GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2004

DIRECTORS AND ADVISERS

Company Number	871
Directors	A. P. Stirling, F.C.A. *Chairman and Managing* B. J. Hallett, F.C.A *Finance* A. G. Ebel, LL.B., F.C.A. *Non-executive* R. E. Lane, O.B.E., F.C.A. *Non-executive* N. J. Rowe *Non-executive* T. J. Rowe *Non-executive*
Secretary	B. J. Hallett, F.C.A.
Registered Office	36 Elder Street London E1 6BT
Auditors	PKF Farringdon Place 20 Farringdon Road London EC1M 3AP
Registrars	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Solicitors	DMH Stallard Centurion House 37 Jewry Street London EC3N 2ER

CHAIRMAN'S STATEMENT

I am pleased to report another improved performance for this financial year.

Our results for the year to 31st December, 2004 show a return attributable to equity shareholders for the revenue account of £1,465,000 compared with £1,153,000 for last year and a loss of £46,000 on the capital account compared with a gain of £2,000 last year. Overall the basic return per ordinary share was 29.5p compared with 25.lp for the previous year.

The Group's property portfolio, which stood at £37.2 million at the end of last year, was reduced to a value of £28.6 million as at 31st December, 2004. This was as a result of the sale of property units at Knowsley, Lancashire for a net £15.7 million and the purchase of an estate of industrial and commercial property units at Speke, Liverpool, close to the John Lennon Airport for £6.35 million. This new investment has been subsequently revalued by independent valuers at the year end to £8 million.

For 2004 the performance of the property portfolio improved with rental income increasing from £3,193,000 last year to £3,266,000 this year. As a result of the acquisition and disposal referred to above, this level is unlikely to be maintained during 2005 and is dependent upon the success of the letting programme which is underway at Speke with a number of potential tenants.

Shareholders will note that the Capital Account includes a deficit on the disposal of property investments of £1.767 million. This has arisen as a result of the net proceeds of the sale of the Knowsley property units being less than the valuation as at 31st December, 2003 reflecting improvements to the property units of approximately £400,000, the costs of breaking related fixed loans of approximately £500,000 and certain provisions which the Board felt were prudent to make. Overall however the transaction resulted in a net gain from the original cost of the investment which has been reflected in the Statement of Total Recognised Gains and Losses in previous years, as detailed in note 9 of the accounts. The reason your Board decided to sell at that time was to ensure that the Group was in a position to acquire the property units at Speke which they believe offer greater potential in the long term.

The Group's basic net asset value per ordinary share has thus risen from 572.3p to 625.2p an increase of 52.9p or 9.24% being the same percentage increase as the FTSE All Share Index over the same period.

The greatest value of your company's investments in securities is attributable to those securities dealt in under AIM, representing approximately 43.5% of the total share portfolio. The most significant of these investments were as follows:

Transense Technologies plc, which represents 8.6% of the share portfolio, continues to make progress with its innovative tyre pressure monitoring system and electric power steering system. During the year its share price increased from 46p to 89.5p.

InvestinMedia plc is an investment company specialising in the media sector whose principle assets are a 49% share in Complete Communications Corporation Limited, owner of the worldwide rights to "Who Wants To Be A Millionaire" and "You Are What You Eat" and a 16.7% holding in Medal Entertainment & Media Plc, which is an AIM quoted media company. The share price has increased from 84.6p to 94.5p at the year end and represents 3.2% of the share portfolio.

Image Scan Holdings plc. This company's strategy remains the commercialisation of its expertise and products relating to acquiring, interpreting and presenting single and multi-view digital x-ray images. During the year the share price fell from 37p to 11p in October, 2004 at which time we provided this company with additional support and finance which, together with changes in management and advisers and the introduction of new members to the board, has provided the company with new opportunities particularly in the field of industrial inspection culminating in a placing of shares at 7p a share subsequent to the year end. I am pleased to be able to report that this reorganisation is now completed. This investment currently represents 1.4% of the portfolio.

CHAIRMAN'S STATEMENT – CONTINUED

SpaceandPeople Plc, which specialises in the marketing of promotional areas in leading shopping centres, progressed well during the year and was introduced to the AIM market at the end of the year at a price of 50p against an original cost price of 1p per share in October 2000.

Other significant unquoted investments include Hallin Marine Subsea International Plc. At the year end this company was valued at £562,000, representing over 40% of the value of all unlisted securities.

Hallin specialises in offshore sub-sea intervention primarily for the oil, gas and telecommunications industries operating in the Far East. The work involves use of marine vessels, diving systems of various types, remotely controlled intervention systems and survey positioning systems to conduct underwater inspection, construction and maintenance operations. This company made substantial progress during the year and I am pleased to report that it was introduced to the AIM Market after the year end at a price of 64p against a year end valuation of 14p per share.

We continue with our strategy of seeking innovative early stage investments and during the year we have subscribed for equity interests in a number of start-up situations which appear to have significant potential for future expansion and return.

In particular shareholders will note from the balance sheet that the net current assets have increased from just over £2 million to nearly £9 million, an increase of £7 million, which is largely accounted for by the increase in cash reserves from £1.2 million to £7.2 million at year end. Given these increased reserves your board has taken the opportunity to repay bank borrowings of £3 million since the year end.

As a consequence your Board recommends a final dividend of 4p per share against 3.1p last year, an increase of 29%.

9th May, 2005

A. P. Stirling
Chairman

REPORT OF THE DIRECTORS

To be presented to the members at the Annual General Meeting to be held at 36 Elder Street, London E1 6BT on 21st June, 2005 at 11.00 am.

Revenue Account

The statement of total return which includes the revenue account is set out on page 15 and shows the results for the year ended 31st December, 2004.

Dividends

The directors recommend a final dividend of 4.0p (2003: 3.1p) per Ordinary Share, payable on 24th June, 2005.

Business

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

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

For the year ended 31st December, 2003 the Inland Revenue has approved the Company as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 and since that date the directors have sought to conduct its affairs so as to enable it to continue to maintain such approval. In the opinion of the directors, the Company is not a close company.

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

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

Investment Portfolio

At 31st December, 2004 the portfolio was invested in the following sectors:

	%
Engineering	16
Financial (including Investment Trusts)	16
Property Investment	13
Building & Construction	9
Mining	9
Media & Photography	8
Oil & Gas	6
Electricity	4
Miscellaneous	4
Household and Textile	3
Information Technology	3
Tobacco	3
Transport	2
Electrical	1
Foods	1
Pharmaceuticals	1
Health	1
	100

REPORT OF THE DIRECTORS – CONTINUED

Directors

The present directors are listed on page 1. On 28th June, 2004, Mr R. E. Lane was appointed a director of the Company and now retires in accordance with the articles of association and offers himself for re-election.

Under the provisions of the FRC Code any non-executive director who has 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, Mr N. J. Rowe and Mr T. J. Rowe now retire and offer themselves for re-election.

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

Brief biographies of the directors concerned are as follows:

R. E. Lane

Richard Lane is a chartered accountant and currently Chairman of the Audit Committee. He retired as senior partner of the Bromley office of BDO Stoy Hayward on 31st December, 2003, but is still retained by them as a consultant. Mr Lane has specialised in advising a varied portfolio of businesses, including a number of small quoted companies and was closely involved in that firm's initiative "Specialist Advisers to Growing Businesses" developing strategies for meaningful and sustainable growth. Mr Lane makes a valuable contribution to the Group's activities particularly in the area of unquoted investments.

A. G. Ebel

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

N. J. Rowe

Nicholas Rowe has been a non-executive director of the Company since 1992 and is currently the Chairman of the Remuneration Committee and a member of the Audit Committee. He has been involved in financial insurance since 1973 and is a director of the FirstCity Partnership Limited. He is also an Approved Person authorised by the Financial Services Authority. Mr Rowe makes a valuable contribution in assessing the Group's insurance requirements and premiums.

T. J. Rowe

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

B. J. Hallett

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

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

REPORT OF THE DIRECTORS – CONTINUED

Substantial Shareholdings

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

	%	Ordinary Shares
Newinnhall Trust Limited	34.88	1,700,000
Sir J. J. Scott Bt.	4.04	197,100

Directors' Interests

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

	2004	2003
A. G. Ebel	22,550	22,550
B. J. Hallett	132,810	137,810
R. E. Lane	—	—
N. J. Rowe	21,957	14,866
T. J. Rowe	36,200	40,000
A. P. Stirling	418,340	415,978

Since the year end Messrs. R. E. Lane, N. J. Rowe and A. P. Stirling have increased their holdings to 2,500, 22,060 and 419,036 respectively.

In addition to the above N. J. Rowe and T. J. Rowe have a beneficial interest in 1,700,000 ordinary shares held by Newinnhall Trust Limited.

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

	2004	2003
A. G. Ebel	—	—
B. J. Hallett	—	4,000
R. E. Lane	—	—
N. J. Rowe	88,000	88,000
T. J. Rowe	45,000	45,000
A. P. Stirling	100,000	100,000

Share Option Schemes

No options were granted during the year ended 31st December, 2004 and there were no options outstanding at the year end. Details of options for each director are disclosed in the Remuneration Report on page 10.

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

REPORT OF THE DIRECTORS – CONTINUED

Statement of the Directors' Responsibilities

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

In preparing those accounts, the Directors are required to:

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

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

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

Payment Policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 31st December, 2004 trade creditors represented 28 days purchases.

Auditors

PKF have informed the Company that they will be transferring their business to PKF (UK) LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. However, at present PKF remain the Company's auditors and have signed the audit report in that capacity. Under section 26(5) of the Companies Act 1989, the company intends to give its consent to treating the appointment of PKF as extending to PKF (UK) LLP. Accordingly, although the audit report has been signed in the name of PKF, a resolution for the appointment of PKF (UK) LLP and to authorise the directors to agree their remuneration will be proposed at the forthcoming annual general meeting.

By Order of the Board,

B. J. Hallett, *Secretary*

9th May, 2005

36 Elder Street
London E1 6BT

REMUNERATION REPORT

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

Remuneration Committee

The policy on Directors' remuneration is formulated by the Remuneration Committee, which consists of three non-executive directors of the Company under the chairmanship of Mr N. J. Rowe. The Committee is responsible for determining the terms of service and remuneration of the executive directors. When designing schemes of performance-related remuneration the Committee will consider the provisions set out in Schedule A of the FRC Code issued in 2003.

Remuneration Policy

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

Remuneration Package

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

Each element of remuneration paid to all directors is shown in detail on page 10.

Service Contracts

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

Pensions

The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31st December, 2004 contributions amounted to £8,400 (2003: £8,400).

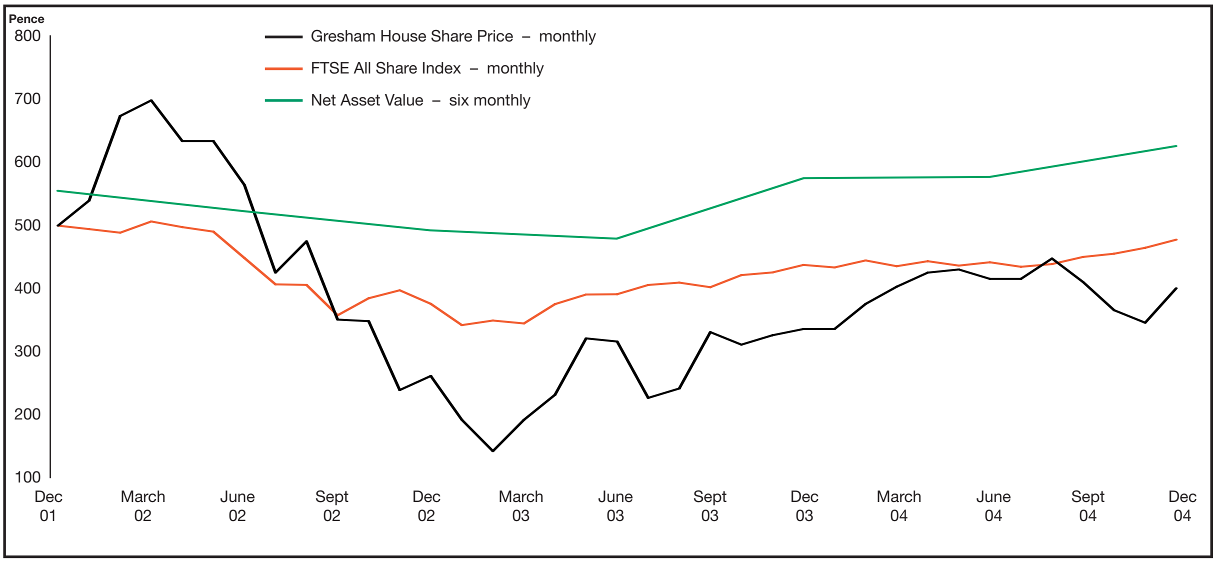
REMUNERATION REPORT – CONTINUED

Non-Executive Directors' Fees

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

Company Performance

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



Comparative movements

	1.1.2002	31.12.2004	% change
Gresham House Share Price	500p	400p	(20.0)%
FTSE All Share Index	2523.9	2410.8	(4.5)%
Basic net asset value	552.2p	625.2p	13.2%

REMUNERATION REPORT – CONTINUED

The following information has been audited:

Directors' Emoluments

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

	Basic Salary £'000	Fees £'000	Benefits £'000	Pension £'000	Total 2004 £'000	Emoluments 2003 £'000
Executive:						
A. P. Stirling (Chairman and highest paid director)	161	—	5	—	166	162
B. J. Hallett	94	—	2	8	104	101
Non-executive:						
A. G. Ebel	—	6	3	—	9	9
R. E. Lane	—	3	—	—	3	—
N. J. Rowe	—	6	—	—	6	6
T. J. Rowe	—	6	—	—	6	6
Total	255	21	10	8	294	284
Total 2003	248	18	10	8	284	

Fees in respect of services provided by Mr Stirling to companies outside the Group are invoiced by a company in which Mr Stirling has a substantial interest. For the year ending 31st December, 2004 these amounted to £19,163.

Share Option Schemes

Details of share options for each director are as follows:

	At 1st January, 2004	Exercised 2004	At 31st December, 2004
Director			
N. J. Rowe	10,000	10,000	—

No options were granted or lapsed during the year. The middle market price of the shares of Gresham House plc at the time of the exercise of options was 325p.

As at 31st December, 2004, the closing middle market price was 400p and the range of closing prices during the year 2004 was 350p to 475p.

The following information is unaudited:

The Remuneration Committee, who are responsible for the operation and administration of the Company's unapproved share option scheme, regard the provision of options as a suitable form of incentive for management and senior personnel. Options granted over shares in excess of 5% of the Company's issued ordinary share capital are subject to performance requirements determined at the date of grant by the Committee. No options were granted during the year ended 31st December, 2004 and no options were outstanding at that date.

On behalf of the Board
N. J. Rowe *Chairman*, Remuneration Committee
9th May, 2005

CORPORATE GOVERNANCE

The board is accountable to the company's shareholders for good corporate governance. This statement describes how the company has applied the principles of good governance set out in the FRC Code issued in 2003 ("the Code") and the principles and recommendations published by the Association of Investment Trust Companies, also in 2003, which provides a guide to best practice in certain areas of governance which are particularly relevant to investment trusts.

During the year ended 31st December, 2004, with the exceptions outlined below, the directors consider that the company has applied the principles and met the requirements of the Code.

Operation of the Board
The board is comprised of a majority of non-executive directors. The names of the directors who served throughout the year are on page l of the Annual Report.

The board is responsible for the overall strategy and management of the group. There is a formal schedule of matters specifically reserved for board decision including investment and performance objectives and policies, financial reporting and control, the approval of borrowings by the group, any investments or disposals over certain thresholds and shareholder communication. The board operates as a collective decision making forum. In the event that one or more directors cannot support a consensus decision then a vote would be taken and the views of the dissenting director recorded in the minutes. There were no such dissentions during 2004. Procedures are in place to enable individual directors to seek independent advice at the expense of the company and appropriate cover is in place which insures directors against certain liabilities that they may incur in carrying out their duties on behalf of the company. All directors have access to the advice and services of the company secretary who is responsible to the board for ensuring that board procedures are complied with. Mr A.G. Ebel is the senior independent director.

The board, which consists of two executive and four non-executive directors, meets regularly throughout the year and receives accurate timely and clear information in a form and of a quality appropriate to enable it to discharge its duties. There were four board meetings 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
A. P. Stirling	4	
B. J. Hallett	4	
A. G. Ebel	4	1
R. E. Lane*	1	
N. J. Rowe	3	1
T. J. Rowe	4	1

*Appointed a director on 28th June, 2004

During the latter part of 2004 an Audit Committee was established consisting of Mr. R. E. Lane, Mr. N. J. Rowe and Mr. T. J. Rowe. No meetings took place during 2004 but one has since been held in April 2005.

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

Independence of the Directors
As a smaller company the Code requires it to have at least two independent non-executive directors. The board has concluded that, at the date of this report, all non-executive directors are independent. In judging independence the board takes into account whether or not a director is independent of management and any business or other relationship that could affect or interfere with the exercise of objective judgement by that director, or his/her ability to act in the best interests of the company and its

CORPORATE GOVERNANCE – CONTINUED

subsidiaries. Messrs. A. G. Ebel, N. J. Rowe and T. J. Rowe have served on the board for more than 9 years from the date of their first election and both Mr N. J. Rowe and Mr T. J. Rowe are beneficiaries under the Rowe Trust which in turn owns Newinnhall Trust Limited, a significant shareholder. Given the nature of the company as an investment trust and the strongly independent mind set of the individuals concerned and the fact that neither N. J. Rowe or T. J. Rowe are representatives of, or trustees or directors of, the organisations concerned and therefore have no influence over their decisions, the board is firm with its view that they can all be considered to be independent. Mr R. E. Lane was independent at appointment (in June 2004) and remains so.

The company has not fully complied with paragraph B.1.3. as the remuneration for non-executive directors has included share options. Given the size of the company this policy is likely to continue although as at 31st December, 2004 no options were outstanding. Any future grant of new options will be subject to shareholder approval.

Re-election of Directors
All directors are subject to re-election by shareholders at the first AGM following their appointment and, thereafter, are subject to retirement by rotation and re-election by shareholders in accordance with the Articles of Association whereby one third of the directors retire every year, or where their number is not a multiple of three, then the number nearest to but not exceeding one third retire from office. Directors are not appointed for specified terms nor have any automatic right of re-appointment. Because of the nature of an investment trust the board believes that the contribution and independence of a director is not diminished by long service but that a detailed knowledge of the company and its activities has a beneficial impact.

The directors due to stand for annual re-election at the forthcoming AGM as per the requirements of the Code are Mr A. G. Ebel, Mr N. J. Rowe and Mr T. J. Rowe, all having served on the board for more than 9 years. Mr B. J. Hallett is due to retire by rotation in accordance with the company's Articles of Association and Mr R. E. Lane is due to stand for re-election at the AGM, being the first since his appointment as a director in June 2004. The chairman has carefully considered the position of each of these directors and considers their contribution to be significant and effective, their commitment to be appropriate and recommends their re-election.

Chairman
The company does not comply with Code provision A.2.1. As has been the position for many years the role of chairman and chief executive continues to be combined. Given the size and nature of the group the board does not consider it necessary to change this position having regard to the strong and independent non-executive element on the board.

As a result the company has not complied with paragraph A.1.3. but, as the chairman is an executive director, his performance is appraised as part of the review undertaken by the Remuneration Committee.

Audit Committee
The Audit Committee is a formally constituted committee of the board with defined terms of reference. It will meet twice a year and among its specific responsibilities are the review of the company's annual and half yearly results and the review of internal and financial controls applicable to the company. The Audit Committee consist of three non-executives Mr R. E. Lane, who acts as chairman, Mr N. J. Rowe and Mr T. J. Rowe. The auditors are invited to attend the Audit Committee meeting at which the annual accounts are considered and any other meetings that the Committee deems necessary.

Nomination Committee
The company does not comply with paragraphs A.4.1. to A.4.5. of the Code. Given the small size of the board, the board as a whole fulfils the function of the Nomination Committee. Any board member can propose new members who will be considered by the board as a whole. No new non-executive director will be appointed without first being interviewed by each existing non-executive director.

CORPORATE GOVERNANCE – CONTINUED

The company has not complied with paragraph A.5.l. but in future will ensure that new directors will receive a full, formal and tailored induction on joining the board.

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

Relations with Shareholders
Given its size, the company has not fully complied with provisions D.1.1. and D.1.2. Of the current shareholders there is only one major shareholder of which the chairman is also a director. As a result the board believes that sufficient contact and understanding of their issues and concerns has been maintained.

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

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

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

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

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

The board is responsible for the group's system of internal control, including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. The board has introduced procedures designed to meet the particular needs of the group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. These procedures include an annual review of the significant risks faced by the Group and an assessment of their potential impact and likelihood of occurrence. The board is satisfied with the effectiveness of internal controls but, by their very nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss.

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

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRESHAM HOUSE PLC

We have audited the accounts of Gresham House plc for the year ended 31st December, 2004 which comprise the Consolidated Statement of Total Return, the Consolidated Statement of Total Recognised Gains and Losses, the Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

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

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

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

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

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

Opinion
In our opinion the accounts give a true and fair view of the state of the group's and the company's affairs as at 31st December 2004 and of the group's total return for the year then ended and the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF
Registered Auditors

9th May, 2005
London, UK

CONSOLIDATED STATEMENT OF TOTAL RETURN

FOR THE YEAR ENDED 31st DECEMBER, 2004

	Notes	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Gain on investments	8	—	1,620	1,620	—	2	2
Deficit on disposal of property investment	9	—	(1,767)	(1,767)	—	—	—
Income	1	3,860	—	3,860	3,871	—	3,871
Other expenses	2	(1,634)	—	(1,634)	(1,204)	—	(1,204)
Net return before finance costs and taxation		2,226	(147)	2,079	2,667	2	2,669
Interest payable and similar charges	4	(1,252)	—	(1,252)	(1,458)	—	(1,458)
Return on ordinary activities before taxation		974	(147)	827	1,209	2	1,211
Taxation	5	550	(550)	—	—	—	—
Return on ordinary activities after taxation		1,524	(697)	827	1,209	2	1,211
Minority Interest		(59)	651	592	(56)	—	(56)
Return attributable to equity shareholders		1,465	(46)	1,419	1,153	2	1,155
Dividends in respect of equity shares	6	(195)	—	(195)	(149)	—	(149)
Transfer to reserves	17	1,270	(46)	1,224	1,004	2	1,006
Return per ordinary share:							
Basic	7	30.4p	(0.9)p	29.5p	25.1p	—	25.1p
Diluted	7	30.4p	(0.9)p	29.5p	24.9p	—	24.9p

The accompanying notes are an integral part of this statement.
All revenue and capital items in the above statement derive from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

	Group 2004 £'000	Group 2003 £'000
Profit for the financial year attributable to equity shareholders	1,465	1,153
Net movement on capital reserves	(46)	2
Surplus on property revaluation	1,854	5,298
Minority interest in reserves	(204)	(1,006)
Total net gains recognised in the year	3,069	5,447

BALANCE SHEET

AS AT 31st DECEMBER, 2004

	Notes	The Group 2004 £'000	The Group 2003 £'000	The Company 2004 £'000	The Company 2003 £'000
Fixed asset investments					
Securities	8	8,762	6,746	8,762	6,746
Properties	9	28,600	37,200	—	—
Other	10	—	—	2	2
Tangible assets	11	525	539	514	525
		37,887	44,485	9,278	7,273
Current assets	12	14,955	8,397	157	399
Creditors – Amounts falling due within one year	13	5,962	6,350	575	314
Net current assets/(liabilities)		8,993	2,047	(418)	85
Total assets less current liabilities		46,880	46,532	8,860	7,358
Creditors – Amounts falling due after more than one year	14	15,645	18,013	—	—
Deferred income	15	245	245	—	—
		30,990	28,274	8,860	7,358
Capital and reserves					
Called up share capital	16	1,212	1,189	1,212	1,189
Share premium account	17	761	554	761	554
Other reserves					
Revaluation reserve	17	10,614	12,800	—	—
Capital reserve – realised	17	24,550	22,671	5,065	5,068
Capital reserve – unrealised	17	1,741	(170)	1,500	137
Revenue reserves	17	(8,562)	(9,832)	322	410
Equity Shareholders' funds	19	30,316	27,212	8,860	7,358
Minority interests	17	674	1,062	—	—
		30,990	28,274	8,860	7,358
Net asset value per ordinary share:					
Basic	18	625.2p	572.3p	182.7p	154.8p
Diluted	18	624.3p	568.3p	182.5p	153.7p

The accounts were approved by the Board on 9th May, 2005

A. P. Stirling
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2004

	Notes	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Cashflow from operating activities					
Investment income received		129		133	
Interest received		95		101	
Rental income received		3,234		2,990	
Other cash payments		(1,859)		(316)	
	20		1,599		2,908
Returns on investment and servicing of finance					
Interest paid on 8% Secured Redeemable Loan Stock 2006		(293)		(293)	
Interest paid on property loans		(1,201)		(1,148)	
			(1,494)		(1,441)
Capital expenditure and financial investment					
Sale of tangible fixed assets		—		6	
Purchase of tangible fixed assets		—		(19)	
Purchase of investments		(2,154)		(1,415)	
Sales of investments		2,108		1,320	
Net loans advanced		(99)		—	
Purchase of investment properties		(7,011)		(1,039)	
Disposal of investment properties		15,698		—	
Purchase of developments in hand		(280)		(2,392)	
			8,262		(3,539)
Corporation tax paid			—		—
Equity dividends paid			(148)		(142)
Cash inflow/(outflow) before use of liquid resources and financing			8,219		(2,214)
Management of liquid resources					
Sale/(acquisition) of listed securities held for dealing			134		(335)
Financing					
Repayment of loans		(7,613)		(889)	
Receipt of loans		5,088		1,797	
Share capital issued at par		230		271	
			(2,295)		1,179
Increase/(decrease) in cash	21		6,058		(1,370)

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of accounting
The accounts have been prepared under the historical cost convention, as modified by the revaluation of investments and properties. The accounts have been prepared in accordance with applicable Accounting Standards and with relevant paragraphs of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (issued Spring 2003).

(b) Basis of consolidation
The consolidated statement of total return (including the revenue account) and balance sheet incorporate the accounts of the Company and its subsidiary undertakings made up to 31st December, 2004. Information relating to significant investments which have not been consolidated is detailed in note 8. Goodwill arising prior to the introduction of FRS10 – "Goodwill and intangible fixed assets" has been written off directly to reserves. Goodwill arising on acquisitions subsequent to the introduction of FRS10 will be capitalised in the balance sheet and amortised over its expected useful life in accordance with FRS10. In the Company's accounts, investments in subsidiary undertakings are stated in accordance with the policies outlined in (c) below.

(c) Fixed asset investments

(i) Securities
In accordance with the Investment Trust Companies SORP 2003, quoted investments are valued at mid market price. The Directors consider the need for discounts as appropriate.

Unquoted investments are valued by the Directors taking into account the guidelines issued by the British Venture Capital Association ("BVCA") as follows:

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

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

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

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

Unquoted investments will not be re-valued upwards for a period of at least 12 months from the date of acquisition. For early stage investments where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate.

Gains and losses on the disposal of investments and permanent impairments in the value of investments are dealt with in capital reserves – realised, and unrealised gains and losses on the revaluation of investments are dealt with in capital reserves – unrealised.

Year-end exchange rates are used to translate the value of investments which are denominated in foreign currencies.

(ii) Properties
Investment properties are included in the balance sheet at valuation in accordance with SSAP19 and are not depreciated. This treatment is contrary to the Companies Act 1985 which states that fixed assets should be depreciated, but is, in the opinion of the directors, necessary in order to give a true and fair view of the financial position of the group.

Freehold property is revalued at least every five years in accordance with Financial Reporting Standard No. 15 with any permanent diminution in value below cost being written off to capital reserves – realised.

(d) Depreciation
Depreciation is provided principally on a straight-line basis at varying rates of between 2% and 25% in order to write off the cost of assets over their expected useful lives. Investment properties and long leasehold property are not depreciated. Freehold property is depreciated in accordance with Financial Reporting Standard No.15, at the rate of 2% per annum.

(e) Developments in hand
Developments in hand are valued at the lower of cost and net realisable value. Interest and other outgoings which can fairly be attributed to properties held for, or in the course of, development are considered to be part of development costs. Interest is calculated by reference to specific borrowings. Profits and losses arising from the sale of developments are taken to revenue. Profits and losses arising from the sale of investment properties are dealt with through the capital reserve.

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(f) Income

(i) Dividend and interest income
Income from listed securities and interest receivable on bank deposits is accounted for on a received basis. Interest receivable on loans is accounted for on an accruals basis.

(ii) Rental income
Rental income comprises property rental income receivable net of VAT.

(iii) Construction income
Income receivable for work done in the year on building and construction works where the group has established a right to consideration.

(g) Expenses
All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:
– expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
– expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(h) Deferred taxation
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Tax differences arise from inclusion of items in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more than likely than not that they will be recovered. Deferred tax liabilities are not discounted.

(i) Operating lease rentals
Amounts payable under operating leases are charged to the revenue account as incurred.

(j) Capital reserves
Capital Reserve – Realised.
The following are accounted for in this reserve:
– gains and losses on the realisation of securities and property investments.
– realised exchange differences of a capital nature.
– expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.
– realised gains and losses on transactions undertaken to hedge an exposure of a capital nature including guarantees.

Capital Reserve – Unrealised.
The following are accounted for in this reserve:
– increases and decreases in the valuation of investments held at the year-end.
– unrealised exchange differences of a capital nature.
– provisions charged against carrying value of investments held at the year end.

(k) Liquid Resources
Liquid resources for the purposes of the Cash Flow Statement, comprise deposits with a maturity of more than 24 hours and investments held as current assets which are readily convertible into cash and traded in an active market.

(l) Government grants
Capital based government grants are capitalised as deferred credits on the balance sheet and are accordingly written off to capital reserves upon the sale of the assets concerned.
Revenue based government grants are credited to the statement of total return in the same year as the expenditure is charged.

NOTES TO THE ACCOUNTS

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

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

1 INCOME

		2004 £'000	2003 £'000
Income from investments			
Dividend income		129	133
Interest receivable:	Bank and Brokers	49	81
	Other	46	20
Rental income		3,266	3,193
		3,490	3,427
Other operating income			
Share dealing (loss)/profit		(69)	27
Management fees receivable		138	125
Income from construction activities		253	267
Other		48	25
		370	444
Total income		3,860	3,871
Total income comprises:			
Dividends		129	133
Interest		95	101
Other income		3,636	3,637
		3,860	3,871
Dividend income			
Listed UK		127	131
Unlisted		2	2
		129	133

NOTES TO THE ACCOUNTS – CONTINUED

2 OTHER EXPENSES

Other expenses comprise the following:	2004	2003
	£'000	£'000
Directors' emoluments	284	274
Auditors' remuneration – as auditors	52	47
– for taxation advice	6	1
Depreciation	14	9
Wages and salaries	119	175
Social security costs	53	51
Operating lease rentals – land and buildings	28	28
Construction costs	143	252
Other operating expenses	935	367
	1,634	1,204

The average number of persons employed by the Company, including the executive directors, was 6 (2003 – 6).

The Group has annual commitments under operating leases, which expire after more than five years, of £28,000 (2003 – £28,000).

Charges for other services provided by the auditors in the year ended 31st December 2004 were in relation to tax advice. The Directors consider the auditors were best placed to provide this service. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

3 DIRECTORS EMOLUMENTS

The emoluments of the directors are disclosed in the Remuneration Report on page 10.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£'000	£'000
Interest payable on loans and overdrafts		
– repayable within 5 years	751	383
– repayable wholly or partly in more than 5 years	501	1,075
	1,252	1,458

NOTES TO THE ACCOUNTS – CONTINUED

5 TAXATION

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
(a) Analysis of charge in period						
UK Corporation tax at 30% (2003 – 30%)	(550)	550	—	—	—	—
Adjustments in respect of prior years:						
Corporation tax	—	—	—	—	—	—
Total current tax (note b)	(550)	550	—	—	—	—
(b) Factors affecting tax charge for period						
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30%	292	(44)	248	362	—	362
Explained by:						
Capital gains taxable	—	618	618	—	—	—
Capital gains not taxable	—	(486)	(486)	—	—	—
Capital allowances in excess of depreciation	(19)	—	(19)	(21)	—	(21)
Dividend income not taxable	(41)	—	(41)	(40)	—	(40)
Expenses disallowed	94	530	624	155	—	155
Non-taxable write backs	(41)	—	(41)	(359)	—	(359)
Losses utilised in current year	(822)	(68)	(890)	(284)	—	(284)
Losses carried forward for future offset	—	—	—	187	—	187
Other differences	(13)	—	(13)	—	—	—
Actual tax charge	(550)	550	—	—	—	—

The Group has unutilised tax losses of approximately £11.2 million available against future corporation tax liabilities.

The potential deferred taxation asset of £3.4 million in respect of these losses has not been recognised in these accounts as the recoverability of the asset is not sufficiently certain.

6 DIVIDENDS

	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Dividends on equity shares:						
– final proposed of 4p per share (2003 – 3.1p)	195	—	195	149	—	149

7 RETURN PER ORDINARY SHARE

Basic return
Basic revenue and capital returns per ordinary share are based on the return attributable to equity shareholders of £1,465,000 (2003: £1,153,000) and on the net capital return of £(46,000) (2003: £2,000) respectively and on 4,812,498 (2003: 4,597,976) ordinary shares being the weighted average number of those in issue during the year.

Diluted return
The diluted revenue and capital returns per ordinary share are based on the return attributable to equity shareholders of £1,465,000 (2003: £1,153,000) and on the net capital return of £(46,000) (2003: £2,000) respectively. Both diluted revenue and capital returns are calculated on 4,819,227 (2003: 4,631,941) shares being the weighted average number of shares in issue during the year together with 6,728 (2003: 33,965) shares deemed to have been issued at nil consideration pursuant to the maximum number of shares that can be issued under the terms of the 8% Secured Loan Stock issued by Gresham House Finance plc.

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES

	Group & Company 2004 £'000	2003 £'000
Listed securities – on the London Stock Exchange	3,125	3,840
Listed securities – on overseas exchanges	312	257
Securities dealt in under AIM	3,807	1,688
Securities dealt in under OFEX	126	168
Unlisted securities less amounts written off	1,392	793
	8,762	6,746

	Listed in UK £'000	Listed overseas £'000	AIM £'000	Ofex £'000	Unlisted £'000	Total £'000
Group:						
Opening cost	2,287	257	1,437	348	2,039	6,368
Opening unrealised gains/(losses)	1,553	—	251	(180)	(1,246)	378
Opening valuation	3,840	257	1,688	168	793	6,746
Movements in the year:						
Purchases at cost	147	36	1,476	71	424	2,154
Sales – proceeds	(970)	—	(516)	—	(622)	(2,108)
– realised gains/(losses) on sales	142	—	5	(113)	223	257
Transfer of loan from current assets	—	—	—	—	350	350
Movement in unrealised appreciation	(34)	19	986	—	392	1,363
Transfer between AIM and Unlisted	—	—	168	—	(168)	—
Closing valuation	3,125	312	3,807	126	1,392	8,762
Closing cost	1,606	293	2,570	306	2,246	7,021
Closing unrealised gains/(losses)	1,519	19	1,237	(180)	(854)	1,741
	3,125	312	3,807	126	1,392	8,762

	Group & Company 2004 £'000	2003 £'000
Realised gains on sales	257	115
Increase in unrealised appreciation	1,363	272
Provisions against carrying value of investments	—	(385)
Gain on investments	1,620	2

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

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

An analysis of the investment portfolio by broad industrial or commercial sector is contained within the Report of the Directors. The largest investments as at 31st December, 2004 all of which are incorporated in Great Britain, with the exception of Mount Burgess Mining which is incorporated in the Australia and Hallin Marine Subsea International Plc which is incorporated in the Isle of Man, were:

	Market Value £'000	% of portfolio
UK and overseas listed securities		
British American Tobacco plc – cigarette manufacturer and distributor	224	2.56
Molins PLC – designers and manufacturers of specialist machinery for the tobacco industry and specialist packaging machinery for consumer goods industries	209	2.39
Morgan Sindall plc – a diversified construction group operating in a number of distinct market sectors	539	6.15
Mount Burgess Mining NL – engaged in the exploration of base metals, gold and diamonds in Namibia and Australia	308	3.52
Welsh Industrial Investment Trust plc – is an authorised investment trust in the sector of UK capital growth	823	9.39
Securities dealt in under AIM		
InvestinMedia plc – is an investment company primarily in the media sector	283	3.24
Meon Capital plc – proposes to acquire or invest in established UK companies in either the quoted and unquoted sectors	215	2.45
SpaceandPeople plc – markets and sells promotional space on behalf of shopping centres and other similar venues	857	9.78
Transense Technologies plc – has developed a non-contact sensor which acts as a torque transducer to enable electric power assisted steering, tyre pressure monitoring and other automotive applications to be introduced into motor vehicles	752	8.58
Unlisted securities		
Hallin Marine Subsea International Plc – specialise in offshore sub-sea intervention primarily for the oil, gas and telecommunication industries	562	6.41
	4,772	54.47

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

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

Welsh Industrial Investment Trust plc
Financial Summary

Year ended 5th April, 2004	£'000s			
		Shares	Ordinary	8.75% Cumulative
Turnover	183		5p	Preference of 20p
Profit before interest	99	Total issued	1,350,000	225,000
Profit before tax	99	Number held	350,000	98,092
Profit after tax	99	% of class	25.9	43.5
Net assets	5,509	Cost (£'000s)	—	20
Earnings per share	7.03p	Market value (£'000s)	823	15
Dividend per share	6.3p			

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

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

Hallin Marine Subsea International Plc
Financial Summary

Year ended 31st December, 2004	US$'000s	Shares	Ordinary
Turnover	20,222		10p
Profit before interest	1,348	Total issued	250,000
Profit before tax	985	Number held	40,000
Profit after tax	962	% of class issued	16.0
Net assets	1,116	Cost (£'000s)	40
Earnings per share	US$3.85	Market value (US$'000s)	562
Dividend per share	—		

InvestinMedia plc
Financial Summary (continuing operations)

Period ended 30th September, 2004	£'000s		
Turnover	450	Shares	Ordinary
Profit before interest	57	Total issued	16,316,297
Share of associates' operating profit	3,653	Number held	300,000
Profit before tax	4,086	% of class issued	1.8
Profit after tax	2,805	Cost (£'000s)	254
Net assets	7,624	Market value (£'000s)	283
Earnings per share	17.2p		
Dividend per share	5.5p		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

Meon Capital plc
Financial Summary

Period ended 31st December 2004	£'000s		
Turnover	—	Shares	Ordinary
Loss before interest	(29)	Total issued	17,500,000
Profit before tax	5	Number held	1,000,000
Profit after tax	5	% of class issued	5.71
Net Assets	1,080	Cost (£'000s)	100
Earnings per share	0.03p	Market value (£'000s)	215
Dividend per share	—		

SpaceandPeople Plc
Financial Summary

Year ended 31st October 2004	£'000s		
Turnover	1,034	Shares	Ordinary
Profit before interest	189	Total issued	11,200,000
Profit before tax	196	Number held	1,587,500
Profit after tax	196	% of class issued	14.17
Net Assets	350	Cost (£'000s)	168
Earnings per share	1.75p	Market value (£'000s)	857
Dividend per share	5.0p		

Transense Technologies plc
Financial Summary

Year ended 31st December, 2004	£'000s		
Turnover	563	Shares	Ordinary
Loss before interest	(837)	Total issued	53,758,974
Loss before tax	(783)	Number held	840,000
Loss after tax	(683)	% of class issued	1.6
Net assets	3,088	Cost (£'000s)	—
Loss per share	(1.3)p	Market value (£'000s)	752
Dividend per share	—		

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES

	Group	
	2004	2003
	£'000	£'000
Net book value and valuation		
At 1st January, 2004	37,200	30,976
Additions during the year	7,011	1,039
Disposals during the year	(17,465)	—
Revaluation during the year:		
through Revaluation reserve	1,854	5,145
write back of previous impairment	—	40
At 31st December, 2004	28,600	37,200

The deficit on disposal of property investment is made up as follows:

	£'000
Valuation	
Cost	12,470
Revaluation reserve	4,580
Opening valuation	17,050
Additions during the year	415
Net sale proceeds	(15,698)
Deficit on disposal	(1,767)

	£'000
Cost	
Costs b/fwd	12,470
Additions during the year	415
	12,885
Net sale proceeds	(15,698)
Gain on disposal	2,813

As at 31st December 2004 investment properties consist of 51 individual property units covering a total of 736,915 sq. ft. at an annual rental of £1,797,850. These property units vary considerably in size and use, with the largest three units totalling 437,368 sq. ft. at a combined rental of £1,227,410 and the smallest nine units being less than 2,000 sq. ft. each at a combined rental of £44,398. The total area can be sub-divided into the following use categories:

Warehouse	628,207 sq. ft.
Industrial	73,294 sq. ft.
Retail, office and other	35,414 sq. ft.

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES – continued

These categories can be further analysed as follows:

		No. of tenants	Area sq. ft.
(i)	Warehouse		
	Food storage	3	311,405
	Chemicals and plastic storage	1	151,224
	Document storage	1	22,062
	Others and vacant	6	143,516
(ii)	Industrial		
	Timber fabrication	1	10,359
	Rubber processing	1	15,330
	Light engineering	3	17,768
	Others and vacant	—	29,837
(iii)	Retail, office and others		
	Nursery	1	2,300
	Others and vacant	7	33,114

In addition to the above, on 29th October, 2004, the Group acquired seventeen acres of industrial property units together with a further seven acres of potential development land in Speke, Liverpool. This site comprises approximately 400,000 square feet of mixed use business space for warehousing, office, commercial, manufacturing and pharmaceutical use. These units are presently vacant but a letting programme has commenced with a number of prospective tenants.

Investment Properties are shown at valuation and any surplus or deficit arising on valuation of property is taken to the revaluation reserve without provision for corporation tax which, on possible disposals at the balance sheet date, is estimated to be approximately £0.9 million (2003: £1.3 million). For the purpose of Statement of Standard Accounting Practice No. 19 these are all regarded by the directors as investment properties.

Of the property units held at the year end:

- 4 property units were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2003 at £11,050,000;
- 12 property units were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2003 at £3,300,000;
- 34 property units were valued by Hurst Warne Limited, Chartered Surveyors, as at 11th February, 2004 at £2,300,000; and
- the units at Speke, Liverpool were valued by Knight Frank, Chartered Surveyors as at 2nd December, 2004 at £8,000,000.

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

The cost of the above properties as at 31st December, 2004 is as follows:

	Group
	£'000
Brought forward	23,498
Additions during the year	7,011
Disposals during the year	(12,884)
	17,625

Capital Commitments	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Capital expenditure contracted for but not provided for in the accounts	—	—	—	—

NOTES TO THE ACCOUNTS – CONTINUED

10 OTHER INVESTMENTS

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Subsidiary undertakings				
Shares – At cost	—	—	322	322
Less provision	—	—	(320)	(320)
	—	—	2	2

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

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

In addition the Group has:

(i) an interest of 50% in Tower Street Properties Limited which has been excluded from consolidation under section 229(3) of the Companies Act 1985 as the amounts involved are immaterial. The aggregate capital and reserves of Tower Street Properties Limited as at 30th June, 2004, being the latest available accounts, and its loss for the year then ended amounted to £(5,083,610) and £(64,214) respectively; and

(ii) an interest of 50% in Abshot Finance Company Limited which has been excluded from consolidation under Financial Reporting Standard No. 9 as significant influence is not exercised in respect of policy decisions. The aggregate capital and reserves of Abshot Finance Company Limited as at 31st July, 2004, being the latest accounts available, and its profit for the year then ended amounted to £40,460 and £8,199 respectively.

NOTES TO THE ACCOUNTS – CONTINUED

11 TANGIBLE ASSETS

	Group Motor Vehicles £'000	Group Freehold property £'000	Group Total £'000	Company Freehold property £'000
Cost or valuation				
Balance 1st January, 2004 and 31st December 2004	19	525	544	525
Depreciation				
Balance 1st January, 2004	5	—	5	—
Charge for the year	3	11	14	11
Balance 31st December, 2004	8	11	19	11
Net book values at 31st December, 2004	11	514	525	514
Net book values at 31st December, 2003	14	525	539	525

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

	£'000
Historical cost	642
Accumulated depreciation	(205)
	437

12 CURRENT ASSETS

	Notes	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Listed and other securities held by a trading subsidiary undertaking		547	681	—	—
Market value £550,000 (2003: £686,000)	(d)				
Cash in hand		7,230	1,189	157	399
Developments in hand	(a)	5,336	5,056	—	—
Trade debtors	(c)	426	849	—	—
Other debtors and prepayments	(c)	1,252	207	—	—
Unsecured loans	(b)	89	65	—	—
Secured loans	(b)	75	350	—	—
		14,955	8,397	157	399

(a) Developments in hand consist of four property development sites. Interest capitalised in the year amounted to £94,000 (to date: £137,000).

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

(c) Debtors and prepayments fall due within one year.

(d) The market value of the listed securities was £10,719 (2003: £24,802), and the carrying value was £7,830 (2003: £22,642).

NOTES TO THE ACCOUNTS – CONTINUED

13 CREDITORS – Amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Trade creditors	229	639	—	—
Other creditors	164	567	9	8
Accruals	1,773	1,235	5	—
Other taxes and social security	85	70	—	—
Bank overdrafts and short-term loans (secured)				
– property loans	3,515	3,672	—	—
– other	—	17	366	157
2.5% Secured Redeemable Loan Stock 2001*	1	1	—	—
Proposed dividend	195	149	195	149
	5,962	6,350	575	314

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

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

14 CREDITORS – Amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
(a) 8% Secured Redeemable Loan Stock 2006	3,662	3,662	—	—
(b) Property Loans	11,983	14,351	—	—
	15,645	18,013	—	—

(a) 8% Secured Redeemable Loan Stock 2006

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

(b) Property loans

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

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Bank loans (secured against investment properties)				
8.1% fixed	—	6,300	—	—
1.25% over 3 month LIBOR	—	508	—	—
7.09% fixed	3,624	3,624	—	—
1.2% over 3 month LIBOR	1,831	2,362	—	—
1.25% over 3 month LIBOR	1,636	1,555	—	—
1.75% over 3 month LIBOR	1,296	1,319	—	—
2.0% over 3 month LIBOR	5,000	—		
Other loans (secured against investment properties)				
1.5% over 3 month LIBOR	2,056	2,154	—	—
11% fixed	55	201	—	—
	15,498	18,023	—	—

NOTES TO THE ACCOUNTS – CONTINUED

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

Loans or instalments thereof are repayable over the following periods:

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Less than 1 year	3,515	3,672	—	—
Between 1 and 2 years	5,539	626	—	—
Between 2 and 5 years	1,586	1,977	—	—
Over 5 years	4,858	11,748	—	—
	15,498	18,023	—	—

15 DEFERRED INCOME

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Deferred credits	245	245	—	—

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

16 CALLED UP SHARE CAPITAL

	2004	2003
	£'000	£'000
Share Capital		
Authorised: £4,750,000 (2003: £4,750,000)		
Allotted: Ordinary – 4,848,919 (2003: 4,754,641) fully paid shares of 25p each	1,212	1,189

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

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

31st January, 2004	25,106 shares at 236p per share
30th April, 2004	19,784 shares at 284p per share
31st July, 2004	19,691 shares at 292p per share
31st October, 2004	19,697 shares at 278p per share

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

7th January, 2004	10,000

The allotted share capital was therefore increased by 94,278 ordinary shares.

Since the year end a further 24,961 ordinary shares have been issued as follows:

(i) 20,630 shares at 276p on 31st January 2005 and 4,331 shares at 230p on 30th April 2005 under the terms of the 8% Secured Redeemable Loan Stock 2006.

There were no options outstanding as at 31st December, 2004.

NOTES TO THE ACCOUNTS – CONTINUED

17 RESERVES

	Share premium account £'000	Revaluation reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Company					
Balance at 1st January, 2004	554	—	5,068	137	410
Issue of share capital	207	—	—	—	—
Net loss on realisation of investments	—	—	(3)	—	—
Increase in unrealised appreciation	—	—	—	1,363	—
Retained loss for the year	—	—	—	—	(88)
As at 31st December, 2004	761	—	5,065	1,500	322
Group					
Balance at 1st January, 2004	554	12,800	22,671	(170)	(9,832)
Issue of share capital	207	—	—	—	—
Net profit on realisation of investments	—	—	257	—	—
Transfer of unrealised appreciation on disposal of investments	—	—	(548)	548	—
Increase in unrealised appreciation	—	—	—	1,363	—
Surplus arising on property revaluation	—	1,854	—	—	—
Net loss on property disposal	—	—	(1,666)	—	—
Eliminated on disposal of property investment	—	(3,836)	3,836	—	—
Less minority interest in reserves	—	(204)	—	—	—
Retained profit for the year	—	—	—	—	1,270
As at 31st December, 2004	761	10,614	24,550	1,741	(8,562)

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

Minority interest:

	£'000
Balance as at 1st January, 2004	1,062
Interest in revenue return for the year	59
Interest in capital return	(651)
Interest in revaluation reserve	204
Balance as at 31st December, 2004	674

NOTES TO THE ACCOUNTS – CONTINUED

18 NET ASSET VALUE PER SHARE

Basic
Basic net asset value per ordinary share is based on equity shareholders' funds at the year end and on 4,848,919 (2003: 4,754,641) ordinary shares being the number of ordinary shares in issue at the year end.

Diluted
Diluted net asset value per ordinary share is based on equity shareholders' funds at the year end and on 4,855,647 (2003: 4,788,606) ordinary shares. The number of shares is based upon the number of shares in issue at the year end together with 6,728 (2003: 33,965) shares deemed to have been issued at nil consideration pursuant to the maximum number of shares that can be issued under the terms of the 8% Secured Loan Stock issued by Gresham House Finance plc in accordance with Financial Reporting Standard No. 14.

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

	£'000
Total net assets attributable at 1st January, 2004	27,212
Total recognised gains for the year	3,069
Exercise of options to subscribe for share capital	230
Dividends appropriated in the year	(195)
Total net assets attributable at 31st December, 2004	30,316

19 STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004 £'000	2003 £'000
Revenue return for the year	1,270	1,004
Surplus on property revaluation	1,854	5,298
Net movement on capital reserves	(46)	2
Exercise of options to subscribe for share capital	230	271
Minority interest in reserves	(204)	(1,006)
	3,104	5,569
Shareholders' funds at 1st January	27,212	21,643
Shareholders' funds at 31st December	30,316	27,212

20 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2004 £'000	2003 £'000
Return on ordinary activities before taxation	974	1,209
Interest payable	1,252	1,458
	2,226	2,667
Depreciation	14	9
Write back of previous impairment	—	(40)
(Increase)/decrease in debtors	(622)	64
(Decrease)/increase in creditors	(19)	208
	1,599	2,908

NOTES TO THE ACCOUNTS – CONTINUED

21 ANALYSIS OF NET DEBT

	At 1st January 2004 £'000	Cash flow £'000	Other non-cash changes £'000	At 31st December 2004 £'000
Cash at bank and brokers	1,189	6,041	—	7,230
Bank overdraft	(17)	17	—	—
	1,172	6,058	—	7,230
Debt due within one year	(3,673)	797	(640)	(3,516)
Debt due after one year	(18,013)	1,728	640	(15,645)
	(21,686)	2,525	—	(19,161)
Current asset investments	681	(134)		547
	(19,833)	8,449	—	(11,384)

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004 £'000	2003 £'000
Increase/(decrease) in cash for the year	6,058	(1,370)
Cash outflow from repayment of debt	7,613	889
Cash inflow from loans received	(5,088)	(1,797)
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(134)	335
Change in net debt resulting from cash flows	8,449	(1,943)
Net debt at 1st January	(19,833)	(17,890)
Net debt at 31st December	(11,384)	(19,833)

23 FINANCIAL INSTRUMENTS

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

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

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

(i) securities consisting of listed and unlisted equity shares;

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

(iii) investment properties;

(iv) contracts for future movements in share indices;

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

(vi) long-term borrowings.

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

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Securities:

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

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

Properties:

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

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

Securities: unquoted

Investment Risk and Credit Risk

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

Securities: quoted

Market Risk:

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

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

Investment Properties

Credit Risk

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

Interest Rate Risk

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

Liquidity Risk

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

Contracts for futures

Market Risk

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

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

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Financial Assets and Liabilities – interest rate exposure on loans

The interest rate exposure profile for financial assets and liabilities as at 31st December, 2004 and 2003 is shown below. The Group has taken advantage of the exemption allowed under FRS 13 'Derivatives and other Financial Instruments', and has excluded short-term debtors and creditors from disclosure under financial instruments.

As at 31st December, 2004	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	8,579	183	—	—	—	8,762
Investment Properties	28,600	—	—	—	—	28,600
Dealing securities	547	—	—	—	—	547
Cash	—	—	7,230	—	—	7,230
Loans	—	164		—	—	164
Creditors						
– falling due within 1 year	—	—	—	(55)	(3,460)	(3,515)
– falling due after 1 year	—	—	—	(7,286)	(8,359)	(15,645)
	37,726	347	7,230	(7,341)	(11,819)	26,143

As at 31st December, 2003	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	6,584	162	—	—	—	6,746
Investment Properties	37,200	—	—	—	—	37,200
Dealing securities	681	—	—	—	—	681
Cash	—	—	1,189	—	—	1,189
Loans	350	65	—	—	—	415
Creditors						
– falling due within 1 year	—	—	—	(147)	(3,525)	(3,672)
– falling due after 1 year	—	—	—	(13,640)	(4,373)	(18,013)
	44,815	227	1,189	(13,787)	(7,898)	24,546

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

Fixed rate assets comprise fixed rate loans, unsecured loans and loans repayable on demand, with a weighted average interest rate of 8.63% (2003: 12%).

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

Fixed rate liability loans have a weighted average interest rate of 7.57% (2003: 7.85%), and a weighted average maturity value of 3.22 years (2003: 4.89 years).

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

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

NOTES TO THE ACCOUNTS – CONTINUED

24 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' Beneficial Shareholdings as at 31st December, 2004

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

	A G. Ebel	B. J. Hallett	R. E. Lane	N. J. Rowe	T. J. Rowe	A. P. Stirling
Listed Securities						
British American Tobacco plc	—	—	—	—	—	—
Molins PLC	33,200	—	—	—	—	100,800
Morgan Sindall plc	2,434	—	—	—	—	5,363
Mount Burgess Mining NL	—	100,000	—	—	—	2,200,000
Welsh Industrial Investment Trust plc	—	—	—	—	—	152,700
Securities dealt in under AIM						
InvestinMedia plc	—	10,000	—	—	—	14,000
Meon Capital plc	—	—	—	—	—	—
SpaceandPeople Plc	80,000	50,000	—	30,000	30,000	700,000
Transense Technologies plc	24,000	12,449	—	7,452	4,500	330,000
Unlisted Securities						
Greenwich Communications plc	—	—	—	—	—	40,000
Gresham House Finance plc – 8% Secured Redeemable Loan Stock 2006	—	—	—	88,000	45,000	100,000
Hallin Marine Subsea International Plc	4,700	2,000	—	—	—	3,500

Related Party Transactions

Mr. A. G. Ebel and Mr A. P. Stirling have a controlling interest in Watlington Securities Limited, a company which invoiced the group a sum of £3,925 (2003: £7,898) during the year. Conversely the Group invoiced the same company £55,000 (2003: £nil). At the year end there remained balances outstanding of £1,762 (2003: £670) and £52,875 (2003: £nil) respectively.

Management fees of £18,000 (2003: £18,000) were invoiced to Welsh Industrial Investment Trust plc, a company in which A P Stirling is both a director and shareholder.

Loan Stock interest of £23,307 (2003: £23,204) was received from Abshot Finance Company Limited in which Security Change Limited has a 50% interest and Mr B. J. Hallett is a director. The loan stock holding at year end amounted to £335,000 (2003: £335,000).

During the year Tower Street Properties Limited, a company which is 50% owned by a group undertaking Outland Limited, and of which A. P. Stirling and B. J. Hallett are directors, invoiced the group a sum of nil (2003: £2,124,743) for property construction. Conversely the group invoiced Tower Street Properties Limited a sum of £23,500 (2003: £43,000) in respect of management fees. The balance due to Tower Street Properties Limited at the year end was nil (2003: £165,977). In addition, a sum of £176,000 was received by Security Change Limited in respect of repayment of secured loan.

During the year the wife of A. P. Stirling exercised her election rights in accordance with the Gresham House Finance plc Loan Stock Agreement dated 31st December, 2001 and was issued with 2,362 (2003: 3,581) shares in Gresham House plc.

Mr. N. J. Rowe has a 5% interest in a company, First City Insurance Brokers Limited, which invoiced the group during the year a sum of £7,875 (2003: £216,731) in respect of insurance premiums. There was no balance owing at the year end (2003: £nil).

The Rowe Trust is the sole shareholder of Newinnhall Trust Limited, a substantial shareholder of the Company, of which Mr A. P. Stirling is a director. Mr N. J. Rowe, Mr T. J. Rowe and their respective children are beneficiaries under The Rowe Trust. In addition Mr F. M. Earley, who is a director of five subsidiary undertakings and Newinnhall Trust Limited, is one of two trustees of The Rowe Trust. The Group paid a sum of £50,000 (2003: £50,000) to The Consultancy Limited in respect of the services provided by Mr Earley. At 31st December, 2004 the Trustees of the Rowe Trust were interested in £1,316,000 8% Secured Loan Stock 2006 (2003: £1,316,000) in Gresham House Finance plc and 85,604 ordinary shares (2003: 54,484) in the Company.

During the year Mr N. J. Rowe and his wife exercised their rights in accordance with the Loan Stock Agreement dated 31st December, 2001 and were issued with 1,091 (2003: 1,116) shares in Gresham House plc. They were interested in £88,000 8% Secured Loan Stock 2006 as at 31st December, 2004 (2003: £88,000).

Mr T. J. Rowe was interested in £45,000 8% Secured Loan Stock 2006 as at 31st December, 2004 (2003: £45,000). Mr Rowe did not exercise any of his rights during the year (2003: nil).

25 CONTINGENT LIABILITIES

The Company has guaranteed loans of £6,083,838 made by Gresham House Finance plc to Security Change Limited which are eliminated on consolidation. This loan is due for repayment by 20th December 2007, and incurs interest at a maximum rate of 5.75% per annum.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Gresham House plc will be held at 36 Elder Street, London E1 6BT on 21st June, 2005 at 11.00 am for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the accounts for the year ended 31st December, 2004 together with the report of the auditors;
2. To adopt the Remuneration Report;
3. To declare a dividend of 4.0p per ordinary share;
4. To re-elect as a director Mr R. E. Lane 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 A. G. Ebel who retires in accordance with the provisions of the FRC Code and offers himself for re-election;
6. To re-elect as a director Mr N. J. Rowe who retires in accordance with the provisions of the FRC Code and offers himself for re-election;
7. To re-elect as a director Mr T. J. Rowe who retires in accordance with the provisions of the FRC Code and offers himself for re-election;
8. To re-elect as a director Mr B. J. Hallett who retires by rotation and offers himself for re-election;
9. To appoint PKF (UK) LLP as the auditors and to authorise the directors to fix their remuneration;

By Order of the Board,

B. J. Hallett, *Secretary*

9th May, 2005

36 Elder Street
London E1 6BT

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he or she so wish.
3. A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Registrars of the Company (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not less than forty eight hours before the time fixed for holding the meeting or any adjournment thereof.
4. There are no contracts of service existing for any of the directors.
5. In accordance with Regulation 34(1) of the Uncertificated Securities Regulations 1995, the Company specifies that only those shareholders registered in the Company's register of members at 11.00 am on 19th June, 2005 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.