GRESHAM HOUSE plc

REPORT AND ACCOUNTS 2007

INVESTMENT OBJECTIVE

Gresham House plc is an authorised investment trust listed on the London Stock Exchange. The Company's 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 industrial property portfolio.

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 6 New Street Square New Fetter Lane London EC4A 3BF
Advisers	Keith, Bayley, Rogers & Co Limited 2nd Floor, Finsbury Tower 103 – 105 Bunhill Row London EC1Y 8LZ

INVESTMENT POLICY

The Group's policy is to invest in both securities and industrial properties.

Investment in securities is primarily by way of (i) acquiring equity stakes in fledgling unquoted companies with a view to contributing to their development and eventually introducing these companies to AIM or PLUS Markets. Short term funding and financial services can be provided to these companies as part of the overall investment. By their very nature these investments are considered to be of very high risk; and (ii) by investing in a portfolio of predominately UK equities to provide both income and capital growth.

Investment in industrial properties must be undertaken through subsidiary undertakings or associates. These subsidiary undertakings or associates are funded mainly through bank loans, both short term and long term, and their strategic purpose is to add to the Group's net asset value through long term capital appreciation. These property investments also provide a rental income flow which is intended to cover interest and any capital repayments of the related loans as well as contributing to the Group's operating cash flow.

Investment trust status

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

Risk Diversification and maximum exposures

Risk is spread by investing in both high risk securities and investment properties. Initial investments are usually made by the executive directors up to a value of £250,000. Once this exposure level is reached any additional investment requires final approval by the Board. No holding in any one company can represent more than 15% of the value of the Company's portfolio at the time of the investment.

Borrowing

All borrowing is made to specific subsidiary undertakings against specific assets held within that subsidiary undertaking. To minimise the exposure to interest rate movements, interest rates are a mix of both fixed and floating rates. Gearing levels may be up to 100% of asset value provided there is sufficient income, or potential income, to meet interest and any capital repayments.

Management

The Board has overall responsibility for the Group's affairs including the determination of its investment policy. Investment and divestment proposals are originated, negotiated and recommended by the Managing Director and, if over £250,000 in value, are subject to final approval by the Board.

Principal risks, management and regulatory environment

The Board believes that the principal risks faced by the Group are:

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

INVESTMENT POLICY – CONTINUED

Strategic and investment – poor investment strategy or consistently weak investments could lead to underperformance and insufficient returns. Investments in small unquoted companies involve a higher degree of risk than investments in companies traded on the main market of the London Stock Exchange. Investments in companies traded on AIM may be difficult to realise, particularly where the holding is large.

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

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

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

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

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

The Board seeks to mitigate these and other perceived risks by setting policies and by undertaking a risk assessment at least annually. A share buy back policy was recently introduced to try and mitigate the Market liquidity risk but this has not been implemented as a result of one shareholder holding 29.99% of the issued share capital.

CHAIRMAN'S STATEMENT

The results for the year to 31st December, 2007 show a loss in the revenue account amounting to £993,000 against a comparative profit for 2006 of £669,000.

The capital account shows a loss after taxation of £1,879,000 which is largely attributable to a decline in the valuation of properties as at the year end in line with widespread market falls offset by gains of £1,000,000 generated from the investment portfolio during the same period.

As a consequence of these results the basic net asset value as at 31st December, 2007 was 837.9p compared with 902.4p at the end of 2006.

The revenue losses for the year primarily arose as a result of the costs arising from the lengthy discussions throughout the year with Parkwood Property Investments LLP ("Parkwood") on various abortive proposals culminating in the General Meeting ("GM") held on the 21st January, 2008; the provision made against the Group's investment in its associate, New Capital (Speke) Limited; and increased costs at the property known as Southern Gateway in Speke, Liverpool. In addition provisions have had to be made against a six acre site at Knowsley relating to issues arising with a former executive director of the property subsidiaries who is currently seeking to frustrate our attempts to dispose of that property. The relevant companies in the Group have commenced proceedings against him and against the company which it is alleged he used as a vehicle to purchase an adjacent property in breach of his duties to those companies. From the revenue prospective, the reduction in rental income in 2007 was largely due to the property at Deacon Park, Knowsley, which was destroyed by fire and remains empty, making no contribution to income for the year.

Whilst Southern Gateway in Speke, Liverpool has generated a further increase in rent over the past year, there still remains some 200,000 sq. ft. to be let and your Board is pursuing negotiations on the sale of this site subject to planning. In September 2007 your Company announced that it had entered into non-binding heads of terms for the sale of this site together with our investment in an associated company, which owns another site adjoining Southern Gateway, for an aggregate £61 million subject to various planning permissions being obtained. However, following the publicity regarding this site generated around the time of the requisition of the GM by Parkwood, the prospective buyer withdrew from the transaction. Negotiations continue with other parties with a view to securing a sale at a satisfactory value.

During 2007, Wolden Estates Limited entered into a conditional sale agreement with Linden Limited under which, subject to achieving certain planning permissions, they will acquire the Group's property interests at Vincent Lane, Dorking for a consideration of £8.2 million against the valuation at 31st December, 2007 of £3.29 million. Linden Limited has made the necessary planning application which is progressing and we are hopeful that the sale will complete within the next twelve months.

Gresham's investment portfolio increased 4.8% over the year, a satisfactory performance when compared with the FTSE All Share index which increased by 1.75% over the same period. As at 31st March, 2008 the value of the investment portfolio had decreased by 2% since the year end but this is against a fall in the FTSE All Share index of nearly 11%. Our best performers were SpaceandPeople up 105%, Hallin Marine up 104%, BATS up 37% and Egdon Resources up 20%. The worst performers of the top ten investments held at the year end were Image Scan down 64% and Avesco down 31%. We continue to hold these latter investments in anticipation of seeing a recovery during this year.

In view of the exceptional losses incurred in the revenue account the Board has reviewed its past policy of progressive dividends and this year recommends a final dividend of 5p per share as against 6p last year.

CHAIRMAN'S STATEMENT – CONTINUED

Shareholders will recall that it had been your Board's intention to divest the Group of its property assets into a REIT. This intention was thwarted by Parkwood who made it clear that they would use their shareholder votes, comprising almost 30% of the Company's issued share capital, to defeat the necessary Special Resolution. In these circumstances the Board has reviewed its future strategy and has decided to realise the Group's entire portfolios of both investments and property over a period of approximately five years. Your Board is seeking the appointment of an experienced property director to assist in this objective.

Such a change in your Company's investment policy will require the approval of shareholders and the appropriate ordinary resolution will be proposed as Special Business at the forthcoming Annual General Meeting. This of course will not preclude the Board from making short term investments should attractive opportunities arise and, with this in mind, your Board is also seeking shareholder approval to give your directors authority to issue new shares in the future if appropriate.

The Company also wishes to take this opportunity to bring the Articles of Association of the Company into line with current practice in particular following the Companies Act 2006. Further information regarding the changes being proposed can be found in the appendix attached to the Notice of the Meeting.

The Board and I wish to thank those shareholders who supported us at the General Meeting held in January which called for the removal of the majority of your Board and trust that those shareholders will continue to support the existing Board to enable it to pursue a policy of progressive asset realisation in a controlled fashion over the next few years.

29th April, 2008

A. P. Stirling
Chairman

REPORT OF THE DIRECTORS

To be presented to the members at the Annual General Meeting to be held at the offices of Keith, Bayley, Rogers & Co. Limited, 2nd Floor, Finsbury Tower, 103 – 105 Bunhill Row, London EC1Y 8LZ on 17th June, 2008 at 10.30 am.

Revenue Account

The consolidated income statement which includes the revenue account is set out on page 20 and shows the results for the year ended 31st December, 2007.

Dividends

The directors recommend a final dividend of 5.0p (2006: 6.0p) per Ordinary Share, payable on 27th June, 2008.

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 4 and 5.

The Board considers the main Key Performance Indicator applicable to the Group to be net asset value per share ("NAV"). As at 31st December, 2007, the basic NAV was 837.9p (2006: 902.4p). The main non-financial KPI is considered to be the amount of vacant space within the property portfolio. As at 31st December, 2007 this totalled 405,670 sq. ft. (2006: 256,915 sq. ft.) as a result of the completion of a unit at Knowsley of 150,000 sq. ft. during the year which was un-let at the year end.

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

The principal risks of the Group relate to its investment activities in securities and properties and include market price risk, liquidity risk, interest rate risk and credit risk. These are explained in note 23 to the accounts.

For the year ended 31st December, 2006 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.

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 FTSE All Share Index in the Remuneration Report is provided only as a guide to shareholders. The portfolio is managed on a high risk strategy basis.

REPORT OF THE DIRECTORS – CONTINUED

Investment Portfolio

At 31st December, 2007 the portfolio was invested in the following sectors:

	%
Engineering	30
Property investment	19
Financial (including Investment Trusts)	14
Oil and gas	5
Media and photography	5
Mining	4
Automobiles	4
Miscellaneous	4
Information technology	3
Tobacco	2
Pharmaceuticals	2
Electrical	2
Telecommunications	1
Leisure goods	1
Forestry and paper	1
Electricity	1
Foods	1
Chemicals	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 effectively served for more than nine years should, subject to effective performance and ongoing commitment to the role, stand for annual re-election. Consequently, Mr A. G. Ebel, Mr N. J. Rowe and Mr T. J. Rowe now retire and offer themselves for re-election.

The director retiring by rotation is Mr R. E. Lane and, being eligible, offers himself for re-election.

Brief biographies of the directors concerned are as follows:

Tony Ebel (aged 63)

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

Nicholas Rowe (aged 53)

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

Thomas Rowe (aged 55)

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

Richard Lane (aged 64)

Richard Lane is a chartered accountant and currently Chairman of the Audit Committee, having previously been senior partner of the Bromley office of BDO Stoy Hayward. Mr Lane has specialised in advising a varied portfolio of businesses including a number of small quoted companies and makes a valuable contribution to the Group's activities, particularly in the area of unquoted investments.

Contracts of significance in which the directors had a material interest are disclosed in note 25.

Substantial Shareholdings

At the date of this report the following substantial shareholdings representing more than 3% of the Company's issued share capital, other than those held by directors, have been notified to the Company:

	%	Ordinary Shares
Parkwood Property Investments LLP	29.99	1,463,063
The Trustees of the Rowe Trust	6.80	331,709
CG Portfolio Fund Limited	3.83	187,000

REPORT OF THE DIRECTORS – CONTINUED

Financial Risk and Management Objectives

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

Directors' Interests

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

	2007	2006
A. G. Ebel	22,550	22,550
B. J. Hallett	127,810	127,810
R. E. Lane	2,500	2,500
N. J. Rowe	22,060	22,060
T. J. Rowe	30,200	31,200
A. P. Stirling	419,036	419,036

In addition to the above N. J. Rowe and T. J. Rowe have a beneficial interest in 331,709 ordinary shares held by the Rowe Trust.

Share Capital

At 1st January, 2007 and at 31st December, 2007, the Company's authorised share capital was £4,750,000. This comprised 19,000,000 ordinary shares with a nominal value of 25 pence each. At 1st January, 2007, there were 4,876,880 ordinary shares in issue. The ordinary shares are listed on the London Stock Exchange.

As at 29th April, 2008 (the latest practical date prior to the signing of this report), the Company had an unexpired authority to repurchase up to 487,688 ordinary shares. Shareholders will be asked to renew this authority at the Annual General Meeting in 2008.

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

Control

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

The rules about the appointment and replacement of directors are contained in the Company's Articles of Association.

Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time.

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

REPORT OF THE DIRECTORS – CONTINUED

The directors have in the past been authorised to issue and allot ordinary shares and such powers have expired. Resolutions will be put to shareholders at the forthcoming Annual General Meeting to grant the directors powers to issue and allot ordinary shares.

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

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

Share Options

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

The last options granted were on 3rd May, 2005 over a total of 35,600 ordinary shares of which 3,000 have been exercised. The remaining options can be exercised at any time between 3rd May, 2008 and 3rd May, 2012 at a price of 337.5p.

Statement of the Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements, and have elected to prepare the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

REPORT OF THE DIRECTORS – CONTINUED

Going Concern

After making enquiries, the directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. Further details can be found under paragraph 1(a) of the Principal Accounting Policies.

Payment Policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and then to abide by these terms. At 31st December, 2007 trade creditors represented 24 days purchases (2006: 36 days).

Statement as to Disclosure of Information to Auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

36 Elder Street
London E1 6BT

29th April, 2008

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 2006.

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 14.

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

The bonus paid to the executive directors during the year was in respect of the year ended 31st December, 2006 and was based on the increase in the net asset value ("NAV") of the Group for that period of 16.1% and amounted to a total of £41,000.

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

Service Contracts

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

REMUNERATION REPORT – CONTINUED

Pensions

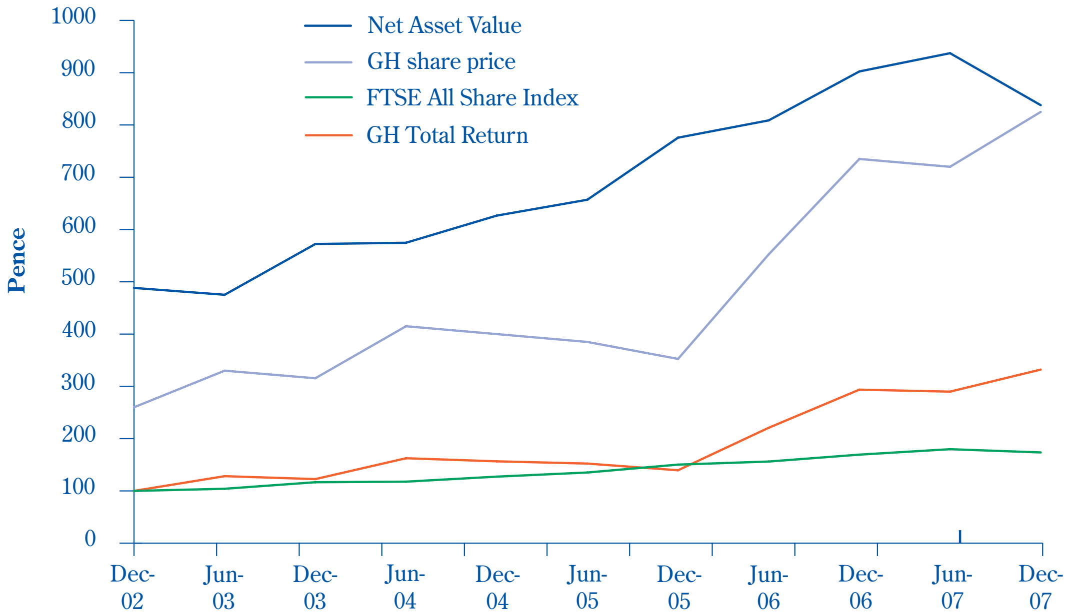
The Company contributes to a personal pension scheme for the benefit of Mr Hallett. For the year ended 31st December, 2007 contributions amounted to £8,400 (2006: £8,400).

Non-Executive Directors' Fees

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

Company Performance

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



This graph shows the value, by the end of 2007, of £100 invested in Gresham House plc on 31st December, 2002 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

	1.1.2003	31.12.2007	% change
Gresham House share price	260 p	825 p	217.31%
Basic net asset value	488.3 p	837.9 p	71.60%
Gresham House total return	100	332.1	232.14%
FTSE All Share Index	1,893.73	3,286.67	73.56%

REMUNERATION REPORT – CONTINUED

The following information has been audited:

Directors' Emoluments

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

	Basic Salary £'000	Bonus £'000	Fees £'000	Benefits £'000	Pension £'000	Total 2007 £'000	Total 2006 £'000
Executive:							
A. P. Stirling (Chairman and highest paid director)	175	20	—	7	—	202	220
B. J. Hallett	100	20	—	3	8	131	151
Non-executive:							
A. G. Ebel	—	—	12	5	—	17	17
R. E. Lane	—	—	12	—	—	12	12
N. J. Rowe	—	—	12	—	—	12	12
T. J. Rowe	—	—	12	—	—	12	12
Total	275	40	48	15	8	386	424
Total 2006	265	88	48	15	8	424	

Fees in respect of services provided by Mr Stirling to companies included in the Group's investment portfolio are invoiced by a company in which Mr Stirling has a controlling interest. For the year ending 31st December, 2007 these amounted to £25,882 (2006: £24,758).

A charge of £9,171 has been made to operating expenses in accordance with IFRS 2 in relation to share options granted to the executive directors.

Share Option Schemes

Details of share options for each director are as follows:

	At 1st January, 2007	At 31st December, 2007	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. 3,000 of these options were exercised during the year ended 31st December, 2006 at the discretion of the Board.

As at 31st December, 2007, the closing middle market price was 825p and the range of closing prices during the year ended 31st December, 2007 was 600p to 925p.

The following information is unaudited:

The Remuneration Committee, who are responsible for the operation and administration of the Company's unapproved share option scheme, regard the provision of options as a suitable form of incentive for management and senior personnel. Options granted over shares in excess of 5% of the Company's issued ordinary share capital are subject to performance requirements determined at the date of grant by the Committee. No options were granted during the year ended 31st December, 2007.

On behalf of the Board
N. J. Rowe *Chairman,* Remuneration Committee
29th April, 2008

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 2006 ("the Code") and the principles and recommendations published by the Association of Investment Companies in 2007, 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, 2007, 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 2007. 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 six 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	6	—	—
B. J. Hallett	6	—	—
A. G. Ebel	6	1	—
R. E. Lane	6	—	2
N. J. Rowe	6	1	2
T. J. Rowe	6	1	2

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

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

CORPORATE GOVERNANCE – CONTINUED

subsidiaries. Given the nature of the Company as an investment trust and the strongly independent mind set of the individuals concerned and the fact that neither N. J. Rowe or T. J. Rowe are representatives of, or trustees of the Rowe Trust and therefore have no influence over its 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 in the past included share options. Given the size of the Company this policy is likely to continue. Details of options outstanding as at 31st December, 2007 are shown in the Remuneration Report on page 14. 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 effectively served on the board for more than nine years. Mr R. E. Lane 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 considers their contribution to be significant and effective, their commitment to be appropriate and respectively recommends their re-election.

Chairman
The Company does not comply with Code provision A.2.1. As has been the position for many years the role of Chairman and chief executive continues to be combined. Given the size and nature of the Group the Board does not consider it necessary to change this position giving 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 consists of three non-executives Mr R. E. Lane, who acts as chairman, Mr N. J. Rowe and Mr T. J. Rowe. The auditors are invited to attend the Audit Committee meeting at which the annual accounts are considered and any other meetings that the Committee deems necessary.

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

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

CORPORATE GOVERNANCE – CONTINUED

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

Relations with Shareholders
Given its size, the Company has not fully complied with provisions D.1.1. and D.1.2. Of the current three major shareholders, the Board believes that it has sufficient contact and understanding of their issues and concerns.

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

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

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

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

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

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

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 of 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 2007 which comprise the consolidated income statement, the consolidated and company statements of changes in equity, the consolidated and company balance sheets, the consolidated and company cash flow statements and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

REPORT OF THE INDEPENDENT AUDITORS – CONTINUED

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st December 2007 and of its loss 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 2007;
- the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors

29th April, 2008
London, UK

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2007

	Notes	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Income:							
Dividend and interest income	1	370	-	370	346	-	346
Rental income	1	2,339	-	2,339	2,664	-	2,664
Other operating income	1	92	-	92	276	-	276
Total Revenue		2,801	-	2,801	3,286	-	3,286
Gains on investments held at fair value		-	1,000	1,000	-	1,495	1,495
Movement in fair value of property investments		-	(4,085)	(4,085)	-	5,286	5,286
Total income and gains on investments		2,801	(3,085)	(284)	3,286	6,781	10,067
Expenses							
Operating expenses	2	(2,650)	-	(2,650)	(1,640)	-	(1,640)
Group operating profit/(loss)		151	(3,085)	(2,934)	1,646	6,871	8,427
Share of associates operating loss		(169)	-	(169)	-	-	-
Group and share of associates operating (loss)/profit before interest and taxation		(18)	(3,085)	(3,103)	1,646	6,781	8,427
Finance costs	4	(991)	-	(991)	(1,213)	-	(1,213)
(Loss)/profit before taxation		(1,009)	(3,085)	(4,094)	433	6,781	7,214
Taxation	5	-	655	655	17	128	145
(Loss)/profit for the period		(1,009)	(2,430)	(3,439)	450	6,909	7,359
Attributable to:							
Equity holders of the parent		(993)	(1,879)	(2,872)	669	5,753	6,422
Minority interests		(16)	(551)	(567)	(219)	1,156	937
		(1,009)	(2,430)	(3,439)	450	6,909	7,359
Basic earnings per Ordinary Share	6	(20.4p)	(38.5p)	(58.9p)	13.7p	118.0p	131.7p
Diluted earnings per Ordinary Share	6	(20.4p)	(38.5p)	(58.9p)	13.7p	117.7p	131.4p

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

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

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

STATEMENTS OF CHANGES IN EQUITY

Group

Year ended 31st December, 2007

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December, 2006		1,219	831	28	49,908	(7,975)	44,011
Loss for the period		-	-	-	(1,879)	(993)	(2,872)
Ordinary dividend paid	7	-	-	-	-	(293)	(293)
Reserves transfer		-	-	-	277	(277)	-
Share based payments		-	-	16	-	-	16
Balance at 31st December, 2007		1,219	831	44	48,306	(9,538)	40,862

The transfer from revenue to capital reserve represents the reallocation of unrealised gains on investments included within revenue in prior years and to reflect the correct allocation of the minority interest in these reserves.

Year ended 31st December, 2006

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

Company

Year ended 31st December, 2007

	Notes	Ordinary share capital £'000	Share premium £'000	Share option reserve £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31st December, 2006		1,219	831	28	10,883	360	13,321
Profit for the period		-	-	-	1,000	249	1,249
Ordinary dividend paid	7	-	-	-	-	(293)	(293)
Reserves transfer		-	-	-	48	(48)	-
Share based payments		-	-	16	-	-	16
Balance at 31st December, 2007		1,219	831	44	11,931	268	14,293

The transfer from revenue to capital reserve represents the reallocation of unrealised gains on investments included within revenue in prior years.

Year ended 31st December, 2006

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

BALANCE SHEETS

AS AT 31st DECEMBER, 2007

	Notes	The Group 2007 £'000	The Group 2006 £'000	The Company 2007 £'000	The Company 2006 £'000
Assets					
Non current assets					
Investments - securities	8	14,265	13,345	14,265	13,345
Property investments	9	38,805	40,469	-	-
Investment in associate	10	-	-	-	-
Other investments	11	-	-	2	2
Property, plant and equipment	12	487	500	483	494
Total non current assets		53,557	54,314	14,750	13,841
Current assets					
Trade and other receivables	13	497	568	-	-
Accrued income and prepaid expenses		674	342	24	-
Other current assets	14	5,972	5,607	-	148
Cash		1,337	991	615	47
Total current assets		8,480	7,508	639	195
Total assets		62,037	61,822	15,389	14,036
Current liabilities					
Trade and other payables	15	1,488	1,498	13	12
Short term borrowings	16	7,568	6,765	1,083	703
Total current liabilities		9,056	8,263	1,096	715
Total assets less current liabilities		52,981	53,559	14,293	13,321
Non current liabilities					
Long term borrowings	17	10,130	6,337	-	-
Deferred taxation	18	848	1,503	-	-
		10,978	7,840	-	-
Net assets		42,003	45,719	14,293	13,321
Capital and reserves					
Ordinary share capital	19	1,219	1,219	1,219	1,219
Share premium	20	831	831	831	831
Share option reserve	20/24	44	28	44	28
Capital reserve	20	48,306	49,908	11,931	10,883
Retained earnings	20	(9,538)	(7,975)	268	360
Equity attributable to equity shareholders		40,862	44,011	14,293	13,321
Minority interest		1,141	1,708	-	-
Total equity		42,003	45,719	14,293	13,321
Basic net asset value per ordinary share	21	837.9p	902.4p	293.1p	273.1p
Diluted net asset value per ordinary share	21	834.8p	900.1p	292.0p	272.9p

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 29th April, 2008

A. P. Stirling
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2007

	Notes	2007 £'000	2007 £'000	Restated 2006 £'000	Restated 2006 £'000
Cashflow from operating activities					
Investment income received		193		180	
Interest received		177		166	
Rental income received		2,464		2,530	
Other cash payments		(2,344)		(1,958)	
Net cash generated from operations	22		490		918
Interest paid on 8% Secured Redeemable Loan Stock 2006		-		(342)	
Interest paid on property loans		(972)		(929)	
			(972)		(1,271)
Net cash flows from operating activities			(482)		(353)
Cash flows from investing activities					
Purchase of investments		(1,178)		(1,693)	
Investment in associate		(350)		-	
Sale of investments		1,406		2,617	
Expenditure on investment properties		(4,727)		(1,130)	
Insurance proceeds received		-		4,340	
Disposal of investment properties		2,306		-	
Purchase of developments in hand		(932)		(523)	
			(3,475)		3,611
Cash flows from financing activities					
Repayment of loans		(422)		(2,360)	
Repayment of 8% Loan Stock		-		(3,662)	
Receipt of loans		5,018		3,126	
Share capital issued		-		10	
Equity dividends paid		(293)		(244)	
			4,303		(3,130)
Increase in cash and cash equivalents			346		128
Cash and cash equivalents at start of period			991		863
Cash and cash equivalents at end of period			1,337		991

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER, 2007

	Notes	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Cashflow from operating activities					
Investment income received		454		309	
Interest received		11		7	
Other cash payments		(212)		(55)	
Net cash generated from operations	22		253		261
Cash flows from investing activities					
Purchase of investments		(1,178)		(1,693)	
Sale of investments		1,406		2,617	
			228		924
Cash flows from financing activities					
Receipt of loans		858		-	
Repayment of loans		(478)		(988)	
Share capital issued		-		10	
Equity dividends paid		(293)		(244)	
			87		(1,222)
Increase/(decrease) in cash and cash equivalents			568		(37)
Cash and cash equivalents at start of period			47		84
Cash and cash equivalents at end of period			615		47

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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

The Company has adopted IFRS 7 'Financial Instruments: Disclosure' and the amendment to IAS 1 'Presentation of financial statements' which are mandatory for years ending 31st December, 2007. This has resulted in additional disclosures but no impact on reported profit or net assets.

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

The financial statements highlight that the Group has loans of £7.6 million due within one year. Based on directors' forecasts of the group's cash facilities, the Group will require a loan of £6 million to be refinanced when it falls due in May 2008. These financial statements have been prepared on a going concern basis, which assumes that this loan will be renewed on similar terms.

The Board has received confirmation from the bank concerned that it is their present intention to refinance the loan under similar terms and conditions for a minimum term of one year, although this will be subject to approval by the bank's credit committee at the appropriate time. In the event that this loan is not renewed, the directors believe that the assets in the subsidiary companies concerned are of such quality that alternative sources of finance could be secured, or the assets themselves sold and the loans repaid. However the precise timetable for securing alternative finance or disposing of assets is not certain.

The financial statements do not include any adjustment that would result in a failure to renew this bank loan or not secure alternative financing within the timescale required. After making enquiries, and having due regard to the above, the directors believe that the Group has access to sufficient working capital for the foreseeable future and therefore remains a going concern.

(b) Basis of consolidation

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

(c) Presentation of Income Statement

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

(d) 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 the income statement and in accordance with paragraph 1 of IAS 28 Investments in Associates ("IAS 28"), equity accounting is not required.

(e) 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.

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(f) Income

(i) *Dividend and interest income*

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

(ii) *Rental income*

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

(g) Expenses

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

(h) Property, plant and equipment

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

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

(i) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the 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.

(j) 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.

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(k) Investments held at fair value through profit or loss
Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Group's key management. The Group's investment strategy is to provide shareholders with long term capital and income growth by a combination of investing primarily in UK equities and high risk venture capital entities balanced by a significant property portfolio. Consequently all investments are classified as held at fair value thorough profit or loss.

(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 market bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Fair values for unquoted investments, or for investments for which there is only an inactive market, are established by taking into account the International Private Equity and Venture Capital Valuation Guidelines as follows:

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

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

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

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

(ii) *Loan Stock*
Unquoted loan stock is classified as loans and receivables in accordance with IAS 39 and carried at amortised cost using the Effective Interest Rate method. Movements in the amortised cost relating to interest income are reflected in the revenue column of the Income Statement and movements in respect of capital provisions are reflected in the capital column of the Income Statement. Loan stock accrued interest is recognised in the Balance Sheet as part of the carrying value of the loans and receivables at the end of each reporting period.

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

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

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

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

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

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

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

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

(q) 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.

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

(s) 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.

(t) 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.

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

PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(v) 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 the Black Scholes option pricing model and charged over the vesting period of the options.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January, 2008 or later periods. The Group has not early adopted the standards, amendments and interpretations described below:

(i) IFRS 2 Share based payments

(ii) IFRS 3 Business combinations

(iii) IFRS 8 Operating Segments (effective from 1st January, 2009)

(iv) IFRIC 11 IFRS 2 Group and Treasury share transactions (effective from 1st March, 2007)

(v) IFRIC 12 Service concession arrangements (effective from 1st January, 2008)

(vi) IFRIC 13 Customer loyalty programmes (effective from 1st January, 2008)

(vii) IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1st January, 2008)

(viii) Amendment to IAS 23 Borrowing costs (effective from 1st January, 2009)

(ix) IAS 27 Consolidated and separate financial statements (amendment not yet adopted by the European Union)

(x) IAS 32 Financial instruments: presentation (amendment effective from 1st January, 2009)

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

(x) Critical Accounting Estimates and Judgements
The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those used to determine the fair value of investments at fair value through profit or loss, the value of loans and the value of property investments.

(i) The fair value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

(ii) The value of loans is at amortised cost.

(iii) The value of property investments is based on independent third party valuations.

Restatement of Comparative Figures

The comparative figures for 2006 in the Cash Flow Statement and in notes 9, 20 and 26 have been restated following an accounting error identified following discussions with the Financial Reporting Review Panel. The error related to the incorrect treatment of insurance proceeds received following the destruction of a property unit by fire in 2005 where the proceeds were offset against rebuild costs rather than shown as a gain on disposal. Despite these analysis errors the primary statements and overall results for 2006 have not changed. The net impact of the restatement is to increase realised capital reserves by £2,394,000 and decrease unrealised capital reserves by the same amount. Insurance proceeds received and expenditure on investment properties in the cash flow statement have also been grossed up by £640,000.

NOTES TO THE ACCOUNTS

1 INCOME

	2007 £'000	2006 £'000
Income from investments		
Dividend income – Listed UK	193	180
Interest receivable: Bank and Brokers	70	76
Other	107	90
	370	346
Rental income	2,339	2,664
	2,709	3,010
Other operating income		
Dealing profits and losses	(88)	75
Management fees receivable	145	160
Other	35	41
	92	276
Total income	2,801	3,286
Total income comprises:		
Dividends	193	180
Interest	177	166
Other income	2,431	2,940
	2,801	3,286

NOTES TO THE ACCOUNTS – CONTINUED

2 OPERATING EXPENSES

Operating expenses comprise the following:	2007 £'000	2006 £'000
Directors' emoluments (excluding benefits in kind)	371	409
Auditors' remuneration *	77	72
Depreciation	13	12
Wages and salaries	298	264
Social security costs	71	70
Share based payments to employees	16	17
Operating lease rentals – land and buildings	28	28
Other operating expenses	1,776	768
	2,650	1,640

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

	2007 £'000	2006 £'000
Audit fees	23	21
Auditors' other fees – category 1 (The auditing of accounts of subsidiaries of the company pursuant to legislation)	43	31
Auditors' other fees – category 3 (Other services relating to taxation)	11	10
Auditors' other fees – category 10 (Other services)	-	10
	77	72

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

The average number of persons employed by the Group, including the executive directors, was 7 (2006 – 7). No staff costs were incurred by the Company.

The Group has the following commitments under operating leases:

	2007 £'000	2006 £'000
Less than 1 year	28	28
1 – 2 years	21	28
2 – 3 years	-	21
	49	77

3 DIRECTORS EMOLUMENTS

The emoluments of the directors and details of options held are disclosed in the Remuneration Report on page 14.

4 FINANCE COSTS

	2007 £'000	2006 £'000
Interest payable on loans and overdrafts	991	1,213

In addition £124,000 (2006: £nil) was capitalised on development properties.

NOTES TO THE ACCOUNTS – CONTINUED

5 TAXATION

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
(a) Analysis of credit in period:						
UK Corporation tax at 30% (2006 – 30%)	-	-	-	-	-	-
Adjustments in respect of prior years:						
Corporation tax	-	-	-	(17)	-	(17)
Total group tax on profits	-	-	-	(17)	-	(17)
Deferred tax on potential capital gains	-	(595)	(595)	-	(171)	(171)
Adjustment in respect of prior years	-	(60)	(60)	-	43	43
Total tax credit	-	(655)	(655)	(17)	(128)	(145)
(b) Factors affecting tax charge for period:						
(Loss)/profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30%	(303)	(926)	(1,229)	130	2,035	2,165
Tax effect of:						
Change in valuation allowance	-	(186)	(186)	-	(473)	(473)
Investment gains not taxable	-	(300)	(300)	-	(449)	(449)
Insurance proceeds not taxable	-	-	-	-	(1,111)	(1,111)
Capital expenditure not allowable for CGT	-	1,002	1,002	-	-	-
Dividend income not taxable	(72)	-	(72)	(183)	-	(183)
Expenses disallowed	243	-	243	33	-	33
Non-taxable write backs	-	-	-	(79)	-	(79)
Transfer of assets	-	-	-	38	-	38
Losses utilised in current year	(239)	-	(239)	(343)	-	(343)
Losses carried forward for future offset	186	-	186	426	(173)	253
Capital gain offset by revenue losses	185	(185)	-	-	-	-
Adjustments in respect of prior years	-	(60)	(60)	(17)	43	26
Other differences	-	-	-	(22)	-	(22)
Actual tax credit	-	(655)	(655)	(17)	(128)	(145)

The Group has unutilised tax losses of approximately £11.4 million (2006: £11.5 million) available against future corporation tax liabilities.

The potential deferred taxation asset of £3.2 million in respect of these losses has not been recognised in these financial statements as it is not considered sufficiently probable that the Group will generate sufficient taxable profits in the foreseeable future to recover these amounts in full.

NOTES TO THE ACCOUNTS – CONTINUED

6 EARNINGS PER SHARE

Basic earnings per share
The Basic earnings per share figure is based on the net loss for the year attributable to the equity shareholders of £2,872,000 (2006: gain £6,422,000) and on 4,876,880 (2006: 4,874,587) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share
The Diluted earnings per share figure is based on the net loss for the year attributable to the equity shareholders of £2,872,000 (2006: gain £6,422,000) and on 4,876,880 (2006: 4,887,061) ordinary shares, being the weighted average number of ordinary shares in issue during the period. For 2006 the figure included 12,474 shares deemed to have been issued at nil consideration as a result of options granted, which, as required under IAS 33 "Earnings per share" have not been recognised in 2007 as they would reduce the loss per share.

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

	2007	2006
	£'000	£'000
Net revenue (loss)/profit attributable to equity holders of the parent	(993)	669
Net capital (loss)/profit attributable to equity holders of the parent	(1,879)	5,753
Net total (loss)/profit	(2,872)	6,422
Weighted average number of ordinary shares in issue during the period		
Basic	4,876,880	4,874,587
Diluted	4,876,880	4,887,061
Basic earnings per share	Pence	Pence
Revenue	(20.4)	13.7
Capital	(38.5)	118.0
Total basic earnings per share	(58.9)	131.7
Diluted per share	Pence	Pence
Revenue	(20.4)	13.7
Capital	(38.5)	117.7
Total diluted earnings per share	(58.9)	131.4

7 DIVIDENDS

	2007	2006
	£'000	£'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31st December, 2006 of 6p (2005: 5p) per share	293	244
	293	244

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, 2007 of 5p (2006: 6p) per share	244	293

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

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES

	Group & Company 2007 £'000	Group & Company 2006 £'000
Listed securities – on the London Stock Exchange	2,150	2,843
Listed securities – on overseas exchanges	351	254
Securities dealt in under AIM	9,617	8,363
Securities dealt in under PLUS Markets	443	134
Unlisted securities	1,704	1,751
Valuation at 31st December	14,265	13,345
Investments valued at fair value through profit of loss	13,976	13,268
Loans and receivables valued at amortised cost	289	77
	14,265	13,345

Year Ended 31st December, 2007

	Listed in UK £'000	Listed overseas £'000	AIM £'000	PLUS Markets £'000	Unlisted £'000	Total £'000
Group and Company:						
Opening cost	717	351	3,548	334	3,670	8,620
Opening unrealised gains/(losses)	2,126	(97)	4,815	(200)	(1,919)	4,725
Opening fair value	2,843	254	8,363	134	1,751	13,345
Movements in the year:						
Purchases at cost	-	28	678	38	434	1,178
Sales – proceeds	(724)	(26)	(653)	-	(3)	(1,406)
Sales – realised gains/(losses) on sales	367	(1)	122	-	(1,053)	(565)
Movement in unrealised appreciation	(484)	96	1,057	86	810	1,565
Transferred from current assets	148	-	-	-	-	148
Transfer between PLUS & AIM and Unlisted	-	-	50	185	(235)	-
Closing fair value	2,150	351	9,617	443	1,704	14,265
Closing cost	508	352	3,745	557	2,813	7,975
Closing unrealised gains/(losses)	1,642	(1)	5,872	(114)	(1,109)	6,290
Closing fair value	2,150	351	9,617	443	1,704	14,265

Year ended 31st December, 2006

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

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

	Group & Company 2007 £'000	2006 £'000
Realised (losses)/gains on sales	(565)	859
Increase in unrealised appreciation	1,565	636
Gain on investments	1,000	1,495

The investment in AIM stocks by the Company is £241,000 greater than that shown above as a result of unrealised gains on inter-group transfers being eliminated on consolidation. In all other respects the investments held by the Company are as shown in the table above.

An analysis of the investment portfolio by broad industrial or commercial sector is contained within the Report of the Directors. The largest investments as at 31st December, 2007 all of which are incorporated in Great Britain, with the exception of Mount Burgess Mining which is incorporated in the Australia and Hallin Marine Subsea International Plc which is incorporated in the Isle of Man, were:

	Market Value £'000	% of portfolio
UK and overseas listed securities		
British American Tobacco plc – Cigarette manufacturer and distributor	246	1.72
Welsh Industrial Investment Trust plc – is an authorised investment trust in the sector of UK capital growth	1,155	8.10
Mount Burgess Mining N.L – engaged in the exploration of base metals, gold and diamonds in Botswana, Namibia and Australia	351	2.46
Securities dealt in under AIM		
Avesco Group plc – Providers of specialist services to the corporate presentation, entertainment and broadcast markets	480	3.37
Egdon Resources plc – is an oil exploration and production business	616	4.32
Hallin Marine Subsea International plc – specialise in offshore sub-sea intervention primarily for the oil, gas and telecommunication industries	3,404	23.86
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	349	2.45
Plus Markets Group plc – the UK's independent provider of primary and secondary equity market services	590	4.14
SpaceandPeople plc – markets and sells promotional space on behalf of shopping centres and other similar venues	2,381	16.69
Securities dealt in under PLUS Market		
Wheelsure Holdings plc – has developed safety products predominately in the transport and service industries	380	2.66
	9,952	69.77

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

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

Welsh Industrial Investment Trust plc
Financial Summary

Year ended 5th April, 2007	£'000s	Shares	Ordinary 5p	8.75% Cumulative Preference of 20p
Turnover	161			
Profit before interest	79	Total issued	1,350,000	225,000
Profit before tax	75	Number held	350,000	98,092
Profit after tax	75	% of class	25.9	43.5
Net assets	7,733	Cost (£'000s)	-	22
Earnings per share	67.6p	Market value (£'000s)	1,155	22
Dividend per share	6.3p			

Avesco Group plc
Financial Summary

Year ended 30th September, 2007	£'000s	Shares	Ordinary 10p
Turnover	33,176		
Profit before interest	30,323	Total issued	25,985,899
Profit before tax	30,563	Number held	450,000
Profit after tax	29,831	% of class	1.7
Net assets	48,281	Cost (£'000s)	467
Earnings per share	150.3p	Market value (£'000s)	480
Dividend per share	3.5p		

Egdon Resources plc
Financial Summary

Year ended 31st July, 2007	£'000s	Shares	Ordinary 1p
Turnover	41		
Loss before interest	(941)	Total issued	65,465,700
Loss before tax	(538)	Number held	277,631
Loss after tax	(538)	% of class	0.4
Net assets	21,185	Cost (£'000s)	169
Earnings per share	(0.85p)	Market value (£'000s)	616
Dividend per share	-		

Hallin Marine Subsea International Plc
Financial Summary

Year ended 31st December, 2007	US$'000s	Shares	Ordinary 1p
Turnover	64,754		
Profit before interest	12,057	Total issued	40,025,000
Profit before tax	11,207	Number held	3,700,000
Profit after tax	10,043	% of class	9.2
Net assets	33,702	Cost (£'000s)	37
Earnings per share	$0.2509	Market value (£'000s)	3,404
Proposed dividend per share	1p		

NOTES TO THE ACCOUNTS – CONTINUED

8 INVESTMENTS – SECURITIES – continued

Image Scan Holdings plc
Financial Summary

Year ended 30th September, 2007	£'000s		
Turnover	1,541	Shares	Ordinary 1p
(Loss) before interest	(810)	Total issued	54,948,100
(Loss) before tax	(824)	Number held	3,874,999
(Loss) after tax	(761)	% of class	7.1
Net assets	1,877	Cost (£'000s)	799
Earnings per share	(1.9p)	Market value (£'000s)	349
Dividend per share	-		

Plus Markets Group plc
Financial Summary

Year ended 31st December, 2007	£'000s		
Turnover	3,101	Shares	Ordinary 5p
(Loss) before interest	(4,376)	Total issued	314,680,000
(Loss) before tax	(2,978)	Number held	3,025,000
(Loss) after tax	(2,978)	% of class	1.0
Net assets	24,073	Cost (£'000s)	209
Earnings per share	(0.96p)	Market value (£'000s)	590
Dividend per share	-		

SpaceandPeople plc
Financial Summary

Year ended 31st October, 2007	£'000s		
Turnover	2,104	Shares	Ordinary 1p
Profit before interest	509	Total issued	11,462,000
Profit before tax	564	Number held	1,587,500
Profit after tax	412	% of class	13.9
Net assets	1,113	Cost (£'000s)	168
Earnings per share	3.6p	Market value (£'000s)	2,381
Dividend per share	1.85p		

Wheelsure Holdings plc
Financial Summary

Year ended 31st August, 2007	£'000s		
Turnover	25	Shares	Ordinary 1p
Loss before interest	(423)	Total issued	20,460,955
Loss before tax	(440)	Number held	2,000,000
Loss after tax	(160)	% of class	9.8
Net assets	339	Cost (£'000s)	222
Earnings per share	(0.9p)	Market value (£'000s)	380
Dividend per share	-		

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES

	Group 2007	Restated 2006
Net book value and valuation	£'000	£'000
At 1st January	40,469	34,226
Additions during the year – expenditure on existing properties	4,727	1,130
Disposals during the year	(2,284)	-
Transfer from current assets	-	2,221
Revaluation during the year:	(4,107)	2,892
At 31st December	38,805	40,469

As at 31st December, 2007 investment properties consisted of 68 individual property units covering a total of 797,868 sq. ft. at an annual rental of £2,411,947 together with approximately 205,429 sq. ft. of vacant mixed business space in Speke, Liverpool and 143,000 sq. ft. of warehouse space at Knowsley, 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 thirteen units being less than 2,000 sq. ft. each at a combined rental of £57,076. The total area can be sub-divided into the following use categories:

Warehouse and associated offices	533,128 sq. ft.
Industrial and associated offices	262,440 sq. ft.
Retail, office and other	2,300 sq. ft.

These categories can be further analysed as follows:

		No. of tenants	Area sq. ft.
(i)	Warehouse		
	Food storage	1	184,230
	Chemicals and plastic storage	1	151,224
	Pharmaceuticals storage	1	48,000
	Document storage	1	20,152
	Others and vacant	6	129,522
(ii)	Industrial		
	Rubber processing	1	15,330
	Light engineering	8	26,215
	Heavy engineering	1	71,300
	Food processing	1	39,559
	Offices	12	69,134
	Others and vacant	3	40,902
(iii)	Retail, office and others		
	Nursery	1	2,300

The letting programme in Speke, Liverpool continues with lettings of 166,574 sq. ft at an annual rent £696,290 being achieved by year end which are included in the above analysis.

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

Of the property units held at the year end:

– 4 property units at Newton-le-Willows were valued by Dixon Webb LLP, Chartered Surveyors, as at 1st February, 2008 at £12,125,000;
– 12 property units at Newton-le-Willows were valued by Dixon Webb LLP, Chartered Surveyors, as at 1st February, 2008 at £4,475,000;
– 1 property unit at Knowsley, Liverpool was valued by Dixon Webb LLP, Chartered Surveyors, as at 1st February, 2008 at £2,415,000;
– 1 property unit at Knowsley, Liverpool was valued by Dixon Webb LLP, Chartered Surveyors, as at 1st February, 2008 at £8,000,000;
– the units at Speke, Liverpool were valued by Dixon Webb LLP, Chartered Surveyors, as at 1st February, 2008 at £8,500,000;
– 34 property units at Dorking were valued by Hurst Warne Limited, Chartered Surveyors, as at 22nd January, 2008 at £3,290,000;

NOTES TO THE ACCOUNTS – CONTINUED

9 INVESTMENTS – PROPERTIES – continued

All external valuations were carried out on the basis of Market Value in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors.

During the year an agreement was signed for the sale of the property units at Dorking for a consideration of £8.2m conditional upon planning permission being granted for residential development by November 2008 and vacant possession being provided eighteen months following this condition being satisfied.

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

	2007 £'000	2006 £'000
Not later than one year	2,100	1,918
Between 2 and 5 years	3,667	4,560
Over 5 years	2,630	3,375
	8,397	9,853

Rental income recognised in the income statement amounted to £2,339,000 (2006: £2,664,000)

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, 2007 is as follows:

	Group £'000
Brought forward (Restated)	20,940
Additions during the year	4,727
Disposals during the year	(1,501)
	24,166

Capital commitments	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Capital expenditure contracted for but not provided for in the accounts	-	4,320	-	-

Movement in fair value of property investments	Group 2007 £'000	Group 2006 £'000
Realised gains on disposal of property	22	2,394
(Decrease)/Increase in unrealised appreciation	(4,107)	2,892
Movement in fair value of property investments	(4,085)	5,286

NOTES TO THE ACCOUNTS – CONTINUED

10 INVESTMENT IN ASSOCIATE

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Loan to associate (net of provision)	169	-	-	-
Less share of associate losses	(169)	-	-	-
	-	-	-	-

Loan to associate relates to a loan to New Capital (Speke) Limited in which the Group has a 35% equity interest. The results of New Capital (Speke) Limited for the year ended 31st December, 2007 are as follows:

	2007
	£'000
Turnover	-
Loss on ordinary activities before taxation	(482)
Taxation on ordinary activities	-
Loss on ordinary activities after taxation	(482)
At 31st December, 2007	
Fixed assets	6,122
Current assets	432
Creditors: amounts falling due within one year	(3,379)
Creditors: amounts falling due after one year	(3,660)
	(485)

The company had been dormant up to 31st December, 2006.

11 OTHER INVESTMENTS

	Group		Company	
	2007	2006	2007	2006
Subsidiary undertakings	£'000	£'000	£'000	£'000
Shares – At cost	-	-	322	322
Less provision	-	-	(320)	(320)
	-	-	2	2

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

	Held by Parent	Held by other Group companies
	%	%
Chartermet Limited – property investment		75
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

NOTES TO THE ACCOUNTS – CONTINUED

11 OTHER INVESTMENTS – continued

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

(i) an interest of 50% in Tower Street Properties Limited. The aggregate capital and reserves of Tower Street Properties Limited as at 30th June, 2007, being the latest available accounts, and its loss for the year then ended amounted to £(5,272,694) and £(65,664) respectively; and

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

12 PROPERTY, PLANT AND EQUIPMENT

	Group					
	2007			2006		
	Motor Vehicles £'000	Freehold Property £'000	Total £'000	Motor Vehicles £'000	Freehold Property £'000	Total £'000
Deemed cost						
Balance 1st January and 31st December	19	525	544	19	525	544
Depreciation						
Balance 1st January	13	31	44	11	21	32
Charge for the year	2	11	13	2	10	12
Balance 31st December	15	42	57	13	31	44
Net book values at 31st December	4	483	487	6	494	500

	Company	
	2007 Freehold Property £'000	2006 Freehold Property £'000
Deemed cost		
Balance 1st January and 31st December	525	525
Depreciation		
Balance 1st January	31	21
Charge for the year	11	10
Balance 31st December	42	31
Net book values at 31st December	483	494

NOTES TO THE ACCOUNTS – CONTINUED

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Amounts receivable within one year:				
Trade receivables	889	995	-	-
Less allowance for credit losses	(392)	(427)	-	-
	497	568	-	-
Allowances for credit losses on trade receivables:				
Allowances as at 1st January	427	359	-	-
Changes during the year (released)/charged to Income Statement	(35)	68	-	-
Allowances as at 31st December	392	427	-	-

Trade and other receivables are assessed for impairment when older than 90 days. As at 31st December, 2007, trade receivables of £18,000 (2006: £3,000) were past due but not impaired. The ageing analysis of these trade receivables in as follows:

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
1-3 months	-	-	-	-
3-6 months	18	3	-	-
More than 6 months	-	-	-	-

As at 31st December, 2007 trade receivables of £392,000 (2006: £427,000) were impaired and provided for. The aging of these receivables is as follows:

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
1-3 months	-	81	-	-
3-6 months	-	-	-	-
6-12 months	8	-	-	-
More than 12 months	384	346	-	-

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

The maximum exposure to credit risk at the reporting date is in respect of trade and other receivables is £497,000 (2006: £568,000).

14 OTHER CURRENT ASSETS

		Group		Company	
	Notes	2007	2006	2007	2006
		£'000	£'000	£'000	£'000
Listed and other securities held		451	695	-	148
Developments in hand	(a)	4,966	4,286	-	-
Other debtors		-	-	-	-
Other loans	(b)	555	626	-	-
		5,972	5,607	-	148

(a) Developments in hand consist of two property development sites.

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

NOTES TO THE ACCOUNTS – CONTINUED

15 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade creditors	278	398	-	-
Other creditors	59	86	13	12
Accruals	1,151	1,014	-	-
	1,488	1,498	13	12

16 CURRENT LIABILITIES – SHORT TERM BORROWINGS

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Bank overdrafts and short-term loans (secured)				
– property loans	7,568	6,764	-	-
– other	-	-	1,083	703
2.5% Secured Redeemable Loan Stock 2001 *	-	1	-	-
	7,568	6,765	1,083	703

*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 was repaid during the year. There is no material equity component of this loan instrument.

17 NON CURRENT LIABILITIES – LONG TERM BORROWINGS

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Property Loans	10,130	6,337	-	-
	10,130	6,337	-	-

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

Details of total loans are as follows:

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Bank loans				
7.09% fixed	3,624	3,624	-	-
1.2% over 3 month LIBOR	627	1,028	-	-
1.0% over bank base rate	2,108	2,129	-	-
3.25% over bank base rate	1,125	386	-	-
2.0% over 3 month LIBOR	6,000	5,935	-	-
1.5% over 3 month LIBOR	4,214	-	-	-
	17,698	13,102	-	-

Bank loans are secured by way of a legal mortgage over the investment property or development in hand concerned which have a carrying value of £35.405m, and a floating charge over the assets of the relevant company. In addition there are cross guarantees in place with a fellow subsidiary undertaking.

NOTES TO THE ACCOUNTS – CONTINUED

17 NON CURRENT LIABILITIES – LONG TERM BORROWINGS – continued

Loans or instalments thereof are repayable over the following periods:

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Less than 1 year	7,568	6,765	-	-
Between 1 and 2 years	8,104	443	-	-
Between 2 and 5 years	2,026	5,894	-	-
Over 5 years	-	-	-	-
	17,698	13,102	-	-

18 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 28 per cent (2006: 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 £848,000 at 31st December, 2007 (2006: £1,503,000).

Analysis of deferred tax

	Group revaluation of investment properties	Company
	£'000	£'000
At 31st December, 2005	1,631	-
Recognised in income statement (note 5)	(128)	-
At 31st December, 2006	1,503	-
Recognised in income statement (note 5)	(655)	-
At 31st December, 2007	848	-

19 CALLED UP SHARE CAPITAL

	2007	2006
Share Capital	£'000	£'000
Authorised: £4,750,000 (2006: £4,750,000)		
Allotted: Ordinary – 4,876,880 (2006: 4,876,880) fully paid shares of 25p each	1,219	1,219

On 3rd May, 2005 the Company granted share options over a total of 35,600 ordinary shares exercisable between 3rd May, 2008 and 3rd May, 2012 at an exercise price of 337.5p. During the year ended 31st December, 2007, nil (2006: 3,000) of these options were exercised.

NOTES TO THE ACCOUNTS – CONTINUED

20 RESERVES

	2007 Share premium account £'000	2007 Share option reserve £'000	2007 Capital reserve £'000	2007 Retained earnings £'000	2006 Share premium account £'000	2006 Share option reserve £'000	2006 Capital reserve £'000	2006 Retained earnings £'000
Group								
Balance at 1st January	831	28	49,908	(7,975)	822	12	44,155	(8,401)
Issue of share capital	-	-	-	-	9	-	-	-
Share based payments	-	16	-	-	-	16	-	1
Net (loss)/profit on realisation of investments	-	-	(565)	-	-	-	859	-
Increase in unrealised appreciation	-	-	1,565	-	-	-	636	-
(Deficit)/surplus arising on property revaluation	-	-	(2,901)	-	-	-	4,258	-
Profit on disposal of investment properties	-	-	22	-	-	-	-	-
Revenue (loss)/profit for the year	-	-	-	(993)	-	-	-	669
Dividends paid	-	-	-	(293)	-	-	-	(244)
Reserves transfer	-	-	277	(277)	-	-	-	-
As at 31st December	831	44	48,306	(9,538)	831	28	49,908	(7,975)

Following a review of reserves during the year, an adjustment has been made between the capital and revenue reserves to reflect the correct allocation of the minority interest in these reserves.

	2007 Share premium account £'000	2007 Share option reserve £'000	2007 Capital reserve £'000	2007 Retained earnings £'000	2006 Share premium account £'000	2006 Share option reserve £'000	2006 Capital reserve £'000	2006 Retained earnings £'000
Company								
Balance at 1st January	831	28	10,883	360	822	12	9,388	444
Issue of share capital	-	-	-	-	9	-	-	-
Share based payments	-	16	-	-	-	16	-	1
Net profit/(loss) on realisation of fixed asset investments	-	-	(565)	-	-	-	859	-
Increase in unrealised appreciation	-	-	1,565	-	-	-	636	-
Revenue profit for the year	-	-	-	249	-	-	-	159
Dividends paid	-	-	-	(293)	-	-	-	(244)
Reserves transfer	-	-	48	(48)	-	-	-	-
As at 31st December	831	44	11,931	268	831	28	10,883	360

The transfer from revenue to capital reserve represents the reallocation of unrealised gains on investments included within revenue in prior years.

	2007 £'000	2006 £'000
Minority interest:		
Balance as at 1st January	1,708	771
Interest in revenue return for the year	(16)	(219)
Interest in capital return for the year	(551)	1,156
Balance as at 31st December	1,141	1,708

The following amounts within Capital reserve are realised:-

	2007 £'000	Restated 2006 £'000
Group	28,705	28,274
Company	5,641	6,448

NOTES TO THE ACCOUNTS – CONTINUED

21 NET ASSET VALUE PER SHARE

Basic
Basic net asset value per ordinary share is based on Equity attributable to equity shareholders at the year end and on 4,876,880 (2006: 4,876,880) ordinary shares being the number of ordinary shares in issue at the year end.

Diluted
Diluted net asset value per ordinary share is based on Equity attributable to equity shareholders at the year end and on 4,895,003 (2006: 4,889,354) ordinary shares. The number of shares is based upon the number of shares in issue at the year end together with 18,123 (2006: 12,474) shares deemed to have been issued at nil consideration as a result of options granted.

	£'000
The movement during the year of the assets attributable to ordinary shares were as follows:	
Total net assets attributable at 1st January, 2007	44,011
Total recognised losses for the year	(2,872)
Share based payments	16
Dividends appropriated in the year	(293)
Total net assets attributable at 31st December, 2007	40,862

22 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Revenue return before taxation	(1,009)	433	249	159
Interest payable	991	1,213	-	-
Share based payments	16	17	16	17
Depreciation of property, plant and equipment	13	12	11	10
Share of associates losses	169	-	-	-
	180	1,675	276	186
Decrease/(increase) in current assets	339	300	(24)	78
(Decrease)/increase in current liabilities	(29)	(1,057)	1	(3)
	490	918	253	261

23 FINANCIAL INSTRUMENTS

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

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

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

(i) securities consisting of listed and unlisted equity shares;
(ii) a secondary portfolio of listed and unlisted fixed income securities;
(iii) contracts for future movements in share indices;
(iv) cash, liquid resources and short term debtors and creditors that arise directly from its operational activities;
(v) short term and long-term borrowings.

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

The following categories of financial instruments, all of which are included in the balance sheet at fair value as at 31st December, 2007, were held by:-

Group

	2007		2006	
Assets per balance sheet	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000
Investments – securities	289	13,976	77	13,268
Investment in associate	-	-	-	-
Trade and other receivables	497	-	568	-
Accrued income	414	-	319	-
Listed and other securities held	-	451	-	695
Other loans	555	-	626	-
Cash	1,337	-	991	-
	3,092	14,427	2,581	13,963

Liabilities per balance sheet	2007 Other financial liabilities £'000	2006 Other financial liabilities £'000
Trade, other creditors and accruals	1,488	1,498
Property loans – short term	7,568	6,764
– long term	10,130	6,337
2.5% Secured Redeemable Loan Stock	-	1
	19,186	14,600

Company

	2007		2006	
Assets per balance sheet	Loans and receivables £'000	Assets at fair value through profit or loss £'000	Loans and receivables £'000	Assets at fair value through profit or loss £'000
Investments – securities	289	13,976	77	13,268
Accrued income	24	-	-	-
Other current assets	-	-	148	-
Cash	615	-	47	-
	928	13,976	272	13,268

Liabilities per balance sheet	2007 Other financial liabilities £'000	2006 Other financial liabilities £'000
Trade and other creditors	13	12
Other loans	1,083	703
	1,096	715

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Further details of the investment portfolio can be found in Note 8 of these financial statements.

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

Market price risk

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

The Board's strategy in managing the market price risk inherent in the Company's portfolio of equities and loan stock investments is determined by the requirement to meet the Company's investment objective as discussed on page 1. No single investment is permitted to exceed 15% of total investment assets at the point of investment. The executive directors manage these risks by regular reviews of the portfolio within the context of current market conditions.

The Company's total return and balance sheet can be affected by foreign exchange movements due to the Company having assets denominated in currencies other than the Group's base currency (Sterling) although the Board does not believe this exposure to be material. As at 31st December, 2007 the Company had an investment valued at £351,000 denominated in Australian dollars (2006: £254,000).

The majority of the value of the Company's investment portfolio is traded on AIM (68.6%) within the sub-portfolio are the Company's largest investments, Hallin Marine Subsea International plc and SpaceandPeople plc which account for 60% of the value. As at 31st March, 2008, Hallin had increased in value by 42% whilst SpaceandPeople had decreased by 33%. The remainder of the AIM portfolio had decreased by an average of 16%.

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

As at 31st March, 2008 the value of the overall investment portfolio had decreased by £366,000 (i.e. 2.6%) equivalent to 7.5p per share. Based on values as at 31st December, 2007 a 10% movement in the value of the portfolio would be equivalent to a movement of 28.7p per share in net asset value.

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

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

The Group's maximum exposure to credit risk is:

	2007 £'000	2006 £'000
Loan stock investments held at amortised cost	289	77
Other loans	555	626
Trade and other receivables	497	568
Accrued income	414	319
Cash and cash equivalents	1,337	991
	3,092	2,581

The Group has an exposure to credit risk in respect of both loan stock investments and other loans, most of which have no security attached to them, or where they do, such security will rank after any bank debt, and, in respect of trade and other receivables details of which can be found in note 13 to these financial statements. The Company's exposure to credit risk is restricted to loan stock investments, accrued income and cash totalling £928,000 (2006: £272,000).

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

		2007	2006
(a) Loan stock investments		£'000	£'000
Repayable within:-	1 year	108	-
	1-2 years	94	-
	2-3 years	27	50
	3-4 years	60	27
		289	77

As at 31st December, 2007 Loan Stock investments totalling £107,000 (2006: nil) were impaired and provided for.

		2007	2006
(b) Other Loans		£'000	£'000
Repayable within:-	1 year	555	500
	1-2 years	-	126
		555	626

As at 31st December, 2007 other loans totalling £544,000 (2006: £387,000) were impaired and provided for, loans with a value of £209,000 (2006: nil) were overdue for payment but not impaired and a loan of £300,000 related to a revolving facility which is reviewable on a quarterly basis.

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

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

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

The Group's assets include fixed and floating rate interest instruments as detailed below. The Group is exposed to interest rate movements on its floating rate liabilities. The Group has attempted to minimise this risk by structuring its long term borrowings by having a mix of fixed and floating rates. The rental flows deriving from investment properties are sufficient to cover current capital repayments and interest commitments.

The interest rate exposure profile of the Group's financial assets and liabilities as at 31st December, 2007 and 2006 were:

Group:

As at 31st December, 2007	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	13,870	395	-	-	-	14,265
Dealing securities	451	-	-	-	-	451
Cash	-	-	1,337	-	-	1,337
Trade and other receivables	497	-	-	-	-	497
Accrued income	414	-	-	-	-	414
Other loans	-	255	300	-	-	555
Creditors						
– falling due within 1 year	(1,488)	-	-	-	(7,568)	(9,056)
– falling due after 1 year	-	-	-	(3,624)	(6,506)	(10,130)
	13,744	650	1,637	(3,624)	(14,074)	(1,667)

As at 31st December, 2006	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	13,125	220	-	-	-	13,345
Dealing securities	316	335	44	-	-	695
Cash	-	-	991	-	-	991
Trade and other receivables	568	-	-	-	-	568
Accrued income	319	-	-	-	-	319
Loans	-	626	-	-	-	626
Creditors						
– falling due within 1 year	(1,498)	-	-	(1)	(6,764)	(8,263)
– falling due after 1 year	-	-	-	(3,624)	(2,713)	(6,337)
	12,830	1,181	1,035	(3,625)	(9,477)	1,944

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

Fixed rate assets comprise preference shares, fixed rate loans, unsecured loans and loans repayable on demand, with a weighted average interest rate of 8.57% (2006: 8.38%).

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

Fixed rate liability loans have a weighted average interest rate of 7.09% (2006: 7.09%), and a weighted average maturity value of 1.50 years (2006: 2.50 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

23 FINANCIAL INSTRUMENTS – continued

The interest rate exposure profile of the Company's financial assets and liabilities as at 31st December, 2007 and 2006 were:

Company:

As at 31st December, 2007	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	13,870	395	-	-	-	14,265
Cash	-	-	615	-	-	615
Accrued income	24	-	-	-	-	24
Creditors – falling due within 1 year	(1,096)	-	-	-	-	(1,096)
	12,798	395	615	-	-	13,808

As at 31st December, 2006	Nil rate assets £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liability loans £'000	Floating rate liability loans £'000	Net total £'000
Portfolio	13,125	220	-	-	-	13,345
Cash	-	-	47	-	-	47
Other current assets	148	-	-	-	-	148
Creditors – falling due within 1 year	(715)	-	-	-	-	(715)
	12,558	220	47	-	-	12,825

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

	2007 £'000 Profit and net assets	2006 £'000 Profit and net assets
If interest rates were 0.5% lower with all other variables constant - increase	88	65
Increase in earnings and net asset value per ordinary share (pence)	0.02	0.01
If interest rates were 0.5% higher with all other variables constant - decrease	(88)	(65)
Decrease in earnings and net asset value per ordinary share (pence)	(0.02)	(0.01)

Liquidity risk

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

The Group aims to hold sufficient cash 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 floating rates. An analysis of the maturity of the loans to be repaid can be found in note 17 with further information on the loans to be repaid within one year in accounting policy (a).

NOTES TO THE ACCOUNTS – CONTINUED

23 FINANCIAL INSTRUMENTS – continued

Contracts for futures

Market Risk

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

The Group minimises the risk involved in trading in contracts for futures, by establishing limits on the level of trading that can be undertaken without Board approval and through the formal controls in place over the safe custody of investment title certificates, which are required as collateral for the trading undertaken. The market value of underlying contracts for futures at 31st December, 2007 was £309,000 (2006: £227,000).

24 SHARE BASED PAYMENTS

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

	2007		2006	
	Share options Number	Weighted average price (p)	Share options Number	Weighted average price (p)
Outstanding at 1st January	32,600	337.5	35,600	337.5
Granted during the year	-	-	-	-
Exercised during the year	-	-	(3,000)	(337.5)
Outstanding 31st December	32,600	337.5	32,600	(337.5)

The market price of the shares of Gresham House plc at the time of grant in 2004 was 325p. The market price at the date of exercise in October 2006 was 620p. The remaining options are exercisable at any time between 3rd May, 2008 and 3rd May, 2012.

Inputs into the Black Scholes model are as follows:

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

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

The Group recognised total expenses of £16,000 (2006: 17,000) in respect of share based payment transactions.

NOTES TO THE ACCOUNTS – CONTINUED

25 DIRECTORS' BENEFICIAL SHAREHOLDINGS AND RELATED PARTY TRANSACTIONS

Directors' Beneficial Shareholdings as at 31st December, 2007
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	-	-	-	-	-	-
Mount Burgess Mining NL	-	220,000	-	-	-	3,500,000
Welsh Industrial Investment Trust plc	-	-	-	-	-	152,700
Securities dealt in under AIM						
Avesco Group plc	10,000	10,000	-	-	-	28,000
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	35,000	52,000	-	30,000	16,000	700,000
Securities dealt in under Plus Market						
Wheelsure Holdings plc	-	79,990	-	-	-	1,000,000

Related Party Transactions

Group
Mr A. G. Ebel and Mr A. P. Stirling have a controlling interest in Watlington Securities Limited, a company which invoiced the Group a sum of £8,935 (2006: £21,436) during the year. Conversely the Group invoiced the same company £75,000 (2006: £80,000). At the year end there remained balances outstanding of £1,216 (2006: £291) and £nil (2006: £nil) respectively.

Management fees of £18,000 (2006: £18,000) were invoiced to Welsh Industrial Investment Trust plc and £1,200 (2006: £1,200) were invoiced to Beira Investment Trust plc, companies in which Mr A. P. Stirling is both a director and shareholder. At the year end there was a debtor balance of £nil (2006: £1,763).

Loan Stock interest of £nil (2006: £22,639) 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 £241,000 (2006: £335,000), against which a provision of £70,000 (2006: £nil) has been made.

As reported in the Remuneration Report a charge of £9,171 (2006: £9,171) has been made to operating expenses in accordance with IFRS 2 in relation to share options granted to Mr A. P. Stirling and Mr B. J. Hallett.

Mr N. J. Rowe has an interest in a company, First City Insurance Brokers Limited, which invoiced the Group during the year a sum of £12,338 (2006: £12,338) in respect of insurance premiums.

The Rowe Trust holds an interest of 331,709 (2006: 94,772) ordinary shares in the Company. Mr N. J. Rowe, Mr T. J. Rowe and their respective children are beneficiaries under the Rowe Trust.

Company
During the year Gresham House plc was advanced funds and had expenses settled by Security Change Limited totalling £135,539. In addition Gresham House plc acquired Loan Stock from Security Change Limited for a sum of £243,505. Management fees totalling £250,000 (2006: £nil) were invoiced to Security Change Limited. At the year end £1,082,522 was owed to Security Change Limited (2006: £703,480).

NOTES TO THE ACCOUNTS – CONTINUED

26 SEGMENTAL REPORTING

	Investment		Property Investment		Elimination		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue								
External income	211	369	2,412	2,751	-	-	2,623	3,120
Inter – segment income	1,329	1,920	89	335	(1,418)	(2,255)	-	-
Total revenue	1,540	2,289	2,501	3,086	(1,418)	(2,255)	2,623	3,120
Gains on investments at fair value	1,000	1,495	-	-	-	-	1,000	1,495
(Losses)/gains on property investments at fair value	-	-	(4,107)	5,286	-	-	(4,107)	5,286
Proceeds of disposal of investment properties	-	-	2,306	-	-	-	2,306	-
Carrying value of disposal of investment properties	-	-	(2,284)	-	-	-	(2,284)	-
Total income and gains	2,540	3,784	(1,584)	8,372	(1,418)	(2,255)	(462)	9,901
Segment expenses	-	32	(862)	(744)	-	-	(862)	(712)
Segment profit/(loss)	2,540	3,816	(2,446)	7,628	(1,418)	(2,255)	(1,324)	9,189
Unallocated corporate expenses							(1,787)	(928)
Operating (loss)/profit							(3,111)	8,261
Share of associate's loss							(169)	-
Interest expense							(991)	(1,213)
Interest income							177	166
(Loss)/profit before taxation							(4,094)	7,214

All revenue is derived from operations within the United Kingdom. Property operating expenses relating to investment properties that did not generate any rental income were £133,000 (2006: £nil).

Other Information

	Investment		Property Investment	Property Investment Restated	Unallocated	Unallocated Restated	Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	16,642	15,412	45,395	46,410	-	-	62,037	61,822
Segment liabilities	172	146	19,014	14,454	848	1,503	20,034	16,103
Capital expenditure	1,178	1,693	4,727	490	-	-	5,905	2,183
Depreciation	-	-	2	1	11	11	13	12
Non-cash expenses other than depreciation	-	-	-	-	16	17	16	17

The segment liabilities for 2006 have been restated to record deferred tax provisions within unallocated liabilities.

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