



GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2010

Registered number: 871 (England & Wales)

DIRECTORS AND ADVISERS

Company Number	871 incorporated in England
Directors	A G Ebel LL.B, F.C.A. <i>Non-executive Chairman</i> D Lucie-Smith F.C.A. <i>Chief Executive</i> B J Hallett F.C.A. <i>Finance</i> J A C Lorimer <i>Property</i> S C Ackerman <i>Non-executive</i> R A Chadwick F.C.A. <i>Non-executive</i> R H Chopin-John LL.M, BA, F.C.I.S. <i>Non-executive</i>
Secretary	B J Hallett F.C.A.
Registered Office	5 Prince's Gate London SW7 1QJ
Auditor	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	Travers Smith 10 Snow Hill London EC1A 2AL
Corporate Advisers & Brokers	Arbuthnot Securities Limited Arbuthnot House 20 Ropemaker Street London EC2Y 9AR

CHAIRMAN'S STATEMENT

I am pleased to report the results for the year ended 31 December 2010.

The Results

The revenue loss has decreased from £901,000 in 2009 to £701,000 in 2010. The net asset value per share has shown a slight improvement of 0.7% from 473.7p in 2009 to 476.9p in 2010.

As the revenue loss for 2010 includes a trading profit from the sale of our development site at Curtis Road, Dorking amounting to £591,000, the comparable running loss has effectively increased by £391,000 from £901,000 in 2009 to £1,292,000 in 2010. The principal reason for this increase is the sharp decline in rental income from £2,112,000 in 2009 to £1,435,000 in 2010 as a result of our policy of vacating space at Newton-le-Willows following the granting of residential planning consent and at Vincent Lane, Dorking where we anticipate obtaining residential and retail planning consent. This adverse variance was slightly offset by an increase in our dividend and interest income from £200,000 in 2009 to £446,000 in 2010 as a result of the acquisition of £5.5 million of corporate bonds following the successful sale of our Hallin Marine investment in February 2010 which was low yielding.

Net Asset Value per share

The net asset value per share increased by 3.2p to 476.9p as a result of the increase in the valuation of the property portfolio by £490,000 and gains on the securities portfolio of £813,000. These increases were offset by the revenue loss and costs of £297,000 in respect of fees payable on the Hallin Marine share disposal and the additional investment in Memorial Holdings Ltd which were required to be written off in the year.

Property Portfolio

The property investments were re-valued by King Sturge LLP at 31 December 2010. Capital expenditure on the portfolio amounted to £3,530,000 during the year of which £3,214,000 related to costs incurred at Newton-le-Willows for demolition, planning and securing vacant possession of the industrial units following the granting of residential planning consent. The remainder of the capital expenditure was at Southern Gateway, Speke including the partial refurbishment and rebranding of an existing building to create the Liverpool Science Centre. The valuation surplus amounted to £490,000 which gave an overall valuation of our property investment portfolio of £28,620,000.

Market conditions in the secondary property sector remain challenging. Despite this, good progress has been made on a number of our investments.

At Newton-le-Willows, where consent for 440 homes has been granted, terms have been agreed with a national house builder for the sale of two thirds of the 28 acre site, subject to detailed planning. Alternative and more valuable uses are being explored for the balance of the site.

At Southern Gateway, our principal tenant has increased its occupational space and extended its lease. In addition, refurbishment of the show suite in the Liverpool Science Centre has been completed and interest is being expressed by potential pharmaceutical occupiers.

At Vincent Lane, Dorking, conditional sale contracts were exchanged in March 2011 with a national house builder and a food retailer, subject to planning, at a price in excess of year end book value. A planning application will be submitted shortly.

During the course of 2010, the development site at Curtis Road, Dorking was sold at approximately 24% over book value – an excellent result in light of market conditions.

At Westhill, Aberdeen, the Hallin Marine headquarters are due to be completed in early May 2011 and agents have now been instructed to seek a purchaser for the investment.

CHAIRMAN'S STATEMENT – continued

Securities Portfolio

As previously reported, in February 2010 we sold our investment in Hallin Marine Subsea International plc for £8.6 million of which £5.5 million was invested in corporate bonds maturing between 2013 and 2018. The weighted average cash yield of these bonds as at 31 December 2010 was 6.25%. We also received £957,000 from the liquidation of Welsh Industrial Investment Trust plc resulting in a surplus of £156,000 in the year.

The largest holding in the securities portfolio is a 15% shareholding in Memorial Holdings Ltd. The original holding of 5% was acquired in December 2009 and during the year we acquired a further 10% at a cost of £1.712m through the placing of 488,000 new ordinary shares in Gresham House plc at 332.5p per share and the balance paid from cash resources. Memorial Holdings is developing a 55 acre cemetery site in the London Borough of Bromley. Development of the cemetery is well under way and completion of the first phase of ten acres is anticipated towards the end of this year.

In addition, in the summer of 2010, we acquired a 20% interest in a potential residential development site in Edinburgh. Terms have now been agreed with a national house builder, subject to planning, at a level that will show an attractive return.

The Future

After careful deliberation, your Board will be recommending to shareholders at the AGM that the Company should amend its investment objective to enable the orderly realisation of the Group's assets over a period of approximately two years with a view to returning capital to shareholders thereafter. The present downturn in the commercial property market, coupled with the restricted availability of bank funding, will create a very flat market over the next few years thereby presenting fewer opportunities to generate returns for shareholders. This amendment to the investment objective should also address shareholders' concerns over the discount at which the shares are currently trading. We anticipate being able to maximise value on our property investments through planning gain and lettings over a period of approximately two years and we intend to dispose of these assets in an orderly fashion. The securities portfolio will also be realised during the same period of time to allow some of the unquoted investments to maximise values. We will endeavour to restrict overhead costs whilst undertaking the realisation of the investment portfolio.

I would like to thank the Board for reaching a difficult decision which I believe can only be of financial benefit to all shareholders.

19 April 2011

Tony Ebel
Chairman

CHIEF EXECUTIVE'S REPORT

Dear Shareholder,

As you have read in the Chairman's Statement we propose to put a resolution to shareholders at the annual general meeting to be held on 19 May 2011 to seek your approval to realise the assets of the Company in an orderly fashion over a period of approximately two years with a view to returning capital to shareholders thereafter.

Our principal focus has been on creating value for shareholders in the commercial property market where we are experienced investors. We feel that the market in secondary commercial properties has limited growth potential over the next few years, with investment focus remaining on well located prime properties. The limited availability of capital in the Company, coupled with our restricted ability to raise equity, curtails any possibility of investing in prime properties. Furthermore, debt is difficult to obtain for secondary commercial properties as there are fewer lenders in the market. We therefore believe that the best course of action for shareholders is to conduct an orderly disposal of the Company's assets.

As at 31 December 2010 the net asset value per share was 476.9p and we intend to maximise returns to shareholders by achieving a carefully planned disposal programme of all the assets.

Results for Year Ended 31 December 2010

The consolidated revenue operating profit for the year was £370,000 compared to £83,000 for 2009. The figure for 2010 did however, as reported in the Chairman's Statement, include a trading profit of £591,000 in respect of the sale of our development site at Curtis Road, Dorking.

The major variances between the two years can be summarised as follows:

Dividend and interest income has increased by £246,000 mainly as a result of investing in corporate bonds following the disposal of the Hallin Marine shareholding.

Rental income has decreased substantially by £677,000 following our policy to obtain vacant possession at both Newton-le-Willows, where we already have residential planning consent, and Vincent Lane, Dorking where we are seeking planning for alternative uses.

Property outgoings have been well controlled despite the additional vacancies and show a decrease of £139,000 over the expenditure for 2009 primarily as a result of lower costs being incurred for empty rates.

Administrative overheads have increased by £239,000, largely due to increased staff costs as a result of additional head count, salary reviews and redundancy costs, in total amounting to £146,000. In addition it was necessary to increase the provision against a specific loan by £40,000.

Finance costs were slightly down on the levels for 2009 as the comparative figure includes the benefit of £146,000 discount on a loan repayment. The adjusted decrease of some £81,000 is largely due to the much lower value attributed to the movement in the fair value of interest rate swaps in 2010 compared with 2009.

Property Portfolio

The property portfolio consists of five investment properties, which were independently valued at a total of £28,620,000, and one trading property which is shown as a current asset at cost. All the properties now have specific exit strategies to generate maximum value prior to sale. We intend to enhance value through (i) planning gain at Newton-le-Willows and Vincent Lane, Dorking (ii) either selling or letting Northern Gateway at Knowsley and (iii) continuing with our refurbishment and letting plans at Southern Gateway, Speke.

CHIEF EXECUTIVE'S REPORT – continued

Securities Portfolio

We have a number of investments where we anticipate further growth before disposal. These include:

- Avesco Group plc whose shares have recovered significantly in the year, resulting in our investment having increased in value from £80,000 at 1 January 2010 to £512,000 at 31 December 2010. The Company has been part of a consortium that has successfully litigated against Disney but, until the claim is finally settled, we believe that the share price will remain undervalued;
- SpaceandPeople plc where the company continues to progress with some excellent results for the 14 month period ended 31 December 2010 which has subsequently further boosted the value of our investment since year end; and
- Memorial Holdings Limited where the investment in Kemnal Manor cemetery in the London Borough of Bromley appears to be on course for the opening of the first phase by the end of this year which we anticipate will result in a valuation for our investment in excess of that at the year end.

Loan Book and Cash at Bank

As at 31 December 2010 we had loans of £17.7m and cash in hand of £2.8m. The property loan due for repayment during the year to 31 December 2011 amounts to £2.17m but we do not anticipate a problem renewing this loan for a further period to extend the cover from the date of expiry to projected sale of the relevant property. Excluding the working capital overdraft facility of £2.2m (2009: £8.3m), as at year end the loan to value percentage on our total property portfolio was 53% (2009: 63%).

Future Strategy

We believe that we can extract further value for shareholders from the Group's investment portfolio over the next two years and our small team will continue to explore all opportunities to maximise the exit value.

19 April 2011

Derek Lucie-Smith
Chief Executive

INVESTMENT OBJECTIVE

Gresham House plc is an authorised investment trust listed on the London Stock Exchange. Its objective is to provide shareholders with long term capital and income growth by a combination of investing in commercial property, bonds and equities.

However, as detailed in both the Chairman's Statement and the Chief Executive's Report, it is intended to amend the investment objective to enable the orderly realisation of the Group's assets over a period of approximately two years with a view to returning capital to shareholders thereafter. An appropriate resolution will be put to shareholders at the forthcoming annual general meeting.

INVESTMENT POLICY

The Group's policy is to invest in both commercial properties and securities. This policy is to continue but the Board now believes that, due primarily to the adverse change in market conditions since last year, it would be in the best financial interests of shareholders if steps are taken to realise the Group's assets over a period of approximately two years and return capital to shareholders thereafter.

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

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

Investment trust status

The investment policy is designed to ensure that the Company continues to qualify as an authorised investment trust and is approved as such by H M Revenue & Customs. Amongst other conditions the Company may not invest more than 15% of the value of its investment portfolio in any one investment at the time of that investment, its income must be received wholly or mainly from shares and other securities and the maximum amount that the Company can transfer to its revenue reserves in any one year is 15% of its total investment income.

Risk diversification and maximum exposures

Risk is spread by investing in commercial properties, corporate bonds and high risk securities. The executive directors have authority to make initial investments up to a value of £50,000. Once this exposure level is reached any additional investment requires final approval by the Board. No holding in any one investment can represent more than 15% of the value of the Company's portfolio at the time of the investment.

Borrowing

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

Management

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

INVESTMENT POLICY – continued

Principal risks, management and regulatory environment

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

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

Strategic and investment – poor investment strategy or consistently weak investments could lead to underperformance and insufficient returns. Investments in small unquoted companies involve a higher degree of risk than investments in companies traded on the main market of the London Stock Exchange. Investments in companies traded on AIM may be difficult to realise, particularly where the holding is large. The Group has continued to reduce its exposure to AIM during the year, which at year end amounted to only 14% of the securities portfolio.

Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and International Financial Reporting Standards. A breach of any of these might lead to a suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. The Company must also comply with section 842 of the Income and Corporation Taxes Act 1988 to ensure that all gains made in the Company remain tax free. Any breach in these rules may lead to the Company losing its authorised investment trust status.

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

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

Asset liquidity risk – investments made by the Company may be difficult to realise.

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

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

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

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

The Board seeks to mitigate these and other perceived risks by setting policies and by undertaking a risk assessment at least annually. Further details can be found in note 23.

REPORT OF THE DIRECTORS

To be presented to the members at the Annual General Meeting to be held at the offices of Arbuthnot Securities Limited, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR on 19 May 2011 at 10.00 am.

Revenue account

The Group Statement of Comprehensive Income, which includes the revenue account, is set out on page 22 and shows the results for the year ended 31 December 2010.

Dividends

The directors recommend a final dividend for the year ended 31 December 2010 of 1.0p per ordinary share to be paid on 3 June 2011 to shareholders on the register at 6.00pm on 13 May 2011.

Principal activities and business review

The Company's business activity is that of an Authorised Investment Trust investing in both commercial property and securities.

A review of the Group's business for the year together with developments since the year end and for the future is included in the Chairman's Statement on pages 2 and 3 and the Chief Executive's Report on pages 4 and 5.

The Board considers the main Key Performance Indicator applicable to the Group to be net asset value per share ("NAV"). As at 31 December 2010, the basic NAV was 476.9p (2009: 473.7p). The main non-financial KPI is considered to be the amount of vacant space within the property portfolio. As at 31 December 2010 this totalled 391,118 sq. ft. representing 54% of the total available (2009: 761,774 sq. ft. and 66%), the decrease being principally as a result of the demolition of units at Newton-le-Willows following receipt of outline residential planning consent.

The principal risks of the Group relate to its investment activities in properties and securities and are explained in the Investment Policy and note 23 to the financial statements.

Although the Group does not have a formal environmental policy it does recognise the importance of environmental responsibility. The Group encourages the active involvement of persons working for and on behalf of the Group to minimise so far as reasonably practicable any adverse effects on the environment of their activities. Given the size of the Group the Board does not consider there to be any key performance indicators in respect of employees (currently totalling 8, including 3 executive directors) relevant to an understanding of the Group's financial position or performance, nor does it support any social and community initiatives.

For the year ended 31 December 2009 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.

The Company's shares may qualify for inclusion in a stocks and shares ISA depending on the interpretation of H M Revenue & Customs' rules. Any shareholder considering an investment in their ISA should take professional advice before so doing. The Company cannot take any responsibility for potential losses which may be incurred by shareholders.

The portfolio is not managed against a benchmark. The reference to the FTSE All Share Index in the Remuneration Report is provided only as a guide to shareholders. The portfolio is managed on a high risk strategy basis.

REPORT OF THE DIRECTORS – continued

Securities portfolio

At 31 December 2010 the securities portfolio was invested in the following sectors:	%
Financial	29
Property investment	28
Utilities	15
Media & photography	14
Engineering	7
Retail	5
Foods	1
Electrical	1
	100
	100

Directors

The present directors are listed on page 1.

Mr S C Ackerman was appointed on 21 June 2010 and, given the proposed change in investment policy, is not seeking re-election.

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

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

Brief biographies of the directors concerned are as follows:

Tony Ebel (aged 66)

Tony Ebel is presently Chairman of the Company. He qualified as a lawyer and chartered accountant and has been a non-executive director of the Company since 1979. He has been responsible for a number of successful technology based start-up companies and is currently involved with companies operating in the management services, sports information and marketing technology sectors. He was, until recently, 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 both the Audit and Remuneration Committees.

John Lorimer (aged 55)

John Lorimer has been working in the property industry for over 25 years within both the commercial and residential sectors. Mr Lorimer has worked closely with Mr Lucie-Smith for many years being a founder director of Parkwood Asset Management Limited. He is also a partner of Parkwood Property Investments LLP which is the holder of 27.25% of the issued share capital of the Company and of Parkwood Property Investments (LLP) 2 which is a 25% partner in DIPS (Aberdeen) LLP.

Richard Chadwick (aged 59)

Richard Chadwick is a chartered accountant who spent 27 years within the J Sainsbury plc group of companies where he gained considerable experience of property development and financing. Mr Chadwick is also a non-executive director of SpaceandPeople plc, a company in which Gresham House plc has an investment worth £1,031,250 as at year end. He is presently chairman of both the Audit and Remuneration Committees.

REPORT OF THE DIRECTORS – continued

Details of the current directors' emoluments together with the directors' interests in shares and share option schemes are provided in the Remuneration Report on pages 13 to 16. Contracts of significance in which the directors had a material interest are disclosed in note 25.

Substantial interests

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

	%	Ordinary Shares
Parkwood Property Investments LLP	27.25	1,463,063
The Trustees of the Rowe Trust	12.00	644,209
Asset Value Investors Limited	10.02	538,000
A P Stirling	7.80	419,036

Financial risk management objectives

The Company's financial risk management objectives can be found in note 23 of the financial statements.

Directors' interests

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

	2010	2009
A G Ebel	22,550	22,550
B J Hallett	127,810	127,810
S C Ackerman	5,000	–
R H Chopin-John	3,000	3,000

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

Share capital

At 1 January 2010 there were 4,881,880 ordinary shares in issue with a nominal value of 25p each. On 12 October 2010 the Company issued a further 488,000 ordinary shares by way of a vendor placing at a price of 332.5p per share. As a result the issue share capital as at 31 December 2010 was 5,369,880 ordinary shares. The ordinary shares are listed on the London Stock Exchange.

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

Control

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

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

REPORT OF THE DIRECTORS – continued

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

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

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

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

Share options

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

The last options granted were on 3 May 2005 over a total of 35,600 ordinary shares. As at 31 December 2010 8,000 have been exercised and 18,800 lapsed. The remaining options can be exercised at any time between 3 May 2008 and 3 May 2012 at a price of 337.5p.

Statement of the directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

REPORT OF THE DIRECTORS – continued

The directors confirm, to the best of their knowledge:

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

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

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. Further details can be found under paragraph 1(a) of the Principal Accounting Policies.

Payment policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 31 December 2010 trade creditors represented 11 days purchases (2009:16 days).

Statement as to disclosure of information to auditor

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

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

19 April 2011

5 Prince's Gate
London SW7 1QJ

REMUNERATION REPORT

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). An ordinary resolution for the approval of this report will be put to the members at the forthcoming annual general meeting.

Remuneration Committee

The policy on directors' remuneration is formulated by the Remuneration Committee, which consists of the three non-executive directors of the Company under the chairmanship of Mr R A Chadwick. The Committee is responsible for determining the terms of service and remuneration of the executive directors. When designing schemes of performance-related remuneration the Committee will consider the provisions set out in Schedule A of the UK Corporate Governance Code issued in June 2010.

Remuneration policy

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

Remuneration package

Executive remuneration consists of a basic salary and certain benefits in kind, which include pension contributions and disability and health insurance, none of which are subject to performance criteria. 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 15.

A bonus scheme is in place under which a bonus of a maximum of 15% of an individual's salary may be awarded dependent upon the amount of increase in the net asset value of the Group over 5% in any one year. 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. No bonus has been awarded in respect of the years ended 31 December 2010 and 31 December 2009.

Service contracts

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

- (a) The notice period required by either the Company or the director to terminate the contract is 12 months for executive directors and between 3 and 12 months for non-executive directors.
- (b) In the event of termination by the Company (otherwise than by reason of death, resignation or disqualification pursuant to the Company's Articles of Association or by statute or by court order) the executive directors are entitled to compensation equivalent to one months salary for every year served.
- (c) In the event that a non-executive director is not re-elected by shareholders in accordance with the Articles of Association his/her appointment shall terminate with immediate effect and the individual is entitled to payment in lieu of notice being the maximum notice period in his/her contract.
- (d) In the event of termination for events as specified in the contract including negligence and incompetence in the performance of his/her duties, misconduct and serious breaches of the rules of the UKLA, then no compensation is payable.

REMUNERATION REPORT – continued

Pensions

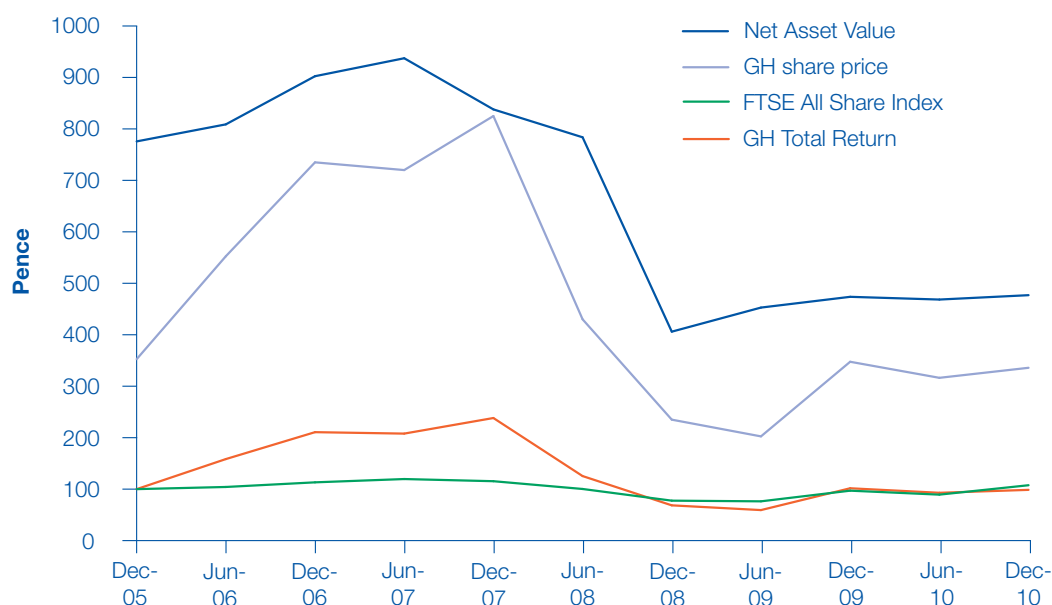
The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31 December 2010 contributions amounted to £8,400 (2009: £8,400).

Non-executive directors' fees

The executive directors are responsible for determining the level of fees paid to the non-executive directors. Non-executive directors are not eligible for long-term incentive schemes 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 of 2010, of £100 invested in Gresham House plc on 31 December 2005, (the GH Total Return), compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at intervening six monthly periods.

Comparative movements	1.1.2006	31.12.2010	% change
Gresham House share price	352.5p	335.8p	(4.74)%
Basic net asset value	775.7p	476.9p	(38.52)%
Gresham House shareholder return	100.0	98.6	(1.38)%
FTSE All Share Index	2,847.02	3,062.85	7.58%

REMUNERATION REPORT – continued

The following information has been audited:

Directors' emoluments

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

	Basic Salary £'000	Fees £'000	Benefits £'000	Pensions £'000	2010 £'000	2009 £'000
Executive:						
D Lucie-Smith (ii)	167	–	–	–	167	135
J A C Lorimer (ii)	134	–	–	–	134	108
B J Hallett	125	–	3	8	136	129
Non-executive:						
A G Ebel (Chairman)(ii)(iii)	25	25	4	250	304	56
S C Ackerman (i)	–	10	–	–	10	–
R A Chadwick	–	20	–	–	20	22
R H Chopin-John	–	20	–	–	20	20
Total	<u>451</u>	<u>75</u>	<u>7</u>	<u>258</u>	<u>791</u>	<u>470</u>
Total 2009	<u>385</u>	<u>67</u>	<u>10</u>	<u>8</u>	<u>470</u>	

- (i) Mr S C Ackerman was appointed on 21 June 2010;
- (ii) Salary due to Messrs Lucie-Smith and Lorimer and fees due to Mr Ebel have been paid to businesses in which they have a material interest;
- (iii) In recognition of his services as a non executive director since 1979, until recently at little or no fee, and for his more recent contribution to the Company through his successful negotiation for the sale of Hallin Marine Subsea International plc at a price exceeding 180% of the market price at that time resulting in a gain of £8.58m to the Company, the Chairman was awarded a contribution of £250,000 to his personal pension scheme.

Share option schemes

Details of share options for each director are as follows:

	At 1 January 2010	At 31 December 2010	Earliest exercise date	Exercise price per share
B J Hallett	8,800	8,800	3 May 2008	337.5p

On 3 May 2005 the Remuneration Committee granted options over a total of 35,600 ordinary shares with an exercise price of 337.5p at any time between 3 May 2008 and 3 May 2012. As at 31 December 2010 8,000 options have been exercised and 18,800 lapsed.

As at 31 December 2010, the closing middle market price was 335.8p and the range of closing prices during the year ended 31 December 2010 was 280p to 390p.

REMUNERATION REPORT – continued

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 years ended 31 December 2009 and 2010.

On behalf of the Board

R A Chadwick, *Chairman*, Remuneration Committee
19 April 2011

CORPORATE GOVERNANCE

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

During the year ended 31 December 2010, with the exceptions outlined below, the directors consider that the Company has applied the principles and generally met the requirements of the Code.

Operation of the Board

The Board comprises the directors listed on page 1.

The Board is responsible for the overall strategy and management of the Group. There is a formal schedule of matters specifically reserved for Board decision including investment and performance objectives and policies, financial reporting and control, the approval of borrowings by the Group, any investments or disposals over certain thresholds and shareholder communication. The Board operates as a collective decision making forum. In the event that one or more directors cannot support a consensus decision then a vote would be taken and the views of the dissenting director recorded in the minutes. There were no such dissensions during 2010. Procedures are in place to enable individual directors to seek independent advice at the expense of the Company and appropriate cover is in place which insures directors against certain liabilities that they may incur in carrying out their duties on behalf of the Company. All directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that Board procedures are complied with. Mr R A Chadwick is the senior independent director.

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

The Board, which currently consists of three executive and 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 five Board meetings, one meeting of the Audit Committee and one meeting of the Remuneration Committee held during the year and the attendance of the directors was as follows:

Number of meetings attended

Name of director	Board	Remuneration Committee	Audit Committee
A G Ebel	5 (5)	1 (1)	– (1)
D Lucie-Smith	5 (5)	–	–
J A C Lorimer	5 (5)	–	–
B J Hallett	5 (5)	–	–
S C Ackerman	2 (2)	–	–
R A Chadwick	4 (5)	1(1)	1(1)
R H Chopin-John	4 (5)	1(1)	1(1)

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

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

CORPORATE GOVERNANCE – continued

Independence of the directors

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

The Company has not fully complied with paragraphs B.1.1 and D.1.3 as the remuneration for non-executive directors has in the past included share options. Given the size of the Company this policy is likely to continue. Details of options outstanding as at 31 December 2010 are shown in the Remuneration Report on page 15. Any 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 constituting at least one third retire from office. Notwithstanding the foregoing, every director shall retire who was not appointed at either of the two previous annual general meetings and who has served for more than two years since his/her appointment or last reappointment. Directors are not appointed for specified terms nor have any automatic right of re-appointment. Because of the nature of an investment trust the Board believes that the contribution and independence of a director is not diminished by long service but that a detailed knowledge of the Company and its activities has a beneficial impact.

The director due to stand for re-election at the first AGM following his appointment is Mr S C Ackerman. However, given the proposed change in investment policy, Mr Ackerman is not seeking re-election. The directors retiring by rotation in accordance with the Company's Articles of Association are Mr J A C Lorimer and Mr R A Chadwick. Mr A G Ebel is the director due to stand for annual re-election at the forthcoming AGM as per the requirements of the Code having effectively served on the Board for more than nine years. The Chairman has carefully considered the position of each of the directors and the senior independent director has considered the position of the Chairman. They each respectively consider their contribution to be significant and effective, their commitment to be appropriate and respectively recommends their re-election.

Audit Committee

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

Nomination Committee

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

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

CORPORATE GOVERNANCE – continued

Remuneration Committee

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

Relations with shareholders

Given its size, the Company has not fully complied with provisions E.1.1 and E.1.2. Of the current four major shareholders, the Board 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. The Company counts all proxy votes lodged at general meetings of the Company and indicates the number of proxy votes on each resolution, after it has been dealt with by a show of hands.

Accountability, internal controls and audit

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

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 financial statements.

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

The Board is responsible for the Group's system of internal control, including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. The Board has introduced procedures designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. These procedures include an annual review of the significant risks faced by the Group and an assessment of their potential impact and likelihood of occurrence. The Board takes advice from external advisors where considered necessary including where any significant transaction is being considered. The Board is satisfied with the effectiveness of internal controls but, by their very nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The process for the consolidation and preparation of the financial statements is overseen by the executive directors. The Board consider the performance of outsourced service providers on an ongoing basis.

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

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

REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the financial statements of Gresham House plc for the year ended 31 December 2010 which comprise the group statement of comprehensive income, the group and parent company statements of financial position, the group and parent company statements of changes in equity, the group and parent company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

REPORT OF THE INDEPENDENT AUDITOR – continued

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 12, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

19 April 2011

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 Revenue £'000	2010 Capital £'000	Total £'000	2009 Revenue £'000	2009 Capital £'000	Total £'000
Income:	1						
Dividend and interest income		446	–	446	200	–	200
Rental income		1,435	–	1,435	2,112	–	2,112
Sale of development in hand		3,025	–	3,025	–	–	–
Other operating income		186	–	186	62	–	62
Total Income		<u>5,092</u>	<u>–</u>	<u>5,092</u>	<u>2,374</u>	<u>–</u>	<u>2,374</u>
Operating Costs:	2						
Costs of sale of development in hand		(2,434)	–	(2,434)	(102)	–	(102)
Property outgoings		(1,068)	–	(1,068)	(1,207)	–	(1,207)
Administrative overheads		(1,221)	(297)	(1,518)	(982)	–	(982)
Net trading profit/(loss)		<u>369</u>	<u>(297)</u>	<u>72</u>	<u>83</u>	<u>–</u>	<u>83</u>
Gains/(losses) on investments:							
Gains on investments held at fair value		–	813	813	–	5,872	5,872
Movement in fair value of property investments		–	490	490	–	(1,524)	(1,524)
Profit on disposal of property, plant & equipment		1	–	1	–	–	–
Group operating profit		<u>370</u>	<u>1,006</u>	<u>1,376</u>	<u>83</u>	<u>4,348</u>	<u>4,431</u>
Finance costs	4	(1,039)	–	(1,039)	(974)	–	(974)
Share of joint venture operating loss		(32)	–	(32)	(10)	–	(10)
Group and share of joint venture operating profit/(loss) before taxation		<u>(701)</u>	<u>1,006</u>	<u>305</u>	<u>(901)</u>	<u>4,348</u>	<u>3,447</u>
Taxation	5	–	–	–	–	–	–
Profit/(loss) and total comprehensive income		<u>(701)</u>	<u>1,006</u>	<u>305</u>	<u>(901)</u>	<u>4,348</u>	<u>3,447</u>
Attributable to:							
Equity holders of the parent		(217)	1,173	956	(1,012)	4,366	3,354
Non-controlling interest		(484)	(167)	(651)	111	(18)	93
		<u>(701)</u>	<u>1,006</u>	<u>305</u>	<u>(901)</u>	<u>4,348</u>	<u>3,447</u>
Basic and diluted earnings per ordinary share	6	<u>(4.3p)</u>	<u>23.5p</u>	<u>19.2p</u>	<u>(20.7p)</u>	<u>89.4p</u>	<u>68.7p</u>

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

The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations.

STATEMENTS OF CHANGES IN EQUITY

Group

YEAR ENDED 31 DECEMBER 2010

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Equity attributable to equity share- holders £'000	Non- controlling interest £'000	Total equity £'000
Balance as at 31 December 2009		1,220	847	14	34,729	(13,683)	23,127	424	23,551
Profit/(loss) for the period being total comprehensive income for the period		-	-	-	1,173	(217)	956	(651)	305
Ordinary dividends paid	7	-	-	-	-	(49)	(49)	-	(49)
Issue of shares (net of costs of £46,000)		122	1,455	-	-	-	1,577	-	1,577
Share based payments		-	-	-	-	-	-	-	-
Balance at 31 December 2010		<u>1,342</u>	<u>2,302</u>	<u>14</u>	<u>35,902</u>	<u>(13,949)</u>	<u>25,611</u>	<u>(227)</u>	<u>25,384</u>

YEAR ENDED 31 DECEMBER 2009

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Equity attributable to equity share- holders £'000	Non- controlling interest £'000	Total equity £'000
Balance as at 31 December 2008		1,220	847	42	30,363	(12,650)	19,822	331	20,153
Profit/(loss) for the period being total comprehensive income for the period		-	-	-	4,366	(1,012)	3,354	93	3,447
Ordinary dividends paid	7	-	-	-	-	(49)	(49)	-	(49)
Share based payments		-	-	(28)	-	28	-	-	-
Balance at 31 December 2009		<u>1,220</u>	<u>847</u>	<u>14</u>	<u>34,729</u>	<u>(13,683)</u>	<u>23,127</u>	<u>424</u>	<u>23,551</u>

STATEMENTS OF CHANGES IN EQUITY – continued

Company

YEAR ENDED 31 DECEMBER 2010

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2009		1,220	847	14	11,905	143	14,129
Profit for the period being total comprehensive income for the period		–	–	–	292	111	403
Ordinary dividends paid	7	–	–	–	–	(49)	(49)
Issue of shares (net of costs of £46,000)		122	1,455	–	–	–	1,577
Share based payments		–	–	–	–	–	–
Balance at 31 December 2010		<u>1,342</u>	<u>2,302</u>	<u>14</u>	<u>12,197</u>	<u>205</u>	<u>16,060</u>

YEAR ENDED 31 DECEMBER 2009

		Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2008		1,220	847	42	6,108	100	8,317
Profit for the period being total comprehensive income for the period		–	–	–	5,797	64	5,861
Ordinary dividends paid	7	–	–	–	–	(49)	(49)
Share based payments		–	–	(28)	–	28	–
Balance at 31 December 2009		<u>1,220</u>	<u>847</u>	<u>14</u>	<u>11,905</u>	<u>143</u>	<u>14,129</u>

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	Group		Company	
		2010	2009	2010	2009
		£'000	£'000	£'000	£'000
Assets					
Non current assets					
Investments – securities	8	12,386	12,723	12,386	4,324
Property investments	9	28,620	24,600	–	–
Investment in joint venture	10	908	–	–	–
Other investments	11	–	–	2	2
Property, plant and equipment	12	–	2	–	–
Total non current assets		<u>41,914</u>	<u>37,325</u>	<u>12,388</u>	<u>4,326</u>
Current assets					
Trade and other receivables	13	268	504	–	–
Accrued income and prepaid expenses		609	714	328	18
Other current assets	14	1,008	3,408	1,060	1,131
Cash and cash equivalents		2,831	9,043	2,542	8,692
Total current assets		<u>4,716</u>	<u>13,669</u>	<u>3,930</u>	<u>9,841</u>
Total assets		<u>46,630</u>	<u>50,994</u>	<u>16,318</u>	<u>14,167</u>
Current liabilities					
Trade and other payables	15	3,186	1,432	21	17
Short term borrowings	16	14,634	19,037	237	21
Other financial liabilities	17	88	–	–	–
Total current liabilities		<u>17,908</u>	<u>20,469</u>	<u>258</u>	<u>38</u>
Total assets less current liabilities		<u>28,722</u>	<u>30,525</u>	<u>16,060</u>	<u>14,129</u>
Non-current liabilities					
Long term borrowings	17	3,110	6,707	–	–
Other financial liabilities	17	228	267	–	–
Deferred taxation	18	–	–	–	–
		<u>3,338</u>	<u>6,974</u>	<u>–</u>	<u>–</u>
Net assets		<u>25,384</u>	<u>23,551</u>	<u>16,060</u>	<u>14,129</u>
Capital and reserves					
Ordinary share capital	19	1,342	1,220	1,342	1,220
Share premium	20	2,302	847	2,302	847
Share option reserve	20/24	14	14	14	14
Capital reserve	20	35,902	34,729	12,197	11,905
Retained earnings	20	(13,949)	(13,683)	205	143
Equity attributable to equity shareholders		<u>25,611</u>	<u>23,127</u>	<u>16,060</u>	<u>14,129</u>
Non-controlling interest	20	<u>(227)</u>	<u>424</u>	<u>–</u>	<u>–</u>
Total equity		<u>25,384</u>	<u>23,551</u>	<u>16,060</u>	<u>14,129</u>
Basic and diluted net asset value per ordinary share					
	21	<u>476.9p</u>	<u>473.7p</u>	<u>299.1p</u>	<u>289.4p</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 19 April 2011

D Lucie-Smith
Director

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Cashflow from operating activities					
Investment income received		63		142	
Interest received		73		58	
Rental income received		1,635		1,819	
Other cash payments		(2,172)		(2,053)	
Net cash generated from operations	22		(401)		(34)
Interest paid on property loans		(838)		(717)	
			(838)		(717)
Net cash flows from operating activities			(1,239)		(751)
Cash flows from investing activities					
Purchase of investments		(9,346)		(1,252)	
Investment in joint venture		(940)		(10)	
Sale of investments		10,197		1,089	
Sale of tangible fixed assets		3		980	
Expenditure on investment properties		(1,191)		(374)	
Sale of developments in hand		3,025		–	
Purchase of developments in hand		(249)		(234)	
			1,499		199
Cash flows from financing activities					
Repayment of loans		(10,222)		(18,090)	
Receipt of loans		2,222		25,895	
Share capital issued		1,577		–	
Equity dividends paid		(49)		(49)	
			(6,472)		7,756
(Decrease)/increase in cash and cash equivalents			(6,212)		7,204
Cash and cash equivalents at start of period			9,043		1,839
Cash and cash equivalents at end of period			<u>2,831</u>		<u>9,043</u>

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Cashflow from operating activities					
Investment income received		63		172	
Interest received		73		14	
Other cash payments		(260)		(310)	
Net cash generated from operations	22		(124)		(124)
Cash flows from investing activities					
Purchase of investments		(9,346)		(1,252)	
Sale of investments		1,576		9,413	
Sale of tangible fixed assets		–		980	
Purchase of development in hand		–		(925)	
			(7,770)		8,216
Cash flows from financing activities					
Receipt of loans		453		1,771	
Repayment of loans		(237)		(1,878)	
Share capital issued		1,577		–	
Equity dividends paid		(49)		(49)	
			1,744		(156)
(Decrease)/increase in cash and cash equivalents					
			(6,150)		7,936
Cash and cash equivalents at start of period			8,692		756
Cash and cash equivalents at end of period			<u>2,542</u>		<u>8,692</u>

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of preparation

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

During 2010 the following accounting standards and guidance were adopted by the Group:

(i) IAS 27 Consolidated and separate financial statements.

The amendment has changed the treatment of recognising the amount of losses attributable to the minority (non-controlling) interests. With effect from 1 January 2010 total comprehensive income is attributed to the owners of the parent and to the non-controlling interest without restriction even if this results in the non-controlling interests having a deficit balance.

The following standards and interpretations were also adopted by the Group and were mandatory for the accounting period, but either had no material impact on the Group's financial statements or were not relevant to the operations of the Group:

(i) IFRS 3 Business combinations

(ii) IFRIC 17 Distributions of non-cash assets to owners

(iii) IFRIC 18 Transfers of assets from customers

(iv) Amendment to IFRS 1 First time adoption of IFRS

(v) Amendment to IAS 39 Financial instruments: Recognition and measurement

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

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

As stated in the Chairman's Statement and Chief Executive's Report a resolution will be put to the shareholders at the forthcoming annual general meeting in order to approve an amendment to the Group's investment objective to enable the orderly realisation of the Group's assets over a period of approximately two years with a view to returning capital to shareholders thereafter. Should the objective be amended in this way then the Group will technically cease to be a going concern as it will be the intention to realise assets and return capital to shareholders in due course. As formal approval by the shareholders is pending as at the date of approving the financial statements, the directors consider that it remains appropriate to prepare the financial statements on a going concern basis. In the directors' opinion the valuation basis applied to the assets and liabilities is such that there would be no material adjustments to the financial statements if they had been prepared on a different basis.

The financial statements highlight that the Group has loans of £14.6m due within one year. The directors' forecasts of the Group's cash facilities has assumed the sale of certain investments sufficient to repay these loans as and when they fall due other than the Co-operative Bank facility of £10.2m which is technically repayable on demand but has an expiry date of 31 May 2012 and a working capital facility which is in the process of being renewed.

On the basis that (i) confirmation has been received from the Co-operative Bank plc that it is not their current intention to call the loan facility; (ii) confirmation has been received from Royal Bank of Scotland that it is their intention to extend the loan that is due to expire in May 2011; and (iii) the current cash resources within the Group as at 31 March 2011 of £2.9m, these financial statements have been prepared on a going concern basis.

In the event that the investments are not sold at the time envisaged by their forecasts the directors believe that the Group has sufficient assets that could be sold, or alternative sources of finance secured thereon, to fund any timing shortfall.

After making enquiries, and having due regard to the above, the directors believe that the Group has access to sufficient working capital for the foreseeable future and therefore remains a going concern.

PRINCIPAL ACCOUNTING POLICIES – continued

(b) Basis of consolidation

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

(c) Presentation of Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. Net capital returns may not be distributed by way of a dividend. The net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. Details of the Company's results for the year are set out in note 20.

(d) Investments in associates and joint ventures

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

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

(e) Segment reporting

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

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

(f) Income

(i) *Dividend and interest income*

Income from listed securities is recognised when the right to receive the dividend has been established. Interest receivable is recognised on an accruals basis.

(ii) *Rental income*

Rental income comprises property rental income receivable net of VAT, recognised on a straight line basis over the lease term.

(g) Expenses

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

(h) Property, plant and equipment

All property, plant and equipment is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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.

PRINCIPAL ACCOUNTING POLICIES – continued

(i) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

Investment trusts which have approval under section 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 Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

(j) Operating leases

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

(k) Investments

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Group's key management. The Group's investment strategy is to provide shareholders with long term capital and income growth by a combination of investing in commercial property, bonds and equities. Consequently all equity investments are classified as held at fair value through profit or loss.

(i) *Properties*

Property investments are included in the Statement of Financial Position at fair value and are not depreciated.

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

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

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

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

PRINCIPAL ACCOUNTING POLICIES – continued

(ii) *Securities*

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

- (i) Investments which have been made in the last 12 months are valued at cost in the absence of overriding factors;
- (ii) Investments in companies at an early stage of development are also valued at cost in the absence of overriding factors;
- (iii) Where investments have gone beyond the stage in their development in (ii) above, the shares may be valued by having regard to a suitable price-earnings ratio to that company's historical post-tax earnings or the net asset value of the investment; and
- (iv) Where a value is indicated by a material arm's length market transaction by a third party in the shares of a company, that value may be used.

(iii) *Loan Stock*

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

(l) *Developments in hand*

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

(m) *Trade and other receivables*

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

(n) *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.

(o) *Dividends payable*

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

(p) *Bank borrowings*

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

(q) *Trade and other payables*

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

(r) *Interest rate swaps*

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

PRINCIPAL ACCOUNTING POLICIES – continued

(s) Capital reserves

The following realised amounts are accounted for in this reserve:

- gains and losses on the realisation of securities and property investments.
- realised exchange differences of a capital nature.
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature including guarantees.

The following unrealised amounts are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year-end.
- unrealised exchange differences of a capital nature.
- provisions charged against carrying value of investments held at the year end.
- provisions for deferred taxation in respect of revalued properties.

(t) Pensions

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

(u) Share based payments

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods. The Group has not early adopted the standards, amendments and interpretations described below:

- (i) Amendment to IFRS 7 Financial Instruments: Disclosure (effective from 1 July 2011)
- (ii) IFRS 9 Financial Instruments: Recognition and measurement (effective from 1 January 2013)
- (iii) Amendment to IFRS 1 First time adoption of IFRS (effective from 1 July 2010)
- (iv) Amendment to IAS 32 Financial instruments: Presentation (effective from 1 February 2010)
- (v) Amendment to IAS 24 Related party disclosures (effective from 1 January 2011)
- (vi) IFRIC 14 Prepayments of a minimum funding requirement (effective 1 January 2011)
- (vii) IFRIC 19 Extinguishing financial liabilities with equity instruments (effective 1 July 2010)

These changes are not expected to have a material impact on the financial statements.

(w) Critical accounting estimates and judgments

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

- (i) The value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions at each Statement of Financial Position date;
- (ii) Loans are measured at amortised costs and provision is made for impairment as necessary based on the available latest information; and
- (iii) The value of property investments is based on independent third party valuations. These valuations are based on assumptions including rental values, yield rates and future operating costs.

NOTES TO THE ACCOUNTS

1 INCOME

	2010 £'000	2009 £'000
Income from investments		
Dividend income – Listed UK	63	142
Interest receivable: Bank and brokers	14	27
Other	369	31
	<u>446</u>	<u>200</u>
Rental income	1,435	2,112
	<u>1,881</u>	<u>2,312</u>
Trading income		
Sale of development in hand # (note 2)	3,025	–
	<u>186</u>	<u>62</u>
Other operating income		
Dealing profits and losses	(38)	(54)
Management fees receivable	100	79
Other	124	37
	<u>186</u>	<u>62</u>
Total income	<u>5,092</u>	<u>2,374</u>
Total income comprises:		
Dividends	63	142
Interest	383	58
Rental income	1,435	2,112
Trading income	3,025	–
Other operating income	186	62
	<u>5,092</u>	<u>2,374</u>

2 OPERATING COSTS

Operating costs comprise the following:

	2010		2009	
	Revenue £'000	Capital £'000	Revenue £'000	Capital £'000
a) Net costs associated with the sale of development in hand #:	2,434	–	102	–
b) Property outgoings:				
Directors' emoluments (excluding benefits in kind)	134	–	108	–
Wages and salaries	50	–	42	–
Other operating costs	884	–	1,057*	–
	<u>1,068</u>	<u>–</u>	<u>1,207</u>	<u>–</u>
c) Administrative overheads:				
Directors' emoluments (excluding benefits in kind)	400	250	352	–
Auditor's remuneration ***	79	6	87	–
Depreciation	–	–	1	–
Wages and salaries	138	–	111	–
Redundancy costs	80	–	16	–
Social security costs	38	–	38	–
Operating lease rentals – land and buildings	27	–	71	–
Other operating costs	459	–	306	–
Direct costs of acquiring investments	–	41	–	–
	<u>1,221</u>	<u>297</u>	<u>982**</u>	<u>–</u>
	<u>4,723</u>	<u>297</u>	<u>2,291</u>	<u>–</u>

NOTES TO THE ACCOUNTS – continued

2 OPERATING COSTS – continued

This amount relates to the sale of the development site at Curtis Road, Dorking and consists of the net realisable value as at 31 December 2009 of £2,200,000 together with £234,000 in respect of additional costs incurred during the period. The sale proceeds in respect of this development site are included in note 1 above – Trading income.

* Finance fees totalling £68,000 originally shown under property outgoings and impairments in 2009 have been reclassified as a finance cost under note 4.

** A loan redemption discount amounting to £146,000 originally included in administrative overheads in 2009 has been reclassified as a finance cost under note 4.

*** A more detailed analysis of auditor's remuneration is as follows:

	2010 £'000	2009 £'000
Audit fees	23	23
Auditor's other fees – category 1 (the auditing of accounts of subsidiaries of the Company pursuant to legislation)	41	35
Auditor's other fees – category 3 (other services relating to taxation)	15	24
Auditor's other fees – category 10 (other services)	6	5
	<u>85</u>	<u>87</u>

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

The average number of persons employed by the Group, including the executive directors, was 8 (2009: 7).

The Group has the following annual commitments under operating leases:	2010 £'000	2009 £'000
Within 1 year	27	54
1 – 5 years	–	216
Over 5 years	–	27
	<u>27</u>	<u>297</u>

3 DIRECTORS EMOLUMENTS

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

4 FINANCE COSTS

	2010 £'000	2009 £'000
Interest payable on loans and overdrafts	828	639
Finance fees	162	68
Movement in fair value of interest rate swaps	49	267
	<u>1,039</u>	<u>974*</u>

In addition interest totalling £nil (2009: £43,000) was capitalised on development properties.

* Finance fees totalling £68,000 originally shown under property outgoings and impairments in 2009 (note 2) have been reclassified as a finance cost. Similarly a loan redemption discount of £146,000 originally shown as an administrative overhead in 2009 (note 2) has also been reclassified as a finance cost. Both amounts are now included in the 2009 comparative figures.

NOTES TO THE ACCOUNTS – continued

5 TAXATION

	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
(a) Analysis of charge in period:						
UK Corporation tax at 28% (2009: 28%)	–	–	–	–	–	–
Total tax charge	–	–	–	–	–	–
(b) Factors affecting tax charge for period:						
Profit/(Loss) on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	(196)	282	86	(252)	1,217	965
Tax effect of:						
Change in valuation allowance	–	193	193	–	408	408
Investment gains not taxable	–	(145)	(145)	–	(1,644)	(1,644)
Profit on disposal of property not taxable	–	–	–	(4)	–	(4)
Dividend income not taxable	(18)	–	(18)	(40)	–	(40)
Expenses disallowed	23	83	106	47	–	47
Losses utilised in current year	(56)	(83)	(139)	(111)	–	(111)
Movement in losses carried forward	233	(330)	(97)	286	19	305
Consolidation adjustment	14	–	14	74	–	74
Actual tax charge	–	–	–	–	–	–

The Group has unutilised tax losses of approximately £9.5 million (2009: £9.4 million) available against future corporation tax liabilities. The potential deferred taxation asset of £2.6 million (2009: £2.6 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.

6 EARNINGS PER SHARE

Basic and diluted earnings per share

The basic and diluted earnings per share figure is based on the net profit for the year attributable to the equity shareholders of £956,000 (2009: £3,354,000) and on 4,990,176 (2009: 4,881,880) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

There are no shares deemed to have been issued as at 31 December 2010. The calculation for diluted earnings per share would have included 8,859 (2009: 8,908) shares deemed to have been issued at nil consideration as a result of options granted but these have not been recognised as they would increase the profit per share.

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

	2010 £'000	2009 £'000
Net revenue loss attributable to equity holders of the parent	(217)	(1,012)
Net capital gain attributable to equity holders of the parent	1,173	4,366
Net total gain	956	3,354
Weighted average number of ordinary shares in issue during the period	4,990,176	4,881,880
Basic and diluted earnings per share	Pence	Pence
Revenue	(4.3)	(20.7)
Capital	23.5	89.4
Total basic earnings per share	19.2	68.7

NOTES TO THE ACCOUNTS – continued

7 DIVIDENDS

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2009 of 1p (2008: 1p) per share	<u>49</u>	<u>49</u>
	<u>49</u>	<u>49</u>

Set out below is 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 31 December 2010 of 1p (2009: 1p) per share	<u>54</u>	<u>49</u>
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The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

8 INVESTMENTS – SECURITIES

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Listed securities – on the London Stock Exchange	5,804	1,195	5,804	1,195
Listed securities – on overseas exchanges	3	30	3	30
Securities dealt in under AIM	1,753	9,935	1,753	1,536
Securities dealt in under PLUS Markets	178	248	178	248
Unlisted securities	4,648	1,315	4,648	1,315
Carrying value at 31 December	<u>12,386</u>	<u>12,723</u>	<u>12,386</u>	<u>4,324</u>
Investments valued at fair value through profit or loss	11,124	12,521	11,124	4,122
Loans and receivables valued at amortised cost	1,262	202	1,262	202
	<u>12,386</u>	<u>12,723</u>	<u>12,386</u>	<u>4,324</u>

Group – Year Ended 31 December 2010

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Opening cost	337	352	2,415	301	3,022	6,427
Opening unrealised gains/(losses)	858	(322)	7,520	(53)	(1,707)	6,296
Opening value	1,195	30	9,935	248	1,315	12,723
Movements in the year:						
Purchases at cost	5,801	–	280	62	3,154	9,297
Sales – proceeds	(1,288)	(239)	(8,794)	–	(126)	(10,447)
Sales – realised gains/(losses) on sales	1,034	(301)	7,976	–	(188)	8,521
Unrealised gains/(losses)	(938)	245	(7,644)	(132)	761	(7,708)
Transfers between Unlisted and Listed overseas	–	268	–	–	(268)	–
Closing value	<u>5,804</u>	<u>3</u>	<u>1,753</u>	<u>178</u>	<u>4,648</u>	<u>12,386</u>
Closing cost	5,884	80	1,877	363	5,594	13,798
Closing unrealised gains/(losses)	(80)	(77)	(124)	(185)	(946)	(1,412)
Closing value	<u>5,804</u>	<u>3</u>	<u>1,753</u>	<u>178</u>	<u>4,648</u>	<u>12,386</u>

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued**Group – Year Ended 31 December 2009**

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Opening cost	142	352	3,098	472	2,727	6,791
Opening unrealised gains/(losses)	622	(317)	1,582	(352)	(1,638)	(103)
Opening value	764	35	4,680	120	1,089	6,688
Movements in the year:						
Purchases at cost	253	–	65	77	857	1,252
Sales – proceeds	(224)	–	(541)	–	(324)	(1,089)
Sales – realised gains/(losses) on sales	166	–	25	–	(718)	(527)
Unrealised gains/(losses)	236	(5)	5,938	299	(69)	6,399
Transfers between Listed, AIM, PLUS and Unlisted	–	–	(232)	(248)	480	–
Closing value	<u>1,195</u>	<u>30</u>	<u>9,935</u>	<u>248</u>	<u>1,315</u>	<u>12,723</u>
Closing cost	337	352	2,415	301	3,022	6,427
Closing unrealised gains/(losses)	858	(322)	7,520	(53)	(1,707)	6,296
Closing value	<u>1,195</u>	<u>30</u>	<u>9,935</u>	<u>248</u>	<u>1,315</u>	<u>12,723</u>

Company – Year Ended 31 December 2010

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Opening cost	337	352	2,620	301	3,022	6,632
Opening unrealised gains/(losses)	858	(322)	(1,084)	(53)	(1,707)	(2,308)
Opening value	1,195	30	1,536	248	1,315	4,324
Movements in the year:						
Purchases at cost	5,801	–	280	62	3,154	9,297
Sales – proceeds	(1,288)	(239)	(173)	–	(126)	(1,826)
Sales – realised gains/(losses) on sales	1,034	(301)	(608)	–	(188)	(63)
Unrealised gains/(losses)	(938)	245	718	(132)	761	654
Transfers between AIM, PLUS and Unlisted	–	268	–	–	(268)	–
Closing value	<u>5,804</u>	<u>3</u>	<u>1,753</u>	<u>178</u>	<u>4,648</u>	<u>12,386</u>
Closing cost	5,884	80	2,119	363	5,594	14,040
Closing unrealised gains/(losses)	(80)	(77)	(366)	(185)	(946)	(1,654)
Closing value	<u>5,804</u>	<u>3</u>	<u>1,753</u>	<u>178</u>	<u>4,648</u>	<u>12,386</u>

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

Company – Year Ended 31 December 2009

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Opening cost	142	352	3,339	472	2,727	7,032
Opening unrealised gains/(losses)	622	(317)	1,341	(352)	(1,638)	(344)
Opening value	764	35	4,680	120	1,089	6,688
Movements in the year:						
Purchases at cost	253	–	65	77	857	1,252
Sales – proceeds	(224)	–	(8,865)	–	(324)	(9,413)
Sales – realised gains/(losses) on sales	166	–	8,313	–	(718)	7,761
Unrealised gains/(losses)	236	(5)	(2,425)	299	(69)	(1,964)
Transfers between Listed, AIM, PLUS and Unlisted	–	–	(232)	(248)	480	–
Closing value	<u>1,195</u>	<u>30</u>	<u>1,536</u>	<u>248</u>	<u>1,315</u>	<u>4,324</u>
Closing cost	337	352	2,620	301	3,022	6,632
Closing unrealised gains/(losses)	858	(322)	(1,084)	(53)	(1,707)	(2,308)
Closing value	<u>1,195</u>	<u>30</u>	<u>1,536</u>	<u>248</u>	<u>1,315</u>	<u>4,324</u>

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

Gains on investments held at fair value	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Realised gains/(losses) on sales	8,521	(527)	(63)	7,761
Unrealised gains/(losses)	<u>(7,708)</u>	<u>6,399</u>	<u>654</u>	<u>(1,964)</u>
Gain on investments	<u>813</u>	<u>5,872</u>	<u>591</u>	<u>5,797</u>

An analysis of investments is as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Equity investments	5,309	12,140	5,309	3,741
Fixed income securities	5,815	381	5,815	381
Convertible loans	–	63	–	63
Other loans	<u>1,262</u>	<u>139</u>	<u>1,262</u>	<u>139</u>
	<u>12,386</u>	<u>12,723</u>	<u>12,386</u>	<u>4,324</u>

NOTES TO THE ACCOUNTS – continued

8 INVESTMENTS – SECURITIES – continued

An analysis of the securities portfolio by broad industrial or commercial sector is contained within the Report of the Directors. The largest ten investments as at 31 December 2010 all of which are incorporated in Great Britain, with the exception of Memorial Holdings Limited which is incorporated in Jersey, were:

	Market Value £'000	% of Portfolio
UK listed securities		
HSBC Bank plc – 9.875% bond	1,013	8.2
HSBC Bank plc – 5.75% bond	944	7.6
Marks & Spencer plc – 5.625% bond	602	4.9
National Grid plc – 6.125% bond	680	5.4
Scottish & Southern plc – 5.75% bond	908	7.3
Standard Chartered Bank plc – 6% bond	1,088	8.8
Securities dealt in under AIM		
SpaceandPeople plc – marketing and sale of promotional space on behalf of shopping centres and other similar venues	1,031	8.3
Unquoted securities		
Attila (BR) Limited – 10% unsecured loan notes 2010-2015	875	7.1
AudioGravity Holdings Limited – development of advanced wind noise rejection technology	588	4.7
Memorial Holdings Limited – investment company specialising in the cemetery sector	2,568	20.7
	<u>10,297</u>	<u>83.0</u>

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

AudioGravity Holdings Limited

Financial Summary

Year ended 31 July 2010

	£'000s		
Turnover	nil	Shares	Ordinary 1p
Loss before interest	(241)	Total issued	62,451
Loss before tax	(245)	Number held	14,691
Loss after tax	(245)	% of class	23.5
Net assets	420	Cost (£'000s)	395
Dividend per share	nil	Market value (£'000s)	588
Total income recognised in the year	<u>nil</u>		

Attila (BR) Limited

No financial information available as the company was incorporated on 28 April 2010

	10% Unsecured Loan notes 2010-2015	Ordinary 1p shares
Total issued	3,483,702	100,000
Number held	875,007	20,089
% of class	25.1	20.1
Cost (£'000s)	875	–
Market value (£'000s)	<u>875</u>	<u>–</u>

Memorial Holdings Limited

No financial information available as the company was incorporated on 11 December 2009

	Shares	Ordinary £1
Total issued		10,000
Number held		1,500
% of class		15.0
Cost (£'000s)		2,392
Market value (£'000s)		<u>2,568</u>

NOTES TO THE ACCOUNTS – continued

9 PROPERTY INVESTMENTS

	Group	
	2010	2009
	£'000	£'000
Net book value and valuation		
At 1 January	24,600	25,750
Additions during the year – expenditure on existing properties	3,530	374
Revaluation during the year	490	(1,524)
At 31 December	<u>28,620</u>	<u>24,600</u>

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

All property investments were valued by King Sturge LLP, Chartered Surveyors, as at 31 December 2010 at a combined total of £28,620,000. These external valuations were carried out on the basis of Market Value in accordance with the latest edition of the Valuation Standards published by the Royal Institution of Chartered Surveyors.

Included in additions during the year is a sum of £2,947,000 (2009: nil) in respect of the cost of securing vacant possession of the site at Newton-le-Willows following the grant of residential planning permission.

Operating leases

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

	2010	2009
	£'000	£'000
Not later than one year	952	995
Between 2 and 5 years	2,190	2,144
Over 5 years	615	1,959
	<u>3,757</u>	<u>5,098</u>

Rental income recognised in the Statement of Comprehensive Income amounted to £1,435,000 (2009: £2,112,000)

The commercial leases vary with their location within the United Kingdom, however wherever the market allows they are being standardised where possible across the property portfolio. The commercial units are leased on terms where the tenant has the responsibility for repairs and running costs for each individual unit with a service charge payable to cover estate services provided by the Landlord. 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 31 December 2010 is as follows:

	Group
	£'000
Brought forward	25,053
Additions during the year	3,530
	<u>28,583</u>

Capital commitments

Capital expenditure contracted for but not provided for in the financial statements for both the Group and Company was £nil (2009: £nil).

	Group	
	2010	2009
	£'000	£'000
Movement in fair value of property investments		
Realised gains on disposal of property	–	–
Increase/(decrease) in unrealised appreciation	490	(1,524)
Movement in fair value of property investments	<u>490</u>	<u>(1,524)</u>

NOTES TO THE ACCOUNTS – continued

10 INVESTMENT IN JOINT VENTURE

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Loans to joint venture (net of provision)	940	350	-	-
Less share of joint venture's losses	(32)	(350)	-	-
	<u>908</u>	<u>-</u>	<u>-</u>	<u>-</u>

The amounts for 2010 relate to loans made to DIPS (Aberdeen) LLP in which the Group has a 75% interest. The amounts for 2009 relate to loans made to New Capital (Speke) Limited in which the Group has a 50% equity interest. Following the appointment of an LPA Receiver on 1 September 2009 and the lack of financial information after this date the Group considers that the loan is worthless and has treated as a disposal at nil value.

The results of DIPS (Aberdeen) LLP for the period ended 31 December 2010, being the last financial information available are as follows:-

	2010 £'000
Turnover	-
Loss on ordinary activities before taxation	(46)
Taxation on ordinary activities	-
Loss on ordinary activities after taxation	<u>(46)</u>
At 31 December	
Fixed assets	-
Current assets	3,513
Creditors: amounts falling due within one year	(1,498)
Creditors: amounts falling due after one year	<u>(2,061)</u>
	<u>(46)</u>

11 OTHER INVESTMENTS

	Company	
	2010 £'000	2009 £'000
Subsidiary undertakings		
Shares – at cost	322	322
Less provision	(320)	(320)
	<u>2</u>	<u>2</u>

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

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

NOTES TO THE ACCOUNTS – continued

12 PROPERTY, PLANT AND EQUIPMENT – GROUP

	2010		2009	
	Motor Vehicles £'000	Total £'000	Motor Vehicles £'000	Total £'000
Deemed cost				
As at 1 January	19	19	19	19
Disposals during the year	(19)	(19)	–	–
As at 31 December	<u>–</u>	<u>–</u>	<u>19</u>	<u>19</u>
Depreciation				
Balance 1 January	17	17	16	16
Charge for the year	–	–	1	1
Disposals during the year	(17)	(17)	–	–
Balance 31 December	<u>–</u>	<u>–</u>	<u>17</u>	<u>17</u>
Net book values at 31 December	<u>–</u>	<u>–</u>	<u>2</u>	<u>2</u>

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amounts receivable within one year:				
Trade receivables	358	963	–	–
Less allowance for credit losses	(90)	(459)	–	–
	<u>268</u>	<u>504</u>	<u>–</u>	<u>–</u>
Allowances for credit losses on trade receivables:				
Allowances as at 1 January	459	549	–	–
Changes during the year charged/(released) to Statement of Comprehensive Income – allowances reversed	(412)	(146)	–	–
– additional allowances	43	56	–	–
Allowances as at 31 December	<u>90</u>	<u>459</u>	<u>–</u>	<u>–</u>

Trade and other receivables are assessed for impairment when older than 90 days. As at 31 December 2010, trade receivables of £19,000 (2009: £64,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
1-3 months	–	–	–	–
3-6 months	16	20	–	–
More than 6 months	3	44	–	–
	<u>19</u>	<u>64</u>	<u>–</u>	<u>–</u>

As at 31 December 2010 trade receivables of £90,000 (2009: £459,000) were impaired and provided for. The ageing of these receivables is as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
1-3 months	–	9	–	–
3-6 months	16	28	–	–
6-12 months	27	79	–	–
More than 12 months	47	343	–	–
	<u>90</u>	<u>459</u>	<u>–</u>	<u>–</u>

NOTES TO THE ACCOUNTS – continued

13 TRADE AND OTHER RECEIVABLES – continued

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

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £268,000 (2009: £504,000).

14 OTHER CURRENT ASSETS

	Notes	Group		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
Listed and other securities held		20	63	–	–
Developments in hand	(a)	851	3,138	925	925
Other loans	(b)	137	207	135	206
		<u>1,008</u>	<u>3,408</u>	<u>1,060</u>	<u>1,131</u>

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

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

15 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade creditors	172	192	–	–
Other creditors	165	199	21	17
Accruals	2,849	1,041	–	–
	<u>3,186</u>	<u>1,432</u>	<u>21</u>	<u>17</u>

16 CURRENT LIABILITIES – SHORT TERM BORROWINGS

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Bank overdrafts and short-term loans (secured) (note 17)				
– property loans	12,412	10,712	–	–
– other	2,222	8,325	237	21
	<u>14,634</u>	<u>19,037</u>	<u>237</u>	<u>21</u>

Property loans include £10,240,000 due to the Co-operative Bank plc which is technically repayable on demand. This facility does however have an expiry date of 31 May 2012 and confirmation has been received from the bank that it is not their intention to call this facility. The other bank overdraft is secured on investments held in the parent company with a market value of £5,804,000.

17 NON-CURRENT LIABILITIES – LONG TERM BORROWINGS

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Property Loans	3,110	6,707	–	–
	<u>3,110</u>	<u>6,707</u>	<u>–</u>	<u>–</u>

NOTES TO THE ACCOUNTS – continued

17 NON-CURRENT LIABILITIES – LONG TERM BORROWINGS – continued

Property loans relate to property investments held in Newton Estate Limited (long term borrowings) and New Capital Developments Limited, Knowsley Industrial Property Limited and Chartermet Limited (all short term borrowings). The loans are secured by way of a legal mortgage over the investment property concerned, which have a total carrying value of £28.62m, and a floating charge over the assets of the relevant company. In addition there are cross guarantees in place with fellow subsidiary undertakings and an interest guarantee by the parent.

Details of total bank loans and overdrafts are as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
1.0% over 3 month LIBOR	–	8,325	–	–
2.5% over bank base rate	2,222	–	–	–
2.25% over 3 month LIBOR	5,307	6,947	–	–
2.75% over bank base rate	5,108	5,236	–	–
2.75% over 3 month LIBOR	5,107	5,236	–	–
	<u>17,744</u>	<u>25,744</u>	<u>–</u>	<u>–</u>

Loans or instalments thereof are repayable over the following periods:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Less than 1 year	14,634	19,037	–	–
Between 1 and 2 years	3,110	3,923	–	–
Between 2 and 5 years	–	2,784	–	–
Over 5 years	–	–	–	–
	<u>17,744</u>	<u>25,744</u>	<u>–</u>	<u>–</u>

Details of interest rate swaps are as follows:

Start Date	Maturity Date	Nominal Amount £'000	Fixed rate %	Valuation	Valuation
				31 December 2010 £'000	31 December 2009 £'000
16 July 2009	16 July 2012	3,350	2.93	(122)	(78)
8 January 2007	31 December 2011	1,960	5.48	(88)	(142)
22 May 2009	22 May 2012	5,120	2.55	(106)	(47)
				<u>(316)</u>	<u>(267)</u>

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

Floating rate in all cases is 3 month LIBOR.

18 DEFERRED TAXATION

Under International Accounting Standards (“IAS”) 12 (Income Taxes) provision is made for the deferred tax liability associated with the revaluation of property investments. The Group provides for deferred tax on property investments by reference to the tax that would be due on the sale of the property investments by applying the capital gains tax rate of 27 per cent (2009: 28 per cent) to the revaluation surplus after indexation allowance.

The deferred tax provision on the revaluation of property investments calculated under IAS 12 is £nil at 31 December 2010 (2009: £nil).

NOTES TO THE ACCOUNTS – continued

19 SHARE CAPITAL

Share Capital	2010 £'000	2009 £'000
Allotted: Ordinary – 5,369,880 (2009: 4,881,880) fully paid shares of 25p each	<u>1,342</u>	<u>1,220</u>

On 12 October 2010 the Company issued 488,000 ordinary shares of 25p each by way of a vendor placing at 332.5p per share, the costs of which amounted to £46,000 which have been charged to the share premium account.

As at 31 December 2010 there were 8,800 options outstanding under the Company's Approved Share Option Scheme which can be exercised anytime between 3 May 2008 and 3 May 2012 at an exercise price of 337.5p.

20 RESERVES

	2010				2009			
	Share premium account £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Share premium account £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000
Group								
Balance at 1 January	847	14	34,729	(13,683)	847	42	30,363	(12,650)
Issue of share capital	1,455	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	(28)	–	28
Net profit/(loss) on realisation of investments	–	–	8,521	–	–	–	(527)	–
(Losses)/gains on revaluation	–	–	(7,708)	–	–	–	6,399	–
Surplus/deficit arising on property revaluation	–	–	657	–	–	–	(1,495)	–
Loss on disposal of investment properties	–	–	–	–	–	–	(11)	–
Capital costs for the year	–	–	(297)	–	–	–	–	–
Revenue loss for the year	–	–	–	(217)	–	–	–	(1,012)
Dividends paid	–	–	–	(49)	–	–	–	(49)
As at 31 December	<u>2,302</u>	<u>14</u>	<u>35,902</u>	<u>(13,949)</u>	<u>847</u>	<u>14</u>	<u>34,729</u>	<u>(13,683)</u>
Company								
Balance at 1 January	847	14	11,905	143	847	42	6,108	100
Issue of share capital	1,455	–	–	–	–	–	–	–
Share based payments	–	–	–	–	–	(28)	–	28
Net profit/(loss) on realisation of fixed asset investments	–	–	(63)	–	–	–	7,761	–
Gains/(losses) on revaluation	–	–	654	–	–	–	(1,964)	–
Capital costs for the year	–	–	(299)	–	–	–	–	–
Revenue profit for the year	–	–	–	111	–	–	–	64
Dividends paid	–	–	–	(49)	–	–	–	(49)
As at 31 December	<u>2,302</u>	<u>14</u>	<u>12,197</u>	<u>205</u>	<u>847</u>	<u>14</u>	<u>11,905</u>	<u>143</u>
Non-controlling interest:				2010 £'000				2009 £'000
Balance as at 1 January				424				331
Interest in revenue return for the year				(484)				111
Interest in capital return for the year				(167)				(18)
Balance as at 31 December				<u>(227)</u>				<u>424</u>

The following amounts within Capital reserve are realised:–

	2010 £'000	2009 £'000
Group	<u>37,080</u>	<u>28,856</u>
Company	<u>13,610</u>	<u>13,972</u>

NOTES TO THE ACCOUNTS – continued

21 NET ASSET VALUE PER SHARE**Basic and diluted**

Basic and diluted net asset value per ordinary share is based on Equity attributable to equity shareholders at the year end and on 5,369,880 (2009: 4,881,880) ordinary shares being the number of ordinary shares in issue at the year end. No shares were deemed to have been issued at nil consideration as a result of options granted.

The calculation for diluted net asset value per ordinary share would have included 8,859 (2009: 8,908) shares deemed to have been issued at nil consideration as a result of options granted but these have not been recognised as they would increase the net asset value per share.

	£'000
The movement during the year of the assets attributable to ordinary shares were as follows:	
Total net assets attributable at 1 January 2010	23,127
Total recognised gains for the year	956
Dividends appropriated in the year	(49)
Issue of shares	1,577
	<u>25,611</u>
Total net assets attributable at 31 December 2010	<u>25,611</u>

22 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Revenue return before taxation	(701)	(901)	111	64
Interest payable	877	1,052	–	–
Profit on disposal of property, plant & equipment	(1)	–	–	–
Depreciation of property, plant & equipment	–	1	–	–
Share of joint venture losses	32	10	–	–
	<u>207</u>	<u>162</u>	<u>111</u>	<u>64</u>
(Increase)/decrease in current assets	(158)	142	(239)	(192)
(Decrease)/increase in current liabilities	(450)	(338)	4	4
	<u>(401)</u>	<u>(34)</u>	<u>(124)</u>	<u>(124)</u>

23 FINANCIAL INSTRUMENTS

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

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

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

- (i) securities consisting of listed and unlisted equity shares and corporate bonds;
- (ii) a secondary portfolio of listed and unlisted fixed income securities;
- (iii) cash, liquid resources and short term debtors and creditors that arise directly from its operational activities;
- (iv) short term and long-term borrowings;
- (v) interest rate swaps.

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued

Valuation inputs

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

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

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

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

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

Group:

	31 December 2010 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets/(liabilities) at fair value through profit or loss:				
Investments – securities				
– Equities	5,309	1,934	–	3,375
– Fixed income	5,815	5,815	–	–
Trading securities				
– Equities	20	19	–	1
– Loans	–	–	–	–
Interest rate swaps	(316)	–	(316)	–
	<u>10,828</u>	<u>7,768</u>	<u>(316)</u>	<u>3,376</u>
	31 December 2009 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets/(liabilities) at fair value through profit or loss:				
Investments – securities				
– Equities	12,140	11,027	–	1,113
– Fixed income	381	381	–	–
Trading securities				
– Equities	20	20	–	–
– Loans	43	–	–	43
Interest rate swaps	(267)	–	(267)	–
	<u>12,317</u>	<u>11,428</u>	<u>(267)</u>	<u>1,156</u>

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued**Company:**

	31 December 2010 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets/(liabilities) at fair value through profit or loss:				
Investments – securities				
– Equities	5,309	1,934	–	3,375
– Fixed income	5,815	5,815	–	–
	<u>11,124</u>	<u>7,749</u>	<u>–</u>	<u>3,375</u>
	31 December 2009 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets/(liabilities) at fair value through profit or loss:				
Investments – securities				
– Equities	3,741	2,628	–	1,113
– Fixed income	381	381	–	–
	<u>4,122</u>	<u>3,009</u>	<u>–</u>	<u>1,113</u>

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

Group:

	Investments – securities £'000	Trading securities £'000	Total £'000
31 December 2010			
Opening balance	1,113	43	1,156
Total gains or losses:			
In profit or loss	–	(37)	(37)
In other comprehensive income	685	–	685
Purchases	1,882	–	1,882
Sales	(26)	(5)	(31)
Transfer out of level 3	(279)	–	(279)
Closing balance	<u>3,375</u>	<u>1</u>	<u>3,376</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>501</u>	<u>(37)</u>	<u>464</u>
	Investments – securities £'000	Trading securities £'000	Total £'000
31 December 2009			
Opening balance	754	101	855
Total gains or losses:			
In profit or loss	–	(37)	(37)
In other comprehensive income	(644)	–	(644)
Purchases	680	–	680
Sales	(157)	(21)	(178)
Transfer out of level 3	480	–	480
Closing balance	<u>1,113</u>	<u>43</u>	<u>1,156</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>(489)</u>	<u>(37)</u>	<u>(526)</u>

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued

Company:	Investments – securities £'000	Trading securities £'000	Total £'000
31 December 2010			
Opening balance	1,113	–	1,113
Total gains or losses:			
In other comprehensive income	685	–	685
Purchases	1,882	–	1,882
Sales	(26)	–	(26)
Transfer out of level 3	(279)	–	(279)
Closing balance	<u>3,375</u>	<u>–</u>	<u>3,375</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>501</u>	<u>–</u>	<u>501</u>
	Investments – securities £'000	Trading securities £'000	Total £'000
31 December 2009			
Opening balance	754	–	754
Total gains or losses:			
In other comprehensive income	(644)	–	(644)
Purchases	680	–	680
Sales	(157)	–	(157)
Transfer out of level 3	480	–	480
Closing balance	<u>1,113</u>	<u>–</u>	<u>1,113</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>(489)</u>	<u>–</u>	<u>(489)</u>

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

Market price risk

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

The Board's strategy in managing the market price risk inherent in the Company's portfolio of equity investments is determined by the requirement to meet the Company's investment objective as discussed on page 6. No single investment is permitted to exceed 15% of total investment assets at the point of investment. The executive directors manage these risks by regular reviews of the portfolio within the context of current market conditions.

The Company's total comprehensive income and Statement of Financial Position can be affected by foreign exchange movements due to the Company having assets denominated in currencies other than the Group's base currency (Sterling) although the Board does not believe this exposure to be material. As at 31 December, 2010 the Company had an investment valued at £nil denominated in Australian dollars (2009: £30,000), and an investment valued at £3,000 denominated in US dollars (2009: £17,000).

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued

The majority of the value of the Company's securities portfolio are bonds traded on the London Stock Exchange (46.1%). Within this sub-portfolio are six of the Company's largest investments which account for 91.6% of the value of that sub-portfolio. As at 31 March 2011, the Company's bond portfolio had increased by 0.1%.

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

As at 31 March 2011 the value of the overall securities portfolio had decreased by £65,000 (i.e. 0.5%) from that as at the year end decreasing total comprehensive income and net assets by a similar sum. Based on values as at 31 December 2010 a 10% movement in the value of the portfolio would be equivalent to a movement of £1,239,000 in both comprehensive income and net assets.

Property risk

The Board attempts to reduce its property risk by ensuring that the appropriate advice is taken prior to entering into any significant property acquisition and by regularly monitoring the amount of vacant space and the actions being taken to find appropriate tenants. The quality of tenants is also monitored but this is balanced against the requirement to fill vacant space.

Credit risk

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

The Group's maximum exposure to credit risk is:

	2010 £'000	2009 £'000
Investments held at fair value through profit or loss	10,828	12,317
Loan stock investments held at amortised cost	1,262	202
Other loans	137	207
Trade and other receivables	268	504
Accrued income	401	182
Cash and cash equivalents	2,831	9,043
	<u>15,727</u>	<u>22,455</u>

The Group has an exposure to credit risk in respect of both loan stock investments and other loans, most of which have no security attached to them, or where they do, such security will rank after any bank debt, and in respect of trade and other receivables, details of which can be found in note 13 to these financial statements. The Company's exposure to credit risk is restricted to investments, cash and cash equivalents, other loans and accrued income totalling £15,391,000 (2009: £13,240,000).

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

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

	2010 £'000	2009 £'000
(a) Loan stock investments		
Repayable within:- 1 year	26	102
1-2 years	150	–
2-3 years	211	100
3-4 years	–	–
4-5 years	875	–
	<u>1,262</u>	<u>202</u>

As at 31 December 2010 Loan Stock investments totalling £247,000 (2009: £134,000) were impaired and provided for.

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued

	2010 £'000	2009 £'000
(b) Other Loans		
Repayable within:- 1 year	135	207
1-2 years	<u>2</u>	<u>-</u>
	<u>137</u>	<u>207</u>

As at 31 December 2010 other loans totalling £226,000 (2009: £186,000) were impaired and provided for and loans with a value of £135,000 (2009: £206,000) were overdue for payment but not impaired.

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

Interest rate risk

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

The Group's assets include fixed and floating rate interest instruments as detailed below. The Group is exposed to interest rate movements on its floating rate liabilities. The Group has attempted to minimise this risk by structuring its borrowings through the use of interest rate swaps. Under interest rate swaps the Group agrees with other parties to exchange, at quarterly intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 December 2010 and 2009 were:

Group:

	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
As at 31 December 2010						
Portfolio	5,309	7,077	-	-	-	12,386
Dealing securities	20	-	-	-	-	20
Cash	-	-	2,831	-	-	2,831
Trade and other receivables	268	-	-	-	-	268
Accrued income	401	-	-	-	-	401
Other loans	-	137	-	-	-	137
Creditors						
– falling due within 1 year	(3,186)	-	-	-	(14,634)	(17,820)
– falling due after 1 year	-	-	-	-	(3,110)	(3,110)
Other financial liabilities (interest rate swaps)	-	-	-	(316)	-	(316)
	<u>2,812</u>	<u>7,214</u>	<u>2,831</u>	<u>(316)</u>	<u>(17,744)</u>	<u>(5,203)</u>

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued

	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
As at 31 December 2009						
Portfolio	12,140	583	–	–	–	12,723
Dealing securities	63	–	–	–	–	63
Cash	–	–	9,043	–	–	9,043
Trade and other receivables	504	–	–	–	–	504
Accrued income	182	–	–	–	–	182
Other loans	–	207	–	–	–	207
Creditors						
– falling due within 1 year	(1,432)	–	–	–	(19,037)	(20,469)
– falling due after 1 year	–	–	–	–	(6,707)	(6,707)
Other financial liabilities (interest rate swaps)	–	–	–	(267)	–	(267)
	<u>11,457</u>	<u>790</u>	<u>9,043</u>	<u>(267)</u>	<u>(25,744)</u>	<u>(4,721)</u>

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

Fixed rate assets comprise preference shares, fixed rate loans, unsecured loans and loans repayable on demand, with a weighted average interest rate of 7.50% (2009: 8.12%). Fixed rate liability loans comprise interest rate swaps with a weighted average interest rate of 3.22% (2009: 3.22%).

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

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

The interest rate exposure profile of the Company's financial assets and liabilities as at 31 December 2010 and 2009 were:

Company:

	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
As at 31 December 2010						
Portfolio	5,309	7,077	–	–	–	12,386
Cash	–	–	2,542	–	–	2,542
Accrued income	328	–	–	–	–	328
Other loans	–	135	–	–	–	135
Creditors						
– falling due within 1 year	(258)	–	–	–	–	(258)
	<u>5,379</u>	<u>7,212</u>	<u>2,542</u>	<u>–</u>	<u>–</u>	<u>15,133</u>

	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
As at 31 December 2009						
Portfolio	3,741	583	–	–	–	4,324
Cash	–	–	8,692	–	–	8,692
Accrued income	18	–	–	–	–	18
Other loans	–	206	–	–	–	206
Creditors						
– falling due within 1 year	(38)	–	–	–	–	(38)
	<u>3,721</u>	<u>789</u>	<u>8,692</u>	<u>–</u>	<u>–</u>	<u>13,202</u>

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued

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

	2010 £'000	2009 £'000
	Profit and net assets	Profit and net assets
If interest rates were 0.5% lower with all other variables constant – increase	89	129
Increase in earnings and net asset value per ordinary share (pence)	1.66	2.64
If interest rates were 0.5% higher with all other variables constant – decrease	(89)	(129)
Decrease in earnings and net asset value per ordinary share (pence)	<u>(1.66)</u>	<u>(2.64)</u>

Liquidity risk

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

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

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

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
31 December 2010			
Bank borrowings	5,231	13,308	–
Derivative financial instruments	272	88	–
Trade payables	172	–	–
Other creditors	2,302	–	–
	<u>7,977</u>	<u>13,396</u>	<u>–</u>
	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
31 December 2009			
Bank borrowings	9,274	3,002	13,308
Derivative financial instruments	272	272	88
Trade payables	192	–	–
Other creditors	199	–	–
	<u>9,937</u>	<u>3,274</u>	<u>13,396</u>

NOTES TO THE ACCOUNTS – continued

23 FINANCIAL INSTRUMENTS – continued**Capital risk management**

The Group manages its capital to ensure that entities within the Group and the Company will be able to continue as a going concern whilst maintaining sustainable returns to shareholders.

The capital structure of the Group and Company consists of both short term and long term borrowings as disclosed in notes 16 and 17, cash and cash equivalents and equity attributable to equity shareholders of the Company comprising issued share capital, share premium, reserves and retained earnings as disclosed in notes 19 and 20. The Board reviews the capital structure of the Group and the Company on a regular basis. The financial measures that are subject to review include cash flow projections and the ability to meet capital expenditure and other contracted commitments, projected gearing levels and interest covenants although no absolute targets are set for these.

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Debt	(17,744)	(25,744)	(237)	(21)
Cash and cash equivalents	2,831	9,043	2,542	8,692
Net (debt)/cash	(14,913)	(16,701)	2,305	8,671
Net (debt)/cash as a % of net assets	<u>(58.7)%</u>	<u>(70.9)%</u>	<u>14.4%</u>	<u>61.4%</u>

24 SHARE BASED PAYMENTS

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

	2010		2009	
	Share options Number	Weighted average price (p)	Share options Number	Weighted average price (p)
Outstanding at 1 January	8,800	337.5	25,600	337.5
Lapsed during the year	–	–	(16,800)	(337.5)
Exercised during the year	–	–	–	–
Outstanding 31 December	<u>8,800</u>	<u>337.5</u>	<u>8,800</u>	<u>337.5</u>

The market price of the shares of Gresham House plc at the time of grant in 2004 was 325p. The remaining options are exercisable at any time between 3 May 2008 and 3 May 2012.

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

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

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

The Group recognised total expenses of £nil (2009: £nil) in respect of share based payment transactions.

NOTES TO THE ACCOUNTS – continued

25 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS**Directors' beneficial shareholdings as at 31 December 2010**

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

	A G Ebel	D Lucie-Smith	B J Hallett	R A Chadwick
Securities dealt in under AIM				
SpaceandPeople plc	30,000	–	52,000	42,500
Unlisted Securities				
AudioGravity Limited	–	–	125	–
Memorial Holdings Limited	230	1,000*	–	–

* Mr D Lucie-Smith has a 25% interest in Reddish LLP which in turn holds 1,000 shares in Memorial Holdings Ltd

Related party transactions**Group**

Mr A G Ebel has an interest in Watlington Securities Limited, a company which invoiced the Group a sum of £nil (2009: £2,238) during the year. Conversely the Group invoiced the same company £35,750 (2009: £53,265). At the year end there were no balances outstanding. During the year, the Group was invoiced £25,000 (2009: £25,000) for consultancy services supplied by Microdisc Limited, a company in which Mr A G Ebel has an interest.

Mr D Lucie-Smith has an interest in Pelham (London) Limited and Prince's Place LLP which, as reported in the Remuneration Report, invoiced the Group a sum of £168,641 (2009: £147,753) during the year in respect of his services and associated office costs. At the year end there was a balance outstanding of £nil (2009: £4,016).

Conversely, during the year, the Group invoiced City Real Estate Acquisitions Limited £13,646 (2009: £10,109), and Prince's Place LLP £4,094 (2009: £2,129) for rent and rates. Mr D Lucie-Smith has an interest in each of these companies. At the year end there were balances outstanding of £6,511 (2009: £nil) from City Real Estate Acquisitions Limited and £1,330 (2009: £nil) from Princes Place LLP.

Mr J A C Lorimer has an interest in New Park Lane Limited and Parkwood Asset Management Limited which, as reported in the Remuneration Report, the former invoiced the Group a sum of £133,625 (2009: £108,250) in respect of his services during the year. Conversely the Group invoiced New Park Lane Limited a sum of £623 (2009: £617) and Parkwood Asset Management Limited £2,709 (2009: £2,522). At the year end there was a balance outstanding of £1,016 (2009: £nil) from Parkwood Asset Management Limited.

The total holding of loan stock in Abshot Finance Company Limited, in which the Group has a 50% interest and in which Mr B J Hallett is a director, amounted to £153,000 (2009: £158,000) at year end against which a provision of £153,000 (2009: £116,000) has been made.

The amount of loan made to Lancashire Tea Limited, in which the Group has a 49% interest and in which Mr D Lucie-Smith and Mr B J Hallett are directors, amounted to £250,000 (2009: £100,000) at year end against which a provision of £100,000 (2009: £nil) has been made.

The amount of loan made to New Capital Enterprises Limited, in which the Group has a 20% interest and in which Mr A G Ebel, Mr D Lucie-Smith and Mr B J Hallett are directors, amounted to £211,291 (2009: £nil) at year end. In addition there was a sum of £9,600 relating to accrued interest outstanding at that time.

The Rowe Trust holds an interest of 644,209 (2009: 644,209) ordinary shares in the Company. Mrs R H Chopin-John is a trustee of the Rowe Trust but has no beneficial interest.

Company

During the year Gresham House plc repaid loans to Security Change Limited totalling £216,309 (2009: £106,906). At the year end £237,586 was owed to Security Change Limited (2009: £21,278).

Gresham House plc has given guarantees over bank loans held by subsidiary undertakings with a maximum potential liability of £4,425,000, and an interest shortfall guarantee. In addition the Company has £440,000 of cash held in interest deposit accounts to satisfy bank loan covenants.

NOTES TO THE ACCOUNTS – continued

26 SEGMENTAL REPORTING

	Investment		Property Investment		Elimination		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue								
External income	479	183	4,599	2,133	–	–	5,078	2,316
Inter-segment income	916	981	–	–	(916)	(981)	–	–
Total revenue	1,395	1,164	4,599	2,133	(916)	(981)	5,078	2,316
Gain on investments at fair value	813	5,872	–	–	–	–	813	5,872
Movement on property investments at fair value	–	–	490	(1,524)	–	–	490	(1,524)
Profit on disposal of property, plant and equipment	–	–	1	–	–	–	1	–
Total income and gains	2,208	7,036	5,090	609	(916)	(981)	6,382	6,664
Segment expenses	(47)	–	(3,502)	(1,309)	–	–	(3,549)	(1,309)
Inter-segment expense	–	–	(916)	(981)	916	981	–	–
Interest expense	(113)	–	(926)	(974)	–	–	(1,039)	(974)
Segment profit/(loss)	2,048	7,036	(254)	(2,655)	–	–	1,794	4,381
Unallocated corporate expenses							(1,471)	(982)
Operating profit							323	3,399
Share of joint venture loss							(32)	(10)
Interest income							14	58
Profit before taxation							305	3,447

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

All activity and revenue is derived from operations within the United Kingdom. One customer accounted for £3,025,000 of the external income for the Property Investment segment. Property operating expenses relating to property investments that did not generate any rental income were £nil (2009: £117,000).

	Investment		Property Investment		Unallocated		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other Information								
Segment assets	16,413	22,007	30,217	28,987	–	–	46,630	50,994
Segment liabilities	(2,464)	(8,578)	(18,782)	(18,865)	–	–	(21,246)	(27,443)
	13,949	13,429	11,435	10,122	–	–	25,384	23,551
Capital expenditure	9,297	1,252	3,530	374	–	–	12,827	1,626
Depreciation	–	–	–	1	–	–	–	1
Non-cash expenses other than depreciation	–	–	–	–	–	–	–	–

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

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the “Meeting”) of Gresham House plc (the “Company”) will be held at the offices of Arbuthnot Securities Limited, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR on 19 May 2011 at 10.00 am for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the accounts for the year ended 31 December 2010 together with the report of the auditor;
2. To approve and adopt the Remuneration Report;
3. To declare a dividend to shareholders of 1p per ordinary share to be paid on 3 June 2011 to the holders of ordinary shares at close of business on 13 May 2011;
4. To re-elect as a director Mr J A C Lorimer who retires in accordance with the Company’s articles of association and offers himself for re-election;
5. To re-elect as a director Mr R A Chadwick who retires in accordance with the Company’s articles of association and offers himself for re-election;
6. To re-elect as a director Mr A G Ebel who retires in accordance with the provisions of the FRC Code and offers himself for re-election;
7. To appoint PKF (UK) LLP as the Company’s auditor to hold office from the conclusion of the Meeting until the conclusion of the next annual general meeting of the Company and to authorise the directors to fix their remuneration;
8. For the purposes of section 551 of the Companies Act 2006 (the “Act”) (and so that expressions used in this resolution shall bear the same meanings as in the said section 551):
 - (a) to authorise the directors, generally and unconditionally, to exercise all powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £443,015 to such persons and at such times and on such terms as they think proper during the period expiring at the earlier of the close of business on 31 August 2012 or the end of the next annual general meeting of the Company (unless previously revoked or varied by the Company in general meeting); and further
 - (b) to authorise the directors, generally and unconditionally, to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as maybe) to the respective number of equity securities held by them up to an aggregate nominal amount of £443,015 during the period expiring at the earlier of the close of business on 31 August 2012 or end of the next annual general meeting of the Company, subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and
 - (c) to authorise the Company to make, prior to the expiry of such period, any offer or agreement which would or might require such shares or rights to be allotted or granted after the expiry of the said period and the directors may allot such shares or grant such rights in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;so that all previous authorities of the directors pursuant to the said section 551 of the Act be and are hereby revoked.
9. To amend the Company’s investment objective and policy so that the investment objective and policy be as follows:

“Following the passing of an ordinary resolution at the Company’s 2011 annual general meeting, the Company’s objective and policy is the orderly realisation of the Group’s assets over a period of approximately two years with a view to returning capital to shareholders thereafter.”

By Order of the Board,
B J Hallett, Secretary
19 April 2011

5 Prince’s Gate
London SW7 1QJ

NOTES TO THE NOTICE OF MEETING

Entitlement to attend and vote

1. Pursuant to section 360B of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those members registered on the Company's register of members at:
 - 10.00 am on 17 May 2011; or,
 - if this Meeting is adjourned, at 10.00 am on the day two days prior to the adjourned Meeting,
 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at such time.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. A member may appoint more than one proxy to attend the Meeting, provided each proxy is appointed to exercise the rights attached to a different share or shares held by that member (the number of shares in respect of which each proxy is appointed must be specified). The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person").
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
 - completed and signed;
 - sent or delivered to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
 - received by Capita Registrars no later than 10.00 am 17 May 2011.
 In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
 Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxies through CREST

6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Capita Registrars (ID RA10) by 10.00 am 17 May 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

NOTES TO THE NOTICE OF MEETING – continued

Changing proxy instructions

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

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone 0871 664 0300 (Calls cost 10p per minute plus network extras, lines are open Mon-Fri 8.30 am – 5.30 pm) or from overseas +44 208 639 3399.

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

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Registrars no later than 10.00 am 17 May 2011.

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

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

Joint holders of shares

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

Availability of documents

10. Copies of the terms and conditions of appointment of the non-executive directors are available for inspection at the registered office of the Company, 5 Princes Gate, London SW7 1QJ, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the conclusion of the Meeting and will be available for inspection at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

Issued shares and total voting rights

11. As at 5.00 pm on 18 April 2011, being the last business day prior to the publication of this notice, the Company's issued share capital comprised 5,369,880 ordinary shares of 25 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 10.00 am on 19 May 2011 is 5,369,880.

Communication

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

- calling our shareholder helpline on 0871 664 0300 (Calls cost 10p per minute plus network extras, lines are open Mon-Fri 8.30 am – 5.30 pm) or from overseas +44 208 639 3399.

You may not use any electronic address provided either:

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

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

Information to be published

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

NOTES TO THE NOTICE OF MEETING – continued

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

Nominated Person

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

