



GRESHAM HOUSE plc

INTERIM RESULTS 2005

CHAIRMAN'S INTERIM STATEMENT

Dear Shareholder,

For the first time the interim accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This has resulted in additional information being required and has necessitated a number of changes in the traditional format of the statements which shareholders have received in the past.

The comparative figures have also been revised to comply with IFRS and the disclosures required by IFRS 1 concerning the transition from UK Generally Accepted Accounting Principles to IFRS can be found in notes 8, 9 and 10 of these interim accounts. As a result this interim statement is significantly longer than in the past and, as might be expected, has incurred a much higher cost.

The results for the half year ended 30th June 2005 show a profit on the revenue account of £30,000 compared with a profit of £385,000 for the comparable period last year and a profit of £1,737,000 for the capital account as against a loss of £254,000 for the same period last year.

Overall this has resulted in basic earnings per ordinary share of 36.3p against 2.7p for the comparable period last year.

The rental income stream has decreased significantly when compared with the similar period last year as a result of the previously announced sale of property units at Knowsley in October 2004. Whilst the Group acquired property units at Speke at the same time, these units remained vacant during this interim period and have not therefore contributed towards revenue streams. Since 30th June 2005 agreement has been reached with 3 potential tenants and a further number of enquiries are being actively pursued. The associated property loans were repaid at that time and this has been reflected by the reduction in finance costs from £844,000 to £519,000.

The increase in the capital account is mainly due to the increase in the value of our investment in Hallin Marine Subsea International plc. At 31st December 2004 this investment was valued at £562,000 and has subsequently been admitted to the AIM market. As at 30th June 2005 the investment value of Hallin has risen to £2,220,000.

Consequently the Group's basic net asset value has risen from 626.6p as at 1st January 2005 to 657.0p as at 30th June 2005, an increase of 30.4p or 4.9%.

Your Board continues with its strategy of seeking innovative early stage investments in companies that have a real prospect of high growth whilst at the same time seeking the progressive development of the Group's property portfolio.

A P Stirling
Chairman

28th September 2005.

GRESHAM HOUSE plc

UNAUDITED CONSOLIDATED INCOME STATEMENT

for the half year ended 30th June 2005

	Six months to 30th June 2005			Six months to 30th June 2004 Restated			Year ended 31st December 2004 Restated		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income:									
Dividend and interest income	142	–	142	84	–	84	224	–	224
Rental income	959	–	959	1,811	–	1,811	3,266	–	3,266
Other operating income (Note 5)	179	3,000	3,179	71	–	71	370	–	370
Total revenue	1,280	3,000	4,280	1,966	–	1,966	3,860	–	3,860
Gains/(losses) on investments held at fair value (Note 5)	–	(1,336)	(1,336)	–	(229)	(229)	–	(174)	(174)
Movement in fair value of property investments	–	–	–	–	(195)	(195)	–	1,854	1,854
	1,280	1,664	2,944	1,966	(424)	1,542	3,860	1,680	5,540
Expenses									
Other operating expenses	(697)	–	(697)	(703)	–	(703)	(1,635)	–	(1,635)
Finance costs	(519)	–	(519)	(844)	–	(844)	(1,459)	–	(1,459)
	(1,216)	–	(1,216)	(1,547)	–	(1,547)	(3,094)	–	(3,094)
Profit before taxation	64	1,664	1,728	419	(424)	(5)	766	1,680	2,446
Taxation	–	73	73	–	170	170	550	(113)	437
Return on ordinary activities after taxation	64	1,737	1,801	419	(254)	165	1,316	1,567	2,883
Minority interests	(34)	–	(34)	(34)	–	(34)	(59)	444	385
Profit/(loss) for the period	30	1,737	1,767	385	(254)	131	1,257	2,011	3,268
Basic earnings per Ordinary Share (Note 3)									
			36.3p			2.7p			67.9p
Diluted earnings per Ordinary Share (Note 3)									
			36.3p			2.7p			67.8p

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 Trust Companies.

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

GRESHAM HOUSE plc

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 30th June 2005

	Half year ended 30th June 2005				
	Ordinary share capital £'000	Share premium £'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	–	–	1,737	30	1,767
Ordinary dividend paid (Note 4)	–	–	–	(195)	(195)
Issue of shares	6	61	–	–	67
Balance at 30th June 2005	<u>1,218</u>	<u>822</u>	<u>38,493</u>	<u>(8,511)</u>	<u>32,022</u>

	Half year ended 30th June 2004 (Restated – see note 9)				
	Ordinary share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December 2003	1,189	554	34,745	(9,455)	27,033
Profit for the period	–	–	(254)	385	131
Ordinary dividend paid (Note 4)	–	–	–	(148)	(148)
Issue of shares	13	105	–	–	118
Balance at 30th June 2004	<u>1,202</u>	<u>659</u>	<u>34,491</u>	<u>(9,218)</u>	<u>27,134</u>

	Year ended 31st December 2004 (Restated – see note 8)				
	Ordinary share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December 2003	1,189	554	34,745	(9,455)	27,033
Profit for the period	–	–	2,011	1,257	3,268
Ordinary dividend paid (Note 4)	–	–	–	(148)	(148)
Issue of shares	23	207	–	–	230
Balance at 31st December 2004	<u>1,212</u>	<u>761</u>	<u>36,756</u>	<u>(8,346)</u>	<u>30,383</u>

GRESHAM HOUSE plc

UNAUDITED CONSOLIDATED BALANCE SHEET

as at 30th June 2005

	30th June 2005	30th June 2004 Restated (see note 9)	31st December 2004 Restated (see note 8)
	£'000	£'000	£'000
Assets			
Non current assets			
Investments held at fair value	11,263	6,687	8,761
Property investments	25,728	37,200	28,600
Property	517	531	525
Total non current assets	<u>37,508</u>	<u>44,418</u>	<u>37,886</u>
Current assets			
Trade and other receivables	3,310	905	426
Developments in hand	5,622	5,164	5,336
Other accrued income and prepaid expenses	1,029	72	1,209
Other current assets	764	877	753
Cash and cash equivalents	2,605	598	7,230
	<u>13,330</u>	<u>7,616</u>	<u>14,954</u>
Total assets	<u>50,838</u>	<u>52,034</u>	<u>52,840</u>
Current liabilities			
Trade and other payables	1,918	1,790	2,150
Short term borrowings	5,530	3,645	3,516
Current tax payable	17	158	102
Total current liabilities	<u>7,465</u>	<u>5,593</u>	<u>5,768</u>
Total assets less current liabilities	43,373	46,441	47,072
Non current liabilities			
Long term borrowings	10,326	17,554	15,625
Deferred taxation	317	657	390
	<u>10,643</u>	<u>18,211</u>	<u>16,015</u>
Net assets	<u>32,730</u>	<u>28,230</u>	<u>31,057</u>
Capital and reserves			
Ordinary share capital	1,218	1,202	1,212
Share premium	822	659	761
Capital reserve	38,493	34,491	36,756
Retained earnings	(8,511)	(9,218)	(8,346)
Earnings attributable to equity shareholders	32,022	27,134	30,383
Minority interest	708	1,096	674
Total equity	<u>32,730</u>	<u>28,230</u>	<u>31,057</u>
Basic net asset value per ordinary share (Note 7)	<u>657.0p</u>	<u>564.2p</u>	<u>626.6p</u>
Diluted net asset value per ordinary share (Note 7)	<u>656.3p</u>	<u>562.4p</u>	<u>625.7p</u>

GRESHAM HOUSE plc

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

for the Half Year to 30th June 2005

	6 months to 30th June 2005 £'000	6 months to 30th June 2004 £'000	12 months to 31st December 2004 £'000
Cashflow from operating activities			
Investment income received	47	61	129
Interest received	95	23	95
Rental income received	904	1,663	3,234
Other cash payments	<u>(445)</u>	<u>(745)</u>	<u>(1,859)</u>
Net cash generated from operations	601	1,002	1,599
Interest paid on 8% Secured Redeemable Loan Stock 2006	(146)	(146)	(293)
Interest paid on property loans	<u>(425)</u>	<u>(795)</u>	<u>(1,201)</u>
Net cash flows from operating activities	<u>30</u>	<u>61</u>	<u>105</u>
Cash flows from investing activities			
Purchase of investments	(1,186)	(1,060)	(2,504)
Sale of investments	307	1,178	2,493
Purchase of investment properties	(128)	(195)	(7,011)
Disposal of investment properties	–	–	15,698
Purchase of developments in hand	<u>(286)</u>	<u>(145)</u>	<u>(280)</u>
	<u>(1,293)</u>	<u>(222)</u>	<u>8,396</u>
Cash flows from financing activities			
Repayment of loans	(3,234)	(457)	(7,613)
Receipt of loans	–	74	5,088
Share capital issued	67	118	230
Equity dividends paid	<u>(195)</u>	<u>(148)</u>	<u>(148)</u>
	<u>(3,362)</u>	<u>(413)</u>	<u>(2,443)</u>
(Decrease)/increase in cash and cash equivalents	(4,625)	(574)	6,058
Cash and cash equivalents at start of period	<u>7,230</u>	<u>1,172</u>	<u>1,172</u>
Cash and cash equivalents at end of period	<u>2,605</u>	<u>598</u>	<u>7,230</u>

NOTES TO THE FINANCIAL STATEMENT

1. Accounting policies.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. These comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee (“IASC”) that remain in effect, to the extent that IFRS have been adopted by the European Union.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in notes 8, 9 and 10. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. The financial statements of the Group for the year ending 31st December 2005 will also be prepared in accordance with IFRS as adopted by the European Union.

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments and properties. 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 Trust Companies (“the AITC”) in January 2003 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 30th June 2005. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Presentation of Income Statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AITC, 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.

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 profit and loss, and therefore, in accordance with paragraph 1 of IAS 28 Investments in Associates (“IAS 28”), equity accounting is not required.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

Income

(i) *Dividend and interest income*

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

(ii) *Rental income*

Rental income comprises property rental income receivable net of VAT.

(iii) *Construction income*

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

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

Property, plant and equipment

All property, plant and equipment with the exception of freehold property is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. The freehold property is held at revalued amount 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. Freehold property is depreciated at the rate of 2% per annum.

Operating lease rentals

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

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 guidelines issued by the British Venture Capital Association 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.

(iii) Loan Stock

Loan stock is valued at fair value, being the net present value of future cash flows using an appropriate interest rate.

Gains and losses on investments are analysed within the income statement as capital.

Developments in hand

Developments in hand are valued at the lower of cost and net realisable value. Interest which relates to properties held for, or in the course of, development is charged to the Income Statement as incurred. Profits and losses arising from the sale of developments are dealt with through the Income Statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

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.

Dividends payable

All dividends are recognised in the period in which they are approved by shareholders.

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. The costs of arranging any interest-bearing loans are capitalised and amortised over the life of the loan.

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.

Trade and other payables

Other payables are not interest-bearing and are stated at their nominal value.

2. Comparative information

The financial information contained in this interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the half years ended 30th June 2005 and 30th June 2004 has not been audited.

The information for the year ended 31st December 2004 has been extracted from the latest published audited financial statements, as restated to comply with IFRS (see note 8). The audited financial statements for the year ended 31st December 2004 have been filed with the Registrar of Companies. The report of the auditors on those financial statements contained no qualification or statement under section 237(2) or (3) of the Companies Act 1985.

3 Earnings per share

The Basic earnings per share figure is based on the net gain for the half year of £1,767,000 (half year ended 30th June 2004: £131,000; year ended 31st December 2004: £3,268,000) and on 4,867,499 (half year ended 30th June 2004: 4,792,019; year ended 31st December 2004: 4,812,498) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

GRESHAM HOUSE plc

NOTES TO THE FINANCIAL STATEMENTS

3 Earnings per share (continued)

The Diluted earnings per share figure is based on the net gain for the half year of £1,767,000 (half year ended 30th June 2004: £131,000; year ended 31st December 2004: £3,268,000) and on 4,872,488 (half year ended 30th June 2004: 4,806,519; year ended 31st December 2004: 4,819,227) ordinary shares, being the weighted average number of ordinary shares in issue during the period together with 4,989 (half year ended 30th June 2004: 14,500; year ended 31st December 2004: 6,728) shares deemed to been issued at nil consideration as a result of options granted or pursuant to the terms of the 8% secured loan stock issued by Gresham House Finance plc.

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

	Half year ended 30th June 2005	Half year ended 30th June 2004 Restated (see note 9)	Year ended 31st December 2004 Restated (see note 8)
	£'000	£'000	£'000
Net revenue profit	30	385	1,257
Net capital profit	<u>1,737</u>	<u>(254)</u>	<u>2,011</u>
Net total profit	<u><u>1,767</u></u>	<u><u>131</u></u>	<u><u>3,268</u></u>
Weighted average number of ordinary shares in issue during the period			
Basic	4,867,499	4,792,019	4,812,498
Diluted	4,872,488	4,806,519	4,819,227
Basic earnings per share	Pence	Pence	Pence
Revenue	0.6	8.0	26.1
Capital	<u>35.7</u>	<u>(5.3)</u>	<u>41.8</u>
Total basic earnings per share	<u><u>36.3</u></u>	<u><u>2.7</u></u>	<u><u>67.9</u></u>
Diluted per share	Pence	Pence	Pence
Revenue	0.6	8.0	26.1
Capital	<u>35.7</u>	<u>(5.3)</u>	<u>41.7</u>
Total diluted earnings per share	<u><u>36.3</u></u>	<u><u>2.7</u></u>	<u><u>67.8</u></u>

4. Dividends.

	Half year ended 30th June 2005 £'000	Half year ended 30th June 2004 £'000	Year ended 31st December 2004 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2004 of 4p (2003: 3.1p) per share	<u>195</u>	<u>148</u>	<u>148</u>
	<u><u>195</u></u>	<u><u>148</u></u>	<u><u>148</u></u>

5. Investment property impairment.

During the period a property unit which was valued at £3,500,000 was destroyed by fire. The property was fully insured and, in accordance with IFRS, an impairment loss of £3,000,000 is reflected in the Income Statement within gains/(losses) on investments held at fair value. This impairment is offset by a similar sum being shown in other operating income to reflect the insurance monies due.

NOTES TO THE FINANCIAL STATEMENTS

6. Ordinary share capital.

At 30th June 2005 there were 4,873,880 ordinary shares in issue (30th June 2004: 4,809,531; 31st December 2004: 4,848,919). During the half year ended 30th June 2005 20,630 and 4,331 ordinary shares were issued at 276p and 230p respectively under the terms of the 8% Secured Redeemable Loan Stock 2006 (half year to 30th June 2004 19,784 and 25,106 at 284p and 236p respectively and , in addition, 10,000 share options were exercised at par). 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.

7. Net asset value per ordinary share.

The basic net asset value per ordinary share is based on the net assets attributable to the equity shareholders of £32,022,000 (half year ended 30th June 2004: £27,134,000 as restated; year ended 31st December 2004: £30,383,000 as restated) and on 4,873,880 (half year ended 30th June 2004: 4,809,531; year ended 31st December 2004: 4,848,919) ordinary shares, being the number of ordinary shares in issue at the period end.

The diluted net asset value per ordinary share is based on the net assets attributable to the equity shareholders at each respective period end and on 4,878,869 (half year to 30th June 2004: 4,824,031; year ended 31st December 2004: 4,855,647) ordinary shares. The number of shares is based upon the number of shares in issue at the period end together with those number of shares deemed to have been issued at nil consideration pursuant to either share options granted or under the terms of the 8% secured loan stock issued by Gresham House Finance plc.

8. (a) Restatement of balances as at and for the year ended 31st December 2004.

At 1st January 2005 the Company adopted International Financial Reporting Standards. In accordance with IFRS 1 (First Time Adoption of International Financial Reporting Standards) the following is a reconciliation of the results as at and for the year ended 31st December 2004, previously reported under the applicable UK Accounting Standards and the SORP, to the restated IFRS results.

		(Audited) Previously reported 31st December 2004 £'000	Effect of transition to IFRS £'000	Restated 31st December 2004 2004 £'000
	Notes			
Investments and property	1	37,887	(1)	37,886
Current assets		14,955		14,955
Creditors: amounts falling due within one year	2	<u>(5,962)</u>	195	<u>(5,768)</u>
Total assets less current liabilities		46,880		47,072
Creditors: amounts falling due after more than one year	3,4,5	<u>(15,890)</u>	(125)	<u>(16,015)</u>
		<u>30,990</u>		<u>31,057</u>
Capital and reserves				
Called up share capital		1,212		1,212
Share premium		761		761
Revaluation reserve	6	10,614	(10,614)	–
Capital reserve	1,4,5,6	26,291	10,465	36,756
Revenue reserve / Retained earnings	2,3	<u>(8,562)</u>	216	<u>(8,346)</u>
Equity shareholders' funds		30,316		30,383
Minority interests		674		674
		<u>30,990</u>		<u>31,057</u>

NOTES TO THE FINANCIAL STATEMENTS

8. (a) Restatement of balances as at and for the year ended 31st December 2004 (continued).

Notes to the reconciliation

1. Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value at £8,761,000. Previously under UK GAAP they were carried at mid prices with liquidity discounts as appropriate. The aggregate differences, being a downward revaluation of £1,000, also decrease capital reserves.
2. No provision has been made for the dividend on the ordinary shares for the year ended 31 December 2004 of £195,000. Under IFRS the dividend is not recognised until approved by the shareholders.
3. Under IFRS borrowings are calculated on an amortised cost basis. Under UK GAAP this was not required. As a result the balance as at 31st December 2004 has been reduced by £20,000.
4. Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the Income Statement. As at 31st December 2004 this provision amounted to £390,000.
5. As permitted by IFRS 20 the Group has offset government grants received of £245,000 against the cost of the relevant property with the resultant increase in the fair value of that property of the same amount being credited to capital reserves.
6. Movements in the fair value of investment properties are required to be shown through the income statement under IFRS and are now included within capital reserves. Under UK GAAP these movements were reflected through the revaluation reserve.

(b) Reconciliation of the Statement of Total Return to the Income Statement for the year ended 31st December 2004.

Under IFRS the Income Statement is the equivalent of the Statement of Total Return reported previously.

	Notes	2004 £'000
Total transfer to reserves per the Statement of Total Return		1,224
Add back dividends proposed	1	195
Investments held at fair value changed from mid to bid basis at 31st December 2003 and 31st December 2004	2	(27)
Movement in fair value of investment properties	3	1,854
Restatement of property loans at amortised historic cost	4	(208)
Movement in deferred taxation	5	437
Minority interest in fair value movement of property investments	3	(207)
Net profit per the Income Statement		<u><u>3,268</u></u>

Notes to the reconciliation

1. Ordinary dividends declared and paid during the period are dealt with through the Statement of Changes in Equity.
2. The portfolio valuations at 31st December 2003 and 31st December 2004 are required to be valued at bid-price under IFRS. These values differ from the previous valuations by £26,000 and £1,000 respectively.
3. Movements in the fair value of investment properties are required to be shown through the Income Statement under IFRS. Under UK GAAP these movements were reflected through the revaluation reserve. The minority interest share of this movement is also now shown in the Income Statement.
4. Under IFRS borrowings are calculated on an amortised cost basis with any resultant variance being dealt with through finance costs in the Income Statement. Under UK GAAP this was not required. In the year ended 31st December 2004 this variance amounted to £208,000.
5. Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the Income Statement. In the year ended 31st December 2004 this movement amounted to £437,000.

GRESHAM HOUSE plc

NOTES TO THE FINANCIAL STATEMENTS

9. (a) Restatement of balances as at and for the period ended 30th June 2004.

At 1st January 2005 the Company adopted International Financial Reporting Standards. In accordance with IFRS 1 (First Time Adoption of International Financial Reporting Standards) the following is a reconciliation of the results as at and for the period ended 30th June 2004, previously reported under the applicable UK Accounting Standards and the SORP, to the restated IFRS results.

	Notes	(Unaudited) Previously reported 30th June 2004 £'000	Effect of transition to IFRS £'000	Restated 30th June 2004 £'000
Investments and property	1	44,618	(200)	44,418
Current assets		7,616		7,616
Creditors: amounts falling due within one year		<u>(5,593)</u>		<u>(5,593)</u>
Total assets less current liabilities		46,641		46,441
Creditors: amounts falling due after more than one year	2,3,4	<u>(17,903)</u>	(308)	<u>(18,211)</u>
		<u>28,738</u>		<u>28,230</u>
Capital and reserves				
Called up share capital		1,202		1,202
Share premium		659		659
Revaluation reserve	5	12,605	(12,605)	–
Capital reserve	1,3,4,5	22,499	11,992	34,491
Revenue reserve / Retained earnings	2	<u>(9,323)</u>	105	<u>(9,218)</u>
Equity shareholders' funds		27,642		27,134
Minority interests		<u>1,096</u>		<u>1,096</u>
		<u>28,738</u>		<u>28,230</u>

Notes to the reconciliation

1. Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value at £6,687,000. Previously under UK GAAP they were carried at mid prices with liquidity discounts as appropriate. The aggregate differences, being a downward revaluation of £200,000, also decrease capital reserves.
2. Under IFRS borrowings are calculated on an amortised cost basis. Under UK GAAP this was not required. As a result the balance as at 31st December 2004 has been reduced by £104,000.
3. Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the Income Statement. As at 31st December 2004 this provision amounted to £657,000.
4. As permitted by IFRS 20 the Group has offset government grants received of £245,000 against the cost of the relevant property with the resultant increase in the fair value of that property of the same amount being credited to capital reserves.
5. Movements in the fair value of investment properties are required to be shown through the income statement under IFRS and are now included within capital reserves. Under UK GAAP these movements were reflected through the revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

9. (b) Reconciliation of the Statement of Total Return to the Income Statement for the period ended 30th June 2004.

Under IFRS the Income Statement is the equivalent of the Statement of Total Return reported previously.

	Notes	2004 £'000
Total transfer to reserves per the Statement of Total Return		507
Add back dividends proposed	1	–
Investments held at fair value changed from mid to bid basis at 31st December 2003 and 30th June 2004	2	(226)
Movement in fair value of investment properties	3	(195)
Restatement of property loans at amortised historic cost	4	(124)
Movement in deferred taxation	5	169
Net profit per the Income Statement		<u>131</u>

Notes to the reconciliation

- 1 Ordinary dividends declared and paid during the period are dealt with through the Statement of Changes in Equity.
- 2 The portfolio valuations at 31st December 2003 and 30th June 2004 are required to be valued at bid-price under IFRS. These values differ from the previous valuations by £26,000 and £200,000 respectively.
- 3 Movements in the fair value of investment properties are required to be shown through the Income Statement under IFRS. Under UK GAAP these movements were reflected through the revaluation reserve.
- 4 Under IFRS borrowings are calculated on an amortised cost basis with any resultant variance being dealt with through finance costs in the Income Statement. Under UK GAAP this was not required. For the period ended 30th June 2004 this variance amounted to £124,000.
- 5 Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the Income Statement. For the period ended 30th June 2004 this movement amounted to £169,000.

GRESHAM HOUSE plc

NOTES TO THE FINANCIAL STATEMENTS

10. Restatement of opening balances as at 31st December 2003.

In accordance with IFRS 1 (First Time Adoption of International Financial Reporting Standards) the following is a reconciliation of the balance sheet as at 31st December 2003, previously reported under the applicable UK Accounting Standards and the SORP, to the restated IFRS balance sheet.

	Notes	(Audited) Previously reported 31st December 2003 £'000	Effect of transition to IFRS £'000	Restated 31st December 2003 £'000
Investments and property	1	44,485	26	44,511
Current assets		8,397		8,397
Creditors: amounts falling due within one year	2	<u>(6,350)</u>	148	<u>(6,202)</u>
Total assets less current liabilities		46,532		46,706
Creditors: amounts falling due after more than one year	3,4,5	<u>(18,258)</u>	(353)	<u>(18,611)</u>
		<u>28,274</u>		<u>28,095</u>
Capital and reserves				
Called up share capital		1,189		1,189
Share premium		554		554
Revaluation reserve	6	12,800	(12,800)	–
Capital reserve	1,4,5,6	22,501	12,244	34,745
Revenue reserve/Retained earnings	2,3	<u>(9,832)</u>	377	<u>(9,455)</u>
Equity shareholders' funds		27,212		27,033
Minority interests		<u>1,062</u>		<u>1,062</u>
		<u>28,274</u>		<u>28,095</u>

Notes to the reconciliation

1. Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value at £6,773,000. They were carried at mid prices previously under UK GAAP with liquidity discounts as appropriate. The aggregate differences, being a revaluation upwards of £26,000, also increase capital reserves.
2. No provision has been made for the dividend on the ordinary shares for the year ended 31st December 2003 of £148,000. Under IFRS this is not recognised until approved by shareholders.
3. Under IFRS borrowings are calculated on an amortised cost basis. Under UK GAAP this was not required. As a result the balance as at 31st December 2003 has been reduced by £229,000.
4. Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the Income Statement. As at 31st December 2003 this provision amounted to £827,000.
5. As permitted by IFRS 20 the Group has offset government grants received of £245,000 against the cost of the relevant property with the resultant increase in the fair value of that property of the same amount being credited to capital reserves.
6. Movements in the fair value of investment properties are required to be shown through the income statement under IFRS and are now included within capital reserves. Under UK GAAP these movements were reflected through the revaluation reserve.

11. Cash Flow Statement.

The impact of IFRS on the Cash Flow Statement is not significant other than in presentational changes.

GRESHAM HOUSE plc

NOTES TO THE FINANCIAL STATEMENTS

12. Segmental reporting

	Investment £'000	Property Investment £'000	Other Activities £'000	Consolidated £'000
Period ended 30th June 2005				
Revenue	317	959	–	1,276
Result	1,869	547	–	2,416
Unallocated corporate expenses				(173)
Operating profit				2,243
Interest expense (all relating to property loans)				(519)
Interest income				4
Profit before taxation				1,728
Period ended 30th June 2004				
Revenue	128	1,811	20	1,959
Result	(305)	1,303	–	998
Unallocated corporate expenses				(166)
Operating profit				832
Interest expense (all relating to property loans)				(844)
Interest income				7
Loss before taxation				(5)
Year ended 31st December 2004				
Revenue	325	3,266	253	3,844
Result	1,677	2,434	110	4,221
Unallocated corporate expenses				(332)
Operating profit				3,889
Interest expense (all relating to property loans)				(1,459)
Interest income				16
Profit before taxation				2,446

All revenue is derived from operations within the United Kingdom.

