% per annum, **plus** 17.5% of the TSR performance above 20% per annum.

The closing share price, at the end of the performance period, will be taken as the average closing share price of an ordinary share over the three-month period ending on the day immediately preceding the vesting date. The dividend part of this calculation shall be taken as the aggregate value of dividends per share declared over the five-year performance period.

On vesting, the value of VCP units will normally be settled by the Company granting nil-priced options over new ordinary shares which will be exercisable for a period of one year from the option grant date. However, the Committee may choose to settle the awards in cash if it considers that there are good reasons for doing so at the time. The maximum value of VCP units that may vest and therefore the maximum number of shares that may be issued on any date pursuant to options granted under the VCP and any other employees’ share scheme adopted by the Company (including the proposed Share Plan) in the 10 years preceding that date may not exceed 10% of the number of issued shares at the date.

The value of VCP units at the end of the five-year performance period will in any event be subject to the overriding discretion of the Committee who may adjust, downwards or upwards, the outcome of the VCP at the vesting date if the Committee believes that the formulaic outcome does not properly reflect overall corporate performance.

Malus and clawback provisions apply so that in certain circumstances, such as serious misconduct by a Director, the material misstatement of financial results or if unit awards or option grants are based on erroneous figures, the Company will be entitled not to grant or permit the exercise of an option in any year or to claw back the value of any shares transferred or cash amount already paid under the VCP, for a period of three years following the year end to which the award or option grant relates.

Remuneration Committee discretion under the VCP

If there is a longer-term structural change in markets, the Committee will have discretion, subject to consultation with the Company’s principal shareholders, to amend the performance metrics and vesting criteria.

## LONG-TERM INCENTIVE (VARIABLE PAY)

Employee share incentive plan ("Share Plan")	<p>The terms of the Share Plan allow for the Committee to utilise any reasonable equity-based long-term incentive award that may be available to it.</p> <p>For awards to date, the Committee has used nil-cost options. In future this will be assessed on a grant by grant basis depending whether the Company has sufficient reserves. If there are not sufficient reserves, then the exercise price will need to be the "Nominal" value of the underlying share.</p> <p>Options have performance vesting criteria attached, measured over a minimum period of three years, that the Committee considers to be appropriate, and which are aligned with the delivery of the Company's overall strategy.</p> <p>Awards may be made each year at the discretion of the Committee and the conditions attaching to Options may be varied year to year according to the requirements of the business.</p> <p>Each time the terms of a new Award are finalised by the Committee the Board will meet to grant the proposed Award. The date the Board resolves to grant an Award will be the relevant Date of Grant.</p> <p>The terms of the Award Agreement will be specified in an Option Agreement that would need to be signed by the Company as well as the participant.</p> <p>Executive Directors, senior executives and employees and individuals engaged via consultancy arrangements may be eligible to receive an Award under the Share Plan.</p> <p>Participants will be selected at the discretion of the Committee. Where appropriate, the MD may make nominations as to potential Awards – however, the final decision remains with the Committee at all times.</p> <p>The Share Plan has leaver provisions and malus and clawback arrangements consistent with those in the VCP.</p> <p>The number of shares issued under the Share Plan, taken together with VCP awards and any other employees' share scheme adopted by the Company, shall not result in shareholder dilution in excess of 10% in any 10-year period.</p> <p>The maximum individual award levels for the Share Plan are annual awards over shares having a market value equivalent to 100% of base salary (200% in exceptional circumstances).</p>
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# Remuneration Report continued

## PART 2 – DIRECTORS’ REMUNERATION POLICY AND REMUNERATION COMMITTEE CONTINUED

### LONG-TERM INCENTIVE (VARIABLE PAY)

#### Direct Awards

An important element of LMS’s strategy is to bring co-investment funding alongside its own balance sheet when investing and to create opportunities in underlying businesses where, over time, further external capital can be introduced, benefitting both LMS’s own capital and co-invest capital.

To achieve this there may be situations where its executives are required to devote substantial proportions of their time to those underlying businesses.

In these situations, which are anticipated to be rare, the Committee may determine that the executive should participate in an incentive pool linked directly to the investment returns in that underlying business (“a Direct Award”).

Where a Direct Award is made it is likely that there would be a reduction in any further awards to the individual concerned, of VCP units or Share Plan awards under the policy.

A Direct Award is likely only to be appropriate rarely and in a small number of situations.

In determining whether to make a Direct Award, the Committee will consider all relevant criteria including:

- the LMS executive will be heavily engaged in the development and growth of the Investment (i.e. quasi executive input as well as investor input);
- the investment draws in material third-party money alongside LMS. Typically LMS will be a minority investor in these businesses, with the majority of equity investment coming from co-investors and others; and
- LMS executive input is working not just for LMS but for a substantially wider pool of co-invest money.

The structure and quantum of a Direct Award will depend on the circumstances of the investment to which it relates.

It is envisaged that any Direct Award would be allocated from the incentive pool set aside for the wider team in the underlying business.

The performance criteria would match the criteria applying to the wider team incentive pool. For a private company the performance criteria may be linked to exit values, capital raising or other long-term measures of value creation appropriate to the situation of the business.

The accounting and actual cost of the incentive is likely to be borne by all investors in the relevant underlying business. The Committee will observe the Investment Association guidelines in relation to disclosures and procedures in relation to any Direct Awards.

The table below sets out each component of the Chairman's and the Non-Executive Directors' remuneration and the approach taken by the Company in relation thereto:

#### CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Component	Approach
Chairman's and Non-Executive Directors' fees	<p>The Chairman's fee is determined by the Committee and the Non-Executive Directors' fees are set by the Board. These are reviewed periodically taking into account the responsibilities and time commitments required and Non-Executive Director fee levels generally.</p> <p>The Chairman and the Non-Executive Directors receive basic fees. In addition, special fees are paid for the chairmanship of the Audit and Remuneration Committees and also for the role of being on the Investment Committee and for the role of the Senior Independent Director.</p>
Other pay and benefits	<p>The Chairman previously participated as an executive in the Company's carried interest plans which are now in run-off, but under which payments could still arise in relation to unrealised historic investments, and is covered under the Company's health insurance policy.</p> <p>The Chairman and the Non-Executive Directors will not be able to participate in any variable pay scheme operated by the Company.</p>

#### REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS BASED ON FUTURE POLICY

The chart below illustrates the future reward opportunities for the Managing Director based on his base salary for 2024 for "Fixed", "Expected" and "Maximum" scenarios:



The above illustrations are based on the following assumptions:

- the Fixed scenarios show the fixed level of remuneration, assuming there is no performance-related pay;
- the Expected scenarios illustrate the amounts receivable if performance is in line with expectations. Bonus awards are 50% of maximum bonus opportunity and share options vesting at 50%. No account is taken of share price movements. As the number of shares issuable under the VCP will not be known until five years after the award of the units, no amounts are included for the VCP in the Expected scenario; and
- the Maximum scenarios illustrate the levels of remuneration which would be payable if a maximum bonus award was received (100% of base salary) and share options vest at 100%. There are two Maximum illustrations. One assumes no share price movement and the other assumes a 50% share price uplift to comply with the reporting requirements in Schedule 8 to the Companies Act 2006. As the number of shares issuable under the VCP will not be known until five years after the award of the units, no amounts are included for the VCP in the Maximum scenarios.

# Remuneration Report continued

## PART 2 – DIRECTORS’ REMUNERATION POLICY AND REMUNERATION COMMITTEE CONTINUED

### LETTERS OF APPOINTMENT AND SERVICE CONTRACT

The following table provides details of the Non-Executive Directors’ and Managing Director’s letters of appointment and service contract. The documents are available on request at the Company’s registered office during business hours.

<b>Name</b>	<b>Date of appointment</b>	<b>Date of expiry of current term</b>
R Rayne	6 April 2006	27 November 2025
P Harvey	28 November 2019	27 November 2025
G Stedman	28 November 2019	27 November 2025
J Wilson	28 November 2019	27 November 2025
N Friedlos	28 November 2019	Rolling Service Contract

### TERMS OF THE EXECUTIVE DIRECTOR’S SERVICE CONTRACT AND NED LETTERS OF APPOINTMENT

The Executive Director is engaged on a rolling service contract, which provides for six-months’ written notice of termination from either the individual or the Company – except where there is a change of control of the business. In such circumstances, the notice period extends to 12 months, should the executive be given notice within the six months following the date that the change of control occurs.

Non-Executive Directors are engaged by letter of appointment for a period of up to three years, terminable on one-month’s written notice from either the individual or the Company – except where termination is due to a shareholder resolution. Under such circumstances, termination will occur automatically from the date of ceasing to be a Director.

### POLICY ON TERMINATION PAYMENTS

Any compensation payment made to an Executive Director for termination of employment will be determined with reference to the terms of the individual’s service agreement and the rules of any incentive plan in which the individual is a participant.

The Committee reserves the right to make additional payments, where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director’s office or employment.

When deciding on the amount of any payment for loss of office, the Committee will seek to minimise the cost to the Company to the extent permitted by the circumstances of the particular case.

### APPROACH TO THE REMUNERATION OF NEWLY APPOINTED DIRECTORS

Where an Executive Director is appointed by way of an external hire, their remuneration will be in accordance with the policy outlined above.

Where a suitable external candidate has been identified and can show that their transfer would lead to a loss of incentive payments from their previous employer, the Committee reserves the discretion to “buy out” the candidate’s previous incentives if it deems it necessary to secure the candidate. The Committee will ensure that it avoids paying out more than is necessary to secure the candidate.

Where an Executive Director is appointed by way of internal promotion, the policy described above will apply from the date of promotion. Any pre-existing remuneration will continue until it expires or vests (as appropriate).

#### STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

When making decisions about Directors' remuneration, and particularly the remuneration of Executive Directors, the Committee will take into account the Company's Remuneration Policy for the wider workforce.

#### STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The responsibility for creating the Remuneration Policy lies with the Committee and has been created by the Committee based upon their experiences and having reviewed relevant market practices.

### PART 3 – IMPLEMENTATION OF REMUNERATION POLICY IN 2024

#### BASE SALARIES AND BENEFITS

The Committee, at its meeting in January 2024, considered the recent increase in annual inflation and therefore whether any adjustment should be made to the base salaries of the core team including the Managing Director. The Committee determined that for 2024 all employees, including the Managing Director an adjustment equal to a 2.5% increase in basic salary will be made.

The Managing Director will continue to have access to Private Medical Insurance and, if implemented by the Company, Life Assurance.

The Company's employer pension contribution will be at 10% of pensionable salary, the same as that applicable to all members of staff.

#### ANNUAL BONUS – 2023 PERFORMANCE AND SUMMARY OF OBJECTIVES FOR 2024

The Committee, in conjunction with the Board, establishes goals in respect of each year. Individual goals are weighted according to their importance in determining the overall performance achieved in the year.

The performance criteria for 2023 included the continuing development of the Company's pipeline of investment opportunities in its chosen sectors of energy, real estate and late-stage private equity and, in particular, supporting the Dacian team in its second full year of operations. Criteria also included the management of the existing assets and the development of the Company's profile in the public markets.

The Committee has reviewed performance for the year, in conjunction with the Board, and without the Managing Director present. Significant progress was made during the year in developing the Company's retirement living activity, including establishing an advisory group, with leadership experience in the sector, alongside the Company's own real estate knowledge and experience. The acquisition of Castle View at the end of 2023 represents an important milestone in the development of the Company's retirement living investment platform. There was progress towards liquidity on the mature portfolio with the exit from Medhost, and the improved performance of Elateral, which is a direct investment where the Company is the lead investor. The Committee has approved a bonus equal to 75% of base salary for the Managing Director in respect of 2023 that will be paid in March 2024.

The Committee in conjunction with the Board has also considered performance goals for 2024. Objectives include:

- Having now made the first investment in the retirement living sector, the objectives are weighted towards developing that investment platform through the identification of funding partners and further acquisition opportunities, as well as overseeing the financial performance of Castle View;
- Continued oversight of the third-party managers on the mature portfolio, and continuing to progress towards an exit of Elateral, which is the only remaining direct investment in the mature portfolio;
- The retirement living platform provides the opportunity for the Company to expand its shareholder base, and objectives include raising the Company's profile in the public markets; and
- Other objectives include the implementation of some measures to reduce running costs, planned during 2024.

# Remuneration Report continued

## PART 3 – IMPLEMENTATION OF REMUNERATION POLICY IN 2024 CONTINUED

### LTIP – VALUE CREATION PLAN AND SHARE OPTIONS

The Committee will consider additional LTIP awards to the Managing Director and the wider team during 2024 in accordance with their stated terms.

### CHAIRMAN AND NON-EXECUTIVE DIRECTORS' FEES

The current fees of the Chairman and the Non-Executive Directors on implementation of the Remuneration Policy will remain unchanged in 2024 at:

Chairman Fee (including all Committees)	£75,000
Basic Non-Executive Director Fee	£40,000
Additional Fee for being the Senior Independent Director	£5,000
Additional Fee for being Chair of a Board Committee	£5,000
Additional Fee for sitting on the Investment Committee	£5,000

### EXTERNAL ADVISERS

During the year the Committee received advice from MM&K. MM&K is a member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK.

MM&K assisted the Company with the design of the Directors' Remuneration Policy including the design of the VCP and the Share Plan as contained in the remuneration policy approved at the AGM in May 2023. MM&K did not have any other relationship with the Company.

This Directors' Remuneration Report was approved by the Board on 18 March 2024 and signed on its behalf by:

#### **Graham Stedman**

Chairman of the Remuneration Committee

18 March 2024

# Directors' Report

LMS Capital plc is an investment company whose shares are traded on the London Stock Exchange. Details of the Company's strategy, risk management and performance in 2023 are included in the Strategic Report on pages 11 to 18 and the Portfolio Management Review on pages 19 to 23.

The Corporate Governance report set out on pages 26 to 32 of the Annual Report forms part of the Directors' Report.

## DIRECTORS

The names and biographical details of the current Directors of the Company are given on pages 24 and 25. In addition, further information about the Board is set out in the Corporate Governance Report on pages 26 to 32.

Details of the current Directors' letters of appointment, together with their interests in the Company's shares, are shown in the Remuneration Report on pages 39 and 48. Directors' and officers' liability insurance is maintained by the Company.

The Directors may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's Articles of Association.

## CORPORATE SOCIAL RESPONSIBILITY

### PERSONNEL AND RESOURCES

The average number of Directors and staff was as follows:

	2023			2022		
	Male	Female	Total	Male	Female	Total
Directors	5	-	5	5	-	5
Staff	2	2	4	2	2	4
	7	2	9	7	2	9

### ENVIRONMENT

LMS Capital has a limited direct impact upon the environment and there are few environmental risks associated with its activities.

Since June 2020 and throughout 2023, the Company occupied office space under a rental agreement, which comprises 596 square feet. The table below includes greenhouse gas emissions by scope:

## Directors' Report continued

Greenhouse gas emissions by scope:

### TOTAL EMISSIONS

		Year ended 31 December	
Scope	Source	2023 tonnes CO <sub>2</sub> e	2022 tonnes CO <sub>2</sub> e
Scope 1	Emissions from combustion of fuel	0.00	0.00
	Process or fugitive emissions	0.00	0.00
Scope 2	Emissions from electricity, heat, steam and cooling purchased for own use using location-based method	0.44	1.23
Scope 3	Emissions from employee travelling	8.24	5.05
Total		8.68	6.28

Intensity	2023 tonnes CO <sub>2</sub> e	2022 tonnes CO <sub>2</sub> e
– emissions per £100,000 of revenue	0.62	0.49
– emissions per FTE	1.74	1.26

Note: To meet the requirements of the GHG Protocol Scope 2 Guidance, the Company accounts for its Scope 2 emissions using a market-based method as well as a location-based method.

The Company has reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within the Financial Statements. The Company has no responsibility for any emissions sources which are not included in the Financial Statements.

The Company has used the GHG Protocol Corporate Accounting and Reporting Standard and the GHG Protocol Scope 2 Guidance, data gathered from its operations, emission factors from UK Government's Conversion Factors for Company Reporting 2017 and emission factors relating to electricity supply and the UK grid mix. The Company is considered a low emission company.

### CHARITABLE DONATIONS

The Company did not make any charitable contributions during 2023 (2022: £nil).

### POLITICAL DONATIONS

The Company did not make any political donations during 2023 (2022: £nil).

### GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Strategic Report on pages 11 to 18 and the Portfolio Management Review on pages 19 to 23. The Directors have carried out a robust assessment of the emerging and principal risks and concluded that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over a three-year period from the date of this report. This assessment included reviewing the liquidity forecasts of the Company that include the flexibility in the dividend policy, outstanding capital commitments to funds and lack of any external debt, the significant cash balances on hand at 31 December 2023, the expected future expenditures and commitments and the latest report on the investment portfolio. In preparing this liquidity forecast, consideration has been given to the expected ongoing impact of the war in Ukraine on the Company and the wider Group as well as the potential impact on the underlying investee companies. The Directors have considered these factors for a period not less than 12 months from the date of this report. The Directors have adopted the going concern basis of accounting in preparing the Financial Statements. The Viability Statement of the Company is included in the Strategic Report on page 18.

## CONTRACTUAL ARRANGEMENTS

There are no contracts or arrangements with third parties which the Board deems essential to the operation of the Company, or which take effect, alter or terminate on a change of control of the Company following a takeover bid.

## RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 21 to the Financial Statements.

## DIVIDENDS

The Company paid a £0.5 million final dividend in June 2023 of 0.625 pence per share for the year ended 31 December 2022 and £0.2 million or 0.3 pence per share for the 2023 interim dividend in September 2023.

## SHARE CAPITAL

At 31 December 2023, the Company's issued share capital remains at 80,727,450 ordinary shares of 10p each. Each share carries one vote. No shares are currently held in treasury. There are no restrictions on the transfer of shares. There has been no change in the issued share capital between the year end and the date of this report.

## SUBSTANTIAL SHAREHOLDINGS

As at 18 March 2024, the Company was aware of the following significant direct and indirect interests in the issued share capital of the Company.

<b>Name of shareholder</b>	<b>Percentage of issued share capital</b>
Rayne Family Holdings	42.08
First Equity Limited	17.00
Charles Stanley & Co Ltd	10.80
Lady R Lacey <sup>1</sup>	4.53
Schroders plc	4.83
Ms T Woods <sup>1</sup>	4.40
Robert Rayne <sup>1,2</sup>	3.31
A P Rayne <sup>1</sup>	3.21

Notes:

1. There are common interests in certain of these shares, which are held within charitable trusts.
2. Robert Rayne holds a non-beneficial interest in 7,767,173 ordinary shares held in trust and a personal interest in 2,670,124 ordinary shares.

## ANNUAL GENERAL MEETING

The Company intends to hold the AGM on 15 May 2024. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the AGM will be provided separately and will also be available to view on the Company's website at [www.lmscapital.com](http://www.lmscapital.com) in due course.

## AUDITORS

The auditors, BDO LLP, have indicated their willingness to continue in office and a resolution will be proposed at the AGM for their reappointment and to authorise the Directors to fix their remuneration.

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

By order of the Board.

## **IQ-EQ Corporate Services (UK) Limited**

Company Secretary

18 March 2024

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with UK adopted international accounting standards and applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Financial Statements in accordance with UK adopted international accounting standards. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors have ensured that the Annual Report and Accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the position and performance, business model and strategy.

## WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

## DIRECTORS' RESPONSIBILITIES PURSUANT TO DTR4

The Directors confirm to the best of their knowledge:

- The Financial Statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company.
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board.

**Robert Rayne**  
Chairman

18 March 2024

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

## OPINION ON THE FINANCIAL STATEMENTS

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of the Company's loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of LMS Capital plc ('the Company') for the year ended 31 December 2023 which comprise the Company Income Statement, the Company Statement of Other Comprehensive Income, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Cash Flow Statement and notes to the Financial Statements, including a summary of material accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

## INDEPENDENCE

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors in November 2016 and subsequently by the members at the Annual General Meeting held on 21 April 2017 to audit the Financial Statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is eight years, covering the years ended 31 December 2016 to 31 December 2023. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

## CONCLUSIONS RELATING TO GOING CONCERN

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- assessing the appropriateness of the Directors' assumptions and judgements made by comparing the prior year forecasted costs to the actual costs incurred to check that the projected costs are reasonable for the next 12 months, including any future commitments and expected dividends;
- evaluating the Directors' method of assessing the going concern in light of market volatility and the present uncertainties, by considering whether reasonable factors which could impact the cash position over the next 12 months were factored into the assessment;
- challenging the Directors' assumptions and judgements made with regards to stress-testing forecasts by stress testing the dividends and the expenditure and corroborating the commitments figure to third-party supporting documentation;
- calculating key financial ratios, including net asset value, net current assets/liabilities and running costs as a multiple of cash, to ascertain the financial health of the Company; and
- considering any other factors which could impact on going concern such as non-compliance with laws and regulation, legal matters and the presence of contingencies and commitments.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the Financial Statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' Report in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## OVERVIEW

		2023	2022
<b>Key audit matters</b>	Valuation of unquoted and fund investments	✓	✓
	We have refined our KAM in the current year compared to the prior year so that our KAM focuses on the most judgemental categories of investments		
<b>Materiality</b>	<i>Financial Statements as a whole</i> £840,000 (31 December 2022: £690,000) based on 2.0% (31 December 2022: 1.5%) of net assets.  We have updated the benchmark percentage based on our professional judgement and our experience auditing the entity for several years. The entity is well established with no significant changes in the ownership. This adjustment reflects our understanding of the entity's situation and aims to better align the benchmark to it.		

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the Financial Statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

### CLIMATE CHANGE

Our work on the assessment of potential impacts on climate related risks on the Company's operations and Financial Statements included:

- enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the Financial Statements and adequately disclose climate related risks within the Annual Report; and
- review of the minutes of Board and Audit Committee meeting and the risk register which make reference to climate change.

We also assessed the consistency of managements disclosures included as Other Information with the Financial Statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate related risks.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Valuation of Unquoted and Fund Investments</b></p> <p>(note 1 and note 10)</p> <p>We considered the valuation of unquoted and fund investments to be the most significant audit area as investments represent the most significant balance in the Financial Statements and underpin the principal activity of the entity.</p> <p>The valuation of unquoted and fund investments can be a highly subjective accounting estimate where there is an inherent risk of management override arising from the investment valuations.</p> <p>There is judgement involved in the selection of an appropriate valuation methodology. Furthermore, there is a risk of inappropriate estimates and inputs being utilised in the valuations.</p> <p>For these reasons we considered this to be a key audit matter.</p>	<p><b>Unquoted Investments (66% of total investments)</b></p> <p>In respect of 100% of the unquoted investments, which were not written down to nil, our procedures included, inter alia:</p> <ul style="list-style-type: none"> <li>Evaluating whether the valuation methodology adopted was the most appropriate in the circumstances under the International Private Equity and Venture Capital ('IPEV') Guidelines;</li> <li>Re-performing the calculation of the investment valuations, having regard to the application of the enterprise value across the capital structure of the investee companies;</li> <li>Agreeing inputs into the unquoted investment valuations to supporting third-party data, where these were relevant and available, after verifying the appropriateness and reliability of the data provider. Variations were discussed with management to obtain their explanation and corroborated to independent supporting evidence;</li> <li>Evaluating the significant valuation judgements and assumptions made by management which included verifying and benchmarking key inputs and estimates, such as discount rates to independent information and our own research. Internal inputs such as revenue and earnings were assessed for consistency by comparing to management accounts and financial statements provided independently by the investee companies. Where corroborating evidence was not available professional judgement was used to assess the reasonableness of the Directors' assessment;</li> <li>Performing sensitivity analysis on the valuation calculations in respect of investments where there was sufficient evidence to suggest reasonable alternative inputs might exist; and</li> <li>Performing back-testing procedures by identifying investments disposed of in the current year and comparing the value at which they were realised to the value as at the last valuation date to see if the differences, if any are, reasonable in the circumstances or if there is a possibility of management bias.</li> </ul> <p><b>Fund Investments (33% of total investments)</b></p> <p>For a sample of fund investments our procedures included, inter alia:</p> <ul style="list-style-type: none"> <li>Reviewing the underlying fund manager report and assessing the quality and reliability of the information through assessing the expertise of the administrators preparing the reports, assessing the appropriateness of the valuation guidelines utilised by the administrators, reading the audit report to determine whether there were any matters which could impact the valuation and assessing the competence of the auditor;</li> <li>Where applicable verifying information in the fund manager report to third-party source, for example where a fund holds listed investments, checking the value of these investments to publicly available data;</li> </ul>

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

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Valuation of Unquoted and Fund Investments</b></p> <p>(note 1 and note 10)</p> <p>(continued)</p>	<ul style="list-style-type: none"> <li>• Performing back-testing procedures by comparing the latest available audited reports with the unaudited fund manager reports and evaluating the differences for signs of inaccuracies and potential bias;</li> <li>• Challenging the appropriateness of any adjustments made to the value of the investment holding (for instance where reports available were not at the same year end date or more relevant information suggested an adjustment to the valuation) through consultations with our internal valuation experts and discussions with management;</li> <li>• We considered the appropriateness of the key assumptions in the valuation models based on our knowledge of the investment valuations from previous years and events and conditions present in the current year, considering each assumption in isolation as well as in conjunction with other assumptions and the valuations as a whole; and</li> <li>• Where appropriate, performing sensitivity analysis on the valuation calculations in respect of investments where there was sufficient evidence to suggest reasonable alternative inputs might exist.</li> </ul> <p><b>Key Observations:</b></p> <p>Based on the work undertaken, we did not find any matters to suggest that the valuation of the unquoted and fund investments were inappropriate.</p>

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the Financial Statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole and performance materiality as follows:

	Financial Statements	
	2023 £	2022 £
<b>Materiality</b>	<b>840,000</b>	690,000
<b>Basis for determining materiality</b>	<b>2.0% of net assets</b>	1.5% of net assets
<b>Rationale for the benchmark applied</b>	Net assets have been used as we consider this to be the most significant determinant of the Company's financial performance used by shareholders and other users of the Financial Statements.	
<b>Performance materiality</b>	<b>630,000</b>	510,000
<b>Basis for determining performance materiality</b>	75% of materiality based on our risk assessment and consideration of the control environment.	
	We also considered the history of misstatements based on our knowledge obtained in the previous year, aggregation effect of planned nature of testing and the overall size and complexity of the entity.	

## REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £42,000 (2022: £13,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements or our knowledge obtained during the audit.

<b>Going concern and longer-term viability</b>	<ul style="list-style-type: none"> <li>• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and</li> <li>• The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.</li> </ul>
<b>Other Code provisions</b>	<ul style="list-style-type: none"> <li>• Directors' statement on fair, balanced and understandable;</li> <li>• Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;</li> <li>• The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and</li> <li>• The section describing the work of the Audit Committee.</li> </ul>

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

## OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

<b>Strategic Report and Directors' Report</b>	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> <li>the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and</li> <li>the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.</li> </ul> <p>In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.</p>
<b>Directors' remuneration</b>	<p>In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
<b>Matters on which we are required to report by exception</b>	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or</li> <li>certain disclosures of Directors' remuneration specified by law are not made; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>

## RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

### EXTENT TO WHICH THE AUDIT WAS CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates through discussions with management and our brought forward knowledge, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code and UK adopted international accounting standards.

We also assessed the susceptibility of the Financial Statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and the valuation of unquoted and fund investments.

Our procedures in response to the above included:

- Discussion amongst the engagement team as to how and where fraud might occur in the Financial Statements;
- Obtaining an understanding of the Company's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Agreement of the Financial Statement disclosures to underlying supporting documentation;
- Enquiries of management and Those Charged With Governance of any instances of non-compliance with laws and regulations or known or suspected instances of fraud;
- Testing a sample of journal postings made during the year to supporting documentation to identify potential management override of controls, including testing journals which met defined risk criteria with regards to fraud;
- A review of legal invoices and minutes of Board meetings throughout the period for any instances of non-compliance with laws and regulations or known or suspected instances of fraud; and
- Considering remuneration incentive schemes and performance targets and the related Financial Statement areas impacted by these.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the Financial Statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## USE OF OUR REPORT

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

### **Orla Reilly (Senior Statutory Auditor)**

For and on behalf of BDO LLP, Statutory Auditor  
London, UK

18 March 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Company Income Statement

## For the year ended 31 December 2023

	Notes	Year ended 31 December	
		2023 £'000	2022 £'000
Net loss on investments	2	<b>(47,264)</b>	(224)
Interest income	3	<b>608</b>	189
Other income		<b>120</b>	107
Dividend income	2	<b>45,000</b>	-
Total gain on investments		<b>(1,536)</b>	72
Operating expenses	4	<b>(2,196)</b>	(1,946)
<b>Loss before tax</b>		<b>(3,732)</b>	(1,874)
Taxation	7	-	-
<b>Loss for the year</b>		<b>(3,732)</b>	(1,874)
Attributable to:			
Equity shareholders		<b>(3,732)</b>	(1,874)
Loss per ordinary share – basic	8	<b>(4.6)p</b>	(2.3)p
Loss per ordinary share – diluted	8	<b>(4.6)p</b>	(2.3)p

All activities of the Company are classed as continuing.

The notes on pages 67 to 90 form part of these Financial Statements.

# Company Statement of Other Comprehensive Income

For the year ended 31 December 2023

	Year ended 31 December	
	2023 £'000	2022 £'000
Loss for the year	<b>(3,732)</b>	(1,874)
Total comprehensive loss for the year	<b>(3,732)</b>	(1,874)
Attributable to:		
Equity shareholders	<b>(3,732)</b>	(1,874)

The notes on pages 67 to 90 form part of these Financial Statements.

# Company Statement of Financial Position

As at 31 December 2023

Company registration number 05746555

	Notes	31 December	
		2023 £'000	2022 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Right-of-use assets	18	42	70
Investments	10	20,854	68,207
Amounts receivable from subsidiaries	13	15,014	5,158
Total non-current assets		35,910	73,435
<b>Current assets</b>			
Operating and other receivables	11	135	71
Cash	12	9,027	14,542
Total current assets		9,162	14,613
Total assets		45,072	88,048
<b>Liabilities</b>			
<b>Current liabilities</b>			
Operating and other payables	14	(422)	(428)
Amounts payable to subsidiaries	15	(2,493)	(41,032)
Total current liabilities		(2,915)	(41,460)
<b>Non-current liabilities</b>			
Lease liabilities	14	(16)	(47)
Total non-current liabilities		(16)	(47)
Total liabilities		(2,931)	(41,507)
Net assets		42,141	46,541
<b>Equity</b>			
Share capital	16	8,073	8,073
Share premium		508	508
Capital redemption reserve		24,949	24,949
Share-based equity	17	207	128
Retained earnings		8,404	12,883
Total equity shareholders' funds		42,141	46,541
Net asset value per ordinary share	24	52.20p	57.65p

The Financial Statements on pages 62 to 90 were approved by the Board on 18 March 2024 and were signed on its behalf by:

**Robert Rayne**  
Director

The notes on pages 67 to 90 form part of these Financial Statements.

# Company Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share-based equity £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2022</b>	8,073	508	24,949	75	15,504	49,109
<b>Comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(1,874)	(1,874)
<b>Equity after total comprehensive loss for the year</b>	8,073	508	24,949	75	13,630	47,235
<b>Contributions by and distributions to shareholders</b>						
Share-based payments	-	-	-	53	-	53
Dividends	-	-	-	-	(747)	(747)
<b>As at 31 December 2022</b>	8,073	508	24,949	128	12,883	46,541
<b>Comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(3,732)	(3,732)
<b>Equity after total comprehensive income for the year</b>	8,073	508	24,949	128	9,151	42,809
<b>Contributions by and distributions to shareholders</b>						
Share-based payments	-	-	-	79	-	79
Dividends	-	-	-	-	(747)	(747)
<b>As at 31 December 2023</b>	8,073	508	24,949	207	8,404	42,141

The notes on pages 67 to 90 form part of these Financial Statements.

# Company Cash Flow Statement

## For the year ended 31 December 2023

	Notes	Year ended 31 December	
		2023 £'000	2022 £'000
<b>Cash flows from operating activities</b>			
Loss before tax		(3,732)	(1,874)
Adjustments for non-cash income and expense:			
Equity settled share-based payments	17	79	53
Depreciation on right-of-use assets	18	28	27
Interest expense on lease	18	4	6
Losses on investments	2	47,264	224
Interest income	3	(608)	(189)
Other income		(120)	(107)
Dividend income	2	(45,000)	-
Adjustments to incentives plans	2	3	30
Exchange losses/(gains) on cash balances		17	(71)
		<b>(2,065)</b>	<b>(1,901)</b>
<b>Change in operating assets and liabilities</b>			
(Increase)/decrease in operating and other receivables		(53)	16
(Increase)/decrease in operating and other payables		(8)	34
(Increase)/decrease in amounts receivable from subsidiaries		(9,856)	33
Increase in amounts payable to subsidiaries		6,460	2,292
<b>Net cash (used in)/from operating activities</b>		<b>(5,522)</b>	<b>474</b>
<b>Cash flows from investing activities</b>			
Interest received	3	598	152
Other income received		120	107
Proceeds from sale of investments		86	-
<b>Net cash from investing activities</b>		<b>804</b>	<b>259</b>
<b>Cash flows from financing activities</b>			
Dividends paid	9	(747)	(747)
Repayment of principal lease liabilities	18	(29)	(27)
Repayment of lease interest	18	(4)	(6)
<b>Net cash used in financing activities</b>		<b>(780)</b>	<b>(780)</b>
<b>Net decrease in cash</b>		<b>(5,498)</b>	<b>(47)</b>
Exchange (losses)/gains on cash balances		(17)	71
Cash at the beginning of the year	12	14,542	14,518
<b>Cash at the end of the year</b>		<b>9,027</b>	<b>14,542</b>

The notes on pages 67 to 90 form part of these Financial Statements.

# Notes to the Financial Statements

## 1. MATERIAL 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 plc.

### BASIS OF PREPARATION

These Financial Statements for the year ended 31 December 2023 have been prepared in accordance with UK adopted International Accounting Standards.

LMS Capital plc adopted an amendment to IFRS 10 with effect from 11 January 2016, which exempts investment entities from presenting consolidated financial statements. As a result, the Company is not required to produce consolidated accounts and only presents the results of the Company.

The Financial Statements have been prepared on the historical cost basis except for investments which are measured at fair value, with changes in fair value recognised in the Income Statement.

The Company’s business activities and financial position are set out in the Strategic Report on pages 11 to 18 and in the Portfolio Management Review on pages 19 to 23. In addition, note 19 to the financial information includes a summary of the Company’s financial risk management processes, details of its financial instruments and its exposure to credit risk and liquidity risk. Taking account of the financial resources available to it, the Directors believe that the Company is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources for the foreseeable future.

The Financial Statements are prepared on a going concern basis and the Directors considered this and concluded that the use of the going concern basis continued to be appropriate. The Company’s business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Strategic Report on pages 11 to 18 and the Portfolio Management Review on pages 19 to 23. The Directors have carried out a robust assessment of the emerging and principal risks and concluded that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over a three-year period from the date of this report. This assessment included reviewing the liquidity forecasts of the Company that include the flexibility in the dividend policy and lack of any external debt, the significant cash balances on hand at 31 December 2023, the expected future expenditures and commitments and the latest report on the investment portfolio. In preparing this liquidity forecast, consideration has been given to the expected ongoing impact of the war in Ukraine on the Company and the wider Group as well as the potential impact on the underlying investee companies. The Directors have considered these factors for a period not less than 12 months from the date of this report.

### NEW AND REVISED ACCOUNTING STANDARDS AND AMENDMENTS EFFECTIVE FOR THE CURRENT PERIOD

New and revised accounting standards and amendments that are effective for annual periods beginning 1 January 2023 which have been adopted for the first time by the Company:

- Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 12 – Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

# Notes to the Financial Statements continued

## 1. MATERIAL ACCOUNTING POLICIES CONTINUED

The adoption of the standards and amendments listed above did not have any material impact on the Company's results.

These amendments have been endorsed by the EU and adopted by the UK.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2023 that have had a material effect on the Company's Financial Statements.

### NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE, AND WHICH HAVE NOT BEEN EARLY ADOPTED

Other standards and amendments that are effective for subsequent reporting periods beginning on or after 1 January 2024 and have not been early adopted by the Company include:

- Amendments to IAS 1 – Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective 1 January 2024).
- Amendments to IFRS 16 – Leases: Lease Liability in a Sale and Leaseback (effective 1 January 2024).

These standards and amendments are not expected to have a significant impact on the Financial Statements in the period of initial application and therefore detailed disclosures have not been provided.

### IFRS 2 – SHARE-BASED PAYMENT

IFRS 2 – Share-based payment requires an entity to recognise equity-settled share-based payments measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, together with a corresponding increase in other capital reserves, based upon the Company's estimate of the shares that will eventually vest, which involves making assumptions about any performance and service conditions over the vesting period. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. The vesting period is determined by the period of time the relevant participant must remain in the Company's employment before the rights to the shares transfer unconditionally to them. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates on the number of awards it expects to vest based on the service conditions.

Any awards granted are to be settled by the issuance of equity are deemed to be equity settled share-based payments, accounted for in accordance with IFRS 2 – Share-based payment.

Where the terms of an equity-settled transaction are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

## ACCOUNTING FOR SUBSIDIARIES

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

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

In satisfying the second essential criteria, the notion of an investment time frame is critical. An investment entity should not hold its investments indefinitely but should have an exit strategy for their realisation. Although the Company has invested in equity interests that have an indefinite life, it invests typically for a period of up to 10 years. In some cases, the period may be longer, depending on the circumstances of the investment, however, investments are not made with intention of indefinite hold. This is a common approach in the private equity industry.

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

The Company's subsidiaries, which are wholly-owned and over which it exercises control, are listed in note 23.

## USE OF ESTIMATES AND JUDGEMENTS

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

The areas involving significant judgements are:

- valuation technique selected in estimating fair value of unquoted investments – note 10;
- valuation technique selected in estimating fair value of investments held in funds – note 10; and
- recognition of deferred tax asset for carried forward tax losses – note 7.

The areas involving significant estimates are:

- estimated inputs used in calculating fair value of unquoted investments – note 10; and
- estimated inputs used in calculating fair value of investments held in funds – note 10.

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

# Notes to the Financial Statements continued

## 1. MATERIAL ACCOUNTING POLICIES CONTINUED

### INVESTMENTS IN SUBSIDIARIES

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

### VALUATION OF INVESTMENTS

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

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

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

### QUOTED INVESTMENTS

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

### UNQUOTED DIRECT INVESTMENTS

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

- investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable revenue or earnings;
- investments in an established business which is generating sustainable revenue or earnings but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future revenue or earnings;
- investments in debt instruments or loan notes are determined on a standalone basis, with the initial investment recorded at the price of the transaction and subsequent adjustments to the valuation are considered for changes in credit risk or market rates;
- convertible instruments are valued by disaggregating the convertible feature from the debt instrument and valuing it using a Black-Scholes model; and
- the Company has adopted the IPEV guidelines issued in December 2023.

## FUNDS

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

## CARRIED INTEREST

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

## FOREIGN CURRENCIES

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

## INTERCOMPANY RECEIVABLES

The Company measured intercompany receivables and other receivables at fair value less any expected credit losses. Expected credit losses are measured through a loss allowance at an amount equal to:

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

A loss allowance for full lifetime expected credit losses is required for intercompany receivables and other receivables if the credit risk has increased significantly since initial recognition.

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

## CASH

Cash comprises cash on hand and demand deposits.

## DIVIDEND PAYABLE

Dividend distribution to the shareholders is recognised as a liability in Financial Statements when approved at an annual general meeting by the shareholders. Interim dividend approved during the year is recorded upon payment.

# Notes to the Financial Statements continued

## 1. MATERIAL ACCOUNTING POLICIES CONTINUED

### INCOME

#### **Gains and losses on investments**

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

#### **Interest income**

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

#### **Dividend income**

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

### EXPENDITURE

#### **Income tax expense**

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

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

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

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

## 2. NET GAINS/LOSSES ON INVESTMENTS

Gains and losses on investments were as follows:

Investment portfolio of the Company <b>Asset type</b>	Year ended 31 December					
	2023			2022		
	Realised £'000	Unrealised £'000	Total £'000	Realised £'000	Unrealised £'000	Total £'000
Unquoted	86	-	86	-	-	-
	86	-	86	-	-	-
Credit for incentive plans			3			30
			89			30
Investment portfolio of subsidiaries <b>Asset type</b>						
Quoted	(10)	-	(10)	(1)	(220)	(221)
Unquoted	1,412	366	1,778	24	(1,285)	(1,261)
Funds	(9)	(4,509)	(4,518)	-	108	108
	1,393	(4,143)	(2,750)	23	(1,397)	(1,374)
<b>Total</b>	<b>1,479</b>	<b>(4,143)</b>	<b>(2,661)</b>	<b>23</b>	<b>(1,397)</b>	<b>(1,344)</b>
(Charge)/credit for incentive plans			(103)			39
			(2,764)			(1,305)
Operating and similar (loss)/income of subsidiaries*			(44,500)			1,081
			(47,264)			(224)

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

During the year the Company and its subsidiaries carried out an exercise to settle the debtor and creditor balances that had accumulated over a period of years between companies within the Group. This will achieve a simplification of accounting within the Group. Settlement of the balances was achieved through offsetting debtor and creditor amounts where appropriate and through the declaration of dividends by various subsidiary companies to holding companies within the Group. As part of this exercise a dividend of £45,000,000 was declared by LMS Capital Group Limited to LMS Capital plc. The assets of LMS Capital plc increased by the amount of the dividend but as a result of this a reduction in the fair value of the investments in subsidiaries has been recognised. This exercise had no overall net effect on the net assets of the Company.

The Company operates carried interest arrangements in line with normal practice in the private equity industry. The credit for incentive plans for the Company is £3,000 (2022: £30,000) and other incentives relating to historic arrangements. The charge for subsidiaries is included in the net gains/losses on investments in the Income Statement.

## Notes to the Financial Statements continued

### 3. INTEREST INCOME

	Year ended 31 December	
	2023 £'000	2022 £'000
Bank interest	608	189
	<b>608</b>	189

### 4. OPERATING EXPENSES

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December	
	2023 £'000	2022 £'000
Directors' remuneration (note 5)	832	726
Staff expenses (note 6)	467	462
Depreciation on right-of-use assets	28	27
Other administrative expenses	761	670
Foreign currency exchange differences	17	(24)
Auditor's remuneration		
Fees to Company auditor	91	85
– parent company	91	67
– interim review for LMS Capital plc	–	18
	<b>2,196</b>	1,946

Audit fees for the subsidiaries of £73,000 (2022: £103,700) were directly charged to subsidiaries.

### 5. DIRECTORS' REMUNERATION

	Year ended 31 December	
	2023 £'000	2022 £'000
Directors' remuneration	657	584
Directors' social security contributions	86	77
Share-based payments	59	39
Directors' other benefits	30	26
	<b>832</b>	726
The highest paid Director was Nicholas Friedlos (2022 – Nicholas Friedlos)	<b>442</b>	367

The Directors are considered to be the only key management personnel.

## 6. STAFF EXPENSES

	Year ended 31 December	
	2023 £'000	2022 £'000
Wages and salaries	366	378
Employers' social security contributions	50	54
Share-based payments	20	13
Pension costs	23	11
Employees' other benefits	8	6
	<b>467</b>	462

Pensions costs are amounts payable to employees' defined contribution pension plans and are recognised on an accruals basis as they are incurred.

The average number of staff was as follows:

	2023	2022
Directors	5	5
Staff	4	4
Total	9	9

## 7. TAXATION

	Year ended 31 December	
	2023 £'000	2022 £'000
<b>Current tax expense</b>		
Current year	-	-
Total tax expense	-	-

### RECONCILIATION OF TAX EXPENSE

	Year ended 31 December	
	2023 £'000	2022 £'000
Loss before tax	(3,732)	(1,874)
Corporation tax using the Company's domestic tax rate – 23.5% (2022: 19%)	(877)	(356)
Expenses not deductible/non-taxable income	534	47
Capital allowances	53	(3)
Company relief	(91)	476
Deferred tax asset not recognised	56	85
Group relief surrendered/(received)	325	(249)
Total tax expense	-	-

As at year end, there are cumulative potential deferred tax assets of £2.516 million (2022: £2.377 million) in relation to the Company's cumulative tax losses of £10.064 million (2022: £9.510 million). It is uncertain when the Company will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the current or prior year.

## Notes to the Financial Statements continued

### 8. LOSS PER ORDINARY SHARE

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

	Year ended 31 December	
	2023 £'000	2022 £'000
<b>Loss</b>		
Loss for the purposes of loss per share		
being net loss attributable to equity holders of the parent	<b>(3,732)</b>	(1,874)
	<b>Number</b>	Number
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>80,727,450</b>	80,727,450
	<b>Pence</b>	Pence
<b>Loss per share</b>		
Basic	<b>(4.6)</b>	(2.3)
Diluted	<b>(4.6)</b>	(2.3)

The Company share awards will be dilutive when the Company makes a profit.

### 9. DIVIDENDS PAID

Dividends declared during the year ending 31 December 2023 are as follows.

	Dividend date	Payment Date	Dividend £'000	Dividend per share pence
Final dividend payment for 2021	27 May 2022	23 June 2022	505	0.6250
Interim dividend payment for 2022	12 August 2022	12 September 2022	242	0.3000
<b>Total as at 31 December 2022</b>			<b>747</b>	<b>0.9250</b>
Final dividend payment for 2022	26 May 2023	23 June 2023	<b>505</b>	<b>0.6250</b>
Interim dividend payment for 2023	11 August 2023	12 September 2023	<b>242</b>	<b>0.3000</b>
<b>Total as at 31 December 2023</b>			<b>747</b>	<b>0.9250</b>

A final dividend of 0.625p per share is recommended by the Board and, subject to approval by shareholders at the AGM on 15 May 2024, will be paid out in early June 2024.

## 10. INVESTMENTS

The Company's investments comprised the following:

	Year ended 31 December	
	2023 £'000	2022 £'000
Total investments	20,854	68,207
These comprise:		
Investment portfolio of subsidiaries	28,450	30,964
Other net (liabilities)/assets of subsidiaries	(7,596)	37,243
	20,854	68,207

The carrying amounts of the subsidiaries' investment portfolios were as follows:

Investment portfolio of subsidiaries <b>Asset type</b>	Year ended 31 December	
	2023 £'000	2022 £'000
Quoted	144	160
Unquoted	18,837	16,771
Funds	9,469	14,033
	28,450	30,964
<b>Other net (liabilities)/assets of subsidiaries</b>	<b>(7,596)</b>	<b>37,243</b>
	20,854	68,207

The movements in the investment portfolio were as follows:

	Quoted securities £'000	Unquoted securities £'000	Funds £'000	Other net assets/ (liabilities) of subsidiaries £'000	Total £'000
Balance at 1 January 2022	383	16,626	13,929	37,523	68,461
Accrued interest	-	1,274	-	-	1,274
Purchases	-	427	-	-	427
Proceeds from disposal	(2)	-	-	-	(2)
Distributions from partnerships	-	(375)	(56)	-	(431)
Contribution to partnerships	-	80	52	-	132
Fair value adjustments	(221)	(1,261)	108	-	(1,374)
Other movements	-	-	-	(280)	(280)
Balance at 31 December 2022	160	16,771	14,033	37,243	68,207

# Notes to the Financial Statements continued

## 10. INVESTMENTS CONTINUED

	Quoted securities £'000	Unquoted securities £'000	Funds £'000	Other net assets/ (liabilities) of subsidiaries £'000	Total £'000
Balance at 1 January 2023	160	16,771	14,033	37,243	68,207
Accrued interest	-	1,373	-	-	1,373
Purchases	-	6,130	-	-	6,130
Proceeds from disposal	(6)	(7,301)	-	-	(7,307)
Distributions from partnerships	-	-	(55)	-	(55)
Contribution to partnerships	-	-	9	-	9
Fair value adjustments	(10)	1,864	(4,518)	-	(2,664)
Dividends paid (note 2)	-	-	-	(45,000)	(45,000)
Other movements	-	-	-	161	161
Balance at 31 December 2023	144	18,837	9,469	(7,596)	20,854

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs such as trading comparables and liquidity discounts).

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information (see note 19 – Financial risk management).

The Company's investments are analysed as follows:

	31 December	
	2023 £'000	2022 £'000
Level 1	-	-
Level 2	-	-
Level 3	20,854	68,207
	<b>20,854</b>	68,207

Level 3 includes:

	31 December	
	2023 £'000	2022 £'000
Investment portfolio of subsidiaries	28,450	30,964
Other net (liabilities)/assets of subsidiaries	(7,596)	37,243
	<b>20,854</b>	68,207

Investment portfolio of subsidiaries includes quoted investments of £144,000 (2022: £160,000). There were no transfers between levels during the year ending 31 December 2023.

## 11. OPERATING AND OTHER RECEIVABLES

	31 December	
	2023 £'000	2022 £'000
Other receivables and prepayments	135	71
	<b>135</b>	71

## 12. CASH

	31 December	
	2023 £'000	2022 £'000
Bank balances	1,451	201
Demand deposits	7,576	14,341
	<b>9,027</b>	14,542

## 13. AMOUNTS RECEIVABLE FROM SUBSIDIARIES

	31 December	
	2023 £'000	2022 £'000
Amounts receivable from subsidiaries	15,014	5,158
	<b>15,014</b>	5,158

Amounts receivable from subsidiaries are intercompany loans repayable on demand and are interest free.

During the year the Company and its subsidiaries carried out an exercise to settle the debtor and creditor balances that had accumulated over a period of years between companies within the Group (see note 2).

## 14. OPERATING AND OTHER PAYABLES

	31 December	
	2023 £'000	2022 £'000
Carried interest provision	-	9
Trade payables	19	41
Lease liabilities	31	28
Other non-trade payables and accrued expenses	372	350
	<b>422</b>	428
Other long-term lease liabilities	16	47
	<b>438</b>	475

The Company operates carried interest arrangements in line with normal practice in the private equity industry, calculated on the assumption that the investment portfolio is realised at its year end carrying amount. As at 31 December 2023, £nil (2022: £9,000) has been accrued for in the Company and £523,000 (2022: £419,000) has been accrued for in the subsidiaries. Carried interest accrued for in the subsidiaries is included in the amounts owing to subsidiaries in the Statement of Financial Position.

## Notes to the Financial Statements continued

### 15. AMOUNTS PAYABLE TO SUBSIDIARIES

	31 December	
	2023 £'000	2022 £'000
Amounts payable to subsidiaries	2,493	41,032
	<b>2,493</b>	41,032

Amounts payable to subsidiaries are intercompany loans repayable on demand and are interest free.

During the year the Company and its subsidiaries carried out an exercise to settle the debtor and creditor balances that had accumulated over a period of years between companies within the Group (see note 2).

### 16. CAPITAL AND RESERVES

#### SHARE CAPITAL

	2023 Number	2023 £'000	2022 Number	2022 £'000
<b>Ordinary shares</b>				
Balance at the beginning of the year	80,727,450	8,073	80,727,450	8,073
Balance at the end of the year	80,727,450	8,073	80,727,450	8,073

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

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

#### SHARE PREMIUM ACCOUNT

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

#### CAPITAL REDEMPTION RESERVE

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

### 17. SHARE AWARDS

Awards were made in accordance with the LTIP arrangements approved by shareholders at the Company's Annual General Meeting held on 17 May 2023.

#### EMPLOYEE SHARE INCENTIVE PLAN

On 15 August 2023, the Remuneration Committee approved the issue of 686,064 nil-cost options.

The options vest to 15 August 2026 and have both a performance and a continuous service condition attached to them.

### PERFORMANCE CONDITION

The Performance Condition for the Award shall be determined by reference to the Company's performance in deploying its available uninvested capital at 31 December 2022. The level of performance and hence the amount of the Award that vests will be determined at the discretion of the Remuneration Committee.

The targets for deployment of Investible Capital are:

- (a) At least 50% of Investible Capital should have been Deployed by 31 December 2024;
- (b) 100% of Investible capital should have been Deployed by 31 December 2025.
- (c) The investments into which capital has been Deployed should be performing satisfactorily, taking account of the relatively early stage of such investments at the time the Performance Conditions are assessed.

For the purposes of this award Investible Capital has been set at £12.4 million.

IFRS 2: Share-based Payment addresses the accounting for the Share Plan. This sets out the definition of a share-based payment and in this case the Share Plan is classified as an equity settled transaction with cash alternatives, the Company has the discretion to settle the liability fully or partly in cash. Since there is no present obligation to settle the award in cash, the scheme will be accounted for as equity settled.

Both the performance condition and the service condition, which is to be employed for three years from the effective date of award, are considered to be non-market vesting condition per IFRS 2. On this basis the Share Plan will be recognised at fair value at the date of the award and will be amortised over the life of the plan on a straight-line basis.

The LMS Capital plc share price on the date of the award was 21p. This gives a fair value of the award at the date of issue of £144,073.

Management expect the performance condition to be met and the award to vest in full.

In the event the performance condition is not met, the Remuneration Committee has the discretion to settle the awards in full.

As there is a service condition attached to the Share Plan, an estimate of whether there will be leavers is required over the vesting period. In this instance there is no expectation that any members of staff will leave within three years and as such 100% of the award will be used to recognise the expense over three years.

	Number of awards	Weighted average fair value per award
Outstanding at 1 January 2023	-	-
Granted	686,064	£0.21
<b>Outstanding at 31 December 2023</b>	<b>686,064</b>	<b>£0.21</b>
Exercisable at year end	-	

## Notes to the Financial Statements continued

### 17. SHARE AWARDS CONTINUED

#### VALUE CREATION PLAN

At the Annual General Meeting on 17 May 2023, shareholders approved the proposed amendments to the VCP whereby the original units awarded in 2020 would be cancelled and a smaller number of new units would be issued.

384 new units were awarded on 14 June 2023.

Grant date	Type of award	Number of shares awarded	Fair value/ share	Vesting conditions	Final vesting date
14 June 2023	Shares	384	£461	Awards vest quarterly over five years provided the employee is still in service of the Company.	14 June 2028
<b>Number of awards</b>					
<b>Weighted average fair value per award</b>					
Outstanding at 1 January 2022					
625					
£413.48					
Granted					
-					
<b>Outstanding at 31 December 2022</b>					
<b>625</b>					
<b>£413.48</b>					
Units cancelled					
(625)					
£413.48					
New units issued					
384					
£461.00					
<b>Outstanding at 31 December 2023</b>					
<b>384</b>					
<b>£461.00</b>					
Exercisable at year end					
-					

### 18. LEASES

#### LEASE COMMITMENTS

The Company leases office space and information with regards to this lease is outlined below:

Rental lease asset	£'000
Balance at 1 January 2022	97
Depreciation for the year	(27)
Balance at 31 December 2022	70
Depreciation for the year	(28)
<b>Balance as at 31 December 2023</b>	<b>42</b>
<b>Rental lease liability</b>	<b>£'000</b>
Balance at 1 January 2022	102
Unwinding of the discount on lease liability	6
Payments for lease	(33)
Balance at 31 December 2022	75
Unwinding of the discount on lease liability	4
Payments for lease	(33)
<b>Balance as at 31 December 2023</b>	<b>46</b>

## 19. FINANCIAL RISK MANAGEMENT

### FINANCIAL INSTRUMENTS BY CATEGORY

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

	31 December					
	2023			2022		
	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000
Financial assets						
Investments	20,854	–	20,854	68,207	–	68,207
Amounts receivable from subsidiaries	–	15,014	15,014	–	5,158	5,158
Operating and other receivables	–	120	120	–	60	60
Cash	–	9,027	9,027	–	14,542	14,542
<b>Total</b>	<b>20,854</b>	<b>24,161</b>	<b>45,015</b>	<b>68,207</b>	<b>19,760</b>	<b>87,967</b>

	31 December					
	2023			2022		
	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000	Fair Value through profit or loss £'000	Measured at amortised cost £'000	Total £'000
Financial liabilities						
Operating and other payables	–	392	392	–	400	400
Amounts payable to subsidiaries	–	2,493	2,493	–	41,032	41,032
Lease liabilities	–	46	46	–	75	75
<b>Total</b>	<b>–</b>	<b>2,931</b>	<b>2,931</b>	<b>–</b>	<b>41,507</b>	<b>41,507</b>

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

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

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

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

# Notes to the Financial Statements continued

## 19. FINANCIAL RISK MANAGEMENT CONTINUED

### CREDIT RISK

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

	31 December	
	2023 £'000	2022 £'000
Amounts receivable from subsidiaries	15,014	5,158
Operating and other receivables	120	60
Cash	9,027	14,542
	<b>24,161</b>	<b>19,760</b>

The Company limits its credit risk exposure by only depositing funds with highly rated institutions. Cash holdings at 31 December 2023 and 2022 were held in institutions currently rated A or better by Standard and Poor. Given these ratings, the Company does not expect any counterparty to fail to meet its obligations and therefore, no allowance for impairment is made for bank deposits.

The loss allowance as at 31 December 2023 and 31 December 2022 was determined as follows for trade receivables:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 120 days past due £'000	Total £'000
<b>2023</b>					
Other receivables	120	-	-	-	120
<b>Total</b>	<b>120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120</b>
2022	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 120 days past due £'000	Total £'000
Other receivables	60	-	-	-	60
Total	60	-	-	-	60

The Company recognised credit losses of the full value of receivable for trade receivables not recovered after four months. As at 31 December 2023, the Company does not have an outstanding trade receivable (2022: £nil).

For the year ending 31 December 2023, the Company did not witness significant increase in the credit risk since the initial recognition of the outstanding receivable from subsidiaries and other receivables, therefore, no expected losses were recognised during the year (2022: £nil).

### LIQUIDITY RISK

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

The following table shows an analysis of the undiscounted financial liabilities by remaining expected maturities as at 31 December 2023 and 31 December 2022.

#### Financial liabilities:

	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
<b>2023</b>					
Operating and other payables	392	-	-	-	392
Amount payable to subsidiaries	2,493	-	-	-	2,493
Lease liabilities	7	23	16	-	46
<b>Total</b>	<b>2,892</b>	<b>23</b>	<b>16</b>	<b>-</b>	<b>2,931</b>
	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
<b>2022</b>					
Operating and other payables	400	-	-	-	400
Amount payable to subsidiaries	41,032	-	-	-	41,032
Lease liabilities	6	22	47	-	75
<b>Total</b>	<b>41,438</b>	<b>22</b>	<b>47</b>	<b>-</b>	<b>41,507</b>

In addition, some of the Company's subsidiaries have uncalled capital commitments to funds of £2,661,000 (2022: £2,674,000) for which the timing of payment is uncertain (see note 20).

### MARKET RISK

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

### CURRENCY RISK

The Company is exposed to currency risk on those of its investments which are denominated in a currency other than the Company's functional currency which is pounds sterling. The only other significant currency within the investment portfolio is the US dollar; approximately 76% of the investment portfolio is denominated in US dollars.

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

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

## Notes to the Financial Statements continued

### 19. FINANCIAL RISK MANAGEMENT CONTINUED

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

	31 December					
	2023			2022		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	2,847	17,394	613	44,118	23,486	603
Amounts receivable from subsidiaries	15,014	-	-	5,157	1	-
Right-of-use assets	42	-	-	70	-	-
Operating and other receivables	135	-	-	71	-	-
Cash	8,680	347	-	14,228	314	-
Operating and other payables	(438)	-	-	(440)	(35)	-
Amount payable to subsidiaries	(2,493)	-	-	(41,014)	(18)	-
Gross exposure	23,787	17,741	613	22,190	23,748	603
Forward exchange contracts	-	-	-	-	-	-
Net exposure	23,787	17,741	613	22,190	23,748	603

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

	31 December	
	2023 £'000	2022 £'000
Net foreign exchange (loss)/profit on investments	(1,141)	2,769
Net foreign exchange (loss)/profit on non-investments	(42)	439
Total net foreign exchange (loss)/profit recognised in profit before income tax for the year	(1,183)	3,208

At 31 December 2023, the rate of exchange was USD \$1.27 = £1.00 (2022: \$1.21 = £1.00).

A 10% strengthening of the US dollar against the pound sterling would have increased equity and increased profit by £2.0 million at 31 December 2023 (2022: increased equity and increased profit by £2.6 million). This assumes that all other variables, in particular interest rates, remain constant. A weakening of the US dollar by 10% against the pound sterling would have decreased equity and decreased the profit for the year by £1.6 million (2022: decreased equity and decreased the profit for the year by £2.2 million). This level of change is considered to be reasonable based on observations of current conditions.

#### INTEREST RATE RISK

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

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £118,000 (2022: increase of £145,000) and increased the profit for the year by £118,000 (2022: increased the profit £145,000). A decrease of 100 basis points would have decreased equity and increased the loss for the year by the same amounts. This level of change is considered to be reasonable based on observations of current conditions.

#### FAIR VALUES

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

### OTHER MARKET PRICE RISK

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

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

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

The significant unobservable inputs used at 31 December 2023 in measuring investments categorised as level 3 in note 11 are considered below:

1. Unquoted securities (carrying value £18.8 million) are valued using the most appropriate valuation technique such as a revenue-based approach, an earnings-based approach, or a discounted cash flow approach. These investments are sensitive to both the overall market and industry specific fluctuations that can impact multiples and comparable company valuations. In most cases the valuation method uses inputs based on comparable quoted companies for which the key unobservable inputs are:
  - EBITDA multiples of approximately five times dependent on the business of each individual company, its performance and the sector in which it operates;
  - revenue multiples in the range 0.30–1.5 times, also dependent on attributes at individual investment level; and
  - discounts applied of up to 50%, to reflect the illiquidity of unquoted companies compared to similar quoted companies. The discount used requires the exercise of judgement taking into account factors specific to individual investments such as size and rate of growth compared to other companies in the sector.
2. Investments in funds (carrying value £9.5 million) are valued using reports from the general partners of the fund interests with adjustments made for calls, distributions and foreign currency movements since the date of the report (if prior to 31 December 2023). The Company also carries out its own review of individual funds and their portfolios to satisfy themselves that the underlying valuation bases are consistent with the basis of valuation and knowledge of the investments and the sectors in which they operate. However, the degree of detail on valuations varies significantly by fund and, in general, details of unobservable inputs used are not available.

Two of the Company's subsidiaries' underlying investments are valued using discounted cash flow ("DCF") models. The table below shows the effect on profit/(loss) of increasing or decreasing the discount rate used on the valuation on these investments. The base-case discount rate used is 30% and a change to 20% or 40% is considered to be reasonable possible change for the purpose of the sensitivity analysis.

	<b>31 December</b>	
	<b>2023</b>	2022
	<b>£'000</b>	£'000
Effect of change in discount rate to 20%	<b>740</b>	1,643
Effect of change in discount rate to 40%	<b>(517)</b>	(1,201)

## Notes to the Financial Statements continued

### 19. FINANCIAL RISK MANAGEMENT CONTINUED

The valuation of the investments in subsidiaries makes use of multiple interdependent significant unobservable inputs and it is not meaningful to sensitise variations of any one input on the value of the investment portfolio as a whole. Estimates and underlying assumptions are reviewed on an ongoing basis, however, inputs are highly subjective. Changes in any one of the variables, earnings or revenue multiples or illiquidity discounts could potentially have a significant effect on the valuation.

The reported values of the level 3 investments would change, should there be a change in the underlying assumptions and unobservable inputs driving these values. The Company has performed a sensitivity analysis to assess the overall impact of a 10% movement in these reported values of investments, on the profit for the year. The effect on loss is shown in the table below:

	<u>31 December</u>	
	<b>2023</b> <b>£'000</b>	2022 £'000
Effect of 10% decrease in investment value	<b>(2,000)</b>	(6,800)
Effect of 10% increase in investment value	<b>2,000</b>	6,800

### CAPITAL MANAGEMENT

The Company's total capital at 31 December 2023 was £42.1 million (2022: £46.5 million) comprising equity share capital and reserves. The Company had no borrowings at 31 December 2023 (2022: £nil).

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

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

### 20. CAPITAL COMMITMENTS

	<u>31 December</u>	
	<b>2023</b> <b>£'000</b>	2022 £'000
Outstanding commitments to funds	<b>2,661</b>	2,674

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

As of 31 December 2023, the Company has no other contingencies or commitments to disclose (2022: £nil).

## 21. RELATED PARTY TRANSACTIONS

During the year, the Company paid rent of £32,780 (2022: £32,780) to The Rayne Foundation for its office space. Robert Rayne is the Chairman of The Rayne Foundation.

During the year the following transactions occurred with Group companies:

	Advanced to £	Received from £	Dividends/ fees received £	Balance due from/ (due to) £
<b>31 December 2023</b>				
LMS Capital Group Limited	45,012,930	45,000,000	45,000,000	31,930
LMS Capital Holdings Limited	45,175,126	30,325,581	-	(2,188,698)
LMS Co-Invest Limited	150,956	301,327	120,130	63,737
Lion Investments Limited	418,911	535,127	-	4,516,306
Tiger Investments Limited	6,436	-	-	(1,128)
LMS Tiger Investments (II) Limited	10,551,301	10,580,158	-	1,828
Cavera Limited	46,790	5,000	-	243,047
LMS Retirement Living Limited	5,750,326	-	-	5,750,326
Lioness Property Investments Limited	6,848,764	-	-	4,407,579
Lion Property Investments Limited	6,469	-	-	(300,948)
Westpool Investment Trust plc	11,900,544	-	-	(674)
LMS Capital (Bermuda) Limited	12,750,211	3,796,079	-	(1,355)
International Oilfield Services Limited	10,001,614	9,681,266	-	-

	Advanced to £	Received from £	Fees received £	Balance due from/ (due to) £
<b>31 December 2022</b>				
LMS Capital Group Limited	9,500	-	-	19,000
LMS Capital Holdings Limited	142,819	135,319	-	(17,038,244)
LMS Co-Invest Limited	175,583	28,097	106,220	214,107
Lion Investments Limited	126,490	409,960	-	4,632,521
Tiger Investments Limited	4,500	-	-	(7,564)
LMS Tiger Investments (II) Limited	4,500	-	-	30,685
Cavera Limited	73,346	-	-	201,257
Lioness Property Investments Limited	4,500	56,325	-	(2,441,185)
Lion Property Investments Limited	4,545	-	-	(307,417)
Westpool Investment Trust plc	316,041	514,946	-	(11,901,218)
LMS Capital (Bermuda) Limited	10,596	2,052,882	-	(8,955,487)
International Oilfield Services Limited	-	-	-	(320,348)

Details of Directors' remuneration is disclosed in note 5.

## 22. SUBSEQUENT EVENTS

There are no subsequent events that would materially affect the interpretation of these Financial Statements.

## Notes to the Financial Statements continued

### 23. SUBSIDIARIES

The Company's subsidiaries are as follows:

<b>Name</b>	<b>Country of incorporation</b>	<b>Holding %</b>	<b>Activity</b>
International Oilfield Services Limited	Bermuda	100	Investment holding
LMS Capital (Bermuda) Limited	Bermuda	100	Investment holding
LMS Capital Group Limited	England and Wales	100	Investment holding
LMS Capital Holdings Limited	England and Wales	100	Investment holding
Lioness Property Investments Limited	England and Wales	100	Investment holding
Lion Property Investments Limited	England and Wales	100	Investment holding
Lion Investments Limited	England and Wales	100	Investment holding
Lion Cub Property Investments Limited	England and Wales	100	Dormant
Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments (II) Limited	England and Wales	100	Investment holding
Westpool Investment Trust plc	England and Wales	100	Investment holding
Cavera Limited	England and Wales	100	Dormant
LMS Co-Invest Limited	England and Wales	100	Trading
LMS Retirement Living Limited	England and Wales	100	Investment holding

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

Subsidiaries incorporated in England and Wales: 3 Bromley Place, London, United Kingdom, W1T 6DB.

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

### 24. NET ASSET VALUE PER SHARE

The net asset value per ordinary shares in issue are as follows:

	<b>31 December</b>	
	<b>2023</b>	2022
NAV (£'000)	<b>42,141</b>	46,541
Number of ordinary shares in issue	<b>80,727,450</b>	80,727,450
NAV per share (in pence)	<b>52.20</b>	57.65

NAV per share is considered to be an Alternative Performance Measure ("APM").

# Corporate Information

## DIRECTORS

Robert Rayne  
Nicholas Friedlos  
Peter Harvey  
Graham Stedman  
James Wilson

## SECRETARY

IQ-EQ Corporate Services (UK) Limited  
4th Floor, 3 More London Riverside  
London SE1 2AQ

## AUDITOR

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55 Baker Street  
London W1U 7EU

## BROKERS

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Cassini House  
57 St. James's Street  
London SW1A 1LD

## REGISTERED OFFICE

3 Bromley Place  
London W1T 6DB  
Registered number 05746555

## BANKERS

Barclays Bank plc  
1 Churchill Place  
London E14 5HP

## REGISTRARS

Link Asset Services  
The Registry 34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel: (UK) 0871 664 0300  
(Outside UK) +44 (0)20 8639 3399  
Email: [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

## SOLICITORS

CMS Cameron McKenna Nabarro Olswang LLP  
Cannon Place  
78 Cannon Street  
London EC4N 6AF

## COMPANY WEBSITE

The Company's website provides further information on the Company's strategy and investments, as well as information for shareholders.  
[www.lmscapital.com](http://www.lmscapital.com)

## FINANCIAL CALENDAR 2024

Annual General Meeting – 15 May 2024  
Half-year results – July 2024







**LMS Capital plc**

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