



GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2003

DIRECTORS AND ADVISERS

Company Number 871

Directors A. P. Stirling, F.C.A. *Chairman and Managing*
B. J. Hallett, F.C.A. *Finance*
A. G. Ebel, LL.B., F.C.A. *Non-executive*
N. J. Rowe *Non-executive*
T. J. Rowe *Non-executive*

Secretary B. J. Hallett, F.C.A.

Registered Office 36 Elder Street
London E1 6BT

Auditors PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Registrars Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors Stallard
Centurion House
37 Jewry Street
London EC3N 2ER

CHAIRMAN'S STATEMENT

I am pleased to record an improved performance for this financial year which has benefited from a more settled economic environment than that highlighted in last years report.

Our results for the year to 31st December 2003 show a return attributable to equity shareholders for the Revenue Account of £1,153,000 compared with £1,023,000 for last year and a £2,000 gain on the Capital Account compared with a loss of £3,497,000 for last year. Overall the basic return per ordinary share was 25.1p against a loss of 56.3p for the previous year.

The performance of the property portfolio has improved with rental income increasing by £285,000. However income from construction activities fell by £486,000 to £267,000.

Dividend income for the year increased by £27,000 whilst other operating income and interest received fell by £195,000. The charge for interest payable remained stable.

The Group's property portfolio has been re-valued in accordance with accounting standards and this has resulted in an increase in value of £5.298 million. This revaluation is largely responsible for the increase in your Group's basic net asset value per Ordinary Share from 488.3p last year to 572.3p as at 31st December 2003 – an increase of 17.2% against a comparable rise in the FTSE All Share Index of 16.4%.

Your Company's small company investments have continued to expand.

Transense Technologies, which represents 5.73% of the share portfolio, has reported an increase in its portfolio of intellectual property but still awaits the commencement of its anticipated flow of royalty income.

Image Scan Holdings, which is also quoted on AIM, remains one of our largest holdings at 9.93% of the portfolio. Image Scan's core technology relates to innovative imaging techniques, their interpretation and application. The company has completed an intensive development programme and now has a range of products consisting of X-ray cameras, image acquisition and processing software. Initial focus will be sales into the security sector but the company believes that significant opportunities exist within the industrial inspection market.

SpaceandPeople Limited which specialises in the marketing of promotional areas of the UK's leading shopping centres, has now reported moving into profit and we expect steady improvement as it passes into phase two of its growth plan.

During the year your Company made investments in:

- (i) Hallin Marine Group which is a rapidly growing specialist services company in subsea support. Primarily operating in SE Asia its main expertise relates to the subsea oil and gas industry. The outlook for this company is extremely positive against the background of a strong oil price;
- (ii) Wheelsure Holdings plc which has developed a novel method of locking the wheel nuts of vehicles, particularly on commercial vehicles. The company intends to market their patented device initially through major fleet operators in the passenger transport and dangerous goods haulage industries in the UK and Europe but are aware that opportunities do exist for other applications. Initial indications appear to be very positive; and
- (iii) We have increased our stake in Mount Burgess Mining NL which has gold reserves in Australia and is prospecting for diamonds in Namibia and other base metals in Botswana and Namibia.

We continue to see a number of potentially attractive investments but as always the success of this type of venture is particularly dependent upon the stability of the economic climate. We do however believe that the prospects for 2004 are encouraging. It is the intention of your Board to selectively dispose of part of the property portfolio this year in order to improve the Group's liquidity to allow further investment and to reduce gearing.

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

10th May, 2004

A. P. Stirling
Chairman

REPORT OF THE DIRECTORS

To be presented to the members at the Annual General Meeting to be held at 36 Elder Street, London E1 6BT on 24th June, 2004 at 12 noon.

Revenue Account

The statement of total return which includes the revenue account is set out on page 12 and shows the results for the year ended 31st December, 2003.

Dividends

The directors recommend a final dividend of 3.1p (2002: 3.1p) per Ordinary Share, payable on 23rd June, 2004.

Business

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

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

For the year ended 31st December, 2002 the Inland Revenue has approved the Company as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 and since that date the directors have sought to conduct its affairs so as to enable it to continue to maintain such approval. In the opinion of the directors, the Company is not a close company.

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

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

Investment Portfolio

At 31st December, 2003 the portfolio was invested in the following sectors:

	%
Engineering	20
Financial (including Investment Trusts)	15
Electrical	10
Motor and Transport	7
Building & Construction	6
Media & Photography	6
Mining	6
Household and Textile	5
Information Technology	5
Electricity	4
Tobacco	3
Advertising	2
Consultancy	2
Entertainment	2
Foods	2
Chemicals	1
Health	1
Miscellaneous	1
Oil & Gas	1
Property Investment	1
	100

REPORT OF THE DIRECTORS – CONTINUED

Directors

The present directors are listed on page 1. There have been no changes during the year. The director retiring by rotation is Mr. N. J. Rowe and, being eligible, he offers himself for re-election. Mr Rowe is Chairman of the Remuneration Committee and has been involved in financial insurance since 1973. He is currently a director of First City Insurance Brokers Limited.

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

Substantial Shareholdings

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

	%	Ordinary Shares
Newinnhall Trust Limited	35.35	1,700,000
Sir J. J. Scott Bt.	4.10	197,100

Directors' Interests

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

	2003	2002
A. G. Ebel	22,550	5,550
B. J. Hallett	137,810	49,850
N. J. Rowe	14,866	13,750
T. J. Rowe	40,000	32,650
A. P. Stirling	415,978	371,127

Since the year end Messrs N. J. Rowe and A. P. Stirling have increased their holdings to 20,841 and 417,218 respectively.

Gresham House Finance plc Loan Stock

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

	2003	2002
A. G. Ebel	—	—
B. J. Hallett	4,000	4,000
N. J. Rowe	88,000	88,000
T. J. Rowe	45,000	45,000
A. P. Stirling	100,000	100,000

Share Option Schemes

No options were granted during the year ended 31st December, 2003. Details of options outstanding at the year end are detailed in note 16. Details of options granted to directors are disclosed in the Remuneration Report on page 8.

The remuneration committee regard the provision of options as a suitable form of incentive for management and senior personnel.

Further to the approval obtained from shareholders on 19th June 2003 an Inland Revenue Approved Share Option Scheme was adopted on 21st October, 2003. As at the date of this report no options have been granted under the Approved Scheme.

REPORT OF THE DIRECTORS – CONTINUED

Statement of the Directors' Responsibilities

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

In preparing those accounts, the Directors are required to:

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

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

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

Payment Policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 31st December, 2003 trade creditors represented 23 days purchases.

Auditors

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

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

10th May, 2004

36 Elder Street
London E1 6BT

REMUNERATION REPORT

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

Remuneration Committee

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

Remuneration Policy

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

Remuneration Package

Executive remuneration consists of a basic salary, car allowance, and certain benefits in kind, which include pension contributions and disability and health insurance, none of which are subject to performance criteria. Executive directors are also eligible for share options details of which are shown below.

No bonuses were awarded in respect of the year ended 31st December, 2003.

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

Service Contracts

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

Pensions

Whilst the Company operated a pension scheme for the benefit of the Chairman this ceased as at 31st December, 2000. No contributions had been made by the Company for over 15 years. The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31st December, 2003 contributions amounted to £8,400 (2002: £8,400).

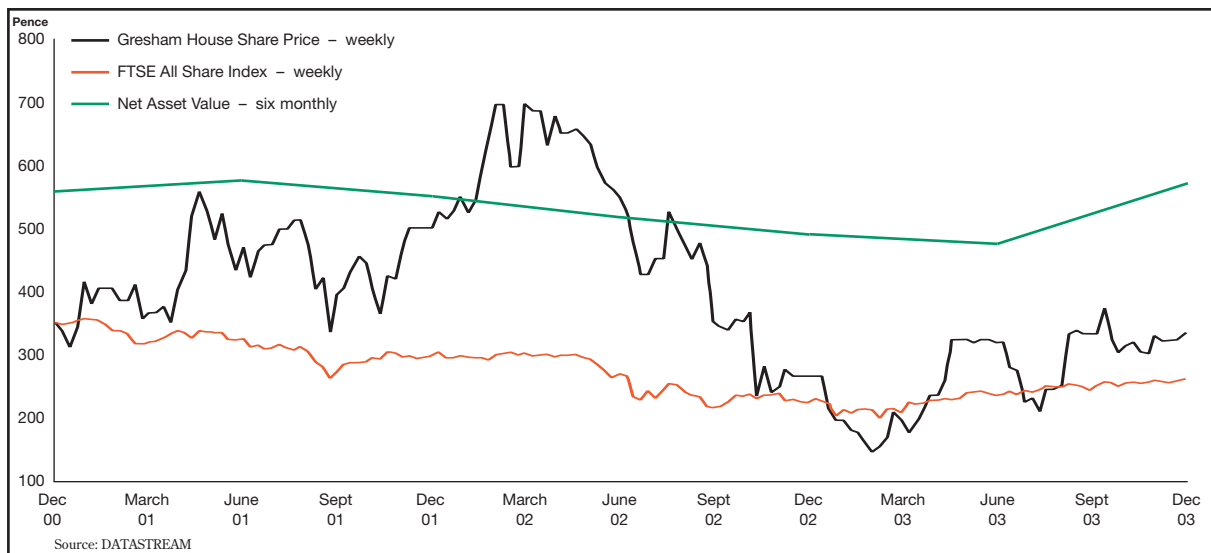
REMUNERATION REPORT – CONTINUED

Non-Executive Directors' Fees

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

Company Performance

The graph below compares the Company's share price movement and net asset value with that of the FTSE All-Share Index over the last 3 years. This index has been chosen for illustrative purposes as the directors believe this is the best comparative information available for such purpose. This information however should not be regarded as a benchmark.



Comparative movements

	1.1.2001	31.12.2003	% change
Gresham House Share Price	347.5p	335p	(3.6)%
FTSE All Share Index	2983.8	2207.4	(26.0)%
Basic net asset value	560.7p	572.3p	2.1%

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	Pension £'000	Total 2003 £'000	Emolu- ments 2002 £'000
Executive:						
A. P. Stirling (Chairman and highest paid director)	157	—	5	—	162	157
B. J. Hallett	91	—	2	8	101	91
Non-executive:						
A. G. Ebel	—	6	3	—	9	7
N. J. Rowe	—	6	—	—	6	5
T. J. Rowe	—	6	—	—	6	5
Total	<u>248</u>	<u>18</u>	<u>10</u>	<u>8</u>	<u>284</u>	<u>265</u>
Total 2002	<u>227</u>	<u>15</u>	<u>15</u>	<u>8</u>	<u>265</u>	

Share Option Schemes

Details of share options for each director are as follows:

Director	At 1st January, 2003	Exercised 2003	At 31st December, 2003	Exercise date	Exercise Price per ordinary share
A. G. Ebel	17,000	(17,000) ⁽ⁱ⁾	—		
B. J. Hallett	125,000	(25,000) ⁽ⁱⁱ⁾ (100,000) ⁽ⁱⁱⁱ⁾	—		
N. J. Rowe	10,000	—	10,000	8.8.2000-8.8.2004	25p
T. J. Rowe	10,000	(10,000) ⁽ⁱⁱ⁾	—		
A. P. Stirling	25,000	(25,000) ⁽ⁱ⁾	—		

No options were granted or lapsed during the year. The middle market price of the shares of Gresham House plc at the time of the exercise of options was as follows:

⁽ⁱ⁾ 19th February, 2003	87.5p
⁽ⁱⁱ⁾ 6th May, 2003	230p
⁽ⁱⁱⁱ⁾ 18th December, 2003	250p

As at 31st December, 2003, the closing middle market price was 335p and the range of closing prices during the year 2003 was 120p to 370p.

Since the year end Mr N. J. Rowe has exercised options over 10,000 ordinary shares when the middle market price of the Company's shares was 325p

The following information is unaudited:

The Remuneration Committee, who are responsible for the operation and administration of the Company's unapproved share option scheme, regard the provision of options as a suitable form of incentive for management and senior personnel. Options granted over shares in excess of 5% of the Company's issued ordinary share capital are subject to performance requirements determined at the date of grant by the Committee. No options were granted during the year ended 31st December, 2003. Details of all options outstanding at the year end are detailed in note 16.

On behalf of the Board

N. J. Rowe *Chairman*, Remuneration Committee

10th May, 2004

CORPORATE GOVERNANCE

The board is accountable to the Company's shareholders for good governance and the information and statements below describe how the principles identified in the 1998 Combined Code have been applied. The board is reviewing the requirements of the new Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003, which it is intending to adopt, as far as practicable, for the year ending 31st December, 2004.

During the year ended 31st December, 2003, with the exceptions outlined below, the Company has been in compliance with the 1998 Combined Code of Principles of Good Governance and Code of Best Practice ("the Combined Code") annexed to the Listing Rules of the Financial Services Authority.

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

Directors and Directors' Remuneration

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

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

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

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

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

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

Relations with Shareholders

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

Accountability and Audit

In preparing these accounts, reports and supplementary information the directors have had due regard to their responsibility to present a clear and balanced assessment of the Group's position and prospects. Close liaison with the auditors has been maintained in this respect with the Annual Report containing a statement by the directors of their responsibilities in respect of the accounts in addition to a report of the auditors setting out their reporting responsibilities. The board reviews the level of non-audit services provided by the Company's external auditors to ensure that their independence is not compromised.

CORPORATE GOVERNANCE – CONTINUED

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

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

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 is satisfied with the effectiveness of internal controls but, by their nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss.

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

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

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRESHAM HOUSE PLC

We have audited the accounts of Gresham House plc for the year ended 31st December, 2003 which comprise the Consolidated Statement of Total Return, the Statement of Total Recognised Gains and Losses, the Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of the group's and the company's affairs as at 31st December, 2003 and of the group's total return for the year then ended and the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF

Registered Auditors

10th May, 2004

London, UK

CONSOLIDATED STATEMENT OF TOTAL RETURN

FOR THE YEAR ENDED 31st DECEMBER, 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	Total £'000	2002 Revenue £'000	2002 Capital £'000	Total £'000
Gain/(loss) on investments	8	—	2	2	—	(3,497)	(3,497)
Income	1	3,871	—	3,871	4,240	—	4,240
Other expenses	2	(1,204)	—	(1,204)	(1,767)	—	(1,767)
Net return before finance costs and taxation		2,667	2	2,669	2,473	(3,497)	(1,024)
Interest payable and similar charges	4	(1,458)	—	(1,458)	(1,450)	—	(1,450)
Return on ordinary activities before taxation		1,209	2	1,211	1,023	(3,497)	(2,474)
Taxation	5	—	—	—	—	—	—
Return on ordinary activities after taxation		1,209	2	1,211	1,023	(3,497)	(2,474)
Minority Interest		(56)	—	(56)	—	—	—
Return attributable to equity shareholders		1,153	2	1,155	1,023	(3,497)	(2,474)
Dividends in respect of equity shares		(149)	—	(149)	(141)	—	(141)
Transfer to reserves	17	1,004	2	1,006	882	(3,497)	(2,615)
Return per ordinary share:							
Basic	7	25.1p	—	25.1p	23.2p	(79.5)p	(56.3)p
Diluted	7	24.9p	—	24.9p	21.6p	(73.9)p	(52.3)p

The revenue column of this statement is the consolidated profit and loss account of the group.
The accompanying notes are an integral part of this statement.
All revenue and capital items in the above statement derive from continuing operations.

△

Consolidated Statement of Total Recognised Gains and Losses

	Group	
	2003 £'000	2002 £'000
Profit for the financial year attributable to equity shareholders [△]	1,153	1,023
Net movement on capital reserves	2	(3,497)
Surplus and write back of impairment on property revaluation	5,298	—
Minority interest in reserves	(1,006)	—
Total net gains/(losses) recognised in the year	5,447	(2,474)

BALANCE SHEET

AS AT 31st DECEMBER, 2003

	Notes	The Group		The Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fixed asset investments					
Securities	8	6,746	6,649	6,746	6,649
Properties	9	37,200	30,976	—	—
Other	10	—	—	2	2
Tangible assets	11	539	382	525	376
		<u>44,485</u>	<u>38,007</u>	<u>7,273</u>	<u>7,027</u>
Current assets	12	8,397	7,087	399	523
Creditors – Amounts falling due within one year	13	6,350	5,346	314	611
Net current assets/(liabilities)		<u>2,047</u>	<u>1,741</u>	<u>85</u>	<u>(88)</u>
Total assets less current liabilities		46,532	39,748	7,358	6,939
Creditors – Amounts falling due after more than one year	14	18,013	17,860	—	—
Deferred income	15	245	245	—	—
		<u>28,274</u>	<u>21,643</u>	<u>7,358</u>	<u>6,939</u>
Capital and reserves					
Called up share capital	16	1,189	1,108	1,189	1,108
Share premium account	17	554	364	554	364
Other reserves					
Revaluation reserve	17	12,800	8,064	—	—
Capital reserve – realised	17	22,671	22,403	5,068	4,800
Capital reserve – unrealised	17	(170)	(57)	137	250
Revenue reserves	17	(9,832)	(10,239)	410	417
Equity Shareholders' funds	19	27,212	21,643	7,358	6,939
Minority interests	17	1,062	—	—	—
		<u>28,274</u>	<u>21,643</u>	<u>7,358</u>	<u>6,939</u>
Net asset value per ordinary share:					
Basic	18	<u>572.3p</u>	<u>488.3p</u>	<u>154.8p</u>	<u>156.5p</u>
Diluted	18	<u>568.3p</u>	<u>454.2p</u>	<u>153.7p</u>	<u>145.6p</u>

The accounts were approved by the Board on 10th May, 2004A. P. Stirling
Director

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Cashflow from operating activities					
Investment income received		133		106	
Interest received		101		166	
Rental income received		2,990		3,479	
Other cash payments		<u>(316)</u>		<u>(743)</u>	
	20		2,908		3,008
Returns on investment and servicing of finance					
Interest paid on 2.5% Secured Redeemable Loan Stock, 2001		—		(6)	
Interest paid on 8% Secured Redeemable Loan Stock 2006		(293)		(243)	
Interest paid on property loans		<u>(1,148)</u>		<u>(1,183)</u>	
			(1,441)		(1,432)
Capital expenditure and financial investment					
Sale of tangible fixed assets		6		10	
Purchase of tangible fixed assets		(19)		—	
Purchase of investments		(1,415)		(1,633)	
Sales of investments		1,320		1,690	
Net loans repaid		—		483	
Purchase of investment properties		(1,039)		(2,093)	
Purchase of developments in hand		<u>(2,392)</u>		<u>(822)</u>	
			(3,539)		(2,365)
Corporation tax paid					
			—		—
Equity dividends paid					
			<u>(142)</u>		<u>(136)</u>
Cash outflow before use of liquid resources and financing					
			(2,214)		(925)
Management of liquid resources					
Acquisition of listed securities held for dealing			(335)		(36)
Financing					
Repayment of loans		(889)		(1,238)	
Receipt of loans		1,797		1,929	
Share capital issued at par		<u>271</u>		<u>138</u>	
			1,179		829
Decrease in cash	21		<u><u>(1,370)</u></u>		<u><u>(132)</u></u>

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

- (a) **Basis of accounting**
 The accounts have been prepared under the historical cost convention, as modified by the revaluation of investments and properties. The accounts have been prepared in accordance with applicable Accounting Standards and with relevant paragraphs of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (issued Spring 2003).
- (b) **Basis of consolidation**
 The consolidated statement of total return (including the revenue account) and balance sheet incorporate the accounts of the Company and its subsidiary undertakings made up to 31st December, 2003. Information relating to significant investments which have not been consolidated is detailed in note 8. Goodwill arising prior to the introduction of FRS10 – "Goodwill and intangible fixed assets" has been written off directly to reserves. Goodwill arising on acquisitions subsequent to the introduction of FRS10 will be capitalised in the balance sheet and amortised over its expected useful life in accordance with FRS10. In the Company's accounts, investments in subsidiary undertakings are stated in accordance with the policies outlined in (c) below.
- (c) **Fixed asset investments**
- (i) **Securities**
 In accordance with the Investment Trust Companies SORP 2003, quoted investments are valued at mid market price. The Directors consider the need for discounts as appropriate.
 Unquoted investments are valued by the Directors taking into account the guidelines issued by the British Venture Capital Association ("BVCA") as follows:
- (i) Investments which have been made in the last 12 months are valued at cost in the absence of overriding factors;
 - (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 historic post-tax earnings or the net asset value of the investment; and
 - (iv) Where a value is indicated by a material arms-length transaction by a third party in the shares of a company, that value may be used.
- Unquoted investments will not be re-valued upwards for a period of at least 12 months from the date of acquisition. For early stage investments where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate.
 Gains and losses on the disposal of investments and permanent impairments in the value of investments are dealt with in capital reserves – realised, and unrealised gains and losses on the revaluation of investments are dealt with in capital reserves – unrealised.
 Year-end exchange rates are used to translate the value of investments which are denominated in foreign currencies.
 The impact of adopting the new SORP and new BVCA valuation guidelines has not been material.
- (ii) **Properties**
 Investment properties are included in the balance sheet at valuation in accordance with SSAP19 and are not depreciated. This treatment is contrary to the Companies Act 1985 which states that fixed assets should be depreciated, but is, in the opinion of the directors, necessary in order to give a true and fair view of the financial position of the group.
 Freehold property is revalued at least every five years in accordance with Financial Reporting Standard No. 15 with any permanent diminution in value below cost being written off to capital reserves – realised.
- (d) **Depreciation**
 Depreciation is provided principally on a straight-line basis at varying rates of between 2% and 25% in order to write off the cost of assets over their expected useful lives. Investment properties and long leasehold property are not depreciated. Freehold property is depreciated in accordance with Financial Reporting Standard No.15, at the rate of 2% per annum.
- (e) **Developments in hand**
 Developments in hand are valued at the lower of cost and net realisable value. Interest and other outgoings which can fairly be attributed to properties held for, or in the course of, development are considered to be part of development costs. Interest is calculated by reference to specific borrowings. Profits and losses arising from the sale of developments are taken to revenue. Profits and losses arising from the sale of investment properties are dealt with through the capital reserve.
-

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

- (f) Income
- (i) Dividend and interest income
Income from listed securities and interest receivable on bank deposits is accounted for on a received basis. Interest receivable on loans is accounted for on an accruals basis.
 - (ii) Rental income
Rental income comprises property rental income receivable net of VAT.
 - (iii) Construction income
Income receivable for work done in the year on building and construction works where the group has established a right to consideration.
- (g) Expenses
All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
 - expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- (h) Deferred taxation
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Tax differences arise from inclusion of items in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more than likely than not that they will be recovered. Deferred tax liabilities are not discounted.
- (i) Operating lease rentals
Amounts payable under operating leases are charged to the revenue account as incurred.
- (j) Capital reserves
- Capital Reserve – Realised.
The following are accounted for in this reserve:
- gains and losses on the realisation of investments.
 - realised exchange differences of a capital nature.
 - expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.
 - realised gains and losses on transactions undertaken to hedge an exposure of a capital nature including guarantees.
- Capital Reserve – Unrealised.
The following are accounted for in this reserve:
- increases and decreases in the valuation of investments held at the year-end.
 - unrealised exchange differences of a capital nature.
 - provisions charged against carrying value of investments held at the year end.
- (k) Liquid Resources
Liquid resources for the purposes of the Cash Flow Statement, comprise deposits with a maturity of more than 24 hours and investments held as current assets which are readily convertible into cash and traded in an active market.
- (l) Government grants
Capital based government grants are capitalised as deferred credits on the balance sheet and are accordingly written off to capital reserves upon the sale of the assets concerned.
Revenue based government grants are credited to the profit and loss account in the same year as the expenditure is charged.
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NOTES TO THE ACCOUNTS

(m) Long term contracts

The group recognises turnover and profit in respect of its performance under a long term contract when, and to the extent that, it obtains the right to consideration for work completed. This is derived from an assessment of the fair value of the goods and services provided to the year end date as a proportion of the fair value of the contract.

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

1 INCOME

	2003 £'000	2002 £'000
Income from investments		
Dividend income	133	106
Interest receivable: Bank and Brokers	81	96
Other	20	74
Rental income	3,193	2,908
	<u>3,427</u>	<u>3,184</u>
Other operating income		
Share dealing profit	27	91
Management fees receivable	125	150
Income from construction activities	267	753
Other	25	62
	<u>444</u>	<u>1,056</u>
Total income	<u>3,871</u>	<u>4,240</u>
Total income comprises:		
Dividends	133	106
Interest	101	169
Other income	3,637	3,965
	<u>3,871</u>	<u>4,240</u>
Dividend income		
Listed UK	131	104
Unlisted	2	2
	<u>133</u>	<u>106</u>

NOTES TO THE ACCOUNTS – CONTINUED

2 OTHER EXPENSES

Other expenses comprise the following:	2003 £'000	2002 £'000
Directors' emoluments	274	250
Auditors' remuneration – as auditors	47	38
– for taxation advice	1	—
Depreciation	9	14
Wages and salaries	175	174
Social security costs	51	44
Operating lease rentals – land and buildings	28	28
Provisions against property repairs	—	275
Construction costs	252	679
Other operating expenses	367	265
	<u>1,204</u>	<u>1,767</u>

The average number of persons employed by the Company, including the executive directors, was 6 (2002 – 6).

The Group has annual commitments under operating leases, which expire after more than five years, of £28,000 (2002 – £28,000).

3 DIRECTORS EMOLUMENTS

The emoluments of the directors are disclosed in the Remuneration Report on page 8.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Interest payable on loans and overdrafts		
– repayable within 5 years	383	342
– repayable wholly or partly in more than 5 years	1,075	1,108
	<u>1,458</u>	<u>1,450</u>

NOTES TO THE ACCOUNTS – CONTINUED

5 TAXATION

	Revenue £'000	2003 Capital £'000	Total £'000	Revenue £'000	2002 Capital £'000	Total £'000
(a) Analysis of charge in period						
UK Corporation tax at 30% (2002 – 30%)	—	—	—	—	—	—
Adjustments in respect of prior years:						
Corporation tax	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total current tax (note b)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(b) Factors affecting tax charge for period						
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30%	362	—	362	307	—	307
Explained by:						
Capital allowances in excess of depreciation	(21)	—	(21)	(21)	—	(21)
Dividend income not taxable	(40)	—	(40)	(32)	—	(32)
Expenses disallowed	155	—	155	59	—	59
Non-taxable write backs	(359)	—	(359)	—	—	—
Losses utilised in current year	(284)	—	(284)	(397)	—	(397)
Losses carried forward for future offset	187	—	187	92	—	92
Group relief claimed	—	—	—	(8)	—	(8)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Actual tax charge	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Group has unutilised tax losses of approximately £10.5 million available against future corporation tax liabilities. The potential deferred taxation asset of £3.1 million in respect of these losses has not been recognised in these accounts as the recoverability of the asset is not sufficiently certain.

6 DIVIDENDS

	Revenue £'000	2003 Capital £'000	Total £'000	Revenue £'000	2002 Capital £'000	Total £'000
Dividends on equity shares:						
– final proposed of 3.1p per share (2002 – 3.1p)	<u>149</u>	<u>—</u>	<u>149</u>	<u>141</u>	<u>—</u>	<u>141</u>

7 RETURN PER ORDINARY SHARE

Basic return

Basic revenue and capital returns per ordinary share are based on the return attributable to equity shareholders of £1,153,000 (2002: £1,023,000) and on the net capital return of £2,000 (2002: £(3,497,000)) respectively and on 4,597,976 (2002: 4,396,526) ordinary shares being the weighted average number of those in issue during the year.

Diluted return

The diluted revenue and capital returns per ordinary share are based on the return attributable to equity shareholders of £1,153,000 (2002: £1,023,000) and on the net capital return of £2,000 (2002: £(3,497,000)) respectively. Both diluted revenue and capital returns are calculated on 4,631,941 (2002: 4,729,490) shares being the weighted average number of shares in issue during the year together with 33,965 (2002: 332,964) shares deemed to have been issued at nil consideration pursuant to, (i) options outstanding and (ii) the maximum number of shares that can be issued under the terms of the 8% Secured Loan Stock issued by Gresham House Finance plc.

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES

	Group & Company					
					2003	2002
					£'000	£'000
Listed securities – on the London Stock Exchange					3,841	3,436
Listed securities – on overseas exchanges					257	51
Securities dealt in under AIM					1,688	2,173
Securities dealt in under OFEX					168	8
Unlisted securities less amounts written off					792	981
					<u>6,746</u>	<u>6,649</u>
					<u>6,746</u>	<u>6,649</u>
	Listed	Listed	AIM	Ofex	Unlisted	Total
	in UK	overseas				
	£'000	£'000	£'000	£'000	£'000	£'000
Group:						
Opening cost	2,620	113	1,360	258	1,755	6,106
Opening unrealised gains/(losses)	815	(62)	813	(250)	(773)	543
Opening valuation	<u>3,435</u>	<u>51</u>	<u>2,173</u>	<u>8</u>	<u>982</u>	<u>6,649</u>
Movements in the year:						
Purchases at cost	658	145	284	—	328	1,415
Sales – proceeds	(1,241)	—	(63)	—	(16)	(1,320)
– realised losses on sales	250	—	(3)	(51)	(81)	115
Provisions released against carrying value of investments	—	—	—	51	(436)	(385)
Movement in unrealised appreciation	738	61	(543)	—	16	272
Transfer between AIM and OFEX	—	—	(160)	160	—	—
Closing valuation	<u>3,840</u>	<u>257</u>	<u>1,688</u>	<u>168</u>	<u>793</u>	<u>6,746</u>
Closing cost	2,287	257	1,437	348	2,039	6,368
Closing unrealised gains/(losses)	1,553	—	251	(180)	(1,246)	378
	<u>3,840</u>	<u>257</u>	<u>1,688</u>	<u>168</u>	<u>793</u>	<u>6,746</u>
	<u>3,840</u>	<u>257</u>	<u>1,688</u>	<u>168</u>	<u>793</u>	<u>6,746</u>
					Group & Company	
					2003	2002
					£'000	£'000
Realised gains/(losses) on sales					115	(472)
Increase/(decrease) in unrealised appreciation					272	(3,589)
Provisions against carrying value of investments					(385)	564
Gain/(loss) on investments					<u>2</u>	<u>(3,497)</u>

The investment in AIM stocks by the Company is £241,000 greater than that shown above with the value for unrealised gains/(losses) being reduced by the same amount. In all other respects the investments held by the Company are as shown in the table above.

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

An analysis of investments is as follows:

	Group & Company	
	2003 £'000	2002 £'000
Equity investments	6,746	5,949
Convertible securities	—	12
Fixed income securities	—	688
	<u>6,746</u>	<u>6,649</u>

An analysis of the investment portfolio by broad industrial or commercial sector is contained within the Report of the Directors. The largest investments as at 31st December, 2003 all of which are incorporated in Great Britain, with the exception of Mount Burgess Mining which is incorporated in the Australia, were:

	Market Value £'000	% of portfolio
UK listed securities		
Avesco plc – provider of services to the corporate, entertainment, sport and broadcast events markets	297	4.40
British American Tobacco plc – cigarette manufacturer and distributor	193	2.85
Hornby Plc – engaged in the development, manufacture and distribution of hobby and interactive home entertainment products	315	4.67
Molins PLC – designers and manufacturers of specialist machinery for the tobacco industry and specialist packaging machinery for consumer goods industries	804	11.92
Morgan Sindall plc – a diversified construction group operating in a number of distinct market sectors	365	5.41
Mount Burgess Mining NL – engaged in the exploration of base metals, gold and diamonds in Namibia and Australia	252	3.74
Welsh Industrial Investment Trust plc – is an authorised investment trust in the sector of UK capital growth	840	12.45
Securities dealt in under AIM		
Image Scan Holdings plc – specialises in the application of know-how, patents and IP owned or licensed in the fields of novel 2D, 2½D and 3D imaging for the security (aviation baggage screening) industrial inspection (in-line and on-line real-time inspection) and medical (mammography and cervical smear screening) fields	670	9.93
Transense Technologies plc – has developed a non-contact sensor which acts as a torque transducer to enable electric power assisted steering, tyre pressure monitoring and other automotive applications to be introduced into motor vehicles	386	5.73
Unlisted securities		
SpaceandPeople Limited – markets and sells promotional space on behalf of shopping centres and other similar venues	168	2.50
	<u>4,290</u>	<u>63.60</u>

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

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

Welsh Industrial Investment Trust plc

Financial Summary

Year ended 5th April, 2003

	£'000s	Shares	Ordinary	8.75% Cumulative Preference of 20p
Turnover	162		5p	
Profit before interest	85	Total issued	1,350,000	225,000
Profit before tax	85	Number held	350,000	98,092
Profit after tax	85	% of class	25.9	43.5
Net assets	4,590	Cost (£'000s)	—	20
Earnings per share	6.01p	Market value (£'000s)	840	20
Dividend per share	<u>6.3p</u>			

This company has been excluded from consolidation under Financial Reporting Standard No. 9 as significant influence is not exercised in respect of policy decisions.

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

Image Scan Holdings plc

Financial Summary

Year ended 30th September, 2003

	£'000s	Shares	Ordinary 1p
Turnover	510	Total issued	16,250,203
Loss before interest	(840)	Number held	1,808,334
Loss before tax	(839)	% of class issued	11.13
Loss after tax	(788)	Cost (£'000s)	366
Net assets	283	Market value (£'000s)	670
Loss per share	(4.9)p		
Dividends per share	<u>—</u>		

Transense Technologies plc

Financial Summary

Year ended 31st December, 2003

	£'000s	Shares	Ordinary
Turnover	262	Total issued	53,194,974
Loss before interest	(1,215)	Number held	840,000
Loss before tax	(1,159)	% of class issued	1.6
Loss after tax	(1,077)	Cost (£'000s)	—
Net assets	3,592	Market value (£'000s)	386
Loss per share	(2.1)p		
Dividend per share	<u>—</u>		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

SpaceandPeople Limited

Financial Summary

Year ended 31st October 2003

	£'000s		Ordinary
Turnover	647	Shares	
Profit before interest	21	Total issued	1,120,000
Profit before tax	17	Number held	158,750
Profit after tax	17	% of class issued	14.17
Net Assets	211	Cost (£'000s)	168
Earnings per share	1.53p	Market value (£'000s)	168
Dividend per share	—		

9 INVESTMENTS – PROPERTIES

	Group	
	2003	2002
	£'000	£'000
Net book value and valuation		
At 1st January, 2003	30,976	28,883
Additions during the year	1,039	2,093
Revaluation during the year:		
through Revaluation reserve	5,145	—
write back of previous impairment	40	—
At 31st December, 2003	<u>37,200</u>	<u>30,976</u>

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES – continued

As at 31st December 2003 investment properties consist of 64 individual property units covering a total of 1,367,898 sq. ft. at an annual rental of £3,379,519. These property units vary considerably in size and use, with the largest three units totalling 585,193 sq. ft. at a combined rental of £1,241,310 and the smallest seven units being less than 2,000 sq. ft. each at a combined rental of £40,500. The total area can be sub-divided into the following use categories:

Warehouse	1,150,744 sq. ft.
Industrial	75,757 sq. ft.
Retail, office and other	141,397 sq. ft.

These categories can be further analysed as follows:

	No. of tenants	Area sq. ft.
(i) Warehouse		
Food storage	3	689,405
Chemicals and plastic storage	2	231,224
Document storage	1	20,599
Others and vacant	5	209,516
(ii) Industrial		
Timber fabrication	1	10,359
Rubber processing	1	15,330
Light engineering	8	18,768
Others and vacant	—	31,300
(iii) Retail, office and others		
Call centre	1	85,225
Nursery	1	2,300
Others and vacant	7	53,872

Investment Properties are shown at valuation and any surplus or deficit arising on valuation of property is taken to the revaluation reserve without provision for corporation tax which, on possible disposals at the balance sheet date, is estimated to be approximately £1.3 million (2002: £nil). For the purpose of Statement of Standard Accounting Practice No. 19 these are all regarded by the directors as investment properties.

Of the property units held at the year end:

- 4 property units were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2003 at £11,050,000;
- 12 property units were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2003 at £3,300,000;
- 14 property units were valued by Knight Frank as at 31st December, 2003 at £17,050,000; and
- 34 property units were valued by Hurst Warne Limited, Chartered Surveyors, as at 11th February, 2004 at £2,300,000.

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

The cost of the above properties as at 31st December, 2003 is as follows:

	Group
	£'000
Brought forward	22,459
Additions during the year	1,039
	<u>23,498</u>

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Capital Commitments				
Capital expenditure contracted for but not provided for in the accounts	<u>—</u>	<u>112</u>	<u>—</u>	<u>—</u>

NOTES TO THE ACCOUNTS – CONTINUED

10 OTHER INVESTMENTS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Subsidiary undertakings				
Shares – At cost	—	—	322	322
Less provision	—	—	(320)	(320)
	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>

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

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

In addition the Group has:

- (i) an interest of 50% in Tower Street Properties Limited which has been excluded from consolidation under section 229(3) of the Companies Act 1985 as the amounts involved are immaterial. The aggregate capital and reserves of Tower Street Properties Limited as at 30th June, 2003, being the latest available accounts, and its profit/(loss) for the year then ended amounted to £(5,019,396) and £56,315 respectively; and
- (ii) an interest of 50% in Abshot Finance Company Limited which has been excluded from consolidation under Financial Reporting Standard No. 9 as significant influence is not exercised in respect of policy decisions. The aggregate capital and reserves of Abshot Finance Company Limited as at 31st July, 2003, being the latest accounts available, and its profit for the year then ended amounted to £33,261 and £14,713 respectively.

During the year the Group (i) sold its 87.5% interest in Newilton Consortium Limited, a company which has been dormant for a number of years, to Mr M. Boyens for the sum of £1. Mr Boyens is a director of several subsidiary undertakings and has a minority interest in New Capital Holdings Limited, and (ii) acquired the whole of the issued share capital of Knowsley Industrial Property Limited for the sum of £2.

NOTES TO THE ACCOUNTS – CONTINUED

11 TANGIBLE ASSETS

	Motor Vehicles £'000	Group Freehold property £'000	Total £'000	Company Freehold property £'000
Cost or valuation				
Balance 1st January, 2003	12	400	412	400
Additions during the year	19	—	19	—
Disposals during the year	(12)	—	(12)	—
Revaluation surplus	—	125	125	125
Balance 31st December, 2003	<u>19</u>	<u>525</u>	<u>544</u>	<u>525</u>
Depreciation				
Balance 1st January, 2003	6	24	30	24
Charge for the year	5	4	9	4
Released on disposal/revaluation	(6)	(28)	(34)	(28)
Balance 31st December, 2003	<u>5</u>	<u>—</u>	<u>5</u>	<u>—</u>
Net book values at 31st December, 2003	<u>14</u>	<u>525</u>	<u>539</u>	<u>525</u>
Net book values at 31st December, 2002	<u>6</u>	<u>376</u>	<u>382</u>	<u>376</u>

The Freehold property held in the Company has been valued by external valuers, Hodnett Martin Smith, as at 6th January, 2004 on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors at £525,000. In the opinion of the directors this method of valuation is no different to that under an Existing Use basis. The historical cost and carrying value, had depreciation been charged at 2% per annum is as follows:

Historical cost	£'000
Accumulated depreciation	642
	<u>(192)</u>
	<u>450</u>

12 CURRENT ASSETS

	Notes	Group		Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Listed and other securities held by a trading subsidiary undertaking		681	346	—	—
Market value £686,000 (2002: £346,000)	(d)				
Cash in hand		1,189	2,542	399	473
Developments in hand	(a)	5,056	2,664	—	—
Trade debtors	(c)	849	751	—	—
Other debtors and prepayments	(c)	207	369	—	50
Unsecured loans	(b)	65	65	—	—
Secured loans	(b)	350	350	—	—
		<u>8,397</u>	<u>7,087</u>	<u>399</u>	<u>523</u>

- (a) Developments in hand consist of three property development sites. Interest capitalised in the year amounted to £43,000 (to date: £43,000).
- (b) Loans have been classified as current assets as the loans are repayable on demand.
- (c) Debtors and prepayments fall due within one year.
- (d) The market value of the listed securities was £24,802 (2002: £8,000), and the carrying value was £22,642 (2002: £8,000).
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NOTES TO THE ACCOUNTS – CONTINUED

13 CREDITORS – Amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade creditors	639	367	—	—
Other creditors	567	617	8	9
Accruals	1,235	1,256	—	—
Other taxes and social security	70	31	—	—
Corporation Tax	—	16	—	—
Bank overdrafts and short-term loans (secured)				
– property loans	3,672	2,917	—	—
– other	17	—	157	461
2.5% Secured Redeemable Loan Stock 2001*	1	1	—	—
Proposed dividend	149	141	149	141
	<u>6,350</u>	<u>5,346</u>	<u>314</u>	<u>611</u>

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

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

14 CREDITORS – Amounts falling due after more than one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
(a) 8% Secured Redeemable Loan Stock 2006	3,662	3,662	—	—
(b) Property Loans	<u>14,351</u>	<u>14,198</u>	<u>—</u>	<u>—</u>
	<u>18,013</u>	<u>17,860</u>	<u>—</u>	<u>—</u>

(a) 8% Secured Redeemable Loan Stock 2006

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

(b) Property loans

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

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans (secured against investment properties)				
8.1% fixed	6,300	6,300	—	—
1.25% over 3 month LIBOR	508	916	—	—
7.09% fixed	3,624	3,624	—	—
1.2% over 3 month LIBOR	2,362	2,726	—	—
1.25% over 3 month LIBOR	1,555	—	—	—
1.75% over 3 month LIBOR	1,319	1,320	—	—
Other loans (secured against investment properties)				
1.5% over 3 month LIBOR	2,154	1,984	—	—
11% fixed	201	245	—	—
	<u>18,023</u>	<u>17,115</u>	<u>—</u>	<u>—</u>

NOTES TO THE ACCOUNTS – CONTINUED

14 CREDITORS – Amounts falling due after more than one year – continued

Loans or instalments thereof are repayable over the following periods:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Less than 1 year	3,672	2,917	—	—
Between 1 and 2 years	626	575	—	—
Between 2 and 5 years	1,977	1,696	—	—
Over 5 years	11,748	11,927	—	—
	<u>18,023</u>	<u>17,115</u>	<u>—</u>	<u>—</u>

15 DEFERRED INCOME

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Deferred credits	<u>245</u>	<u>245</u>	<u>—</u>	<u>—</u>

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

16 CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Share Capital		
Authorised: £4,750,000 (2002: £4,750,000)		
Allotted: Ordinary – 4,754,641 (2002: 4,432,700) fully paid shares of 25p each	<u>1,189</u>	<u>1,108</u>

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

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

31st January, 2003	26,572 shares at 180p per share
30th April, 2003	47,727 shares at 126p per share
31st July, 2003	26,442 shares at 215p per share
31st October, 2003	24,200 shares at 235p per share

In addition the following options were exercised at par (25p):

19th February, 2003	87,000
6th May, 2003	10,000
18th December, 2003	100,000

The allotted share capital was therefore increased by 321,941 ordinary shares.

Since the year end a further 54,890 ordinary shares have been issued as follows:

- (i) 25,106 shares at 236p on 31st January 2004 and 19,784 shares at 284p on 30th April 2004 under the terms of the 8% Secured Redeemable Loan Stock 2006; and
- (ii) 10,000 shares at 25p on 7th January, 2004 as a result of the exercise of options granted to non-executive directors on 8th August 1997.

The following options were outstanding as at 31st December, 2003:

Options granted on 8th August, 1997 to the non executive directors over 10,000 (2002: 37,000) ordinary shares of 25p each. These options are exercisable after three years from the date of grant at 25p per share.

NOTES TO THE ACCOUNTS – CONTINUED

17 RESERVES

	Share premium account £'000	Revaluation reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Company					
Balance at 1st January, 2003	364	—	4,800	250	417
Issue of share capital	190	—	—	—	—
Net profit on realisation of investments	—	—	115	—	—
Provisions against carrying value of investments	—	—	—	(385)	—
Increase in unrealised appreciation	—	—	—	272	—
Write back of impairment on property revaluation	—	—	153	—	—
Retained loss for the year	—	—	—	—	(7)
As at 31st December, 2003	<u>554</u>	<u>—</u>	<u>5,068</u>	<u>137</u>	<u>410</u>
Group					
Balance at 1st January, 2003	364	8,064	22,403	(57)	(10,239)
Issue of share capital	190	—	—	—	—
Net profit on realisation of investments	—	—	115	—	—
Provisions against carrying value of investments	—	—	—	(385)	—
Decrease in unrealised appreciation	—	—	—	272	—
Surplus arising on property revaluation	—	5,145	—	—	—
Write back of impairment on property revaluation	—	—	153	—	—
Less minority interest in reserves	—	(902)	—	—	(104)
Retained profit for the year	—	—	—	—	1,004
Adjustment between revaluation reserve and revenue reserve	—	493	—	—	(493)
As at 31st December, 2003	<u>554</u>	<u>12,800</u>	<u>22,671</u>	<u>(170)</u>	<u>(9,832)</u>

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

Following a review of reserves during the year, an adjustment has been made between the revaluation reserve and revenue reserve to reflect the realisation of revaluation gains and losses on assets disposed of in previous years. An adjustment has also been made to reflect the minority interest in the reserves of the New Capital Holdings Limited sub-group and the minority interest in the revaluation surplus on assets held in that sub-group as shown below.

	£'000
Minority interest in profit for the year	56
Minority interest in revaluation reserve	902
Minority interest in revenue reserve	104
Balance as at 31st December, 2003	<u>1,062</u>

The Group Capital Reserve – unrealised represents unrealised gains on investments, as detailed in note 8, less a provision of £550,000 against secured loan stock included within Current Assets as per note 12.

NOTES TO THE ACCOUNTS – CONTINUED

18 NET ASSET VALUE PER SHARE

Basic

Basic net asset value per ordinary share is based on the net assets at the year end and on 4,754,641 (2002: 4,432,700) ordinary shares being the number of ordinary shares in issue at the year end.

Diluted

Diluted net asset value per ordinary share is based on the net assets at the year end and on 4,788,606 (2002: 4,765,644) ordinary shares. The number of shares is based upon the number of shares in issue at the year end together with 33,965 (2002: 332,964) shares deemed to have been issued at nil consideration pursuant to (i) the options outstanding at the year end and (ii) the maximum number of shares that can be issued under the terms of the 8% Secured Loan Stock issued by Gresham House Finance plc in accordance with Financial Reporting Standard No. 14.

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

	£'000
Total net assets attributable at 1st January, 2003	21,643
Total recognised gains for the year	5,447
Exercise of options to subscribe for share capital	271
Dividends appropriated in the year	(149)
Total net assets attributable at 31st December, 2003	<u>27,212</u>

19 STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Retained profit for the year	1,004	882
Surplus and write back of impairment on property revaluation	5,298	—
Net movement on capital reserves	2	(3,497)
Exercise of options to subscribe for share capital	271	138
Minority interest in reserves	(1,006)	—
	<u>5,569</u>	<u>(2,477)</u>
Shareholders' funds at 1st January	21,643	24,120
Shareholders' funds at 31st December	<u>27,212</u>	<u>21,643</u>

20 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2003 £'000	2002 £'000
Return on ordinary activities before taxation	1,209	1,023
Interest payable	1,458	1,450
	<u>2,667</u>	<u>2,473</u>
Depreciation	9	14
Write back of previous impairment	(40)	—
Loan provision charged/(written back)	—	4
Decrease in debtors	64	467
Increase in creditors	208	50
	<u>2,908</u>	<u>3,008</u>

NOTES TO THE ACCOUNTS – CONTINUED

21 ANALYSIS OF NET DEBT

	At 1st January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	At 31st December 2003 £'000
Cash at bank and brokers	2,542	(1,353)		1,189
Bank overdraft	—	(17)		(17)
	<u>2,542</u>	<u>(1,370)</u>	<u>—</u>	<u>1,172</u>
Debt due within one year	(2,918)	(908)	153	(3,673)
Debt due after one year	(17,860)	—	(153)	(18,013)
	<u>(20,778)</u>	<u>(908)</u>	<u>—</u>	<u>(21,686)</u>
Current asset investments	346	335		681
	<u>(17,890)</u>	<u>(1,943)</u>	<u>—</u>	<u>(19,833)</u>

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2003 £'000	2002 £'000
Decrease in cash for the year	(1,370)	(132)
Cash outflow from repayment of debt	889	1,238
Cash inflow from loans received	(1,797)	(1,929)
Cash outflow from increase in liquid resources	335	36
	<u>(1,943)</u>	<u>(787)</u>
Change in net debt resulting from cash flows	(1,943)	(787)
Net debt at 1st January, 2003	(17,890)	(17,103)
	<u>(19,833)</u>	<u>(17,890)</u>
Net debt at 31st December, 2003	(19,833)	(17,890)

23 FINANCIAL INSTRUMENTS

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

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

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

- (i) securities consisting of listed and unlisted equity shares;
- (ii) a secondary portfolio of listed and unlisted fixed income securities;
- (iii) investment properties;
- (iv) contracts for future movements in share indices;
- (v) cash, liquid resources and short term debtors and creditors that arise directly from its operational activities;
- (vi) long-term borrowings.

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

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Securities:

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

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

Properties:

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

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

Securities: unquoted**Investment Risk and Credit Risk**

Unquoted securities are valued as per accounting policy (c) in these accounts. Regular reviews of the financial results combined with close contact with the management of these investments provides sufficient information to support these valuations, and to ensure the payment of interest where supporting loans have been issued.

Securities: quoted**Market Risk:**

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

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

Investment Properties**Credit Risk**

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

Interest Rate Risk

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

Liquidity Risk

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

Contracts for futures**Market Risk**

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

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

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Financial Assets and Liabilities – interest rate exposure on loans

The interest rate exposure profile for financial assets and liabilities as at 31st December, 2003 and 2002 is shown below. The Group has taken advantage of the exemption allowed under FRS 13 'Derivatives and other Financial Instruments', and has excluded short-term debtors and creditors from disclosure under financial instruments.

	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
As at 31st December, 2003						
Portfolio	6,584	162	—	—	—	6,746
Investment Properties	37,200	—	—	—	—	37,200
Dealing securities	681	—	—	—	—	681
Cash	—	—	1,189	—	—	1,189
Loans	350	65	—	—	—	415
Creditors						
– falling due within 1 year	—	—	—	(147)	(3,525)	(3,672)
– falling due after 1 year	—	—	—	(13,640)	(4,373)	(18,013)
	<u>44,815</u>	<u>227</u>	<u>1,189</u>	<u>(13,787)</u>	<u>(7,898)</u>	<u>24,546</u>
As at 31st December, 2002						
Portfolio	5,961	688	—	—	—	6,649
Investment Properties	30,976	—	—	—	—	30,976
Dealing securities	346	—	—	—	—	346
Cash	—	—	2,542	—	—	2,542
Loans	350	65	—	—	—	415
Creditors						
– falling due within 1 year	—	—	—	(91)	(2,826)	(2,917)
– falling due after 1 year	—	—	—	(13,741)	(4,119)	(17,860)
	<u>37,633</u>	<u>753</u>	<u>2,542</u>	<u>(13,832)</u>	<u>(6,945)</u>	<u>20,151</u>

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

Fixed rate assets comprise fixed rate loans, unsecured loans and loans repayable on demand, with a weighted average interest rate of 12% (2002: 12%).

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

Fixed rate liability loans have a weighted average interest rate of 7.85% (2002: 7.9%), and a weighted average maturity value of 4.89 years (2002: 5.9 years).

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

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

NOTES TO THE ACCOUNTS – CONTINUED

24 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' Beneficial Shareholdings as at 31st December, 2003

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

	A. G. Ebel	B. J. Hallett	N. J. Rowe	T. J. Rowe	A. P. Stirling
Listed Securities					
Avesco plc	—	—	—	—	30,000
British American Tobacco plc	—	—	—	—	—
Hornby Plc	—	—	—	—	—
Molins PLC	33,200	—	—	—	100,800
Morgan Sindall plc	2,434	—	—	—	18,115
Mount Burgess Mining NL	—	—	—	—	2,200,000
Welsh Industrial Investment Trust plc	—	—	—	—	221,000
Securities dealt in under AIM					
Image Scan Holdings plc	80,350	226,666	83,028	—	871,666
Transense Technologies plc	24,000	12,449	7,452	4,500	330,000
Unlisted Securities					
Greenwich Communications plc	—	—	—	—	55,000
Gresham House Finance plc – 8% Secured Redeemable Loan Stock 2006	—	4,000	88,000	45,000	100,000
SpaceandPeople Limited	8,000	5,000	3,000	3,000	70,000

Related Party Transactions

Mr. A. G. Ebel and Mr A. P. Stirling have a controlling interest in Watlington Securities Limited, a company which invoiced the group a sum of £7,898 (2002: £7,351) during the year. Conversely the Group invoiced the same company £nil (2002: £85,000). At the year end there remained balances outstanding of £670 (2002: £1,568) and £nil (2002: £47,000) respectively.

Management fees of £18,000 (2002: £18,000) were invoiced to Welsh Industrial Investment Trust plc, a company in which A P Stirling is both a director and shareholder.

Loan Stock interest of £23,204 (2002: £21,379) was received from Abshot Finance Company Limited in which Security Change Limited has a 50% interest. The loan stock holding at year end amounted to £335,000 (2002: £335,000).

During the year Tower Street Properties Limited, a company which is 50% owned by a group undertaking Outland Limited, and of which A. P. Stirling and B. J. Hallett are directors, invoiced the group a sum of £2,124,743 for property construction. Conversely the group invoiced Tower Street Properties Limited a sum of £43,000 in respect of management fees. The balance due to Tower Street Properties Limited at the year end was £165,977 (2002: £497,624). In addition, a sum of £95,000 was due to Security Change Limited against which it has made a full provision.

During the year the wife of A. P. Stirling exercised her election rights in accordance with the Gresham House Finance plc Loan Stock Agreement dated 31st December, 2001 and was issued with 3,581 shares in Gresham House plc.

Mr. N. J. Rowe has a 5% interest in a company, First City Insurance Brokers Limited, which invoiced the group during the year a sum of £216,731 (2002: £5,643) in respect of insurance premiums. There was no balance owing at the year end (2002: £nil).

The Rowe Trust is the sole shareholder of Newinnhall Trust Limited, a substantial shareholder of the Company. N. J. Rowe, T. J. Rowe and their respective children are beneficiaries under The Rowe Trust. In addition Mr F. M. Earley, who is a director of five subsidiary undertakings and Newinnhall Trust Limited, is one of two trustees of The Rowe Trust. The Group paid a sum of £50,000 (2002: £50,000) to The Consultancy Limited in respect of the services provided by Mr Earley. At 31st December, 2003 the Trustees of the Rowe Trust were interested in £1,316,000 8% Secured Loan Stock 2006 (2002: £1,316,000) in Gresham House Finance plc and 54,484 ordinary shares (2002: 8,773) in the Company.

25 CONTINGENT LIABILITIES

The Company has guaranteed loans of £6,028,788 made by Gresham House Finance plc to Security Change Limited which are eliminated on consolidation. This loan is due for repayment by 20th December 2007, and incurs interest at a maximum rate of 5.75% per annum.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Gresham House plc will be held at 36 Elder Street, London E1 6BT on 24th June, 2004 at 12 noon for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the accounts for the year ended 31st December, 2003 together with the report of the auditors;
2. To adopt the Remuneration Report;
3. To declare a dividend of 3.1p per ordinary share;
4. To re-elect as a director Mr N. J. Rowe who retires by rotation and offers himself for re-election;
5. To re-appoint PKF as the auditors and to authorise the directors to fix their remuneration;

By Order of the Board,

B. J. Hallett, *Secretary*

10th May, 2004

36 Elder Street
London E1 6BT

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
 2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
 3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrars of the Company (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
 4. There are no contracts of service existing for any of the directors.
 5. In accordance with Regulation 34(1) of the Uncertificated Securities Regulations 1995, the Company specifies that only those shareholders registered in the Company's register of members at 12 noon on 22nd June, 2004 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.
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