GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2005

DIRECTORS AND ADVISERS

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

CHAIRMAN'S STATEMENT

This is the first time that the full accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Whilst many of the necessary changes will be familiar to shareholders from the Interim Results there is considerable additional information and a number of changes in the traditional format of the statements compared with those which shareholders have received in the past. The comparative figures have also been revised to comply with IFRS.

2005 was a year of substantially improved performance for the Group.

Our results for the year to 31st December, 2005 show a profit on the revenue account of £140,000 compared with £1,257,000 for last year but with a gain of £7,399,000 on the capital account compared with £2,011,000 last year. Overall the basic earnings per ordinary share was 154.8p compared with 67.9p for the previous year.

The major variance in the Revenue Account between the two years concerned was the anticipated reduction in rental income and the compensating reduction in finance costs both as a result of the sale of the property units at Knowsley late in 2004. However rental income is now beginning to flow from the property units acquired in Speke following the Knowsley disposal generating an annualised income of £412,000 from the first 3 tenants as at 31st December, 2005. Since year end negotiations have continued with a further ten potential tenants and I am hopeful that they will all enter into leases shortly resulting in an additional rental stream of £132,000. Marketing continues to find suitable tenants in respect of the 263,000 square feet of premises that presently remains vacant.

The Group's property portfolio has risen from £28.6 million at the end of the previous year to £34.2 million as at 31st December, 2005. This was as a result of a surplus arising on a revaluation as at year end amounting to £6.1 million (excluding potential capital gains tax) and expenditure on existing properties of £1.5 million. During the year the Group suffered the total loss of its remaining property unit at Deacon Park, Knowsley through fire. Whilst fully insured, accounting standards require the transfer of the building element of £2 million from fixed assets to other debtors reflecting insurance monies due which is shown under current assets. As insurance monies are expended on rebuilding the property this will be transferred back to the fixed assets of the business. As a result of this fire, the Group was able to negotiate the purchase of the incumbent tenant's option to purchase which was an integral part of his lease. As a result, your Board anticipates that once complete this new building will be valued significantly in excess of the cost to the Group.

Since the year end the Group has commenced work at its development in hand in Dorking which, once completed, should release the property units on another older site in Dorking. In anticipation of this, it is intended to submit a planning application for residential use for the older site later in the year.

All the above supports your Board's recent announcement that they are considering a demerger of the Group's property portfolio into a Real Estate Investment Trust ("REIT") in the early part of 2007. This will probably be on the basis of 1 new ordinary share in the REIT for every share held in the Company at that time.

A REIT is a tax exempt means of investing in property where rental income and gains on properties are, subject to certain conditions, exempt from corporation tax. To compensate for this there will be however an initial taxation charge based on 2% of the gross assets of the properties within the REIT. A further condition is that 90% of the REIT's net profits must be distributed to shareholders by way of dividend from which the usual tax deduction is made (currently 22%). HM Revenue and Customs are presently drafting detailed regulations relating to REITs but, subject to a detailed review of such regulations when available, your Board is still of the opinion that such a move would be advantageous to shareholders.

The Group's basic net asset value per ordinary share has thus risen from 626.6p to 775.7p an increase of 149.1p or 23.80%. Against this the FTSE All Share Index increased by 17.78% over the same period.

CHAIRMAN'S STATEMENT – CONTINUED

As can be seen from the Capital Account of the Income Statement the value of the investment securities portfolio has generated a gain of £2.8 million largely due to the increase in value of our investment in Hallin Marine Subsea International plc. At 31st December, 2004 this investment was valued at £562,000 and in April 2005 was admitted to the AIM Market. As at the year end the investment value of Hallin had risen to £2,192,000.

Indeed the greatest value of your Company's investments in securities is attributable to those securities dealt in under AIM, representing approximately 58% of the total share portfolio. The most significant of these investments were as follows:

Egdon Resources (UK) Limited

Egdon Resources is an onshore UK focused oil and gas exploration company. Egdon has interests in 19 licences in the hydrocarbon producing basins of the UK and France, containing two oil discoveries and a further 48 prospects. In addition Egdon is drilling a borehole on the Isle of Portland to confirm the suitability of the site for the creation of natural caverns to store natural gas.

Our holding of 375,000 shares, which had a market value at the year end of £460,000, cost £114,000. Since the year end we have reduced our holding to more than recoup our original cost.

Hallin Marine Subsea International plc

Hallin Marine was formed in 1998 to provide high quality marine and underwater services to the offshore industry, particularly in support of oil & gas development. It has grown from a US$1 million turnover company in its first year to a US$20 million turnover company in 2004. Hallin Marine was admitted to AIM in April 2005.

The company is an experienced provider of subsea construction and inspection solutions. It employs experienced subsea engineering staff to manage projects using support vessels, saturation diving systems, air/mixed gas diving spreads and remote operating vehicles. The company owns all its principal equipment, including the diving systems. Hallin's expanding operations cover South East Asia, India, China and Middle East regions.

Typically the work undertaken by the Group comprises the installation, construction, maintenance, repair or survey of equipment on the seabed. Most of the projects are planned well in advance and Hallin's role is that of a key contractor, normally working as part of a larger team. The largest projects may take two or more years from decision to go ahead to the stage where divers actually enter the water. Hallin provides clients with safe, professional and cost effective solutions by combining innovative approaches and new technology with time proven techniques.

Our holding of 3,700,000 shares, which had a market value of £2,192,000 as at 31st December, 2005, cost £37,000. During the year we reduced this holding by 300,000 shares which more than recovered the original cost of the investment. In addition, at the time of the original investment, the Group advanced a loan of £171,200 of which £92,800 was outstanding at year end.

Image Scan Holdings plc

Image Scan has developed modular proprietary software and hardware, protected by numerous patents and patent applications, to provide innovative methods of acquiring, interpreting and presenting x-ray images in real time, bringing major new user benefits to security applications, quality product and industrial inspection applications.

Our holding of 3.3m shares cost £711,000 against a year end value of £321,000. Since the year end the market price has increased from 9.75p to 19.5p per ordinary share.

CHAIRMAN'S STATEMENT – CONTINUED

PLUS Markets Group plc

PLUS Markets Group plc is the UK's independent provider of primary and secondary equity market services. The Group is the holding company for Ofex plc, which is authorised and regulated by the Financial Services Authority. Ofex plc is a prescribed market under Section 118 of the Financial Services & Markets Act 2000, and operates and regulates the PLUS service and the Ofex market.

The PLUS service is a new London equity market based on the quote-driven equity trading system, for listed and unlisted securities. Ofex is the UK's independent public market dedicated to small and medium sized companies.

Our holding of 3.25m shares cost £224,000 against a market value of £618,000 at the year end.

SpaceandPeople plc

This company was established in 2001 with Gresham as an original investor, to market and sell promotional mall space in shopping centres on a national basis in a business completely engineered by the e-business concept.

SpaceandPeople markets, sells and administers promotional space in a variety of high footfall venues across the UK, including shopping centres, service stations and airports. The current footfall is in excess of 35m per week from 176 outlets.

The website and dedicated call centre allow advertisers and brands to book space for short-term and experimental marketing promotions on a national basis. The company has no tie-ins with either property or media groups.

SpaceandPeople recently won "Best Small Business" at the Scottish Enterprise E-Business Awards and were highly commended in the business to business category of the prestigious New Age Effectiveness Awards.

Our holding of 1.59 million shares cost £168,000 and had a market value of £798,000 at year end.

Transense Technologies plc

Transense Technologies is a technology transfer company that develops surface acoustic wave (SAW), wireless, batteryless, sensor systems for the automotive industry.

Current applications include tyre pressure monitoring systems (TPMS) and torque systems for electrical power assisted steering (EPAS) and driveline management.

Our holding of 840,000 shares, which is in the books at nil cost, had a market value of £624,000 at the year end.

Other potentially significant investments include Mount Burgess Mining NL which currently has an interest in three active projects situated in Australia, Namibia and Botswana, all of which are currently being explored. An additional concession has also been applied for in Australia which is still subject to grant. The most advanced drilling is in Botswana and is for base metals of zinc, lead and silver with significant credits for copper and vanedium. This phase of drilling is expected to be completed by the end of June 2006.

Our holding of 9m shares cost £351,000 against a market value at year end of £358,000.

CHAIRMAN'S STATEMENT – CONTINUED

Shareholders will note that the Group's cash resources have decreased from £7.2 million as at 31st December, 2004 to £0.9 million as at year end. This has been the result of repaying external borrowings, as reported in my statement last year, acquiring further investments in securities and improving our existing property portfolio. As at 31st December, 2005 both short term and long term borrowings totalled £15.8 million compared with £19.1 million at the end of last year.

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. I am hopeful that one or two of these embryo companies will join either the AIM or Ofex markets within the next twelve months.

As a consequence your Board recommends a final dividend of 5p per share against 4p last year, an increase of 25%.

11th May, 2006

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 13th June, 2006 at 2.00 pm.

Revenue Account

The consolidated income statement which includes the revenue account is set out on page 18 and shows the results for the year ended 31st December, 2005.

Dividends

The directors recommend a final dividend of 5.0p (2004: 4.0p) per Ordinary Share, payable on 23rd June, 2006.

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, 3, 4 and 5.

For the year ended 31st December, 2003 HM Revenue & Customs has approved the Company as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 and since that date the directors have sought to conduct its affairs so as to enable it to continue to maintain such approval. 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 HM Revenue & Customs rules. Any shareholder considering an investment in their PEP or ISA should take professional advice before so doing. The Company cannot take any responsibility for potential losses which may be incurred by shareholders.

The portfolio is not managed against a benchmark. The reference to the 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, 2005 the portfolio was invested in the following sectors:	%
Engineering	21
Financial (including Investment Trusts)	16
Property Investment	8
Media & Photography	7
Oil & Gas	6
Automobiles	6
Building & Construction	5
Mining	5
Miscellaneous	4
Tobacco	3
Electrical	3
Pharmaceuticals	3
Electricity	3
Information Technology	2
Transport	2
Household and Textile	1
Foods	1
Health	1
Chemicals	1
Forestry and Paper	1
Telecommunications	1
	100

REPORT OF THE DIRECTORS – CONTINUED

Directors

The present directors are listed on page 1.

Under the provisions of the FRC Combined 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 A.P. Stirling and, being eligible, offers himself for re-election.

Brief biographies of the directors concerned are as follows:

A. G. Ebel (aged 61)

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 (aged 51)

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 (aged 53)

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.

A. P. Stirling (aged 70)

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

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

REPORT OF THE DIRECTORS – CONTINUED

Substantial Shareholdings

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

	%	Ordinary Shares
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:

	2005	2004
A. G. Ebel	22,550	22,550
B. J. Hallett	127,810	132,810
R. E. Lane	2,500	—
N. J. Rowe	22,060	21,957
T. J. Rowe	34,200	36,200
A. P. Stirling	419,036	418,340

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 and a further 94,772 ordinary shares held on behalf of The Rowe Trust.

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:

	2005 £	2004 £
A. G. Ebel	—	—
B. J. Hallett	—	—
R. E. Lane	—	—
N. J. Rowe	88,000	88,000
T. J. Rowe	45,000	45,000
A. P. Stirling	100,000	100,000

In addition to the above N. J. Rowe and T. J. Rowe have a beneficial interest in £1,316,000 8% Secured Loan Stock held by The Rowe Trust.

Share Option Schemes

On 3rd May, 2005 the Remuneration Committee granted options over a total of 35,600 ordinary shares with an exercise price of 337.5p at any time between 3rd May, 2008 and 3rd May, 2012. Details of options for each director are disclosed in the remuneration report on page 12.

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

Financial Risk Management Objectives

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

REPORT OF THE DIRECTORS – CONTINUED

Statement of the Directors' Responsibilities

Company law requires the directors to prepare financial statements 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 profit or loss of the Group for that period.

In preparing those financial statements, 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 financial statements;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that 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 financial statements 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 financial statements 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.

Under a regulation adopted by the European Parliament the Company is required to prepare its financial statements under International Financial Reporting Standards ("IFRS"). The financial statements in this annual report are prepared under IFRS.

Going Concern

After making enquiries, the directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Payment Policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 31st December, 2005 trade creditors represented 55 days purchases.

Auditors

On 23rd May, 2005 PKF, the Company's auditors, transferred its business to PKF (UK) LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. Accordingly PKF resigned as auditors on that date and the directors appointed PKF (UK) LLP as its successor. A resolution to reappoint PKF (UK) LLP as auditors will be proposed at the next annual general meeting.

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

36 Elder Street
London E1 6BT

11th May, 2006

REMUNERATION REPORT

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

Remuneration Committee

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

Remuneration Policy

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

Remuneration Package

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

Each element of remuneration paid to all directors is shown in detail on page 12.

Given the significant growth in the net asset value of the Group since 2003 the Committee considers that the introduction of an annual bonus scheme is appropriate and will provide the necessary incentive to the executive directors. The details and rules of such a bonus scheme have yet to be finalised and hence no provision has been made in these financial statements. Such a bonus scheme will be based on the increase in net asset value of the Group on an annual basis and there will be a threshold below which no bonus will be payable. It is anticipated that the scheme, when introduced, will be effective from 1st January, 2004.

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, 2005 contributions amounted to £8,400 (2004: £8,400).

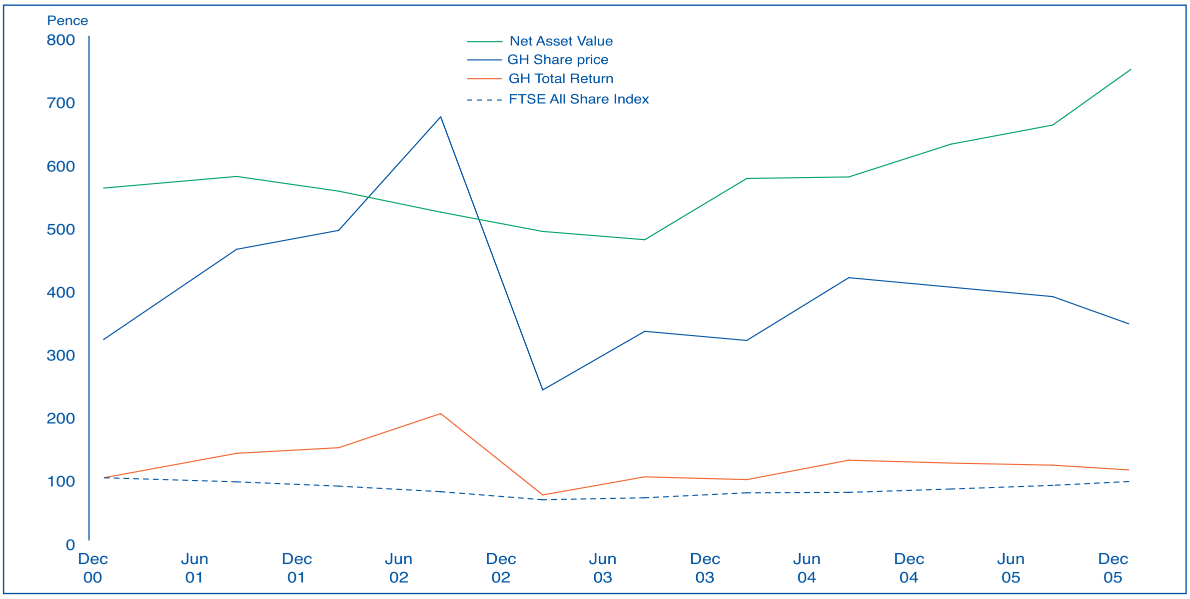
REMUNERATION REPORT – CONTINUED

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 illustrates the performance of Gresham House plc and a "broad equity market index" over the past five years. The directors consider the FTSE All Share Index to be the most appropriate for these purposes. As required by legislation performance is measured by total shareholder return (share price plus dividends paid.) For additional shareholder information the graph also charts the Company's share price movement and net asset value. It should be noted however that none of this information should be regarded as a benchmark.



This graph shows the value, by the end of 2005, of £100 invested in Gresham House plc on 31st December, 2000 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at intervening six monthly periods.

Comparative movements

	1.1.2001	31.12.2005	% change
Gresham House Share Price	338 p	352.5 p	4.29%
Basic net asset value	560.7p	775.7p	38.35%
Gresham House total return	100	107.8	7.8%
FTSE All Share Index	2,983.8	2,847.0	(4.58)%

REMUNERATION REPORT – CONTINUED

The following information has been audited:

Directors' Emoluments

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

	Basic Salary £'000	Fees £'000	Benefits £'000	Pension £'000	Total 2005 £'000	Emolu-ments 2004 £'000
Executive:						
A. P. Stirling (Chairman and highest paid director)	166	—	6	—	172	166
B. J. Hallett	96	—	3	8	107	104
Non-executive:						
A. G. Ebel	—	7	5	—	12	9
R. E. Lane	—	7	—	—	7	3
N. J. Rowe	—	7	—	—	7	6
T. J. Rowe	—	7	—	—	7	6
Total	262	28	14	8	312	294
Total 2004	255	21	10	8	294	

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, 2005 these amounted to £21,200 (2004: £19,163).

Share Option Schemes

Details of share options for each director are as follows:

	At 1st January, 2005	Granted 3rd May, 2005	At 31st December, 2005	Earliest exercise date	Exercise price per share
B. J. Hallett	-	8,800	8,800	3rd May, 2008	337.5p
A. P. Stirling	-	8,800	8,800	3rd May, 2008	337.5p

On 3rd May, 2005 the Remuneration Committee granted options over a total of 35,600 ordinary shares with an exercise price of 337.5p at any time between 3rd May, 2008 and 3rd May, 2012.

As at 31st December, 2005, the closing middle market price was 352.5p and the range of closing prices during the year 2005 was 310p to 415p.

The following information is unaudited:

The Remuneration Committee, who are responsible for the operation and administration of all Company share option schemes, 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. Details of options granted during the year ended 31st December, 2005 are given above.

On behalf of the Board
N. J. Rowe *Chairman*, Remuneration Committee
11th May, 2006

CORPORATE GOVERNANCE

The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the Company has applied the principles of good governance set out in the FRC Combined Code issued in 2003 ("the Code") and the principles and recommendations published by the Association of Investment 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, 2005, with the exceptions outlined below, the directors consider that the Company has applied the principles and met the requirements of the Code.

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

The Board is responsible for the overall strategy and management of the Group. There is a formal schedule of matters specifically reserved for Board decision including investment and performance objectives and policies, financial reporting and control, the approval of borrowings by the Group, any investments or disposals over certain thresholds and shareholder communication. The Board operates as a collective decision making forum. In the event that one or more directors cannot support a consensus decision then a vote would be taken and the views of the dissenting director recorded in the minutes. There were no such dissentions during 2005. 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 five board meetings, two meetings of the Audit Committee and one meeting of the Remuneration Committee held during the year and the attendance of the directors was as follows:

Number of Meetings Attended

Name of Director	Board	Remuneration Committee	Audit Committee
A. P. Stirling	5		
B. J. Hallett	5		
A. G. Ebel	2	1	
R. E. Lane	5		2
N. J. Rowe	5	1	2
T. J. Rowe	5	1	2

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

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

CORPORATE GOVERNANCE – CONTINUED

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

The Company has not fully complied with paragraph B.1.3. as the remuneration for non-executive directors has included share options. Given the size of the Company this policy is likely to continue. Details of options outstanding as at 31st December, 2005 are shown in the remuneration report on page 12. 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 A. P. Stirling is due to retire by rotation in accordance with the Company's Articles of Association. The chairman has carefully considered the position of each of the non-executive directors and the senior independent director has considered the position of the Chairman and managing director and they respectively consider their contribution to be significant and effective, their commitment to be appropriate and respectively recommends their re-election.

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

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

Audit Committee
The Audit Committee is a formally constituted committee of the Board with defined terms of reference. It meets at least twice a year and among its specific responsibilities are the review of the Company's annual and half yearly results and the review of internal and financial controls applicable to the Company. The Audit Committee consist of three non-executives Mr R. E. Lane, who acts as chairman, Mr N. J. Rowe and Mr T. J. Rowe. The auditors are invited to attend the Audit Committee meeting at which the annual financial statements 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 was also a director at year end. 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 financial statements, reports and supplementary information present a fair and accurate assessment of the Company's position and prospects.

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

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

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

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

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRESHAM HOUSE PLC

We have audited the group and parent company financial statements ('the financial statements') of Gresham House plc for the year ended 31st December, 2005 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statements of change in shareholders' equity and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 other transactions is not disclosed.

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the unaudited part of the remuneration report, the chairman's statement and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and the company's circumstances, consistently applied and adequately disclosed.

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

REPORT OF THE INDEPENDENT AUDITORS – CONTINUED

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st December, 2005 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December, 2005;
- the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation; and
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF (UK) LLP
Registered Auditors

11th May, 2005
London, UK

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2005

	Notes	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
Income							
Dividend and interest income	1	329	-	329	224	-	224
Rental income	1	2,098	-	2,098	3,266	-	3,266
Other operating income	1	323	-	323	370	-	370
Total Revenue		2,750	-	2,750	3,860	-	3,860
Gains on investments held at fair value		-	2,824	2,824	-	1,593	1,593
Deficit on disposal of property investment		-	-	-	-	(1,767)	(1,767)
Movement in fair value of property investments		-	6,144	6,144	-	1,854	1,854
Total income and gains on investments		2,750	8,968	11,718	3,860	1,680	5,540
Expenses							
Other operating expenses	2	(1,691)	-	(1,691)	(1,635)	-	(1,635)
Finance costs	4	(1,151)	-	(1,151)	(1,459)	-	(1,459)
		(2,842)	-	(2,842)	(3,094)	-	(3,094)
(Loss) / profit before taxation		(92)	8,968	8,876	766	1,680	2,446
Taxation	5	-	(1,240)	(1,240)	550	(113)	437
(Loss) / profit for the period		(92)	7,728	7,636	1,316	1,567	2,883
Attributable to:							
Equity holders of the parent		140	7,399	7,539	1,257	2,011	3,268
Minority interests		(232)	329	97	59	(444)	(385)
		(92)	7,728	7,636	1,316	1,567	2,883
Basic earnings per Ordinary Share	6			154.8p			67.9p
Diluted earnings per Ordinary Share	6			154.7p			67.8p

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group

Year ended 31st December, 2005

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

Year ended 31st December, 2004

	Notes	Ordinary share capital	Share premium	Share based payments	Capital reserve	Retained earnings	Total
Balance as at 31st December, 2003		1,189	554	-	34,745	(9,455)	27,033
Profit for the period		-	-	-	2,011	1,257	3,268
Ordinary dividend paid	7	-	-	-	-	(148)	(148)
Issue of shares		23	207	-	-		230
Balance at 31st December, 2004		1,212	761	-	36,756	(8,346)	30,383

Company

Year ended 31st December, 2005

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

Year ended 31st December, 2004

	Notes	Ordinary share capital	Share premium	Share based payments	Capital reserve	Retained earnings	Total
Balance as at 31st December, 2003		1,189	554	-	5,231	559	7,533
Profit for the period		-	-	-	1,333	106	1,439
Ordinary dividend paid	7	-	-	-	-	(148)	(148)
Issue of shares		23	207	-	-	-	230
Balance at 31st December, 2004		1,212	761	-	6,564	517	9,054

BALANCE SHEET

AS AT 31st DECEMBER, 2005

	Notes	The Group 2005 £'000	The Group 2004 £'000	The Company 2005 £'000	The Company 2004 £'000
Assets					
Non current assets					
Investments held at fair value	8	12,774	8,761	12,774	8,761
Property investments	9	34,226	28,600	-	-
Other investments	10	-	-	2	2
Property, plant and equipment	11	512	525	504	514
Total non current assets		47,512	37,886	13,280	9,277
Current assets					
Trade and other receivables		389	426	109	-
Accrued income and prepaid expenses		1,170	1,209	-	-
Other current assets	12	8,904	6,089	117	-
Cash and cash equivalents		863	7,230	84	157
Total current assets		11,326	14,954	310	157
Total assets		58,838	52,840	13,590	9,434
Current liabilities					
Trade and other payables	13	2,615	2,150	15	14
Short term borrowings	14	9,549	3,523	1,691	366
Current tax payable		17	102	-	-
Total current liabilities		12,181	5,775	1,706	380
Total assets less current liabilities		46,657	47,065	11,884	9,054
Non current liabilities					
Long term borrowings	15	6,449	15,618	-	-
Deferred taxation	16	1,631	390	-	-
		8,080	16,008	-	-
Net assets		38,577	31,057	11,884	9,054
Capital and reserves					
Ordinary share capital	17	1,218	1,212	1,218	1,212
Share premium	18	822	761	822	761
Share based payments	18	12	-	12	-
Capital reserve	18	44,155	36,756	9,388	6,564
Retained earnings	18	(8,401)	(8,346)	444	517
Equity attributable to equity shareholders		37,806	30,383	11,884	9,054
Minority interest		771	674	-	-
Total equity		38,577	31,057	11,884	9,054
Basic net asset value per ordinary share	19	775.7p	626.6p	243.8p	186.7p
Diluted net asset value per ordinary share	19	775.1p	625.7p	243.6p	186.5p

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 11th May, 2006

A. P. Stirling
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2005

	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Cashflow from operating activities					
Investment income received		117		129	
Interest received		212		95	
Rental income received		2,145		3,234	
Other cash payments		(1,235)		(1,824)	
Net cash generated from operations	20		1,239		1,634
Interest paid on 8% Secured Redeemable Loan Stock 2006		(293)		(293)	
Interest paid on property loans		(754)		(1,201)	
			(1,047)		(1,494)
Net cash flows from operating activities			192		140
Cash flows from investing activities					
Purchase of investments		(2,295)		(2,154)	
Sale of investments		1,106		2,108	
Purchase of investment properties		(1,532)		(7,011)	
Disposal of investment properties		105		15,698	
Purchase of developments in hand		(652)		(280)	
			(3,268)		8,361
Cash flows from financing activities					
Repayment of loans		(3,484)		(7,613)	
Receipt of loans		321		5,088	
Share capital issued		67		230	
Equity dividends paid		(195)		(148)	
			(3,291)		(2,443)
(Decrease)/increase in cash and cash equivalents			(6,367)		6,058
Cash and cash equivalents at start of period			7,230		1,172
Cash and cash equivalents at end of period			863		7,230

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2005

	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Cashflow from operating activities					
Investment income received		139		144	
Interest received		4		6	
Other cash payments		(115)		(25)	
Net cash generated from operations	20		28		125
Cash flows from investing activities					
Purchase of investments		(2,295)		(2,154)	
Sale of investments		997		1,497	
			(1,298)		(657)
Cash flows from financing activities					
Receipt of loans		1,325		208	
Share capital issued		67		230	
Equity dividends paid		(195)		(148)	
			1,197		290
Decrease in cash and cash equivalents			(73)		(242)
Cash and cash equivalents at start of period			157		399
Cash and cash equivalents at end of period			84		157

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of accounting

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

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in notes 25, 26, 27 and 28. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties and investments held at fair value through profit and loss. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Trust Companies ("the AITC") in December 2005 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 31st December, 2005. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) Presentation of income statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AITC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. Net capital returns may not be distributed by way of a dividend. The net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 842 of the Income and Corporation Taxes Act 1988. As permitted by section 230 of the Companies Act 1985, the Company has not presented its own income statement.

(e) Investments in associates

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

(f) Segmental reporting

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

(g) Income

(i) Dividend and interest income

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

(ii) Rental income

Rental income comprises property rental income receivable net of VAT.

(iii) Construction income

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

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

(h) Expenses

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

(i) Property, plant and equipment

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

Depreciation on property, plant and equipment is provided principally on a straight line basis at varying rates of between 2% and 25% in order to write off the cost of assets over their expected useful lives. Freehold property is depreciated at the rate of 2% per annum.

(j) Taxation

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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

(k) Operating leases

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

(l) Investments

(i) Securities

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

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

- Investments which have been made in the last 12 months are valued at cost in the absence of overriding factors;
- Investments in companies at an early stage of development are also valued at cost in the absence of overriding factors;
- Where investments have gone beyond the stage in their development in the guidelines 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
- Where a value is indicated by a material arm's length market transaction by a third party in the shares of a company, that value may be used.

(ii) Properties
Investment properties are included in the balance sheet at fair value and are not depreciated.

(m) Developments in hand
Developments in hand are valued at the lower of cost and net realisable value. Third party interest which relates to properties held for, or in the course of, development is capitalised as incurred. Profits and losses arising from the sale of developments are dealt with through the income statement.

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

(o) Cash and cash equivalents
Cash comprises cash on hand and on demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(q) Bank borrowings
All bank loans are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Interest costs on property loans attributable to non current assets are charged to the income statement as incurred. Interest costs on property loans attributable to current assets are capitalised.

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

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

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

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

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(t) Capital reserves

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

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

(u) 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.

(v) Government grants

Capital based government grants are capitalised and offset against the cost of the asset in the balance sheet with any resultant increase in the fair value of the asset being credited to capital reserves.
Revenue based government grants are credited to the income statement in the same year as the expenditure is charged.

(w) Pensions

The cost to payments to personal pension schemes for employees is charged against profits in the year in which they are incurred.

(x) Share based payments

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

(y) Comparative information

The information for the year ended 31st December, 2004 has been extracted from the latest published audited financial statements, as restated to comply with IFRS (see note 25).

NOTES TO THE ACCOUNTS

1 INCOME

	2005 £'000	2004 £'000
Income from investments		
Dividend income	117	129
Interest receivable: Bank and Brokers	112	49
Other	100	46
	329	224
Rental income	2,098	3,266
	2,427	3,490
Other operating income		
Share dealing profit/(loss)	87	(69)
Management fees receivable	206	138
Income from construction activities	-	253
Other	30	48
	323	370
Total income	2,750	3,860
Total income comprises:		
Dividends	117	129
Interest	212	95
Other income	2,421	3,636
	2,750	3,860
Dividend income		
Listed UK	117	127
Unlisted	-	2
	117	129

2 OTHER EXPENSES

Other expenses comprise the following:	2005 £'000	2004 £'000
Directors' emoluments	298	284
Auditors' remuneration – group	65	52
Auditors' remuneration – for other advice	11	6
Depreciation	13	14
Wages and salaries	188	119
Social security costs	53	53
Pension contributions	8	8
Share based payments to employees	12	-
Operating lease rentals – land and buildings	28	28
Construction costs	-	143
Other operating expenses	1,015	928
	1,691	1,635

The average number of persons employed by the Company, including the executive directors, was 7 (2004 – 6).

The Group has annual commitments under operating leases, which expire after more than five years, of £28,000 (2004 – £28,000).

Charges for other advice provided by the auditors in the year ended 31st December, 2005 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.

NOTES TO THE ACCOUNTS – CONTINUED

3 DIRECTORS EMOLUMENTS

The emoluments of the directors and details of options held are disclosed in the remuneration report on page 12.

4 FINANCE COSTS

	2005 £'000	2004 £'000
Interest payable on loans and overdrafts	1,151	1,459

5 TAXATION

	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000
(a) Analysis of charge in period:						
UK Corporation tax at 30% (2004 – 30%)	-	-	-	(550)	550	-
Adjustments in respect of prior years:						
Corporation tax	-	-	-	-	-	-
Total group tax on profits	-	-	-	(550)	550	-
Deferred tax on potential capital gains	-	1,240	1,240	-	(437)	(437)
Total tax charge (note b)	-	1,240	1,240	(550)	113	(437)
(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%	(28)	2,690	2,662	230	504	734
Tax effect of:						
Change in valuation allowance	-	(603)	(603)	-	(375)	(375)
Investment gains not taxable	-	(847)	(847)	-	(478)	(478)
Capital allowances in excess of depreciation	31	-	31	(19)	-	(19)
Dividend income not taxable	(45)	-	(45)	(41)	-	(41)
Expenses disallowed	33	-	33	94	530	624
Non-taxable write backs	-	-	-	(41)	-	(41)
Losses utilised in current year	(287)	-	(287)	(822)	(68)	(890)
Losses carried forward for future offset	289	-	289	-	-	-
Other differences	7	-	7	49	-	49
Actual tax charge	-	1,240	1,240	(550)	113	(437)

The Group has unutilised tax losses of approximately £11.2 million (2004: £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 financial statements as it is not considered sufficiently probable that the Group will generate sufficient taxable profits in the foreseeable future to recover these amounts in full.

NOTES TO THE ACCOUNTS – CONTINUED

6 EARNINGS PER SHARE

Basic return
The basic earnings per share figure is based on the net gain for the year of £7,539,000 (2004: £3,268,000) and on 4,870,716 (2004: 4,812,498) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted return
The diluted earnings per share figure is based on the net gain for the year of £7,539,000 (2004: £3,268,000) and on 4,874,628 (2004: 4,819,227) ordinary shares, being the weighted average number of ordinary shares in issue during the period together with 3,912 (2004: 6,728) shares deemed to been issued at nil consideration as a result of options granted or pursuant to the terms of the 8% secured loan stock issued by Gresham House Finance plc.

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

	2005 £'000	2004 £'000
Net revenue profit attributable to equity holders of the parent	140	1,257
Net capital profit attributable to equity holders of the parent	7,399	2,011
Net total profit	7,539	3,268
Weighted average number of ordinary shares in issue during the period		
Basic	4,870,716	4,812,498
Diluted	4,874,628	4,819,227
Basic earnings per share	Pence	Pence
Revenue	2.9	26.1
Capital	151.9	41.8
Total basic earnings per share	154.8	67.9
Diluted per share	Pence	Pence
Revenue	2.9	26.1
Capital	151.8	41.7
Total diluted earnings per share	154.7	67.8

7 DIVIDENDS

	2005 £'000	2004 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31st December, 2004 of 4p (2003: 3.1p) per share	195	148
Proposed final dividend for the year ended 31st December, 2005 of 5p (2004: 4p) per share	244	195

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

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

Proposed final dividend for the year ended 31st December, 2005 of 5p (2004: 4p) per share	244	195

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES

	Group & Company 2005 £'000	2004 £'000
Listed securities – on the London Stock Exchange	3,500	3,017
Listed securities – on overseas exchanges	421	389
Securities dealt in under AIM	7,358	3,844
Securities dealt in under Ofex	135	120
Unlisted securities	1,360	1,391
	12,774	8,761

Year ended 31st December, 2005

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

Year ended 31st December, 2004

	Listed in UK £'000	Listed overseas £'000	AIM £'000	Ofex £'000	Unlisted £'000	Total £'000
Group and Company:						
Opening cost	2,287	257	1,437	348	2,039	6,368
Opening unrealised gains/(losses)	1,549	70	225	(193)	(1,247)	404
Opening valuation	3,836	327	1,662	155	792	6,772
Movements in the year:						
Purchases at cost	147	36	1,476	71	424	2,154
Sales – proceeds	(970)	-	(516)	-	(622)	(2,108)
Sales – realised gains/(losses) on sales	142	-	5	(113)	223	257
Transfer of loan from current assets	-	-	-	-	350	350
Movement in unrealised appreciation	(138)	26	1,049	7	392	1,336
Transfer between AIM and Unlisted	-	-	168	-	(168)	-
Closing valuation	3,017	389	3,844	120	1,391	8,761
Closing cost	1,606	293	2,570	306	2,246	7,021
Closing unrealised gains/(losses)	1,411	96	1,274	(186)	(855)	1,740
	3,017	389	3,844	120	1,391	8,761

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

	Group & Company 2005 £'000	Group & Company 2004 £'000
Realised gains on sales	475	257
Increase in unrealised appreciation	2,349	1,336
Gain on investments	2,824	1,593

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.

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, 2005 all of which are incorporated in Great Britain, with the exception of Mount Burgess Mining NL which is incorporated in 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	325	2.54
Morgan Sindall plc – a diversified construction group operating in a number of distinct market sectors	465	3.64
Mount Burgess Mining NL – engaged in the exploration of base metals, gold and diamonds in Botswana, Namibia and Australia	358	2.80
Welsh Industrial Investment Trust plc – an authorised investment trust in the sector of UK capital growth	1,032	8.08
Securities dealt in under AIM		
Egdon Resources (UK) plc – an oil and gas exploration and production business	460	3.60
Hallin Marine Subsea International plc – specialises in offshore sub-sea intervention primarily for the oil, gas and telecommunication industries	2,192	17.16
Image Scan Holdings plc – developed modular proprietary software and hardware to provide innovative methods of acquiring, interpreting and presenting x-ray images in real time	321	2.51
PLUS Markets Group plc – a UK independent provider of primary and secondary equity market services and the holding company for Ofex plc	618	4.83
SpaceandPeople plc – markets and sells promotional space on behalf of shopping centres and other similar venues	798	6.24
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	624	4.88
	7,193	56.28

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

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

Welsh Industrial Investment Trust plc
Financial Summary

Year ended 5th April, 2005	£'000s			
		Shares	Ordinary	8.75% Cumulative
Turnover	160		5p	Preference of 20p
Profit before interest	81	Total issued	1,350,000	225,000
Profit before tax	81	Number held	350,000	98,092
Profit after tax	81	% of class	25.9	43.5
Net assets	6,023	Cost (£'000s)	-	22
Earnings per share	5.72p	Market value (£'000s)	1,032	22
Dividend per share	6.3p			

This company has been excluded from consolidation under International Accounting Standard 27 as the company is not controlled by the Group.

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

Egdon Resources (UK) plc
Financial Summary

Period ended 31st July, 2005	£'000s		
Turnover	11	Shares	Ordinary 1p
Loss before interest	(451)	Total issued	51,594,974
Loss before tax	(421)	Number held	375,000
Loss after tax	(421)	% of class	0.7
Net assets	5,584	Cost (£'000s)	114
Earnings per share	(0.92p)	Market value (£'000s)	460
Dividend per share	-		

Hallin Marine Subsea International plc
Financial Summary

Year ended 31st December, 2005	US$'000s		
Turnover	26,566	Shares	Ordinary 1p
Profit before interest	2,412	Total issued	30,400,000
Profit before tax	2,307	Number held	3,700,000
Profit after tax	2,255	% of class	12.2
Net assets	9,187	Cost (£'000s)	37
Earnings per share	$7.84	Market value (£'000s)	2,192
Proposed dividend per share	1.0p		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

Image Scan Holdings plc
Financial Summary

Year ended 30th September, 2005	£'000s		
Turnover	843	Shares	Ordinary 1p
(Loss) before interest	(718)	Total issued	34,868,120
(Loss) before tax	(722)	Number held	3,288,369
(Loss) after tax	(692)	% of class	9.4
Net assets	315	Cost (£'000s)	711
Earnings per share	(2.7p)	Market value (£'000s)	321
Dividend per share	-		

PLUS Markets Group plc
Financial Summary

Year ended 31st December, 2005	£'000s		
Turnover	1,146	Shares	Ordinary 5p
(Loss) before interest	(1,251)	Total issued	134,562,701
(Loss) before tax	(1,153)	Number held	3,250,000
(Loss) after tax	(1,153)	% of class	2.4
Net assets	3,733	Cost (£'000s)	224
Earnings per share	(1.19p)	Market value (£'000s)	618
Dividend per share	-		

SpaceandPeople plc
Financial Summary

Year ended 31st October, 2005	£'000s		
Turnover	1,409	Shares	Ordinary 1p
Profit before interest	307	Total issued	11,400,000
Profit before tax	307	Number held	1,587,500
Profit after tax	271	% of class	13.9
Net assets	509	Cost (£'000s)	168
Earnings per share	2.4p	Market value (£'000s)	798
Dividend per share	1p		

Transense Technologies plc
Financial Summary

Period ended 31st December, 2005	£'000s		
Turnover	553	Shares	Ordinary 10p
Loss before interest	(1,032)	Total issued	56,408,974
Loss before tax	(974)	Number held	840,000
Loss after tax	(874)	% of class	1.5
Net assets	4,374	Cost (£'000s)	-
Earnings per share	(1.6p)	Market value (£'000s)	624
Dividend per share	-		

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES

	Group	
	2005	2004
Net book value and valuation	£'000	£'000
At 1st January	28,600	37,200
Additions during the year – expenditure on existing properties	1,532	661
Additions during the year – expenditure on new acquisitions	-	6,350
Disposals during the year	(2,050)	(17,465)
Revaluation during the year through capital reserve	6,144	1,854
At 31st December	34,226	28,600

As at 31st December, 2005 investment properties consisted of 54 individual property units covering a total of 720,729 sq. ft. at an annual rental of £2,107,872 together with approximately 289,000 sq. ft. of vacant mixed business space in Speke, Liverpool. These property units vary considerably in size and use, with the largest three units totalling 381,493 sq. ft. at a combined rental of £1,062,485 and the smallest ten units being less than 2,000 sq. ft. each at a combined rental of £41,496. The total area can be sub-divided into the following use categories:

Warehouse and associated offices	526,709 sq. ft.
Industrial and associated offices	191,720 sq. ft.
Retail, and other	2,300 sq. ft.

These categories can be further analysed as follows:

		No. of tenants	Area sq. ft.
(i)	Warehouse		
	Food storage	2	253,852
	Chemicals and plastic storage	1	151,224
	Pharmaceuticals storage	1	48,166
	Document storage	1	24,125
	Others and vacant	5	49,342
(ii)	Industrial		
	Timber fabrication	1	41,786
	Rubber processing	1	17,432
	Light engineering	8	35,808
	Heavy engineering	1	71,300
	Others and vacant	1	25,394
(iii)	Retail, office and others		
	Nursery	1	2,300

The letting programme in Speke, Liverpool continues with lettings of 111,388 sq. ft at an annual rent £412,156 being achieved by year end which are included in the above analysis. Approximately 289,000 sq. ft. of mixed use business space remained vacant at year end but since that time negotiations are in hand to let a further 22,883 sq. ft.

Investment properties are shown at valuation and any surplus or deficit arising on valuation of property is taken to the capital reserve.

Of the property units held at the year end:

- 4 property units were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2005 at £13,500,000;
- 12 property units were valued by Knight Frank, Chartered Surveyors, as at 31st December, 2005 at £5,000,000;
- 34 property units were valued by Hurst Warne Limited, Chartered Surveyors, as at 31st December, 2005 at £2,300,000;
- the units at Speke, Liverpool were valued by Knight Frank, Chartered Surveyors as at 31st December, 2005 at £11,000,000; and
- the land at Knowsley, Liverpool was valued by Knight Frank, Chartered Surveyors as at 31st December, 2005 at £1,450,000.

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.

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES – continued

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

	2005 £'000	2004 £'000
Not later than one year	1,769	1,758
Between 2 and 5 years	5,015	6,011
Over 5 years	3,882	5,070
	10,666	12,839

Rental incomes recognised in the income statement amounted to £2,098,000 (2004: £3,266,000)

The commercial leases vary with location, however wherever the market allows they are being standardised where possible across the property portfolio. Typically the properties are let for a term of between 5 – 15 years at a market rent with rent review positions every five years. The commercial units are leased on terms where the tenant has the responsibility for repairs and running costs for each individual unit with a service charge payable to cover estate services provided by the Landlord. In one location due to the nature and condition of the units and the estate generally the tenants occupy the various units on older leases which are being held over.

The cost of the above properties as at 31st December, 2005 is as follows:

	Group £'000
Brought forward	17,625
Additions during the year	1,532
Disposals during the year	(1,521)
	17,636

Capital commitments	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Capital expenditure contracted for but not provided for in the financial statements	97	—	—	—

10 OTHER INVESTMENTS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Subsidiary undertakings				
Shares – At cost	—	—	322	322
Less provision	—	—	(320)	(320)
	—	—	2	2

NOTES TO THE ACCOUNTS – CONTINUED

10 OTHER INVESTMENTS – continued

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

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

In addition the Group has:

(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, 2005, being the latest available accounts, and its loss for the year then ended amounted to £(5,146,229) and £(62,619) respectively; and

(ii) an interest of 50% in Abshot Finance Company Limited which has been excluded from consolidation under International Accounting Standard 27 as the company is not controlled by the Group. The aggregate capital and reserves of Abshot Finance Company Limited as at 31st July, 2005, being the latest accounts available, and its loss for the year then ended amounted to £28,347 and £(13,117) respectively.

11 PROPERTY, PLANT AND EQUIPMENT

	Group					
		2005			2004	
	Motor Vehicles £'000	Freehold Property £'000	Total £'000	Motor Vehicles £'000	Freehold Property £'000	Total £'000
Cost or valuation						
Balance 1st January and 31st December	19	525	544	19	525	544
Depreciation						
Balance 1st January	8	11	19	5	-	5
Charge for the year	3	10	13	3	11	14
Balance 31st December	11	21	32	8	11	19
Net book values at 31st December	8	504	512	11	514	525

NOTES TO THE ACCOUNTS – CONTINUED

11 PROPERTY, PLANT AND EQUIPMENT – continued

	Company 2005 Freehold Property £'000	Company 2004 Freehold Property £'000
Deemed cost		
Balance 1st January and 31st December	525	525
Depreciation		
Balance 1st January	11	-
Charge for the year	10	11
Balance 31st December	21	11
Net book values at 31st December	504	514

12 OTHER CURRENT ASSETS

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Listed and other securities held		690	547	117	-
Developments in hand	(a)	5,988	5,336	-	-
Taxation recoverable		-	38	-	-
Other debtors	(b)	1,949	4	-	-
Unsecured loans	(c)	277	89	-	-
Secured loans	(c)	-	75	-	-
		8,904	6,089	117	-

(a) Developments in hand consist of four property development sites. Interest capitalised in the year amounted to £32,000 (to date: £147,000).
(b) Other debtors include an amount of £1,945,000 in respect of insurance proceeds due in respect of the property unit destroyed by fire during the year.
(c) Loans have been classified as current assets as they are repayable on demand.

13 CURRENT LIABILITIES – Trade and Other Payables

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Trade creditors	616	229	-	-
Other creditors	364	147	15	9
Accruals	1,635	1,774	-	5
	2,615	2,150	15	14

NOTES TO THE ACCOUNTS – CONTINUED

14 CURRENT LIABILITIES – Short Term Borrowings

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank overdrafts and short-term loans (secured)				
– property loans	5,886	3,522	-	-
– other	-	-	1,691	366
2.5% Secured Redeemable Loan Stock 2001 *	1	1	-	-
8% Secured Redeemable Loan Stock 2006 **	3,662	-	-	-
	9,549	3,523	1,691	366

* 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. There is no material equity component of this loan instrument.

** Details of the 8% Secured Redeemable Loan Stock and the terms of the property loans are disclosed in note 15 below.

15 NON CURRENT LIABILITIES – Long Term Borrowings

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
(a) 8% Secured Redeemable Loan Stock 2006	-	3,662	-	-
(b) Property Loans	6,449	11,956	-	-
	6,449	15,618	-	-

(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 14). Details of the conversion terms for the interest are given in note 17.

(b) Property loans

The loans relate to property investments held in Chartermet Limited, New Capital Developments Limited and Newton Estate Limited.

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank loans (secured against investment properties)				
7.09% fixed	3,624	3,624	-	-
1.2% over 3 month LIBOR	1,430	1,926	-	-
1.25% over 3 month LIBOR	-	1,636	-	-
1.75% over 3 month LIBOR	-	1,358	-	-
2.0% over 3 month LIBOR	5,321	5,000	-	-
Other loans (secured against investment properties)				
1.5% over 3 month LIBOR	1,960	1,879	-	-
11% fixed	-	55	-	-
	12,335	15,478	-	-

NOTES TO THE ACCOUNTS – CONTINUED

15 NON CURRENT LIABILITIES – Long Term Borrowings – continued

Loans or instalments thereof are repayable over the following periods:

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Less than 1 year	5,886	3,522	-	-
Between 1 and 2 years	545	5,482	-	-
Between 2 and 5 years	4,680	5,115	-	-
Over 5 years	1,224	1,359	-	-
	12,335	15,478	-	-

16 DEFERRED TAXATION

Income taxes

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

The deferred tax provision on the revaluation of investment properties calculated under IAS 12 is £1,631,000 at 31st December, 2005 (2004: £390,000).

Analysis of deferred tax

	Group revaluation of investment properties £'000	Company £'000
At 31st December, 2003	827	-
Recognised in income	(437)	-
At 31st December, 2004	390	-
Recognised in income	1,241	-
At 31st December, 2005	1,631	-

17 CALLED UP SHARE CAPITAL

	2005 £'000	2004 £'000
Share Capital		
Authorised: £4,750,000 (2004: £4,750,000)		
Allotted: Ordinary – 4,873,880 (2004: 4,848,919) fully paid shares of 25p each	1,218	1,212

Under the terms of the 8% Secured Redeemable Loan Stock 2006 stockholders were 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 could be issued was limited to 275,880 ordinary shares which represented 5.66% of the issued share capital at that time on a fully diluted basis. As at 31st December, 2005 all such shares have now been issued.

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

31st January, 2005	20,630 shares at 276p per share
30th April, 2005	4,331 shares at 230p per share

The allotted share capital was therefore increased by 24,961 ordinary shares.

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

NOTES TO THE ACCOUNTS – CONTINUED

18 RESERVES

	2005 Share premium account £'000	2005 Share based payments £'000	2005 Capital reserve * £'000	2005 Retained earnings £'000	2004 Share premium account £'000	2004 Capital reserve * £'000	2004 Retained earnings £'000
Company							
Balance at 1st January	761	-	6,564	517	554	5,231	559
Issue of share capital	61	-	-	-	207	-	-
Share based payments		12					
Net profit / (loss) on realisation of fixed asset investments	-	-	475	-	-	(2)	-
Increase in unrealised appreciation	-	-	2,349	-	-	1,335	-
Retained loss for the year	-	-	-	(73)	-	-	(42)
As at 31st December	822	12	9,388	444	761	6,564	517
Group							
Balance at 1st January	761	-	36,756	(8,346)	554	34,745	(9,455)
Issue of share capital	61	-	-	-	207	-	-
Share based payments		12					
Net profit on realisation of investments	-	-	475	-	-	257	-
Increase in unrealised appreciation	-	-	2,349	-	-	1,336	-
Surplus arising on property revaluation	-	-	4,575	-	-	1,535	-
Net loss on property disposal	-	-	-	-	-	(1,117)	-
Retained (loss) / profit for the year	-	-	-	(55)	-	-	1,109
As at 31st December	822	12	44,155	(8,401)	761	36,756	(8,346)

Minority interest:	2005 £'000	2004 £'000
Balance as at 1st January	674	1,059
Interest in revenue return for the year	(232)	59
Interest in capital return for the year	329	(444)
Balance as at 31st December	771	674

*The following amounts within Capital reserve are realised:-

	2005 £'000	2004 £'000
Group	25,025	24,550
Company	5,540	5,065

NOTES TO THE ACCOUNTS – CONTINUED

19 NET ASSET VALUE PER SHARE

Basic
Basic net asset value per ordinary share is based on Equity attributable to equity shareholders at the year end and on 4,873,880 (2004: 4,848,919) 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 4,877,792 (2004: 4, 855,647) ordinary shares. The number of shares is based upon the number of shares in issue at the year end together with 3,912 (2004: 6,728) shares deemed to have been issued at nil consideration as a result of options granted or 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.

	£'000
The movement during the year of the assets attributable to Ordinary Shares were as follows:	
Total net assets attributable at 1st January, 2005	30,383
Total recognised gains for the year	7,539
Exercise of options to subscribe for share capital	67
Share based payments	12
Dividends appropriated in the year	(195)
Total net assets attributable at 31st December, 2005	37,806

20 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Revenue return before taxation	(92)	766	122	108
Interest payable	1,151	1,459	-	-
Share based payments	12	-	12	-
Depreciation of property, plant and equipment	13	14	10	11
	1,084	2,239	144	119
Increase in current assets	(140)	(586)	(117)	-
Increase/(decrease)in current liabilities	295	(19)	1	6
	1,239	1,634	28	125

21 FINANCIAL INSTRUMENTS

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

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

The Group's financial instruments, which are held in accordance with the Group's objectives and policies, comprise:
(i) securities consisting of listed and unlisted equity shares;
(ii) a secondary portfolio of listed and unlisted fixed income securities;
(iii) investment properties;
(iv) contracts for future movements in share indices;
(v) cash, liquid resources and short term debtors and creditors that arise directly from its operational activities;
(vi) 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

21 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 (l) in these financial statements. Regular reviews of the financial results combined with close contact with the management of these investments provides sufficient information to support these valuations, and to ensure the payment of interest where supporting loans have been issued.

Securities: quoted

Market Risk:

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

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

Investment Properties

Credit Risk:

The Group's credit risk is primarily attributable to its trade receivables and unsecured loans. The amounts presented in the balance sheet are net of allowances for doubtful receivables. Credit risk represents the possibility of tenants defaulting in their rental commitments. This risk is mitigated by monitoring the financial results 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 attempts to minimise the risk by structuring its long term borrowings to include a percentage at a fixed rate. The rental flows deriving from investment properties are sufficient to cover a minimum of the quarterly capital repayments and interest commitments.

Liquidity Risk:

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

Contracts for futures

Market Risk:

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

The Group minimises the risk involved in trading in contracts for futures, by establishing limits on the level of trading that can be undertaken without Board approval and through the formal controls in place over the safe custody of investment title certificates, which are required as collateral for the trading undertaken. The market value of underlying contracts for futures at 31st December, 2005 was £183,000 (2004: £121,000)

NOTES TO THE ACCOUNTS – CONTINUED

21 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, 2005 and 2004 is shown below.

As at 31st December, 2005	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	12,573	201	-	-	-	12,774
Investment properties	34,226	-	-	-	-	34,226
Dealing securities	262	428	-	-	-	690
Cash and cash equivalents	-	-	863	-	-	863
Loans	-	277		-	-	277
Creditors						
– falling due within 1 year	-	-	-	(3,663)	(5,886)	(9,549)
– falling due after 1 year	-	-	-	(3,624)	(2,825)	(6,449)
	47,061	906	863	(7,287)	(8,711)	32,832

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	8,578	183	-	-	-	8,761
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)	(3,468)	(3,523)
– falling due after 1 year	-	-	-	(7,286)	(8,332)	(15,618)
	37,725	347	7,230	(7,341)	(11,800)	26,161

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 7.29% (2004: 8.63%).

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 7.55% (2004: 7.57%), and a weighted average maturity value of 2.24 years (2004: 3.22 years).

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

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

NOTES TO THE ACCOUNTS – CONTINUED

22 SHARE BASED PAYMENTS

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

	2005		2004	
	Share options Number	Weighted average price (p)	Share options Number	Weighted average price (p)
Outstanding at 1st January	–	–	10,000	25
Granted during the year	35,600	337.5	–	–
Exercised during the year	–	–	(10,000)	(25)
Outstanding 31st December	35,600	337.5	–	–

The middle market price of the shares of Gresham House plc at the time of exercise in 2004 was 325p.

Inputs into the Black Scholes model are as follows:

	2005	2004
Expected volatility	45.0%	–
Interest rate	4.5%	–
Expected life (years)	6.3	–
Dividend yield	0.9%	–

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

The Group recognised total expenses of £12,000 (2004: nil) in respect of share based payment transactions.

NOTES TO THE ACCOUNTS – CONTINUED

23 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' Beneficial Shareholdings as at 31st December, 2005

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	–	–	–	–	–	–
Morgan Sindall plc	2,434	–	–	–	–	–
Mount Burgess Mining NL	–	100,000	–	–	–	3,500,000
Welsh Industrial Investment Trust plc	–	–	–	–	–	152,700
Securities dealt in under AIM						
Egdon Resources plc	–	–	–	–	–	75,000
Hallin Marine Subsea International plc	470,000	200,000	–	–	–	170,000
Image Scan Holdings plc	–	300,000	–	103,785	–	1,524,166
PLUS Markets Group plc	–	–	–	–	–	–
SpaceandPeople plc	80,000	50,000	–	30,000	16,000	700,000
Transense Technologies plc	24,000	19,796	–	7,452	4,500	350,651
Unlisted Securities						
Greenwich Communications plc	–	–	–	–	–	40,000
Gresham House Finance plc						
-8% Secured Redeemable Loan Stock 2006	–	–	–	88,000	45,000	100,000

Related Party Transactions

Mr A. G. Ebel and Mr A. P. Stirling have a controlling interest in Watlington Securities Limited, a company which invoiced the group a sum of £14,287 (2004: £3,925) during the year. Conversely the Group invoiced the same company £145,000 (2004: £55,000). At the year end there remained balances outstanding of £12,363 (2004: £1,762) and £nil (2004: £52,875) respectively.

Management fees of £18,000 (2004: £18,000) were invoiced to Welsh Industrial Investment Trust plc, a company in which Mr A. P. Stirling is both a director and shareholder. At the year end there was a debtor balance of £7,050 (2004: £1,762).

Loan Stock interest of £28,635 (2004: £23,307) 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 (2004: £335,000).

The Group invoiced Tower Street Properties Limited, a company which is 50% owned by a group undertaking Outland Limited, and of which Mr A. P. Stirling and Mr B. J. Hallett are directors, a sum of £nil (2004: £23,500) in respect of management fees.

During the year the wife of Mr 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 696 (2004: 2,362) 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 £nil (2004: £7,875) in respect of insurance premiums.

The Rowe Trust is the sole shareholder of Newinnhall Trust Limited, a substantial shareholder of the Company, of which Mr A. P. Stirling was a director at year end. 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 was a director of six subsidiary undertakings at year end and is a director of Newinnhall Trust Limited, is one of two trustees of The Rowe Trust. The Group paid a sum of £16,667 (2004: £50,000) to The Consultancy Limited in respect of the services provided by Mr Earley. At 31st December, 2005 the Trustees of the Rowe Trust were interested in £1,316,000 8% Secured Loan Stock 2006 (2004: £1,316,000) in Gresham House Finance plc and 94,772 ordinary shares (2004: 85,604) 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 103 (2004: 1,091) shares in Gresham House plc. They were interested in £88,000 8% Secured Loan Stock 2006 as at 31st December, 2005 (2004: £88,000).

Mr T. J. Rowe was interested in £45,000 8% Secured Loan Stock 2006 as at 31st December, 2005 (2004: £45,000). Mr Rowe did not exercise any of his rights during the year (2004: nil).

Company

During the year Security Change Limited advanced funds to Gresham House plc totalling £1,321,438. At the year end £1,686,677 was owed to Security Change Limited (2004: £365,238).

NOTES TO THE ACCOUNTS – CONTINUED

24 CONTINGENT LIABILITIES

The Company has guaranteed loans of £6,088,009 made by Gresham House Finance plc to Security Change Limited which are eliminated on consolidation. This loan is due for repayment by 20th December, 2006, and incurs interest at a maximum rate of 5.75% per annum.

25 RESTATEMENT OF BALANCES AS AT 31ST DECEMBER, 2004

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

Group	Notes	UK GAAP 31st December, 2004 £'000	Effect of transition to IFRS £'000	IFRS 31st December, 2004 £'000
Non current assets	a	37,887	(1)	37,886
Current assets		14,955	(1)	14,954
Current liabilities	b,c	(5,962)	187	(5,775)
Total assets less current liabilities		46,880		47,065
Non current liabilities	c,d,e	(15,890)	(118)	(16,008)
		30,990		31,057
Capital and reserves				
Called up share capital		1,212		1,212
Share premium		761		761
Revaluation reserve	f	10,614	(10,614)	–
Capital reserve	a,d,e,f	26,291	10,465	36,756
Revenue reserve / Retained earnings	b,c	(8,562)	216	(8,346)
Equity shareholders' funds		30,316		30,383
Minority interests		674		674
		30,990		31,057

Company	Notes	UK GAAP 31st December, 2004 £'000	Effect of transition to IFRS £'000	IFRS 31st December, 2004 £'000
Non current assets	a	9,278	(1)	9,277
Current assets		157		157
Current liabilities	b	(575)	195	(380)
Total assets less current liabilities		8,860		9,054
Non current liabilities		–		–
		8,860		9,054
Capital and reserves				
Called up share capital		1,212		1,212
Share premium		761		761
Revaluation reserve		–		–
Capital reserve	a	6,565	(1)	6,564
Revenue reserve / Retained earnings	b	322	195	517
Equity shareholders' funds		8,860		9,054
Minority interests		–		–
		8,860		9,054

NOTES TO THE ACCOUNTS – CONTINUED

25 RESTATEMENT OF BALANCES AS AT 31ST DECEMBER, 2004 – continued

Notes to the reconciliation

(a) Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value at £8,761,000. Previously under UK GAAP they were carried at mid prices with liquidity discounts as appropriate. The aggregate differences, being a downward revaluation of £1,000, also decrease capital reserves.

(b) No provision has been made for the dividend on the ordinary shares for the year ended 31st December, 2004 of £195,000. Under IFRS the dividend is not recognised until approved by the shareholders.

(c) Under IFRS borrowings are calculated on an amortised cost basis. Under UK GAAP this was not required. As a result the balance as at 31st December, 2004 has been reduced by £20,000 split between current and non current liabilities.

(d) Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the income statement. As at 31st December, 2004 this provision amounted to £390,000.

(e) As permitted by IFRS 20 the Group has offset government grants received of £245,000 against the cost of the relevant property with the resultant increase in the fair value of that property of the same amount being credited to capital reserves.

(f) Movements in the fair value of investment properties are required to be shown through the income statement under IFRS and are now included within capital reserves. Under UK GAAP these movements were reflected through the revaluation reserve.

26 RESTATEMENT OF THE STATEMENT OF TOTAL RETURN FOR THE YEAR ENDED 31ST DECEMBER, 2004

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

	Notes	2004 £'000
Total transfer to reserves per the statement of total return		1,224
Add back dividends proposed	a	195
Investments held at fair value changed from mid to bid basis at 31st December, 2003 and 31st December, 2004	b	(27)
Movement in fair value of investment properties	c	1,854
Restatement of property loans at amortised historic cost	d	(208)
Movement in deferred taxation	e	437
Minority interest in fair value movement of property investments	f	(207)
Net profit per the income statement		3,268

Notes to the reconciliation

(a) Ordinary dividends declared and paid during the period are dealt with through the statement of changes in equity.

(b) The portfolio valuations at 31st December, 2003 and 31st December, 2004 are required to be valued at bid-price under IFRS. These values differ from the previous valuations by £26,000 and £1,000 respectively.

(c) Movements in the fair value of investment properties are required to be shown through the income statement under IFRS. Under UK GAAP these movements were reflected through the revaluation reserve. The minority interest share of this movement is also now shown in the income statement.

(d) Under IFRS borrowings are calculated on an amortised cost basis with any resultant variance being dealt with through finance costs in the income statement. Under UK GAAP this was not required. In the year ended 31st December, 2004 this variance amounted to £208,000.

(e) Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the income statement. In the year ended 31st December, 2004 this movement amounted to £437,000.

27 RESTATEMENT OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2004

The cash flow has been restated to reclassify cash flow movements on current asset investments held for trading as operating cash flows.

In accordance with IAS7 equity dividends paid are now shown within financing.

NOTES TO THE ACCOUNTS – CONTINUED

28 RESTATEMENT OF OPENING BALANCES AS AT 31ST DECEMBER, 2003

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

Group	Notes	UK GAAP 31st December, 2003 £'000	Effect of transition to IFRS £'000	IFRS 31st December, 2003 £'000
Non current assets	a	44,485	26	44,511
Current assets		8,397		8,397
Current liabilities	b	(6,350)	148	(6,202)
Total assets less current liabilities		46,532		46,706
Non current liabilities	c,d,e	(18,258)	(353)	(18,611)
		28,274		28,095
Capital and reserves				
Called up share capital		1,189		1,189
Share premium		554		554
Revaluation reserve	f	12,800	(12,800)	–
Capital reserve	a,d,e,f	22,501	12,244	34,745
Revenue reserve / Retained earnings	b,c	(9,832)	377	(9,455)
Equity shareholders' funds		27,212		27,033
Minority interests		1,062		1,062
		28,274		28,095

Company	Notes	UK GAAP 31st December, 2003 £'000	Effect of transition to IFRS £'000	IFRS 31st December, 2003 £'000
Non current assets	a	7,273	26	7,299
Current assets		399		399
Current liabilities	b	(314)	148	(166)
Total assets less current liabilities		7,358		7,532
Non current liabilities		–		–
		7,358		7,532
Capital and reserves				
Called up share capital		1,189		1,189
Share premium		554		554
Revaluation reserve		–		–
Capital reserve	a	5,205	26	5,231
Revenue reserve / Retained earnings	b	410	148	558
Equity shareholders' funds		7,358		7,352
Minority interests		–		–
		7,358		7,352

NOTES TO THE ACCOUNTS – CONTINUED

25 RESTATEMENT OF OPENING BALANCES AS AT 31ST DECEMBER, 2003 – continued

Notes to the reconciliation

(a) Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value at £6,773,000. They were carried at mid prices previously under UK GAAP with liquidity discounts as appropriate. The aggregate differences, being a revaluation upwards of £26,000, also increase capital reserves.

(b) No provision has been made for the dividend on the ordinary shares for the year ended 31st December, 2003 of £148,000. Under IFRS this is not recognised until approved by shareholders.

(c) Under IFRS borrowings are calculated on an amortised cost basis. Under UK GAAP this was not required. As a result the balance as at 31st December, 2003 has been reduced by £229,000.

(d) Under IFRS provision has to be made for the potential capital gains tax that would arise in the event that the investment properties were sold at the relevant period end with any movement being reflected through the income statement. As at 31st December, 2004 this provision amounted to £827,000.

(e) As permitted by IFRS 20 the Group has offset government grants received of £245,000 against the cost of the relevant property with the resultant increase in the fair value of that property of the same amount being credited to capital reserves.

(f) Movements in the fair value of investment properties are required to be shown through the income statement under IFRS and are now included within capital reserves. Under UK GAAP these movements were reflected through the revaluation reserve.

29 SEGMENTAL REPORTING

	Investment		Property Investment		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue								
External income	390	180	2,148	3,585	–	–	2,538	3,765
Inter – segment income	1,556	1,575	120	120	(1,676)	(1,695)	–	–
Total revenue	1,946	1,755	2,268	3,705	(1,676)	(1,695)	2,538	3,765
Gains on investments at fair value	2,824	1,593	–	–	–	–	2,824	1,593
Gains on property investments at fair value	–	–	6,144	1,854	–	–	6,144	1,854
Proceeds of disposal of investment properties	–	–	2,050	15,698	–	–	2,050	15,698
Carrying value of disposal of investment properties	–	–	(2,050)	(17,465)	–	–	(2,050)	(17,465)
Total income and gains	4,770	3,348	8,412	3,792	(1,676)	(1,695)	11,506	5,445
Segment expenses	(115)	(59)	(805)	(939)			(920)	(998)
Segment profit	4,655	3,289	7,607	2,853	(1,676)	(1,695)	10,586	4,447
Unallocated corporate expenses							(771)	(637)
Operating profit							9,815	3,810
Interest expense (all relating to property loans)							(1,151)	(1,459)
Interest income							212	95
Profit before taxation							8,876	2,446

All revenue is derived from operations within the United Kingdom.

Other Information

	Investment		Property Investment		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	14,790	16,622	44,037	36,214	11	4	58,838	52,840
Segment liabilities	191	118	16,390	17,985	3,680	3,680	20,261	21,783
Capital expenditure	2,295	2,154	2,184	7,291	–	–	4,479	9,445
Depreciation	–	–	3	4	10	10	13	14
Non-cash expenses other than depreciation	–	–	–	–	12	–	12	–

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 13th June, 2006 at 2.00 pm for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the directors and the financial statements for the year ended 31st December, 2005 together with the report of the auditors;
2. To adopt the remuneration report;
3. To declare a dividend of 5.0p per ordinary share;
4. To re-elect as a director Mr A. G. Ebel who retires in accordance with the provisions of the FRC Combined Code and offers himself for re-election;
5. To re-elect as a director Mr N. J. Rowe who retires in accordance with the provisions of the FRC Combined Code and offers himself for re-election;
6. To re-elect as a director Mr T. J. Rowe who retires in accordance with the provisions of the FRC Combined Code and offers himself for re-election;
7. To re-elect as a director Mr A. P. Stirling who retires by rotation and offers himself for re-election;
8. 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

36 Elder Street
London E1 6BT

11th May, 2006

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 2.00 pm on 11th June, 2006 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.

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