

LONDON FINANCE & INVESTMENT GROUP P.L.C.

Corporate Governance Statement 2016

Corporate Governance is the process by which companies are controlled and directed to achieve the objectives of the organisation. Key to achievement of objectives is having clarity about the objective and the right people in place. Processes and structures are of secondary importance as, without a focus on outcomes and without the right people, it is only by chance that objectives will be met.

The UK Listing Authority requires UK premium listed companies to comply with the UK Corporate Governance Code (the **Code**), which focuses on processes and structures, and which is deemed to constitute best practice in Corporate Governance for most companies. Directors are required to report to shareholders on how the Company applies the principles, and confirm that the Company complies with the Code's provisions, or explain why it does not.

The Company has been in full compliance with the Code throughout the year ended 30 June 2016 except for the fact that Requirement B.7.1 of the Code recommends that non-executive directors who have served longer than nine years should be subject to annual re-election. David Marshall, Dr Frank Lucas, John Maxwell and Michael Robotham have all served longer than nine years. However, having considered the matter, the Board have decided that, given the size of the Company and the nature of its business, it is not appropriate for these directors to be subject to re-election annually. They will, however, be subject to retirement by rotation in accordance with the Company's Articles of Association as described below. In addition to this, the Code recommends that a majority of the members of a company's nominations committee should be independent non-executive directors with the chairman also being independent. The Company's Nominations Committee comprises of two Directors, only one of which is deemed to be independent. However, the Board, having considered the matter, regards the current members of the committee to be the most appropriate given the size of the Company, and also the Board, and the balance of skills of the Directors.

The JSE requires that companies report on their compliance with Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance (the **King Report**). The Board has reviewed the matter and recorded that in so far as those matters contained in the King Report are of concern to the Company, in complying with the Code of Corporate Practices and Conduct, it is satisfied that the Group has complied with the requirements of the King Report throughout the year ended 30 June 2016.

Composition of the Board

The Board comprises the Chairman, David Marshall, Senior Independent Non-Executive Director, John Maxwell, and Non-Executives, Michael Robotham, Dr Frank Lucas, Lloyd Marshall and Edward Beale. The Board has reviewed the independence of the Non-Executive Directors and John Maxwell and Dr Frank Lucas are considered by the Board to be independent despite the fact that both have served on the Board for more than nine years. The Code suggests that

serving more than nine years could be relevant to the determination of a non-executive director's independence. The Board concluded that John Maxwell and Dr Frank Lucas both continue to demonstrate the essential characteristics of independence expected by the Board. In reaching this decision, the Board also took into account the fact that Dr Frank Lucas was a director of Loeb Aron & Company Limited which until 30 June 2016 acted as an ISDX corporate adviser to Western Selection P.L.C.

Responsibility for the process of appointment of directors rests with the Board acting on the recommendations of the Company's Nominations Committee. The removal of directors is a Board decision. The Board reviews the need for succession planning on a regular basis.

The Company's Articles of Association require that all new Directors seek election to the Board at the next Annual General Meeting after their appointment. In addition, at every annual general meeting one-third of the directors are subject to retirement by rotation provided that the number of directors retiring shall not exceed one-third. As a long term investment company it is appropriate for directors to serve on the Board for more than a single term, subject to continuing satisfactory performance. Given the small size of the Board, this results in infrequent changes to the composition of the Board.

Workings of the Board

The Board is collectively responsible to shareholders for the success of the Group. Entrepreneurial leadership is provided by capitalising on the skills and experience of the Investment Committee allied to the strategic vision and expertise of other Board members.

The Board has three committees, the Investment Committee is chaired by David Marshall and its other members are Lloyd Marshall and Michael Robotham. The Nomination Committee is chaired by Michael Robotham and its other member is Dr Frank Lucas. The Audit Committee is chaired by Dr Frank Lucas and its other member is John Maxwell. Both members of the Audit Committee have recent and relevant financial experience. All matters not specifically delegated to a committee are reserved for the Board. Committee meetings are held independently of Board meetings and invitations to attend are extended by the Committee chairman to other directors and the Group's advisers as appropriate.

There is no Remuneration Committee as there are no Executive Directors. The aggregate remuneration of directors is limited by the Company's Articles of Association and this aggregate amount can only be changed by the Company in General Meeting. The current rates of remuneration are set out in detail in the Remuneration Report. The remuneration of the Executive Directors and employees of the Company's subsidiary, City Group P.L.C. (City Group), is determined by the Board of City Group, which includes David Marshall, Lloyd Marshall, Michael Robotham and Edward Beale.

As an investment company, there is no Chief Executive. The Chairman is responsible for the effective performance of the Board through control of the Board's agenda and running of its meetings. The Chairman organises opportunities for directors to spend time with each other on an informal basis to improve communication and relations between directors.

A representative of City Group, the Company Secretary, attends all Board meetings to record proceedings and is available at any time to advise on any corporate governance issues that arise. The Company Secretary is also responsible to the Chairman for the efficient organisation of Board and Committee meetings including circulation of papers in advance of meetings. Management reports including cash movements, portfolio movements and valuations are regularly circulated to all Directors for review.

The Board met on seven occasions during the year, the Audit Committee met on one occasion and the Nomination Committee met on two occasions, all following a formal agenda. Attendance at Board, Audit and Nomination Committee meetings during the year is shown in the following table:

No. of meetings in the year	Board	Audit Committee	Nomination Committee
	7	1	2
D C Marshall	7	-	-
Dr F W A Lucas	4	1	2
L H Marshall	7	-	-
J H Maxwell	3	1	-
J M Robotham	6	-	2
E J Beale (Appointed 13 April 2016)	1	-	-

The Group's strategic aim is to generate growth in shareholder value in real terms over the long term through a mix of investments and utilising a prudent level of bank borrowing. The investment mix and level of gearing are reviewed at each Board meeting. All major investment decisions are taken by the Board. The Investment Committee has delegated authority within certain limits for the management of the General Portfolio between Board meetings.

The Board, through review of the management reports, scrutinises the performance of the Company against the objective of real growth in shareholder value over the long term.

New Directors receive an induction programme and all Directors are encouraged to maintain personal continuing professional education programmes.

The Board evaluates its own performance annually and that of its committees and individual directors through the annual completion of performance questionnaires.

Audit Committee

The Board of the Company, through its Audit Committee, annually reviews all material internal controls, including financial, operational and compliance controls, and risk management systems. As a result of this review, procedures are adopted which mitigate those risks which have not been specifically accepted under the Group's investment policy. The responsibility on a day to day basis for maintaining a sound system of internal controls rests with the directors of City Group which provides day to day administration and accounting services to the Group.

There is a well-established system of internal controls set within a framework of clearly defined structures and accountabilities with well understood policies and procedures; supported by training, budgeting, reporting and review procedures. Board decisions are implemented on a day to day basis by the subsidiary company, City Group. The framework for internal financial control established in that company has been reviewed by the Board and is regarded as effective. The reporting and review procedures provide assurance to the Board as to the adequacy and effectiveness of internal controls. The Board recognises that it is not possible to divide some functions as would be the case in larger organisations and accepts that close

supervision is necessary. The directors have considered the need for an internal audit function and do not believe that one is appropriate because monitoring processes are applied to give reasonable assurance to the Board that the systems of internal control are functioning as intended.

An annual self-assessment of risk is performed which identifies the areas in which the Group is most exposed to risk, considers the financial implications and assesses the adequacy and effectiveness of their control. The Board has discussed the results of this review and the Directors can therefore confirm that they have reviewed the effectiveness of the Company's system of internal control.

The Board maintains an appropriate relationship with the Company's auditors through the audit committee. The auditors do not provide any non-audit services other than payroll processing and limited advice on taxation matters.

Nomination Committee

The Board has formed a Nomination Committee which has been charged with nominating suitable candidates for the Board to consider recommending to the shareholders for appointment as directors of the Company. Changes to the composition of the Board are not anticipated to occur on a frequent basis. Whenever a change is anticipated, a job description for the role will be agreed by the Nominations Committee, taking into account the expertise available to the Group from the other members of the Board and the need to acquire any specific capabilities. The Nomination Committee will then undertake whatever process is most appropriate for the identification of suitable candidates and their assessment, taking into account any other commitments candidates might have. Appointments will be made on merit against objective criteria.

Shareholder Communications

The Board strives to present a balanced and understandable assessment of the Company's position and prospects in all interim and other price-sensitive public reports and in reports to regulators as well as in the information required to be presented by statutory requirements. The Chairman welcomes comments on the quality of reports and any areas for improvement.

Shareholder communication centres primarily on the publication of annual and interim accounts and occasional press releases and trading updates. The Chairman is available for discussions with shareholders throughout the year and particularly at the time of results announcements. Mr J. H. Maxwell, the Senior Independent non-executive director is also always available should a shareholder wish to draw any matters to his attention.

The Annual General Meeting provides a forum for discussion by shareholders with the Board. Shareholders are encouraged to attend the AGM and to participate in proceedings by asking questions during the formal part of the meeting, voting on the resolutions put to the meeting and providing Board members with their views in informal discussions after the meeting.

