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If you have sold or otherwise transferred all of your Ordinary Shares, you should forward this Circular (but not the accompanying Tender Form or Form of Proxy) to the purchaser, transferee or agent through whom the sale or transfer was effected. The Tender Form should not be sent to any Restricted Jurisdiction.

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A Notice of General Meeting of the Company, to be held at 3.00 p.m. on 16 August 2016 at Durrants Hotel, 26-32 George Street, London W1H 5BJ, is set out at the end of this Circular. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar by not later than 3.00 p.m. on 12 August 2016. Completion and return of a Form of Proxy will not preclude you from attending and voting in person at the General Meeting, should you so wish.



## **LMS CAPITAL PLC**

*(Incorporated and registered in England with limited liability with registered number 05746555)*

**Proposed change to the investment policy of the Company  
and  
Return of up to £6,000,000 to Shareholders  
and  
Proposal for Approval of Waiver by the Panel on Takeovers and Mergers  
under Rule 9 of the City Code on Takeovers and Mergers  
and  
Notice of General Meeting**

The availability of the Tender Offer to Shareholders who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdiction in which they are located. Persons who are not resident in the United Kingdom should read the paragraph headed "Overseas Shareholders" set out in Part Six of this Circular.

This Circular does not constitute an offer to purchase, or solicitation of an offer to sell, Ordinary Shares in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable securities laws.

Accordingly, unless otherwise determined by J.P. Morgan Cazenove and permitted by applicable law and regulation, the accompanying Tender Form is not being, nor may it be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed, or sent in, into or from any Restricted Jurisdiction, and persons receiving the Tender Form (including, without limitation, trustees, nominees or custodians) must not mail or otherwise forward, distribute or send it in, into or from such Restricted Jurisdiction, as to do so may invalidate any purported acceptance of the Tender Offer. Any person (including, without limitation, trustees, nominees or custodians) who would or otherwise intends to, or who may have a contractual or legal obligation to, forward the accompanying Tender Form to any jurisdiction outside the United Kingdom, should seek appropriate advice before taking any action.

The delivery of this Circular shall not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof, or that there has been no change in the information set forth herein or in the affairs of the Company since the date hereof. No dealer, salesperson or other person is authorised to give any information or to make any representations with respect to the Tender Offer, the change to the investment policy of the Company or the Rule 9 Waiver other than such information or representations contained herein and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or J.P. Morgan Cazenove.

This Circular is dated 27 July 2016.

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### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy .....	3.00 p.m. on 12 August 2016
<b>General Meeting</b> .....	3.00 p.m. on 16 August 2016
<b>Effective date of change of investment policy</b> .....	On or around 16 August 2016
Announcement of results of the General Meeting .....	7.00 a.m. on 17 August 2016
<b>Tender Offer opens</b> .....	17 August 2016
Announcement of Tender Offer Price .....	7.00 a.m. on 17 August 2016
Announcement of Basic Entitlement .....	7.00 a.m. on 17 August 2016
Latest time and date for receipt of Tender Forms and share certificates in relation to the Tender Offer .....	1.00 p.m. on 31 August 2016
Latest time and date for receipt of TTE instructions in relation to the Tender Offer .....	1.00 p.m. on 31 August 2016
Tender Offer Record Date .....	6.00 p.m. on 31 August 2016
Announcement of results of the Tender Offer .....	1 September 2016
CREST accounts credited in respect of Tender Offer proceeds for uncertificated Ordinary Shares .....	From 6 September 2016
Cheques despatched in respect of Tender Offer proceeds for certificated Ordinary Shares .....	From 6 September 2016
Despatch of balancing share certificates for revised, certificated holdings of Ordinary Shares .....	From 6 September 2016

All references in this document are to British Summer Time unless otherwise stated.

## **IMPORTANT INFORMATION**

### **Forward-looking statements**

This Circular includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “anticipates”, “targets”, “aims”, “continues”, “expects”, “intends”, “hopes”, “may”, “will”, “would”, “could” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not facts. They appear in a number of places throughout this Circular and include statements regarding the Directors’ intentions, beliefs or current expectations concerning, amongst other things, the Group’s results of operations, financial condition, liquidity, prospects, growth and strategies. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation: ability to find appropriate investments in which to invest and to realise investments held by the Group; conditions in the public markets; the market position of the Group; the earnings, financial position, cash flows and return on capital of the Group; the anticipated investments and capital expenditures of the Group; changing business or other market conditions; and general economic conditions.

These and other factors could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this Circular based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Subject to any requirement under the Prospectus Rules, the Disclosure Guidance and Transparency Rules or other applicable legislation or regulation, the Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on forward-looking statements, which speak only as of the date of this Circular.

### **No Profit Forecast**

No statement in this Circular or incorporated by reference into this Circular is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or less than those for the preceding financial periods of the Company.

## PART ONE

### LETTER FROM THE CHAIRMAN OF LMS CAPITAL PLC

*(Incorporated in England and Wales with registered number 05746555)*

*Directors:*

Martin Knight (*Chairman*)  
Rod Birkett  
Bernard Duroc-Danner  
Nicholas Friedlos  
Neil Lerner  
Robert Rayne  
Antony Sweet

*Registered Office:*

LMS Capital plc  
100 George Street  
London W1U 8NU

27 July 2016

Dear Shareholder,

#### **Proposed change to the Company's investment policy and return of capital to Shareholders**

##### **1. Introduction**

The Company today announced a proposal to change its investment policy from its current realisation strategy. The Company also announced its intention, if the change to its investment policy is approved by Shareholders, to appoint Gresham House Asset Management Limited ("**GHAM**") to manage its assets. GHAM is the FCA authorised subsidiary of Gresham House, an AIM listed investment manager. As part of these arrangements it is proposed that the Company's board become a wholly non-executive board.

The Company is also proposing a return of capital of up to £6 million to Shareholders through a repurchase of up to 8,000,000 of the Ordinary Shares following a tender offer by J.P. Morgan Cazenove as detailed in Part Six of this Circular. If the Tender Offer (and associated Repurchase) is completed, it will bring to £161 million the total returned to Shareholders since the commencement of the Company's realisation strategy.

The Company also intends to return to Shareholders two further tranches of capital, of up to £6 million and £5 million after sufficient disposals have been made of assets in the Company's existing portfolio.

##### **2. Summary of proposals**

The proposals can be summarised as follows:

- a change to the Company's investment policy from the current realisation strategy to a new policy predominantly focused on private equity investment;
- if this change is approved, the appointment of GHAM as the investment manager (in accordance with the terms set out in Part Four and Part Five of this Circular) to carry out the new investment policy and to manage the Company's assets on a discretionary basis;
- in consideration of the award of the AIFM and Portfolio Management Agreement to GHAM, the Company will receive £1 million worth of new ordinary Gresham House shares on the date on which the AIFM and Portfolio Management Agreement becomes effective. The Company will also receive further new ordinary Gresham House shares with a value of up to £1.25 million on the second anniversary of the AIFM and Portfolio Management Agreement, subject to the satisfaction of certain conditions, including the extension of GHAM's appointment and the Company's net asset value at that time;
- a return of capital to Shareholders by way of a tender offer and associated Repurchase of up to £6 million at a 5 per cent. discount to the net asset value of the Company as at 30 June 2016. The Tender Offer and associated Repurchase are described in more detail in Part Six of this Circular;
- two further tenders (and associated repurchases) together representing 50 per cent. of the net proceeds of further disposals of assets in the Company's existing portfolio. These further tenders (and associated repurchases) will be a maximum of £11 million and it is intended that

distributions of up to £6 million and up to £5 million will be made. These further tenders (and associated repurchases) will be carried out when sufficient disposals have been made by the Company to enable the required tender and associated repurchase amount to be satisfied and will be at a 5 per cent. discount to the net asset value of the Company at the relevant time. The further tenders (and associated repurchases) are described in more detail at paragraph 8 below;

- subject to the adoption of the new investment policy, the Concert Party has undertaken not to participate in any of the tender offers (and associated repurchases) referred to above. This will result in the Concert Party's holding in the share capital of the Company increasing from 34.04 per cent (assuming some take up of the Tender Offer by the other Shareholders). Consequently, the Company has applied to the Panel for a waiver of Rule 9 of the Takeover Code in order to permit the Tender Offer (and the subsequent Repurchase) to occur without triggering an obligation on the part of the Concert Party to make a general offer to Shareholders;
- in order to give Shareholders the opportunity to benefit further from any accretion in value derived by Gresham House from the management of the Company's assets, the Company intends to commit up to £1.5 million in acquiring a further interest in shares and/or Warrants in Gresham House; and
- changes to the board of LMS Capital will result in the Board becoming wholly non-executive, (together, the "**Proposals**").

Certain of these elements require Shareholder approval. The change to the investment policy requires the approval of Shareholders by ordinary resolution. The Repurchase Resolution requires the approval of Shareholders by special resolution. The Repurchase Resolution is conditional on the Rule 9 Waiver Resolution being approved which resolution requires the approval of the Independent Shareholders by ordinary resolution on a poll.

**The purpose of this Circular is to set out proposals for the change to the investment policy, the Tender Offer (and associated Repurchase) and the Waiver and to convene a general meeting of the Company to consider and, if thought fit, pass the Resolutions.**

The Company has received irrevocable undertakings to vote in favour of the Resolutions (save in respect of the Rule 9 Waiver Resolution which requires the approval of the Independent Shareholders) from members of the Rayne family and associated trusts in respect of 34.04% of the Ordinary Shares (of which 2.97% comprises the beneficial holding of Robert Rayne).

The Company has also received non-binding letters of support from Schroders, Majedie and AVI, under which Schroders, Majedie and AVI have confirmed their intention to vote in favour of the Resolutions in respect of, in the case of Schroders, its holding of 5,453,243 Ordinary Shares; in the case of Majedie, its holding of 1,551,662 Ordinary Shares; and, in the case of AVI, its holding of 13,277,352 Ordinary Shares, such holdings of Ordinary Shares representing, in aggregate, approximately 19.58 per cent. of the Ordinary Shares as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular).

### **3. Rationale**

On 30 November 2011, Shareholders approved an orderly realisation of assets with the aim of achieving a balance between an efficient return of cash to Shareholders and maximising the value of the Company's investments. At that time the Company had a market capitalisation of £155 million and net assets of £240 million.

The Company has returned £155 million to Shareholders since the time that the realisation strategy was announced. This amount represents the market value of the Company at the time the realisation strategy started. If the Tender Offer (and associated Repurchase) is approved, the total amount returned to Shareholders will increase to £161 million. In addition, the intention of the Company is to return up to a further £11 million.

During the realisation process, the Board has generally sought to optimise the timing of disposals of individual assets rather than to seek early liquidity at a discounted price. The Board is aware that, as the realisation strategy progresses and the Company reduces in size, its expense ratio is likely to deteriorate. The Company may increasingly be seen as a forced seller of its investments and its ability to hold investments for longer to achieve better value will diminish. The returns to be achieved from continuing with the realisation strategy are therefore likely to be lower than to date.

The Board has considered other options, including changing the realisation strategy, to optimise value from the Company's remaining assets.

The Board believes that the Proposals present an attractive alternative to the existing realisation strategy. In particular, the Board believes that the Proposals will:

- result in cost savings under the arrangements with GHAM as costs are absorbed into a larger management business and economies of scale can be achieved;
- improve prospects for long-term capital growth in the net asset value of the Company through the implementation of a new investment policy using the skills and expertise of the GHAM management team;
- allow those of the Company's assets with growth potential to be managed for a longer period, generating additional returns;
- avoid the Company incurring costs in connection with the winding-up of its legal structure;
- in recognition of the value of the opportunity for GHAM to manage the Company's portfolio, Gresham House will issue to the Company 332,484 new ordinary Gresham House shares on the date on which the AIFM and Portfolio Management Agreement becomes effective, representing a value of £1 million. Gresham House will also issue further new ordinary Gresham House shares to the Company with a value of up to £1.25 million on the second anniversary of the AIFM and Portfolio Management Agreement, subject to the satisfaction of certain conditions (the "**Gresham Share Issue**"). Details of the Gresham Share Issue are set out in Part Five of this Circular;
- in addition to the Gresham Share Issue, the Company intends to commit £1.5 million to acquire further shares and Warrants in Gresham House to give Shareholders the opportunity to benefit from any accretion in value derived by Gresham House from the management of the Company's portfolio. Further details are set out in Part Five of this Circular; and
- attract long term family office, high net worth and specialised institutional investors to buy shares in the Company by virtue of implementing a new long term investment strategy with an experienced asset manager.

The Board is recommending the Proposals, as an alternative to continuing the realisation strategy. If Shareholders do not approve the change in investment policy, the realisation strategy approved by Shareholders in November 2011 will continue.

#### **4. Change to investment policy and Gresham House Asset Management**

##### *Proposed investment objective*

If the proposed investment policy is approved by Shareholders, the Company's investment objective would be to achieve total returns over the medium to longer term period, principally through capital gains and supplemented with the generation of a longer term income yield. The Company will target a return on equity, after running costs, of between 12 per cent. and 15 per cent. per annum over the long term.

The disposal proceeds of the Company's existing portfolio (as realised) and net of anticipated further returns of capital to Shareholders will be invested in accordance with the proposed investment policy.

##### *Proposed investment policy and strategy*

Investments will be focused on three core portfolio areas: private equity; public equities; and specialist asset classes (including in funds managed by GHAM), with the majority of the portfolio expected to be invested in private equity opportunities.

In addition, no investment in any single company would (at the time of investment) represent more than 15 per cent. of the Company's net assets. Any investment in securities issued by a single company or investment fund which represents more than 10 per cent. of the Company's net assets at the time the investment is made will require the Board's approval.

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



The Company will seek to put in place a borrowing facility in order to manage working capital requirements, but will limit borrowing to no more than 25 per cent. of net assets measured at the time of drawdown.

Assuming that there are no capital constraints over the course of the investment cycle, the Company would aim to have typically no more than 20 investments (including fund commitments) representing a significant majority of the Company's portfolio (typically, in excess of 80 per cent.).

#### *Conditions to adopting new investment policy*

The Company requires approval from both the FCA and Shareholders for any material change to its investment policy. The Company has received FCA approval for the proposed change to its investment policy. The proposed resolution to change the investment policy is set out in the Notice of General Meeting at the end of this document.

The approval by Shareholders of the Investment Policy Resolution is also conditional on the appointment of an alternative investment fund manager to the Company.

Further details on the change to the investment policy, including the text of the proposed investment policy, are set out in Part Two of this Circular.

Material possible risks associated with the change to the investment policy are set out in Part Three of this Circular.

#### *Gresham House Asset Management*

GHAM is regulated by the FCA and is authorised to provide investment management and advisory services. GHAM is the FCA authorised subsidiary of Gresham House, an AIM listed investment manager.

Since the admission of its ordinary shares to trading on AIM on 1 December 2014, one of the strategies that Gresham House has been pursuing has been to develop as a quoted platform principally for the investment management of and co-investment in, relatively differentiated, specialist or illiquid assets.

In line with this strategy, Gresham House established its strategic equity investment team. The team is led by Graham Bird and Tony Dalwood, and has a mandate to target superior long-term investment returns through applying private equity techniques to investing in private and public markets. On 21 July 2015, GHAM entered into its first asset management mandate with SPARK Ventures plc (subsequently renamed Gresham House Strategic plc) to be led by the strategic equity investment team. Following approval by SPARK Ventures plc shareholders, the mandate became effective on 10 August 2015.

Tony Dalwood and Graham Bird have a track record of generating long-term investment returns through limited partnerships and listed permanent capital vehicles, including funds which they launched and managed whilst at SVG Investment Managers ("SVGIM"), including:

- the SVG Strategic Recovery Fund I (46 per cent. internal rate of return, 2003 vintage);
  - the SVG Strategic Recovery Fund I was wound up in January 2006.
- the SVG Strategic Recovery Fund II (6 per cent. internal rate of return, 2006 vintage);
  - the SVG Strategic Recovery Fund II was wound up in July 2013 with the remaining three holdings transferred to limited partners in specie. These stocks combined subsequently delivered strong further returns in the subsequent two year period.
- Strategic Equity Capital plc, launched in 2005, and has delivered significant outperformance compared to the smaller company indices delivering an internal rate of return of 11 per cent. between 31 December 2007 (when fully invested) and 31 December 2014.
- Gresham House Strategic plc, for which the mandate was awarded to GHAM and became effective in August 2015. Between 14 August 2015 and 30 June 2016, the net asset value increased 3.06 per cent outperforming the FTSE Small Cap (excluding investment trusts) by 10.12 per cent.

Tony Dalwood launched and managed the SVG Strategic Recovery Fund I. Graham Bird joined SVGIM in 2005 and was directly involved with Tony in launching and managing both Strategic Equity Capital plc and the SVG Strategic Recovery Fund II.

The performances of the SVG Strategic Recovery Fund II and Strategic Equity Capital plc include a period subsequent to the departures of Graham Bird who left SVGIM in Feb 2009 and Tony

Dalwood who left SVG Capital plc in March 2011, having stepped down from the Strategic Equity Capital plc investment committee and became non-executive chairman of SVGIM with effect from 30 September 2010.

In addition to the managers' own long-term investment and advisory track records at SVGIM / Schroder Ventures (London) Limited, PDFM UBS Global Asset Management, and J.P. Morgan Cazenove / Cazenove & Co, the investment team draws on the expertise of an investment committee and strategic advisory group with experience of public and private equity, corporate advisory and general industry.

#### *Anthony (Tony) Dalwood*

Tony is an experienced investor and adviser to public and private equity businesses and CEO of Gresham House. Tony established SVGIM (a former subsidiary of SVG Capital plc), acted as CEO and chairman of this entity, and launched Strategic Equity Capital plc. His previous appointments include CEO of SVG Advisers (formerly Schroder Ventures (London) Limited), membership of the UK Investment Committee of UBS Phillips & Drew Fund Management (PDFM), chairman of Downing Active Management Investment Committee and the board of Schroders Private Equity Funds. He is currently on the board of the London Pensions Fund Authority and a non-executive director of JPEL plc. Tony is also an adviser to Lloyds Development Capital through Gresham House.

#### *Graham Bird*

Graham heads the strategic equity strategy alongside Tony Dalwood. He is experienced in fund management and in corporate advisory. Graham was a fund manager and Head of Strategic Investment at SVGIM where he helped to establish and then co-manage the Strategic Recovery Fund II and the investment trust, Strategic Equity Capital plc. Before joining SVGIM he was a Director in Corporate Finance at J.P. Morgan Cazenove. Prior to joining Gresham House, Graham spent six years as a senior executive at PayPoint plc, most recently as Director of Strategic Planning and Corporate Development. Between 2010 and 2014, he was Executive Chairman and President of PayByPhone, a multi-national division of PayPoint operating out of Canada, the UK and France.

The Board believes that GHAM will provide an excellent basis from which to launch the proposed investment policy.

In particular, GHAM has:

- a proven ability to undertake transactions, providing know-how and certainty of execution;
- a successful investment track record, underpinned by proven operating and technical expertise;
- a differentiated and rigorous approach to private and public equity investments through its strategic equity strategy;
- an innovative and dynamic strategy focused on capitalising on the growth in demand for alternative investment strategies; and
- a platform which offers the Company's investors the ability to share in future value creation through the Company's proposed investments in Gresham House.

#### *Investment committee*

An investment committee of GHAM responsible for the Company's portfolio will be constituted of individuals with significant public and private equity experience. The investment committee will oversee the investment appraisal process in relation to investments made in respect of the Company's portfolio. Membership of this committee will include Tony Dalwood, Robert Rayne and Graham Bird. It is intended that an independent chairman with significant private equity experience will be appointed in the near term.



The investment committee will operate on a unanimous vote basis, with deadlock situations being referred to the Company. Further details in relation to the investment committee are set out in paragraph 2 of Part Four of this Circular.

## **5. Structure of LMS Capital following change to investment policy and arrangements with GHAM**

### *New structure of the Company*

Following the adoption of the proposed investment policy, the Company will need to be managed by an alternative investment fund manager under UK rules implementing the AIFM Directive. In order to comply with the relevant requirements, the Company is proposing to appoint an external alternative investment fund manager. In the long term, the Company's AIFM will be GHAM, once GHAM has obtained the necessary permissions required to act as such. For an initial period, after the adoption of the new investment policy is approved by Shareholders, the Company will appoint G10 Capital, an independent FCA regulated investment firm, as its initial external alternative investment fund manager. G10 Capital is a specialist provider of regulated services to the investment fund market. G10 Capital will delegate the portfolio management of the Company's assets to GHAM.

The material terms of the appointment of (i) G10 Capital, as the Company's AIFM on an interim basis and (ii) GHAM, as Portfolio Manager in respect of the Company's assets (and, following its authorisation as a full-scope AIFM, the Company's AIFM), are set out in Part Four of this Circular.

### *Board composition*

If the new investment policy is adopted, Nick Friedlos and Antony Sweet will cease to be employees of the Company and will step down from the Board. The Company will be governed by a non-executive board comprising Martin Knight, Rod Birkett, Bernard Duroc-Danner, Neil Lerner and Robert Rayne. Nick Friedlos and Antony Sweet will both become employees of GHAM and will continue to work on matters relating to the Company's portfolio, as well as other business of GHAM and its group. All other employees of the Company will, after a transitional period, transfer to the relevant party providing administration services to the Company (once appointed) or be made redundant by the Company.

Nick Friedlos and Antony Sweet currently have remuneration arrangements under which they are entitled to a bonus of up to a fixed amount by reference to performance criteria linked to the realisation strategy, as set out in the remuneration report of the Company. As set out in paragraph 9 of Part Eight of this Circular, if the proposed new investment policy is implemented, payments in respect of the bonus entitlement under the existing arrangements will be made.

All portfolio and asset management activities of the Company will, following approval of the Investment Policy Resolution, be undertaken by GHAM.

### *Dividend policy*

Following the adoption of the proposed investment policy, and once the additional returns of capital under the further tender offers (and associated repurchases) have been completed, the intention of the Company is to return an amount in the region of 30 per cent. of annual cash realised profits from investments made pursuant to the new investment policy and in so doing, to generate a dividend yield over the longer term.

The Board considers the proposed adoption of the new investment policy to be in the best interests of the Company and Shareholders as a whole and is therefore recommending that Shareholders vote in favour of the Investment Policy Resolution.

## **6. The Tender Offer**

The return of cash is to take the form of a tender offer (to be implemented by J.P. Morgan Cazenove, acting as principal) and the subsequent repurchase of Ordinary Shares from J.P. Morgan Cazenove by the Company. Full details of the Tender Offer and subsequent Repurchase are set out in Part Six of this Circular. The total amount that the Company is proposing to return is £6 million. The maximum number of Ordinary Shares subject to the Repurchase under the Tender Offer will be 8,000,000, equivalent to 7.72% of the issued share capital of the Company which, as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular), was 103,584,592 Ordinary Shares.

### *Calculating the Tender Offer Price*

On the date of the General Meeting, the Company will calculate the Tender Offer Price based on the unaudited net asset value of the Company as at 30 June 2016 less 5 per cent.

The Tender Offer Price will be calculated by dividing this discounted net asset value by the number of Ordinary Shares in issue as at the close of business on the date of the General Meeting.

### *Calculating the number of Ordinary Shares to which the Tender Offer will apply*

The number of Ordinary Shares subject to the Tender Offer (and the associated Repurchase) will be calculated by dividing £6,000,000 by the Tender Offer Price, which will be announced on the date of the General Meeting. This number, as a percentage of all Ordinary Shares in issue at the date of the General Meeting, represents the “**Basic Entitlement**” under the Tender Offer and each Qualifying Shareholder is entitled to tender a percentage of his/her holding equal to (or less than, if they so choose) the Basic Entitlement (and Qualifying Shareholders will also be entitled to apply to tender Ordinary Shares above their Basic Entitlement, to the extent that other Qualifying Shareholders do not tender up to their respective Basic Entitlements as set out in further detail below).

### *Example*

By way of example, based on the Company’s net asset value as at 31 December 2015 of £95.1 million less 5 per cent. (being £90.345 million) and 103,584,592 Ordinary Shares in issue, the Tender Offer Price would be 87 pence per Ordinary Share. The number of Ordinary Shares subject to the Tender Offer (and subsequent Repurchase) would be 6,896,551 (£6,000,000 divided by 87 pence), representing 6.66 per cent. of the Company’s Ordinary Shares. A Qualifying Shareholder with 100 Ordinary Shares would therefore be entitled to tender 6 Ordinary Shares at a price of 87 pence per Ordinary Share.

### *Alternative courses of action for Qualifying Shareholders*

- Apply to tender their Basic Entitlement as described above.
- Apply to tender fewer Ordinary Shares than their Basic Entitlement.
- Apply to tender Ordinary Shares above their Basic Entitlement and, to the extent other Qualifying Shareholders do not tender up to their Basic Entitlement, such applications will be satisfied proportionately to other excess applications.

If you do not wish to tender any of your Ordinary Shares, you do not need to take any action.

The Board considers the Tender Offer and the subsequent Repurchase to be in the best interests of the Company and Shareholders as a whole and is, therefore, recommending that Shareholders vote in favour of the Repurchase Resolution. However, the Board is not making any recommendation to Shareholders as to whether tendering Ordinary Shares pursuant to the Tender Offer is in their own individual best interests. Whether or not Qualifying Shareholders decide to tender all or any of their Ordinary Shares is a decision for individual Qualifying Shareholders.

Qualifying Shareholders should take into account their tax position when deciding whether or not to participate in the Tender Offer. A summary of material UK taxation considerations in connection with the Tender Offer is set out in Part Seven of this Circular. Qualifying Shareholders are advised to take independent advice in relation to the tax implications for them of selling Ordinary Shares pursuant to the Tender Offer.

The Board reserves the right to require that J.P. Morgan Cazenove does not proceed with the Tender Offer (and the subsequent Repurchase) if it concludes, at any time prior to the announcement of the results of the Tender Offer, that the implementation of the Tender Offer (and the associated Repurchase) is no longer in the interests of the Company and the Shareholders as a whole.

You are recommended to read Part Six of this Circular which sets out the full terms and conditions of the Tender Offer and how applications can be made under the Tender Offer.

Material possible risks associated with the Tender Offer are set out in Part Three of this Circular.

## **7. Rule 9 waiver**

Subject to the approval of Shareholders of the Investment Policy Resolution, the Concert Party has irrevocably undertaken not to participate in the Tender Offer. This will result in its holding of

Ordinary Shares increasing from 34.04 per cent to a maximum possible holding of 36.89 per cent once the subsequent Repurchase occurs (assuming full take up of the Tender Offer, the Tender Offer being made for the maximum number of Ordinary Shares and the Concert Party not participating in the Tender Offer). Consequently, the Company has applied to the Panel for a waiver of Rule 9 of the Takeover Code in order to permit the Tender Offer (and the subsequent Repurchase) to occur without triggering an obligation on the part of the Concert Party to make a general offer to Shareholders. The Panel has agreed, subject to the approval of Independent Shareholders on a poll vote, to waive the requirement for the Concert Party to make a general offer to all Shareholders (the “**Waiver**”).

The Waiver relates only to any increase in the percentage of Ordinary Shares held by the Concert Party as a result of the Tender Offer (and subsequent Repurchase) and is conditional on the passing of the Rule 9 Waiver Resolution by the Independent Shareholders on a poll. As the Concert Party is interested in the outcome of the Rule 9 Waiver Resolution, all members thereof will be precluded from voting on that resolution. Approval of the Rule 9 Waiver Resolution will not restrict the Concert Party from making a future offer for the Company. Confirmation of the Concert Party’s intentions in relation to the Company following any increase in the percentage interest of the Concert Party in Ordinary Shares as a result of the Tender Offer (and subsequent Repurchase) is contained at paragraph 4 of Part Eight of this Circular.

The Independent Directors believe that the Waiver is in the best interests of Shareholders as it enables additional capital to be made available to those Shareholders who do not want to participate in the new investment policy. The Concert Party’s undertaking not to participate in the Tender Offer, which, following the Repurchase, will result in an increased holding in the capital of the Company, also reflects its confidence in the new investment policy.

J.P. Morgan Cazenove has provided advice to the Independent Directors, in accordance with the requirements of paragraph 4(a) of Appendix 1 to the Takeover Code, in relation to the granting of the waiver by the Panel of the obligation that could arise on the Concert Party to make an offer under Rule 9 of the Takeover Code in relation to the Tender Offer (and subsequent Repurchase). This advice was provided by J.P. Morgan Cazenove to the Independent Directors only and, in providing such advice, J.P. Morgan Cazenove has taken into account the Independent Directors’ commercial assessment as well as the confirmations of the Concert Party’s future intentions that have been provided to the Company as set out in Part Eight of this Circular.

Additional information on the Concert Party and the Waiver is set out in Part Eight of this Circular.

## **8. General Meeting**

A general meeting is being convened at 3.00 p.m. on 16 August 2016 at Durrants Hotel, 26-32 George Street, London W1H 5BJ to consider and, if thought fit, pass the Resolutions, as set out in full in the Notice of General Meeting at the end of this Circular.

### *Resolutions*

In summary, the Resolutions seek the approval of Shareholders:

- (a) for the change to the investment policy;
- (b) for the waiver by the Panel on Takeovers and Mergers of any obligation which may otherwise arise, pursuant to Rule 9 of the Takeover Code, for the Concert Party to make a general offer for all the issued share capital of the Company following any increase in the percentage of shares in the Company carrying voting rights in which the Concert Party (or any member thereof) is interested as a result of the Tender Offer and the subsequent Repurchase; and
- (c) subject to, and conditional upon, the waiver by the Panel on Takeovers and Mergers becoming effective, for the grant of authority to the Company to make one or more market purchases in the capital of the Company, in connection with the Tender Offer and Repurchase, provided that:
  - (i) the maximum number of Ordinary Shares that may be purchased under this authority is 8,000,000;
  - (ii) the minimum price which may be paid for any Ordinary Share is the nominal amount of that Ordinary Share and the maximum price which may be paid for any Ordinary Share is the Tender Offer Price; and
  - (iii) the authority will expire at the close of business on 31 December 2016.

Resolutions (a) and (b) will be proposed as ordinary resolutions and resolution (c) will be proposed as a special resolution. Resolution (b) may be voted on only by the Independent Shareholders. As required by the Takeover Code, voting on the resolution (b) will be by means of a poll of the Independent Shareholders.

**You should read the above summary in conjunction with the Resolutions set out in the Notice of General Meeting at the end of this Circular.**

#### *Further tender offers*

Should the Investment Policy Resolution be passed, the Company is also proposing two further returns of capital to Shareholders by way of tender offers and associated repurchases together representing 50 per cent. of the net proceeds of further disposals of assets in the Company's existing portfolio. These further tenders (and associated repurchases) will be for a maximum of £11 million and it is intended that distributions of up to £6 million and up to £5 million will be made. It is intended that the first of the tender offers and associated repurchases will return up to £6 million to Shareholders (after net realisation proceeds from the Company's existing portfolio, after the date of this Circular, exceed £12 million). It is intended that the second of the tender offers and associated repurchases will return up to £5 million to Shareholders (after net realisation proceeds from the Company's existing portfolio, after the date of this Circular, exceed £22 million in total). Both these tender offers and associated repurchases will be at a five per cent. discount to the net asset value of the Company at the relevant time. Subject to the adoption by the Company of the proposed investment policy, the Concert Party has undertaken not to participate in these tender offers.

**Shareholder approval in respect of these tender offers and associated repurchases will be sought at the appropriate time.**

#### *Action to be taken*

Shareholders will find enclosed a Form of Proxy for the General Meeting. Whether you propose to attend the General Meeting or not, and whether or not you propose to tender any of your Ordinary Shares in the Tender Offer, please complete the Form of Proxy and return it to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and, in any event, so as to be received by no later than 3.00 p.m. on 12 August 2016. Completing and returning a Form of Proxy will not preclude you from attending and voting in person at the General Meeting should you wish to do so.

You may also submit your proxies electronically at [www.capitashareportal.com](http://www.capitashareportal.com) using your Investor Code on the Form of Proxy. If you hold Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Capita Asset Services so that it is received by no later than 3.00 p.m. on 12 August 2016.

## **9. Further information**

You are advised to read all of the information contained in this Circular before deciding on the course of action you will take in respect of the General Meeting, the Tender Offer and the Waiver.

## **10. Recommendation by the Board**

### *Investment Policy Resolution and Repurchase Resolution*

The Board considers the change to investment policy and Tender Offer (and the associated Repurchase) to be in the best interests of Shareholders as a whole. Accordingly, the Board recommends that Shareholders vote in favour of the Investment Policy Resolution and the Repurchase Resolution at the General Meeting, as the Directors intend to do in respect of their own beneficial holdings of, in aggregate, 3,389,815 Ordinary Shares, representing approximately 3.28% of the Ordinary Shares currently in issue.

### *Rule 9 Waiver Resolution*

The Independent Directors, who have been so advised by J.P. Morgan Cazenove, consider the Waiver to be fair and reasonable and in the best interests of the Independent Shareholders. In providing advice to the Independent Directors, J.P. Morgan Cazenove has taken into account, among other things, the Independent Directors' commercial assessments. The Independent Directors also consider the Rule 9 Waiver Resolution to be in the best interests of the Company as a whole. Accordingly, the Independent Directors unanimously recommend that the Independent

Shareholders vote in favour of the Rule 9 Waiver Resolution at the General Meeting, as the Independent Directors intend to do in respect of their own beneficial holdings of, in aggregate, 419,379 Ordinary Shares, representing approximately 0.40% of the Ordinary Shares currently in issue.

Yours sincerely,

Martin Knight  
*Chairman*  
**LMS Capital plc**

## PART TWO

### PROPOSED INVESTMENT OBJECTIVE AND INVESTMENT POLICY

#### ***Objective***

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

#### ***Investment focus***

The Company will utilise the experience and expertise of the investment manager and the investment committee of the investment manager responsible for the Company's portfolio, underpinned by a rigorous appraisal process and risk framework acceptable to the Board. The Company will have an active investing policy and will invest in assets that typically have a number of the following characteristics:

- investments that the investment manager believes can generate a 15 per cent. net internal rate of return over the medium to longer term;
- investments which are less liquid and which the investment manager believes benefit from an illiquidity discount;
- private equity and smaller quoted companies where the investment manager believes that there is an opportunity for value creation through strategic, operational or management initiatives;
- companies that demonstrate strong underlying operational cashflow characteristics and attractive returns on invested capital; and
- alternative, specialist asset classes managed by the investment manager which target long-term, illiquid strategies on preferred terms.

The Company may invest in public or private securities; investments may be made in the form of, among other things, equity, equity-related instruments, derivatives and indebtedness. The Company may hold controlling or non-controlling positions and may invest directly or indirectly. The Company may also invest in the investment manager or members of its group, to benefit from the potential growth of the investment manager.

#### ***Private equity***

The Company will make direct investments, typically with co-investors, in private equity opportunities which fit the investment criteria, including pre-IPO, take private or more traditional private equity opportunities. The Company may lead or be part of a consortium holding influential or controlling stakes. Focus will typically be on companies with an enterprise value of less than £100 million where the managers believe that there is an ability to add value to the companies through active engagement.

#### ***Quoted securities***

The strategy seeks to exploit market inefficiencies which exist in quoted equity markets amongst smaller companies, which are typically under-researched, have relatively low trading liquidity and exhibit many of the same characteristics of privately held companies. The strategy aims for a high level of engagement with investee company stakeholders in order to identify market pricing inefficiencies and to support a clear equity value creation plan, typically over a three to five year investment horizon. Investments in quoted companies will, in most cases, be by means of co-investment alongside other funds managed by the investment manager or members of its group targeting influential, but non-controlling, block stakes in companies with a market capitalisation typically below £250 million.

#### ***Funds***

The Company may make indirect investments by means of passive co-investment or fund commitments in circumstances where it is able to procure preferred terms, and where the fund is managed by the investment manager, and net returns are expected to exceed the investment return objectives.



***Portfolio construction***

The portfolio will typically hold no more than 20 investments (including fund commitments) representing a significant majority of the Company's portfolio (typically, in excess of 80 per cent by value.).

Capital will be allocated to public or private investments for direct investment or co-investment where the investment manager believes such investment is able to generate attractive risk adjusted returns over the medium to longer term. More than 50% of the portfolio, by reference to the net asset value of the Company at the time the investment is made, is expected to be invested in private equity opportunities (including in funds). The Company intends to invest in at least 10 company positions (whether directly or on a 'look-through' basis for investments in relation to fund investments) once the Company is fully invested (being the time at which the transition to this investment policy has been completed following realisation of legacy investments).

***Sector and Geographic focus***

The Company is not restricted to specific sectors.

The Company's assets will be predominantly invested in the United Kingdom, Europe and North America.

***Exposure limits***

The Company will manage risk through appropriate portfolio construction and exposure to any single company, including those single 'look through' company positions within fund holdings, will be restricted to 15% of the Company's net assets at the time the investment is made (by reference to the net asset value of the Company in the immediately preceding month). Any investment in securities issued by a single company or investment fund which represents more than 10 per cent. of the Company's net assets at the time the investment is made will require the Board's approval.

***Gearing***

The Company intends to put in place a bank facility in order to manage working capital requirements, but will limit borrowing to no more than 25 per cent. of the net asset value of the Company measured at the time of borrowing.

***Returns on investment***

The intention is to return an amount in the region of 30 per cent. of annual cash realised profits from investments made pursuant to the new investment policy and in so doing, to generate a dividend yield over the longer term.

## PART THREE

### POSSIBLE RISKS ASSOCIATED WITH THE CHANGE TO INVESTMENT POLICY AND THE TENDER OFFER (AND THE ASSOCIATED REPURCHASE)

#### *Risks associated with the change to Investment Policy*

- Following the adoption of the proposed investment policy, aside from the Tender Offer (and associated Repurchase) and the proposed further tender offers (and associated repurchases) outlined in this Circular, proceeds from the realisation of the Company's existing investment portfolio would not be returned to Shareholders in accordance with the existing investment policy but would, instead, be re-invested, together with the Company's existing cash balances (net of an amount required for working capital purposes, the Tender Offer (and the associated Repurchase) and the proposed further tender offers (and associated repurchases) outlined in this Circular), in investments in accordance with the proposed investment policy. There can be no assurance that any such new investments would ultimately be realised for an amount exceeding the amount invested by the Company.
- The Company has not yet implemented the proposed investment policy and it is therefore difficult to evaluate the probable future performance of the Company.
- Adopting the proposed investment policy would result in the Company becoming reliant on the ability of GHAM to identify and manage any new investments made in accordance with the proposed investment policy (and determining which legacy holdings are to be held and managed, and those which are to be disposed (and when)).
- The activity of identifying, completing and realising attractive private equity investments is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions.
- There can be no assurance that the Company's investments would meet their target returns, or any other level of return, or that the Company would achieve or successfully implement its investment objective.
- The Company believes that its success and the success of its investments would depend upon the experience of GHAM and its key employees, and their continued involvement in GHAM's business and those investments. The departure of some or all of these individuals could prevent the Company from achieving its investment objective.
- The AIFM Directive imposes requirements that the Company would need to comply with following adoption of the proposed investment policy. These would include the requirement for the Company to appoint an AIFM and depositary and comply with certain organisational, operational and transparency obligations going forward. Any failure by the Company to comply with these requirements could result in criminal, civil or regulatory enforcement proceedings and the imposition of fines, restitution or compensation orders and restrictions on the Company.
- The Company will be exposed to Gresham House through its holding of shares and Warrants in Gresham House. A poor performance by GHAM under the AIFM and Portfolio Management Agreement will likely result in a reduced net asset value. This poor performance could also impact the share price of Gresham House, thus leading to a further depletion in the net assets of the Company.
- GHAM may provide investment management and other services to other clients (including investment companies), including clients which may invest in the securities in which the Company invests, and, in providing such services, may use information obtained by GHAM which is used in managing the Company's investments. In the event of a conflict of interest arising, GHAM will take reasonable steps to ensure that it is resolved fairly, in accordance with FCA rules. The provisions for conflicts in the AIFM and Portfolio Management Agreement accord with FCA rules. The FCA rules require GHAM to manage conflicts of interest fairly both between itself and its customers and between one customer and another. Furthermore, the activities of GHAM in its capacity as the Company's investment manager, are subject to the overall direction and review of the Board. Under the terms of the AIFM and Portfolio Management Agreement, GHAM may, subject to overriding principles of suitability and best execution as are set out in the FCA rules, effect transactions for the Company in which

GHAM has an interest which may involve a potential conflict of interest with GHAM's duty to the Company. In particular circumstances, in accordance with the FCA rules, GHAM will notify the Company that a potential conflict of interest or duties may arise.

- There is no assurance that the subsequent tender offers (and associated repurchases) described in this Circular will take place.

*Risks associated with the Warrants*

- Warrants are speculative instruments and accordingly investing in the Warrants entails various risks. Fluctuations in the price of the ordinary shares of Gresham House, amongst other things, will affect the value of the Warrants. Warrant holders risk losing all or part of their investment depending on the market price of the ordinary shares of Gresham House at the time of exercise. In addition, assuming all factors remain constant, the nature of Warrants as assets is that their value tends to decline over time and they may become worthless at expiration.
- The issue of the Warrants to the Company requires the shareholders of Gresham House to approve the Gresham House Resolutions. If the shareholders of Gresham House do not pass the Gresham House Resolutions, the Company will negotiate with Gresham House an alternative means of enabling Shareholders to benefit from the accretion in value derived by Gresham House from the management of the Company's portfolio by GHAM.

*Risks associated with the Tender Offer*

- There is no assurance that the Tender Offer (and the associated Repurchase), which is conditional on, among other things, the passing of the Rule 9 Waiver Resolution, will take place. If the Tender Offer (and the associated Repurchase) does not take place, the Company will have a larger cash balance and the return of cash will be delayed.
- The Tender Offer (and the associated Repurchase) will not proceed if any of the Tender Conditions is not satisfied or if the Tender Offer is terminated on the Company's instructions at any time prior to the announcement of the results of the Tender Offer.
- If the Company returns cash to Shareholders by applying funds to repurchase Ordinary Shares from J.P. Morgan Cazenove in connection with the Tender Offer, the Company's cash balances will be reduced. As a result, the funds so returned will no longer be available for application in the ordinary course of the Company's business or to meet contingencies.
- The impact on the liquidity and the market price of the Ordinary Shares as a result of the implementation of the Tender Offer (and the associated Repurchase) cannot be predicted.
- As with all investment fund shares, the market price of the Ordinary Shares may not reflect their underlying net asset value and the discount (or premium) to net asset value at which the Ordinary Shares trade may fluctuate from day to day, depending on factors such as supply and demand, market conditions and general sentiment.
- Levels of, and legislation and practice concerning, taxation may change. Shareholders should have regard to the information in relation to taxation set out in Part Seven of this Circular.
- If the Independent Shareholders do not pass the Rule 9 Waiver Resolution, the Tender Offer (and the associated Repurchase) will not proceed, even if Shareholders pass the Repurchase Resolution.

**Only those risks which are material and currently known to the Company are set out above. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, may also have an adverse effect on the Company. The relevant risks are not set out in any order of priority.**

## PART FOUR

### INVESTMENT MANAGEMENT ARRANGEMENTS AND PERFORMANCE FEE

#### 1. Introduction

Following the adoption of the proposed investment policy, the Company will need to be managed by an alternative investment fund manager under UK rules implementing the AIFM Directive.

In order to comply with the requirements of the rules, the Company is proposing to appoint an external alternative investment fund manager. In due course, the Company's AIFM will be GHAM, once GHAM has obtained a variation of its permissions under Part 4A of FSMA to enable it to act as a full-scope UK AIFM. For an initial period, however, before GHAM has obtained this permission, the Company will appoint G10 Capital, an independent FCA regulated investment firm, as its initial external alternative investment fund manager. G10 Capital is a specialist provider of regulated services to the investment fund market.

The Company will also be required to appoint a depositary. The AIFM appointment and therefore implementation of the proposed investment policy will not come into effect until the depositary is appointed.

The FCA has approved the appointment of G10 Capital as the Company's AIFM.

Following the proposed investment policy becoming effective, G10 Capital will delegate responsibility for the portfolio management of the Company's assets to GHAM.

Robert Rayne will be appointed to the investment committee of GHAM responsible for the Company's portfolio.

#### 2. AIFM and Portfolio Management Agreement

Under the AIFM and Portfolio Management Agreement, G10 Capital will be appointed by the Company to provide risk management, portfolio management, company secretarial, administration and other services to the Company. Once GHAM is authorised, it will assume G10 Capital's role as external alternative investment fund manager.

The AIFM and Portfolio Management Agreement, which will be governed by English law, will have an initial term of 3 years, with either the AIFM or the Company being able to terminate the agreement by giving 12 months' notice after the second anniversary of the date of the agreement, and thereafter on a rolling 12 months' notice basis. There will be no compensation on termination on giving the requisite 12 months' notice. Otherwise, the Company and the AIFM of the Company may terminate the AIFM and Portfolio Management Agreement in certain limited circumstances.

G10 Capital will delegate portfolio management functions to GHAM under the AIFM and Portfolio Management Agreement.

Under the AIFM and Portfolio Management Agreement, GHAM (on behalf of itself and G10 while G10 is the AIFM and on behalf of itself thereafter) will be entitled to an annual management fee of 1.50 per cent. of the net asset value of the Company, to the extent that the Company's net assets under management are £100 million or less.

If the net asset value of the Company exceeds:

- (a) £100 million but is £150 million or less, the Company will pay GHAM (on behalf of itself and G10 while G10 is the AIFM and on behalf of itself thereafter) a fee equal to 1.25 per cent. of the net asset value of the Company to the extent the net asset value exceeds £100 million but is £150 million or less; and
- (b) £150 million, the Company will pay GHAM (on behalf of itself and G10 while G10 is the AIFM and on behalf of itself thereafter) a fee equal to 1.00 per cent. of the net asset value of the Company to the extent the net asset value exceeds £150 million.

No annual management fee will be charged on cash raised from a new share issue of other capital raising for a period of six months or until the cash has been invested, or otherwise utilised, if sooner.

For the purposes of the calculation of the fee, the net asset value used will be an average based on the audited net asset value in the financial year before the calculation and the audited net asset value in the year of calculation, in the latter case before accounting for accrued fees under the AIFM and Portfolio Management Agreement in respect of the relevant year.

In addition to the annual management fee described above, GHAM (on behalf of itself and G10 while G10 is the AIFM and on behalf of itself thereafter) will also be entitled to receive a performance fee from the Company calculated and payable in accordance with the terms set out in paragraph 3 below.

#### *Investment committee*

An investment committee of GHAM responsible for the Company's portfolio will be constituted of individuals with significant public and private equity experience. The investment committee will oversee the investment appraisal process in relation to investments made in respect of the Company's portfolio. Membership of this committee will include Tony Dalwood, Robert Rayne and Graham Bird. It is intended that an independent chairman with significant private equity experience will be appointed in the near term.

The committee will assess investment opportunities. The committee will also be responsible for approving due diligence costs, abort costs exposure, capital allocation and appropriate risk management.

Opportunities progressing to investments will return to the investment committee at successive instances, accompanied with progressive investment reports for the purpose of updating the investment committee of the results of due diligence and further enquiries. Unanimous approval of the investment committee is required at each of these successive instances for an investment opportunity to proceed.

#### *Interim administration services*

Under the terms of the AIFM and Portfolio Management Agreement, GHAM has agreed to provide the Company with certain administration services (the "**Administration Services**") including, amongst others, accounting, company secretarial, tax, regulatory reporting and general management services which are necessary for the Company to comply with the requirements of the Act and any other obligations which the Company is required to comply with from time to time. The Administration Services will be provided by GHAM for a period of 12 months from the date on which the AIFM and Portfolio Management Agreement becomes effective, or for such longer period as may be necessary before an external administrator is appointed by the Company to provide the relevant service or services to the Company. The Company will pay GHAM a fee of £250,000 per annum for the provision of the Administration Services.

### **3. Performance fee**

The performance fee is designed to align the interests of GHAM, as portfolio manager with those of the Company. GHAM will be eligible, if certain hurdle return requirements are satisfied, to earn a performance fee of 15 per cent. of the gain in the net asset value of investments made under the new investment policy ("**New Investments**"), subject to a number of conditions, as set out below.

- No performance fee will be payable to GHAM in respect of assets held prior to the adoption of the new investment policy ("**Legacy Assets**"). Follow-on investments of more than £350,000 in Legacy Assets may, with the agreement of GHAM and the Company, be treated as New Investments.
- The net asset value relating to New Investments will be calculated annually after an allocation of operating costs (including the Annual Fee) based on the relative value of the New Investments and Legacy Assets.
- The amount of the performance fee, if any, will be determined for each performance fee period. The first performance fee period will start on the date on which the AIFM and Portfolio Management Agreement is entered into and will end on 31 December 2017; each subsequent performance fee period will begin on the first day after the end of the previous performance fee period and end on the first anniversary of the end of the last performance fee period (the "**Performance Fee Period**").
- In respect of any particular Performance Fee Period, no performance fee will be due unless the increase in the net asset value of the New Investments at the time of calculation exceeds 8 per cent. compound growth per annum (the "**Hurdle NAV**").

- The performance fee will be calculated based on the increase in net asset value of New Investments compared to the highest previous net asset value of New Investments in respect of which a performance fee became due (or the cost of New Investments, net of allocated costs, if there has been no previous performance fee) (the “**High Watermark NAV**”).
- The performance fee in any year will be reduced to the extent that it would otherwise reduce the net asset value of the New Investments to below the Hurdle NAV.
- In any year, payment of the performance fee in relation to any particular Performance Fee Period may not exceed 15 per cent. of the net realised gains in that year from the disposal of New Investments held on or prior to the date of the relevant Performance Fee Period, with any balance being carried over to future Performance Fee Periods and being paid before performance fees due in respect of subsequent Performance Fee Periods.
- Payments of performance fees in any year, including in respect of deferrals, may not exceed 15 per cent. of the net realised gains earned in the relevant Performance Fee Period.

All payments will be made directly to GHAM. Incentive arrangements have been put in place within GHAM such that the investment team’s rewards will be directly linked to performance fees paid by the Company. No payments will be made directly to individuals.

No performance fee, if any, will be due before 31 December 2017.



## PART FIVE

### GRESHAM SHARE ISSUE AND WARRANTS

#### 1. Gresham Share Issue

In recognition of the value which may be derived from the management of the Company's portfolio by GHAM, Gresham House, GHAM and the Company have today entered into the subscription and acquisition agreement under which Gresham House has agreed to provide consideration to the Company by way of issue of:

- new ordinary Gresham House shares on the date on which the AIFM and Portfolio Management Agreement becomes effective, representing a value of £1 million based on a price of 300.77 pence per share, being the average mid-market closing share price (per share) for the trading period between 10 June 2016 and three Business Days prior to the date of announcement of the Proposals (the "**Tranche 1 Shares**"); and
- further new ordinary Gresham House shares (the "**Tranche 2 Shares**") with a value of up to £1.25 million on the second anniversary of the date on which the AIFM and Portfolio Management Agreement becomes effective (the "**Second Anniversary**"), subject to the satisfaction of certain conditions (as set out below). The number of new ordinary Gresham House shares to be issued by Gresham House will be calculated by dividing the value of the Tranche 2 Shares (the determination of which is set out below) by the volume-weighted average price of Gresham House ordinary shares for the 20 Business Days prior to the Second Anniversary, rounded down to the nearest whole number,

(the "**Subscription and Acquisition Agreement**").

Under the terms of the Subscription and Acquisition Agreement, the issue of the Tranche 2 Shares is conditional on the following conditions being satisfied or waived on the Business Day before the Second Anniversary:

- the extension by the Company of the term of the AIFM and Portfolio Management Agreement for two years following the Second Anniversary;
- there having been no material changes to the terms of the AIFM and Portfolio Management Agreement; and
- the Company undertaking not to return capital to Shareholders during the two year period following the Second Anniversary (save as described in this Circular) if the Company's most recently published net asset value (prior to a decision to carry out a return of capital) is below the Second Anniversary NAV (as described below), or, as a result of such a return of capital, the Company's net asset value would fall below the Second Anniversary NAV.

The value of the Tranche 2 Shares will be calculated by reference to the net asset value of the Company's existing portfolio of assets on the Second Anniversary, taking into account certain adjustments (including cash proceeds of any disposal of assets but reduced by any amounts returned to Shareholders) (the "**Second Anniversary NAV**").

If the Second Anniversary NAV of the portfolio is below £67.5 million, no Tranche 2 Shares will be issued. If the Second Anniversary NAV of the portfolio is between £67.5 million and £70 million, the value of the Tranche 2 Shares will be between £200,000 and £500,000 calculated on a straight line basis.

If the Second Anniversary NAV of the portfolio is between £70 million and £80 million, the value of the Tranche 2 Shares will be between £500,000 and £1 million calculated on a straight line basis.

If the Second Anniversary NAV of the portfolio is between £80 million and £85 million, the value of the Tranche 2 Shares will be between £1 million and £1.25 million calculated on a straight line basis.

The value of the Tranche 2 Shares will not exceed £1.25 million.

#### *Lock-in Period*

Under the terms of the Subscription and Acquisition Agreement, the Tranche 1 Shares and the Tranche 2 Shares will be subject to a "**Lock-in Period**". The Company has agreed that, subject to certain exceptions, it will not dispose of any Tranche 1 Shares that it receives for a period of two years from the date on which the AIFM and Portfolio Management Agreement becomes effective. The Company may, however, dispose of up to 50 per cent. of the Tranche 1 Shares following the

first anniversary of the date on which the AIFM and Portfolio Management Agreement becomes effective provided that such sale is conducted through Gresham House's broker.

The Tranche 2 Shares will be subject to a Lock-in Period for a period of 12 months following the Second Anniversary.

Each Lock-in Period may be released at any time with Gresham House's consent.

#### *Warranties*

In light of the significant future investment by the Company in Gresham House, Gresham House has given certain warranties to the Company, including:

- warranties related to the accounts and financial position of Gresham House and its subsidiaries;
- warranties related to litigation and investigations;
- warranties related to capacity and authority; and
- warranties related to the performance of GHAM in connection with an investment management agreement pursuant to which it is currently the investment manager.

The Company has provided reciprocal warranties.

If the directors of the Company or Gresham House modify or withdraw their respective recommendations in relation to the Investment Policy Resolution (in the case of the Company) or the Gresham House Resolutions (in the case of Gresham House), the other party (or parties in the case of Gresham House and GHAM) are entitled to terminate the Subscription and Acquisition Agreement. If the Company modifies or withdraws its recommendation, it has agreed to indemnify Gresham House, capped at a total amount of £100,000 (after tax) in respect of all fees, costs, charges and expenses of or incidental to the Proposals. Gresham House has provided a reciprocal indemnity to the Company.

## **2. Warrants**

### *Investment in Gresham House*

In addition to the Gresham Share Issue, the Company intends to commit £1.5 million to acquire further shares and warrants in Gresham House to give Shareholders the opportunity to benefit from any accretion in value derived by Gresham House from the management of the Company's portfolio by GHAM and to create additional alignment between Gresham House and the Company.

To the extent that shares or warrants to subscribe for shares in respect of 1,379,409 shares are not acquired by 13 October 2016 and subject to the passing of the Gresham House Resolutions, Gresham House has agreed to issue and the Company is entitled to subscribe for such number of Warrants on 14 October 2016 at a price of £0.28 per Warrant that would, together with the shares and rights to shares that the Company has purchased, equal, on the exercise of all warrants held, 1,379,409 ordinary shares in Gresham House. If the Gresham House Resolutions are not passed, Gresham House has agreed to issue up to the maximum possible number of Warrants that it is able to issue using its existing authorities (being 492,608).

The Warrants will be exercisable at 323.27 pence per Gresham House ordinary share.

The Warrants will be exercisable from 14 October 2016 to 30 June 2018 (inclusive). The Warrants are not freely transferable and, accordingly, will not be admitted to trading on AIM.

## **3. Company's interest in Gresham House**

Assuming the issue of all the Tranche 1 and Tranche 2 Shares, the Company would hold 7.08 per cent. of Gresham House's enlarged issued share capital.

The investment described in paragraph 2 of this Part Five would further increase the Company's holding in Gresham House, potentially up to a maximum of 17.78 per cent. of Gresham House's enlarged issued share capital.

For the purposes of the calculations in this paragraph 3, it has been assumed that Gresham House's existing issued share capital is 9,853,003 shares and that no other shares are issued aside from the Tranche 1 and Tranche 2 Shares and shares on the exercise of warrants held by the Company.

## PART SIX

### TERMS AND CONDITIONS OF THE TENDER OFFER

#### 1. Introduction

Qualifying Shareholders on the Register on the Tender Offer Record Date are being invited to tender some, all or none of their Ordinary Shares for purchase by J.P. Morgan Cazenove on the terms and subject to the conditions set out in this Circular and, in the case of certificated Ordinary Shares, in the Tender Form. Shareholders who do not wish to participate in the Tender Offer need take no action. The rights of Shareholders who choose not to tender their Ordinary Shares will be unaffected.

#### 2. Terms of the Tender Offer

2.1 The Tender Offer is conditional upon the following (together, the “**Tender Conditions**”):

- (a) the passing of the Rule 9 Waiver Resolution and the Repurchase Resolution;
- (b) the Tender Offer not having been terminated in accordance with paragraph 2.22 of this Part Six;
- (c) the Board being satisfied that it is in the best interests of the Company to proceed with the Tender Offer (and the subsequent Repurchase); and
- (d) J.P. Morgan Cazenove being satisfied, acting reasonably, that, at all times up to immediately prior to the announcement of the results of the Tender Offer, the Company has complied with its obligations, and is not in breach of any of the representations and warranties given by it, under the Option Agreement in connection with the Tender Offer.

J.P. Morgan Cazenove will not purchase the Ordinary Shares pursuant to the Tender Offer unless all the Tender Conditions have been satisfied. The Tender Conditions may not be waived by J.P. Morgan Cazenove or the Company. If any of the above conditions is not satisfied by 7.00 a.m. on 1 September 2016 (or such later time and date as the Company and J.P. Morgan Cazenove may agree), the Tender Offer will lapse.

- 2.2 All Ordinary Shares tendered by Qualifying Shareholders under the Tender Offer will be tendered at the Tender Offer Price. Ordinary Shares may not be tendered at any other price.
- 2.3 The maximum number of Ordinary Shares that could be purchased under the Tender Offer will be 8,000,000 (equivalent to 7.72% of the issued share capital of the Company which, as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular), was 103,584,592 Ordinary Shares).
- 2.4 The Tender Offer is available only to Qualifying Shareholders on the Register on the Tender Offer Record Date and in respect of the number of Ordinary Shares registered in those Shareholders’ names at such time.
- 2.5 Tender Forms once duly completed (for Ordinary Shares held in certificated form) and submitted to the Receiving Agent and TTE instructions which have settled (for Ordinary Shares held in uncertificated form) are irrevocable and cannot be withdrawn. All questions as to the validity (including time of receipt) of tenders will be determined by J.P. Morgan Cazenove, in its sole discretion, which determination shall be final and binding (except as otherwise required under applicable law). None of the Company, J.P. Morgan Cazenove, the Receiving Agent or any other person is or will be obliged to give notice of any defects or irregularities and none of them will incur any liability for failure to give such notice.
- 2.6 The Tender Offer will close at 1.00 p.m. on 31 August 2016 and no tenders received after that time will be accepted unless otherwise approved by J.P. Morgan Cazenove (with the consent of the Company).
- 2.7 All or any part of a holding of Ordinary Shares may be tendered. Only whole numbers of Ordinary Shares may be tendered and, in the event of scaling-back, successful tenders will be rounded down to the nearest whole number of Ordinary Shares in accordance with paragraph 2.16 of this Part Six.
- 2.8 Ordinary Shares successfully tendered under the Tender Offer will be sold to J.P. Morgan Cazenove fully paid and free from all liens, charges, equitable interests and encumbrances and with all rights attaching to the same. Upon the exercise by J.P. Morgan Cazenove of the

- put option, or the exercise by the Company of the call option, in each case in accordance with the terms and subject to the conditions of the Option Agreement, Ordinary Shares successfully tendered under the Tender Offer (or a corresponding number of Ordinary Shares) will be sold by J.P. Morgan Cazenove to the Company through the facilities of the London Stock Exchange and will subsequently be cancelled and will not rank for any dividends, distribution or other equity-related rights declared by the Company after that date.
- 2.9 All tenders of Ordinary Shares held in certificated form must be made on the accompanying Tender Form, duly completed in accordance with the instructions set out below and on the Tender Form, as applicable (which constitute part of the terms of the Tender Offer). Such tenders will be valid only when the procedures contained in this Circular and in the Tender Form are complied with.
- 2.10 All tenders of Ordinary Shares held in uncertificated form (that is, in CREST) must be made by the input and settlement of an appropriate TTE instruction in CREST in accordance with the instructions set out below and the relevant procedures in the CREST manual which together constitute part of the terms of the Tender Offer. Such tenders will be valid only when the procedures contained in this Circular and in the relevant parts of the CREST manual are complied with.
- 2.11 The Tender Offer and all matters in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, the Tender Offer and the Tender Form or the input of a TTE instruction in CREST, whether contractual or non-contractual, will be governed by, and construed in accordance with, the laws of England and Wales and the delivery of a Tender Form or the input of a TTE instruction in CREST, as applicable, will constitute submission to the jurisdiction of the courts of England and Wales.
- 2.12 The results of the Tender Offer and, if applicable, any entitlement to tender more than the Basic Entitlement, are expected to be announced on 1 September 2016.
- 2.13 All documents and remittances sent by or to Shareholders and all instructions made by or on behalf of a Qualifying Shareholder in CREST relating to the Tender Offer will be sent or made (as the case may be) at the risk of the sender or maker. If the Tender Offer does not become unconditional, or does not proceed, and lapses, in respect of Ordinary Shares held in certificated form, Tender Forms, share certificates and other documents of title will be returned by post to Qualifying Shareholders at their risk not later than ten Business Days after the date of such lapse, or, in respect of Ordinary Shares held in uncertificated form (that is, in CREST), the Receiving Agent will provide instructions to Euroclear to transfer all Ordinary Shares held in escrow by TFE instruction to the original available balances to which those Ordinary Shares relate.
- 2.14 If only part of the number of Ordinary Shares that are validly tendered is successfully tendered pursuant to the Tender Offer, the relevant Qualifying Shareholder will be entitled to receive the following:
- (a) if Ordinary Shares are held in certificated form, a certificate in respect of the unsold Ordinary Shares; or
  - (b) if Ordinary Shares are held in uncertificated form (that is, in CREST), the transfer by the Receiving Agent to the original available balances of those unsold Ordinary Shares or the credit of the balance of the unsold Ordinary Shares by the Receiving Agent by a TFE instruction.
- 2.15 Further copies of the Tender Form may be obtained on request from the Receiving Agent. Please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Tender Offer (and subsequent Repurchase) nor give any financial, legal or tax advice.
- 2.16 Under the Tender Offer and subject to the terms and conditions set out in this Part Six, and (where relevant) the Tender Form, Qualifying Shareholders will be entitled to sell to J.P. Morgan Cazenove their Basic Entitlement. They may tender a number of Ordinary Shares representing more or less than their Basic Entitlement.

If a Qualifying Shareholder validly tenders a number of Ordinary Shares less than or equal to his/her Basic Entitlement, the tender will be satisfied in full (subject to the Tender Offer not being terminated or lapsing prior to its completion and satisfaction of the other terms and conditions set out in this Part Six and (where relevant) the Tender Form).

2.17 If:

- (i) any Qualifying Shareholder tenders a number of Ordinary Shares in excess of his/her Basic Entitlement (each, an “**Individual Excess Tender**” and, in aggregate, the “**Total Excess Tenders**”); and
- (ii) any Qualifying Shareholder has validly tendered a number of Ordinary Shares less than his/her Basic Entitlement which, upon aggregation of the unused portions of all Shareholders’ Basic Entitlements, results in a pool of Ordinary Shares available to be allocated between the Individual Excess Tenders (the “**Total Available Shares**”),

any such Individual Excess Tender will be scaled-back by application of the following ratio, such that the Total Available Shares that may be allocated between the Individual Excess Tenders and the total percentage of Ordinary Shares purchased pursuant to the Tender Offer does not exceed the Basic Entitlement:

$$\frac{\text{Total Available Shares}}{\text{Total Excess Tenders}}$$

2.18 All Ordinary Shares successfully tendered will be purchased by J.P. Morgan Cazenove, as principal, at the Tender Offer Price.

2.19 All questions as to the number of Ordinary Shares tendered and the validity, form, eligibility (including the time of receipt) and acceptance for payment of any tender of Ordinary Shares under the Tender Offer will be determined by J.P. Morgan Cazenove in its sole discretion, which determination shall be final and binding on all parties except as otherwise required under applicable law. J.P. Morgan Cazenove reserves the absolute right to reject any or all tenders it determines not to be in proper form or the acceptance of payment for which may, in the opinion of J.P. Morgan Cazenove, be unlawful. J.P. Morgan Cazenove also reserves the absolute right to waive any of the terms or conditions of the Tender Offer (other than the Tender Conditions) and any defect or irregularity in the tender of any particular Ordinary Shares or any particular holder thereof. Unless J.P. Morgan Cazenove determines otherwise, no tender of Ordinary Shares will be deemed to be validly made until all defects or irregularities have been cured or waived. In the event of a waiver, the consideration under the Tender Offer will not be despatched (in respect of Ordinary Shares in certificated form) or made by way of CREST payment (in respect of Ordinary Shares in uncertificated form) to the relevant Qualifying Shareholder until after (in the case of Ordinary Shares in certificated form) the Tender Form is complete in all respects and the share certificate(s) and/or other document(s) of title satisfactory to J.P. Morgan Cazenove have been received or (in the case of Ordinary Shares in uncertificated form) the relevant TTE instruction has settled. None of the Receiving Agent, J.P. Morgan Cazenove, the Company or any other person is or will be obliged to give notice of any defects or irregularities in any tender and none of them will incur any liability for failure to give any such notice.

2.20 Ordinary Shares will be purchased under the Tender Offer free of all commissions and dealing charges.

2.21 The failure of any person to receive a copy of this Circular or the Tender Form shall not invalidate any aspect of the Tender Offer.

2.22 The Board reserves the right to compel J.P. Morgan Cazenove to terminate the Tender Offer at any time prior to announcement of the results of the Tender Offer if it concludes that the implementation of the Tender Offer and the subsequent Repurchase is no longer in the best interests of the Company and the Shareholders as a whole or if the purchase of Ordinary Shares by J.P. Morgan Cazenove and the subsequent Repurchase may have adverse fiscal consequences (whether by reason of any change in legislation, practice, circumstances or otherwise) for the Company or Shareholders as a whole which were previously unexpected. If the Tender Offer is terminated, the Company will make an announcement through a Regulatory Information Service that such is the case.



2.23 The terms of the Tender Offer shall have effect subject to such non-material modifications as the Company and J.P. Morgan Cazenove may from time to time approve in writing. The times and dates referred to in this Circular may be amended by agreement in writing between the Company and J.P. Morgan Cazenove.

### **3. Procedure for tendering**

#### **3.1 *Different procedures for certificated and uncertificated Ordinary Shares***

If you hold Ordinary Shares in certificated form, you may tender such Ordinary Shares only by completing and returning the Tender Form in accordance with the instructions printed thereon and set out in paragraph 3.2 below. If you hold Ordinary Shares in certificated form, but under different designations, you should complete a separate Tender Form for each designation. Additional copies of the Tender Form can be obtained from the Receiving Agent or by calling the Shareholder Helpline, details of which are set out in paragraph 3.3 below.

If you hold Ordinary Shares in uncertificated form (that is, in CREST) you may tender such Ordinary Shares only by TTE instruction in accordance with the procedure set out in paragraph 3.4 below and, if those Ordinary Shares are held under different member account IDs, you should send a separate TTE instruction for each member account ID.

#### **3.2 *Ordinary Shares held in certificated form (that is, not in CREST)***

To participate in the Tender Offer, Qualifying Shareholders holding Ordinary Shares in certificated form must complete, sign, have witnessed and return the Tender Form in accordance with these instructions and the instructions on the Tender Form.

Completed, signed and witnessed Tender Forms, together with the relevant valid share certificate(s) and/or other document(s) of title, should be sent either by post in the accompanying reply-paid envelope (for use in the UK only) or (during normal business hours only) delivered by hand to the Receiving Agent, at Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and, in any event, so as to be received by no later than 1.00 p.m. on 31 August 2016. Tenders received after that time will be accepted only at the sole discretion of J.P. Morgan Cazenove (with the consent of the Company).

Duly completed Tender Forms sent by any of the means set out above and received signed and complete in all respects by the prescribed time will be treated as tenders of Ordinary Shares in accordance with the terms and conditions of the Tender Offer. No acknowledgement of receipt of documents will be given.

The completed and signed Tender Form should be accompanied, where possible, by the relevant share certificate(s) and/or other document(s) of title.

If your share certificate(s) and/or other document(s) of title are not readily available (for example, if they are with your stockbroker, bank or other agent) or are lost, the Tender Form should nevertheless be completed, signed and returned as described above so as to be received by the Receiving Agent, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 1.00 p.m. on 31 August 2016, together with any share certificate(s) and/or document(s) of title that you may have available.

In respect of those Ordinary Shares for which your share certificate(s) and/or other document(s) of title is/are unavailable and you have been sent a Tender Form, a letter of indemnity can be obtained by writing to Capita Asset Services or contacting them on the Shareholder Helpline (the details of which are set out in paragraph 3.3 below). If a separate letter of indemnity is completed, this should be returned with the Tender Form as described above so as to be received by the Receiving Agent, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 1.00 p.m. on 31 August 2016. A fee may be payable by the Qualifying Shareholder in respect of each letter of indemnity.

Where you have completed and returned a letter of indemnity in respect of unavailable share certificate(s) and/or other document(s) of title and you subsequently find or obtain the relevant share certificate(s) and/or other document(s) of title, you should immediately send the



certificate(s) and/or other document(s) of title by post or (during normal business hours only) by hand to the Receiving Agent, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

- 3.3 If you are in any doubt as to the procedure for participating in the Tender Offer, please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Tender Offer (and subsequent Repurchase) nor give any financial, legal or tax advice.

By signing and returning a Tender Form, you will be deemed to have appointed J.P. Morgan Cazenove as your agent in respect of the tender process. J.P. Morgan Cazenove will therefore issue a contract note on behalf of all Qualifying Shareholders whose Ordinary Shares are so purchased under the Tender Offer and will remit the cash consideration to Capita Asset Services with instructions that such consideration be remitted to the Qualifying Shareholders entitled thereto in accordance with the instructions set out on their respective Tender Forms.

3.4 ***Ordinary Shares in uncertificated form (that is, in CREST)***

If your Ordinary Shares are in uncertificated form, to tender such shares under the Tender Offer you should take (or procure the taking of) the action set out below to transfer (by means of a TTE instruction) the number of Ordinary Shares you wish to tender under the Tender Offer to the relevant escrow account specifying Capita Asset Services (in its capacity as a CREST Participant under the relevant Participant ID(s) and member account ID(s) referred to below) as the escrow agent, as soon as possible and in any event so that the TTE instruction settles by no later than 1.00 p.m. on 31 August 2016. Please note that settlement cannot take place on weekends or bank holidays (or other times at which the CREST system is non-operational) and you should therefore ensure you time the input of any TTE instructions accordingly.

The input and settlement of a TTE instruction in accordance with this paragraph shall constitute an offer to J.P. Morgan Cazenove to sell to it the number of Ordinary Shares at the Tender Offer Price by transferring such Ordinary Shares to the relevant escrow account as detailed below.

If you are a CREST Sponsored Member, you should refer to your CREST Sponsor before taking any action. Your CREST Sponsor will be able to confirm details of your Participant ID and the member account ID under which your Ordinary Shares are held. In addition, only your CREST Sponsor will be able to send the TTE instruction to Euroclear in relation to the Ordinary Shares which you wish to tender. The Corporate Action Number is allocated by Euroclear and can be found by viewing the relevant corporate action details in CREST.

After settlement of the TTE instruction, you will not be able to access in CREST the Ordinary Shares concerned for any transaction or charging purposes, notwithstanding that they will be held by Capita Asset Services as the escrow agent until completion or lapse of the Tender Offer. If the Tender Offer becomes unconditional by 7.00 a.m. on 1 September 2016, or such later time and date as the Company and J.P. Morgan Cazenove may agree, Capita Asset Services will transfer the successfully tendered Ordinary Shares to itself as the agent of J.P. Morgan Cazenove, transferring any Ordinary Shares not successfully tendered to the original available balances to which those Ordinary Shares relate.

You are recommended to refer to the CREST manual published by Euroclear for further information on the CREST procedures outlined below.

You should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in connection with a TTE instruction and its settlement. You should therefore ensure that all necessary action is taken by you (or by your CREST Sponsor) to enable a TTE instruction relating to your Ordinary Shares to settle prior to 1.00 p.m. on 31 August 2016. In this connection you are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

### *Electronic Tenders*

To tender Ordinary Shares in uncertificated form you should send (or, if you are a CREST Sponsored Member, procure that your CREST Sponsor sends) a TTE instruction to Euroclear in relation to such Ordinary Shares. The TTE instruction will differ depending on whether you elect to tender your Basic Entitlement or a specific number of Ordinary Shares representing more or less than your Basic Entitlement.

The TTE instruction must be properly authenticated in accordance with Euroclear's specifications for transfers to escrow and must contain, in addition to the other information that is required for the TTE instruction to settle in CREST, the following details:

- (i) the number of Ordinary Shares which you wish to tender and to be transferred to the relevant escrow account;
- (ii) your member account ID;
- (iii) your Participant ID;
- (iv) the Participant ID of Capita Asset Services, in its capacity as a CREST receiving agent, which is RA10;
- (v) the member account ID of the Receiving Agent in its capacity as escrow agent, which is 28894BAS if you are tendering your Basic Entitlement, or 28894SPE if you are tendering a specific number of Ordinary Shares representing more or less than your Basic Entitlement;
- (vi) the corporate action ISIN in respect of the Ordinary Shares, which is GB00B12MHD28;
- (vii) the intended settlement date. This should be as soon as possible and, in any event, by no later than 1.00 p.m. on 31 August 2016;
- (viii) the contact name and telephone number inserted in the shared note field;
- (ix) the corporate action number for the Tender Offer, which is allocated by Euroclear and can be found by viewing the relevant corporate action details in CREST; and
- (x) input with a standard delivery instruction priority of 80.

The Company and/or J.P. Morgan Cazenove will make an appropriate announcement through a Regulatory Information Service if any of the details contained in this paragraph relating to settlement in CREST are materially altered.

### **3.5 *Deposits of Ordinary Shares into, and withdrawals of Ordinary Shares from, CREST***

Normal CREST procedures (including timings) apply in relation to any Ordinary Shares that are, or are to be, converted from uncertificated to certificated form or vice versa during the course of the Tender Offer (whether such conversion arises as a result of a transfer of Ordinary Shares or otherwise). Shareholders who are proposing to convert any Ordinary Shares are recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Ordinary Shares as a result of the conversion to take all necessary steps in connection with such person's participation in the Tender Offer (in particular, as regards delivery of share certificate(s) and/or other document(s) of title or transfers to an escrow balance as described above) prior to 1.00 p.m. on 31 August 2016.

### **3.6 *Validity of tenders***

#### **(a) *Tender Forms***

J.P. Morgan Cazenove reserves the right to treat as valid only Tender Forms which are received entirely in order by 1.00 p.m. on 31 August 2016 and which are accompanied by the relevant share certificate(s) and/or other document(s) of title or a satisfactory indemnity in lieu thereof in respect of the entire number of Ordinary Shares tendered.

#### **(b) *Validity of Electronic Tenders***

A Tender Form which is received in respect of Ordinary Shares held in uncertificated form will not constitute a valid tender and will be disregarded. Shareholders holding Ordinary Shares in uncertificated form who wish to tender such shares should note that a TTE instruction will be a valid tender as at 31 August 2016, only if it has settled on or before 1.00 p.m. on that date.

An appropriate announcement will be made through a Regulatory Information Service if any of the details contained in this paragraph 3.6 are altered.

(c) **General**

Notwithstanding the completion of a valid Tender Form or settlement of a TTE instruction, as applicable, the Tender Offer may be terminated or lapse in accordance with the conditions set out above.

The decision of J.P. Morgan Cazenove as to which Ordinary Shares have been validly tendered shall be conclusive and binding on all Shareholders.

If you are in any doubt as to how to complete the Tender Form or as to the procedure for making an Electronic Tender please contact the Receiving Agent, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or on the Shareholder Helpline. You are reminded that, if you are a CREST Sponsored Member, you should contact your CREST Sponsor before taking any action.

Shareholders should note that, once tendered, Ordinary Shares may not be sold, transferred, charged or otherwise disposed of.

### 3.7 **Shareholder Helpline details**

Please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Tender Offer (and subsequent Repurchase) nor give any financial, legal or tax advice.

## 4. **Effect of Tender**

### 4.1 **Tender Forms**

Each Qualifying Shareholder by whom or, as applicable, on whose behalf, a Tender Form is executed and lodged, including a Tender Form which is treated by J.P. Morgan Cazenove as valid, irrevocably undertakes, represents, warrants and agrees to and with J.P. Morgan Cazenove (so as to bind him, his personal representatives, heirs, successors and assigns) that:

- (a) the execution of the Tender Form shall constitute an offer to J.P. Morgan Cazenove to sell to it such number of certificated Ordinary Shares as are inserted in either Box 1A (being the Basic Entitlement) or Box 1B of the Tender Form or deemed to be tendered, in each case on and subject to the terms and conditions set out or referred to in this Circular and the Tender Form and that, once lodged, such tender shall be irrevocable;
- (b) such execution and lodgement, shall, subject to the Tender Offer becoming unconditional, constitute the irrevocable appointment of any director or officer of J.P. Morgan Cazenove as such Qualifying Shareholder's attorney and/or agent ("**Attorney**"), and an irrevocable instruction to the Attorney to:
  - (i) complete and execute any and all instruments of transfer and/or other documents or forms and take any and all actions which are necessary, in such Attorney's absolute discretion, in relation to the Ordinary Shares referred to in subparagraph (a) above in favour of J.P. Morgan Cazenove or such other person or persons as J.P. Morgan Cazenove may direct; and
  - (ii) deliver such instrument(s) of transfer and/or other document(s) or form(s) at the discretion of the Attorney, together with the share certificate(s) and/or other document(s) of title relating to such Ordinary Shares, for registration within six months of the Tender Offer becoming unconditional and to do all such other acts and things as may in the opinion of such Attorney be necessary or expedient for the purpose of, or in connection with, the Tender Offer and to vest in J.P. Morgan Cazenove or its nominee(s) or such other person(s) as J.P. Morgan Cazenove may direct such Ordinary Shares;

- (c) such Qualifying Shareholder holding Ordinary Shares in certificated form will deliver to the Receiving Agent his share certificate(s) and/or other document(s) of title in respect of the Ordinary Shares referred to in sub-paragraph (a) above, or an indemnity acceptable to J.P. Morgan Cazenove in lieu thereof, or will procure the delivery of such document(s) to such person(s) as soon as possible thereafter and, in any event, by no later than 1.00 p.m. on 31 August 2016;
- (d) the provisions of the Tender Form shall be deemed to be incorporated into the terms and conditions of the Tender Offer;
- (e) the despatch of a cheque to a Qualifying Shareholder as referred to in paragraph 5 of this Part Six headed "Settlement", will discharge fully any obligation of J.P. Morgan Cazenove to pay such Qualifying Shareholder the consideration to which he is entitled under the Tender Offer;
- (f) on execution a Tender Form takes effect as a deed; and
- (g) the execution of the Tender Offer shall constitute a submission by the Qualifying Shareholder to all matters in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, the Tender Offer and the Tender Form, whether contractual or non-contractual, being governed by, and construed in accordance with, the laws of England and Wales and the delivery of a Tender Form will constitute submission to the jurisdiction of the courts of England and Wales.

A reference in this paragraph to a Qualifying Shareholder includes a reference to the person or persons executing a Tender Form and in the event of more than one person executing a Tender Form, the provisions of this paragraph will apply to them jointly and severally.

#### 4.2 **Electronic Tenders**

Each Qualifying Shareholder by whom, or on whose behalf, a TTE instruction which is treated by J.P. Morgan Cazenove as valid is made irrevocably undertakes, represents, warrants and agrees to and with J.P. Morgan Cazenove (so as to bind him, his personal representatives, heirs, successors and assigns) that:

- (a) the input of the TTE instruction shall constitute an offer to sell to J.P. Morgan Cazenove such number of Ordinary Shares as are specified in the TTE instruction or deemed to be tendered, in each case, on and subject to the terms and conditions set out or referred to in this Circular and the TTE instruction and that, once the TTE instruction has settled, such tender shall be irrevocable;
- (b) the input of the TTE instruction, will, subject to the Tender Offer becoming unconditional, constitute the irrevocable appointment of any director or officer of the Receiving Agent as such Qualifying Shareholder's agent ("**Agent**"), and an irrevocable instruction and authority to the Agent to complete and execute all or any instrument(s) of transfer and/or other document(s) or input any instructions into Euroclear at the Agent's discretion in relation to the Ordinary Shares referred to in sub-paragraph (a) above in favour of J.P. Morgan Cazenove or such other person or persons as J.P. Morgan Cazenove may direct and to deliver any documents or input any instructions into Euroclear relating to such Ordinary Shares, for registration within six months of the Tender Offer becoming unconditional and to do all such other acts and things as may in the opinion of such Agent be necessary or expedient for the purpose of, or in connection with, the Tender Offer and to vest in J.P. Morgan Cazenove of its nominee(s) or such other person(s) as J.P. Morgan Cazenove may direct, such Ordinary Shares;
- (c) if, for any reason, any Ordinary Shares in respect of which a TTE instruction has been made are prior to 1.00 p.m. on 31 August 2016, converted into certificated form, the Electronic Tender in respect of such Ordinary Shares shall cease to be valid and the Qualifying Shareholder will need to comply with the procedures for tendering Ordinary Shares in certificated form as set out in this Part Six in respect of the Ordinary Shares so converted, if the Qualifying Shareholder wishes to make a valid tender of such Ordinary Shares pursuant to the Tender Offer;

- (d) the creation of a payment obligation in favour of such Qualifying Shareholder's payment bank in accordance with the CREST payment arrangements as referred to in paragraph 5 of this Part Six headed "Settlement" will discharge fully any obligation of J.P. Morgan Cazenove to pay to such Qualifying Shareholder the consideration to which he is entitled under the Tender Offer; and
- (e) the input of a TTE instruction in CREST shall constitute a submission by the Qualifying Shareholder to all matters in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, the Tender Offer and the TTE instruction, whether contractual or non-contractual, being governed by, and construed in accordance with, the laws of England and Wales and the input of a TTE instruction in CREST will constitute submission to the jurisdiction of the courts of England and Wales.

#### 4.3 **General tendering provisions**

Each Shareholder who submits a tender irrevocably undertakes, represents, warrants and agrees to and with J.P. Morgan Cazenove (so as to bind him, his personal representatives, heirs, successors and assigns) that:

- (a) such Shareholder has observed the laws of all relevant jurisdictions, obtained any requisite consents and complied with all applicable formalities, that the invitation under the Tender Offer may be made to him under the laws of the relevant jurisdictions, and has not taken or omitted to take any action which would otherwise result in J.P. Morgan Cazenove or the Company acting in breach of any applicable legal or regulatory requirement in respect of the purchase by J.P. Morgan Cazenove of the Ordinary Shares tendered by him under the Tender Offer and the associated Repurchase;
- (b) such Shareholder shall do all such acts and things as shall be necessary or expedient and execute any additional documents deemed by J.P. Morgan Cazenove to be desirable, in each case in order to complete the purchase of the Ordinary Shares and/or to perfect any of the authorities expressed to be given hereunder;
- (c) if the appointment of Attorney/Agent provision under sub-paragraph 4.1(b) or 4.2(b) (as applicable) above shall be unenforceable or invalid or shall not operate so as to afford any director or officer of J.P. Morgan Cazenove or the Receiving Agent the benefit or authority expressed to be given therein, the Shareholder shall with all practicable speed do all such acts and things and execute all such documents that may be required to enable J.P. Morgan Cazenove and/or the Receiving Agent to secure the full benefits of sub-paragraph 4.1(b) or 4.2(b) (as applicable) above;
- (d) such Shareholder has full power and authority to tender, sell, assign or transfer the Ordinary Shares in respect of which such offer is accepted (together with all rights attaching thereto) and, when the same are purchased by J.P. Morgan Cazenove, J.P. Morgan Cazenove will acquire such Ordinary Shares with full title guarantee and free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto, including the right to receive all dividends and other distributions declared, paid or made after that date;
- (e) such Shareholder agrees to ratify and confirm each and every act or thing which may be done or effected by J.P. Morgan Cazenove and/or the Receiving Agent or any of their respective directors or officers or any person nominated by J.P. Morgan Cazenove or the Receiving Agent or any of their respective directors or officers in the proper exercise of their respective powers and/or authorities hereunder; and
- (f) such Shareholder has not received or sent copies or originals of the Tender Form in, into or from a Restricted Jurisdiction and has not otherwise utilised in connection with the Tender Offer, directly or indirectly, the mails or any means or instrumentality (including, without limitation, facsimile transmission, telex and telephone) of interstate or foreign commerce, or of any facility of a national securities exchange, of a Restricted Jurisdiction at the time of the input of and settlement of the relevant TTE instruction, that the TTE instruction has not been sent from a Restricted Jurisdiction and such Shareholder is accepting the Tender Offer from outside a Restricted Jurisdiction.



Each Shareholder to which paragraphs 4.1 or 4.2 apply hereby consents to the assignment by J.P. Morgan Cazenove of all such benefits as J.P. Morgan Cazenove may have in any covenants, representations and warranties in respect of the Ordinary Shares which are successfully tendered under the Tender Offer.

## **5. Settlement**

Settlement of the consideration to which any Qualifying Shareholder is entitled pursuant to valid tenders accepted by J.P. Morgan Cazenove will be made by the dispatch of cheques or the creation of CREST payment obligations as follows:

### **5.1 *Ordinary Shares in certificated form***

Where an accepted tender relates to Ordinary Shares held in certificated form, cheques for the consideration due will be despatched by the Receiving Agent (on behalf of J.P. Morgan Cazenove) from 6 September 2016 by first class post to the person or agent whose name and address (outside a Restricted Jurisdiction) is set out in section 1 or section 3 of the Tender Form or, if none is set out, to the registered address of the tendering Shareholder or, in the case of joint holders, the registered address of the first named Shareholder at the risk of the persons entitled thereto. All payments will be made in pounds sterling by cheque, drawn on a branch of a UK clearing bank.

### **5.2 *Ordinary Shares in uncertificated form (that is in CREST)***

Where an accepted tender relates to Ordinary Shares held by Qualifying Shareholders in uncertificated form, the consideration due will be paid from 6 September 2016 through CREST by the Receiving Agent (on behalf of J.P. Morgan Cazenove) procuring the creation of a payment obligation in favour of the payment banks of accepting Shareholders in accordance with the CREST payment arrangements.

## **6. Overseas Shareholders**

6.1 Overseas Shareholders should inform themselves about and observe any applicable or legal regulatory requirements. If you are in any doubt about your position, you should consult your professional adviser in the relevant jurisdiction.

6.2 The making of the Tender Offer in, or to persons resident in, jurisdictions outside the United Kingdom or to persons who are citizens, residents or nationals of other countries may be affected by the laws of the relevant jurisdiction. Shareholders who are not resident in the United Kingdom, or who are citizens, residents or nationals of countries outside the United Kingdom should inform themselves about and observe any applicable legal requirements. It is the responsibility of any Overseas Shareholder wishing to take up the Tender Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any transfer or other taxes or other requisite payments due in such jurisdiction. Each Overseas Shareholder will be responsible for any such transfer or other taxes or other requisite payments by whomsoever payable and the Company, Capita Asset Services and J.P. Morgan Cazenove and any person acting on their behalf shall be fully indemnified and held harmless by such Shareholder on an after-tax basis for any such transfer or other taxes or other requisite payments such person may be required to pay. No steps have been taken to qualify the Tender Offer or to authorise the extending of the Tender Offer or the distribution of the Tender Form in any territory outside the United Kingdom.

6.3 In particular, the Tender Offer is not being made directly or indirectly in, into or from or by use of the mail or by any means or instrumentality (including, without limitation, facsimile transmission, telex and telephone) of interstate or foreign commerce, or of any facility of a national securities exchange, of a Restricted Jurisdiction and the Tender Offer cannot be accepted by any such use, means, instrumentality or facility or from within a Restricted Jurisdiction.

Accordingly, copies of the Tender Form are not being and must not be mailed or otherwise distributed or sent in, into, or from a Restricted Jurisdiction, including to Shareholders with registered addresses in a Restricted Jurisdiction, or to persons who are custodians, nominees or trustees holding Ordinary Shares for persons in a Restricted Jurisdiction.



- 6.4 If, in connection with making the Tender Offer, notwithstanding the restrictions described above, any person (including, without limitation, custodians, nominees and trustees), whether pursuant to a contractual or legal obligation or otherwise, forwards the Tender Form in, into or from a Restricted Jurisdiction or uses the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, telex and telephone) of interstate or foreign commerce, or any facility of a national securities exchange, of a Restricted Jurisdiction in connection with such forwarding, such persons should:
- (a) inform the recipient of such fact;
  - (b) explain to the recipient that such action may invalidate any purported acceptance of the Tender Offer by the recipient; and
  - (c) draw the attention of the recipient to this section of this Circular.
- 6.5 The provisions of this paragraph and/or any other terms of the Tender Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by J.P. Morgan Cazenove in its absolute discretion, but only if J.P. Morgan Cazenove is satisfied that such waiver, variation or modification will not constitute or give rise to a breach of applicable securities or other law. Subject to this, the provisions of this paragraph headed "Overseas Shareholders" supersede any terms of the Tender Offer inconsistent therewith.
- 6.6 References to a Shareholder shall include references to the persons executing a Tender Form and in the event of more than one person executing Tender Forms, the provisions of this paragraph shall apply to them jointly and severally.

## PART SEVEN

### TAXATION IN RELATION TO THE TENDER OFFER

#### A. United Kingdom

The following comments do not constitute tax advice and are intended only as a guide to current United Kingdom law and H.M. Revenue & Customs' published practice (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the United Kingdom tax treatment of Shareholders who are resident in the United Kingdom for United Kingdom tax purposes, who are, and will be, the beneficial owners of their Ordinary Shares and who hold, and will hold, their Ordinary Shares as investments (and not as assets to be realised in the course of a trade, profession or vocation). They may not relate to certain Shareholders, such as dealers in securities or Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Shareholders are advised to take independent advice in relation to the tax implications for them of selling Ordinary Shares pursuant to the Tender Offer.

#### 1. Taxation of chargeable gains

The sale of Ordinary Shares by a Shareholder to J.P. Morgan Cazenove pursuant to the Tender Offer should be treated as a disposal of those shares for United Kingdom tax purposes. This may, subject to the Shareholder's individual circumstances and any available exemption or relief, give rise to a chargeable gain (or allowable loss) for the purposes of United Kingdom taxation of chargeable gains ("CGT").

The amount of CGT payable by a Shareholder who is an individual as a consequence of the sale of Ordinary Shares, if any, will depend on his or her own personal tax position. Broadly, a Shareholder whose total taxable gains and income in a given tax year, including any gains made on the sale of Ordinary Shares ("**Total Taxable Gains and Income**"), are less than or equal to the upper limit of the income tax basic rate band applicable in respect of that tax year (the "**Band Limit**") (£32,000 for 2016/2017) will normally be subject to CGT at a rate of 10% in respect of any gain arising on the sale of his or her Ordinary Shares. A Shareholder whose Total Taxable Gains and Income are more than the Band Limit will normally be subject to CGT at a rate of 10% in respect of any gain arising on the sale of his or her Ordinary Shares (to the extent that, when added to the Shareholder's other taxable gains and income, the gain is less than or equal to the Band Limit) and at a rate of 20% in respect of the remainder of the gain arising on the sale of his or her Ordinary Shares. However, no tax will be payable on any gain arising on the sale of Ordinary Shares if the amount of the chargeable gain realised by a Shareholder in respect of the sale, when aggregated with other chargeable gains realised by that Shareholder in the year of assessment (and after taking into account aggregate losses), does not exceed the annual exemption (£11,100 for 2016/2017).

A corporate Shareholder is normally taxable on all of its chargeable gains, subject to any reliefs and exemptions. Corporate Shareholders should be entitled to indexation allowance up to the date which is treated for CGT purposes as the date of disposal.

#### 2. Transactions in Securities

Under the provisions of Part 15 of the Corporation Tax Act 2010, H.M. Revenue & Customs can in certain circumstances counteract corporation tax advantages arising in relation to a transaction or transactions in securities. If these provisions were to be applied by H.M. Revenue & Customs to the Tender Offer, Shareholders who are subject to corporation tax might be liable to corporation tax as if they had received an income amount rather than a capital amount.

These rules apply only in certain circumstances and do not apply where it can be shown that the transaction in question was entered into for genuine commercial reasons or in the ordinary course of making or managing investments and did not involve as one of its main objects the obtaining of a corporation tax advantage. In view of these restrictions on the application of the anti-avoidance provisions, no application has been made to H.M. Revenue & Customs for clearance in respect of the application of Part 15 of the Corporation Tax Act 2010 to the Tender Offer. Shareholders who are within the charge to corporation tax are advised to take independent advice as to the potential application of the above provisions in light of their own particular motives and circumstances.

### **3. Stamp duty and stamp duty reserve tax (“SDRT”)**

The sale of Ordinary Shares pursuant to the Tender Offer will not give rise to any liability to stamp duty or SDRT for the selling Shareholder.

Stamp duty at a rate of 0.5% on the Ordinary Shares repurchased, rounded up to the nearest £5 if necessary, will be payable by the Company on its purchase of Ordinary Shares from J.P. Morgan Cazenove.

## PART EIGHT

### FURTHER INFORMATION

#### 1. The Company

The Company trades under the name LMS Capital plc and is a public limited company incorporated under the laws of England and Wales with company number 05746555. The Company is domiciled in England and Wales and its registered and head office is at 100 George Street, London W1U 8NU (telephone number +44 (0)207 935 3555). The principal legislation under which the Company operates, and under which the Ordinary Shares were created, is the Act and the regulations made thereunder. The Company is an investment company focused on small to medium sized companies in its preferred sectors of consumer, energy and business services. Following a General Meeting held on 30 November 2011, the Company has undertaken a realisation strategy which has aimed to achieve a balance between an efficient return of cash to Shareholders and optimising the value of the Company's investments. As described in this Circular, the Company proposes to change its investment policy (as set out in more detail in Part Two of this Circular).

#### 2. Responsibility

The Directors accept responsibility for the information contained in this Circular, save that:

- (a) Robert Rayne, who has not participated in the Board's consideration of the Waiver, takes no responsibility for the Board's recommendation in relation to the Rule 9 Waiver Resolution; and
- (b) Robert Rayne accepts responsibility for the information relating to the Concert Party contained in this Circular and, to the best of his knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Circular for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 3. Background information on Rule 9 of the Takeover Code and the Concert Party

##### *Rule 9 of the Takeover Code*

Rule 9 of the Takeover Code applies when (i) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which, taken together with shares in which he and persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company subject to the Takeover Code, or (ii) any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company, but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in which he is interested. In either case, that person is normally required to make a general offer in cash for all the remaining equity share capital of the Company at the highest price paid by him, or any persons acting in concert with him, for shares in the Company within the 12 months prior to announcement of the offer.

Under Rule 37 of the Takeover Code, when a company purchases its own voting shares, any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purpose of Rule 9 (although a shareholder who is neither a director nor acting in concert with a director will not normally incur an obligation to make a Rule 9 offer).

Given that the Concert Party has undertaken not to participate in the Tender Offer (provided that the Investment Policy Resolution is passed), the Concert Party's aggregate percentage holding of Ordinary Shares will (assuming any take up of the Tender Offer) increase from 34.04% as a result of the Tender Offer (and the associated Repurchase), and it will be obliged to make a general offer to Shareholders for all the Ordinary Shares in the Company which it does not own. This situation will arise because the Concert Party has irrevocably committed not to take up its Basic

Entitlement, provided that the Investment Policy Resolution is passed, in circumstances where some (or all) other Shareholders do so.

On the basis that the issued share capital of the Company as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular) is 103,584,592 Ordinary Shares, that no Options or other rights to subscribe for Ordinary Shares are exercised, that a maximum of 8,000,000 Ordinary Shares are tendered and Repurchased and that no Ordinary Shares are tendered by the Concert Party (on the basis of irrevocable commitments received from the Concert Party not to tender any of their holdings of Ordinary Shares) and subsequently Repurchased, the Concert Party's interest in Ordinary Shares would increase to 36.89% of the voting share capital of the Company. A table analysing the maximum interests of the members of the Concert Party is set out in paragraph 6 below. Accordingly, the Company applied to the Panel for a waiver of Rule 9 of the Takeover Code in order to permit the Tender Offer (and the subsequent Repurchase) to occur without triggering an obligation on the part of the Concert Party to make a general offer to Shareholders of the kind described above.

#### *Concert Party*

The Panel has deemed that the interests in relevant securities of Withers Trust Corporation Limited (as trustees of the Lord Rayne Will Trust), Lady Rayne-Lacey, Robert Rayne and other Rayne family members comprise a Concert Party for the purposes of the Takeover Code. The Concert Party holds 35,264,799 Ordinary Shares, representing a 34.04% interest in the total share capital of the Company as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular). A detailed analysis of the Concert Party is provided at paragraph 6 below.

#### *Non-Independent Director*

##### Letter of appointment

Robert Rayne (who is a non-executive director of the Company) was appointed as a director on 6 April 2006. His current letter of appointment, dated 1 October 2013, is terminable upon one month's notice by either party. Robert Rayne is up for re-election to the Board by rotation at the Company's next Annual General Meeting. As a non-executive director, Robert Rayne is entitled to a fee of £40,000 per annum. Mr Rayne is also entitled to cover under the Company's various insurance policies. The Company will also provide a car, driver and secretary if required in the future by Mr Rayne, but does not currently do so.

Robert Rayne also has a consultancy agreement with the Company to provide advice in connection with the Company's realisation plans. He is entitled to a fee of £60,000 per annum under this consultancy agreement. This agreement will terminate if the Investment Policy Resolution is passed and Robert Rayne will continue to be entitled to a fee of £40,000 per annum in his capacity as a non-executive director as referred to above.

Robert Rayne will be entitled to a fee of £25,000 per annum in his capacity as a member of GHAM's investment committee responsible for the Group's portfolio and a fee of £35,000 per annum in relation to additional consultancy services to be provided in relation to the Group's portfolio; both fees are to be paid by GHAM.

Until the end of 2011, Robert Rayne was entitled to participate in the Company's long-term incentive plans, including the Performance Share Plan and the Company's carried interest plans. These prior year entitlements continue

##### Interests in Ordinary Shares

As at 25 July 2016, being the latest practicable date prior to the publication of this Circular, the beneficial interest of Robert Rayne in Ordinary Shares was as follows:

	<b>Percentage of issued share capital</b>	<b>No. of Ordinary Shares</b>
Robert Rayne .....	2.97%	3,076,866

In addition, Robert Rayne had a non-beneficial interest in 7,791,115 Ordinary Shares held in trust.

#### Other related party transactions

In January 2011, the Company moved office to 100 George Street, London W1U 8NU, of which Derwent London plc is the landlord. Under the terms of its lease, the Company pays an annual rent of £289,000 to Derwent London plc plus certain service charges. Robert Rayne is the non-executive Chairman of Derwent London plc.

#### **4. Concert Party's intentions**

Recognising the changes which will be implemented if the Proposals are adopted as described in Part One of this Circular and acknowledging the support of members of the Concert Party for such Proposals, members of the Concert Party have confirmed to the Company that they are not proposing, following any increase in the percentage interest of the Concert Party in Ordinary Shares as a result of the Tender Offer (and the subsequent Repurchase), to seek any other changes in the composition of the Board or to the general nature or any other aspect of the Company's business or strategy.

Further, if the Investment Policy Resolution is passed, members of the Concert Party have confirmed to the Company that they do not intend to withhold their support from proposals to grow and develop the Company and its subsidiaries in accordance with the new investment policy.

Recognising the changes which will be implemented if the Proposals are adopted as described in Part One of this Circular and acknowledging the support of members of the Concert Party for such Proposals, members of the Concert Party have confirmed that they have no intention to make further changes in respect of any of the following:

- (a) the future of the Company's (and the Company's subsidiaries') businesses;
- (b) the location of the Company's (and the Company's subsidiaries') places of business;
- (c) the continued employment of the Company's employees and management, including any material change in conditions of employment;
- (d) employer contributions into the Company's pension schemes, the accrual of benefits for existing members and the admission of new members;
- (e) the maintenance of any existing trading facilities for the relevant securities of the Company; and
- (f) the deployment of the fixed assets of the Company (or any of its subsidiaries).

The Company has received irrevocable undertakings to:

- (a) vote in favour of the Investment Policy Resolution; and
- (b) vote in favour of the Repurchase Resolution,

from members of the Concert Party holding 35,264,690 Ordinary Shares, representing 34.04% of the total number of Ordinary Shares held by members of the Concert Party as at 25 July 2016, being the latest practicable date prior to the publication of this Circular.

#### **5. Intentions of the Directors**

Save as described in this Circular, namely, the intention of the Directors to propose to:

- change the Company's investment policy from the current realisation strategy to a new policy predominantly focused on private equity investment;
- appoint GHAM as the investment manager to carry out the new investment policy and to manage the Company's assets on a discretionary basis (if the Investment Policy Resolution is passed);
- return capital to Shareholders by way of the Tender Offer and associated Repurchase of up to £6 million as described in more detail in Part Six of this Circular;
- return further capital to Shareholders by way of two further tender offers (and associated repurchases) together representing 50 per cent. of the net proceeds of further disposals of assets comprised in the Company's current portfolio as described in more detail at paragraph 8 of Part One of this Circular; and
- change the board of LMS Capital so that it becomes a wholly non-executive Board,

under the current circumstances and notwithstanding any increase in the members of the Concert Party's holdings of Ordinary Shares, the Directors confirm that they intend to continue to conduct



the business of the Company in the same manner as it is currently conducted and that there are no plans to introduce any substantial change in the business of the Group or in employees' terms of employment, save for the consequential changes to the nature of the Company's business as a result of the proposals set out above.

## 6. Interests and dealings

### *Directors*

As at 25 July 2016 (being the latest practicable date prior to the publication of this Circular), the interests, rights to subscribe and short positions of the Directors, their immediate families and persons connected with them, within the meaning of Part 22 of the Act, in Ordinary Shares were as follows.

	<b>Percentage of issued share capital</b>	<b>No. of Ordinary Shares</b>
Martin Knight .....	0.06%	59,907
Rod Birkett .....	—%	—
Bernard Duroc-Danner .....	0.13%	139,009
Nicholas Friedlos .....	0.05%	47,823
Neil Lerner .....	0.05%	49,435
Robert Rayne .....	2.97%	3,076,866
Antony Sweet .....	0.02%	16,775

In addition, Antony Sweet holds Options over 33,333 Ordinary Shares.

### *Concert Party*

The Panel has deemed that the interests in relevant securities of Withers Trust Corporation Limited, Lady Rayne-Lacey, Robert Rayne and other Rayne family members comprise a Concert Party for the purposes of the Takeover Code.

The following members of the Concert Party have significant interests in relevant securities:

- (a) Withers Trust Corporation Limited (as trustees of the Lord Rayne Will Trust). The beneficiaries of such Ordinary Shares are members of the extended Rayne family;
- (b) Robert Rayne, who is the late Lord Rayne's son and a Non-executive director of the Company;
- (c) Lady Jane Rayne-Lacey, who is the late Lord Rayne's wife;
- (d) the Rayne Foundation, which is a charitable trust whose trustees include Robert Rayne and Lady Jane Rayne-Lacey;
- (e) the Rayne Trust, which is a charitable trust whose trustees include Robert Rayne and Lady Jane Rayne-Lacey;
- (f) Alexander Rayne, who is the late Lord Rayne's son;
- (g) Madeleine Rayner, who is the late Lord Rayne's daughter;
- (h) Susan Rubin, who is the late Lord Rayne's daughter;
- (i) Tamara Wood, who is the late Lord Rayne's daughter;
- (j) Damian Rayne, who is the late Lord Rayne's grandson and son of Robert Rayne; and
- (k) Jonathan Rayner, who is the late Lord Rayne's grandson and son of Madeleine Rayner.

As at the close of business on 25 July 2016 (being the latest practicable date prior to the publication of this Circular), the interests, rights to subscribe and short positions of the members of the Concert Party in Ordinary Shares were as set out below. The maximum potential holdings of the members of the Concert Party following the Tender Offer (and the subsequent Repurchase) are also set out below (assuming that the total issued share capital of the Company is 103,584,592, that no Options or other rights to subscribe for Ordinary Shares are exercised, that the maximum number of Ordinary Shares are Repurchased (being 8,000,000 Ordinary Shares) and that no Ordinary Shares are tendered by members of the Concert Party (and subsequently

repurchased). Save as disclosed below, there is no other person acting in concert with the Concert Party with interests, rights to subscribe or short positions in the Ordinary Shares. Further, save as disclosed below, as the Concert Party is a collection of individuals and entities rather than a single offeror, the Concert Party does not have any directors that have interests, rights to subscribe or short positions in the Ordinary Shares.

	<b>Percentage of issued share capital as at 25 July 2016</b>	<b>No. of Ordinary Shares at 25 July 2016</b>	<b>Maximum percentage of issued Ordinary Shares</b>	<b>Maximum number of issued Ordinary Shares</b>
Withers Trust Corporation Limited (as trustees of the Lord Rayne Will Trust).....	10.86%	11,247,381	11.77%	11,247,381
Rayne Foundation.....	5.17%	5,356,328	5.60%	5,356,328
Robert Rayne.....	2.97%	3,076,866	3.22%	3,076,866
The Rayne Trust.....	2.35%	2,434,787	2.55%	2,434,787
Alexander Rayne.....	2.32%	2,404,454	2.52%	2,404,454
Tamara Wood.....	2.09%	2,165,522	2.27%	2,165,522
Susan Rubin.....	1.61%	1,670,818	1.75%	1,670,818
Lady Jane Rayne-Lacey.....	1.46%	1,510,934	1.58%	1,510,934
Madeleine Rayner.....	0.98%	1,013,373	1.06%	1,013,373
Damian Rayne.....	0.92%	954,721	1.00%	954,721
Jonathan Rayner.....	0.92%	952,024	1.00%	952,024
Other Concert Party interests in relevant securities under 750,000 Ordinary Shares (21 beneficial interests).....	2.39%	2,477,591	2.59%	2,477,591
<b>Total Concert Party.....</b>	<b>34.04%</b>	<b>35,264,799</b>	<b>36.89%</b>	<b>35,264,799</b>

Members of the Concert Party made the following dealings in Ordinary Shares during the period beginning 12 months preceding the date of this Circular and ending on 25 July 2016 (being the latest practicable date prior to the publication of this Circular). Save as disclosed below, no other person acting in concert with the Concert Party nor any director of the Concert Party has made any dealings in Ordinary Shares during the period beginning 12 months preceding the date of this Circular and ending on 25 July 2016 (being the latest practicable date prior to the publication of this Circular).

<b>Number of Ordinary Shares</b>	<b>Description of dealing</b>	<b>Date of dealing</b>	<b>Price per Ordinary Share (pence)</b>
15,562,593 (Ordinary Shares sold pursuant to the tender offer dated 18 December 2015) ..	Sale	18 December 2015	96 pence
18,257.....	Sale	28 June 2016	55.78 pence

*Others*

As at the close of business on 25 July 2016 (being the latest practicable date prior to the publication of this Circular), neither J.P. Morgan Cazenove nor any other connected advisor of the Company (including any person controlling, controlled by or under the same control as them, except in the capacity of an exempt fund manager or exempt principal trader) has any interests, rights to subscribe or short positions in relevant securities.

## 7. Major shareholders

Insofar as it is known to the Company as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular), the following persons have an interest in the Ordinary Shares which is notifiable under the Disclosure Guidance and Transparency Rules.

	<b>Percentage of issued share capital</b>	<b>No. of Ordinary Shares</b>
Asset Value Investors.....	12.82%	13,277,352
Withers Trust Corporation Limited as trustees of the Lord Rayne Will Trust <sup>(1)</sup> .....	10.86%	11,247,381
Robert Rayne <sup>(2)</sup> .....	10.49%	10,867,981
Lady Jane Rayne-Lacey <sup>(3)</sup> .....	9.02%	9,343,954
Schroders plc.....	5.26%	5,453,243
CG Asset Management Limited.....	3.01%	3,119,704

Note:

1. Robert Rayne holds a non-beneficial interest in 7,791,115 Ordinary Shares held in trust and a personal interest in 3,076,866 Ordinary Shares.
2. Lady Jane Rayne-Lacey holds a non-beneficial interest in 7,833,020 Ordinary Shares held in trust and a personal interest in 1,510,934 Ordinary Shares.

## 8. Options and treasury shares

The table below sets out the total number of outstanding Options, the percentage of Ordinary Shares that they represent and the percentage of Ordinary Shares that they will represent if the maximum number of Ordinary Shares are Repurchased (and subject to the same other assumptions as set out in paragraph 6 above):

<b>Number of Options</b>	<b>Percentage of issued Ordinary Shares as at 25 July 2016</b>	<b>Percentage of issued Ordinary Shares if the maximum number of Ordinary Shares is Repurchased</b>
78,531.....	0.08%	0.08%

(Note: Information in the table above is provided as at 25 July 2016, being the latest practicable date prior to the publication of this Circular.)

The above Options, which were awarded pursuant to the Performance Share Plan and the Deferred Share Bonus Plan, were fully vested as of 25 July 2016.

As at 25 July 2016 (being the latest practicable date prior to the publication of this Circular), there were no outstanding warrants to subscribe for Ordinary Shares.

As at 25 July 2016 (being the latest practicable date prior to the publication of this Circular), the Company held no Ordinary Shares in treasury.

## 9. Directors service contracts and emoluments

The Directors' current service agreements and letters of appointment will be available for inspection as set out in paragraph 18 below and are summarised below. There are no other service contracts between the Directors and the Company or any of its subsidiaries and, save as disclosed herein, no other service contracts have been entered into or amended during the period of six months prior to the date of this Circular.

	<b>Date appointed director</b>	<b>Notice period</b>	<b>Basic salary/ current fee</b>
Martin Knight.....	4 January 2012	One month	£60,000
Bernard Duroc-Danner.....	6 April 2006	One month	£40,000
Nicholas Friedlos.....	9 February 2012	Six months	£220,000
Neil Lerner.....	4 January 2012	One month	£45,000
Robert Rayne.....	6 April 2006	One month	£40,000
Rod Birkett.....	16 June 2016	One month	£40,000
Antony Sweet.....	6 April 2006	Twelve months by the Company and six months by the director	£215,000

Under the service contracts of Mr Friedlos and Mr Sweet, they are entitled to a base salary (reviewed annually), pension contributions and benefits-in-kind, which includes private healthcare, life assurance and income protection and gym membership. Mr Sweet may also participate in the carried interest plan and both Mr Friedlos and Mr Sweet will receive a bonus linked to the outcome of the realisation strategy. The maximum bonus amount for Mr Friedlos is £2 million and for Mr Sweet it is £1 million. The Company's Remuneration Committee may approve annual performance bonus payments. Any such payments will be deducted from any payment due at the end of the realisation strategy. In addition, Mr Sweet is entitled to a payment in connection with his duties as Company Secretary up to a maximum of 15% of his base salary per annum.

The Company's general policy is that all executive directors should have rolling contracts of employment. Mr Sweet has a notice period of 12 months from the Company and 6 months if Mr Sweet wishes to terminate, and Mr Friedlos has a notice period of 6 months from the Company and 6 months from himself. The service contracts enable the Company to elect to terminate employment without notice by making a payment equivalent to base salary, allowances and benefits and pension contributions attributable to the notice period from the Company. The annual bonus may be payable as at the date of termination on the basis that total returns to Shareholders equal actual value returned to date plus the net asset value of the Company as at the termination date, such amount to be payable as returns are made to Shareholders.

As explained in paragraph 5 of Part One of this Circular, if the new investment policy is adopted, Mr Friedlos and Mr Sweet will cease to be employees of the Company and will step down from the Board. As part of these arrangements Mr Friedlos and Mr Sweet will receive payments of £81,500 and £230,000 respectively by way of compensation for the termination of their employment with the Company. In addition, Mr Friedlos and Mr Sweet will receive, a total of £1,598,000 and £742,000 respectively, being the maximum outstanding amount of their bonus entitlements (the "**Bonus**"). The Company will pay the Bonus in three instalments as set out below:

- 65% on the implementation of the Tender Offer;
- 17.5% on the earlier of the date of implementation of the first subsequent tender offer (and associated repurchase) in the amount of up to £6 million or 31 March 2017; and
- 17.5% on the earlier of the date of implementation of the second subsequent tender offer (and associated repurchase) in the amount of up to £5 million or 31 December 2017.

The carried interest arrangements for Mr Sweet will continue notwithstanding the Proposals set out in this Circular.

Under their letters of appointment, non-executive directors are entitled to fees (reviewed annually).

Under their letters of appointment, all non-executive directors have fixed dates of expiry for their current terms. Both non-executive directors and the Company are required to give one month's

notice to terminate appointments. Non-executive directors are subject to re-election requirements under the Company's articles of association (as described below). The appointment letters do not contain provisions for non-executive directors to receive compensation on early termination.

In accordance with the UK Corporate Governance Code and Article 73 of the Company's articles of association, all Directors are subject to election by Shareholders at the first Annual General Meeting following their appointment. Thereafter at least a third of the Directors on the Board must retire and offer themselves for re-election. If any one or more Directors were last appointed or reappointed three years or more prior to the Annual General Meeting or at the time of the Annual General Meeting will have served more than eight years as a non-executive director (excluding the Chairman) then they must retire and offer themselves for re-election.

Full details of the Directors' emoluments and other benefits are set out on pages 24 to 33 of the Company's 2015 Annual Report and Accounts.

#### **10. Material contracts**

Save for the Subscription and Acquisition Agreement which is summarised in Part Five of this Circular, no contracts have been entered into by the Company or any of its subsidiaries, other than in the ordinary course of business, within the period of two years prior to the publication of this Circular which are or may be material.

#### **11. Relationships, arrangements or understandings between the Concert Party and J.P. Morgan Cazenove**

The Directors are not aware of any agreement, arrangement or understanding having any connection with or dependence upon the proposals set out in this Circular between any member of the Concert Party and J.P. Morgan Cazenove (or any person who is, or is presumed to be, acting in concert with J.P. Morgan Cazenove).

#### **12. Arrangements in connection with the Tender Offer**

No member of the Concert Party has entered into any agreement, arrangement or understanding with any of the Directors which has any connection with or dependence upon the Tender Offer. In addition, the Directors are not aware of any agreement, arrangement or understanding having any connection with or dependence upon the proposals set out in this Circular between any member of the Concert Party and any person interested or recently interested in Ordinary Shares, or any other recent Director.

#### **13. No significant change**

Save as disclosed in the annual general meeting statement of the Company dated 19 May 2016, there has been no significant change in the financial or trading position of the Group since 31 December 2015, being the date to which the last audited financial statements were prepared.

Since the date of the annual general meeting statement of the Company, there have been notable changes in market conditions, in particular the weakness of sterling versus the US dollar following the result of the UK referendum vote in favour of leaving the European Union. The resulting unrealised currency gains on the US dollar portion of the Company's investment portfolio have offset any downward valuation adjustments, including those in relation to the Company's exposure to UK property.

#### 14. Middle market quotations

The middle market quotations for the Ordinary Shares as derived from the Daily Official List, for the first Business Day of each of the six months immediately preceding the date of this Circular and on 25 July 2016 (being both the latest practicable and available date prior to the date of this Circular) were:

Date	Price per Ordinary Shares (pence)
1 January 2016 .....	71.0
1 February 2016 .....	67.4
1 March 2016.....	69.0
1 April 2016.....	65.4
2 May 2016.....	67.0
1 June 2016.....	61.5
1 July 2016 .....	58.0
25 July 2016 .....	63.1

#### 15. Announcement of results of the Tender Offer and Repurchase

The Company will announce the results of the Tender Offer and Repurchase through a Regulatory Information Service as soon as possible and, in any event, by no later than the Business Day following the date on which the Tender Offer and Repurchase occurs.

#### 16. Consent

J.P. Morgan Securities plc has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name and the form and context in which it appears.

J.P. Morgan Limited has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name and the form and context in which it appears.

#### 17. General

As of close of business on 25 July 2016 (being the latest practicable date prior to the date of this Circular), and save as disclosed in this Part Eight:

- (A) no member of the Concert Party has any interest in, right to subscribe in respect of or short position in relation to any relevant securities;
- (B) no member of the Concert Party has dealt in relevant securities during the period of 12 months ended on 25 July 2016 (being the latest practicable date prior to the publication of this Circular);
- (C) there are no relevant securities which any member of the Concert Party has borrowed or lent (excluding any borrowed relevant securities which have either been on-lent or sold);
- (D) none of:
  - (i) the Directors or any of their close relatives or related trusts;
  - (ii) any connected adviser (except in the capacity of an exempt fund manager or an exempt principal trader); or
  - (iii) any other person acting in concert with the Company,has as at 25 July 2016 (being the latest practicable date prior to the publication of this Circular) any interest in, right to subscribe in respect of or short position in relation to any relevant securities; and
- (E) there are no relevant securities which any person acting in concert with the Company has borrowed or lent (excluding any borrowed relevant securities which have either been on lent or sold).

In this Part Eight reference to:

- (A) “relevant securities” means Ordinary Shares and securities carrying conversion or subscription rights into Ordinary Shares;



- (B) “derivatives” includes any financial product, whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;
- (C) “short position” means a short position, whether conditional or absolute and whether in the money or otherwise, and includes any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery;
- (D) “associated company” means in relation to any company, that company’s parent subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies.
- (E) For these purposes, ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status;
- (F) “connected adviser” means:
  - (i) in relation to the Company, (a) an organisation which is advising the Company in relation to the Rule 9 Waiver Resolution; and (b) a corporate broker to the Company;
  - (ii) in relation to a member of the Concert Party, an organisation (if any) which is advising that person either (a) in relation to the Rule 9 Waiver Resolution; or (b) in relation to the matter which is the reason for that person being a member of the Concert Party; and
  - (iii) in relation to a person who is an associated company of the Company, an organisation (if any) which is advising that person in relation to the Rule 9 Waiver Resolution;
- (G) “control” means an interest, or aggregate interests, in shares carrying in aggregate 30 per cent. or more of the voting rights of a company, irrespective of whether such interest or interests give de facto control; and
- (H) “dealing” or “dealt” includes the following:
  - (i) the acquisition or disposal of securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities, or of general control of securities;
  - (ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any securities;
  - (iii) subscribing or agreeing to subscribe for securities;
  - (iv) the exercise or conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights;
  - (v) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities;
  - (vi) the entering into, terminating or varying the terms of any agreement to purchase or sell securities; and
  - (vii) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he or she has a short position.

For the purposes of this Part Eight a person is treated as “interested” in securities if he or she has long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person who only has a short position in securities is not treated as interested in those securities). In particular, a person is treated as “interested” in securities if:

- (A) he or she owns them;
- (B) he or she has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;
- (C) by virtue of any agreement to purchase, option or derivative, he or she:
  - (i) has the right or option to acquire them or call for their delivery, or
  - (ii) is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (D) he or she is party to any derivative:
  - (i) whose value is determined by reference to their price, and

- (ii) which results, or may result, in his having a long position in them.

There is no agreement or arrangement or understanding by which the beneficial ownership of any Ordinary Shares acquired by the Company pursuant to the Repurchase will be transferred to any other person. Such shares will be cancelled and the issued share capital of the Company reduced by the nominal amount of those Ordinary Shares so purchased.

As the Concert Party is a collection of individuals and entities rather than a single offeror, the Company or the Directors do not have any interests in the Concert Party of the kind described at Rule 25.4 of the Takeover Code.

## **18. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any Business Day, free of charge, at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY, from the date of this Circular up to and including the date of the Repurchase:

- (a) the articles of association of the Company;
- (b) the annual report and accounts of the Company for each of the two financial years ended 31 December 2015 and 31 December 2014 and the Company's annual general meeting statement dated 19 May 2016;
- (c) copies of the executive directors' service contracts with the Company;
- (d) copies of the non-Executive directors' letters of appointment;
- (e) the consent letters referred to in paragraph 16 above;
- (f) the irrevocable undertakings referred to in paragraph 7 of Part One (not to participate in the Tender Offer) and paragraph 4 above (to vote in favour of the Investment Policy Resolution and Repurchase Resolution);
- (g) the letters of support from AVI, Schrodgers and Majedie referred to in paragraph 2 of Part One;
- (h) the agreements related to the termination of employment of Nicholas Friedlos and Antony Sweet (as described in paragraph 9 above);
- (i) the Subscription and Acquisition Agreement;
- (j) a copy of this Circular, the Tender Form and the Form of Proxy;
- (k) an agreed form copy of the AIFM and Portfolio Management Agreement; and
- (l) an agreed form copy of the warrant instrument relating to the Warrants.

Copies of these documents will also be available on the Company's website, <http://www.lmscapital.com/Home/tabid/36/Default.aspx>, from the date of this Circular.

## **19. Incorporation by reference**

The annual report and accounts of the Company for each of the two financial years ended 31 December 2015 (see pages 41 – 71 of the 2015 annual report and accounts) and 31 December 2014 (see pages 41 – 71 of the 2014 annual report and accounts), and the Company's annual general meeting statement dated 19 May 2016 (see page one of the general meeting statement), are incorporated by reference into this Circular and are available for inspection and on the Company's website as set out in paragraph 18 above.

Any Shareholder, person with information rights or other person to whom this Circular is sent may request a copy of each of the documents set out above, or a copy of this Circular, in hard copy form. Hard copies will be sent only where valid requests are received from such persons. Requests for hard copies are to be submitted to the Company Secretary, either by post to LMS Capital plc, 100 George Street, London W1U 8NU, England, or by calling Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

## PART NINE

### DEFINITIONS

“Act”	the Companies Act 2006;
“Agent”	has the meaning given on page 30 of this Circular;
“AIFM”	an alternative investment fund manager for the purposes of the AIFM Directive;
“AIFM and Portfolio Management Agreement”	the agreement to be entered into between the Company, G10 Capital and GHAM pursuant to which G10 Capital is appointed as the Company’s AIFM, until such time as GHAM obtains a variation of its Part 4A permissions to enable it to act as a full-scope UK AIFM and GHAM becomes the AIFM in place of G10 Capital;
“AIFM Directive”	the Alternative Investment Fund Managers Directive (Directive 2011/61/EU);
“Attorney”	has the meaning given on page 29 of this Circular;
“AVI”	Asset Value Investors Limited;
“Board” or “Directors”	the board of directors of the Company;
“Business Day”	any day other than a Saturday, Sunday or public holiday on which banks are open in the City of London for the transaction of general commercial business;
“Capita Asset Services”	Capita Asset Services (the trading name of Capita Registrars Limited), Corporate Actions, 34 Beckenham Road, Beckenham, Kent, BR3 4TU;
“certificated form” or “certificated”	Ordinary Shares not recorded on the Register as being in uncertificated form in CREST;
“Company” or “LMS Capital”	LMS Capital plc;
“Concert Party”	members of the extended Rayne family and associated trusts together holding 34.04% of the Ordinary Shares and who are treated by the Panel as “acting in concert” for the purposes of the Takeover Code;
“CREST”	the relevant system (as defined in the Regulations) in respect of which Euroclear is the Operator (as defined in the Regulations);
“CREST Member”	a person who has been admitted by Euroclear as a system member (as defined in the Regulations);
“CREST Participant”	a person who is, in relation to CREST, a system-participant (as defined in the Regulations);
“CREST Proxy Instruction”	has the meaning given on page 52 of this Circular;
“CREST Sponsor”	a CREST Participant admitted to CREST as a CREST sponsor;
“CREST Sponsored Member”	a CREST Member admitted to CREST as a CREST sponsored member;
“Deferred Share Bonus Plan”	the Company’s deferred share bonus plan entitling certain key executives to receive awards of shares in the Company;
“Directors”	the directors of LMS Capital, and “ <b>Director</b> ” shall mean any one of them;
“Disclosure Guidance and Transparency Rules”	the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority;
“Electronic Tender”	an electronic tender of Ordinary Shares in accordance with paragraphs 3.4 and 4.2 of Part Six of this Circular;
“Euroclear”	Euroclear UK & Ireland Limited;

<b>“Executive Share Option Plan”</b>	the Company’s executive share option plan entitling certain key executives to receive awards of shares in the Company;
<b>“Financial Conduct Authority”</b> or <b>“FCA”</b>	the Financial Conduct Authority established under the FS Act and acting in its capacity as the competent authority for the purposes of Part 6 of FSMA;
<b>“Form of Proxy”</b>	the form of proxy for the General Meeting which accompanies this Circular;
<b>“FS Act”</b>	the Financial Services Act 2012;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000;
<b>“G10 Capital”</b>	G10 Capital Limited, a company incorporated in England and whose registered office is at 136 Buckingham Palace Road, London, SW1W 9SA;
<b>“General Meeting”</b>	the general meeting of the Company to be held at 3.00 p.m. on 16 August 2016, or any adjournment thereof;
<b>“GHAM”</b>	Gresham House Asset Management Limited, a company incorporated in England and whose registered office is at 5 New Street Square, London, EC4A 3TW;
<b>“Gresham House”</b>	Gresham House plc, a company incorporated in England and whose registered office is at 5 New Street Square, London, EC4A 3TW;
<b>“Gresham House Resolutions”</b>	the resolutions to be proposed at a general meeting of Gresham House to be held on or around 16 August 2016 in relation to the issue of the Warrants;
<b>“Group”</b>	LMS Capital plc, together with its subsidiaries and subsidiary undertakings;
<b>“Independent Directors”</b>	all of the members of the Board other than the Non-Independent Director;
<b>“Independent Shareholders”</b>	all Shareholders other than the Concert Party;
<b>“Investment Policy Resolution”</b>	resolution 1 in the Notice of General Meeting;
<b>“J.P. Morgan Cazenove”</b>	in relation to the Tender Offer means J.P. Morgan Securities plc and in relation to the Waiver means J.P. Morgan Limited, (each of which conducts its UK investment banking activities as J.P. Morgan Cazenove);
<b>“Listing Rules”</b>	the Listing Rules of the Financial Conduct Authority;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Majedie”</b>	Majedie Asset Management Limited;
<b>“Option Agreement”</b>	the agreement dated 27 July 2016 between the Company and J.P. Morgan Cazenove, further details of which are set out in Part Six of this Circular;
<b>“Options”</b>	awards made under the Deferred Share Bonus Plan, the Executive Share Option Plan and the Performance Share Plan and any awards made under any other employees’ share scheme or long-term incentive scheme (as such terms are defined in the Listing Rules) made by the Company in respect of Ordinary Shares from time to time;
<b>“Ordinary Shares”</b>	the issued ordinary shares of 10 pence each in the share capital of the Company;
<b>“Overseas Shareholder”</b>	a Shareholder who is resident in, or a citizen of, a jurisdiction outside the United Kingdom;
<b>“Panel”</b>	the Panel on Takeovers and Mergers;
<b>“Participant ID”</b>	the identification code or membership number used in CREST to identify a particular CREST Member or other CREST Participant;

<b>“Performance Share Plan”</b>	the Company’s performance share plan entitling certain employees to receive awards of shares in the Company;
<b>“Proposals”</b>	has the meaning given on page 5 of this Circular;
<b>“Prudential Regulation Authority”</b>	the Prudential Regulation Authority established under the FS Act;
<b>“Qualifying Shareholders”</b>	Shareholders entitled to participate in the Tender Offer, being those who are on the Register on the Tender Offer Record Date and who are not Shareholders subject to the securities laws of a Restricted Jurisdiction;
<b>“Receiving Agent”</b>	Capita Asset Services;
<b>“Register”</b>	the Company’s register of members;
<b>“Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755);
<b>“Regulatory Information Service”</b>	any of the services set out on the FCA’s list of regulated information services (as set out on the FCA’s website) from time to time;
<b>“Repurchase”</b>	the purchase by the Company of Ordinary Shares from J.P. Morgan Cazenove in connection with the Tender Offer pursuant to the authority granted under the Repurchase Resolution, and “Repurchased” shall be construed accordingly;
<b>“Repurchase Resolution”</b>	resolution 3 in the Notice of General Meeting;
<b>“Resolutions”</b>	the resolutions set out in the Notice of General Meeting at the end of this Circular;
<b>“Restricted Jurisdiction”</b>	each of Australia, Canada, Japan, New Zealand, the United States of America, South Africa and any other jurisdiction where the mailing of the Tender Form or accompanying documents into or inside such jurisdiction would constitute a violation of the laws of such jurisdiction;
<b>“Rule 9 Waiver Resolution”</b>	resolution 2 in the Notice of General Meeting;
<b>“Schroders”</b>	Schroder Asset Management Limited;
<b>“SDRT”</b>	stamp duty reserve tax;
<b>“Shareholders”</b>	holders of Ordinary Shares;
<b>“Subscription and Acquisition Agreement”</b>	has the meaning given on page 21 of this Circular;
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers as issued by the Panel, as amended from time to time;
<b>“tender” or “tendered”</b>	refers to tenders by Qualifying Shareholders of Ordinary Shares pursuant to the Tender Offer;
<b>“Tender Conditions”</b>	has the meaning given on page 23 of this Circular;
<b>“Tender Form”</b>	the tender form issued with this Circular to Qualifying Shareholders for use in respect of Ordinary Shares held in certificated form;
<b>“Tender Offer”</b>	the invitation by J.P. Morgan Cazenove to Qualifying Shareholders to tender Ordinary Shares for sale to J.P. Morgan Cazenove on the terms and subject to the conditions set out in this Circular and, in the case of Ordinary Shares held in certificated form only, using the Tender Form;
<b>“Tender Offer Price”</b>	the price per Ordinary Share payable under the Tender Offer which will be set on the date of the General Meeting by reference to the net asset value of the Company as at 30 June 2016;
<b>“Tender Offer Record Date”</b>	6.00 p.m. on 31 August 2016;

<b>“TFE instruction”</b>	a transfer from escrow instruction (as defined by the CREST manual issued by Euroclear);
<b>“TTE instruction”</b>	a transfer to escrow instruction (as defined by the CREST manual issued by Euroclear);
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“uncertificated” or “in uncertificated form”</b>	Ordinary Shares which are recorded on the register of members of the Company as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST;
<b>“Waiver”</b>	has the meaning given on page 11 of this Circular; and
<b>“Warrants”</b>	the warrants to enable the Company to subscribe for up to 1,379,409 ordinary shares in the capital of Gresham House on the terms described in Part Five of this Circular.



## PART TEN

### LMS CAPITAL PLC

#### NOTICE OF GENERAL MEETING

NOTICE is hereby given that a General Meeting of LMS Capital plc (the “**Company**”) will be held at 3.00 p.m. on 16 August 2016 at Durrants Hotel, 26-32 George Street, London W1H 5BJ to consider and, if thought fit, pass the following resolutions, of which Resolutions 1 and 2 will be proposed as ordinary resolutions and Resolution 3 will be proposed as a special resolution. Resolution 2 may be voted on only by the Independent Shareholders and by way of a poll.

Capitalised terms not otherwise defined within this notice shall have the meanings given to them in the circular dated 27 July 2016 of which this notice forms part (the “**Circular**”).

#### Resolutions

1. THAT, subject to, and conditional upon:
  - (A) the appointment of an AIFM to the Company; and
  - (B) the appointment of a depositary by the Company, the proposed investment objective and investment policy described in Part Two of the circular to Shareholders of the Company dated 27 July 2016 of which this notice forms part, be approved and adopted as the investment objective and investment policy of the Company in substitution for, and to the exclusion of, the Company’s existing investment objective and investment policy;
2. THAT, approval is granted for the waiver by the Panel on Takeovers and Mergers of any obligation which may otherwise arise, pursuant to Rule 9 of the City Code on Takeovers and Mergers, for the Concert Party (or any member thereof) to make a general offer for all the issued share capital of the Company following any increase in the percentage of shares in the Company carrying voting rights in which the Concert Party (or any member thereof) is interested as a result of the Tender Offer and the subsequent Repurchase; and
3. THAT, subject to, and conditional upon, the waiver by the Panel on Takeovers and Mergers referred to in resolution 2 becoming effective, the Company be and is hereby generally authorised for the purposes of section 701 of the Companies Act 2006 (the “**Act**”) to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10p each (the “**Ordinary Shares**”) in the capital of the Company, in connection with the Tender Offer and Repurchase, provided that:
  - (A) the maximum number of Ordinary Shares that may be purchased under this authority is 8,000,000;
  - (B) the minimum price which may be paid for any Ordinary Share is the nominal amount of that Ordinary Share and the maximum price which may be paid for any Ordinary Share is the Tender Offer Price; and
  - (C) this authority will expire at the close of business on 31 December 2016.

27 July 2016

By order of the Board

Antony Sweet  
Company Secretary

Registered office:  
LMS Capital plc  
100 George Street  
London W1U 8NU

Registered in England and Wales No. 05746555

## Notes

1. Members or their duly appointed representatives are entitled to attend, speak and vote at the General Meeting. Members are entitled to appoint a proxy to exercise on their behalf all or any of their rights to attend and to speak and vote at the General Meeting. A Shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different Ordinary Share or Ordinary Shares held by that Shareholder. A proxy need not be a Shareholder. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies the Circular of which this Notice forms part. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals described in the Circular nor give any financial, legal or tax advice.
2. To be valid, Forms of Proxy must be completed and returned by post or (during normal business hours only) by hand to Capita Asset Services by no later than 3.00 p.m. on 12 August 2016. Proxy appointments may also be made at [www.capitashareportal.com](http://www.capitashareportal.com), again no later than 3.00 p.m. on 12 August 2016.
3. The return of a completed Form of Proxy, the appointment of a proxy at [www.capitashareportal.com](http://www.capitashareportal.com) or any CREST Proxy Instruction (as described in paragraphs 8 to 10 below) will not preclude a Shareholder from attending the General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “**Nominated Person**”) may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person holds no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.
5. The statement of the rights of Shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in those paragraphs can only be exercised by Shareholders.
6. To be entitled to attend and vote at the General Meeting (and for the purpose of determination by the Company of the votes they may cast), Shareholders must be registered in the register of members of the Company by close of business on 12 August 2016 (or, in the event of any adjournment, close of business on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the General Meeting.
7. As at 25 July 2016 (being the latest practicable date prior to the publication of this Notice), the Company’s issued share capital consisted of 103,584,592 Ordinary Shares, carrying one vote each. No Ordinary Shares were held in treasury. Therefore, the total voting rights of the Company as at 25 July 2016 were 103,584,592.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual which can be viewed at [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting services provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent Capita Asset Services (ID RA10) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. In the case of joint holders of an Ordinary Share, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names appear in the register of members. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same Ordinary Shares.
12. If a Shareholder submits more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.
13. Any member attending the General Meeting has a right to ask questions.
14. A copy of this Notice and other information required by section 311A of the Act can be found at [www.lmscapital.com](http://www.lmscapital.com).
15. You may not use any electronic address provided in this Notice, in the Circular of which it forms part or any related documents (including the Form of Proxy) to communicate with the Company about proceedings at the General Meeting or the contents of this Notice or for any purpose other than those expressly stated.