GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2002

DIRECTORS AND ADVISERS

Company Number	871
Directors	A. P. Stirling, F.C.A. *Chairman and Managing* B. J. Hallett, F.C.A *Finance* A. G. Ebel, LL.B., F.C.A. *Non-executive* N. J. Rowe *Non-executive* T. J. Rowe *Non-executive*
Secretary	B. J. Hallett, F.C.A.
Registered Office	36 Elder Street London E1 6BT
Auditors	PKF New Garden House 78 Hatton Garden London EC1N 8JA
Registrars	Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
Solicitors	Stallards Centurion House 37 Jewry Street London EC3N 2EX

CHAIRMAN'S STATEMENT

As all our shareholders will be aware 2002 has been a difficult year for virtually all Investment Trusts and all companies involved in unquoted investments or start up situations.

The investment environment has been the most difficult since the traumatic period around 1974. The three years to 31st December 2002 has seen the FTSE All Share Index fall from 3242, which was close to its peak, to 1894, a drop of 41.6%.

Our results for the year to 31st December 2002 show an increased loss per ordinary share from 1.5p, for the previous year, to 56.3p. This is largely a reflection of falling markets, combined with a 5.7% fall in income and an increase in other expenses.

The basic net asset value per ordinary share however has been relatively resilient, having fallen 11.6% during the year to 488.3p as against the FTSE All Share Index, which in the same period fell from 2558 to 1895, a drop of 25.9%. Put in an overall three-year context your Company's net asset value per ordinary share increased over these same three years from 209.6p to 488.3p, an increase of 132.9%.

The share price, despite its recent fall, has increased over the same three-year period by 364.3%.

Your Company's share performance has in the past largely reflected that of its better known small company investments. A prime example is that of Transense Technologies, which in recent years has been our largest investment but now represents only 7.7% of the share portfolio, primarily as a result of the drop in its share value resulting from the delay in its flow of royalty income. Consequently Image Scan Holdings, which is also quoted on AIM, becomes our largest holding representing 17.5% of the portfolio.

Image Scan's core technology relates to innovative imaging techniques, their interpretation and application. It has developed an expertise, supported by patent applications, in multi-view X-Ray imaging, where it is possible to extract three-dimensional information from objects under inspection. It has particular relevance in the field of security, such as airport baggage inspection, and in industrial inspection, evidenced by in-line and on-line 3D X-Ray inspection of assembled high value and safety critical components.

Continuing our strategy of seeking innovative early stage investments we subscribed for an equity interest in the formation of SpaceandPeople Limited at the beginning of 2001.

SpaceandPeople Limited specialises in the marketing of promotional areas of the UK's leading shopping centres. In its first two years of trading it increased the portfolio of shopping centres under its management to seventy leading centres addressing a weekly footfall of over fifteen million people. This new form of highly economic advertising and customer communication media shows every prospect of offering substantial potential growth.

The performance of the property portfolio has remained steady. A number of renovations have been carried out to older buildings and in one case we have completely rebuilt one of our large warehouse units. The costs of these improvements, which have increased the value of the portfolio, have been reflected by a similar increase in the related borrowings.

The performance of your Company will of course largely reflect that of the economy as a whole and in particular the general economic sentiment, in that it materially affects the fortunes of young companies. We continue to see a number of potentially attractive investments but we remain cautious as to growth in the short term.

In consequence your Board proposes that the final dividend be maintained at its present level of 3.1p.

15th May, 2003

A. P. Stirling
Chairman

REPORT OF THE DIRECTORS

To be presented to the members at the Annual General Meeting to be held at 36 Elder Street, London E1 6BT on 19th June, 2003 at 11.00 a.m.

Revenue Account

The statement of total return which includes the revenue account is set out on page 12 and shows the results for the year ended 31st December, 2002.

Dividends

The directors recommend a final dividend of 3.1p (2001: 3.1p) per Ordinary Share, payable on 25th June, 2003.

Business

The Company's business activity is that of an Authorised Investment Trust.

A review of the Group's business for the year together with developments since the year end and for the future is included in the Chairman's Statement on page 2.

For the year ended 31st December, 2001 the Inland Revenue has approved the Company as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 and since that date the directors have sought to conduct its affairs so as to enable it to continue to maintain such approval. In the opinion of the directors, the Company is not a close company.

Personal equity plans – the Company complies with the EC equities rule, meeting the 50% EC equity content requirement of a qualifying investment trust for personal equity plans. It is the intention of the directors to continue meeting this requirement. The Company's shares may also qualify for inclusion in a stocks and shares ISA depending on the interpretation of Inland Revenue rules. Any shareholder considering an investment in their PEP or ISA should take professional advice before so doing. The Company cannot take any responsibility for potential losses which may be incurred by shareholders.

The portfolio is not managed against a Benchmark. The reference to the Financial Times All Shares Index in the Chairman's Statement and the Remuneration Report is provided only as a guide to shareholders. The portfolio is managed on a high risk strategy basis.

Investment Portfolio

At 31st December, 2002 the portfolio was invested in the following sectors:

	%
Electrical	18
Engineering	17
Financial (including Investment Trusts)	15
Motor	8
Government Securities	6
Media & Photography	5
Pharmaceutical	5
Electricity	4
Information Technology	4
Advertising	3
Foods	3
Household and Textile	3
Building & Construction	2
Consultancy	2
Tobacco	2
Insurance	1
Mining	1
Property Investment	1
	100

REPORT OF THE DIRECTORS – CONTINUED

Directors

The present directors are listed on page 1. There have been no changes during the year. The director retiring by rotation is Mr. T. J. Rowe and, being eligible, he offers himself for re-election. Mr Rowe is a member of the Remuneration Committee and has been a shipbroker since 1975. He is currently a director of the roll-on/roll-off high speed ferry department of Howe Robinson and Company Limited.

Contracts of significance in which the directors had a material interest are disclosed in note 24.

Substantial Shareholdings

At the date of this report the following substantial shareholdings representing more than three per cent of the Company's issued share capital, other than those held by directors, have been notified to the Company:

	%	Ordinary Shares
Newinnhall Trust Limited	38.92	1,700,000
Sir J. J. Scott Bt.	4.51	197,100

Directors' Interests

The number of shares in the Company in which the directors were deemed to be interested as at 31st December, all of which are beneficially held, are as follows:

	2002	2001
A. G. Ebel	5,550	3,800
B. J. Hallett	49,850	55,100
N. J. Rowe	13,750	5,000
T. J. Rowe	32,650	28,900
A. P. Stirling	371,127	370,000

Since the year end Messrs Ebel, Hallett, T. J. Rowe and Stirling have increased their holdings to 22,550, 74,850, 42,650 and 397,015 respectively.

Gresham House Finance plc Loan Stock
The amount of 8% Secured Loan Stock 2006 in Gresham House Finance plc in which the directors were deemed to be interested as at 31st December, 2002, all of which is beneficially held is as follows:

	2002	2001
A. G. Ebel	—	—
B. J. Hallett	4,000	8,000
N. J. Rowe	88,000	88,000
T. J. Rowe	45,000	45,000
A. P. Stirling	100,000	65,000

Share Option Schemes

No options were granted during the year ended 31st December, 2002. Details of options outstanding at the year end are detailed in note 16. Details of options granted to directors are disclosed in the Remuneration Report on page 8.

The remuneration committee regard the provision of options as a suitable form of incentive for management and senior personnel and, as no further options may be granted under existing share option schemes, the last being in 1997, a resolution is to be put before shareholders at the forthcoming annual general meeting to authorise the introduction of an Inland Revenue approved share option scheme.

REPORT OF THE DIRECTORS – CONTINUED

Statement of the Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the revenue account, statement of total recognised gains and cash flows of the Group for that period.

In preparing those accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report, the Remuneration Report and other information included in the annual accounts are prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Payment Policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 31st December, 2002 trade creditors represented 34 days purchases.

Auditors

PKF have expressed their willingness to continue in office as auditors, and in accordance with Section 384 of the Companies Act 1985, a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By Order of the Board,

B. J. Hallett, *Secretary*

36 Elder Street
London E1 6BT

15th May, 2003

REMUNERATION REPORT

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming annual general meeting.

Remuneration Committee

The policy on Directors' remuneration is formulated by the Remuneration Committee, which consists of all three non-executive directors of the Company under the chairmanship of Mr N J Rowe. The Committee is responsible for determining the terms of service and remuneration of the executive directors.

Remuneration Policy

The Remuneration Committee's policy is to be designed to attract, retain and motivate the executive directors and other senior executives to reflect their levels of responsibility and experience. The Committee is of the opinion that there is no similar investment trust with which direct comparison can be made, but the Committee does consider generally the level of fees paid by other investment trusts that are of similar size when making its recommendations.

Remuneration Package

Executive remuneration consists of a basic salary and certain benefits in kind, which include pension contributions and disability and health insurance, none of which are subject to performance criteria. During the year ended 31st December, 2002 the company car benefit for the executive directors was replaced by a cash equivalent determined by the Committee which is now included in the basic salary amounts. Executive directors are also eligible for share options details of which are shown below.

No bonuses were awarded in respect of the year ended 31st December, 2002, but in view of the exceptional performance of the Group for the year ended 31st December, 2000 the Committee awarded a bonus of £50,000 to Mr Stirling which is included in the comparative results for 2001. In addition during 2001 the Committee reviewed the salary position of the Chairman who had not received an increase in his salary since 1992. As a result he was awarded a sum of £74,000 in respect of the period 1st January, 1992 to 31st December, 2000.

Each element of remuneration paid to all directors is shown in detail below.

Service Contracts

It is the Board's policy that none of the directors have a service contract. The terms of their appointment provide that a director shall retire and be subject to re-election at the first annual general meeting after their appointment. Thereafter all directors are obliged to retire by rotation, and if they so wish, to offer themselves for re-election, in accordance with the Articles of Association whereby one-third of the directors retire every year, or where their number is not a multiple of three, then the number nearest to but not exceeding one-third retire from office.

Pensions

Whilst the Company operated a pension scheme for the benefit of the Chairman this ceased as at 31st December, 2000. No contributions had been made by the Company for over 14 years. The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31st December, 2002 contributions amounted to £8,400 (2001: £8,400).

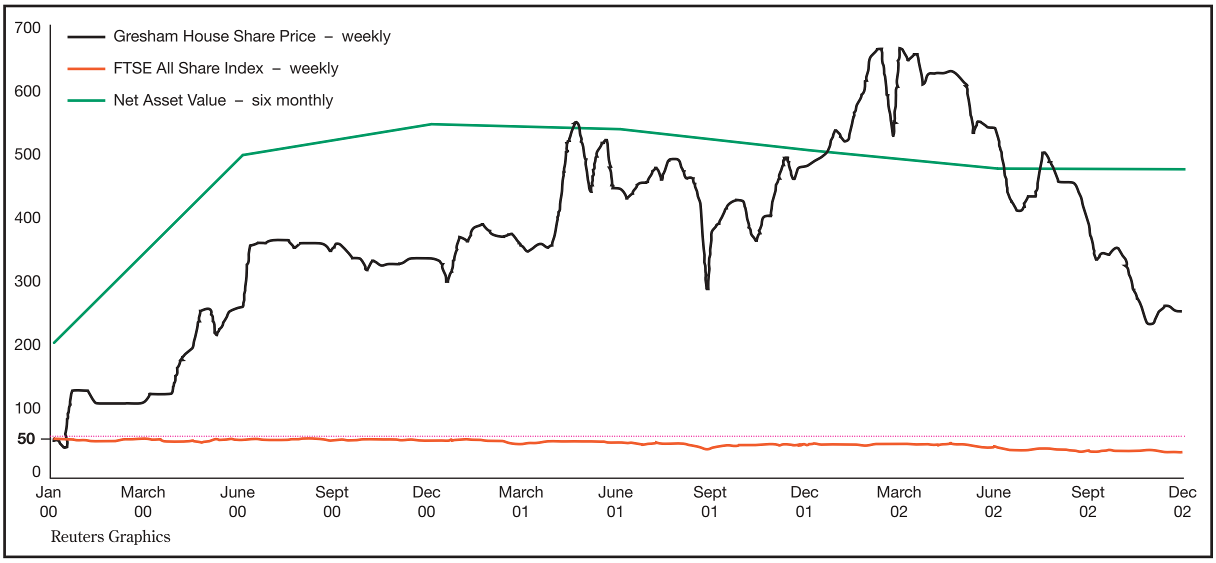
REMUNERATION REPORT – CONTINUED

Non-Executive Directors' Fees

The executive directors are responsible for determining the level of fees paid to the non-executive directors. Non-executive directors are not eligible for bonuses, pension benefits or long-term incentive schemes but, given the level of the fees paid, are eligible for share options as detailed below.

Company Performance

The graph below compares the Company's share price movement and net asset value with that of the FTSE All-Share Index over the last 3 years. This index has been chosen for comparison purposes as the directors believe it is the only benchmark readily available for such purposes.



Comparative movements

	1.1.2000	31.12.2002	% change
Gresham House Share Price	56p	260p	+364.3%
FTSE All Share Index	3242	1894	–41.6%
Net Asset Value	209.6p	488.3p	+132.9%

REMUNERATION REPORT – CONTINUED

The following information has been audited:

Directors' Emoluments

The directors who served in the year received the following emoluments:

	Basic Current £'000	Salary Prior years £'000	Bonus £'000	Fees £'000	Benefits £'000	Pension £'000	Total 2002 £'000	Emoluments 2001 £'000
Executive:								
A. P. Stirling (Chairman and highest paid director)	145	—	—	—	12	—	157	258
B. J. Hallett	82	—	—	—	1	8	91	87
Non-executive:								
A. G. Ebel	—	—	—	5	2	—	7	7
N. J. Rowe	—	—	—	5	—	—	5	5
T. J. Rowe	—	—	—	5	—	—	5	5
Total	227	—	—	15	15	8	265	362
Total 2001	186	74	50	15	29	8	362	

Share Option Schemes

Details of share options for each director are as follows:

Director	At 1st January 2002	Exercised 19th May 2002	At 31st December 2002	Exercise date	Exercise Price per ordinary share
A. G. Ebel	20,000	(3,000)	17,000	8.8.2000-8.8.2004	25p
B. J. Hallett	125,000		125,000	14.11.2000-14.11.2004	25p*
N. J. Rowe	20,000	(10,000)	10,000	8.8.2000-8.8.2004	25p
T. J. Rowe	20,000	(10,000)	10,000	8.8.2000-8.8.2004	25p
A. P. Stirling	25,000		25,000	14.11.2000-14.11.2004	25p*

*The option is not exercisable until the mid-market price is at least 30p per ordinary share.

No options were granted or lapsed during the year. The middle market price of the shares of Gresham House plc at the time of the exercise of options was 660p on 19th May, 2002. As at 31st December, 2002, the middle market price was 260p and the range during the year 2002 was 230p to 700p.

Since the year end Messrs Ebel, Hallett and Stirling have exercised options over 17,000, 25,000 and 25,000 ordinary shares respectively when the middle market price of the Company's shares was 87.5p and Mr T. J. Rowe has exercised options over 10,000 ordinary shares when the middle market price of the Company's shares was 230p.

The following information is unaudited:

The Remuneration Committee, who are responsible for the operation and administration of the Company's unapproved share option scheme, regard the provision of options as a suitable form of incentive for management and senior personnel. Options granted over shares in excess of 5% of the Company's issued ordinary share capital are subject to performance requirements determined at the date of grant by the Committee. No options were granted during the year ended 31st December, 2002. Details of all options outstanding at the year end are detailed in note 16.

On behalf of the Board
N. J. Rowe *Chairman*, Remuneration Committee
15th May, 2003

CORPORATE GOVERNANCE

The board is accountable to the Company's shareholders for good governance and the information and statements below describe how the principles identified in the Combined Code have been applied.

During the year ended 31st December, 2002, with the exceptions outlined below, the Company has been in compliance with the Combined Code of Principles of Good Governance and Code of Best Practice ("the Combined Code") annexed to the Listing Rules of the Financial Services Authority.

The Company did not find it practical, largely because of its size, to embrace fully all of the recommendations of the Combined Code and has not complied with provisions A.6.1 and A.6.2 concerning the appointment of non-executive directors for specified terms and the re-election of all directors at intervals of no more than three years; and provisions D.3.1 and D.3.2 concerning the establishment and duties of an audit committee for the reasons detailed below.

Directors and Directors' Remuneration
The board, which consists of two executive and three non-executive directors, meets regularly throughout the year and receives regular timely information in a form and of a quality appropriate to enable it to discharge its duties.

Given the small size of the board, the board as a whole fulfils the function of the nomination committee.

Non-executive directors are not appointed for specified terms nor have any automatic right of reappointment. The board believes that, because of the nature of the business, the contribution and independence of a non-executive director is not diminished by long service but that a detailed knowledge of the Company and its activities is most beneficial. All non-executive directors are considered to be independent with Mr A. G. Ebel having been appointed as senior independent director on 18th March, 1999.

All directors are subject to election by shareholders at the first AGM after their appointment and to retirement by rotation and re-election by shareholders in accordance with the Articles of Association whereby one-third of the directors retire every year, or where their number is not a multiple of three, then the number nearest to but not exceeding one-third retire from office.

The Remuneration Committee consists of the three non-executive directors under the chairmanship of Mr N. J. Rowe. This committee is responsible for determining the terms of service and remuneration of the executive directors. Further details of directors' remuneration are set out in the Remuneration Report.

As has been the position for many years the role of chairman and chief executive continues to be combined. Given the size and nature of the Group the board does not consider it necessary to change this position having regard to the strong and independent non-executive element on the board.

Relations with Shareholders
The board welcomes as many shareholders as possible to attend the Annual General Meeting and encourages discussions on issues of concern or areas of uncertainty that they may have during and after the formal proceedings.

Accountability and Audit
In preparing these accounts, reports and supplementary information the directors have had due regard to their responsibility to present a clear and balanced assessment of the Group's position and prospects. Close liaison with the auditors has been maintained in this respect with the Annual Report containing a statement by the directors of their responsibilities in respect of the accounts in addition to a report of the auditors setting out their reporting responsibilities.

After making enquiries the directors have formed a judgement at the time of approving the accounts, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

The board is responsible for the Group's system of internal control, including financial, operational and compliance controls and risk management, and for reviewing its effectiveness.

CORPORATE GOVERNANCE – CONTINUED

During the year ended 31st December, 2000 the board introduced procedures designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. These procedures include a review of the significant risks faced by the Group and an assessment of their potential impact and likelihood of occurrence.

Such review procedures have been in place since 21st December, 2000 to the date of this report and the board is satisfied with the effectiveness of internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss.

The board has reviewed the need for an internal audit function. The board has decided that, given the nature of the Group's business and assets and the overall size of the Group, the systems and procedures currently employed by the Group provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Group's assets, is in place. An internal audit function is therefore considered unnecessary.

As stated previously, no audit committee has been established as, given the size of the Group, the board does not consider that the interests of shareholders would be better served by the existence of such a committee.

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GRESHAM HOUSE PLC

We have audited the accounts of Gresham House plc for the year ended 31st December, 2002 which comprise the Statement of Total Return, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Remuneration Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report, the unaudited part of the Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Remuneration Report to be audited.

Opinion

In our opinion the accounts give a true and fair view of the state of the group's and the company's affairs as at 31st December, 2002 and of the group's total return for the year then ended and the accounts and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF
Registered Auditors

16th May, 2003
London, UK

CONSOLIDATED STATEMENT OF TOTAL RETURN

FOR THE YEAR ENDED 31st DECEMBER, 2002

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Losses on investments	8	—	(3,497)	(3,497)	—	(2,270)	(2,270)
Income	1	4,240	—	4,240	4,498	—	4,498
Other expenses	2	(1,767)	—	(1,767)	(1,019)	—	(1,019)
Net return before finance costs and taxation		2,473	(3,497)	(1,024)	3,479	(2,270)	1,209
Interest payable and similar charges	4	(1,450)	—	(1,450)	(1,277)	—	(1,277)
Return on ordinary activities before taxation		1,023	(3,497)	(2,474)	2,202	(2,270)	(68)
Taxation	5	—	—	—	—	—	—
Return on ordinary activities after taxation attributable to equity shareholders		1,023	(3,497)	(2,474)	2,202	(2,270)	(68)
Dividends in respect of equity shares	6	(141)	—	(141)	(136)	—	(136)
Transfer to reserves		882	(3,497)	(2,615)	2,066	(2,270)	(204)
Return per ordinary share:							
Basic	7	23.2p	(79.5)p	(56.3)p	50.8p	(52.3)p	(1.5)p
Diluted	7	21.6p	(73.9)p	(52.3)p	47.8p	(49.3)p	(1.5)p

The revenue column of this statement is the consolidated profit and loss account of the group.
The accompanying notes are an integral part of this statement.
All revenue and capital items in the above statement derive from continuing operations.
No operations were discontinued during the year.

Statement of Total Recognised Gains and Losses

	Group 2002 £'000	Group 2001 £'000
Profit for the financial year	1,023	2,202
Net movement on capital reserves	(3,497)	(2,270)
Revaluation of investment properties	—	235
Total net (losses)/gains recognised in the year	(2,474)	167

BALANCE SHEET

AS AT 31st DECEMBER, 2002

	Notes	The Group 2002 £'000	The Group 2001 £'000	The Company 2002 £'000	The Company 2001 £'000
Fixed asset investments					
Securities	8	6,649	10,203	6,649	10,203
Properties	9	30,976	28,883	—	—
Other	10	—	—	2	2
Tangible assets	11	382	406	376	384
		38,007	39,492	7,027	10,589
Current assets	12	7,087	7,315	523	91
Creditors – Amounts falling due within one year	13	5,346	3,771	611	373
Net current assets/(liabilities)		1,741	3,544	(88)	(282)
Total assets less current liabilities		39,748	43,036	6,939	10,307
Creditors – Amounts falling due after more than one year	14	17,860	18,671	—	—
– Deferred income	15	245	245	—	—
		21,643	24,120	6,939	10,307
Capital and reserves					
Called up share capital	16	1,108	1,092	1,108	1,092
Share premium account	17	364	242	364	242
Other reserves					
Revaluation reserve	17	8,064	8,064	—	—
Capital reserve – realised	17	22,403	22,875	4,800	5,272
Capital reserve – unrealised	17	(57)	2,968	250	3,275
Revenue reserves	17	(10,239)	(11,121)	417	426
Equity Shareholders' funds	19	21,643	24,120	6,939	10,307
Net asset value per ordinary share:					
Basic	18	488.3p	552.2p	156.5p	236.0p
Diluted	18	454.2p	519.9p	145.6p	222.2p

The accounts were approved by the Board on 15th May, 2003

A. P. Stirling
Director

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2002

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Cashflow from operating activities					
Investment income received		106		92	
Interest received		166		464	
Rental income received		3,479		2,742	
Other cash payments		(743)		(656)	
	20		3,008		2,642
Returns on investment and servicing of finance					
Interest paid on 2.5% Secured Redeemable Loan Stock, 2001		(6)		(177)	
Interest paid on 8% Secured Redeemable Loan Stock 2006		(243)		—	
Interest paid on property loans		(1,183)		(1,246)	
			(1,432)		(1,423)
Capital expenditure and financial investment					
Sale of tangible fixed assets		10		63	
Purchase of investments		(1,633)		(6,244)	
Sales of investments		1,690		2,426	
Net loans repaid		483		192	
Purchase of investment properties		(2,093)		(1,477)	
Government grants received		—		245	
Sale of investment properties		—		560	
Purchase of developments in hand		(822)		(46)	
			(2,365)		(4,281)
Corporation tax paid			—		—
Equity dividends paid			(136)		(64)
Cash outflow before use of liquid resources and financing			(925)		(3,126)
Management of liquid resources					
Acquisition of listed securities held for dealing			(36)		(181)
Financing					
Repayment of loans		(1,238)		(6,367)	
Receipt of loans		1,929		3,662	
Share capital issued at par		138		19	
			829		(2,686)
Decrease in cash	21		(132)		(5,993)

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of accounting
The accounts have been prepared under the historical cost convention, as modified by the revaluation of investments and properties. The accounts have been prepared in accordance with applicable Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

(b) Basis of consolidation
The consolidated statement of total return (including the revenue account) and balance sheet incorporate the accounts of the Company and its subsidiary undertakings made up to 31st December, 2002. Information relating to significant investments which have not been consolidated is detailed in note 8. Goodwill arising prior to the introduction of FRS10 – "Goodwill and intangible fixed assets" has been written off directly to reserves. Goodwill arising on acquisitions subsequent to the introduction of FRS10 will be capitalised in the balance sheet and amortised over its expected useful life in accordance with FRS10. In the Company's accounts, investments in subsidiary undertakings are stated in accordance with the policies outlined in (c) below.

(c) Fixed asset investments

(i) Securities

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value. Unquoted investments are valued by the Board at cost less amounts written off and less the proceeds of partial realisations.
Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised.
Year-end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(ii) Properties

Investment properties are included in the balance sheet at valuation in accordance with SSAP19 and are not depreciated. This treatment is contrary to the Companies Act 1985 which states that fixed assets should be depreciated, but is, in the opinion of the directors, necessary in order to give a true and fair view of the financial position of the group.

(d) Depreciation
Depreciation is provided principally on a straight-line basis at varying rates of between 2% and 25% in order to write off the cost of assets over their expected useful lives. Investment properties and long leasehold property are not depreciated. Freehold property is depreciated in accordance with FRS15, 'Accounting for Depreciation', at the rate of 2% per annum.

(e) Developments in hand
Developments in hand are valued at cost plus any attributable profits less foreseeable losses and progress payments received and receivable. Interest and other outgoings which can fairly be attributed to properties held for, or in the course of, development are considered to be part of development costs. Interest is calculated by reference to specific borrowings. Profits and losses arising from the sale of developments are taken to revenue. Profits and losses arising from the sale of investment properties are dealt with through the capital reserve.

(f) Income

(i) Dividend and interest income

Income from listed securities is accounted for on a received basis. Interest receivable on bank deposits and loans is accounted for on an accruals basis.

(ii) Rental income

Rental income comprises property rental income receivable net of VAT.

(iii) Construction income

Income receivable for work done in the year on building and construction works.

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(g) Expenses
All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(h) Deferred taxation
The group has adopted FRS19 accounting for deferred tax. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Tax differences arise from inclusion of items in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more than likely than not that they will be recovered. Deferred tax liabilities are not discounted.

(i) Operating lease rentals
Amounts payable under operating leases are charged to the revenue account as incurred.

(j) Capital reserves
Capital Reserve – Realised.
The following are accounted for in this reserve:
- gains and losses on the realisation of investments.
- realised exchange differences of a capital nature.
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature including guarantees.
- any adjustment in respect of deconsolidation of subsidiary undertakings.

Capital Reserve – Unrealised.
The following are accounted for in this reserve:
- increases and decreases in the valuation of investments held at the year-end.
- unrealised exchange differences of a capital nature.
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.
- provisions charged against carrying value of investments.

(k) Liquid Resources
Liquid resources for the purposes of the Cash Flow Statement, comprise deposits with a maturity of more than 24 hours and investments held as current assets which are readily convertible into cash and traded in an active market.

(l) Government grants
Capital based government grants are capitalised as deferred credits on the balance sheet and are accordingly written off to capital reserves upon the sale of the assets concerned.
Revenue based government grants are credited to the profit and loss account in the same year as the expenditure is charged.

(m) Long term contracts
Profit on long term contracts is calculated in accordance with accounting standards. In determining the attributable profit on contracts to a particular accounting period the group utilises estimating techniques. The principal estimation technique used is the preparation of profit forecasts on a contract by contract basis which enable an assessment to be made of the final out turn on each contract. Profit is then recognised when the outcome of the contract can be foreseen with reasonable certainty and is attributed in line with the degree of completion of each contract.

Amounts recoverable on contracts which are included in debtors are stated at cost plus attributable profit less any foreseeable losses. Payments received on account of contracts are deducted from accounts recoverable on contracts in debtors or long term contract balances in stock. Where such amounts have been received and exceed amounts recoverable, the net amounts are included in creditors.

NOTES TO THE ACCOUNTS

1 INCOME

		2002 £'000	2001 £'000
Income from investments			
Dividend income		106	92
Interest receivable:	Bank and Brokers	96	250
	Other	74	215
Rental income		2,908	3,008
		3,184	3,565
Other operating income			
Share dealing profit		91	511
Management fees receivable		150	64
Profit on sale of properties		—	268
Income from construction activities		753	—
Other		62	90
		1,056	933
Total income		4,240	4,498
Total income comprises:			
Dividends		106	92
Interest		169	465
Other income		3,965	3,941
		4,240	4,498
Dividend income			
Listed UK		104	90
Unlisted		2	2
		106	92

2 OTHER EXPENSES

Other expenses comprise the following:	2002 £'000	2001 £'000
Directors' emoluments	250	333
Auditors' remuneration – as auditors	38	33
– for other services	—	—
Depreciation	14	17
Wages and salaries	174	124
Social security costs	44	45
Operating lease rentals – land and buildings	28	28
Provisions against property repairs and development in hand	275	251
Construction costs	679	—
Other operating expenses	265	188
	1,767	1,019

The average number of persons employed by the Company, including the executive directors, was 6 (2001 – 6).

The Group has annual commitments under operating leases, which expire after more than five years, of £28,000 (2001 – £28,000).

NOTES TO THE ACCOUNTS – CONTINUED

3 DIRECTORS EMOLUMENTS

The emoluments of the directors are disclosed in the Remuneration Report on page 7.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Interest payable on loans and overdrafts		
– repayable within 5 years	342	98
– repayable wholly or partly in more than 5 years	1,108	1,179
	1,450	1,277

5 TAXATION

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
(a) Analysis of charge in period						
UK Corporation tax at 30% (2001 – 30%)	—	—	—	—	—	—
Adjustments in respect of prior years:						
Corporation tax	—	—	—	—	—	—
Total current tax (note b)	—	—	—	—	—	—
(b) Factors affecting tax charge for period						
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30%	307	—	307	660	—	660
Explained by:						
Capital allowances in excess of depreciation	(21)	—	(21)	(19)	—	(19)
Dividend income not taxable	(32)	—	(32)	—	—	—
Expenses disallowed	59	—	59	88	—	88
Losses utilised in current year	(397)	—	(397)	(920)	—	(920)
Losses carried forward for future offset	92	—	92	80	—	80
Group relief claimed	(8)	—	(8)	—	—	—
Other differences	—	—	—	111	—	111
Actual tax charge	—	—	—	—	—	—

The Group has unutilised tax losses of approximately £8.7 million available against future corporation tax liabilities.

The potential deferred taxation asset of £2.6 million in respect of these losses has not been recognised in these accounts as the recoverability of the asset is not sufficently certain.

NOTES TO THE ACCOUNTS – CONTINUED

6 DIVIDENDS

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Dividends on equity shares:						
– final proposed of 3.1p per share (2001 – 3.1p)	141	—	141	136	—	136

7 RETURN PER ORDINARY SHARE

Basic return
Basic revenue and capital returns per ordinary share are based on the net revenue return on ordinary activities before deduction of dividends of £1,023,000 (2001: £2,202,000) and on the net capital return of £(3,497,000) (2001: £(2,270,000)) respectively and on 4,396,526 (2001: 4,337,288) ordinary shares being the weighted average number of those in issue during the year.

Diluted return
The diluted revenue and capital returns per ordinary share are based on the net revenue return on ordinary activities before deduction of dividends of £1,023,000 (2001: £2,202,000) and on the net capital return of £(3,497,000) (2001: £(2,270,000)) respectively. Both diluted revenue and capital returns are calculated on 4,729,490 (2001: 4,608,876) shares being the weighted average number of shares in issue during the year together with 332,964 (2001: 271,588) shares deemed to have been issued at nil consideration pursuant to, (i) options outstanding and (ii) the maximum number of shares that can be issued under the terms of the 8% Secured Loan Stock issued by Gresham House Finance plc.

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Listed securities – on the London Stock Exchange	3,436	4,736	3,436	4,736
Listed securities – on overseas exchanges	51	78	51	78
Securities dealt in under AIM	2,173	4,578	2,173	4,578
Securities dealt in under OFEX	8	27	8	27
Unlisted securities less amounts written off	981	784	981	784
	6,649	10,203	6,649	10,203

	Listed in UK £'000	Listed overseas £'000	AIM £'000	Ofex £'000	Unlisted £'000	Total £'000
Group and Company:						
Opening carrying value	3,311	68	1,035	27	729	5,170
Opening unrealised appreciation	1,425	10	3,543	—	55	5,033
Opening valuation	4,736	78	4,578	27	784	10,203
Movements in the year:						
Purchases at cost	1,006	23	208	—	396	1,633
Sales – proceeds	(1,585)	—	—	—	(105)	(1,690)
– realised losses on sales	(472)	—	—	—	—	(472)
Provisions released against carrying value of investments	346	—	241	—	(23)	564
Decrease in unrealised appreciation	(562)	(50)	(2,887)	(19)	(71)	(3,589)
Transfer between listed and unlisted	(33)	—	33	—	—	—
Closing valuation	3,436	51	2,173	8	981	6,649
Closing carrying value	2,573	91	1,517	27	997	5,205
Closing unrealised appreciation	863	(40)	656	(19)	(16)	1,444
	3,436	51	2,173	8	981	6,649

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Realised losses on sales	(472)	(18)	(472)	(18)
Decrease in unrealised appreciation	(3,589)	(1,608)	(3,589)	(1,608)
Write back of provisions against carrying value of investments	564	(620)	564	(620)
	(3,497)	(2,246)	(3,497)	(2,246)
Transfer to revenue account on disposal of subsidiary	—	(24)	—	—
Losses on investments	(3,497)	(2,270)	(3,497)	(2,246)

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

An analysis of investments is as follows:

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Equity investments	5,949	8,625	5,949	8,625
Convertible securities	12	15	12	15
Fixed income securities	688	1,563	688	1,563
	6,649	10,203	6,649	10,203

An analysis of the investment portfolio by broad industrial or commercial sector is contained within the Report of the Directors. The largest investments as at 31st December, 2002 all of which are incorporated in Great Britain, with the exception of Innapharma Inc. which is incorporated in the USA, were:

	Market Value £'000	% of portfolio
UK listed securities		
Hornby Plc – engaged in the development, manufacture and distribution of hobby and interactive home entertainment products	195	2.94
Molins PLC – designers and manufacturers of specialist machinery for the tobacco industry and specialist packaging machinery for consumer goods industries	771	11.59
National Grid Group plc – an international transmission and distribution networks business	171	2.57
Pura Plc – is a leading supplier of edible oils and fats to the UK food industry	189	2.84
Welsh Industrial Investment Trust plc – is an authorised investment trust in the sector of UK capital growth	788	11.84
3.5% Funding Stock 2004 – government securities	399	6.00
Securities dealt in under AIM		
Image Scan Holdings plc – specialises in the application of know-how, patents and IP owned or licensed in the fields of novel 2D, 2½D and 3D imaging for the security (aviation baggage screening) industrial inspection (in-line and on-line real-time inspection) and medical (mammography and cervical smear screening) fields	1,166	17.54
Transense Technologies plc – has developed a non-contact sensor which acts as a torque transducer to enable electric power assisted steering, tyre pressure monitoring and other automotive applications to be introduced into motor vehicles	512	7.71
Unlisted securities (less amounts written off)		
Innapharma Inc. – is carrying out clinical trials on its novel pentapeptide nemifitide, which is believed to have significant anti-depressant properties, as well as lower side effects than current anti-depressant drugs	317	4.76
SpaceandPeople Limited – markets and sells promotional space on behalf of shopping centres and other similar venues	168	2.53
	4,676	70.32

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

The information required in respect of significant investments not consolidated, all of which principally trade and are registered in England, where the Company's equity interest is greater than 20% is as follows:

Welsh Industrial Investment Trust plc
Financial Summary

Year ended 5th April, 2002	£'000s	Shares	Ordinary 5p	8.75% Cumulative Preference of 20p
Turnover	115			
Profit before interest	35	Total issued	1,350,000	225,000
Profit before tax	35	Number held	350,000	98,092
Profit after tax	35	% of class	25.9	43.5
Net assets	6,035	Cost (£'000s)	—	20
Earnings per share	2.27p	Market value (£'000s)	788	20
Dividend per share	5.0p			

The additional information required in respect of the largest investments not listed and not detailed above is as follows:

Image Scan Holdings plc
Financial Summary

Year ended 30th September, 2002	£'000s		
Turnover	503	Shares	Ordinary 1p
Loss before interest	(636)	Total issued	16,250,203
Loss before tax	(665)	Number held	1,808,334
Loss after tax	(603)	% of class issued	11.13
Net assets	1,071	Cost (£'000s)	366
Loss per share	(4.0)p	Market value (£'000s)	1,166
Dividends per share	—		

Transense Technologies plc
Financial Summary

Year ended 31st December, 2002	£'000s		
Turnover	112	Shares	Ordinary
Loss before interest	(1,364)	Total issued	50,661,884
Loss before tax	(1,264)	Number held	840,000
Loss after tax	(1,212)	% of class issued	1.7
Net assets	3,428	Cost (£'000s)	—
Loss per share	(2.4)p	Market value (£'000s)	512
Dividend per share	—		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

Innapharma Inc.
Financial Summary

Year ended 31st December, 2001	US$'000s		
Turnover	—	Shares	Common stock
Loss before interest	(6,549)	Total issued	18,034,553
Loss before tax	(7,225)	Number held	120,000
Loss after tax	(7,225)	% of class issued	0.66
Net Assets	3,518	Cost (£'000s)	332
Loss per share	US$(0.46)	Market value (£'000s)	317
Dividend per share	—		

SpaceandPeople Limited
Financial Summary

Year ended 31st October 2002	£'000s		
Turnover	364	Shares	Ordinary
Loss before interest	(179)	Total issued	1,120,000
Loss before tax	(182)	Number held	158,750
Loss after tax	(182)	% of class issued	14.17
Net Assets	194	Cost (£'000s)	168
Loss per share	(0.16p)	Market value (£'000s)	168
Dividend per share	—		

9 INVESTMENTS – PROPERTIES

	Group 2002 £'000	Group 2001 £'000
Net book value and valuation		
At 1st January, 2002	28,883	27,731
Additions during the year	2,093	1,477
Disposals during the year	—	(560)
Revaluation during the year	—	235
At 31st December, 2002	30,976	28,883

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES – continued

As at 31st December 2002 investment properties consist of 63 individual property units covering a total of 1,399,933 sq. ft. at an annual rental of £2,831,241. These property units vary considerably in size and use, with the largest three units totalling 610,193 sq. ft. at a combined rental of £1,089,500 and the smallest ten units being less than 2,000 sq. ft. each at a combined rental of £44,047. The total area can be sub-divided into the following use categories:

Warehouse	1,139,545 sq. ft.
Industrial	147,441 sq. ft.
Retail, office and other	112,947 sq. ft.

These categories can be further analysed as follows:

		No. of tenants	Area sq. ft.
(i)	Warehouse		
	Food storage	3	662,180
	Chemicals and plastic storage	2	231,224
	Document storage	1	20,599
	Others and vacant	3	265,542
(ii)	Industrial		
	Timber fabrication	1	34,359
	Rubber processing	1	29,082
	Light engineering	8	34,742
	Heavy engineering	1	4,200
	Others and vacant	—	45,058
(iii)	Retail, office and others		
	Call centre	1	85,225
	Nursery	1	2,300
	Others and vacant	7	25,422

Investment Properties are shown at valuation and any surplus or deficit arising on valuation of property is taken to the revaluation reserve without provision for corporation tax which, on possible disposals at the balance sheet date, is estimated to be approximately £nil (2001: £nil). For the purpose of Statement of Standard Accounting Practice No. 19 these are all regarded by the directors as investment properties.

Of the property units held at the year end:

– 4 property units were valued by Gerald Eve, Chartered Surveyors, as at 15th March, 1999 at £9,700,000;
– 12 property units were valued by Dixon Webb, Chartered Surveyors, as at 21st April, 1999 at £2,300,000;
– 34 property units were valued by Hurst Warne Limited, Chartered Surveyors, as at 7th January, 2000 at £2,260,000; and
– 13 property units were valued by Knight Frank as at 4th January, 2002 at £13,400,000.

All external valuations were carried out on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The directors consider that there has been no significant change in the overall value of these properties during the year.

The cost of the above properties as at 31st December, 2002 is as follows:

	Group
	£'000
Brought forward and revalued	20,588
Additions during the year	2,093
	22,681

Capital Commitments	Group		Company	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Capital expenditure contracted for but not provided for in the accounts	112	—	—	—

NOTES TO THE ACCOUNTS – CONTINUED

10 OTHER INVESTMENTS

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Subsidiary undertakings				
Shares	—	—	2	2

The principal subsidiary undertakings of Gresham House plc, all of which principally trade and are registered in England or Scotland, are as follows:

	Held by Parent %	Held by other Group companies %
Chartermet Limited – property investment		75.0
Deacon Commercial Development and Finance Limited – property investment	75.0	25.0
Deacon Industrial Projects Limited – property development		75.0
Deacon Knowsley Limited – property investment		75.0
Gresham House Finance plc – finance	100.0	
New Capital Construction plc – property construction		75.0
New Capital Developments Limited – property construction/development		75.0
Newton Estate Limited – property investment		100.0
Security Change Limited – finance and share dealing	100.0	
Watlington Investments Limited – investment	100.0	
Wolden Estates Limited – property investment		100.0

In addition the Group has:

(i) an interest of 87.5% in Newilton Consortium Limited which, as a result of the Group not having control due to the existence of a fixed and floating charge in favour of a creditor, has been excluded from the consolidation. The aggregate capital and reserves of Newilton Consortium Limited amounted to £(9,896,649) as at 31st December, 2002 being the latest available accounts. The company has been dormant for a number of years;

(ii) an interest of 50% in Tower Street Properties Limited which has been excluded from consolidation under section 229(3) of the Companies Act 1985 as the amounts involved are immaterial; and

(iii) an interest of 50% in Abshot Finance Company Limited which has been excluded from consolidation under Financial Reporting Standard No. 9 as significant influence is not exercised in respect of policy decisions.

11 TANGIBLE ASSETS

	Group Motor Vehicles £'000	**Group** Freehold property £'000	**Group** Total £'000	**Company** Freehold property £'000
Cost or valuation				
Balance 1st January, 2002	57	400	457	400
Disposals during the year	(45)	—	(45)	—
Balance 31st December, 2002	12	400	412	400
Depreciation				
Balance 1st January, 2002	35	16	51	16
Charge for the year	6	8	14	8
Released on disposal	(35)	—	(35)	—
Balance 31st December, 2002	6	24	30	24
Net book values at 31st December, 2002	6	376	382	376
Net book values at 31st December, 2001	22	384	406	384

NOTES TO THE ACCOUNTS – CONTINUED

11 TANGIBLE ASSETS – continued

The Freehold property held in the Company has been valued by external valuers, Kinney Green, as at 14th December, 1999 on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors at £400,000. In the opinion of the directors this method of valuation is no different to that under an Existing Use basis. The historical cost and carrying value, had depreciation been charged at 2% per annum is as follows:

	£'000
Historical cost	600
Accumulated depreciation	(180)
	420

12 CURRENT ASSETS

	Notes	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Listed and other securities held by a trading subsidiary undertaking		346	310	—	—
Market value £346,000 (2001: £310,000)	(d)				
Cash in hand		2,542	2,724	473	70
Developments in hand	(a)	2,664	1,842	—	—
Trade debtors	(c)	751	1,205	—	—
Other debtors and prepayments	(c)	369	324	50	21
Taxation recoverable		—	8	—	—
Unsecured loans	(b)	65	552	—	—
Secured loans	(b)	350	350	—	—
		7,087	7,315	523	91

(a) Developments in hand consist of two property development sites.

(b) Loans have been classified as current assets as the loans are repayable on demand.

(c) Debtors and prepayments fall due within one year.

(d) The market value of the listed securities was £8,000 (2001: £9,000), and the carrying value was £8,000 (2001: £9,000).

13 CREDITORS – Amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Trade creditors	367	431	—	—
Other creditors	758	576	150	142
Accruals	1,256	1,193	—	5
Other taxes and social security	31	137	—	—
Corporation Tax	16	18	—	—
Bank overdrafts and short-term loans (secured)				
– property loans	2,917	1,037	—	—
– other	—	—	461	226
2.5% Secured Redeemable Loan Stock 2001*	1	379	—	—
	5,346	3,771	611	373

*The 2.5% Secured Redeemable Loan Stock 2001 was constituted by way of Trust Deed dated 29th June, 1993 and is secured by way of a fixed and floating charge over all the assets of Gresham House Finance plc and, by way of a sub-mortgage, on the benefit of all debentures or other security created in favour of that company by any member of the Gresham Group. The Loan Stock is now redeemable on demand.

The terms of the property loans are disclosed in note 14 below.

NOTES TO THE ACCOUNTS – CONTINUED

14 CREDITORS – Amounts falling due after more than one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
(a) 8% Secured Redeemable Loan Stock 2006	3,662	3,662	—	—
(b) Property Loans	14,198	15,009	—	—
	17,860	18,671	—	—

(a) 8% Secured Redeemable Loan Stock 2006

The 8% Secured Redeemable Loan Stock 2006 was constituted by way of Trust Deed dated 31st December, 2001 and is secured by way of a fixed and floating charge over all the assets of Gresham House Finance plc and, by way of a sub-mortgage, on the benefit of all debentures or other security created in favour of that company by any member of the Gresham Group, ranking behind those charges created by the 2.5% Secured Redeemable Loan Stock 2001 (see note 13).

(b) Property loans

The loans relate to property investments held in Chartermet Limited, Deacon Commercial Development and Finance Limited, Deacon Knowsley Limited and Newton Estate Limited. Details of total loans are as follows:

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Bank loans (secured against investment properties)				
8.1% fixed	6,300	6,300	—	—
1.25% over 3 month LIBOR	916	1,289	—	—
7.09% fixed	3,624	3,624	—	—
1.2% over 3 month LIBOR	2,726	3,042	—	—
1.75% over 3 month LIBOR	1,320	—	—	—
Other loans (secured against investment properties)				
1.5% over 3 month LIBOR	1,984	1,428	—	—
11% fixed	245	363	—	—
	17,115	16,046	—	—

Loans or instalments thereof are repayable over the following periods:

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Less than 1 year	2,917	1,037	—	—
Between 1 and 2 years	575	795	—	—
Between 2 and 5 years	1,696	1,685	—	—
Over 5 years	11,927	12,529	—	—
	17,115	16,046	—	—

15 DEFERRED INCOME

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Deferred credits	245	245	—	—

The deferred credits relate to government grants received in respect of improvements to fixed asset properties that will be credited to Capital Reserves upon the sale of the assets concerned.

NOTES TO THE ACCOUNTS – CONTINUED

16 CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
Share Capital		
Authorised: £4,750,000 (2001: £4,750,000)		
Allotted: Ordinary – 4,432,700 (2001: 4,368,000) fully paid shares of 25p each	1,108	1,092

Under the terms of the 8% Secured Redeemable Loan Stock 2006 stockholders are entitled to invest all or part of the net interest due to them throughout the period of the loan stock by way of subscription for ordinary shares in the Company, the subscription price being calculated at a 30% discount to the average closing middle market price during a specified period prior to each quarterly interest payment date. The number of ordinary shares that can be issued is limited to 275,880 ordinary shares which represented 5.66% of the issued share capital at that time on a fully diluted basis.

During the year the following number of ordinary shares were issued under these terms:

30th April, 2002	10,146 shares at 470p per share
2nd August, 2002	8,718 shares at 347p per share
1st November, 2002	22,836 shares at 240p per share

In addition, on 20th May, 2002, 23,000 options issued to the non-executive directors on 8th August, 1997 were exercised at par (25p). The allotted share capital was therefore increased by 64,700 ordinary shares.

Since the year end a further 171,299 ordinary shares have been issued as follows:

(i) 26,572 shares at 180p on 31st January 2003 and 47,727 shares at 126p on 30th April 2003 under the terms of the 8% Secured Redeemable Loan Stock 2006;

(ii) 70,000 shares at 25p on 19th February 2003 under the Unapproved Share Option Scheme; and

(iii) 17,000 shares at 25p on 19th February 2003 and 10,000 shares at 25p on 6th May 2003 as a result of the exercise of options granted to non-executive directors on 8th August 1997.

The following options were outstanding as at 31st December, 2002:

Options granted on 8th August, 1997 to the non executive directors over 37,000 (2001: 60,000) ordinary shares of 25p each and options granted on 14th November, 1997 over 170,000 ordinary shares of 25p each under the Unapproved Share Option Scheme. These options are exercisable after three years from the date of grant at 25p per share.

17 RESERVES

	Share premium account £'000	Revaluation reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Company					
Balance at 1st January, 2002	242	—	5,272	3,275	426
Issue of share capital	122	—	—	—	—
Net loss on realisation of investments	—	—	(472)	—	—
Provisions against carrying value of investments	—	—	—	564	—
Decrease in unrealised appreciation	—	—	—	(3,589)	—
Retained loss for the year	—	—	—	—	(9)
As at 31st December, 2002	364	—	4,800	250	417
Group					
Balance at 1st January, 2002	242	8,064	22,875	2,968	(11,121)
Issue of share capital	122	—	—	—	—
Net loss on realisation of investments	—	—	(472)	—	—
Provisions against carrying value of investments	—	—	—	564	—
Decrease in unrealised appreciation	—	—	—	(3,589)	—
Retained profit for the year	—	—			882
As at 31st December, 2002	364	8,064	22,403	(57)	(10,239)

As permitted by Section 230 of the Companies Act 1985, the revenue account of the holding company is not presented with these accounts.

NOTES TO THE ACCOUNTS – CONTINUED

18 NET ASSET VALUE PER SHARE

Basic
Basic net asset value per ordinary share is based on the net assets at the year end and on 4,432,700 (2001: 4,368,000) ordinary shares being the number of ordinary shares in issue at the year end.

Diluted
Diluted net asset value per ordinary share is based on the net assets at the year end and on 4,765,644 (2001: 4,639,589) ordinary shares. The number of shares is based upon the number of shares in issue at the year end together with 332,964 (2001: 271,588) shares deemed to have been issued at nil consideration pursuant to (i) the options outstanding at the year end and (ii) the maximum number of shares that can be issued under the terms of the 8% Secured Loan Stock issued by Gresham House Finance plc in accordance with Financial Reporting Standard No. 14.

The movement during the year of the assets attributable to Ordinary Shares were as follows:

	£'000
Total net assets attributable at 1st January, 2002	24,120
Total recognised losses for the year	(2,474)
Exercise of options to subscribe for share capital	138
Dividends appropriated in the year	(141)
Total net assets attributable at 31st December, 2002	21,643

19 STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Retained profit for the year	882	2,066
Revaluation surplus	—	235
Net movement on capital reserves	(3,497)	(2,270)
Exercise of options to subscribe for share capital	138	19
	(2,477)	50
Shareholders' funds at 1st January	24,120	24,070
Shareholders' funds at 31st December	21,643	24,120

20 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2002 £'000	2001 £'000
Return on ordinary activities before taxation	1,023	2,202
Interest payable	1,450	1,277
	2,473	3,479
Depreciation	14	17
Loan provision charged/(written back)	4	(130)
Adjustment on disposal of subsidiary	—	(24)
Decrease/(increase) in debtors	467	(103)
Increase/(decrease) in creditors	50	(597)
	3,008	2,642

NOTES TO THE ACCOUNTS – CONTINUED

21 ANALYSIS OF NET DEBT

	At 1st January 2002 £'000	Cash flow £'000	Other non-cash changes £'000	At 31st December 2002 £'000
Cash at bank	1,389	(16)		1,373
Cash at brokers	1,335	(116)		1,219
	2,724	(132)		2,592
Debt due within one year	(1,416)	(691)	(811)	(2,918)
Debt due after one year	(18,671)	—	811	(17,860)
	(20,087)	(691)	—	(20,778)
Current asset investments	310	36		346
	(17,053)	(787)	—	(17,840)

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £'000	2001 £'000
Decrease in cash for the year	(132)	(6,083)
Cash outflow from repayment of debt	1,238	6,457
Cash inflow from loans received	(1,929)	(3,662)
Cash outflow from increase in liquid resources	36	181
Change in net debt resulting from cash flows	(787)	(3,107)
Net debt at 1st January, 2002	(17,053)	(13,946)
Net debt at 31st December, 2002	(17,840)	(17,053)

23 FINANCIAL INSTRUMENTS

The Company's business is that of an Authorised Investment Trust and conducts its affairs so as to qualify as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. As an investment trust, the Company invests in securities for the long term, and is obliged to distribute the majority of its investment income less administrative expenses by way of dividend.

The Group consists of the Company and subsidiary undertakings whose principal activities are financial services and property investment/development.

The Group's financial instruments, which are held in accordance with the Group's objectives and policies, comprise:

(i) securities consisting of listed and unlisted equity shares;

(ii) a secondary portfolio of listed and unlisted fixed income securities;

(iii) investment properties;

(iv) contracts for future movements in share indices;

(v) cash, liquid resources and short term debtors and creditors that arise directly from its operational activities;

(vi) long-term borrowings.

The Group's overall objective is to provide shareholders with long-term capital and income growth by a combination of investing primarily in UK equities and high risk venture capital entities, balanced by a significant property portfolio. This overall objective can be further analysed as follows:

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Securities:

To acquire equity stakes in fledgling unquoted companies with a view to contributing to their development and eventually introducing these companies to the AIM or OFEX markets. Short-term funding and financial services are provided to these companies through a subsidiary undertaking.

To invest in a portfolio of predominantly UK equities to provide capital growth. In addition, monies awaiting investment in unquoted companies are invested in listed equity and fixed interest securities, government stocks or held on deposit.

Properties:

To invest in industrial properties through subsidiary undertakings. These subsidiaries are financed by long-term loans and their strategic purpose is to add to the Group's net asset value through long-term capital appreciation. These property investments also provide a flow of rental income to cover interest and capital repayments of the related loans, as well as contributing to the Group's operating cash flow.

The pursuit of these objectives exposes the Group to the following risks to both assets and revenues:

Securities: unquoted

Investment Risk and Credit Risk

Unquoted securities, because of their inherent risk, are valued at the lower of cost and net realisable value as per accounting policy (c) in note 1 to these accounts. Regular reviews of the financial results combined with close contact with the management of these investments provides sufficient information to support these valuations, and to ensure the payment of interest where supporting loans have been issued.

Securities: quoted

Market Risk:

Market risk is a function of market price risk and interest rate risk. Market price risk arises mainly from uncertainty about future prices of securities held within the Company's portfolio. Interest rate risk is the risk that the market value of financial investments will fluctuate as a result of changes in interest rates.

These risks are managed by regular reviews of the portfolio within the context of current market conditions.

Investment Properties

Credit Risk

Credit risk represents the possibility of tenants defaulting in their rental commitments. This risk is mitigated by regular monitoring of the financial covenant strength of the tenant base, together with regular meetings with the tenants.

Interest Rate Risk

The Group is exposed to interest rate movements on its floating rate liabilities. The Group has attempted to minimise the risk by structuring the borrowings so that the majority are at a fixed rate. The rental flows deriving from investment properties are sufficient to cover a minimum of the capital repayments and interest commitments.

Liquidity Risk

The Group aims to hold sufficient cash on deposit to be able to provide loan interest and capital repayment cover of at least 6 months, which is placed on deposit at competitive interest rates. The interest earned is at a floating rate.

Contracts for futures

Market Risk

Market risk arises mainly from the uncertainty about future price movements of share indices compared to the expected movement as set in the futures contract entered into by the Group.

The Group minimises the risk involved in trading in contracts for futures, by establishing limits on the level of trading that can be undertaken without Board approval and through the formal controls in place over the safe custody of investment title certificates, which are required as collateral for the trading undertaken.

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Financial Assets and Liabilities – interest rate exposure on loans

The interest rate exposure profile for financial assets and liabilities as at 31st December, 2002 and 2001 is shown below. The Group has taken advantage of the exemption allowed under FRS 13 'Derivatives and other Financial Instruments', and has excluded short-term debtors and creditors from disclosure under financial instruments.

As at 31st December, 2002	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	5,961	688	—	—	—	6,649
Investment Properties	30,976	—	—	—	—	30,976
Dealing securities	346	—	—	—	—	346
Cash	—	—	2,542	—	—	2,542
Loans	350	65		—	—	415
Creditors						
– falling due within 1 year	—	—	—	(91)	(2,826)	(2,917)
– falling due after 1 year	—	—	—	(13,741)	(4,119)	(17,860)
	37,633	753	2,542	(13,832)	(6,945)	20,151

As at 31st December, 2001	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	8,850	1,353	—	—	—	10,203
Investment Properties	28,883	—	—	—	—	28,883
Dealing securities	310	—	—	—	—	310
Cash	—	—	2,724	—	—	2,724
Loans	350	533	19	—	—	902
Creditors						
– falling due within 1 year	—	—	—	(497)	(919)	(1,416)
– falling due after 1 year	—	—	—	(13,832)	(4,839)	(18,671)
	38,393	1,886	2,743	(14,329)	(5,758)	22,935

Nil rate assets comprise the portfolio of ordinary and preference shares, investment properties, dealing securities and non-interest bearing loans.

Fixed rate assets comprise one government security with an interest rate of 3.5% maturing in July 2004 (2001: weighted average of 5.24% with a weighted average maturity value of 2.4 years), and fixed rate loans, unsecured and repayable on demand, with a weighted average interest rate of 12% (2001: 12%).

Floating rate assets and floating rate liability loans are subject to interest rates which are based on LIBOR.

Fixed rate liability loans have a weighted average interest rate of 7.9% (2001: 7.7%), and a weighted average maturity value of 5.9 years (2001: 6.7 years).

The fair values of all financial instruments, with the exception of dealing securities whose fair value is considered to be market value as disclosed in note 12, are not considered to be materially different to the values disclosed in the above table.

The Group is not exposed to currency risk as its assets and liabilities are materially denominated in sterling.

NOTES TO THE ACCOUNTS – CONTINUED

24 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' Beneficial Shareholdings as at 31st December, 2002

The interests of directors in the largest investments held by the Company, as disclosed in note 8, and in investments in which the Company has a holding of at least 20% of the issued share capital are as follows:

	A G. Ebel	B. J. Hallett	N. J. Rowe	T. J. Rowe	A. P. Stirling
Listed Securities					
Molins PLC	33,200	2,600	—	—	99,300
Pura Plc	8,668	1,600	—	—	95,416
Welsh Industrial Investment Trust plc	—	—	—	—	221,000
Securities dealt in under AIM					
Image Scan Holdings plc	80,350	217,000	83,028		797,266
Transense Technologies plc	24,000	12,449	7,452	—	311,200
Unlisted Securities					
Greenwich Communications plc	—	—	—	—	99,000
Gresham House Finance plc – 8% Secured Redeemable Loan Stock 2006	—	4,000	88,000	45,000	100,000
Innapharma Inc. – Common shares	—	—	—	—	26,000
– Warrants 2005	—	—	—	—	13,750
– Warrants 2006	—	—	—	—	1,700
SpaceandPeople Limited	8,000	5,000	3,000	3,000	70,000

Related Party Transactions

Mr. A. G. Ebel and Mr A. P. Stirling have a controlling interest in Watlington Securities Limited, a company which invoiced the group a sum of £7,351 (2001: £5,600) during the year. Conversely the Group invoiced the same company £85,000 (2001: £nil). At the year end there remained balances outstanding of £1,568 (2001: £1,580) and £47,000 (2001: £nil) respectively.

Management fees of £18,000 (2001: £12,000) were invoiced to Welsh Industrial Investment Trust plc, a company in which A P Stirling is both a director and shareholder.

Loan Stock interest of £21,379 (2001: £15,220) was received from Abshot Finance Company Limited in which Security Change Limited has a 50% interest. Additional loan stock of £50,000 was purchased during the year increasing the holding of Security Change Limited to £335,000 (2001: £285,000).

During the year the group invoiced Tower Street Properties Limited a sum of £78,889 in respect of expenditure incurred on their behalf and made provision for long term contract costs amounting to £593,388. The balance owing at the year end was £497,624 (2001: nil). In addition a sum of £95,000 was due to Security Change Limited against which it has made a full provision. Tower Street Properties Limited is 50% owned by Outland Limited, a group undertaking. A P Stirling and B J Hallett are directors of Tower Street Properties Limited.

A motor vehicle was sold to A P Stirling by Security Change Limited for the sum of £9,000 being the market value at that time.

During the year the wife of A P Stirling exercised her election rights in accordance with the Gresham House Finance plc Loan Stock Agreement dated 31st December, 2001 and was issued with 1,580 shares in Gresham House plc.

Mr. N. J. Rowe has a 5% interest in a company, First City Insurance Brokers Limited, which invoiced the group during the year a sum of £5,643 (2001: £4,515) in respect of insurance premiums. There was no balance owing at the year end (2001: £nil).

The Rowe Trust is the sole shareholder of Newinnhall Trust Limited, a substantial shareholder of the Company. N. J. Rowe and T. J. Rowe are beneficiaries under The Rowe Trust. At 31st December, 2002 the Trustees of the Rowe Trust were interested in £1,316,000 8% Secured Loan Stock 2006 (2001: £1,316,000)in Gresham House Finance plc and 8,773 ordinary shares (2001: nil) in the Company.

NOTES TO THE ACCOUNTS – CONTINUED

25 CONTINGENT LIABILITIES

The Company has guaranteed loans of £6,028,788 made by Gresham House Finance plc to Security Change Limited which are eliminated on consolidation. This loan is due for repayment by 20th December 2004, and incurs interest at a maximum rate of 5.75% per annum.

The Company has guaranteed a sum of £195,000 due by a subsidiary undertaking to Mole Valley District Council. Full provision for this amount has been made in the consolidated accounts but not at Company level.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Gresham House plc will be held at 36 Elder Street, London E1 6BT on 19th June, 2003 at 11 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the accounts for the year ended 31st December, 2002 together with the report of the auditors;
2. To adopt the Remuneration Report;
3. To declare a dividend of 3.1p per ordinary share;
4. To re-elect as a director Mr T. J. Rowe who retires by rotation and offers himself for re-election;
5. To re-appoint PKF as the auditors and to authorise the directors to fix their remuneration;

SPECIAL RESOLUTION

6. The directors be and they are hereby generally authorised and empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act), pursuant to the authority conferred by an Extraordinary General Meeting held on 31st December, 2001, as if Section 89(1) of the Act did not apply to any such allotment provided that the power conferred by this resolution, unless previously revoked or varied by special resolution of the Company in general meeting shall be limited to:

   (a) the allotment of equity securities up to an aggregate nominal value of £37,500 in connection with an Approved Share Option Scheme to be introduced once Inland Revenue approval has been received; and

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal amount of £3,494,030

   and shall expire on the date 15 months after the date of approval of this Resolution or the conclusion of the next Annual General Meeting of the Company, whichever first occurs, save that the directors may before the expiry of the authority conferred by this Resolution make offers or enter into agreements which would or might require securities of the Company to be allotted after such expiry and the directors may allot equity securities pursuant to any such offers or agreements as if the relevant authority hereby conferred had not expired.

By Order of the Board,

B. J. Hallett, *Secretary*

15th May, 2003

36 Elder Street
London E1 6BT

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrars of the Company (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
4. There are no contracts of service existing for any of the directors.
5. In accordance with Regulation 34(1) of the Uncertificated Securities Regulations 1995, the Company specifies that only those shareholders registered in the Company's register of members at 11 a.m. on 17th June, 2003 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.

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