GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2006

DIRECTORS AND ADVISERS

Company Number	871 incorporated in England
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* R. E. Lane, O.B.E., 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 (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
Registrars	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Solicitors	DMH Stallard Centurion House 37 Jewry Street London EC3N 2ER

CHAIRMAN'S STATEMENT

The results for the year to 31st December, 2006 show a second consecutive year of significant improvement to the net asset value of the Company. The revenue account showed a profit of £669,000 (2005: £140,000) whilst the capital account rose by £5,753,000 making a gain over the last two years on the capital account of £13,152,000. As a consequence the net asset value at 31st December, 2006 was 902.4p against a figure of 775.7p at the end of 2005. This represents a two year rise in basic net asset value of 44%.

Our significant property investment in Speke, made in October 2004, commenced generating rental income in the year. Total space let rose to 35% by the year end and further negotiations are continuing with potential tenants. We are confident of the long term success of this investment which we expect to further enhance net asset value in future years.

The current market value of the Group's property portfolio has risen from £34.2 million as at 31st December, 2005 to £40.5 million at the end of 2006. This increase reflects the transfer of an existing property from current assets to property investments, a surplus on revaluation of the property portfolio as at the year end, and expenditure on existing properties during the year less the insurance proceeds from the property at Knowsley damaged by fire. Completion of the rebuild of this latter property is expected to be in the second half of the current year.

Our site in Vincent Lane, Dorking has been included in the Accounts based on existing use value of £2.9 million. However we have agreed in principle to sell this site to a leading residential development company, conditional on residential planning being obtained, for the sum of £8.2 million. A successful planning application is expected to be obtained within two years.

During the year we acquired, for a nominal consideration, a 35% equity interest in an eleven acre site on Speke Boulevard, immediately adjacent to our existing eighteen acre Speke site held within New Capital Developments Ltd. We have an option to increase this stake to between 52.5% and 55% during the course of the next two years in consideration for arranging the refinancing of an existing loan in the JV company of approximately £1.8 million. It is your Board's intention to seek planning permission for these two sites and should your Company be successful in obtaining an application for change of use to A1 Retail, there will be a very significant increase in the value of your Group's interest.

Since the year end we have sold our interest in a seven acre sports field at Speke for £2.3 million which had been acquired in 2004 for £1.5 million.

Last year I explained the benefits of demerging the Group's property portfolio into a Real Estate Investment Trust (REIT). Unfortunately this plan has not been able to be progressed since, as reported to shareholders in an announcement dated 6th February this year, Parkwood Property Group LLP, who purchased 29.9% of your Company's shares in November 2006, have indicated that they would not support any resolution to demerge the Group's property interest into a REIT, such a resolution requiring a 75% majority vote.

As shareholders can see from page 29 of the Accounts the value of the investment securities in the portfolio has increased over the year by £571,000, this being after a net reduction of investments in the portfolio during the year of £924,000. The principle performers from the portfolio during the year were SpaceandPeople, Image Scan Holdings, InvestinMedia, Plus Markets Group, Egdon Resources and Welsh Industrial Investment Trust. Since the year end Hallin Marine, Image Scan Holdings, SpaceandPeople and Transense Technologies have each outperformed the FTSE share index. In addition, Mount Burgess Mining has just announced that it has received an independent report indicating significant realisable base metal resources which could amount to an in-ground gross value in the order of US$981 million. In the event this proves correct, your Company's 4.5% holding in Mount Burgess, which cost £351,000, should materially increase in value.

CHAIRMAN'S STATEMENT – CONTINUED

We are looking forward to increased performances from a number of our AIM quoted investments and the introduction of three of our unquoted investments onto PLUS Markets or AIM. This, together with the present planning opportunities in the property portfolio referred to above, encourages the Board to feel confident in the continued material growth of your Company for the foreseeable future. We are therefore pleased to recommend a final dividend of 6p per share against 5p last year.

At the Annual General Meeting, notice of which can be found at the end of this report, shareholders will note that in addition to the usual resolutions, your Board is this year seeking your permission to make market purchases of the Company's ordinary share capital. We are proposing to hold the AGM shortly after your Company's 150th anniversary since incorporation on 14th May, 1857. We believe we are the oldest listed company on the London Stock Exchange and your Board looks forward to meeting any shareholder who would care to attend the AGM following which we would like you to join us in a toast to celebrate our Company's unique achievement.

2nd May, 2007

A. P. Stirling
Chairman

REPORT OF THE DIRECTORS

To be presented to the members at the Annual General Meeting to be held at Centurion House, 37 Jewry Street, London EC3N 2ER on 19th June, 2007 at 10.30 am.

Revenue Account

The consolidated income statement which includes the revenue account is set out on page 17 and shows the results for the year ended 31st December, 2006.

Dividends

The directors recommend a final dividend of 6.0p (2005: 5.0p) per Ordinary Share, payable on 22nd June, 2007.

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 pages 2 and 3.

The Board considers the main Key Performance Indicator applicable to the Group to be net asset value per share ("NAV"). As at 31st December, 2006, the basic NAV was 902.4p (2005: 775.7p). The main non-financial KPI is considered to be the amount of vacant space within the property portfolio. As at 31st December, 2006 this totalled 256,915 sq. ft. (2005: 316,225 sq. ft.).

The principal risks of the Group relate to its investment activities in securities and properties and include investment risk, market price risk, liquidity risk and credit risk. These are explained in note 21 to the accounts.

For the year ended 31st December, 2004 H M Revenue & Customs 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.

As a fully listed investment entity the Company has to comply with the appropriate Listing Rules issued by the UK Listing Authority. The Company was unable to comply with one such rule, namely LR 15.5.6, which states that income from any one single tenant in any financial year must not exceed 20% of total rent. During the year ended 31st December, 2006 the rent received from a tenant who occupies 2 property units on the same industrial estate amounted to 22.8% of the total rent roll.

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 H M Revenue & Customs 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 FTSE All Share Index in the 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

Investment Portfolio

At 31st December, 2006 the portfolio was invested in the following sectors:

	%
Engineering	17
Financial (including Investment Trusts)	17
Property Investment	12
Media & Photography	9
Electrical	8
Automobiles	6
Oil & Gas	6
Miscellaneous	3
Mining	3
Leisure goods	3
Pharmaceuticals	3
Electricity	3
Information Technology	3
Chemicals	2
Foods	1
Building & Construction	1
Transport	1
Tobacco	1
Forestry and Paper	1
	100

REPORT OF THE DIRECTORS – CONTINUED

Directors

The present directors are listed on page 1.

Mr A.G. Ebel, Mr N.J. Rowe, Mr T.J. Rowe and Mr A.P. Stirling were appointed during the year and consequently now retire and offer themselves for re-election.

The director retiring by rotation is Mr B.J. Hallett and, being eligible, offers himself for re-election.

Brief biographies of the directors concerned are as follows:

Tony Ebel (aged 62)
Tony Ebel originally qualified as a lawyer and chartered accountant and has been involved with the Company since 1976. He has been responsible for a number of successful technology based start-up companies. Mr Ebel is currently involved with companies operating in technology distribution, market technology consultancy and the renewable energy sectors. He is chairman of Hallin Marine Subsea International plc. A significant part of Mr Ebel's role has been, and continues to be, the evaluation of potential investments. He is currently a member of the Remuneration Committee.

Nicholas Rowe (aged 52)
Nicholas Rowe has been involved with the Company since 1992 and is currently the Chairman of the Remuneration Committee and a member of the Audit Committee. He has been involved in financial insurance since 1973 and is a director of the FirstCity Employee Trust Limited and chairman of Tenant Deposit Limited. He is also an Approved Person authorised by the Financial Services Authority. Mr Rowe makes a valuable contribution in assessing the Group's insurance requirements and premiums.

Thomas Rowe (aged 54)
Thomas Rowe has been involved with the Company since 1991 and is currently a member of both the Audit and Remuneration Committees. He is presently a director of the roll-on/roll-off high speed ferry department of Howe Robinson and Company Limited, one of the largest shipbrokers in London, having concentrated for the last eight years on selling, chartering and re-financing these types of vessel.

Freddie Stirling (aged 71)
Freddie Stirling is a chartered accountant who was has been involved with the Company since October 1969. Mr Stirling is the managing director and investment manager and also the Chairman of the Company and has considerable experience in dealing with all manner of small companies including the various procedures required to bring such companies to one of the junior stock markets, this being particularly relevant when considering the Company's investment strategy. Mr Stirling is also Chairman and investment manager for Welsh Industrial Investment Trust plc, investment manager for Beira Investment Trust plc, and a non-executive director of InvestinMedia plc and Mount Burgess Mining NL.

Brian Hallett (aged 52)
Brian Hallett is a chartered accountant who was appointed to the board in 1996. He presently acts as both Financial Director and Company Secretary. Mr Hallett has had considerable experience in dealing with all matters relating to small companies, including the various procedures required to bring such companies to one of the junior stockmarkets. This is particularly relevant when considering the Company's strategy for investments.

Contracts of significance in which the directors had a material interest are disclosed in note 23.

REPORT OF THE DIRECTORS – CONTINUED

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
Parkwood Property Investments LLP	29.99	1,463,063
Newinnhall Trust Limited	4.86	236,937
CG Portfolio Fund Limited	3.83	187,000

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:

	2006	2005
A. G. Ebel	22,550	22,550
B. J. Hallett	127,810	127,810
R. E. Lane	2,500	2,500
N. J. Rowe	22,060	22,060
T. J. Rowe	31,200	34,200
A. P. Stirling	419,036	419,036

In addition to the above N. J. Rowe and T. J. Rowe have a beneficial interest in 236,937 ordinary shares held by Newinnhall Trust Limited and a further 94,772 ordinary shares held on behalf of The Rowe Trust, who own the whole of the issued share capital of Newinnhall Trust Limited.

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:

	2006 £	2005 £
A. G. Ebel	—	—
B. J. Hallett	—	—
R. E. Lane	—	—
N. J. Rowe	—	88,000
T. J. Rowe	—	45,000
A. P. Stirling	—	100,000

The 8% Secured Loan Stock 2006 was repaid in full on 31st December, 2006.

Share Option Schemes

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

On 6th October, 2006, 3,000 Ordinary Shares of 25p each were issued as a result of an exercise of an option under the Company's Approved Share Option Scheme at a price of 337.5p. Further details can be found in the Remuneration Report of page 11.

Financial Risk and Management Objectives

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

REPORT OF THE DIRECTORS – CONTINUED

Statement of the Directors' Responsibilities

The directors are responsible for preparing the annual 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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to 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 estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of 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.

Going Concern

After making enquiries, the directors have reasonable expectation that the Company and the Group have 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 financial statements.

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, 2006 trade creditors represented 36 days purchases.

Statement as to Disclosure of Information to Auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are 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 auditors are aware of that information.

Auditors

The auditors, PKF (UK) LLP will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

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

36 Elder Street
London E1 6BT

2nd May, 2007

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 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. When designing schemes of performance-related remuneration the Committee will consider the provisions set out in Schedule A of the FRC Combined Code issued in 2003.

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. Each element of remuneration paid to all directors is shown in detail on page 11.

As reported last year the Committee considered that the introduction of an annual bonus scheme was appropriate and would provide the necessary incentive to the executive directors.

The bonus paid to the executive directors during the year was in respect of the five year period ended 31st December, 2005 and was based on the increase in the net asset value ("NAV") of the Group for that period of 49.1% and amounted to a total of £87,594.

For the year ended 31st December, 2006 and future years the bonus will be paid on the basis that where the increase in NAV is under 5% then no bonus will be payable, between a 5% and 15% increase a maximum of 15% of an individual's salary may be awarded as a bonus. In the event that the increase in NAV exceeds 15% no additional bonus will be payable. The bonus scheme is discretionary and will run from year to year and is subject to renewal and award each year by the Remuneration Committee. Any bonus awarded will not infer a right to the award of any future bonus and shall not constitute a right to any such bonus under any individual's contract of employment.

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

The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31st December, 2006 contributions amounted to £8,400 (2005: £8,400).

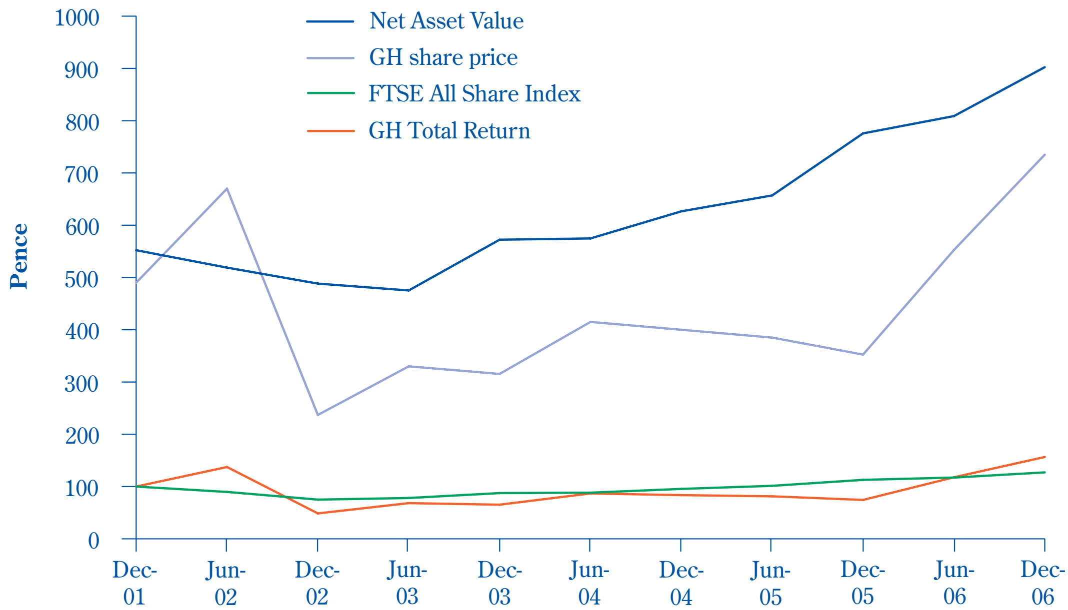
REMUNERATION REPORT – CONTINUED

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.

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 on 2006, of £100 invested in Gresham House plc on 31st December, 2001 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

	1.1.2002	31.12.2006	% change
Gresham House share price	490.0p	735.0p	50.00%
Basic net asset value	552.5p	902.4p	63.33%
Gresham House total return	100.0	156.6	56.60%
FTSE All Share Index	2,523.88	3,208.02	27.11%

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	Bonus £'000	Fees £'000	Benefits £'000	Pension £'000	Total 2006 £'000	Total 2005 £'000
Executive:							
A. P. Stirling (Chairman and highest paid director)	169	44	—	7	—	220	172
B. J. Hallett	96	44	—	3	8	151	107
Non-executive:							
A. G. Ebel	—	—	12	5	—	17	12
R. E. Lane	—	—	12	—	—	12	7
N. J. Rowe	—	—	12	—	—	12	7
T. J. Rowe	—	—	12	—	—	12	7
Total	265	88	48	15	8	424	312
Total 2005	262	—	28	14	8	312	

Fees in respect of services provided by Mr Stirling to companies included in the Group's investment portfolio are invoiced by a company in which Mr Stirling has a controlling interest. For the year ending 31st December, 2006 these amounted to £24,758 (2005: £21,200).

Share Option Schemes

Details of share options for each director are as follows:

	At 1st January, 2006	At 31st December, 2006	Earliest exercise date	Exercise price per share
B. J. Hallett	8,800	8,800	3rd May 2008	337.5p
A. P. Stirling	8,800	8,800	3rd May 2008	337.5p

On 3rd 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 3rd May, 2008 and 3rd May, 2012. During the year 3,000 of these options were exercised.

As at 31st December, 2006, the closing middle market price was 735p and the range of closing prices during the year 2006 was 330p to 735p.

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, 2006.

On behalf of the Board
N. J. Rowe *Chairman,* Remuneration Committee
2nd May, 2007

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 FRC Combined Code issued in 2003 ("the Code") and the principles and recommendations published by the Association of Investment Companies in 2006, which provides a guide to best practice in certain areas of governance which are particularly relevant to investment trusts.

During the year ended 31st December, 2006, with the exceptions outlined below, the directors consider that the Company has applied the principles and met the requirements of the Code.

Operation of the Board
The Board is comprised of a majority of non-executive directors. The names of the directors who served throughout the year are on page 1 of the annual report.

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 2006. 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 A.G. Ebel is the senior independent director.

The Board, which consists of two executive and four 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 four Board meetings, two meetings 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. P. Stirling	4	—	—
B. J. Hallett	4	—	—
A. G. Ebel	4	1	—
R. E. Lane	4	—	2
N. J. Rowe	3	1	2
T. J. Rowe	4	1	2

The Company has not complied with paragraph A.6.1. of the Code and has not undertaken a formal evaluation of its own performance. 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.

Independence of the Directors
As a smaller Company the Code requires it to have at least two independent non-executive directors. The Board has concluded that, at the date of this report, all non-executive directors are independent. 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

CORPORATE GOVERNANCE – CONTINUED

subsidiaries. Given the nature of the Company as an investment trust and the strongly independent mind set of the individuals concerned and the fact that neither N. J. Rowe or T. J. Rowe are representatives of, or trustees or directors of, the organisations concerned and therefore have no influence over their decisions, the Board is firm with its view that they can all be considered to be independent. Mr R. E. Lane was independent at the time of his appointment and remains so.

The Company has not fully complied with paragraph B.1.3. as the remuneration for non-executive directors has included share options. Given the size of the Company this policy is likely to continue. Details of options outstanding as at 31st December, 2006 are shown in the Remuneration Report on page 11. Any future grant of new options will be subject to shareholder approval.

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 nearest to but not exceeding one third retire from office. 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 due to stand for annual re-election at the forthcoming AGM in accordance with the Company's Articles of Association and as per the requirements of the Code are Mr A. G. Ebel, Mr N. J. Rowe, Mr T. J. Rowe and Mr A. P. Stirling, all having been elected to the Board during the year. Mr B. J. Hallett is due to retire by rotation in accordance with the Company's Articles of Association. The Chairman has carefully considered the position of each of the non-executive directors and the senior independent director has considered the position of the Chairman and managing director and the Finance Director. They respectively consider their contribution to be significant and effective, their commitment to be appropriate and respectively recommends their re-election.

Chairman

The Company does not comply with Code provision A.2.1. 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. As a result the Company has not complied with paragraph A.1.3. but, as the Chairman is an executive director, his performance is appraised as part of the review undertaken by the Remuneration Committee.

Audit Committee

The Audit Committee is a formally constituted committee of the Board with defined terms of reference. It meets at least twice 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 consist of three non-executives Mr R. E. Lane, who acts as Chairman, Mr N. J. Rowe and Mr T. J. Rowe. The auditors are invited to attend the Audit Committee meeting at which the annual accounts are considered and any other meetings that the Committee deems necessary.

Nomination Committee

The Company does not comply with paragraphs A.4.1. to A.4.5. 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 complied with paragraph A.5.l. but in future will ensure that new directors will receive a full, formal and tailored induction on joining the Board.

CORPORATE GOVERNANCE – CONTINUED

Remuneration Committee
The Remuneration Committee is also a formally constituted committee of the Board with defined terms of reference consisting of three non-executive directors under the chairmanship of Mr N. J. Rowe. The other members of the committee are Mr A. G. Ebel and Mr T. J. Rowe. The Committee is responsible for determining the terms of service and remuneration of the executive directors and meets at least once a year.

Relations with Shareholders
Given its size, the Company has not fully complied with provisions D.1.1. and D.1.2. Of the current three major shareholders, the Board has established a regular dialogue with two and believes that it has sufficient contact and 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.

Accountability, Internal Controls and Audit
The Board considers that these accounts, reports and supplementary information present a fair and accurate assessment of the Company's position and prospects.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the accounts.

Non audit services provided by the auditors 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 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 Board has reviewed the need for an internal audit function. The Board is 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 internal control, which safeguards shareholders investment and the Group's assets, is in place. An internal audit function is therefore considered unnecessary.

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRESHAM HOUSE PLC

We have audited the group and parent company financial statements ('the financial statements') of Gresham House plc for the year ended 31st December, 2006 which comprise the consolidated income statement, the consolidated and company statements of changes in equity, the consolidated and company balance sheets, the consolidated and company cash flow statements and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the chairman's statement that is cross referenced from the business review section of the directors' report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 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 financial statements. The 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 financial statements. Our responsibilities do not extend to any other information.

REPORT OF THE INDEPENDENT AUDITORS – CONTINUED

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements 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 financial statements, and of whether the accounting policies are appropriate to the group's and the company'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 financial statements 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 financial statements and the part of the remuneration report to be audited.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st December, 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December, 2006;
- the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors

2nd May, 2007
London, UK

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2006

	Notes	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Income:							
Dividend and interest income	1	346	-	346	329	-	329
Rental income	1	2,664	-	2,664	2,098	-	2,098
Other operating income	1	276	-	276	323	-	323
Total Revenue		3,286	-	3,286	2,750	-	2,750
Gains on investments held at fair value		-	1,495	1,495	-	2,824	2,824
Movement in fair value of property investments		-	5,286	5,286	-	6,144	6,144
Total income and gains on investments		3,286	6,781	10,067	2,750	8,968	11,718
Expenses							
Operating expenses	2	(1,640)	-	(1,640)	(1,691)	-	(1,691)
Finance costs	4	(1,213)	-	(1,213)	(1,151)	-	(1,151)
		(2,853)	-	(2,853)	(2,842)	-	(2,842)
Profit/(loss) before taxation		433	6,781	7,214	(92)	8,968	8,876
Taxation	5	17	128	145	-	(1,240)	(1,240)
Profit/(loss) for the period		450	6,909	7,359	(92)	7,728	7,636
Attributable to:							
Equity holders of the parent		669	5,753	6,422	140	7,399	7,539
Minority interests		(219)	1,156	937	(232)	329	97
		450	6,909	7,359	(92)	7,728	7,636
Basic earnings per Ordinary Share	6			131.7p			154.8p
Diluted earnings per Ordinary Share	6			131.4p			154.7p

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

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

All revenue and capital items in the above statement derive from continuing operations.

STATEMENTS OF CHANGES IN EQUITY

Group

Year ended 31st December, 2006

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December, 2005		1,218	822	12	44,155	(8,401)	37,806
Profit for the period		-	-	-	5,753	669	6,422
Ordinary dividend paid	7	-	-	-	-	(244)	(244)
Issue of shares		1	9	-	-	-	10
Share based payments		-	-	16	-	1	17
Balance at 31st December, 2006		1,219	831	28	49,908	(7,975)	44,011

Year ended 31st December, 2005

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December, 2004		1,212	761	-	36,756	(8,346)	30,383
Profit for the period		-	-	-	7,399	140	7,539
Ordinary dividend paid	7	-	-	-	-	(195)	(195)
Issue of shares		6	61	-	-	-	67
Share based payments		-	-	12	-	-	12
Balance at 31st December, 2005		1,218	822	12	44,155	(8,401)	37,806

Company

Year ended 31st December, 2006

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December, 2005		1,218	822	12	9,388	444	11,884
Profit for the period		-	-	-	1,495	159	1,654
Ordinary dividend paid	7	-	-	-	-	(244)	(244)
Issue of shares		1	9	-	-	-	10
Share based payments		-	-	16	-	1	17
Balance at 31st December, 2006		1,219	831	28	10,883	360	13,321

Year ended 31st December, 2005

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December, 2004		1,212	761	-	6,564	517	9,054
Profit for the period		-	-	-	2,824	122	2,946
Ordinary dividend paid	7	-	-	-	-	(195)	(195)
Issue of shares		6	61	-			67
Share based payments		-	-	12	-	-	12
Balance at 31st December, 2005		1,218	822	12	9,388	444	11,884

BALANCE SHEETS

AS AT 31st DECEMBER, 2006

	Notes	The Group 2006 £'000	The Group 2005 £'000	The Company 2006 £'000	The Company 2005 £'000
Assets					
Non current assets					
Investments held at fair value	8	13,345	12,774	13,345	12,774
Property investments	9	40,469	34,226	-	-
Other investments	10	-	-	2	2
Property, plant and equipment	11	500	512	494	504
Total non current assets		54,314	47,512	13,841	13,280
Current assets					
Trade and other receivables		568	389	-	109
Accrued income and prepaid expenses		342	1,170	-	-
Other current assets	12	5,607	8,904	148	117
Cash and cash equivalents		991	863	47	84
Total current assets		7,508	11,326	195	310
Total assets		61,822	58,838	14,036	13,590
Current liabilities					
Trade and other payables	13	1,498	2,615	12	15
Short term borrowings	14	6,765	9,549	703	1,691
Current tax payable		-	17	-	-
Total current liabilities		8,263	12,181	715	1,706
Total assets less current liabilities		53,559	46,657	13,321	11,884
Non current liabilities					
Long term borrowings	15	6,337	6,449	-	-
Deferred taxation	16	1,503	1,631	-	-
		7,840	8,080	-	-
Net assets		45,719	38,577	13,321	11,884
Capital and reserves					
Ordinary share capital	17	1,219	1,218	1,219	1,218
Share premium	18	831	822	831	822
Share based payments	18/22	28	12	28	12
Capital reserve	18	49,908	44,155	10,883	9,388
Retained earnings	18	(7,975)	(8,401)	360	444
Equity attributable to equity shareholders		44,011	37,806	13,321	11,884
Minority interest		1,708	771	-	-
Total equity		45,719	38,577	13,321	11,884
Basic net asset value per ordinary share	19	902.4p	775.7p	273.1p	243.8p
Diluted net asset value per ordinary share	19	900.1p	775.1p	272.9p	243.6p

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 2nd May, 2007

A. P. Stirling
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Cashflow from operating activities					
Investment income received		180		117	
Interest received		166		212	
Rental income received		2,530		2,145	
Other cash payments		(1,958)		(1,235)	
Net cash generated from operations	20		918		1,239
Interest paid on 8% Secured Redeemable Loan Stock 2006		(342)		(293)	
Interest paid on property loans		(929)		(754)	
			(1,271)		(1,047)
Net cash flows from operating activities			(353)		192
Cash flows from investing activities					
Purchase of investments		(1,693)		(2,295)	
Sale of investments		2,617		1,106	
Expenditure on investment properties		(490)		(1,532)	
Insurance proceeds received		3,700		-	
Disposal of investment properties		-		105	
Purchase of developments in hand		(523)		(652)	
			3,611		(3,268)
Cash flows from financing activities					
Repayment of loans		(2,360)		(3,484)	
Repayment of 8% Loan Stock		(3,662)		-	
Receipt of loans		3,126		321	
Share capital issued		10		67	
Equity dividends paid		(244)		(195)	
			(3,130)		(3,291)
Increase/(decrease) in cash and cash equivalents			128		(6,367)
Cash and cash equivalents at start of period			863		7,230
Cash and cash equivalents at end of period			991		863

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Cashflow from operating activities					
Investment income received		309		139	
Interest received		7		4	
Other cash payments		(55)		(115)	
Net cash generated from operations	20		261		28
Cash flows from investing activities					
Purchase of investments		(1,693)		(2,295)	
Sale of investments		2,617		997	
			924		(1,298)
Cash flows from financing activities					
Receipt of loans		-		1,325	
Repayment of loans		(988)		-	
Share capital issued		10		67	
Equity dividends paid		(244)		(195)	
			(1,222)		1,197
Decrease in cash and cash equivalents			(37)		(73)
Cash and cash equivalents at start of period			84		157
Cash and cash equivalents at end of period			47		84

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of accounting

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.

(b) Basis of preparation

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") in December 2005 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 31st December, 2006. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) Presentation of Income Statement

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 Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. 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 842 of the Income and Corporation Taxes Act 1988. As permitted by section 230 of the Companies Act 1985, the Company has not presented its own income statement.

(e) Investments in associates

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. The Group's associates are accounted for in accordance with IAS39 Financial Instruments: Recognition and Measurement ("IAS 39") as investments designated at fair value through the Income Statement and in accordance with paragraph 1 of IAS 28 Investments in Associates ("IAS 28"), equity accounting is not required.

(f) Segmental reporting

A business segment is a group of assets and operations that are subject to risks and returns that are different from those of other business segments. The Group comprises of two business segments: the Investment Trust and Property Investment. This is consistent with internal reporting. All revenues are derived from operations within the United Kingdom and consequently no separate geographical segment information is provided.

(g) Income

(i) Dividend and interest income

Income from listed securities and interest receivable is accounted for on a receivable basis.

(ii) Rental income

Rental income comprises property rental income receivable net of VAT.

(h) 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 are deducted from the disposal proceeds of the investment.

(i) Property, plant and equipment

All property, plant and equipment with the exception of freehold property is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset. The freehold property is held at deemed cost at the date of the transition to IFRS less depreciation.

Depreciation on property, plant and equipment 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. Owner occupied freehold property is depreciated at the rate of 2% per annum.

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(j) 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 Income Statement 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 balance sheet 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 Income Statement 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 Income Statement, 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 balance sheet 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.

Investment trusts which have approval under section 842 of the Income Corporation Taxes Act 1988 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(k) Operating leases

Amounts payable under operating leases are charged directly to the Income Statement on a straight line basis over the period of the lease. The aggregate cost 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.

(l) Investments

(i) 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 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;

(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 arm's length market transaction by a third party in the shares of a company, that value may be used.

(ii) Properties

Investment properties are included in the balance sheet 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 development properties 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.

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(m) Developments in hand
Developments in hand 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. Profits and losses arising from the sale of developments are dealt with through the Income Statement.

(n) Trade and other receivables
Other receivables do not carry any interest and are short term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(o) 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.

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

(q) 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 investment properties are charged to the Income Statement as incurred. Interest costs on property loans attributable to development properties and to current assets are capitalised.

(r) Convertible loan notes
Convertible loan notes issued by the Group are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market rate for similar non-convertible debt. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

(s) Trade and other payables
Other payables are not interest-bearing and are stated at their nominal value.

(t) Capital reserves
Capital Reserve – Realised.
The following 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.

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.
- provisions for deferred taxation in respect of revalued properties.

(u) Government grants
Capital based government grants are capitalised and offset against the cost of the asset in the Balance Sheet with any resultant increase in the fair value of the asset being credited to capital reserves.

Revenue based government grants are credited to the Income Statement in the same year as the expenditure is charged.

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

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

(x) 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 1st January, 2007 or later periods. The Group has not early adopted the standards, amendments and interpretations described below:

(i) *IFRS 7 Financial Instruments: Disclosures and a complementary amendment to IAS 1 Presentation of Financial Statements (effective from 1st January, 2007)*
IFRS 7 introduces new disclosures to the information on financial instruments and the amendment to IAS 1 introduces disclosures on the level of management of capital resources. This will be applied by the Group for annual periods beginning 1st January, 2007. The Standard has no financial impact but will change the disclosures surrounding the Group's Financial Instruments.

(ii) *IFRS 8 Operating Segments (effective from 1st January, 2009)*
IFRS 8 will replace IAS 14, Segment Reporting and proposes that the 'management approach' is adopted for reporting the financial performance of operating segments. The standard has no financial impact and is not expected to have a significant impact on the Group's segmental disclosures.

(iii) *IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1st May, 2006)*
The interpretation requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration is received is less that the fair value of the equity instruments issued – to establish whether they fall within the scope of IFRS 2. The interpretation is not expected to have a significant impact on the Group's financial statements.

(iv) *IFRIC 9 Reassessment of embedded derivatives (effective for annual periods beginning on or after 1st June, 2006)*
The interpretation requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Group first becomes party to the contract. Subsequent reassessment is prohibited, unless there is a change in the contract's terms, in which case it is required. The interpretation is not expected to have a significant impact on the Group's financial statements.

(v) *IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November, 2006)*
The interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The interpretation is not expected to have a significant impact on the Group's financial statements.

(vi) *IFRIC 11 IFRS 2 Group and Treasury share transactions (effective for annual periods beginning on or after 1st March, 2007)*
The interpretation provides guidance on accounting for share-based transactions involving treasury shares or involving group entities and as such it is not deemed relevant to the Group's operations.

(vii) *IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1st March, 2006)*
The interpretation is not deemed relevant to the Group's operations since none of the Group's entities operate in hyperinflationary economies.

(viii) *IFRIC 12 Service concession arrangements (effective for annual periods beginning on or after 1st January, 2008)*
The interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services and as such is not relevant to the Group's operations.

(ix) *Amendment to IAS 23 Borrowing costs (effective for annual periods beginning on or after 1st January, 2009)*
The amendment to IAS 23 removes the option of immediately recognising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as an expense. As the Group's accounting policy for borrowing costs does not take advantage of this option, the amendment is not expected to have a significant impact on the Group's financial Statements.

NOTES TO THE ACCOUNTS

1 INCOME

	2006 £'000	2005 £'000
Income from investments		
Dividend income – Listed: UK	180	117
Interest receivable: Bank and Brokers	76	112
Other	90	100
	346	329
Rental income	2,664	2,098
	3,010	2,427
Other operating income		
Share dealing profit	75	87
Management fees receivable	160	206
Other	41	30
	276	323
Total income	3,286	2,750
Total income comprises:		
Dividends	180	117
Interest	166	212
Other income	2,940	2,421
	3,286	2,750

2 OPERATING EXPENSES

Operating expenses comprise the following:	2006 £'000	2005 £'000
Directors' emoluments (excluding benefits in kind)	409	306
Auditors' remuneration *	72	76
Depreciation	12	13
Wages and salaries	264	188
Social security costs	70	53
Share based payments to employees	17	12
Operating lease rentals – land and buildings	28	28
Other operating expenses	768	1,015
	1,640	1,691

* A more detailed analysis of auditors remuneration is as follows:

	2006 £'000	2005 £'000
Audit fees	21	27
Auditors' other fees – category 1 (Statutory audit of subsidiary accounts)	31	31
Auditors' other fees – category 3 (Taxation)	10	7
Auditors' other fees – category 10 (Other services)	10	10
	72	76

The Directors consider the auditors were best placed to provide these 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 (2005 – 7). No staff costs were incurred by the Company.

The Group has annual commitments under operating leases, which expire within five years, of £28,000 (2005 – £28,000).

NOTES TO THE ACCOUNTS – CONTINUED

3 DIRECTORS EMOLUMENTS

The emoluments of the directors and details of options held are disclosed in the Remuneration Report on page 11.

4 FINANCE COSTS

	2006 £'000	2005 £'000
Interest payable on loans and overdrafts	1,213	1,151

In addition £nil (2005: £32,000) was capitalised in developments in hand.

5 TAXATION

	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
(a) Analysis of charge in period:						
UK Corporation tax at 30% (2005 – 30%)	–	-	-	-	-	-
Adjustments in respect of prior years:						
Corporation tax	(17)	-	(17)	-	-	-
Total group tax on profits	(17)	-	(17)	-	-	-
Deferred tax on potential capital gains	-	(128)	(128)	-	1,240	1,240
Total tax charge (note b)	(17)	(128)	(145)	-	1,240	1,240
(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%	130	2,035	2,165	(28)	2,690	2,662
Tax effect of:						
Change in valuation allowance	-	(473)	(473)	-	(603)	(603)
Investment gains not taxable	-	(449)	(449)	-	(847)	(847)
Insurance proceeds not taxable	-	(1,111)	(1,111)	-	-	-
Dividend income not taxable	(183)	-	(183)	(45)	-	(45)
Expenses disallowed	33	-	33	33	-	33
Non-taxable write backs	(79)	-	(79)	-	-	-
Transfer of assets	38	-	38	-	-	-
Losses utilised in current year	(343)	-	(343)	(287)	-	(287)
Losses carried forward for future offset	426	(173)	253	289	-	289
Adjustments in respect of prior years	(17)	43	26	-	-	-
Other differences	(22)	-	(22)	38	-	38
Actual tax charge	(17)	(128)	(145)	-	1,240	1,240

The Group has unutilised tax losses of approximately £11.5 million (2005: £11.2 million) available against future corporation tax liabilities.

The potential deferred taxation asset of £3.5 million in respect of these losses has not been recognised in these financial statements as it is not considered sufficiently probable that the Group will generate sufficient taxable profits in the foreseeable future to recover these amounts in full.

NOTES TO THE ACCOUNTS – CONTINUED

6 EARNINGS PER SHARE

Basic earnings per share
The Basic earnings per share figure is based on the net gain for the year of £6,422,000 (2005: £7,539,000) and on 4,874,587 (2005: 4,870,716) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share
The Diluted earnings per share figure is based on the net gain for the year of £6,422,000 (2005: £7,539,000) and on 4,887,061 (2005: 4,874,628) ordinary shares, being the weighted average number of ordinary shares in issue during the period together with 12,474 (2005: 3,912) shares deemed to have been issued at nil consideration as a result of options granted.

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

	2006 £'000	2005 £'000
Net revenue profit attributable to equity holders of the parent	669	140
Net capital profit attributable to equity holders of the parent	5,753	7,399
Net total profit	6,422	7,539
Weighted average number of ordinary shares in issue during the period		
Basic	4,874,587	4,870,716
Diluted	4,887,061	4,874,628
Basic earnings per share	Pence	Pence
Revenue	13.7	2.9
Capital	118.0	151.9
Total basic earnings per share	131.7	154.8
Diluted per share	Pence	Pence
Revenue	13.7	2.9
Capital	117.7	151.8
Total diluted earnings per share	131.4	154.7

7 DIVIDENDS

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31st December, 2005 of 5p (2004: 4p) per share	244	195
	244	195

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 Income and Corporation Taxes Act 1988 are considered.

Proposed final dividend for the year ended 31st December, 2006 of 6p (2005: 5p) per share	293	244

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.

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES

	Group & Company 2006 £'000	2005 £'000
Listed securities – on the London Stock Exchange	2,843	3,500
Listed securities – on overseas exchanges	254	421
Securities dealt in under AIM	8,363	7,358
Securities dealt in under PLUS Markets	134	135
Unlisted securities	1,751	1,360
	13,345	12,774

Year ended 31st December, 2006

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Group and Company:						
Opening cost	1,564	414	3,300	334	3,073	8,685
Opening unrealised gains/(losses)	1,936	7	4,058	(199)	(1,713)	4,089
Opening valuation	3,500	421	7,358	135	1,360	12,774
Movements in the year:						
Purchases at cost	-	-	1,093	-	600	1,693
Sales – proceeds	(1,382)	(61)	(1,170)	-	(4)	(2,617)
Sales – realised gains/(losses) on sales	535	(2)	325	-	1	859
Movement in unrealised appreciation	190	(104)	757	(1)	(206)	636
Closing valuation	2,843	254	8,363	134	1,751	13,345
Closing cost	717	351	3,548	334	3,670	8,620
Closing unrealised gains/(losses)	2,126	(97)	4,815	(200)	(1,919)	4,725
	2,843	254	8,363	134	1,751	13,345

Year ended 31st December, 2005

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Group and Company:						
Opening cost	1,606	293	2,570	306	2,246	7,021
Opening unrealised gains/(losses)	1,411	96	1,274	(186)	(855)	1,740
Opening valuation	3,017	389	3,844	120	1,391	8,761
Movements in the year:						
Purchases at cost	153	151	1,171	28	792	2,295
Sales – proceeds	(450)	(5)	(595)	-	(56)	(1,106)
Sales – realised gains/(losses) on sales	255	(25)	250	-	(5)	475
Movement in unrealised appreciation	525	(89)	2,784	(13)	(858)	2,349
Transfer between AIM and Unlisted	-	-	(96)	-	96	-
Closing valuation	3,500	421	7,358	135	1,360	12,774
Closing cost	1,564	414	3,300	334	3,073	8,685
Closing unrealised gains/(losses)	1,936	7	4,058	(199)	(1,713)	4,089
	3,500	421	7,358	135	1,360	12,774

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

	Group & Company	
	2006	2005
	£'000	£'000
Realised gains on sales	859	475
Increase in unrealised appreciation	636	2,349
Gain on investments	1,495	2,824

The investment in AIM stocks by the Company is £241,000 greater than that shown above with the value for unrealised gains being reduced by the same amount as a result of profits on intergroup transfers which are eliminated on consolidation. In all other respects the investments held by the Company are as shown in the table above.

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, 2006 all of which are incorporated in Great Britain, with the exception of Mount Burgess Mining which is incorporated in the Australia and Hallin Marine Subsea International Plc which is incorporated in the Isle of Man, were:

	Market Value £'000	% of portfolio
UK and overseas listed securities		
Hornby plc – engaged in the development, manufacture and distribution of hobby and interactive home entertainment products	270	2.03
Welsh Industrial Investment Trust plc – is an authorised investment trust in the sector of UK capital growth	1,330	9.97
Mount Burgess Mining N.L – engaged in the exploration of base metals, gold and diamonds in Botswana, Namibia and Australia	254	1.90
Securities dealt in under AIM		
Egdon Resources plc – is an oil and gas exploration and production business	514	3.85
Hallin Marine Subsea International plc – specialise in offshore sub-sea intervention primarily for the oil, gas and telecommunication industries	1,665	12.48
Image Scan Holdings plc – developed modular proprietary software and hardware to provide innovative methods of acquiring, interpreting and presenting x-ray images in real time	970	7.27
InvestinMedia plc – is an investment company primarily in the media sector	489	3.66
Plus Markets Group plc – the UK's independent provider of primary and secondary equity market services	560	4.20
SpaceandPeople plc – markets and sells promotional space on behalf of shopping centres and other similar venues	1,159	8.68
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	555	4.16
	7,766	58.20

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

The information required in respect of significant investments where the Company's equity interest is greater than 20%, and other large investments, all of which principally trade and are registered in England with the exception of Hallin Marine Subsea International plc, is as follows:

Welsh Industrial Investment Trust plc
Financial Summary

Year ended 5th April, 2006	£'000s	Shares	Ordinary 5p	8.75% Cumulative Preference of 20p
Turnover	226			
Profit before interest	141	Total issued	1,350,000	225,000
Profit before tax	137	Number held	350,000	98,092
Profit after tax	137	% of class	25.9	43.5
Net assets	6,906	Cost (£'000s)	-	22
Earnings per share	10.2p	Market value (£'000s)	1,330	22
Dividend per share	6.3p			

Egdon Resources plc
Financial Summary

Year ended 31st July, 2006	£'000s		
Turnover	14	Shares	Ordinary 1p
Loss before interest	(684)	Total issued	57,149,900
Loss before tax	(519)	Number held	277,631
Loss after tax	(519)	% of class	0.5
Net assets	9,878	Cost (£'000s)	169
Earnings per share	(0.94p)	Market value (£'000s)	514
Dividend per share	-		

Hallin Marine Subsea International plc
Financial Summary

Year ended 31st December, 2006	US$'000s		
Turnover	38,865	Shares	Ordinary 1p
Profit before interest	4,217	Total issued	40,020,000
Profit before tax	4,174	Number held	3,700,000
Profit after tax	3,896	% of class	9.2
Net assets	24,271	Cost (£'000s)	37
Earnings per share	$0.1053	Market value (£'000s)	1,665
Proposed dividend per share	1p		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

Image Scan Holdings plc
Financial Summary

Year ended 30th September, 2006	£'000s		
Turnover	1,422	Shares	Ordinary 1p
(Loss) before interest	(503)	Total issued	34,948,120
(Loss) before tax	(508)	Number held	3,288,369
(Loss) after tax	(470)	% of class	9.4
Net (liabilities)	(143)	Cost (£'000s)	711
Earnings per share	(1.3p)	Market value (£'000s)	970
Dividend per share	-		

InvestinMedia plc
Financial Summary

Year ended 30th September, 2006	£'000s		
Turnover	381	Shares	Ordinary 10p
Profit before interest	1,759	Total issued	16,316,297
Profit before tax	1,879	Number held	300,000
Profit after tax	1,035	% of class	1.8
Net assets	7,336	Cost (£'000s)	254
Earnings per share	6.4p	Market value (£'000s)	489
Dividend per share	3.5p		

Plus Markets Group plc
Financial Summary

Year ended 31st December, 2006	£'000s		
Turnover	2,169	Shares	Ordinary 5p
(Loss) before interest	(1,455)	Total issued	134,612,700
(Loss) before tax	(1,334)	Number held	3,250,000
(Loss) after tax	(1,334)	% of class	2.4
Net assets	2,629	Cost (£'000s)	224
Earnings per share	(0.99p)	Market value (£'000s)	560
Dividend per share	-		

SpaceandPeople plc
Financial Summary

Year ended 31st October, 2006	£'000s		
Turnover	1,933	Shares	Ordinary 1p
Profit before interest	426	Total issued	11,400,000
Profit before tax	455	Number held	1,587,500
Profit after tax	349	% of class	13.9
Net assets	857	Cost (£'000s)	168
Earnings per share	3.1p	Market value (£'000s)	1,159
Dividend per share	1.5p		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

Transense Technologies plc
Financial Summary

Year ended 31st December, 2006	£'000s		
Turnover	604	Shares	Ordinary 10p
Loss before interest	(1,414)	Total issued	56,458,974
Loss before tax	(1,324)	Number held	600,000
Loss after tax	(1,210)	% of class	1.1
Net assets	3,421	Cost (£'000s)	-
Earnings per share	(2.1p)	Market value (£'000s)	555
Dividend per share	-		

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES

	Group	
	2006	2005
Net book value and valuation	£'000	£'000
At 1st January	34,226	28,600
Additions during the year – expenditure on existing properties	490	1,532
– insurance proceeds received	(1,754)	-
Disposals during the year	-	(2,050)
Transfer from current assets	2,221	-
Revaluation during the year	5,286	6,144
At 31st December	40,469	34,226

As at 31st December, 2006 investment properties consisted of 63 individual property units covering a total of 777,383 sq. ft. at an annual rental of £2,388,424 together with approximately 242,593 sq. ft. of vacant mixed business space in Speke, Liverpool. These property units vary considerably in size and use, with the largest three units totalling 381,493 sq. ft. at a combined rental of £1,062,485 and the smallest eleven units being less than 2,000 sq. ft. each at a combined rental of £37,121. The total area can be sub-divided into the following use categories:

Warehouse and associated offices	546,178 sq. ft.
Industrial and associated offices	228,905 sq. ft.
Retail, and other	2,300 sq. ft.

These categories can be further analysed as follows:

		No. of tenants	Area sq. ft.
(i)	Warehouse		
	Food storage	2	249,680
	Chemicals and plastic storage	1	151,224
	Pharmaceuticals storage	1	48,000
	Document storage	1	24,125
	Others and vacant	9	73,149
(ii)	Industrial		
	Timber fabrication	1	19,327
	Rubber processing	1	17,432
	Light engineering	6	34,258
	Heavy engineering	1	71,300
	Food processing	1	39,263
	Others and vacant	10	47,325
(iii)	Retail, office and others		
	Nursery	1	2,300

The letting programme in Speke, Liverpool continues with lettings of 129,279 sq. ft at an annual rent £500,196 being achieved by year end which are included in the above analysis. Approximately 243,000 sq. ft. of mixed use business space remained vacant at year end.

Investment Properties 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 Income Statement.

Of the property units held at the year end:

- 4 property units at Newton-le-Willows were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2006 at £13,450,000;
- 12 property units at Newton-le-Willows were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2006 at £5,300,000;
- 1 property unit at Knowsley, Liverpool was valued by Knight Frank, Chartered Surveyors, as at 31st December, 2006 at £3,000,000;
- 1 property unit at Knowsley, Liverpool was valued by Knight Frank, Chartered Surveyors, as at 31st December, 2006 at £8,750,000 less estimated costs to complete of £4,215,000.
- 34 property units at Dorking were valued by Hurst Warne Limited, Chartered Surveyors, as at 31st December, 2006 at £2,900,000;

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES – continued

– the units at Speke, Liverpool were valued by Knight Frank, Chartered Surveyors as at 31st December, 2006 at £9,000,000; and
– the land at Speke, Liverpool was valued by the Directors as at 31st December, 2006 at £2,284,000, being the sales value agreed post year end.

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.

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

	2006 £'000	2005 £'000
Not later than one year	1,918	1,769
Between 2 and 5 years	4,560	5,015
Over 5 years	3,375	3,882
	9,853	10,666

Rental income recognised in the income statement amounted to £2,664,000 (2005: £2,098,000)

The commercial leases vary with location, however wherever the market allows they are being standardised where possible across the property portfolio. Typically the properties are let for a term of between 5 – 15 years at a market rent with rent review positions every five years. 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. In one location due to the nature and condition of the units and the estate generally the Tenants occupy the various units on older leases which are being held over.

The cost of the above properties as at 31st December, 2006 is as follows:

	Group £'000
Brought forward	17,636
Additions during the year	490
Transfer from Developments in hand	2,221
	20,347

Capital commitments	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Capital expenditure contracted for but not provided for in the accounts	4,320	97	-	-

10 OTHER INVESTMENTS

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Subsidiary undertakings				
Shares – At cost	-	-	322	322
Less provision	-	-	(320)	(320)
	-	-	2	2

NOTES TO THE ACCOUNTS – CONTINUED

10 OTHER INVESTMENTS – continued

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
Deacon Commercial Development and Finance Limited – property investment	75	25
Deacon Industrial Projects Limited – property development		75
Deacon Knowsley Limited – property investment		75
Gresham House Finance plc – finance	100	
Knowsley Industrial Property Limited – property construction/development		75
New Capital Construction plc – property construction		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

In addition the Group has the following shareholdings which have not been equity accounted for as the amounts involved are not material:

(i) an interest of 50% in Tower Street Properties Limited. The aggregate capital and reserves of Tower Street Properties Limited as at 30th June, 2006, being the latest available accounts, and its loss for the year then ended amounted to £(5,207,030) and £(60,801) respectively;

(ii) an interest of 50% in Abshot Finance Company Limited. The aggregate capital and reserves of Abshot Finance Company Limited as at 31st July, 2006, being the latest accounts available, and its loss for the year then ended amounted to £(61,459) and £(89,806) respectively; and

(iii) an interest of 35% in New Capital (Speke) Limited. The Company had been dormant between incorporation and 31st December, 2006. Subsequently this Company has acquired land and buildings on Speke Boulevard, Liverpool.

11 PROPERTY, PLANT AND EQUIPMENT

	Group					
	2006			2005		
	Motor Vehicles £'000	Freehold Property £'000	Total £'000	Motor Vehicles £'000	Freehold Property £'000	Total £'000
Deemed cost						
Balance 1st January and 31st December	19	525	544	19	525	544
Depreciation						
Balance 1st January	11	21	32	8	11	19
Charge for the year	2	10	12	3	10	13
Balance 31st December	13	31	44	11	21	32
Net book values at 31st December	6	494	500	8	504	512

NOTES TO THE ACCOUNTS – CONTINUED

11 PROPERTY, PLANT AND EQUIPMENT – continued

	Company	
	2006 Freehold Property £'000	2005 Freehold Property £'000
Deemed cost		
Balance 1st January and 31st December	525	525
Depreciation		
Balance 1st January	21	11
Charge for the year	10	10
Balance 31st December	31	21
Net book values at 31st December	494	504

12 OTHER CURRENT ASSETS

	Notes	Group		Company	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
Listed and other securities held		695	690	148	117
Developments in hand	(a)	4,286	5,988	-	-
Other debtors		-	1,949	-	-
Unsecured loans	(b)	626	277	-	-
		5,607	8,904	148	117

(a) Developments in hand consist of two property development sites.
(b) Loans have been classified as current assets as the loans are repayable on demand.

13 CURRENT LIABILITIES – Trade and Other Payables

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade creditors	398	616	-	-
Other creditors	86	364	12	15
Accruals	1,014	1,635	-	-
	1,498	2,615	12	15

NOTES TO THE ACCOUNTS – CONTINUED

14 CURRENT LIABILITIES – Short Term Borrowings

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Bank overdrafts and short-term loans (secured)				
– property loans	6,764	5,886	-	-
– other	-	-	703	1,691
2.5% Secured Redeemable Loan Stock 2001 *	1	1	-	-
8% Secured Redeemable Loan Stock 2006 **	-	3,662	-	-
	6,765	9,549	703	1,691

* 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 redeemable on demand and has been repaid since year end. There is no material equity component of this loan instrument.

** The 8% Secured Redeemable Loan Stock was repaid in full on 31st December, 2006.

15 NON CURRENT LIABILITIES – Long Term Borrowings

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Property Loans	6,337	6,449	-	-
	6,337	6,449	-	-

The loans relate to property investments held in Deacon Industrial Projects Limited, Knowsley Industrial Property Limited, New Capital Developments Limited and Newton Estate Limited.

Details of total loans are as follows:.

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Bank loans (secured against investment properties)				
7.09% fixed	3,624	3,624	-	-
1.2% over 3 month LIBOR	1,028	1,430	-	-
1.0% over bank base rate	2,129	-	-	-
3.25% over bank base rate	386	-	-	-
2.0% over 3 month LIBOR	5,935	5,321	-	-
Other loans (secured against investment properties)				
1.5% over 3 month LIBOR	-	1,960	-	-
	13,102	12,335	-	-

NOTES TO THE ACCOUNTS – CONTINUED

15 NON CURRENT LIABILITIES – Long Term Borrowings – continued

Loans or instalments thereof are repayable over the following periods:

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Less than 1 year	6,765	5,886	-	-
Between 1 and 2 years	443	545	-	-
Between 2 and 5 years	5,894	4,680	-	-
Over 5 years	-	1,224	-	-
	13,102	12,335	-	-

16 DEFERRED TAXATION

Income taxes

Under International Accounting Standards ("IAS") 12 (Income Taxes) provision is made for the deferred tax liability associated with the revaluation of investment properties. The Group provides for deferred tax on investment properties by reference to the tax that would be due on the sale of the investment properties by applying the capital gains tax rate of 30 per cent to the revaluation surplus after indexation allowance.

The deferred tax provision on the revaluation of investment properties calculated under IAS 12 is £1,503,000 at 31st December, 2006 (2005: £1,631,000).

Analysis of deferred tax

	Group revaluation of investment properties £'000	Company £'000
At 31st December, 2004	390	-
Recognised in income statement (note 5)	1,241	-
At 31st December, 2005	1,631	-
Recognised in income statement (note 5)	(128)	-
At 31st December, 2006	1,503	-

17 CALLED UP SHARE CAPITAL

Share Capital	2006 £'000	2005 £'000
Authorised: £4,750,000 (2005: £4,750,000)		
Allotted: Ordinary – 4,876,880 (2005: 4,873,880) fully paid shares of 25p each	1,219	1,218

On 3rd May, 2005 the Company granted share options over a total of 35,600 ordinary shares exercisable between 3rd May, 2008 and 3rd May, 2012 at an exercise price of 337.5p. During the year 3,000 of these options were exercised.

NOTES TO THE ACCOUNTS – CONTINUED

18 RESERVES

	2006 Share premium account £'000	2006 Share option reserve £'000	2006 Capital reserve £'000	2006 Retained earnings £'000	2005 Share premium account £'000	2005 Share option reserve £'000	2005 Capital reserve £'000	2005 Retained earnings £'000
Group								
Balance at 1st January	822	12	44,155	(8,401)	761	-	36,756	(8,346)
Issue of share capital	9	-	-	-	61	-	-	-
Share based payments	-	16	-	1	-	12	-	-
Net profit on realisation of investments	-	-	859	-	-	-	475	-
Increase in unrealised appreciation	-	-	636	-	-	-	2,349	-
Surplus arising on property revaluation	-	-	4,258	-	-	-	4,575	-
Revenue profit/(loss) for the year	-	-	-	425	-	-	-	(55)
As at 31st December	831	28	49,908	(7,975)	822	12	44,155	(8,401)
Company								
Balance at 1st January	822	12	9,388	444	761	-	6,564	517
Issue of share capital	9	-	-	-	61	-	-	-
Share based payments	-	16	-	1	-	12	-	-
Net profit on realisation of fixed asset investments	-	-	859	-	-	-	475	-
Increase in unrealised appreciation:	-	-	636	-	-	-	2,349	-
Revenue loss for the year	-	-	-	(85)	-	-	-	(73)
As at 31st December	831	28	10,883	360	822	12	9,388	444

Minority interest:	2006 £'000	2005 £'000
Balance as at 1st January	771	674
Interest in revenue return for the year	(219)	(232)
Interest in capital return for the year	1,156	329
Balance as at 31st December	1,708	771

The following amounts within Capital reserve are realised:-

	2006 £'000	2005 £'000
Group	25,880	25,025
Company	6,448	5,540

NOTES TO THE ACCOUNTS – CONTINUED

19 NET ASSET VALUE PER SHARE

Basic
Basic net asset value per ordinary share is based on Equity attributable to equity shareholders at the year end and on 4,876,880 (2005: 4,873,880) 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 Equity attributable to equity shareholders at the year end and on 4,889,354 (2005: 4,877,792) ordinary shares. The number of shares is based upon the number of shares in issue at the year end together with 12,474 (2005: 3,912) shares deemed to have been issued at nil consideration as a result of options granted.

	£'000
The movement during the year of the assets attributable to Ordinary Shares were as follows:	
Total net assets attributable at 1st January, 2006	37,806
Total recognised gains for the year	6,422
Exercise of options to subscribe for share capital	10
Share based payments	17
Dividends appropriated in the year	(244)
Total net assets attributable at 31st December, 2006	44,011

20 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Revenue return before taxation	433	(92)	159	122
Interest payable	1,213	1,151	-	-
Share based payments	17	12	17	12
Depreciation of property, plant and equipment	12	13	10	10
	1,675	1,084	186	144
Decrease/(increase)in current assets	300	(140)	78	(117)
(Decrease)/increase in current liabilities	(1,057)	295	(3)	1
	918	1,239	261	28

21 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) short-term and long-term borrowings.

NOTES TO THE ACCOUNTS – CONTINUED

21 FINANCIAL INSTRUMENTS – continued

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:

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 market or PLUS 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 (l) 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

The Group's credit risk is primarily attributable to its trade receivables and unsecured loans. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables. 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 its long term borrowings by having a mix of fixed and floating rates. 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 quarterly 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.

NOTES TO THE ACCOUNTS – CONTINUED

21 FINANCIAL INSTRUMENTS – continued

Contracts for futures

Market Risk

Market risk arises mainly from the uncertainty about future price movements of share indices and commodity prices 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. The market value of underlying contracts for futures at 31st December, 2006 was £227,000 (2005: £183,000).

Financial Assets and Liabilities – interest rate exposure on loans

The interest rate exposure profile for financial assets and liabilities as at 31st December, 2006 and 2005 is shown below.

As at 31st December, 2006	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	13,125	220	-	-	-	13,345
Investment Properties	40,469	-	-	-	-	40,469
Dealing securities	316	335	44	-	-	695
Cash and cash equivalents	-	-	991	-	-	991
Loans	-	627		-	-	627
Creditors						
– falling due within 1 year	-	-	-	(1)	(6,764)	(6,765)
– falling due after 1 year	-	-	-	(3,624)	(2,713)	(6,337)
	53,910	1,182	1,035	(3,625)	(9,477)	43,025

As at 31st December, 2005	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	12,573	201	-	-	-	12,774
Investment Properties	34,226	-	-	-	-	34,226
Dealing securities	262	428	-	-	-	690
Cash and cash equivalents	-	-	863	-	-	863
Loans	-	277		-	-	277
Creditors						
– falling due within 1 year	-	-	-	(3,663)	(5,886)	(9,549)
– falling due after 1 year	-	-	-	(3,624)	(2,825)	(6,449)
	47,061	906	863	(7,287)	(8,711)	32,832

NOTES TO THE ACCOUNTS – CONTINUED

21 FINANCIAL INSTRUMENTS – continued

Nil rate assets comprise the portfolio of ordinary shares, investment properties, 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 8.38% (2005: 7.29%).

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 7.09% (2005: 7.55%), and a weighted average maturity value of 2.50 years (2005: 2.24 years).

The fair values of all financial instruments are not considered to be materially different to the values disclosed in the above table.

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

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:

	2006		2005	
	Share options Number	Weighted average price (p)	Share options Number	Weighted average price (p)
Outstanding at 1st January	35,600	337.5	–	–
Granted during the year	–	–	35,600	337.5
Exercised during the year	(3,000)	(337.5)	–	–
Outstanding 31st December	32,600	337.5	35,600	337.5

The market price of the shares of Gresham House plc at the time of grant in 2004 was 325p. The market price at the date of exercise in October 2006 was 620p.

Inputs into the Black Scholes model are as follows:

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 £17,000 (2005: 12,000) in respect of share based payment transactions.

NOTES TO THE ACCOUNTS – CONTINUED

23 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' Beneficial Shareholdings as at 31st December, 2006
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	R. E. Lane	N. J. Rowe	T. J. Rowe	A. P. Stirling
Listed Securities						
Hornby plc	–	–	–	–	–	–
Mount Burgess Mining NL	–	220,000	–	–	–	3,500,000
Welsh Industrial Investment Trust plc	–	–	–	–	–	152,700
Securities dealt in under AIM						
Egdon Resources plc	–	–	–	–	–	75,000
Hallin Marine Subsea International plc	470,000	200,000	–	–	–	170,000
Image Scan Holdings plc	–	300,000	–	103,785	–	1,524,166
InvestinMedia plc	–	10,000				14,000*
Plus Markets Group plc	–	–	–	–	–	–
SpaceandPeople plc	35,000	50,000	–	30,000	16,000	700,000
Transense Technologies plc	24,000	19,796	–	–	4,500	350,651
Unlisted Securities						
Greenwich Communications plc	–	–	–	–	–	40,000

*In addition Mr Stirling has been granted share options over a further 326,326 ordinary shares.

Related Party Transactions

Group
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 £21,436 (2005: £14,287) during the year. Conversely the Group invoiced the same company £80,000 (2005: £145,000). At the year end there remained balances outstanding of £291 (2005: £12,363) and £nil (2005: £nil) respectively.

Management fees of £18,000 (2005: £18,000) were invoiced to Welsh Industrial Investment Trust plc, a company in which Mr A. P. Stirling is both a director and shareholder. At the year end there was a debtor balance of £1,763 (2004: £7,050).

Loan Stock interest of £22,639 (2005: £28,635) was received from Abshot Finance Company Limited in which Security Change Limited has a 50% interest and Mr B. J. Hallett is a director. The loan stock holding at year end amounted to £335,000 (2005: £335,000).

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 £12,338 (2005: £nil) in respect of insurance premiums.

Mr N. J. Rowe was interested in £88,000 Gresham House Finance plc 8% Secured Loan Stock 2006 which was repaid in full on 31st December, 2006. Interest paid during the year amounted to £7,040 (2005: £7,040).

Mr T. J. Rowe was interested in £45,000 Gresham House Finance plc 8% Secured Loan Stock 2006 which was repaid in full on 31st December, 2006. Interest paid during the year amounted to £3,600 (2005: £3,600).

Mr A. P. Stirling was interested in £100,000 Gresham House Finance plc 8% Secured Loan Stock 2006 which was repaid in full on 31st December, 2006. Interest paid during the year amounted to £8,000 (2005: £8,000).

The Rowe Trust is the sole shareholder of Newinnhall Trust Limited, which holds an interest of 236,937 ordinary shares in the Company. Mr N. J. Rowe, Mr T. J. Rowe and their respective children are beneficiaries under The Rowe Trust. At 31st December, 2006 the Trustees of the Rowe Trust were interested in £nil Gresham House Finance plc 8% Secured Loan Stock 2006 (2005: £1,316,000) and 94,772 ordinary shares (2005: 94,772) in the Company. Interest of £105,280 (2005: £105,280) was paid to the Rowe Trust in respect of the Gresham House Finance plc 8% Secured Loan Stock 2006.

Company
During the year Gresham House plc repaid funds to Security Change Limited totalling £983,197. At the year end £703,480 was owed to Security Change Limited (2005: £1,686,677).

NOTES TO THE ACCOUNTS – CONTINUED

24 SEGMENTAL REPORTING

	Investment		Property Investment		Elimination		Consolidated	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Revenue								
External income	369	390	2,751	2,148	–	–	3,120	2,538
Inter – segment income	1,920	1,556	335	120	(2,255)	(1,676)	–	–
Total revenue	2,289	1,946	3,086	2,268	(2,255)	(1,676)	3,120	2,538
Gains on investments at fair value	1,495	2,824	–	–	–	–	1,495	2,824
Gains on property investments at fair value	–	–	5,286	6,144	–	–	5,286	6,144
Proceeds of disposal of investment properties	–	–	–	2,050	–	–	–	2,050
Carrying value of disposal of investment properties	–	–	–	(2,050)	–	–	–	(2,050)
Total income and gains	3,784	4,770	8,372	8,412	(2,255)	(1,676)	9,901	11,506
Segment expenses	32	(115)	(744)	(805)			(712)	(920)
Segment profit	3,816	4,655	7,628	7,607	(2,255)	(1,676)	9,189	10,586
Unallocated corporate expenses							(928)	(771)
Operating profit							8,261	9,815
Interest expense							(1,213)	(1,459)
Interest income							166	212
Profit before taxation							7,214	8,876

All revenue is derived from operations within the United Kingdom.

Other Information

	Investment		Property Investment		Unallocated		Consolidated	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Segment assets	15,412	14,790	46,410	44,037	–	11	61,822	58,838
Segment liabilities	146	191	15,957	16,390	–	3,680	16,103	20,261
Capital expenditure	1,693	2,295	490	2,184	–	–	2,183	4,479
Depreciation	–	–	2	3	10	10	12	13
Non-cash expenses other than depreciation	–	–	–	–	17	12	17	12

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Gresham House plc will be held at Centurion House, 37 Jewry Street, London EC3N 2ER on 19th June, 2007 at 10.30 am 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, 2006 together with the report of the auditors;
2. To adopt the Remuneration Report;
3. To declare a dividend of 6.0p per ordinary share;
4. To re-elect as a director Mr A. G. Ebel 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 N. J. Rowe 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 T. J. Rowe who retires in accordance with the Company's articles of association and offers himself for re-election;
7. To re-elect as a director Mr A. P. Stirling who retires in accordance with the Company's articles of association and offers himself for re-election;
8. To re-elect as a director Mr B. J. Hallett who retires by rotation and offers himself for re-election;
9. To appoint PKF (UK) LLP as the auditors and to authorise the directors to fix their remuneration;

SPECIAL RESOLUTIONS

10. THAT the Articles of Association of the Company be altered by the insertion of a new paragraph as follows:

    "51A Purchase of own shares

    Subject to the provisions of the Companies Acts and to any rights for the time being attached to any shares, the Company may purchase any of its own shares of any class (including any redeemable shares). Any shares to be so purchased may be selected in any manner whatsoever, provided that if at the relevant date proposed for approval of the proposed purchase there shall be in issue any shares of a class entitling the holders to convert into equity share capital of the Company (other than those which are only convertible into shares which as respects dividend and capital carry a right to participate only up to a specified amount in a distribution), then no such purchase shall take place unless it has been sanctioned by an extraordinary resolution passed at a separate general meeting (or meetings if there is more than one class) of the holders of such class of convertible shares."

11. Subject to the passing of resolution 10 above, THAT the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of its ordinary shares of 25p each in the capital of the Company provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased is 487,688 (representing 10% of the issued ordinary share capital as at the date of this Notice);

    (b) the maximum price which may be paid for each ordinary share is the highest of: (i) an amount equal to 105% of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest independent bid for an ordinary share as derived from the London Stock Exchange Trading System and the minimum price which may be paid for each ordinary share is 25p exclusive of expenses; and

NOTICE OF MEETING – CONTINUED

(c) the authority conferred by this resolution shall, unless renewed prior to such time, expire 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company, whichever is the earlier, except that the Company may enter into contracts of purchase which would or might be completed after the expiry and the Company may acquire shares pursuant to such contracts as if the authority conferred hereby had not expired.

By Order of the Board,

B. J. Hallett, Secretary

36 Elder Street
London E1 6BT

2nd May, 2007

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 10.30 am on 17th June, 2007 (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.

Perivan Financial Print 209247