GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2012

Registered number: 871 (England & Wales)

DIRECTORS AND ADVISERS

Company Number	871 incorporated in England
Directors	A G Ebel LL.B, F.C.A. *Non–executive Chairman* D Lucie-Smith F.C.A. *Chief Executive* B J Hallett F.C.A. *Finance* J A C Lorimer *Property* R A Chadwick F.C.A. *Non-executive* R H Chopin-John LL.M, B.A., F.C.I.S. *Non-executive*
Secretary	B J Hallett F.C.A.
Registered Office	5th Floor, 17 Grosvenor Gardens London SW1W 0BD
Auditor	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Solicitors	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Corporate Advisers & Brokers	Westhouse Securities Limited One Angel Court London EC2R 7HJ

CHAIRMAN'S STATEMENT

I am pleased to report on the results of the Gresham House group of companies for the year to 31 December 2012.

The Results

The revenue loss after taxation has increased from £361,000 for the year to 31 December 2011 to £810,000 for the year to 31 December 2012. The principal reason for this adverse movement is that in 2011 there was a £795,000 share of joint venture operating profit following the sale of an office development in Aberdeen which significantly reduced the running losses of £1,156,000.

Net Asset Value per Share

The net asset value per share has increased in the year to 31 December 2012 to 472.5p per share from 447.0p per share at 31 December 2011. As I reported last year it is the Board's opinion that the net asset value attributable to shareholders is overstated because of the requirements of IAS27 to show minority stakes in subsidiaries with a negative net worth as a debit to equity. This requirement results in an overstated net asset value of £1,467,000 at 31 December 2012 (£1,043,000 at 31 December 2011). The adjustment of this treatment would reduce the net asset value per share to 445.1p per share at 31 December 2012 against 427.6p per share at 31 December 2011.

The increase in asset value is largely due to the revaluation surplus on investment properties of £2,086,000 offset by the revenue loss for the year of £810,000.

Property Portfolio

The principal assets of the Group remain the property investments which, following the sale of the unit at Knowsley during the year ended 31 December 2012, now consists of four properties or sites valued by Jones Lang Lasalle at a total of £28,896,000 as at 31 December 2012, up from a comparable £25,943,000 for the previous year.

The increase in the total value of £2,953,000 is represented predominantly by Newton-le-Willows where we secured a valuable food retail consent on 10 acres in September 2012 and, to a lesser extent, by Vincent Lane, Dorking where Persimmon Homes Ltd successfully won its planning appeal in January 2013 for residential development. They are expected to complete the purchase of the site by the end of June 2013 for £2,950,000. There is also a small uplift in value at Northern Gateway, Knowsley where a letting has been agreed since the year end to an excellent tenant, on attractive commercial terms. Terms have also been agreed on the sale of this investment once the letting has been finalised.

Securities Portfolio

During the year we sold £2,315,000 of investments and made acquisitions with an aggregate value of £571,000. We realised losses of £753,000 and our unrealised gains to 31 December 2012 were £473,000 resulting in a capital loss of £280,000. Since the year end we have sold a further £1,136,000 of investments at a small increase over year end values. Our portfolio at the year-end was valued at £7,054,000, of which listed and AIM investments accounted for 41.6%. We anticipate making further sales during the current year to reduce our investment portfolio as we unlock potential value in most of these investments.

Loans and Cash

Details of the borrowings are reviewed in the Chief Executive's Report. We remain confident that all facilities will be renewed as and when they fall due as a result of the pending sales of property assets against which the loans are secured.

CHAIRMAN'S STATEMENT – continued

Realisation of the Group's Assets

Shareholders approved the orderly realisation of the Group's assets at the 2011 annual general meeting. This continues to be a slower process than originally anticipated as we are seeking to realise value on both the property and investment portfolio under difficult market conditions. We continue to seek to maximise value of the Group's assets and sell these at the appropriate time whilst exploring all opportunities to unlock shareholder value.

17 April 2013

Tony Ebel
Chairman

CHIEF EXECUTIVE'S REPORT

Dear Shareholder,

Despite the fact that the general secondary property market is suffering from both lack of tenant demand and little or no funding from banks, the Group has delivered an increased net asset value as a result of successful planning gains and strategic asset management of the property portfolio. We continue to focus on maximising shareholder returns by an orderly realisation of the Group's assets with a view of returning cash to shareholders as soon as practicable whilst exploring all opportunities to unlock shareholder value.

Results for the Year to 31 December 2012

The Group and share of joint venture operating profit for the year ended 31 December 2012 was break even against a profit of £334,000 in 2011. The comparison between both years is as follows:

	2012 £'000	2011 £'000
Dividend and investment income	690	386
Rental income	1,038	1,036
Other income	102	81
Property outgoings	(989)	(1,051)
Administration overheads	(841)	(913)
Joint venture profit	–	795
Operating profit	–	334

The significant variances between the two years are as follows:-

The increase in dividend and interest income was mainly as a result of an increase in bank interest receivable of £65,000 and an increase in interest from two loan notes, one issued by SMU Investments Ltd, which was repaid in full during the year, and the other by Attila (BR) Ltd, a property investment company whose sole asset is a site in Edinburgh which is expected to obtain residential planning consent in the near future. The total interest on these loan notes amounted to £446,000 against which must be offset the decrease of £257,000 from the interest receivable from the quoted bond portfolio, the majority of which had been sold by the year end.

The results for the year ended 31 December 2011 included a sum of £795,000 in respect of the trading profit made from the sale of the joint venture office development in Aberdeen.

Property Portfolio

In recent months we have seen an improvement in market conditions for our commercial properties and we continue to seek to maximise the value of these assets.

I am pleased to report that we received a valuable planning consent at Newton le Willows in September 2012 for a 70,000sq ft (6,500sq m) foodstore, a petrol filling station and associated car parking and we are now in discussions with retail operators for the potential letting or sale of this part of the site. On the residential portion of the site, we have received offers from housebuilders and negotiations are ongoing.

At Vincent Lane, Dorking, T E Beteiligungs GmbH completed the purchase of 1.2 acres in January 2013 and has commenced development of a Lidl store. On the remaining 1.8 acres, Persimmon Homes Ltd successfully won its planning appeal also in January 2013 and is expected to complete its purchase in the summer of 2013.

The sale to the tenant of our 40,000sq ft industrial unit at Deacon Park, Knowsley was completed in November 2012.

CHIEF EXECUTIVE'S REPORT – continued

At Northern Gateway, Knowsley, terms have been agreed since the year end with an excellent tenant for the letting of the entire 143,000sq ft (13,200sq m) warehouse on attractive terms. Solicitors have been instructed and the lease is expected to be signed by the end of June 2013 after which we hope to be able to sell this investment for a sum in excess of the year end valuation.

Securities Portfolio
At 31 December 2012 the value of the investment portfolio decreased by £2,024,000 as a result of disposals of £2,315,000 and acquisitions of £571,000 together with net realised and unrealised losses of £280,000.

Our investments at 31 December 2012 amounted to £7,054,000 of which listed and AIM investments represented £2,931,000. Since the year end we have disposed of £1,136,000 of these investments at slightly above year end values. The principal quoted investment remaining is our holding in SpaceandPeople plc, which has risen in value since the year end from £1,506,000 to £2,124,000 as of 15 April 2013.

The unquoted investments of £4,059,000 include the investment in Memorial Holdings Limited which has opened Kemnal Park Cemetery in the London Borough of Bromley. Despite a small write down by the independent valuer, value is likely to increase once the business plan has been proven. The cemetery opened for burials last October and services have been held in the new chapel since early March this year with a facility for off site cremations. Phase 1 of the memorial gardens has been developed resulting in Kemnal Park being one of the finest cemeteries in the United Kingdom. The book value of our 10.1% investment in Memorial Holdings Ltd is £2,074,000.

Our investment in Attila (BR) Limited is in respect of a site in Edinburgh which was a former post office sorting facility. Contracts have been exchanged for the sale of the whole site to Barratt Homes Limited who anticipate receiving residential planning consent shortly.

Borrowings and Cash at Bank
Loans and overdrafts at 31 December 2012 were £20.5m against £20.1m at 31 December 2011. These consisted of an overdraft facility, which is cash backed, of £7.4m and two loans from the Royal Bank of Scotland (£3.5m) and one from the Co-operative Bank (£9.6m) all of which are secured against the property portfolio. This represents a loan to value of 45% against the overall property investments. These loans are short term due to the proposed repayment of these as a result of the property sales referred to above. Confirmation has been received from the Co-operative Bank that it expects to extend its facility for a further 12 months subject to meeting an additional condition which is in the process of being finalised.

Cash in hand at 31 December 2012 has increased from £6.193m at 31 December 2011 to £8.348m at 31 December 2012.

Disposal Strategy
We continue to work to our business plan of disposing of the Group's assets as soon as reasonably practicable although completion of this programme will almost certainly extend well into next year. We are however always looking for opportunities to realise disposals at an earlier time.

Finally, I would like to thank my two executive directors and the staff for the commitment under difficult times in making progress with an enhanced asset value over the past twelve months.

17 April 2013

Derek Lucie-Smith
Chief Executive

INVESTMENT OBJECTIVE & POLICY

Gresham House plc is an authorised investment trust listed on the London Stock Exchange. Following the passing of an ordinary resolution at the Company's 2011 annual general meeting its investment objective and policy is the orderly realisation of the Group's assets over a period of approximately two years with a view to returning capital to shareholders thereafter. This period of time however is likely to be longer than originally anticipated given the continuing fragile state of the commercial property market in particular.

The Group continues to invest in both commercial properties and securities but only where this enhances or protects the value of existing investments whilst the realisation process is underway or where value can be achieved in new investments in the short term.

Investment in commercial properties must be undertaken through subsidiary undertakings, joint ventures or associates which are funded mainly through bank loans, both short term and long term. Certain of these property investments also provide a rental income flow which is intended to cover interest and any capital repayments of the related loans as well as contributing to the Group's operating cash flow.

Investment in securities is primarily by way of: (i) investing in corporate bonds with a minimum rating of B+ to provide income; (ii) investing in a portfolio of predominately UK equities to provide both income and capital growth; and (iii) acquiring equity stakes in fledgling unquoted companies with a view to contributing to their development. By their very nature these latter investments are considered to be of very high risk.

Investment trust status

The investment policy is designed to ensure that the Company continues to qualify as an authorised investment trust and is approved as such by H M Revenue & Customs. Amongst other conditions the business of the Company must consist of investing its funds in shares, land or other assets with the aim of spreading investment risk and giving members of the Company the benefit of the results of the management of its funds, the Company must not retain in respect of an accounting period an amount greater than 15% of its income for the period and it must not be a close company at any time.

Risk diversification and maximum exposures

Risk is spread by investing in commercial properties, corporate bonds and high risk securities. The executive directors have authority to make initial investments up to a value of £50,000. Once this exposure level is reached any additional investment requires final approval by the Board.

Borrowing

All property borrowing is made to specific subsidiary undertakings against specific assets held within that subsidiary undertaking or sub-group with cross guarantees from other group members where appropriate. Borrowings made for working capital purposes can be secured against any asset held within the Group. To minimise the exposure to interest rate movements, loans may have a mix of fixed and floating interest rates but with interest rate hedging where required. Gearing levels may be up to 100% of asset value at the time of obtaining the loan provided there was sufficient income, or potential income, to meet interest and any capital repayments.

Management

The Board has overall responsibility for the Group's affairs including the determination of its investment policy. Investment and divestment proposals are originated, negotiated and recommended by the Chief Executive and, if over £50,000 in value, are subject to final approval by the Board.

Principal risks, management and regulatory environment

The Board believes that, as per the previous year, the principal risks faced by the Group are:

Economic risk – events such as unfavourable economic conditions and/or movement in interest rates could affect trading conditions and consequently (i) the Company's investment portfolio, particularly the value of smaller company investments, and (ii) the value of the property investments.

INVESTMENT OBJECTIVE & POLICY – continued

Strategic and investment – poor investment strategy or consistently weak investments could lead to underperformance and insufficient returns. Investments in small unquoted companies involve a higher degree of risk than investments in companies traded on the main market of the London Stock Exchange. Investments in companies traded on AIM may be difficult to realise, particularly where the holding is large.

Regulatory – the Company is required to comply with the Companies Acts, the listing rules of the Financial Services Authority and International Financial Reporting Standards. A breach of any of these might lead to a suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. The Company must also comply with section 1158 of the Corporation Tax Act 2010 to ensure that all gains made in the Company remain tax free. Any breach in these rules may lead to the Company losing its authorised investment trust status.

Financial and operating risk – inadequate controls may lead to misappropriation of assets, inappropriate accounting policies could lead to misreporting or breaches of regulations.

Market price risk – there will always be uncertainty regarding future prices of investments held within the Company's portfolio, particularly where the investment is unquoted.

Asset liquidity risk – the remaining investments held may be difficult to realise as (i) the majority of equity investments relate to holdings in AIM and ISDX traded companies and unquoted companies and (ii) the general secondary property market continues to suffer from both lack of tenant demand and little or no funding from banks.

Market liquidity risk – shareholders may find it difficult to sell their shares in the Company at a price which is near to the net asset value.

Interest rate risk – the Group's investments and net revenue may be affected by interest rate movements.

Credit risk – a counterparty may fail to discharge an obligation or commitment that it has entered into with the Group.

Property risk – tenants may become of insufficient financial standing to meet their obligations to the Group.

The Board seeks to mitigate these and other perceived risks by setting policies and by undertaking a risk assessment at least annually. Further details can be found in note 21.

REPORT OF THE DIRECTORS

To be presented to the members at the annual general meeting to be held at the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL on 21 May 2013 at 11.00 am.

Revenue account
The Group Statement of Comprehensive Income, which includes the revenue account, is set out on page 21 and shows the results for the year ended 31 December 2012.

Dividends
The directors recommend a final dividend for the year ended 31 December 2012 of 2.5p per ordinary share to be paid on 7 June 2013 to shareholders on the register at 6.00pm on 17 May 2013.

Principal activities and business review
The Company's business activity is that of an authorised investment trust investing in both commercial property and securities.

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 pages 2 and 3 and the Chief Executive's Report on pages 4 and 5.

The Board considers the main key performance indicator applicable to the Group to be net asset value per share ("NAV"). As at 31 December 2012, the basic NAV was 472.5p (2011: 447.0p) or, in the opinion of the Board a more accurate figure as adjusted for non-controlling interests, 445.1p (2011: 427.6p). The main non-financial KPI is considered to be the amount of vacant space within the property portfolio. As at 31 December 2012 this totalled 137,496 sq. ft. representing 23% of the total available (2011: 349,924 sq. ft. and 54%), the decrease being principally as a result of the letting of a 48,000 sq. ft. warehouse at Southern Gateway, Liverpool and the granting of a licence to occupy the 148,000 sq. ft. unit at Northern Gateway, Knowsley.

The principal risks of the Group relate to its investment activities in properties and securities and are explained in the Investment Policy and note 21 to the financial statements.

Although the Group does not have a formal environmental policy it does recognise the importance of environmental responsibility. The Group encourages the active involvement of persons working for and on behalf of the Group to minimise so far as reasonably practicable any adverse effects on the environment of their activities. Given the size of the Group the Board does not consider there to be any key performance indicators in respect of employees (currently totalling 7, including 3 executive directors) relevant to an understanding of the Group's financial position or performance, nor does it support any social and community initiatives.

For the year ended 31 December 2011 H M Revenue & Customs has approved the Company as an investment trust for the purposes of Section 1158 of the Corporation Tax Act 2010 and since that date the directors have sought to conduct its affairs so as to enable it to continue to maintain such approval.

The Company's shares may qualify for inclusion in a stocks and shares ISA depending on the interpretation of H M Revenue & Customs' rules. Any shareholder considering an investment in their 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 FTSE All Share Index in the Remuneration Report is provided only as a guide to shareholders. The portfolio is managed on a high risk strategy basis.

REPORT OF THE DIRECTORS – continued

Securities portfolio

At 31 December 2012 the securities portfolio was invested in the following sectors:	%
Property investment	48
Media & photography	25
Financial	17
Engineering	9
Others	1
	100

Directors

The present directors are listed on page 1.

The directors retiring by rotation are Mr B J Hallett and Mr R A Chadwick and, being eligible, offer themselves for re-election.

Under the provisions of the UK Corporate Governance Code, any non-executive director who has effectively served for more than nine years should, subject to effective performance and ongoing commitment to the role, stand for annual re-election. Consequently Mr A G Ebel now retires and offers himself for re-election.

Brief biographies of the directors concerned are as follows:

Tony Ebel (aged 68)

Tony Ebel is presently Chairman of the Company. He qualified as a lawyer and chartered accountant and has been a non-executive director of the Company since 1979. He has been responsible for a number of successful technology based start-up companies and is currently involved with companies operating in the management services, sports information and marketing technology sectors. A significant part of Mr Ebel's role has been the evaluation of potential investments. He is currently a member of both the Audit and Remuneration Committees.

Brian Hallett (aged 58)

Brian Hallett is a chartered accountant who was appointed to the Board in 1996. He presently acts as both Finance Director and Company Secretary. He has considerable experience in reviewing investment proposals and dealing with all matters relating to smaller companies, including the various procedures required to bring such companies to one of the junior stock markets.

Richard Chadwick (aged 61)

Richard Chadwick is a chartered accountant who spent 27 years within the J Sainsbury plc group of companies where he gained considerable experience of property development and financing. Mr Chadwick is also a non-executive director of SpaceandPeople plc, a company in which Gresham House plc has an investment worth £1,505,625 as at year end. He is presently chairman of both the Audit and Remuneration Committees.

Details of the current directors' emoluments together with the directors' interests in shares and share option schemes are provided in the Remuneration Report on pages 13 to 15. Contracts of significance in which the directors had a material interest are disclosed in note 23.

REPORT OF THE DIRECTORS – continued

Substantial interests

At the date of this report the following substantial interests representing three per cent or more of the total voting rights of the Company have been notified to the Company:

	%	Ordinary Shares
Parkwood Property Investments LLP	27.25	1,463,063
The Trustees of the Rowe Trust	12.00	644,209
Asset Value Investors Limited	10.02	538,000
J M Finn Nominees Limited	9.87	529,749
A P Stirling	8.72	468,436

Financial risk management objectives

The Company's financial risk management objectives can be found in note 21 of the financial statements.

Directors' interests

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

	2012	2011
A G Ebel	22,550	22,550
B J Hallett	127,810	127,810
R H Chopin-John	5,000	5,000

In addition to the above D Lucie-Smith and J A C Lorimer have a beneficial interest in 1,463,063 ordinary shares held by Parkwood Property Investments LLP and Mrs R H Chopin-John, in her capacity as trustee, has a non-beneficial interest in 644,209 ordinary shares held by the Rowe Trust.

Share capital

At 1 January 2012 and 31 December 2012 there were 5,369,880 ordinary shares in issue with a nominal value of 25p each. The ordinary shares are listed on the London Stock Exchange.

The holders of ordinary shares are entitled to receive the Company's reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies and exercise voting rights. There are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers.

Control

None of the Company's ordinary shares carry any special rights with regard to the control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights. As far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company other than has been disclosed by the Company pursuant to the FSA's Disclosure & Transparency Rules. Such disclosures are published on the Regulatory Information Service.

The rules about the appointment and replacement of directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time.

The powers of the directors are determined by UK legislation and the Memorandum and Articles of Association of the Company in force from time to time.

REPORT OF THE DIRECTORS – continued

The directors have been authorised at the last annual general meeting to allot ordinary shares. A resolution will be put to shareholders at the forthcoming annual general meeting to renew this authority.

The directors have in the past been authorised to make market purchases of ordinary shares. Any ordinary shares so purchased may be cancelled or held in treasury.

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid. The Company also does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover.

Share options
The last options granted were on 3 May 2005 over a total of 35,600 ordinary shares. As at 31 December 2012 8,000 have been exercised and the remainder (27,600) have lapsed.

Directors' responsibilities statement
The directors are responsible for preparing the report of the directors, the directors' remuneration report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the 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 adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

REPORT OF THE DIRECTORS – continued

The directors confirm, to the best of their knowledge:

- that the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- that the management report included within the report of the directors includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The names and functions of all the directors are stated on pages 1 and 16.

Going concern
Following the passing of an ordinary resolution at the Company's 2011 annual general meeting its investment objective is now the orderly realisation of the Group's assets over a period of approximately two years with a view to returning capital to shareholders thereafter. As a result, the Group technically ceases to be a going concern as it is the intention to realise assets and return capital to shareholders in due course. During the realisation period the Group expects to trade in an orderly fashion and, in the directors' opinion, the valuation bases applied to the assets and liabilities are such that there would be no material adjustments to the financial statements if they had been prepared on a going concern basis. Further details can be found under paragraph (a) of the Principal Accounting Policies.

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 31 December 2012 trade creditors represented 22 days purchases (2011: 27 days).

Auditors
The auditors, PKF (UK) LLP, have merged their business into BDO LLP. A resolution to appoint BDO LLP will be put to the annual general meeting.

Statement as to disclosure of information to auditor
So far as each of the directors is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board,
B J Hallett, *Secretary*

5th Floor,
17 Grosvenor Gardens
London SW1W 0BD

17 April 2013

REMUNERATION REPORT

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). 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 the three non-executive directors of the Company under the chairmanship of Mr R A Chadwick. The Committee is responsible for determining the terms of service and remuneration of the executive directors. When designing schemes of performance-related remuneration the Committee will consider the provisions set out in Schedule A of the UK Corporate Governance Code issued in June 2010.

Remuneration policy

The Remuneration Committee's policy is designed to retain and motivate the executive directors and other senior executives during the realisation period and 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. Executive directors were also eligible for share options, details of which are shown below. Each element of remuneration paid to all directors is shown in detail on page 15.

Service contracts

All directors have rolling service contracts which are governed by the following policies:

(a) The notice period required by either the Company or the director to terminate the contract is 12 months for both executive and non-executive directors.

(b) In the event of termination by the Company (otherwise than by reason of death, resignation or disqualification pursuant to the Company's Articles of Association or by statute or by court order) the executive directors are entitled to compensation equivalent to one month's salary for every year served.

(c) In the event that a non-executive director is not re-elected by shareholders in accordance with the Articles of Association his/her appointment shall terminate with immediate effect and the individual is entitled to payment in lieu of notice being the maximum notice period in his/her contract.

(d) In the event of termination for events as specified in the contract including negligence and incompetence in the performance of his/her duties, misconduct and serious breaches of the rules of the UKLA, then no compensation is payable.

Pensions

The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31 December 2012 contributions amounted to £8,400 (2011: £8,400).

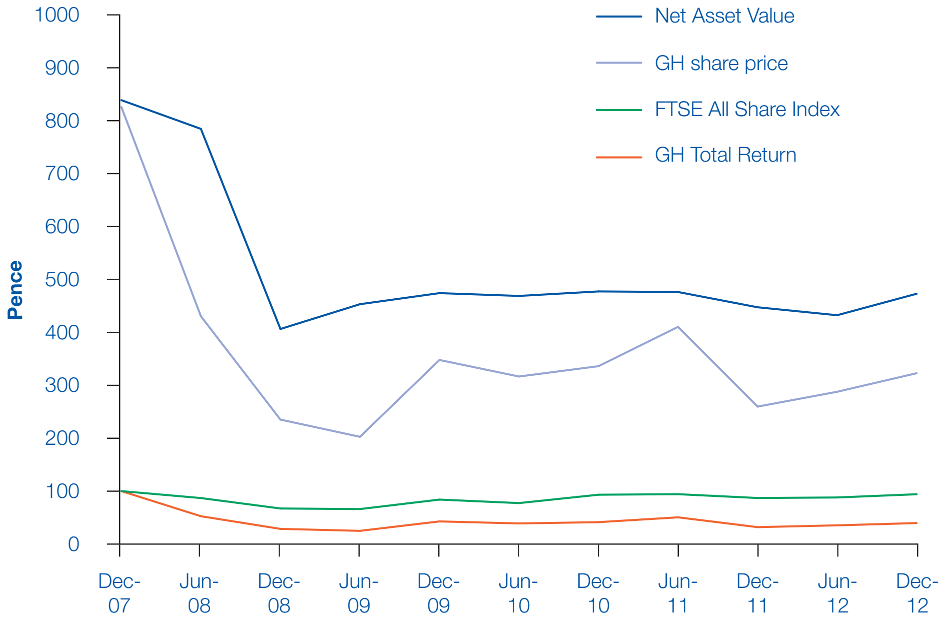
Non-executive directors' fees

The executive directors are responsible for determining the level of fees paid to the non-executive directors. Non-executive directors are not eligible for long-term incentive schemes.

REMUNERATION REPORT – continued

Company performance

The graph below illustrates the performance of Gresham House plc and a "broad equity market index" over the past five years. The directors consider the FTSE All Share Index to be the most appropriate for these purposes. As required by legislation performance is measured by total shareholder return (share price plus dividends paid). For additional shareholder information the graph also charts the Company's share price movement and net asset value. It should be noted however that none of this information should be regarded as a benchmark.



This graph shows the value, by the end of 2012, of £100 invested in Gresham House plc on 31 December 2007, (the GH Total Return), compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at intervening six monthly periods.

Comparative movements	31.12.2007	31.12.2012	% change
Gresham House share price	825.0p	322.5p	(60.9)%
Basic net asset value	837.9p	472.5p	(43.6)%
Gresham House shareholder return	100.0	39.7	(60.3)%
FTSE All Share Index	3,286.67	3,093.41	(5.9)%

REMUNERATION REPORT – continued

The following information has been audited:

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

	Basic Salary £'000	Fees £'000	Benefits £'000	Pensions £'000	2012 £'000	2011 £'000
Executive:						
D Lucie-Smith (ii)	167	–	–	–	167	167
J A C Lorimer (ii)	134	–	–	–	134	134
B J Hallett	125	–	2	8	135	136
Non-executive:						
A G Ebel (Chairman)(ii)	25	25	5	–	55	55
S C Ackerman (i)	–	–	–	–	–	13
R A Chadwick	–	20	–	–	20	20
R H Chopin-John	–	20	–	–	20	20
Total	451	65	7	8	531	545
Total 2011	451	78	8	8	545	

(i) Mr S C Ackerman resigned on 19 May 2011.

(ii) Salary due to Messrs Lucie-Smith and Lorimer and fees due to Mr Ebel have been paid to businesses in which they have a material interest.

Share option schemes
Details of share options for each director are as follows:

	At 1 January 2012	Lapsed	At 31 December 2012	Earliest exercise date	Exercise price per share
B J Hallett	8,800	(8,800)	–	3 May 2008	337.5p

On 3 May 2005 the Remuneration Committee granted options over a total of 35,600 ordinary shares with an exercise price of 337.5p at any time between 3 May 2008 and 3 May 2012. As at 31 December 2012 no options remain outstanding with 8,000 options having been exercised and 27,600 lapsed.

The following information is unaudited:

The Remuneration Committee is responsible for the operation and administration of the Company's unapproved share option scheme. No options were granted during the years ended 31 December 2011 and 2012.

On behalf of the Board,

R A Chadwick, *Chairman*, Remuneration Committee
17 April 2013

CORPORATE GOVERNANCE

The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the Company has applied the principles of good governance set out in the UK Corporate Governance Code issued in 2010 ("the Code") and the principles and recommendations published by the Association of Investment Companies in 2009, which provides a guide to best practice in certain areas of governance which are particularly relevant to investment trusts.

During the year ended 31 December 2012, with the exceptions outlined below, the directors consider that the Company has applied the principles and generally met the requirements of the Code.

Operation of the Board
The Board comprises the directors listed on page 1.

The Board is responsible for the overall strategy and management of the Group. There is a formal schedule of matters specifically reserved for Board decision including investment and performance objectives and policies, financial reporting and control, the approval of borrowings by the Group, any investments or disposals over certain thresholds and shareholder communication. The Board operates as a collective decision making forum. In the event that one or more directors cannot support a consensus decision then a vote would be taken and the views of the dissenting director recorded in the minutes. There were no such dissentions during 2012. Procedures are in place to enable individual directors to seek independent advice at the expense of the Company and appropriate cover is in place which insures directors against certain liabilities that they may incur in carrying out their duties on behalf of the Company. All directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that Board procedures are complied with. Mr R A Chadwick is the senior independent director.

The Chairman and Chief Executive have clearly established responsibilities although these have not been defined in writing. In addition to chairing the Board, the Chairman is responsible for ensuring that the Board is kept properly informed and is consulted on all issues reserved to it. The Chief Executive has final executive responsibility to the Board for the success of the Group.

The Board, which currently consists of three executive and three non-executive directors, meets regularly throughout the year and receives accurate, timely and clear information in a form and of a quality appropriate to enable it to discharge its duties. There were seven Board meetings, one meeting of the Audit Committee and one meeting of the Remuneration Committee held during the year and the attendance of the directors was as follows:

Number of meetings attended

Name of director	Board	Remuneration Committee	Audit Committee
A G Ebel	7 (7)	1(1)	1(1)
D Lucie-Smith	7 (7)	–	–
J A C Lorimer	7 (7)	–	–
B J Hallett	7 (7)	–	–
R A Chadwick	7 (7)	1(1)*	1(1)*
R H Chopin-John	7 (7)	1(1)	1(1)

* Denotes Committee Chair

Figures in brackets indicate the maximum number of meetings in the period which the director was a board or committee member as appropriate.

The Company has not complied with paragraph B.6.1 of the Code and has not undertaken a formal evaluation of its own performance and that of its committees. Given the nature and size of the Company this evaluation is an ongoing process undertaken by the Remuneration Committee as part of its review. The Board is satisfied that each director continues to contribute effectively and demonstrates commitment to the role.

CORPORATE GOVERNANCE – continued

Independence of the directors

As a smaller company the Code requires it to have at least two independent non-executive directors. In judging independence the Board takes into account whether or not a director is independent of management and any business or other relationship that could affect or interfere with the exercise of objective judgement by that director, or his/her ability to act in the best interests of the Company and its subsidiaries. Messrs Ebel and Chadwick are considered to be independent notwithstanding that Mr Ebel is Chairman and has served for a period exceeding nine years.

Re-election of directors

All directors are subject to re-election by shareholders at the first AGM following their appointment and, thereafter, are subject 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 constituting at least one third retire from office. Notwithstanding the foregoing, every director shall retire who was not appointed at either of the two previous annual general meetings and who has served for more than two years since his/her appointment or last reappointment. Directors are not appointed for specified terms nor have any automatic right of re-appointment. Because of the nature of an investment trust the Board believes that the contribution and independence of a director is not diminished by long service but that a detailed knowledge of the Company and its activities has a beneficial impact.

The directors retiring by rotation in accordance with the Company's Articles of Association are Mr B J Hallett and Mr R A Chadwick. Mr A G Ebel is the director due to stand for annual re-election at the forthcoming AGM as per the requirements of the Code having effectively served on the Board for more than nine years. The Chairman has carefully considered the position of each of the directors and the senior independent director has considered the position of the Chairman. They each respectively consider their contribution to be significant and effective, their commitment to be appropriate and respectively recommend their re-election.

Audit Committee

The Audit Committee is a formally constituted committee of the Board with defined terms of reference, a copy of which is available from the Company on request. It meets at least once a year and among its specific responsibilities are the review of the Company's annual and half yearly results and the review of internal and financial controls applicable to the Company. The Audit Committee consists of three non-executives Mr R A Chadwick, who acts as chairman, Mr A G Ebel and Mrs R H Chopin-John. The auditor is invited to attend the Audit Committee meeting at which the annual accounts are considered and any other meetings that the Committee deems necessary. Should they so require, the auditor has direct access to the chairman of the Audit Committee.

Nomination Committee

The Company does not comply with paragraphs B.2.1 to B.2.4 of the Code. Given the small size of the Board, the Board as a whole fulfils the function of the Nomination Committee. Any Board member can propose new members who will be considered by the Board as a whole. No new non-executive director will be appointed without first being interviewed by each existing non-executive director.

The Company has not fully complied with paragraphs B.4.1 and B.4.2 but all requests for information, assistance and training are being met as and when requested.

Remuneration Committee

The Remuneration Committee is also a formally constituted committee of the Board with defined terms of reference, a copy of which is available from the Company on request. It consists of the three non-executive directors under the chairmanship of Mr R A Chadwick. The other members of the committee are Mr A G Ebel and Mrs R H Chopin-John. The Committee is responsible for determining the terms of service and remuneration of the executive directors and meets at least once a year.

CORPORATE GOVERNANCE – continued

Relations with shareholders
Given its size, the Company has not fully complied with provisions E.1.1 and E.1.2. Of the current major shareholders, the Board believes that it has sufficient contact with three of these and an understanding of their issues and concerns.

All members of the Board are willing to meet with shareholders at any time for the purpose of discussing matters in relation to the operation and prospects of the Group.

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. The Company counts all proxy votes lodged at general meetings of the Company and indicates the number of proxy votes on each resolution, after it has been dealt with by a show of hands.

Accountability, internal controls and audit
The Board considers that these financial statements, reports and supplementary information present a fair and accurate assessment of the Company's position and prospects.

Whilst the Group has technically ceased to be a going concern as it is the intention to realise assets and return capital to shareholders in due course, it continues to trade in an orderly fashion and, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to fund ongoing activities for at least the next 12 months.

Non audit services provided by the auditor are reviewed by the Audit Committee to ensure that independence is maintained.

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. The Board has 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 an annual review of the significant risks faced by the Group and an assessment of their potential impact and likelihood of occurrence. The Board takes advice from external advisors where considered necessary including where any significant transaction is being considered. The Board is satisfied with the effectiveness of internal controls but, by their very nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The process for the consolidation and preparation of the financial statements is overseen by the executive directors. The Board consider the performance of outsourced service providers on an ongoing basis.

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.

Details of substantial shareholdings, share capital and control can be found in the Report of the Directors on pages 10 and 11.

REPORT OF THE INDEPENDENT AUDITOR

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRESHAM HOUSE PLC

We have audited the financial statements of Gresham House plc for the year ended 31 December 2012 which comprise the group statement of comprehensive income, the group and parent company statements of changes in equity, the group and parent company statements of financial position, the group and parent company statements of cash flows, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

REPORT OF THE INDEPENDENT AUDITOR – continued

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out page 12, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the board on directors' remuneration.

Andrew Huddleston (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
London, UK

17 April 2013

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Income:	1						
Dividend and interest income		690	–	690	386	–	386
Rental income		1,038	–	1,038	1,036	–	1,036
Other operating income		102	–	102	81	–	81
Total Income		1,830	–	1,830	1,503	–	1,503
Operating costs:	2						
Property outgoings		(989)	–	(989)	(1,051)	–	(1,051)
Administrative overheads		(841)	–	(841)	(913)	–	(913)
Net trading result/(loss)		–	–	–	(461)	–	(461)
Gains & losses on investments:							
Gains & losses on investments held at fair value	8	–	(280)	(280)	–	(203)	(203)
Movement in fair value of property investments	9	–	2,086	2,086	–	(1,804)	(1,804)
Group operating profit/(loss)		–	1,806	1,806	(461)	(2,007)	(2,468)
Finance costs	4	(810)	–	(810)	(695)	–	(695)
Share of joint venture operating profit		–	–	–	795	–	795
Group and share of joint venture operating profit/(loss) before taxation		(810)	1,806	996	(361)	(2,007)	(2,368)
Taxation	5	–	–	–	–	–	–
Profit/(loss) and total comprehensive income		(810)	1,806	996	(361)	(2,007)	(2,368)
Attributable to:							
Equity holders of the parent		(428)	1,848	1,420	264	(1,816)	(1,552)
Non-controlling interest		(382)	(42)	(424)	(625)	(191)	(816)
		(810)	1,806	996	(361)	(2,007)	(2,368)
Basic and diluted earnings/(loss) per ordinary share	6	(8.0p)	34.4p	26.4p	4.9p	(33.8p)	(28.9p)

The total column of this statement represents the Group's Statement of Comprehensive Income, prepared in accordance with IFRSs.

The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

STATEMENTS OF CHANGES IN EQUITY

Group

YEAR ENDED 31 DECEMBER 2012

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Equity attributable to equity share-holders £'000	Non-controlling interest £'000	Total equity £'000
Balance as at 31 December 2011		1,342	2,302	14	34,086	(13,739)	24,005	(1,043)	22,962
Profit/(loss) for the period being total comprehensive income for the year		–	–	–	1,848	(428)	1,420	(424)	996
Ordinary dividends paid	7	–	–	–	–	(54)	(54)	–	(54)
Share options lapsed		–	–	(14)	–	14	–	–	–
Balance at 31 December 2012		1,342	2,302	–	35,934	(14,207)	25,371	(1,467)	23,904

YEAR ENDED 31 DECEMBER 2011

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Equity attributable to equity share-holders £'000	Non-controlling interest £'000	Total equity £'000
Balance as at 31 December 2010		1,342	2,302	14	35,902	(13,949)	25,611	(227)	25,384
(Loss)/profit for the period being total comprehensive income for the year		–	–	–	(1,816)	264	(1,552)	(816)	(2,368)
Ordinary dividends paid	7	–	–	–	–	(54)	(54)	–	(54)
Balance at 31 December 2011		1,342	2,302	14	34,086	(13,739)	24,005	(1,043)	22,962

STATEMENTS OF CHANGES IN EQUITY – continued

Company

YEAR ENDED 31 DECEMBER 2012

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2011		1,342	2,302	14	11,994	234	15,886
(Loss)/profit for the period being total comprehensive income for the year		–	–	–	(280)	203	(77)
Ordinary dividends paid	7	–	–	–	–	(54)	(54)
Share options lapsed		–	–	(14)	–	14	–
Balance at 31 December 2012		1,342	2,302	–	11,714	397	15,755

YEAR ENDED 31 DECEMBER 2011

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2010		1,342	2,302	14	12,197	205	16,060
(Loss)/profit for the period being total comprehensive income for the year		–	–	–	(203)	83	(120)
Ordinary dividends paid	7	–	–	–	–	(54)	(54)
Balance at 31 December 2011		1,342	2,302	14	11,994	234	15,886

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Assets					
Non current assets					
Investments – securities	8	5,905	6,808	5,905	6,808
Property investments	9	21,516	22,193	–	–
Other investments	10	–	–	2	2
		27,421	29,001	5,907	6,810
Current assets					
Trade and other receivables	11	187	243	–	–
Accrued income and prepaid expenses		626	512	298	137
Other current assets	12	775	802	775	780
Cash and cash equivalents		8,348	6,193	8,111	6,005
Non current assets held for sale					
Investments – securities	8	1,149	2,270	1,149	2,270
Property investments	9	7,380	5,250	–	–
Total current assets and non current assets held for sale		18,465	15,270	10,333	9,192
Total assets		45,886	44,271	16,240	16,002
Current liabilities					
Trade and other payables	13	1,524	1,122	13	14
Short term borrowings	14	14,958	14,858	472	102
Other financial liabilities	15	–	79	–	–
Liabilities of a disposal group classified as held for sale					
Short term borrowings	14	5,500	5,250	–	–
		21,982	21,309	485	116
Total assets less current liabilities		23,904	22,962	15,755	15,886
Non-current liabilities					
Deferred taxation	16	–	–	–	–
		–	–	–	–
Net assets		23,904	22,962	15,755	15,886
Capital and reserves					
Ordinary share capital	17	1,342	1,342	1,342	1,342
Share premium	18	2,302	2,302	2,302	2,302
Share option reserve	18/22	–	14	–	14
Capital reserve	18	35,934	34,086	11,714	11,994
Retained earnings	18	(14,207)	(13,739)	397	234
Equity attributable to equity shareholders		25,371	24,005	15,755	15,886
Non-controlling interest	18	(1,467)	(1,043)	–	–
Total equity		23,904	22,962	15,755	15,886
Basic and diluted net asset value per ordinary share	19	472.5p	447.0p	293.4p	295.8p

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 17 April 2013

D Lucie-Smith
Director

Registered number: 871 (England & Wales)

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Cash flow from operating activities					
Investment income received		76		65	
Interest received		453		508	
Rental income received		1,093		989	
Other cash payments		(1,686)		(1,795)	
Net cash utilised in operations	20		(64)		(233)
Interest paid on property loans		(757)		(848)	
			(757)		(848)
Net cash flow from operating activities			(821)		(1,081)
Cash flow from investing activities					
Purchase of investments		(571)		(843)	
Receipt from joint venture		–		1,703	
Sale of investments		2,343		3,955	
Sale of investment properties		1,500		–	
Repayment of loans		–		167	
Expenditure on investment properties		(563)		(2,832)	
Purchase of developments in hand		(29)		(17)	
			2,680		2,133
Cash flow from financing activities					
Repayment of loans		(1,956)		(484)	
Receipt of loans		2,306		2,848	
Equity dividends paid		(54)		(54)	
			296		2,310
Increase in cash and cash equivalents			2,155		3,362
Cash and cash equivalents at start of year			6,193		2,831
Cash and cash equivalents at end of year			8,348		6,193

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Cash flow from operating activities					
Investment income received		76		65	
Interest received		453		508	
Other cash payments		(134)		(174)	
Net cash flow from operating activities	20		395		399
Cash flow from investing activities					
Purchase of investments		(571)		(843)	
Sale of investments		2,315		3,948	
Repayment of loans		–		165	
Purchase of development in hand		(29)		(17)	
			1,715		3,253
Cash flow from financing activities					
Receipt of loans		215		432	
Repayment of loans		(165)		(567)	
Equity dividends paid		(54)		(54)	
			(4)		(189)
Increase in cash and cash equivalents			2,106		3,463
Cash and cash equivalents at start of year			6,005		2,542
Cash and cash equivalents at end of year			8,111		6,005

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

There have been no new standards, amendments and interpretations issued and made effective for the accounting period commencing 1 January 2012 that have a material impact on the financial statements of the Group.

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") is consistent with the requirements of IFRS and appropriate in the context of the Company's activities, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted in these financial statements as set out in note (u).

As the Group's investment objective is now the orderly realisation of the Group's assets over a period of approximately two years with a view to returning capital to shareholders thereafter, the Group technically ceases to be a going concern as it is the intention to realise assets and return capital to shareholders in due course. During the realisation period the Group expects to trade in an orderly fashion and, in the directors' opinion, the valuation bases applied to the assets and liabilities (as disclosed elsewhere within the accounting policies) are such that there would be no material adjustments to the financial statements if they had been prepared on a going concern basis.

The Group has short term bank borrowings of £20.5m due within one year including an overdraft facility of £7.4m which is secured on a similar amount of cash deposits, a loan of £9.6m from the Co-operative Bank repayable by 31 May 2013 and a further loan of £3.5m from Royal Bank of Scotland repayable by 30 September 2013. Confirmation has been received from the Co-operative Bank plc that it expects to extend the facility for a further 12 month period on similar terms but subject to a condition that needs to be met. The directors fully expect to be able to meet this additional requirement and are therefore confident that the loan will be renewed. The Royal Bank of Scotland loan is expected to be repaid out of the proceeds of asset sales prior to it falling due.

On this basis the directors are of the opinion that the Group will have sufficient working capital to fund ongoing activities for at least the next 12 months.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to the year end. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Presentation of Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. Net capital returns may not be distributed by way of a dividend. The net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. Details of the Company's results for the year are set out in note 18.

(d) Investments in associates and joint ventures

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity. Investments as disclosed in note 8 which are deemed to be associates are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") as investments designated at fair value through the Statement of Comprehensive Income and, in accordance with paragraph 1 of IAS 28 Investments in Associates ("IAS 28"), equity accounting is not required.

PRINCIPAL ACCOUNTING POLICIES – continued

A joint venture is an entity over which the Group has joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The investment in a joint venture is initially recognised at cost and adjusted for the Group's share of the changes in the net assets of the joint venture after the date of acquisition, and for any impairment in value. If the Group's share of losses in a joint venture exceeds its interest in the joint venture, the Group discontinues recognising its share of further losses.

(e) Segment reporting
IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board in order to allocate resources to the segments and to assess their performance.

The Group's reportable segments, which are those reported to the Board, are the Investment Trust and Property Investment.

(f) Income
(i) *Dividend and interest income*
Income from listed securities is recognised when the right to receive the dividend has been established. Interest receivable is recognised on an accruals basis.

(ii) *Rental income*
Rental income comprises property rental income receivable net of VAT, recognised on a straight line basis over the lease term and excludes service charges recoverable from the tenant.

(g) Expenses
All expenses and interest payable are accounted for on an accruals basis. All expenses are allocated to revenue except the expenses which are incidental to the disposal of an investment which are deducted from the disposal proceeds of the investment and acquisition costs which are charged to the capital account.

(h) Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is also provided for on revaluation surpluses on investment properties.

Investment Trusts which have approval under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

PRINCIPAL ACCOUNTING POLICIES – continued

Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(i) Operating leases
Amounts payable under operating leases are charged directly to the Statement of Comprehensive Income on a straight line basis over the period of the lease. The aggregate costs of operating lease incentives provided by the Group are recognised as a reduction in rental income on a straight line basis over the lease term.

(j) Investments
Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Group's key management. All equity investments are classified as held at fair value through profit or loss.

(i) *Properties*
Property investments are included in the Statement of Financial Position at fair value and are not depreciated.

Development properties are included in non current assets where the Company intends to develop the land and hold as an investment.

Where construction or development work has commenced on property investments and they are independently valued by external professional valuers they are stated at estimated market value on completion less estimated costs to complete.

The cost of properties in the course of development includes attributable interest and all costs directly associated with the purchase and construction of the property.

Sale and purchase of property assets is generally recognised on unconditional exchange except where payment or completion is expected to occur significantly after exchange. For conditional exchanges, sales are recognised when the conditions have been satisfied. Profits and losses are calculated by reference to the carrying value at the end of the previous financial year, adjusted for subsequent capital expenditure and less directly related costs of sale.

(ii) *Assets held for sale*
Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell (except where the exemptions of paragraph 5 of IFRS 5 apply) and are classified as such if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This is the case when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the sale is considered to be highly probable. A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset and a further active programme to locate a buyer and complete the plan has been initiated, Further, the asset has to be marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date that it is classified as held for sale.

(iii) *Securities*
Purchases and sales of listed investments are recognised on the trade date, the date on which the Group commit to purchase or sell the investment. All investments are designated upon initial recognition as held at fair value, and are measured at subsequent reporting dates at fair value, which is either the market bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Fair values for unquoted investments, or for investments for which there is only an inactive market, are established by taking into account the International Private Equity and Venture Capital Valuation Guidelines as follows:

(i) Investments which have been made in the last 12 months are valued at cost in the absence of overriding factors;

PRINCIPAL ACCOUNTING POLICIES – continued

(ii) Investments in companies at an early stage of development are also valued at cost in the absence of overriding factors;

(iii) Where investments have gone beyond the stage in their development in (ii) above, the shares may be valued by having regard to a suitable price-earnings ratio to that company's historical post-tax earnings or the net asset value of the investment; and

(iv) Where a value is indicated by a material arm's length market transaction by a third party in the shares of a company, that value may be used.

(iv) *Loan Stock*
Unquoted loan stock is classified as loans and receivables in accordance with IAS39 and carried at amortised cost using the Effective Interest Rate method. Movements in the amortised cost relating to interest income are reflected in the revenue column of the Statement of Comprehensive Income and movements in respect of capital provisions are reflected in the capital column of the Statement of Comprehensive Income. Loan stock accrued interest is recognised in the Statement of Financial Position as part of the carrying value of the loans and receivables at the end of each reporting period.

(k) Developments in hand
Developments in hand (being developments held for subsequent sale) are valued at the lower of cost and net realisable value other than assets transferred from non current assets which are transferred at fair value. Third party interest which relates to properties held for, or in the course of, development is capitalised as incurred, when considered recoverable. Profits and losses arising from the sale of developments are dealt with through the Statement of Comprehensive Income.

(l) Trade and other receivables
Other receivables are short term in nature and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts as any discounting of expected cash flows is considered to be immaterial.

(m) Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Dividends payable
All dividends are recognised in the period in which they are approved by shareholders.

(o) Bank borrowings
All bank loans are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Interest costs on property loans attributable to property investments are charged to the Statement of Comprehensive Income as incurred. Interest costs on property loans attributable to development properties and to current assets are capitalised when considered recoverable.

(p) Trade and other payables
Other payables are not interest-bearing and are stated at their nominal value as any discounting of expected cash flows is considered to be immaterial.

(q) Interest rate swaps
Interest rate swaps are classified as fair value through profit and loss financial instruments. Movements in fair value are taken directly to profit and loss under finance costs and the carrying values are reflected in the Statement of Financial Position under assets or liabilities as appropriate.

PRINCIPAL ACCOUNTING POLICIES – continued

(r) Capital reserves

The following realised amounts are accounted for in this reserve:

- gains and losses on the realisation of securities and property 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.

The following unrealised amounts 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.
- provisions charged against carrying value of investments held at the year end.
- provisions for deferred taxation in respect of revalued properties.

(s) Pensions

Payments to personal pension schemes for employees are charged against profits in the year in which they are incurred.

(t) Share based payments

The cost of granting share options and other share based remuneration to employees and directors is recognised through the Statement of Comprehensive Income with reference to the fair value at the date of grant. In the case of options granted, fair value is measured using the Black Scholes option pricing model and charged over the vesting period of the options.

(u) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods. The Group has not early adopted the standards, amendments and interpretations.

The changes are not expected to have a material impact on the financial statements, although amended disclosures will be required in certain instances.

(v) Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those used to determine (i) the value of investments at fair value through profit or loss, (ii) any impairment in the value of loans and (iii) the value of property investments.

(i) The value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions at each Statement of Financial Position date;

(ii) Loans are measured at amortised cost and provision is made for impairment as necessary based on the available latest information; and

(iii) The value of property investments is based on independent third party valuations. These valuations are based on assumptions including rental values, yield rates and future operating costs.

NOTES TO THE ACCOUNTS

1 INCOME

	2012 £'000	2011 £'000
Income from investments		
Dividend income – Listed UK	76	65
Interest receivable: Bank and brokers	70	5
Other	544	316
	690	386
Rental income	1,038	1,036
	1,728	1,422
Other operating income		
Dealing profits and losses	6	10
Management fees receivable	96	71
	102	81
Total income	1,830	1,503
Total income comprises:		
Dividends	76	65
Interest	614	321
Rental income	1,038	1,036
Other operating income	102	81
	1,830	1,503

2 OPERATING COSTS

Operating costs comprise the following:

	2012 £'000	2011 £'000
a) Property outgoings:		
Directors' emoluments (excluding benefits in kind)	134	134
Wages and salaries	51	49
Other operating costs (net of service charges recoverable from tenants of £564,000 (2011: £429,000)	804	868
	989	1,051
b) Administrative overheads:		
Directors' emoluments (excluding benefits in kind)	390	403
Auditor's remuneration *	70	70
Wages and salaries	106	119
Social security costs	35	36
Operating lease rentals – land and buildings	39	29
Other operating costs	201	256
	841	913
	1,830	1,964

NOTES TO THE ACCOUNTS – continued

2 OPERATING COSTS – continued

* A more detailed analysis of auditor's remuneration is as follows:	2012 £'000	2011 £'000
Audit fees	23	23
Auditor's other fees – category 1 (the auditing of accounts of subsidiaries of the Company pursuant to legislation)	41	41
Auditor's other fees – category 3 (other services relating to taxation)	5	5
Auditor's other fees – category 10 (other services)	1	1
	70	70

The directors consider the auditor was best placed to provide these other services. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

The average number of persons employed by the Group, including the executive directors, was 7 (2011: 7).

The Group has the following commitments under operating leases:	2012 £'000	2011 £'000
Within 1 year	39	39
1 – 2 years	16	55
	55	94

3 DIRECTORS EMOLUMENTS

The emoluments of the directors and details of options held are disclosed in the Remuneration Report on page 15.

The directors are considered to be the Group's only key management personnel. Employers' National Insurance Contributions in respect of the directors for the year were £20,000 (2011: £20,000).

4 FINANCE COSTS

	2012 £'000	2011 £'000
Interest payable on loans and overdrafts	758	834
Finance fees	131	98
Movement in fair value of interest rate swaps	(79)	(237)
	810	695

NOTES TO THE ACCOUNTS – continued

5 TAXATION

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
(a) Analysis of charge in period:						
UK Corporation tax at 24.5% (2011: 26.5%)	–	–	–	–	–	–
Total tax charge	–	–	–	–	–	–
(b) Factors affecting tax charge for period:						
(Loss)/profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(198)	442	244	(96)	(532)	(628)
Tax effect of:						
Investment losses not taxable	–	69	69	–	54	54
Dividend income not taxable	(19)	–	(19)	(17)	–	(17)
Expenses disallowed	23	–	23	3	–	3
Losses utilised in current year	(19)	–	(19)	(159)	–	(159)
Movement in losses carried forward	213	(511)	(298)	269	478	747
Actual tax charge	–	–	–	–	–	–

The Group has unutilised tax losses of approximately £11.8 million (2011: £10.9 million) available against future corporation tax liabilities. The potential deferred taxation asset of £2.7 million (2011: £2.8 million) in respect of these losses has not been recognised in these financial statements as, given the policy to realise the assets of the Group over approximately the next two years, it is not considered sufficiently probable that the Group will generate sufficient taxable profits to recover these amounts in full.

6 EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings/(loss) per share

The basic and diluted earnings/(loss) per share figure is based on the net profit for the year attributable to the equity shareholders of £1,420,000 (2011: loss £1,552,000) and on 5,369,880 (2011: 5,369,880) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

There were no potentially dilutive ordinary shares as at 31 December 2012.

The earnings/(loss) per ordinary share figures detailed above can be further analysed between revenue and capital as follows:-

	2012 £'000	2011 £'000
Net revenue (loss)/profit attributable to equity holders of the parent	(428)	264
Net capital gain/(loss) attributable to equity holders of the parent	1,848	(1,816)
Net total gain/(loss)	1,420	(1,552)
Weighted average number of ordinary shares in issue during the period	5,369,880	5,369,880
Basic and diluted earnings/(loss) per share	Pence	Pence
Revenue	(8.0)	4.9
Capital	34.4	(33.8)
Total basic earnings/(loss) per share	26.4	(28.9)

NOTES TO THE ACCOUNTS – continued

7 DIVIDENDS

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2011 of 1p (2010: 1p) per share	54	54
	54	54

Set out below is the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 1158 Corporation Tax Act 2010 are considered.

Proposed final dividend for the year ended 31 December 2012 of 2.5p (2011: 1p) per share	134	54

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

8 INVESTMENTS – SECURITIES

Investments have been classified as follows:	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Non current assets	5,905	6,808	5,905	6,808
Non current assets held for sale	1,149	2,270	1,149	2,270
	7,054	9,078	7,054	9,078

A further analysis of total investments is as follows:	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Listed securities – on the London Stock Exchange	1,149	2,270	1,149	2,270
Listed securities – on overseas exchanges	–	–	–	–
Securities dealt in under AIM	1,782	1,370	1,782	1,370
Securities dealt in under ISDX	64	153	64	153
Unlisted securities	4,059	5,285	4,059	5,285
Carrying value at 31 December	7,054	9,078	7,054	9,078
Investments valued at fair value through profit or loss	5,704	7,192	5,704	7,192
Loans and receivables valued at amortised cost	1,350	1,886	1,350	1,886
	7,054	9,078	7,054	9,078

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

Group – Year ended 31 December 2012

	Listed in UK £'000	Listed overseas £'000	AIM £'000	ISDX £'000	Unlisted £'000	Total £'000
Opening cost	2,386	80	1,213	363	6,198	10,240
Opening unrealised gains & (losses)	(116)	(80)	157	(210)	(913)	(1,162)
Opening value	2,270	–	1,370	153	5,285	9,078
Movements in the year:						
Purchases at cost	–	–	–	–	571	571
Sales – proceeds	(1,160)	–	(181)	–	(974)	(2,315)
Sales – realised gains & (losses) on sales	(36)	–	(670)	–	(47)	(753)
Unrealised gains & (losses)	75	–	1,263	(89)	(776)	473
Closing value	1,149	–	1,782	64	4,059	7,054
Closing cost	1,190	80	362	363	5,748	7,743
Closing unrealised gains & (losses)	(41)	(80)	1,420	(299)	(1,689)	(689)
Closing value	1,149	–	1,782	64	4,059	7,054

Group – Year ended 31 December 2011

	Listed in UK £'000	Listed overseas £'000	AIM £'000	ISDX £'000	Unlisted £'000	Total £'000
Opening cost	5,884	80	1,877	363	5,594	13,798
Opening unrealised gains & (losses)	(80)	(77)	(124)	(185)	(946)	(1,412)
Opening value	5,804	3	1,753	178	4,648	12,386
Movements in the year:						
Purchases at cost	–	–	–	–	843	843
Sales – proceeds	(3,427)	–	(365)	–	(156)	(3,948)
Sales – realised gains & (losses) on sales	(71)	–	(299)	–	(83)	(453)
Unrealised gains & (losses)	(36)	(3)	281	(25)	33	250
Closing value	2,270	–	1,370	153	5,285	9,078
Closing cost	2,386	80	1,213	363	6,198	10,240
Closing unrealised gains & (losses)	(116)	(80)	157	(210)	(913)	(1,162)
Closing value	2,270	–	1,370	153	5,285	9,078

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

Company – Year ended 31 December 2012

	Listed in UK £'000	Listed overseas £'000	AIM £'000	ISDX £'000	Unlisted £'000	Total £'000
Opening cost	2,386	80	1,455	363	6,198	10,482
Opening unrealised gains & (losses)	(116)	(80)	(85)	(210)	(913)	(1,404)
Opening value	2,270	–	1,370	153	5,285	9,078
Movements in the year:						
Purchases at cost	–	–	–	–	571	571
Sales – proceeds	(1,160)	–	(181)	–	(974)	(2,315)
Sales – realised gains & (losses) on sales	(36)	–	(670)	–	(47)	(753)
Unrealised gains & (losses)	75	–	1,263	(89)	(776)	473
Closing value	1,149	–	1,782	64	4,059	7,054
Closing cost	1,190	80	604	363	5,748	7,985
Closing unrealised gains & (losses)	(41)	(80)	1,178	(299)	(1,689)	(931)
Closing value	1,149	–	1,782	64	4,059	7,054

Company – Year ended 31 December 2011

	Listed in UK £'000	Listed overseas £'000	AIM £'000	ISDX £'000	Unlisted £'000	Total £'000
Opening cost	5,884	80	2,119	363	5,594	14,040
Opening unrealised gains & (losses)	(80)	(77)	(366)	(185)	(946)	(1,654)
Opening value	5,804	3	1,753	178	4,648	12,386
Movements in the year:						
Purchases at cost	–	–	–	–	843	843
Sales – proceeds	(3,427)	–	(365)	–	(156)	(3,948)
Sales – realised gains & (losses) on sales	(71)	–	(299)	–	(83)	(453)
Unrealised gains & (losses)	(36)	(3)	281	(25)	33	250
Closing value	2,270	–	1,370	153	5,285	9,078
Closing cost	2,386	80	1,455	363	6,198	10,482
Closing unrealised gains & (losses)	(116)	(80)	(85)	(210)	(913)	(1,404)
Closing value	2,270	–	1,370	153	5,285	9,078

The investment in AIM stocks by the Company is different to that of the Group as a result of unrealised gains on intra-group transfers being eliminated on consolidation.

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

Gains and losses on investments held at fair value	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Realised gains & (losses) on sales	(753)	(453)	(753)	(453)
Unrealised gains & (losses)	473	250	473	250
Gains & (losses) on investments	(280)	(203)	(280)	(203)

An analysis of investments is as follows:

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Equity investments	4,543	4,911	4,543	4,911
Fixed income securities	1,161	2,281	1,161	2,281
Other loans	1,350	1,886	1,350	1,886
	7,054	9,078	7,054	9,078

An analysis of the securities portfolio by broad industrial or commercial sector is contained within the Report of the Directors. The largest ten investments as at 31 December 2012 all of which are incorporated in Great Britain, with the exception of Memorial Holdings Limited which is incorporated in Jersey, were:

	Market Value £'000	% of Portfolio
UK listed securities		
Standard Chartered Bank plc – 6% bond	1,050	14.9
RSA Insurance Group plc – 7 3/8% preference shares	99	1.4
Securities dealt in under AIM		
Avesco Group plc – providers of specialist services to the corporate presentation, entertainment and broadcast markets	277	3.9
SpaceandPeople plc – marketing and sale of promotional space on behalf of shopping centres and other similar venues	1,505	21.3
Securities dealt in under ISDX		
Wheelsure Holdings plc – development and sale of safety products predominately in the transport and service industries	64	0.9
Unquoted securities		
Attila (BR) Limited – 10% unsecured loan notes 2010-2015 – property investment company	915	13.0
AudioGravity Holdings Limited – development of advanced wind noise rejection technology	590	8.4
Kemnal Investments Limited – 10% unsecured loan stock 2017 – mezzanine loan provider	399	5.6
Memorial Holdings Limited – investment company specialising in the cemetery sector	2,074	29.4
Public-I Group Limited – a company specialising in webcasting in the public sector	33	0.5
	7,006	99.3

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

The information required by the SORP in respect of unquoted investments is as follows:

Attila (BR) Limited

Financial Summary				
Year ended 31 March 2012	£'000s		10% Unsecured Loan notes 2010-2015	Ordinary 1p shares
Turnover	nil			
Loss before interest	(37)	Total issued	3,594,129	100,000
Loss before tax	(37)	Number held	915,456	20,089
Loss after tax	(37)	% of class	25.5	20.1
Net liabilities	(124)	Cost (£'000s)	915	–
Dividend per share	nil	Market value (£'000s)	915	–
Total income recognised in the year	222			

AudioGravity Holdings Limited

Financial Summary			
Year ended 31 July 2012	£'000s		
Turnover	54	Shares	Ordinary 1p
Loss before interest	(123)	Total issued	68,812
Loss before tax	(123)	Number held	14,753
Loss after tax	(123)	% of class	21.4
Net assets	157	Cost (£'000s)	398
Dividend per share	nil	Market value (£'000s)	590
Total income recognised in the year	6		

Kemnal Investments Limited

Financial Summary				
Period ended 30 September 2011	£'000s		10% Unsecured Loan notes 2012-2017	Ordinary £1 shares
Turnover	nil			
Loss before interest	(24)	Total issued	2,750,000	111
Loss before tax	(24)	Number held	398,513	16
Loss after tax	(24)	% of class	14.5	14.4
Net liabilities	(24)	Cost (£'000s)	399	nil
Dividend per share	nil	Market value (£'000s)	399	nil
Total income recognised in the year	18			

Memorial Holdings Limited

Financial Summary			
Year ended 31 December 2011	£'000s		
Turnover	nil	Shares	Ordinary 1p
Loss before interest	(12)	Total issued	14,820
Loss before tax	(12)	Number held	1,500
Loss after tax	(12)	% of class	10.1
Net liabilities	(84)	Cost (£'000s)	2,392
Dividend per share	nil	Market value (£'000s)	2,074
Total income recognised in the year	19		

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

Public-i Group Limited

Financial Summary			
Year ended 30 June 2011	£'000s		
Turnover	1,337	Shares	Ordinary 1p
Profit before interest	10	Total issued	211,412
Profit before tax	10	Number held	11,000
Profit after tax	10	% of class	5.2
Net assets	211	Cost (£'000s)	155
Dividend per share	nil	Market value (£'000s)	33
Total income recognised in the year	nil		

9 PROPERTY INVESTMENTS

Property investments have been classified as follows:	Group	
	2012	2011
	£'000	£'000
Non current assets	21,516	22,193
Non current assets held for sale	7,380	5,250
	28,896	27,443

A further analysis of total property investments is as follows:

	Group	
	2012	2011
Net book value and valuation	£'000	£'000
At 1 January	27,443	28,620
Additions during the year – expenditure on existing properties	867	627
Disposals during the year	(1,500)	–
Movement in fair value during the year	2,086	(1,804)
At 31 December	28,896	27,443

Property investments are shown at fair value based on current use and any surplus or deficit arising on valuation of property is reflected in the capital column of the Statement of Comprehensive Income.

All property investments were valued by Jones Lang LaSalle Limited, Chartered Surveyors, as at 31 December 2012 at a combined total of £28,896,000. These external valuations were carried out on the basis of Market Value in accordance with the latest edition of the Valuation Standards published by the Royal Institution of Chartered Surveyors.

Operating leases

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2012	2011
	£'000	£'000
Not later than one year	597	917
Between 2 and 5 years	686	1,444
Over 5 years	37	411
	1,320	2,772

Rental income recognised in the Statement of Comprehensive Income amounted to £1,038,000 (2011: £1,036,000).

NOTES TO THE ACCOUNTS – continued

9 PROPERTY INVESTMENTS – continued

The commercial leases vary with their location within the United Kingdom, however wherever the market allows they are being standardised where possible across the property portfolio. The commercial units are leased on terms where the tenant has the responsibility for repairs and running costs for each individual unit with a service charge payable to cover estate services provided by the Landlord.

The cost of the above properties as at 31 December 2012 is as follows:

	Group £'000
Brought forward	29,210
Additions during the year	867
Disposals during the year	(2,254)
	27,823

Capital commitments
Capital expenditure contracted for but not provided for in the financial statements for the Group was £317,000 (2011: £317,000) and for the Company was £nil (2011: £nil).

Movement in fair value of property investments	Group	
	2012 £'000	2011 £'000
Realised losses on disposal of property	(754)	–
Increase/(decrease) in unrealised appreciation	2,840	(1,804)
Movement in fair value of property investments	2,086	(1,804)

10 OTHER INVESTMENTS

	Company	
	2012	2011
Subsidiary undertakings	£'000	£'000
Shares – at cost	322	322
Less provision	(320)	(320)
	2	2

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

	Held by Parent %	Held by other Group companies %
Chartermet Limited – property investment		75
Deacon Commercial Development and Finance Limited – property investment	75	25
Deacon Industrial Projects Limited – property development		100
Gresham House Finance Limited – finance	100	
Knowsley Industrial Property Limited – property investment		75
New Capital Developments Limited – property investment		75
Newton Estate Limited – property investment		100
Security Change Limited – finance and share dealing	100	
Watlington Investments Limited – investment	100	
Wolden Estates Limited – property investment		100

NOTES TO THE ACCOUNTS – continued

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Amounts receivable within one year:				
Trade receivables	248	377	–	–
Less allowance for credit losses	(61)	(134)	–	–
	187	243	–	–
Allowances for credit losses on trade receivables:				
Allowances as at 1 January	134	90	–	–
Changes during the year charged/(released) to Statement of Comprehensive Income:				
– allowances reversed	(134)	–	–	–
– additional allowances	61	44	–	–
Allowances as at 31 December	61	134	–	–

Trade and other receivables are assessed for impairment when older than 90 days. As at 31 December 2012, trade receivables of £26,000 (2011: £28,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
1-3 months	14	23	–	–
3-6 months	7	2	–	–
More than 6 months	5	3	–	–

As at 31 December 2012 trade receivables of £61,000 (2011: £134,000) were impaired and provided for. The ageing of these receivables is as follows:

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
1-3 months	8	8	–	–
3-6 months	8	8	–	–
6-12 months	20	42	–	–
More than 12 months	25	76	–	–

The main 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.

NOTES TO THE ACCOUNTS – continued

12 OTHER CURRENT ASSETS

	Notes	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Listed and other securities held		–	22	–	–
Developments in hand	(a)	775	780	775	780
		775	802	775	780

(a) Developments in hand consist of one property development site.

13 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade creditors	163	360	–	–
Other creditors	445	139	13	14
Accruals	916	623	–	–
	1,524	1,122	13	14

14 CURRENT LIABILITIES – SHORT TERM BORROWINGS

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Bank overdrafts and short-term loans (secured)				
– property loans – within current liabilities	7,582	9,787	–	–
– other	7,376	5,071	472	102
	14,958	14,858	472	102
– property loans – liabilities of a disposal group classified as held for sale	5,500	5,250	–	–
	20,458	20,108	472	102

Property loans include £9.6m from the Co-operative Bank ("Co-op") repayable by 31 May 2013 and £3.5m from Royal Bank of Scotland ("RBS") repayable by 30 September 2013. Confirmation has been received from the Co-op that it expects to extend the facility for a further 12 month period but subject to a certain condition. The directors fully expect to be able to meet this additional requirement.

The other bank overdrafts are secured on cash balances totalling £7,400,000.

Property loans relate to property investments held in Newton Estate Limited, New Capital Developments Limited, and Chartermet Limited (all short term borrowings). The loans are secured by way of a legal mortgage over the investment property concerned, which have a total carrying value of £17.3m, and a floating charge over the assets of the relevant companies. In addition there are cross guarantees in place with fellow subsidiary undertakings and an interest guarantee by the parent.

NOTES TO THE ACCOUNTS – continued

14 CURRENT LIABILITIES – SHORT TERM BORROWINGS – continued

Details of total bank loans and overdrafts are as follows:

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
2.0% over bank base rate	7,376	5,041	–	–
2.5% over bank base rate	–	30	–	–
2.25% over 3 month LIBOR	–	5,105	–	–
2.75% over bank base rate	–	4,966	–	–
2.75% over 3 month LIBOR	–	4,966	–	–
3.5% over bank base rate	9,607	–	–	–
3.5% over 3 month LIBOR	3,475	–	–	–
	20,458	20,108	–	–

All bank borrowings are repayable within one year.

15 OTHER LIABILITIES

Details of interest rate swaps are as follows:

Start Date	Maturity Date	Nominal Amount £'000	Fixed rate %	Valuation 31 December 2012 £'000	Valuation 31 December 2011 £'000
16 July 2009	16 July 2012	3,150	2.93	–	(43)
22 May 2009	22 May 2012	5,120	2.55	–	(36)
				–	(79)

Movements in fair value are taken directly to the Statement of Comprehensive Income under finance costs and are reflected in the Statement of Financial Position under current assets, current liabilities or non-current liabilities as appropriate.

Floating rate in all cases is 3 month LIBOR.

16 DEFERRED TAXATION

Under International Accounting Standards ("IAS") 12 (Income Taxes) provision is made for the deferred tax liability associated with the revaluation of property investments. The Group provides for deferred tax on property investments by reference to the tax that would be due on the sale of the property investments by applying the capital gains tax rate of 24 per cent (2011: 25 per cent) to the revaluation surplus after indexation allowance.

The deferred tax provision on the revaluation of property investments calculated under IAS 12 is £nil at 31 December 2012 (2011: £nil).

17 SHARE CAPITAL

	2012	2011
Share Capital	£'000	£'000
Authorised: £4,750,000 (2011: £4,750,000)		
Allotted: Ordinary – 5,369,880 (2011: 5,369,880) fully paid shares of 25p each	1,342	1,342

NOTES TO THE ACCOUNTS – continued

18 RESERVES

	2012				2011			
	Share premium account £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Share premium account £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000
Group								
Balance at 1 January	2,302	14	34,086	(13,739)	2,302	14	35,902	(13,949)
Net loss on realisation of investments	–	–	(753)	–	–	–	(453)	–
Gains/(losses) on revaluation	–	–	473	–	–	–	250	–
Surplus/(deficit) arising on property revaluation	–	–	2,128	–	–	–	(1,613)	–
Revenue (loss)/profit for the year	–	–	–	(428)	–	–	–	264
Share options lapsed	–	(14)	–	14	–	–	–	–
Dividends paid	–	–	–	(54)	–	–	–	(54)
As at 31 December	2,302	–	35,934	(14,207)	2,302	14	34,086	(13,739)
Company								
Balance at 1 January	2,302	14	11,994	234	2,302	14	12,197	205
Net loss on realisation of fixed asset investments	–	–	(753)	–	–	–	(453)	–
Gains/(losses) on revaluation	–	–	473	–	–	–	250	–
Revenue profit for the year	–	–	–	203	–	–	–	83
Share options lapsed	–	(14)	–	14	–	–	–	–
Dividends paid	–	–	–	(54)	–	–	–	(54)
As at 31 December	2,302	–	11,714	397	2,302	14	11,994	234

Non-controlling interest:	2012 £'000	2011 £'000
Balance as at 1 January	(1,043)	(227)
Interest in revenue return for the year	(382)	(625)
Interest in capital return for the year	(42)	(191)
	(1,467)	(1,043)

The following amounts within Capital reserve are realised:–

	2012 £'000	2011 £'000
Group	35,120	36,627
Company	12,404	13,157

NOTES TO THE ACCOUNTS – continued

19 NET ASSET VALUE PER SHARE

Basic and diluted

Basic and diluted net asset value per ordinary share is based on Equity attributable to equity shareholders at the year end and on 5,369,880 (2011: 5,369,880) ordinary shares being the number of ordinary shares in issue at the year end. No shares were deemed to have been issued at nil consideration as a result of options granted and hence there were no potentially dilutive ordinary shares as at 31 December 2012.

	£'000
The movement during the year of the assets attributable to ordinary shares were as follows:	
Total net assets attributable at 1 January 2012	24,005
Total recognised gains for the year	1,420
Dividends appropriated in the year	(54)
Total net assets attributable at 31 December 2012	25,371

However the above calculation assumes that any negative balance for non-controlling interests will not impact on the net asset value amount. As there is no legal obligation for these amounts to be reimbursed or repaid by the non-controlling interests and, given the Company's investment objective, it is the Board's opinion that a more accurate reflection of the figure for net asset value is one which is based on Total equity rather than Equity attributable to equity shareholders. In this instance the basic and diluted net asset value per share reduces to 445.1p (2011: 427.6p).

20 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Revenue return before taxation	(810)	(361)	203	83
Interest payable	679	598	–	–
Share of joint venture profits	–	(795)	–	–
	(131)	(558)	203	83
(Increase)/decrease in current assets	(30)	169	(127)	323
Increase/(decrease) in current liabilities	97	156	319	(7)
	(64)	(233)	395	399

21 FINANCIAL INSTRUMENTS

The Company's business is that of an Authorised Investment Trust and it conducts its affairs so as to qualify as an investment trust under Section 1158 of the Corporation Tax Act 2010. As an investment trust, the Company invested 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 property investment/development and financial services.

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 and corporate bonds;

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

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

(iv) short term and long-term borrowings;

(v) interest rate swaps.

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS

As at 31 December 2012 the following categories of financial instruments were held by:–

Group:

	2012		2011	
	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Assets at fair value through profit or loss
Financial assets per Statement of Financial Position	£'000	£'000	£'000	£'000
Investments – securities	1,350	5,704	1,886	7,192
Trade and other receivables	187	–	243	–
Accrued income	449	–	298	–
Trading securities	–	–	–	22
Cash and cash equivalents	8,348	–	6,193	–
	10,334	5,704	8,620	7,214

	2012		2011	
	Liabilities at fair value through profit and loss	Other financial liabilities	Liabilities at fair value through profit and loss	Other financial liabilities
Financial liabilities per Statement of Financial Position	£'000	£'000	£'000	£'000
Trade, other creditors and accruals	–	1,524	–	1,122
Property loans – short term	–	13,082	–	15,037
Other loans – short term	–	7,376	–	5,071
Other financial liabilities	–	–	79	–
	–	21,982	79	21,230

Company:

	2012		2011	
	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Assets at fair value through profit or loss
Financial assets per Statement of Financial Position	£'000	£'000	£'000	£'000
Investments – securities	1,350	5,704	1,886	7,192
Accrued income	298	–	137	–
Cash and cash equivalents	8,111	–	6,005	–
	9,759	5,704	8,028	7,192

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

Financial liabilities per Statement of Financial Position	2012 Other financial liabilities £'000	2011 Other financial liabilities £'000
Trade, other creditors and accruals	13	14
Other loans	472	102
	485	116

The carrying value of loans and receivables and other financial liabilities are not materially different to their fair values.

Valuation inputs
IFRS 7 – Financial Instruments: Disclosures - requires an entity to classify its financial assets and liabilities held at fair value according to a hierarchy that reflects the significance of observable market inputs. The classification of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Leÿvel 1
Financial instruments, the valuation of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2
Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly. Fair values of derivative financial assets and liabilities are estimated by discounting expected future contractual cash flows using prevailing interest rate curves.

Valuation technique using significant unobservable inputs – Level 3
Financial instruments, the valuation of which incorporate significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or analytical techniques. This category includes early-stage private equity investments and loan stocks held for the longer term. The valuation methodology for level 3 financial assets can be found in accounting policy (j).

Further details of the securities portfolio can be found in note 8 of these financial statements.

An analysis of the Group's and Company's financial instruments measured at fair value by hierarchy is set out below.

Group:	31 December 2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through profit or loss:				
Investments – securities				
– Equities	4,543	1,846	–	2,697
– Fixed income	1,161	1,161	–	–
	5,704	3,007	–	2,697

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

	31 December 2011 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets/(liabilities) at fair value through profit or loss:				
Investments – securities				
– Equities	4,911	1,523	–	3,388
– Fixed income	2,281	2,281	–	–
Trading securities				
– Equities	22	22	–	–
Interest rate swaps	(79)	–	(79)	–
	7,135	3,826	(79)	3,388

Company:

	31 December 2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through profit or loss:				
Investments – securities				
– Equities	4,543	1,846	–	2,697
– Fixed income	1,161	1,161	–	–
	5,704	3,007	–	2,697

	31 December 2011 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through profit or loss:				
Investments – securities				
– Equities	4,911	1,523	–	3,388
– Fixed income	2,281	2,281	–	–
	7,192	3,804	–	3,388

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

Set out below is a reconciliation of financial assets measured at fair value based on level 3.

Group:

31 December 2012	Investments – securities £'000	Trading securities £'000	Total £'000
Opening balance	3,388	–	3,388
Total gains or losses:			
In profit or loss	(682)	4	(678)
Purchases	1	–	1
Sales	(10)	(4)	(14)
Closing balance	2,697	–	2,697
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(682)	–	(682)

31 December 2011	Investments – securities £'000	Trading securities £'000	Total £'000
Opening balance	3,375	1	3,376
Total gains or losses:			
In profit or loss	26	6	32
Purchases	13	–	13
Sales	(26)	(7)	(33)
Closing balance	3,388	–	3,388
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	4	–	4

Company:

31 December 2012	Investments – securities £'000	Trading securities £'000	Total £'000
Opening balance	3,388	–	3,388
Total gains or losses:			
In profit or loss	(682)	–	(682)
Purchases	1	–	1
Sales	(10)	–	(10)
Closing balance	2,697	–	2,697
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(682)	–	(682)

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

31 December 2011	Investments – securities £'000	Trading securities £'000	Total £'000
Opening balance	3,375	–	3,375
Total gains or losses:			
In profit or loss	26	–	26
Purchases	13	–	13
Sales	(26)	–	(26)
Closing balance	3,388	–	3,388
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	4	–	4

The Group's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The main risks to which the Group is exposed are market price risk, credit risk, interest rate risk and liquidity risk. The nature and extent of the financial instruments outstanding at the Statement of Financial Position date and the risk management policies employed by the Group are summarised below.

Market price risk

Market price risk arises from uncertainty about the future prices of financial instruments held within the Company's portfolio. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. The investments in equity and fixed interest stocks of unquoted companies are not traded and as such the prices are more uncertain than those of more widely traded securities.

The Board's strategy in managing the market price risk inherent in the Company's portfolio of equity investments is determined by the requirement to meet the Company's investment objective as discussed on page 6. The executive directors manage these risks by regular reviews of the portfolio within the context of current market conditions.

A significant proportion of the value of the Company's securities portfolio are AIM traded securities (25%). Within this sub-portfolio is two of the Company's largest investments which account for 100% of the value of that sub-portfolio. As at 31 March 2013, the Company's AIM portfolio had increased by 30.4%.

Unquoted investments are valued as per accounting policy (j) in these financial statements. Regular reviews of the financial results, combined with close contact with the management of these investments, provides sufficient information to support these valuations.

As at 31 March 2013 the value of the overall securities portfolio had increased by £591,000 (i.e. 8.4%) from that as at the year end increasing total comprehensive income and net assets by a similar sum. Based on values as at 31 December 2012 a 10% movement in the value of the portfolio would be equivalent to a movement of £705,000 in both comprehensive income and net assets.

Credit risk

Credit risk is the risk that the counterparty will fail to discharge an obligation or commitment that it has entered into with the Group.

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

The Group's maximum exposure to credit risk is:

	2012	2011
	£'000	£'000
Financial assets/(liabilities) at fair value through profit or loss	5,704	7,135
Loan stock investments held at amortised cost	1,350	1,886
Trade and other receivables	187	243
Accrued income	449	298
Cash and cash equivalents	8,348	6,193
	16,038	15,755

The Group has an exposure to credit risk in respect of both loan stock investments and other loans, most of which have no security attached to them, or where they do, such security will rank after any bank debt, and in respect of trade and other receivables, details of which can be found in note 11 to these financial statements. The Company's exposure to credit risk is restricted to investments, cash and cash equivalents, other loans and accrued income totalling £15,463,000 (2011: £15,220,000).

Cash and cash equivalents consist of cash in hand and balances with banks. In order to maintain its investment trust status the Company invests some of its surplus funds in lower risk market instruments including corporate bonds which have no less than a B+ rating. To reduce the risk of counterparty default the group deposits the rest of its surplus funds in approved high quality banks.

The following table shows the maturity of the loan stock investments and other loans referred to above:

		2012	2011
(a) Loan stock investments		£'000	£'000
Repayable within:-	1 year	25	917
	1-2 years	–	81
	2-3 years	916	–
	3-4 years	–	888
	4-5 years	409	–
		1,350	1,886

As at 31 December 2012 Loan Stock investments totalling £468,000 (2011: £323,000) were impaired and provided for.

As at 31 December 2012 other loans totalling £196,000 (2011: £196,000) were impaired and provided for and loans with a value of £nil (2011: £nil) were overdue for payment but not impaired.

There is potentially a risk whereby a counter party fails to deliver securities which the Company has paid for, or pay for securities which the Company has delivered. This risk is considered to be small as where the transaction is in respect of quoted investments the Company uses brokers with a high credit quality and where the transaction is in respect of unquoted investments, these are conducted through solicitors to ensure that payment matches delivery.

Interest rate risk

The Group's fixed and floating rate interest securities, its equity, preference equity investments and loans and net revenue may be affected by interest rate movements. Investments in small businesses are relatively high risk investments which are sensitive to interest rate fluctuations.

The Group's assets include fixed and floating rate interest instruments as detailed below. The Group is exposed to interest rate movements on its floating rate liabilities.

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 December 2012 and 2011 were:

Group:

As at 31 December 2012	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	4,543	2,511	–	–	–	7,054
Dealing securities	–	–	–	–	–	–
Cash	–	–	8,348	–	–	8,348
Trade and other receivables	187	–	–	–	–	187
Accrued income	449	–	–	–	–	449
Creditors						
– falling due within 1 year	(1,524)	–	–	–	(20,458)	(21,982)
	3,655	2,511	8,348	–	(20,458)	(5,944)

As at 31 December 2011	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	4,911	4,167	–	–	–	9,078
Dealing securities	22	–	–	–	–	22
Cash	–	–	6,193	–	–	6,193
Trade and other receivables	243	–	–	–	–	243
Accrued income	298	–	–	–	–	298
Creditors						
– falling due within 1 year	(1,122)	–	–	–	(20,108)	(21,230)
Other financial liabilities						
(interest rate swaps)	–	–	–	(79)	–	(79)
	4,352	4,167	6,193	(79)	(20,108)	(5,475)

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

Fixed rate assets comprise preference shares, fixed rate loans, unsecured loans and loans repayable on demand, with a weighted average interest rate of 8.2% (2011: 8.4%). Fixed rate liability loans comprise interest rate swaps with a weighted average interest rate of nil% (2011: 2.7%).

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

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

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

The interest rate exposure profile of the Company's financial assets and liabilities as at 31 December 2012 and 2011 were:

Company:

As at 31 December 2012	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	4,543	2,511	–	–	–	7,054
Cash	–	–	8,111	–	–	8,111
Accrued income	298	–	–	–	–	298
Creditors						
– falling due within 1 year	(485)	–	–	–	–	(485)
	4,356	2,511	8,111	–	–	14,978

As at 31 December 2011	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	4,911	4,167	–	–	–	9,078
Cash	–	–	6,005	–	–	6,005
Accrued income	137	–	–	–	–	137
Creditors						
– falling due within 1 year	(116)	–	–	–	–	(116)
	4,932	4,167	6,005	–	–	15,104

Although the Company holds investments that pay interest, the Board does not consider it appropriate to assess the impact of interest rate changes upon the value of the investment portfolio as interest rate changes are only one factor affecting market price and the impact is likely to be immaterial. However, as the Group has substantial bank borrowings, the section below shows the sensitivity of interest payable to change in interest rates:

	2012 Profit and net assets	2011 Profit and net assets
If interest rates were 0.5% lower with all other variables constant – increase (£'000)	100	101
Increase in earnings and net asset value per ordinary share (pence)	1.90	1.87
If interest rates were 0.5% higher with all other variables constant – decrease (£'000)	(100)	(101)
Decrease in earnings and net asset value per ordinary share (pence)	(1.90)	(1.87)

Liquidity risk
The investments in equity investments in AIM and ISDX traded companies may be difficult to realise at their carrying value, particularly if the investment represents a significant holding in the investee company. Similarly investments in equity and fixed interest stocks of unquoted companies that the Company holds are only traded infrequently. They are not readily realisable and may not be realised at their carrying value where there are no willing purchasers.

The Group aims to hold sufficient cash to be able to provide loan interest and quarterly capital repayment cover of at least 6 months.

NOTES TO THE ACCOUNTS – continued

21 FINANCIAL INSTRUMENTS – continued

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
As at 31 December 2012			
Bank borrowings	20,966	–	–
Trade payables	163	–	–
Other creditors	453	–	–
	21,582	–	–

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
As at 31 December 2011			
Bank borrowings	20,541	–	–
Derivative financial instruments	76	–	–
Trade payables	360	–	–
Other creditors	147	–	–
	21,124	–	–

Capital risk management

The Group manages its capital to ensure that entities within the Group and the Company will be able to continue to trade in an orderly fashion whilst maintaining sustainable returns to shareholders.

The capital structure of the Group and Company consist of short term borrowings as disclosed in note 14, cash and cash equivalents and equity attributable to equity shareholders of the Company comprising issued share capital, share premium, reserves and retained earnings as disclosed in notes 17 and 18. The Board reviews the capital structure of the Group and the Company on a regular basis. The financial measures that are subject to review include cash flow projections and the ability to meet capital expenditure and other contracted commitments, projected gearing levels and interest covenants although no absolute targets are set for these.

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Debt	(20,458)	(20,108)	(472)	(102)
Cash and cash equivalents	8,348	6,193	8,111	6,005
Net (debt)/cash	(12,110)	(13,915)	7,639	5,903
Net (debt)/cash as a % of net assets	(50.7)%	(60.6)%	48.5%	37.2%

NOTES TO THE ACCOUNTS – continued

22 SHARE BASED PAYMENTS

The Group operates a share option scheme for all executive directors and members of staff. Details of share options outstanding were:

	2012		2011	
	Share options Number	Weighted average price (p)	Share options Number	Weighted average price (p)
Outstanding at 1 January	8,800	337.5	8,800	337.5
Lapsed during the year	(8,800)	337.5	–	–
Outstanding at 31 December	–	–	8,800	337.5

The market price of the shares of Gresham House plc at the time of grant in 2004 was 325p.

Inputs into the Black Scholes model at the time of valuation were as follows:

Weighted average share price and exercise price	337.5p
Expected volatility	45%
Interest rate	4.5%
Expected life (years)	6.3
Dividend yield	0.9%

Expected volatility was determined by using the barra number for annual volatility of the Group's share price. The expected life used in the model has been adjusted based on the management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £nil (2011: £nil) in respect of share based payment transactions.

23 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' beneficial shareholdings as at 31 December 2012

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 nil other than:

	A G Ebel	D Lucie-Smith	B J Hallett	R A Chadwick	R H Chopin-John
Securities dealt in under AIM					
Avesco plc	–	–	5,000	–	3,600
SpaceandPeople plc	30,000	–	52,000	42,500	500
Securities dealt in under ISDX					
Wheelsure Holdings plc	–	–	550,000	–	5,000
Unlisted securities					
AudioGravity Holdings Limited	–	–	125	–	–
Memorial Holdings Limited	240	1,000*	–	–	–

* Mr D Lucie-Smith has an interest in Reddish LLP which in turn hold 1,000 shares in Memorial Holdings Ltd.

Related party transactions

Group

During the year, as reported in the Remuneration Report, the Group was invoiced £25,000 (2011: £25,000) for consultancy services supplied by Microdisc Limited, a company in which Mr A G Ebel has an interest.

Mr D Lucie-Smith has an interest in Prince's Place LLP which, as reported in the Remuneration Report, invoiced the Group a sum of £168,000 (2011: £170,000) during the year in respect of his services and associated office costs. At the year end there was a balance outstanding of £550 (2011: £767).

NOTES TO THE ACCOUNTS – continued

23 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS – continued

Conversely, during the year, the Group invoiced ES2 Developments Limited £9,750 (2011: £nil), and Prince's Place LLP £2,563 (2011: £3,424) for rent and rates. Mr D Lucie-Smith has an interest in each of these companies. There were no balances outstanding at either year end.

Rent and rates totalling £5,477 (2011: £7,085) were invoiced to Kemnal Park Limited during the year, a company in which Mr D Lucie-Smith is a director. At the year end £nil (2011: £3,159) was due from Kemnal Park Limited.

Mr J A C Lorimer has an interest in New Park Lane Limited and Parkwood Asset Management Limited which, as reported in the Remuneration Report, the former invoiced the Group a sum of £133,500 (2011: £133,500) in respect of his services during the year. Conversely the Group invoiced New Park Lane Limited a sum of £nil (2011: £399) and Parkwood Asset Management Limited £1,472 (2011: £1,704). At the year end there was a balance outstanding of £388 (2011: £496) from Parkwood Asset Management Limited.

Management fees of £1,000 (2011: £nil) were invoiced to Abshot Finance Company Limited during the year, a company in which the Group has a 50% interest and of which Mr B J Hallett is a director. The total holding of loan stock amounted to £149,000 (2011: £153,000) at year end against which a provision of £149,000 (2011: £153,000) has been made.

The amount of loan made to Lancashire Tea Limited, in which the Group has a 49% interest and in which Mr D Lucie-Smith and Mr B J Hallett are directors, amounted to £320,000 (2011: £300,000) at the year end against which a provision of £295,000 (2011: £150,000) has been made. Additionally, management fees of £6,000 (2011: £12,000) and rent totalling £13,547 (2011: £10,160) were invoiced to Lancashire Tea Limited and at the year end £69,978 (2011: £24,481) was due from Lancashire Tea Limited, against which a provision of £61,116 (2011: £nil) has been made. Gresham House plc has also provided a guarantee with a maximum potential liability of £17,500.

Management fees of £7,800 (2011: £nil) were invoiced to New Capital Enterprises Limited, a company in which the Group has a 20% interest and in which Mr A G Ebel, Mr D Lucie-Smith and Mr B J Hallett are directors. At the year end the Group owed £7,544 (2011: £nil) to New Capital Enterprises Limited.

Management fees of £11,500 (2011: £nil) were invoiced to SMU Investments Limited a company in which Mr A G Ebel and Mr D Lucie-Smith are directors. At the year end the Group owed £5,956 (2011: £nil) to SMU Investments Limited.

The Rowe Trust holds an interest of 644,209 (2011: 644,209) ordinary shares in the Company. Mrs R H Chopin-John is a trustee of the Rowe Trust but has no beneficial interest.

Company

During the year Gresham House plc received loans totalling £370,335 from (2011: repaid £135,525 to) Security Change Limited. At the year end £472,396 was owed to Security Change Limited (2011: £102,061).

Gresham House plc has given guarantees over bank loans held by subsidiary undertakings with a maximum potential liability of £8,025,000, and an interest shortfall guarantee. In addition the Company has £506,000 of cash held in interest deposit accounts to satisfy bank loan covenants.

24 POST BALANCE SHEET EVENTS

The Group disposed of part of its property investment at Vincent Lane, Dorking on 17 January 2013 for a consideration of £1,880,000. The carrying value of this investment as at 31 December 2012 was £1,880,000. This is considered to be a non-adjusting post balance sheet event.

NOTES TO THE ACCOUNTS – continued

25 SEGMENTAL REPORTING

	Investment		Property Investment		Elimination		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
External income	727	466	1,033	1,032	–	–	1,760	1,498
Inter – segment income	1,369	1,133	–	–	(1,369)	(1,133)	–	–
Total revenue	2,096	1,599	1,033	1,032	(1,369)	(1,133)	1,760	1,498
Gain/(loss) on investments at fair value	(280)	(203)	–	–	–	–	(280)	(203)
Movement on property investments at fair value	–	–	2,086	(1,804)	–	–	2,086	(1,804)
Total income and gains	1,816	1,396	3,119	(772)	(1,369)	(1,133)	3,566	(509)
Segment expenses	–	–	(989)	(1,051)	–	–	(989)	(1,051)
Inter – segment expense	–	–	(1,369)	(1,133)	1,369	1,133	–	–
Interest expense	(203)	(134)	(607)	(561)	–	–	(810)	(695)
Segment profit/(loss)	1,613	1,262	154	(3,517)	–	–	1,767	(2,255)
Unallocated corporate expenses							(841)	(913)
Operating profit/(loss)							926	(3,168)
Share of joint venture profit							–	795
Interest income							70	5
Profit/(loss) before taxation							996	(2,368)

The Group's policy is to invest in both securities and commercial properties. Accordingly management reporting is split on this basis under the headings "Investment" and "Property Investment" respectively. Inter-segment income consists of management fees and interest on inter-company loans. Unallocated corporate expenses relate to those costs which cannot be readily identified to either segment.

All activity and revenue is derived from operations within the United Kingdom. Three customers accounted for £301,000, £222,000 and £172,000 respectively of the external income for the Property Investment segment. Property operating expenses relating to property investments that did not generate any rental income were £221,000 (2011: £105,000).

	Investment		Property Investment		Unallocated		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
Other Information	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	16,339	16,147	29,547	28,124	–	–	45,886	44,271
Segment liabilities	(7,571)	(5,415)	(14,411)	(15,894)	–	–	(21,982)	(21,309)
	8,768	10,732	15,136	12,230	–	–	23,904	22,962
Capital expenditure	571	843	867	627	–	–	1,438	1,470
Depreciation	–	–	–	–	–	–	–	–
Non-cash expenses other than depreciation	–	–	–	–	–	–	–	–

All non current assets are located within the United Kingdom. Details of the exchanges on which the non current assets contained within the Investment segment are traded can be found in note 8 of these financial statements.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Gresham House plc (the "Company") will be held at the offices of Travers Smith LLP, 10 Snow Hill, London, EC1A 2AL on 21 May 2013 at 11.00 am for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the accounts for the year ended 31 December 2012 and the auditable part of the Remuneration Report together with the report of the auditor;
2. To approve and adopt the Remuneration Report;
3. To declare a dividend to shareholders recommended by the directors of 2.5p per ordinary share to be paid on 7 June 2013 to the holders of ordinary shares at close of business on 17 May 2013;
4. To re-elect as a director Mr B J Hallett who retires in accordance with the Company's articles of association and offers himself for re-election;
5. To re-elect as a director Mr R A Chadwick who retires in accordance with the Company's articles of association and offers himself for re-election;
6. To re-elect as a director Mr A G Ebel who retires in accordance with the provisions of the UK Corporate Governance Code and offers himself for re-election;
7. To appoint BDO LLP as the Company's auditor in accordance with Section 489 of the Companies Act 2006, to hold office from the conclusion of the Meeting until the conclusion of the next annual general meeting of the Company and to authorise the directors to fix their remuneration;
8. For the purposes of section 551 of the Companies Act 2006 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 551):

   (a) to authorise the directors, generally and unconditionally, to exercise all powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £443,015 to such persons and at such times and on such terms as they think proper during the period expiring at the earlier of the close of business on 31 August 2014 or the end of the next annual general meeting of the Company (unless previously revoked or varied by the Company in general meeting); and further

   (b) to authorise the directors, generally and unconditionally, to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as maybe) to the respective number of equity securities held by them up to an aggregate nominal amount of £443,015 during the period expiring at the earlier of the close of business on 31 August 2014 or end of the next annual general meeting of the Company, subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and

   (c) to authorise the Company to make, prior to the expiry of such period, any offer or agreement which would or might require such shares or rights to be allotted or granted after the expiry of the said period and the directors may allot such shares or grant such rights in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

   so that all previous authorities of the directors pursuant to the said section 551 of the Act be and are hereby revoked.

By Order of the Board,
B J Hallett, *Secretary*
17 April 2013

5th Floor, 17 Grosvenor Gardens
London SW1W 0BD

NOTES TO THE NOTICE OF MEETING

Entitlement to attend and vote

1. Pursuant to section 360B of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001(as amended), the Company specifies that only those members registered on the Company's register of members at:

   - 11.00 am on 19 May 2013; or,
   - if this Meeting is adjourned, at 11.00 am on the day two days prior to the adjourned Meeting,

   shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at such time.

2. Any member or his or her proxy attending the Meeting has the right to ask any question at the Meeting relating to the business of the Meeting.

Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. A member may appoint more than one proxy to attend the Meeting, provided each proxy is appointed to exercise the rights attached to a different share or shares held by that member (the number of shares in respect of which each proxy is appointed must be specified). The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person").

4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

6. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:

   - completed and signed;
   - sent or delivered to Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA; and
   - received by Neville Registrars no later than 11.00 am 19 May 2013.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by a director or by any duly authorised officer or attorney.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxies through CREST

7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Neville Registrars (ID 7RA11) by 11.00 am 19 May 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

NOTES TO THE NOTICE OF MEETING – continued

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

Changing proxy instructions

8. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. Telephone 0121 585 1131 (lines are open Mon-Fri 8.30 am – 5.30 pm) or from overseas +44 121 585 1131.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by a director or duly authorised officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   The revocation notice must be received by Neville Registrars no later than 11.00 am 19 May 2013.

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Joint holders of shares

10. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

Availability of documents

11. Copies of the terms and conditions of appointment of the non-executive directors are available for inspection at the registered office of the Company, 5th Floor, 17 Grosvenor Gardens, London SW1W 0BD, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the conclusion of the Meeting and will be available for inspection at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

Issued shares and total voting rights

12. As at 16 April 2013, being the last business day prior to the publication of this notice, the Company's issued share capital comprised 5,369,880 ordinary shares of 25 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company on 21 May 2013 will be 5,369,880.

NOTES TO THE NOTICE OF MEETING – continued

Communication

13. Except as provided above, members who have general queries about the Meeting should use the following means of communication (no other methods of communication will be accepted):

    - calling our shareholder helpline on 0121 585 1131, (lines are open Mon-Fri 8.30 am - 5.30 pm) or from overseas +44 121 585 1131.

    You may not use any electronic address provided either:

    - in this notice of Meeting; or
    - any related documents (including the Chairman's letter and proxy form),

    to communicate with the Company for any purposes other than those expressly stated.

Information to be published

14. The information required to be published by section 311(A) of the Act (information about the contents of this notice and numbers of shares in the Company and voting rights exercisable at the Meeting and details of any members' statements, members' resolutions and members' items of business received after the date of this notice) may be found at www.greshamhouse.com.

15. Members representing 5% or more of the total voting rights of all the members or at least 100 persons (being either members who have a right to vote at the Meeting and hold shares on which there has been paid up an average sum, per member, of £100 or persons satisfying the requirements set out in section 153(2) of the Act) may require the Company, under section 527 of the Act, to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The business which may be dealt with at the Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

Nominated Person

16. A Nominated Person may under an agreement between him/her and the member who nominated him/her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

17. If a Nominated Person does not have a right to be appointed, or to have someone else appointed as a proxy for the Meeting or does not wish to exercise such a right, he/she may still have the right under an agreement between himself/herself and the member who nominated him/her to give instructions to the member as to the exercise of voting rights at the Meeting. Such Nominated Persons are advised to contact the members who nominated them for further information on this.

Colourfast Financial