Since 1857
Gresham House
Specialist asset management

GRESHAM HOUSE PLC

ANNUAL REPORT AND ACCOUNTS AS AT 31 DECEMBER 2017

Registered in England with number 871

THE SPECIALIST ALTERNATIVE ASSET MANAGER

GRESHAM HOUSE PLC IS A LISTED SPECIALIST ALTERNATIVE ASSET MANAGEMENT GROUP (GHE.LN) THAT PROVIDES FUNDS, DIRECT INVESTMENTS AND TAILORED INVESTMENT SOLUTIONS INCLUDING CO-INVESTMENT.

The Group aims to generate superior returns across a range of alternative investment strategies and illiquid asset classes over long-term investment horizons. The investment team applies their expertise, knowledge and experience to create value for its shareholders primarily through growth in assets under management, annual management fees, performance fees, carried interests, profit growth plus returns on invested balance sheet capital.

Gresham House currently manages investments and co-investments through its FCA regulated investment management platform on behalf of institutions, family offices, charities and endowments and private individuals. Asset management is operated through two divisions, Strategic Equity and Real Assets.

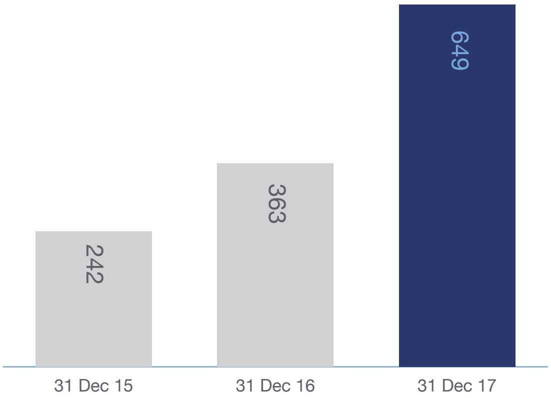
IN THIS REPORT

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

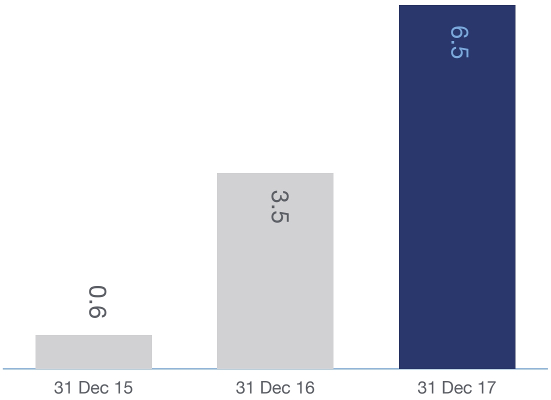
ASSETS UNDER MANAGEMENT (£M)

£649M
+79%



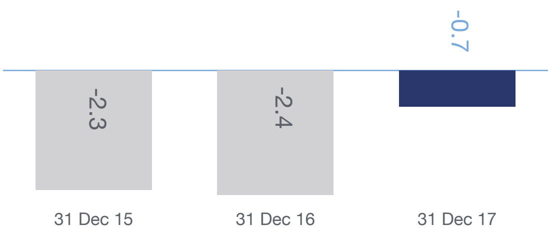
REVENUE (£M)

£6.5M
+85%



ADJUSTED OPERATING PROFIT/(LOSS) (£M):

£(0.7)M
+71%



OPERATING PROFIT/(LOSS) FROM CONTINUING OPERATIONS (£M):

£(2.4)M
+29%

OPERATIONAL HIGHLIGHTS

— Assets under management ("AUM") increased 79% to £649 million (2016: £363 million)

— Asset management revenue growth of 85% to £6.5 million (2016: £3.5 million)

— Adjusted operating loss* reduced to £0.7 million (2016: £2.4 million loss)

— Achieved run-rate profitability** at the adjusted operating profit level as at 31 December 2017, surpassing management's profitability expectations

— Organic growth of £200 million (a 55% rise over the year) including the launch of the British Strategic Investment Fund ("BSIF") with £165 million of committed capital as at 31 December 2017, plus growth across other existing strategies

— Acquisition growth of £86 million (up 24%) through the purchase of Hazel Capital, the UK renewable energy asset manager, in October 2017

— Developed a strategic partnership with the Royal County of Berkshire Pension Fund, which acquired a 20% investment in Gresham House and became a cornerstone investor in BSIF

— Developed and launched a proprietary client portal to facilitate transparent reporting and co-investment opportunities

— Completed the sale of the legacy property portfolio, paid down borrowing supplied by Kleinwort Benson

* Adjusted operating loss has been restated per note 9 of the financial statements.

** Run-rate profitable is defined as the annualised management fee revenues and other income earned from the AUM as at the period end, less the annualised cost base at the period end.

THE SPECIALIST ALTERNATIVE ASSET MANAGEMENT GROUP

GRESHAM HOUSE MANAGE AND ADVISE FUNDS, DIRECT INVESTMENTS AND TAILORED INVESTMENT SOLUTIONS INCLUDING CO-INVESTMENT ACROSS A RANGE OF HIGHLY DIFFERENTIATED ALTERNATIVE INVESTMENT STRATEGIES. THE GROUP AIMS TO GENERATE SUPERIOR RETURNS OVER LONG-TERM INVESTMENT HORIZONS, CREATING VALUE FOR OUR SHAREHOLDERS AND CLIENTS.

DIVISIONS AND STRATEGIES

Gresham House manages £649 million of third-party assets for a range of investors across alternative investment strategies, giving the business significant scale and a strong platform for further growth. The team has established two core divisions: Real Assets and Strategic Equity, under which we have created five strategies through a combination of acquisition and organic growth.

1. STRATEGIC EQUITY

AUM

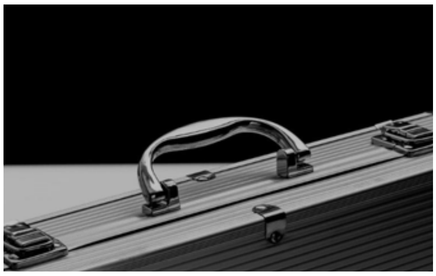
REVENUE

PUBLIC EQUITY

Invests in UK and European smaller public and private companies, to capitalise on inefficiencies and dislocations in pricing in the market which provide opportunities for superior long-term investment returns.

- Gresham House Strategic Plc
- Strategic Public Equity LP

PRIVATE ASSETS



Invests in private assets and companies and funds to achieve absolute returns, principally through capital gains supplemented with the generation of a longer-term income yield.

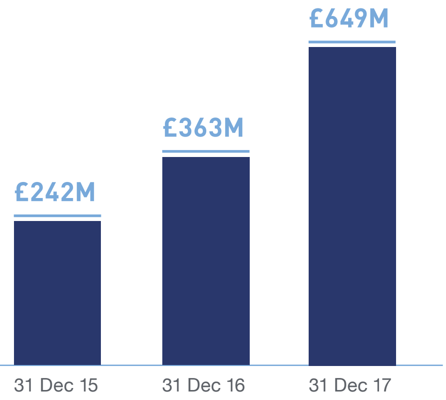
- LMS Capital Plc

AT A GLANCE

GROWTH IN ASSETS UNDER MANAGEMENT (AUM)

AUM has grown 79% over the year with a healthy pipeline for growth (organically and acquisitively)

Read more about AUM in the Chief Executive's review on page 8

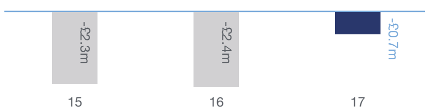


3 YEAR ADJUSTED OPERATING PROFITABILITY

+71%

REDUCTION IN LOSS IN THE YEAR

Adjusted operating losses have reduced in 2017, with the Group now profitable on a run-rate basis as at 31 December 2017



* Adjusted operating loss has been restated per note 9 of the financial statements.

2. REAL ASSETS

AUM

REVENUE

FORESTRY

Provides diversification, alongside asset-backing and inflation linkage. A longer investment view is commensurate with this strategy, however the diverse portfolio of high quality forests in the UK ensures a spread of ages of the trees which can provide a regular income yield in a tax efficient manner.

- Gresham House Forestry LP
- Managed accounts

HOUSING AND INFRASTRUCTURE

Targets investing in the underlying 'real' assets of housing and infrastructure required to support UK economic growth and deliver long-term cash flow to investors with Socially Responsible Investing objectives.

- British Strategic Investment Fund LP

NEW ENERGY

Generates sustainable financial returns while supporting the shift from finite resources to a clean energy world. Key focus on yield and capital preservation through the three key leading transformative technologies – solar power, electric transportation and energy storage.

- Hazel Capital Renewable Energy VCT 1
- Hazel Capital Renewable Energy VCT 2

ANOTHER YEAR OF GROWTH

GRESHAM HOUSE HAS GROWN FROM STRENGTH TO STRENGTH IN 2017 AND I AM PLEASED TO REPORT THAT THIS MANAGEMENT IS DELIVERING WELL AGAINST OUR STATED OBJECTIVES.

ANTHONY TOWNSEND CHAIRMAN

ACTIVITY IN THE YEAR

Assets Under Management ("AUM") at the year end stand at £649 million, some 79% greater than at the beginning of 2017. The Group is now run-rate profitable* at the adjusted operating profit level.

Organic growth in AUM totalled £200 million (a 55% rise over the year) and acquisitive growth was £86 million (up 24%). The key drivers were the launch of the Gresham House British Strategic Investment Fund ("BSIF"), adding £165 million, and the acquisition of the Hazel Capital business adding a further £86 million as at 31 December 2017.

As I highlighted in the Interim Results, BSIF is a great example of the team providing relevant solutions to meet the specific needs of investors. Local government pension schemes and other institutional investors are seeking long-term opportunities in UK housing and infrastructure-related assets. BSIF provides them with a clear partnership solution, particularly for investments of less than £50 million and the potential to direct those investments to local or regional opportunities. The team continues to work hard fundraising for BSIF and is targeting a final close of £250 million by the end of 2018.

I was also pleased to announce the completion of the acquisition of Hazel Capital, the renewable energy asset manager, in October 2017. The Gresham House New Energy strategy, our fifth strategy as an alternative asset manager, has been set up under the leadership of Hazel's founder Ben Guest. I welcome Ben and his team to Gresham House and I am excited about the prospects of working together.

We now have five investment strategies in total, which sit within our two core divisions:

(1) STRATEGIC EQUITY

- Public Equity
- Private Assets

(2) REAL ASSETS

- Forestry
- Housing and Infrastructure
- New Energy

RESULTS

The Group has reached an important inflection point. It has become run-rate profitable at the adjusted operating profit level earlier than anticipated. The increase in AUM is making a positive impact on returns and the adjusted operating loss** has reduced to £0.7 million (2016: £2.4 million loss). We achieved adjusted operating profit in the second half of 2017 of £0.1 million, compared to the £0.8 million adjusted operating loss**, reported for our first half to 30 June 2017.

In 2017 we also completed the sale of the legacy property portfolio, adding significant liquidity to the Gresham House balance

*Run-rate profitable is defined as the annualised management fee revenues and other income earned from the AUM as at the period end, less the annualised cost base at the period end.

**Adjusted operating loss has been restated per note 9 of the financial statements.

CHAIRMAN'S STATEMENT

sheet and finalising our transition from a property owning business to a pure-play asset manager. Furthermore, with the subsequent repayment of the Kleinwort Benson loan, we have a simpler and stronger balance sheet to support our plan for growth as a pure-play asset manager in 2018. Further details of our financial performance will be found in the Financial Review on pages 18-21.

THE BOARD

There have been changes on the Board that I want to highlight. We have recruited two new Non-Executive Directors who position the Company well for our next stage of growth; Simon Stilwell joined on 18 December 2017 and Rachel Beagles joins on 1 March 2018.

Simon brings a wealth of experience from his two decades in capital markets and the development of Liberum under his leadership. He is well placed to help guide Gresham House through the next phase of its growth. Simon is currently the Chief Executive Officer of Vitesse Media, an AIM-listed digital media and events business.

Rachel has an impressive track record as a Non-Executive Director or chairman of several investment companies and has recently been appointed as the Chairman of the Association of Investment Companies. Rachel's prior experience as a Managing Director at Deutsche Bank and as Vice-Chair of Newlon Housing Trust, a social housing provider operating in North & East London, will also provide valuable insight to the Board.

Peter Moon stepped down as a Non-Executive Director and Chairman of the Audit Committee at the end of 2017. He has taken on the role of chairman of the investment committee for BSIF, which he is well placed to lead given his experience as Chief Investment Officer at the Universities Superannuation Scheme. I would particularly like to thank Peter for his very valuable service as a director over our early formative years. Richard Chadwick has taken over as Audit Committee Chairman, which as a Chartered Accountant and existing member of the Audit Committee he is well placed to do.

> **THE HARD WORK AND DEDICATION OF THE WHOLE TEAM HAS DRIVEN THE BUSINESS TO WHERE IT IS TODAY AND I BELIEVE THAT WE HAVE THE RIGHT TEAM TO CONTINUE TO DELIVER AGAINST OUR STATED OBJECTIVES**

The Board has a significant role to play in the development of the business, performing such roles as counsel to the executive management team and providing perspective on strategic matters. The evolving Gresham House plc Board aims to support the long-term aspirations of this growing asset management group.

AGM

This year we are holding our AGM at Eversheds Sutherland (International) LLP, One Wood Street, London, EC2V 7WS on 17 May 2018 at 10:00am and I hope to see as many shareholders as possible there. Our CEO Anthony Dalwood will give a brief update after the formal business of the AGM is concluded.

OUTLOOK

With the continuing low interest rate environment and the uncertainty around what Brexit will bring, these are interesting times in which to invest. The management team's clear strategy is to provide investment solutions with a long-term horizon aiming to counter near-term uncertainty. There is a promising pipeline of organic and acquisitive growth opportunities identified for this year. By operating with the same careful and diligent approach that we have used to date, I believe the management team assembled is one of quality and cohesion, which will continue to create shareholder and client value in 2018.

The hard work and dedication of the whole team has driven the business to where it is today and I believe that we have the right team in place to continue to deliver against our stated objectives.

ANTHONY TOWNSEND
CHAIRMAN
28 February 2018

SPECIALIST ALTERNATIVE ASSET MANAGER

GRESHAM HOUSE HAS CONTINUED ITS JOURNEY FROM AN INVESTMENT TRUST IN DECEMBER 2014 TO THE PURE-PLAY SPECIALIST ALTERNATIVE ASSET MANAGER WE ARE TODAY THANKS TO THE EFFORTS OF OUR MANAGEMENT TEAM ALONGSIDE THE SUPPORT OF CLIENTS AND SHAREHOLDERS.

ANTHONY DALWOOD CHIEF EXECUTIVE OFFICER

Three years on, we have met our stated objectives, by growing AUM 79% to £649 million in the twelve months to 2017 and achieving profitability on a run-rate basis, at the adjusted operating profit level, at the end of 2017. I am pleased to state that at the adjusted operating level we have reduced the loss from £2.4 million in 2016 to £0.7 million in 2017, and exit a good year ahead of original management expectations.

The Group is now diversified across two divisions, which cover five strategies and is well positioned for long-term growth in alternatives asset management. It is working with strategic partners and creating shareholder value through multiple avenues of growth in AUM, carried interest and profits.

The sale of the legacy property portfolio in the year leaves the business with a strong balance sheet and we have also received advice that the Company now qualifies for inheritance tax business property relief at 100% in appropriate cases**. Gresham House can now be considered a pure-play specialist alternative asset manager, aiming to capture value from the structural growth in alternative asset allocation. This will help us achieve our vision:

- To build a leading specialist alternative asset management company whereby the Group becomes an "asset to covet"

**Adjusted operating loss has been restated per note 9 of the financial statements.*

*** This statement is intended only as a guide to current UK tax legislation and to what is understood to be the current practice of HMRC, both of which are subject to change with retrospective effect. This statement does not constitute advice to any shareholders or potential investor.*

AUM
£649M
+79%

REVENUE
£6.5M
+85%

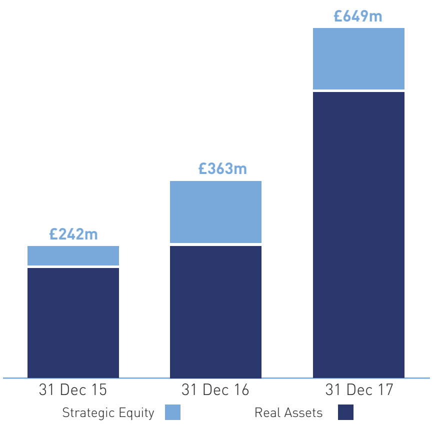
ADJUSTED OPERATING LOSS
£(0.7)M
+71% IMPROVEMENT

- To create long-term shareholder value through sustainable and superior investment performance, and quality service provision
- To create a culture of empowerment where individual flair and entrepreneurial thinking is encouraged, enabling us to attract and retain top talent

GENERATING SHAREHOLDER VALUE

To build Gresham House into an asset to covet and generate shareholder value, we target growth through increasing AUM along with client satisfaction. We have had significant AUM growth over the past twelve months, with the addition of the New Energy and Housing & Infrastructure strategies. We now have five complementary strategies under the Strategic Equity and Real Assets divisions.

Assets Under Management, £m



Overall AUM has grown by 79% in the year to £649 million (2016: £363 million), reflecting organic growth of £200 million (55%) and acquisitive growth of £86 million (24%).

Organic growth was supported by the launch and interim close of the British Strategic Investment Fund ("BSIF") at £165 million, a significant milestone. BSIF is a closed-ended limited partnership operating over a twelve-year period. The business generates sustainable management fee income and has the potential to deliver carried interest should BSIF achieve its annualised target return. Strategic equity AUM was broadly flat following the return of capital to LMS shareholders ahead of the expected schedule.

> **"GRESHAM HOUSE CAN NOW BE CONSIDERED A PURE-PLAY SPECIALIST ALTERNATIVE ASSET MANAGER AIMING TO CAPTURE VALUE FROM THE STRUCTURAL GROWTH IN ALTERNATIVE ASSET ALLOCATION**

The completion of the Hazel Capital transaction in October 2017 is an exciting addition to Gresham House's product offering in the area of renewables and new energy infrastructure-related assets.

Alongside the Hazel Renewable Energy VCT management contracts and the master service agreements representing AUM of £86 million, we also have a developed pipeline of energy storage assets. We are excited about the potential to grow this area as client product increases with a team who have a proven track record in this socially responsible arena.

DISCIPLINED APPROACH

To create value for shareholders and clients alike, Gresham House operates with risk management and controls at the forefront of the decision making process. Minimising and mitigating against the risks that the Group faces is key to delivering long-term returns, particularly in the increasingly stringent regulatory environment in which we operate. We have built this approach into all our investment processes through the use of experienced members of our Investment Committees at both the Group and the strategy levels. This discipline aims to safeguard the funds of our clients and shareholders.

Our ability to integrate new businesses into Gresham House and add value through our central functions is further key to generating shareholder value. We have demonstrated our ability to do this with the acquisition of the Aitchesse business, now fully integrated as Gresham House Forestry and delivering on the 15% long-term return hurdles. The Hazel Capital business is being successfully integrated into the Gresham House family as the New Energy strategy and we continue to work on scaling this area.

We successfully launched our client portal at the end of 2017 to achieve greater interaction and transparency between clients and our investment managers. Clients are able to log on to the system and see deal-by-deal co-investment opportunities in a structured and simple manner. They can review their portfolio through accessing information on the assets underlying their investments, read appraisals and investment papers where available, as well as see how much of their committed cash has been drawn down. This allows them discretion to increase allocations through co-investment and hence their exposure to regions, sectors or deals specific to their interests. This level of engagement will materially enhance the client service proposition.

TALENTED TEAM

Following the management buy-in in 2014, the team has grown and evolved. The right people working productively and efficiently at Gresham House is critical to our success. We aim to create a culture of empowerment for our team, where individual flair and entrepreneurial thinking is encouraged. This commitment to people is at the core of Gresham House's values and has resulted in a diverse and dynamic team.

The acquisition of the Hazel Capital business and team has been a big step forward in hiring a high quality investment team to enhance our product offering. Ben Guest has joined Gresham House as head of the New Energy strategy and fund manager of BSIF. Ben's expertise in renewable energy investment has generated top quartile performance for the Hazel Renewable Energy VCTs. Our product development and distribution team is working hard on a partnership approach to providing long-term solutions to clients in a variety of products, by listening to their needs and matching our offering accordingly.

Michael Hart joined in June 2017 from Amundi to head up the distribution drive and to add his experience to this critical function within the business. He has already made a number of introductions to institutional investors who we are currently working with to provide investment solutions. This area remains one of development focus.

Additional key hires in the year include Andy Hampshire joining us as Chief Technology Officer from Lloyds Development Capital. His business integration experience as well as technology focus has been clearly demonstrated with the successful implementation of the client portal and integration of the Forestry and New Energy businesses.

Other hires have included bolstering our investment management teams and marketing functions. Overall, we are focused on building a mix of quality individual talent to deliver continued growth for Gresham House. We were encouraged that so many team members took up the opportunity to reinvest in Gresham House through the bonus share matching scheme.

OUTLOOK

We have delivered well against our 2017 objectives growing AUM, both organically and through acquisitions and becoming run-rate profitable in the second half of the year. More details of our objectives and how we achieved these in 2017 are contained in the Strategic Framework section on pages 12 and 13.

> **WE HAVE DELIVERED WELL AGAINST OUR 2017 OBJECTIVES GROWING AUM, BOTH ORGANICALLY AND THROUGH ACQUISITIONS, AS WELL AS LAUNCHING A NEW CLIENT PORTAL WITH THE OPPORTUNITY FOR CO-INVESTMENT.**

We continue to see institutional investors increase their allocations to alternatives as they seek long-term investment returns as well as achieving environmental, social and governance objectives. By continuing to provide tailored solutions to investors' long-term needs, we are positioning Gresham House for further growth.

Asset valuations on almost all traditional metrics suggest that peak margins with high multiples are likely to lead to relatively low medium-term equity returns. Indeed, should bond yields rise significantly from this point, then we should expect volatility and a decrease in asset valuations more broadly. Gresham House is therefore well-positioned as a specialist alternative asset manager with long-term contracts in areas where we believe that superior investment returns can be potentially generated.

As we look forward to 2018, we remain focused on growing the business and building the Gresham House brand as an "asset to covet", where employees are proud to work for Gresham House, clients want to invest with Gresham House and shareholders want to own Gresham House. The ability to deliver on this will be determined by AUM growth, both organically and through the successful integration of acquisitions. We now have an offering in the new energy and infrastructure related markets, which are some of the fastest growing and most sought-after market segments in the alternatives sector.

We are positioned for growth, with a strong net cash balance sheet and a high quality team. In addition, we have a promising pipeline of acquisitions and organic growth opportunities and are therefore excited about the potential to continue to deliver greater value to clients and shareholders in 2018 and beyond.

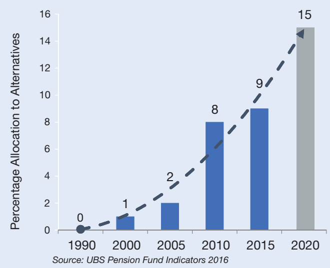
ANTHONY DALWOOD
CHIEF EXECUTIVE OFFICER
28 February 2018

INCREASING ALLOCATION TO ALTERNATIVE ASSETS

The search for higher returns and income, in a low interest rate world, have accelerated changes in client's asset allocation and product demand. We have seen a growing popularity of passive funds, sustained increased demand for income products and a shift to diversified investment solutions. This has driven a greater interest in higher returning areas such as alternative assets which have shown superior long-term risk-return characteristics.

This backdrop has prompted some investors to expand their investment horizons both in timeframe (longer term) and universe (non-traditional asset classes) to capture superior risk-adjusted returns, particularly in search of income yield.

Gresham House is positioned to capitalise on the shift in asset allocation amongst clients from traditional to alternative asset classes for investors searching for a solution to gain from long-term investment opportunities.



Source: PWC Market Research Centre analysis based on City UK and Towers Watson.

BUILDING A LEADING SPECIALIST ALTERNATIVE ASSET MANAGEMENT COMPANY

STRATEGIC OBJECTIVE: TO DELIVER LONG-TERM VALUE TO SHAREHOLDERS AND CLIENTS WHEREBY GRESHAM HOUSE BECOMES AN "ASSET TO COVET"

OBJECTIVES	PROGRESS IN 2017
1 DELIVER ORGANIC GROWTH IN AUM	— Successful launch of the British Strategic Investment Fund (BSIF): £165m committed at 31 December 2017 — Forestry AUM growth of £36m, up 15% in the year — Strategic Equity AUM marginally reduced by £1m after strategic return of £11m capital to shareholders by LMS Capital plc (LMS)
2 DELIVER ACQUISITION GROWTH IN AUM See case study page 16	— Successful acquisition of the Hazel Capital business in October 2017 — Successful continued integration of Gresham House Forestry, delivering in line with long-term return hurdle of 15% — Successful continued integration of LMS Capital plc management contract delivering in line with long-term return hurdle of 15%
3 DELIVER OPERATING PROFITABILITY TO SHAREHOLDERS	— Run-rate profitable at end 2017 — Delivering revenue growth through both organic and acquisition growth in AUM — Managing cost base to support growth
4 DELIVER OPERATIONAL EFFICIENCIES	— Increased revenue per employee to £222k — Clear focus on synergies from acquisitions and integration plans — Benefits of operational leverage — Delivering AUM growth by more than increases in cost base

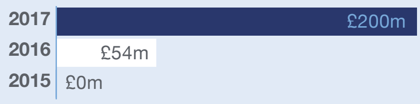
STRATEGIC FRAMEWORK

KPIS

2018 PRIORITIES

ORGANIC GROWTH IN AUM

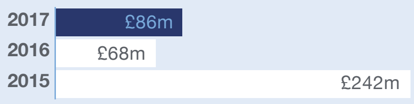
+55%



- Final close BSIF at £250m by end of 2018
- Grow Forestry AUM through final close of Gresham House Forestry Fund LP and new initiatives
- Manage GHS plc and LMS plc effectively to increase NAV
- Capitalise on client portal co-investment facility to provide additional AUM growth plus client service

ACQUISITION GROWTH IN AUM

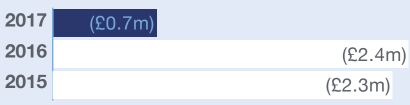
+24%



- Identify and execute on acquisitions to complement the existing business and provide further scale
- Disciplined capital allocation policy to generate 15% return on capital employed (“ROCE’) hurdle in the long term

ADJUSTED OPERATING LOSS REDUCTION

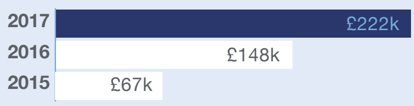
+71%



- Deliver growing operating profitability in 2018 through revenue growth and management of cost base

REVENUE PER EMPLOYEE

+29%



- Focus on integration of new acquisitions to deliver synergies
- Build AUM from existing cost base
- Invest in revenue generating team members

OUR BUSINESS MODEL STARTS WITH OUR CLIENTS

A SPECIALIST ALTERNATIVE ASSET MANAGER WITH SUSTAINABLE INVESTMENT PERFORMANCE, LONG-TERM ALIGNMENT WITH CLIENTS AND SHAREHOLDERS WILL RESULT IN THE GROUP BECOMING AN "ASSET TO COVET"

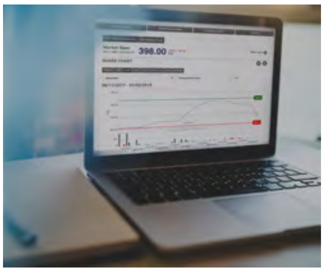
BUSINESS MODEL

THE SUCCESSFUL DELIVERY OF OUR BUSINESS MODEL ALLOWS US TO TARGET VALUE FOR:

OUR CLIENTS

Our clients should benefit from superior risk-adjusted returns over the long-term in asset classes that are typically difficult to access. They can also choose to participate in co-investment opportunities.

OUR SHAREHOLDERS



Gresham House provides shareholders with the opportunity to benefit from sustainable income across a range of alternative asset classes through a London Stock Exchange listed vehicle.

OUR PEOPLE

Our culture aims to provide an empowering work environment which encourages entrepreneurial thinking and will enable people to develop and share in the value that they create for clients and shareholders.

SOCIETY

Gresham House has a commitment to make socially responsible investments and believes that financial returns can be maintained through the application of environmental and socially responsible investment processes.

OUR STRATEGIES – HOW TO INVEST WITH US IN ALTERNATIVE, ILLIQUID ASSET CLASSES

- Quoted FCA authorised asset manager
- Scalable platform
- Experienced team with strong investment track record
- Alignment: Employees and advisors own 5%
- Developing best-in-class client technology platform

STRATEGIC EQUITY

PUBLIC EQUITY

- Gresham House Strategic Plc
- Strategic Public Equity LP

PRIVATE ASSETS

- LMS Capital Plc

REAL ASSETS

FORESTRY

- Managed accounts
- Gresham House Forestry LP

HOUSING AND INFRASTRUCTURE

- British Strategic Investment Fund LP

NEW ENERGY

- Hazel Capital Renewable Energy VCT1 and VCT2

STRATEGIC PRIORITY 2
DELIVERING GROWTH THROUGH ACQUISITIONS – A CASE STUDY

SUCCESSFUL INTEGRATION, DELIVERING LONG-TERM RETURNS

THE ACQUISITION OF AITCHESSE LIMITED BY GRESHAM HOUSE IN NOVEMBER 2015 AND ITS SUCCESSFUL INTEGRATION INTO THE GROUP HAS DEMONSTRATED THE MANAGEMENT TEAM'S ABILITY TO BUILD A SPECIALIST ALTERNATIVE ASSET MANAGER THROUGH ACQUISITION

RUPERT ROBINSON MANAGING DIRECTOR OF GRESHAM HOUSE ASSET MANAGEMENT AND CHAIRMAN OF GRESHAM HOUSE FORESTRY

"

FORESTRY IS A VERY GOOD EXAMPLE OF AN ALTERNATIVE ASSET CLASS, MAKING IT A GREAT FIT FOR GRESHAM HOUSE. TIMBER IS A REAL ASSET THAT HAS A POSITIVE LINK TO INFLATION, BUT LIMITED CORRELATION TO MORE TRADITIONAL ASSET CLASSES. BIOLOGICAL GROWTH OF 4-5% PER ANNUM, A RISING TIMBER PRICE AND STRONG SUPPLY DEMAND DYNAMICS MAKE UK FORESTRY AN ATTRACTIVE ASSET CLASS"

The management team identified Aitchesse, a specialist forestry asset manager, as an ideal opportunity to build the Gresham House specialist alternative asset management platform in 2015. Aitchesse had a strong track record of delivering expert advice and long-term investment performance, with annual returns of 19.5%, 14.2% and 17.5% over ten years across three client portfolios since inception.

Through careful diligence and alignment with the Aitchesse management team, we were able to successfully integrate and rebrand Aitchesse as Gresham House Forestry and grow the assets under management organically by £90 million, c. 50% growth since acquisition. The acquisition of Aitchesse is also delivering against our 15% per annum long-term return targets, demonstrating the team's ability to deliver on its stated objectives.

The Gresham House team has been able to use its distribution network to raise the £26 million Gresham House Forestry Fund LP from endowments, family offices and high net worth individuals. This is the first fund to be raised and we are seeing continuous demand from both institutional and private investors to access forestry.

The Gresham House Forestry team currently manage c.31,000 hectares of forests, with an AUM of £283 million across a range of funds and vehicles with long-term contracts.

GRESHAM HOUSE FORESTRY KEY FACTS

AUM AT 31 DECEMBER 2017:

£283M

GROWTH IN AUM SINCE ACQUISITION:

£90M; +50%

INCREASE

REVENUES FOR THE YEAR TO 31 DECEMBER 2017:

£2.8M

LONG-TERM RETURN ON INVESTMENT:

15% p.a.

A TRANSFORMATIVE YEAR

WE HAVE REALISED THE LEGACY PROPERTY PORTFOLIO AND CAN NOW BE CONSIDERED A PURE-PLAY SPECIALIST ALTERNATIVE ASSET MANAGER

KEVIN ACTON FINANCE DIRECTOR

The Group has had another transformative year, with AUM growing by 79% to £649 million (2016: £363 million) and revenues increasing by 85% to £6.5 million (2016: £3.5 million). Alongside the development of the specialist alternative asset management business, the team has realised the remaining legacy property portfolio and with the final sale of the land at Newton-le-Willows completing in February 2018, we now have a clean balance sheet with zero debt. The Group has also been advised that following the sale of the legacy portfolio, the Company's shares now qualify for inheritance tax business property relief at 100% in appropriate cases.*

As a result of the legacy property disposals, we have reclassified the legacy property business unit as a discontinued operation within these results. We have also revisited the definition of adjusted operating profit/loss, the non-GAAP measure, to clearly disclose the trading performance of the Group as a specialist alternative asset manager.

* This statement is intended only as a guide to current UK tax legislation and to what is understood to be the current practice of HMRC, both of which are subject to change with retrospective effect. This statement does not constitute advice to any shareholders or potential investor.

FINANCIAL REVIEW

ADJUSTED OPERATING LOSS

	2017 £'000	2016 £'000
Income	**6,457**	3,496
Administration overheads (excluding amortisation and depreciation and exceptional items)	**(6,824)**	(5,459)
Finance costs	**(344)**	(442)
Adjusted operating loss	**(711)**	(2,405)
Amortisation and depreciation	**(1,197)**	(1,433)
Exceptional items	**(308)**	–
Net trading loss	**(2,216)**	(3,838)
(Losses) and gains on investments	**(206)**	430
Tax	**–**	33
Operating loss before tax	**(2,422)**	(3,375)
(Loss)/profit from discontinued operations	**(1,104)**	339
Total comprehensive income	**(3,526)**	(3,036)

The adjusted operating profit/loss definition has been simplified to use the Group's net trading loss and deduct amortisation and depreciation of intangible and tangible assets and exceptional items. This now represents the management fee income earned from the specialist asset management business, less the administrative overheads associated with delivering the asset management services.

The growth in AUM in the year has improved the adjusted operating loss* from £2.4 million in 2016 to £0.7 million in 2017. After the deduction of amortisation and depreciation, exceptional items and the loss from discontinued operations the total comprehensive income for the year was a loss of £3.5 million (2016: £3.0 million). The main impact was the £1.1 million loss from the discontinued operations, which was primarily due to the sale of the legacy asset, Southern Gateway, in a difficult market for commercial property in the UK.

*2016 adjusted operating loss has been restated in line with the revised calculation of adjusted operating profit/loss per above.

INCOME

	2017 £'000	2016 £'000
Asset management income	**5,805**	3,202
Dividend and investment income	**431**	249
Other income	**221**	45
Total income	**6,457**	3,496

ASSET MANAGEMENT INCOME

Total income has increased by 85% in the year to £6.5 million (2016: £3.5 million). This has been driven by the increase in AUM during the year from both new funds raised and the acquisition of the Hazel Capital business. On an annualised basis, the management fee income from funds managed as at 31 December 2017 is £7.7 million, which is predominantly based on long-term management contracts.

The Real Assets division delivered £2.8 million (2016: £2.1 million) from the existing Forestry strategy as well as £0.8 million from the newly formed BSIF fund within the Housing and Infrastructure strategy and £0.2 million for the two months' income from the New Energy strategy.

DIVIDEND, INTEREST AND OTHER INCOME

Dividend and interest income is a good example of how we use our balance sheet to invest to deliver against our long-term 15% per annum return hurdle. Interest earned on the working capital loan provided to Hazel Capital, while we progressed our due diligence on the acquisition of the business, was £306k and we also earned an arrangement fee of £135k. The total amount borrowed was £4.5 million at a rate of 15% per annum, which was secured on the underlying assets of Hazel Capital and fully repaid before the end of the year. We also received a £106k dividend from Gresham House Strategic plc in the year.

ADMINISTRATIVE OVERHEADS

Administrative overheads, excluding amortisation, depreciation and exceptional items was £6.8 million (2016: £5.5 million). We continue to invest in the team and operational infrastructure to support the growth of the business, which has seen the number of employees increase from 26 to 36 at the end of 2017.

This includes the hiring of the Hazel Capital team of ten people from 31 October 2017. We have also added key hires to critical areas of the business, including Andy Hampshire as the Chief Technology Officer and Michael Hart as Head of Distribution and additional investment team members. These roles are very important to implementing our stated strategy and all have had a strong start since joining Gresham House. People costs have consequently increased to £4.6 million from £3.7 million in the year.

Total office costs across the Group were £0.5 million (2016: £0.3 million). The increase in the size of the business in London also required us to review our office arrangements and in February 2017 we moved to Octagon Point in St Paul's. The acquisition of the Hazel Capital business also included the cost of the office in Hammersmith of £70k per annum. We continue to maintain a flexible approach to our office space during this phase of the Group's life and the serviced office space at Octagon Point currently serves us well.

FINANCIAL REVIEW

As part of the integration of our new businesses and a review of the existing business costs, we continue to work hard at identifying areas where we can identify synergies and maximise our operating profit.

FINANCE COSTS

Following the sale of the Southern Gateway site in Speke, the outstanding £4.4 million Kleinwort Benson loan was repaid. Finance fees of £344k (2016: £442k) represent loan interest up to the point of repayment as well as the remaining arrangement and legal fees that were being amortised over the life of the loan.

AMORTISATION AND DEPRECIATION

Amortisation of management contracts, client contacts and the new Gresham House website and client portal account for £1.1 million (2016: £1.4 million) as these intangible assets continue to be amortised over their useful lives.

Depreciation of £87k in the year (2016: £69k) has a lesser impact on the Group's income statement and relates primarily to motor vehicles used by the forestry business.

EXCEPTIONAL ITEMS

Exceptional items of £308k relate to professional fees incurred in respect of the acquisition of the Hazel Capital LLP business, which took place on 31 October 2017 (2016: £nil).

(LOSSES)/GAINS ON INVESTMENTS

	2017 £'000	2016 £'000
Share of associate's (losses)/profits	(68)	628
(Losses)/gains on investments held at fair value	(230)	(147)
Movement in fair value of contingent consideration	(56)	(253)
Movement in fair value of deferred receivable	148	202
Total (losses)/gains on investments	(206)	430

The (losses)/gains on investments table above represent the movements in the investment that the Group has made in the funds that it manages as well as the legacy investments in securities.

The share of associate's profits relates to the 19.3% holding that the Group has in Gresham House Strategic plc ("GHS"). The last results announcement from GHS was on 24 November 2017 for the six-month period to 30 September 2017. Under associate accounting, the Group has therefore recognised its share of the loss in the period of £68k.

The loss of £230k on investments held at fair value in the year (2016: £147k) includes both positive movements on the co-investment that has been made in the funds managed or advised by Gresham House, being offset by a £619k impairment to the last material legacy investment, a loan to Kemnal Investments Limited. The loan was due for repayment in February 2018, however pressure on the capital structure and a review of the business model has required the Group to fully impair the investment. We continue to work with the business to recover value.

FAIR VALUE MOVEMENT IN CONTINGENT CONSIDERATION AND DEFERRED RECEIVABLE

The fair value movement in the contingent consideration payable to the sellers of Aitchesse and the second tranche payment to LMS has increased by £56k in the year (2016: £253k).

The deferred receivable relates to future payments due from Persimmon from the sale of the original Newton-le-Willows site in September 2015. The fair value movement of £148k represents the total increase in fair value as the payments become due (2016: £202k).

DISCONTINUED OPERATIONS

The classification of the legacy property portfolio as discontinued operations in the year includes rental income, property outgoings, the fair value movement in the remaining property and the net loss on the sale of the Southern Gateway and Newton-le-Willows sites. The key driver of the £1.1 million loss (2016: £339k gain) is the sale of Southern Gateway, which was achieved in difficult property market conditions, but was strategically important for the business to complete its transition to specialist alternative asset manager. Note 7 to the accounts provides a further breakdown of discontinued operations.

FINANCIAL POSITION

	2017 £'000	2016 £'000
Assets		
Investments*	8,974	8,873
Property	1,986	10,000
Deferred receivable – Persimmon	3,694	5,180
Cash	9,785	2,802
Tangible/realisable assets	24,439	26,855
Intangible assets	6,327	6,630
Other assets	3,070	2,037
Total assets	33,836	35,522
Liabilities		
Borrowing	–	5,896
Contingent consideration	3,301	3,237
Other creditors	2,165	2,256
	5,466	11,389
Net assets	28,370	24,133

*IFRS requires the consolidation of Gresham House Forestry Friends and Family Fund LP. This has been adjusted here for the £477k non-controlling interest to show the Group's position on an investment basis.

FINANCIAL REVIEW

TANGIBLE/REALISABLE ASSETS

The above highlights the strong balance sheet position that the Group has at the end of 2017. The tangible/realisable assets supporting this total £24.4 million (2016: £26.9 million), comprise investments, the Newton-le-Willows property (the sale of which completed in February 2018), amounts receivable from Persimmon on the sale of a legacy property site in September 2015 and cash.

INVESTMENTS

Investments include the value of the Group's holding at the end of the year in Gresham House Forestry LP ("GHF LP") of £1.2 million (2016: £1.2 million), co-investment in SPE LP of £0.8 million (2016: £0.5 million) and the Group's associate holding in GHS of £6.5 million (2016: £6.5 million) and £0.3 million in LMS Capital plc ("LMS"). These are all in vehicles or co-investments in funds managed or advised by Gresham House, highlighting clear alignment with our clients.

PROPERTY

The Southern Gateway site was sold in September 2017 for a gross value of £7.25 million.

We exchanged sale contracts on the remaining land at Newton-le-Willows for gross proceeds of £2.1 million in December 2017, which subsequently completed in February 2018. This was the last remaining property investment and means the business has now fully disposed of its legacy property assets and can focus purely on the specialist alternative asset management business.

DEFERRED RECEIVABLE - PERSIMMON

The Persimmon deferred receivable relates to the instalments that are due from Persimmon annually up to 22 March 2019. In the year £1.6 million was paid by Persimmon. The next instalment due on 22 March 2018 is £2.1 million, with a final payment due on 22 March 2019 of £1.6 million. The deferred receivable has been fair valued as this was designated at fair value through profit or loss at inception.

INTANGIBLE ASSETS

Intangible assets of £6.3 million (2016: £6.6 million) relate to the Aitchesse Limited (now Gresham House Forestry Limited) acquisition, the LMS management contract award and the recently acquired contracts from Hazel Capital LLP.

The intangible assets recognised at the end of the year for Aitchesse of goodwill, management contracts and customer relationships totalled £4.8 million (2016: £5.4 million). The performance of the business has supported the goodwill recognised and the management contract and customer relationships have been amortised in line with their expected useful lives.

The LMS contract has been amortised over its three-year life and has a carrying value of £0.8 million as at 31 December 2017 (2016: £1.2 million).

The contracts from the Hazel Capital business acquisition on 31 October 2017 have been fair valued at £0.3 million, with goodwill of also £0.3 million also to be recognised. The management contracts will be amortised over their useful lives.

BORROWING

The Kleinwort Benson loan of £5.9 million at the beginning of the year was fully repaid following the sale of Southern Gateway. The Group now has no borrowing in place and operates with a substantial net cash position of £9.8 million as at 31 December 2017 (2016: £2.8 million).

CONTINGENT CONSIDERATION

The contingent consideration payable to the original owners of Aitchesse requires EBITDA generation by the Aitchesse business of between £1.7 million and £3.5 million in the period from 1 July 2015 to 28 February 2018. The current assessment is that 87% of this EBITDA is expected to be achieved, with the Group incurring the corresponding deferred consideration, which after discounting indicates a fair value of £3.0 million (2016: £3.0 million).

The remaining £251k relates to the fair value of the second tranche payment due to LMS for the management contract in August 2018.

GOING CONCERN

The Financial Reporting Council has determined that all companies should carry out a rigorous assessment of all the factors affecting the business in deciding to adopt a going concern basis for the preparation of the accounts. The directors have reviewed and examined the financial and other processes embedded in the business, in particular the annual budget process and the financial stress testing inherent in the Internal Capital Adequacy Assessment Process ('ICAAP'). On the basis of such review and the significant liquid assets underpinning the balance sheet relative to the Group's predictable operating cost profile, the directors consider that the adoption of a going concern basis, covering a period of at least 12 months from the date of this report, is appropriate.

KEVIN ACTON
FINANCE DIRECTOR
28 February 2018

BUILDING THE STRATEGIC EQUITY AND REAL ASSET DIVISIONS

WE HAVE BUILT THE BUSINESS OVER THE PAST THREE YEARS IN THE STRATEGIC EQUITY AND REAL ASSETS DIVISIONS, WHICH PROVIDE OPPORTUNITIES FOR CLIENTS TO GAIN ACCESS TO THESE ALTERNATIVE ASSET MARKETS.

STRATEGIC EQUITY

AUM	REVENUE
£115M	£2.0M
-1%	+61%

STRATEGY

The Strategic Equity division focuses on inefficient areas of public and private markets to capture value over the long-term. This division covers both public market and private investment opportunities.

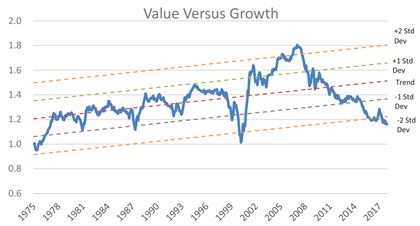
Gresham House applies its Strategic Equity approach to small public and private companies in the UK that are typically below £150 million in size, are cash generative and that are believed to be intrinsically undervalued. Investment in both the public and private arena is based on a private equity philosophy and aims for significant engagement with investee company management and other stakeholders in support of a clear equity creation plan. The investment horizon is typically 3 – 5 years. Investment decisions focus on qualitative and quantitative metrics including return on capital, cash generation and other 'value' characteristics.

MARKET OVERVIEW

2017 saw a continuation of the upward momentum for stock exchanges around the world. Within the UK, the FTSE-All Share Index finished up 8.7% year-on-year, whilst the FTSE Small Cap Index (excluding investment trusts) ended up 12.4%.

Valuations have remained at the higher end of historic trading ranges and performance was again driven primarily by momentum and growth at the expense of companies with more traditional value characteristics. Yield continued to be the focus. The outlook for the global economy has improved, which bodes well for equity markets as we enter 2018, although this is tempered by the potential impact from rising interest rates.

Over the longer term, 'value' has outperformed as have smaller companies. Notwithstanding this long-term view, 'growth' has outperformed 'value' since 2007 and has now reached a position which is two standard deviations away from the long-term trend evidenced by history. The division's focus on value, as well as smaller companies, continues to resonate for longer term investors, particularly as many believe the recent underperformance of value will reverse.



[1]Source: Bloomberg data 29 December 2017

Investment in smaller, value stocks requires a considerably higher level of engagement with investee company stakeholders; firstly, to identify market pricing inefficiencies and catalysts for value creation, and secondly, to support a clear strategic plan to create equity value over the long-term (3-5 years) thereby targeting above market returns. This approach and capability differentiates the strategy.

The Strategic Equity division provides access to this investment strategy through three vehicles: Gresham House Strategic plc ("GHS") and Gresham House Strategic Public Equity LP ("SPE LP"), both of which primarily target public markets, and LMS Capital plc ("LMS"), which targets both direct and indirect private investments. LMS currently has exposure in both the UK and USA through its legacy portfolio. Future activity is targeted in the UK.

PUBLIC EQUITY – GHS AND SPE LP

GHS was the first investment mandate awarded to GHAM in August 2015 and the Group holds a 19.3% interest in GHS creating alignment between the two.

The existing GHS portfolio managed by GHAM continues to perform satisfactorily within an environment where 'value' has underperformed as a category. NAV growth in the year to 31 December 2017 was 6.9% with the share price rising 8.7% in the same period. The portfolio has had a good start to 2018 with a number of portfolio companies reporting strong trading statements which helped lift the NAV a further 3% to 21 February 2018. The portfolio continues to offer attractive value through buying GHS shares which currently trade at a 28% discount to the NAV per share, investors gain exposure to a portfolio of smaller companies that together are effectively valued at 6.3 EV/EBITDA[2] (stripping out cash from the portfolio), with forecast revenue growth of 16%. This compares to the All Share valued on 8.7x EBITDA and 4% revenue growth.

1 MSCI World Value Index v World Growth Index; source Bloomberg

2 Based on 822.5p share price, using the latest corporate broker forecasts for the underlying portfolio companies and stripping out the cash position in the company. Gresham House EV and index comparisons are the relevant metrics based on the latest data available.

The portfolio is now essentially fully invested with the top 12 investments representing 88% of the net asset value.

SPE LP follows a very similar investment policy to GHS. A number of new investments were made for SPE LP and committed co-investors, which to date have performed well. As at 31 December 2017 the portfolio valuation was 13% up on cost with the fund being 62% drawn. The final close was held on 15 February, bringing the total commitments (excluding co-investment) to £10m.

Gresham House has a co-investment agreement with SPE LP and committed to an amount of £1.5 million at the first close.

PRIVATE ASSETS – LMS

GHAM was appointed as the investment manager of LMS in August 2016. LMS is listed on the main market of the London Stock Exchange. It has a private equity portfolio that includes small to medium sized private and public companies in the consumer, energy and business services sectors, with investments held both directly and indirectly through third party investment funds.

LMS had been undergoing a realisation programme ahead of GHAM's appointment in August 2016. The adoption of a new investment policy in August 2016 focused predominantly on private equity and other specialist asset classes including those managed by GHAM.

Considerable progress was made during the year, completing the transition to external management and achieving substantial cost savings for LMS. New investment processes are in place and the legacy portfolio has been fully reviewed and is now closely managed by GHAM. Members of the investment team have been actively engaged with underlying portfolio companies.

NAV per share rose 10% during the year from 71p per share to 78p per share. Importantly, the investment team successfully achieved realisations during the period, which took the total since taking on the mandate to in excess of £22 million. This enabled LMS to fulfil its final commitment to its shareholders to return a further £11 million by way of tender offer. The tender offer was completed in August 2017, significantly ahead of the anticipated timing. A further significant milestone was achieved in September 2017, when shares representing in excess of 10% of the issued capital, held by a single legacy shareholder, were placed with new institutional shareholders.

Focus is now shifting to the evaluation of strategic options for the company which will enable greater scale and will take advantage of the broader 'alternatives' capabilities within Gresham House.

STRATEGIC EQUITY – PERFORMANCE

The marginal decrease in AUM in the period reflects the growth in the NAV per share of both GHS and LMS in the year, offset by the tender offer to LMS shareholders of £11 million in the year and a share buy back and dividend for GHS. This is the first full year of management of LMS since being appointed in August 2016.

REAL ASSETS

AUM	REVENUE
£534M	£3.8M
+116%	+80%

"

THE REAL ASSETS DIVISION COMPRISES OUR FORESTRY, NEW ENERGY AND HOUSING AND INFRASTRUCTURE DIVISIONS, EACH PROVIDING INVESTMENT SOLUTIONS BACKED BY REAL UNDERLYING ASSETS IN ALTERNATIVE INVESTMENTS.

FORESTRY STRATEGY

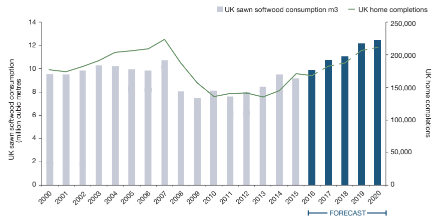
Gresham House Forestry actively manages over 31,000 hectares of commercial forestry in the UK and the Republic of Ireland on behalf of clients. Our clients are institutions and private high net worth individuals, for whom an uncorrelated asset class is a valuable part of their investment strategy. Commercial timber is a crop and a tangible, physical asset. Grown and managed well, commercial forestry generates income, provides inflation protection and for those exposed to UK taxation, is partially income tax and capital gains tax free and Inheritance Tax exempt.

With these attributes, the Gresham House Forestry division is a good fit in the Gresham Real Assets division and provides a valuable entry to real asset investing, unrelated to traditional debt and equity classes, and backed by a specialist alternative asset manager.

MARKET OVERVIEW

2017 has seen harvested timber prices exceed the peaks of 2014, with 10% gains in the year. Our short-term forecast is a continuation of this trend for the next 18 to 24 months, resulting in a further uplift of 10% in the period. In the longer term we see positive real-term increases, backed by uplifts in house building and energy (biomass) demand.

UK sawn softwood consumption and new home completions



Source: UK Government Statistics, FAO of the United Nations, Savills Research

Sterling exchange rates against both the Swedish Kroner and the Euro continue to dampen imports and underpin the domestic timber market and we see this continuing for some time. Today's harvested timber prices are important to timber income returns, but also inform long term trends. These feed into standing timber valuations, which together with the underlying land value are fundamental to the asset valuations, forest by forest, according to location, growing conditions and proximity to market. We continue to see a very positive trend in this asset class.

FORESTRY – GHF LP AND NON-DISCRETIONARY ACCOUNTS

The Forestry business manages non-discretionary accounts for institutions and individuals with a value of £258 million and in addition, £26 million for the recently launched Gresham House Forestry Fund Limited Partnership. These funds are long-term in nature, reflecting the long-term growth of forests and address clients' needs for income. This also ensures the Group can earn management fees over a long period, providing sustainable revenues.

Fees are earned from servicing these clients by both managing the forests as well as transaction fees earned from assessment and valuation, recommending appropriate acquisition prices and providing due diligence in the acquisition process on behalf of client funds.

REAL ASSETS - NEW ENERGY STRATEGY

The New Energy strategy aims to generate sustainable financial returns for our investors while supporting the shift from finite resources to a clean energy world. The investment team includes responsive, analysis-driven investment managers who understand the potential of clean energy, and have an impressive track record to prove it. Our target clients are yield-focused investors seeking capital preservation.

> THE TEAM CREATES ATTRACTIVE INVESTMENT OFFERINGS WHICH ARE FOCUSED ON THE THREE KEY LEADING TRANSFORMATIVE TECHNOLOGIES – SOLAR POWER, ELECTRIC TRANSPORTATION AND ENERGY STORAGE.

'Attractive' means strong downside protection, a sustainable yield and an appropriate investment horizon. Where a tax-efficient feature is achievable the investment team seeks to access this also.

NEW ENERGY – HAZEL RENEWABLE ENERGY VCT1 AND VCT2 AND MASTER SERVICE AGREEMENTS

The New Energy team are the managers of the Hazel Renewable Energy VCT1 and VCT2. The VCTs were launched in 2010 to capitalise on the opportunity created by the granting of UK government incentives in the form of inflation-linked feed-in-tariffs (subsequently replaced by Renewable Obligation Certificates for larger installations) to support the deployment of renewable generation. The combination of the fixed tariffs with little exposure to wholesale market power prices and the contracted nature of the cost base ensures that these assets generate stable and predictable cash flows which in turn enables a dividend stream of the same profile. The dividend stream is further enhanced by virtue of being free of income tax for individuals. The VCTs are currently fully invested and own a portfolio of 16 renewable generation assets, with an emphasis on ground mounted solar, together with an investment in electric vehicle charging infrastructure.

The New Energy team also operate master service agreements for battery storage projects, known as Energy Storage Solutions ("ESS"). The team has been at the forefront of ESS development and currently manages 50MW. ESS are large scale battery storage facilities that store energy in periods of surplus and then deliver electricity to the National Grid at periods of deficit or stress in the system and where the grid frequency requires 'balancing'. In some cases, battery storage operations are supported by gas/diesel generation capability. The supply of these services is covered by fixed term contracts with the National Grid, which provides steady income streams to the ESS facility.

REAL ASSETS - HOUSING AND INFRASTRUCTURE STRATEGY

The Housing and Infrastructure strategy invests in a diversified portfolio of asset-backed investments, which provide an inflation linkage and have a positive social impact. The key focus is on the two important sectors in the UK of infrastructure and housing and providing an opportunity for local government pension schemes and institutional investors to invest in the local infrastructure in the UK, whilst supporting socially responsible investment.

Investments are typically mature assets, with stable income orientated returns over a long-term horizon, achieving risk-adjusted returns. The aim is also to have a positive social impact, by creating jobs, improved health and social care and delivering the benefit of investment activities such as affordable housing. The environmental impact of investing is also considered through community based asset development in key infrastructure and enabling technologies.

This is achieved over a long-term horizon, enabling investors to gain exposure to sustainable revenue streams.

HOUSING AND INFRASTRUCTURE – BSIF LP

BSIF LP is a twelve-year limited partnership, which had committed capital of £165 million as at 31 December 2017, BSIF is open to new investors until 31 December 2018 and the team continue to see strong interest in this fund. BSIF invests in UK housing and infrastructure, targeting hard to access sub £50 million investments, whilst offering a low-cost fee approach. Partnership with investors is very important and through the LP investment advisory committee, investors have a forum to actively engage with the investment team. Management fees are earned over the twelve-year period.

REAL ASSETS – PERFORMANCE

BSIF was launched on 16 June 2017 and as at 31 December 2017 had committed capital of £165 million. Revenues therefore represent management fees for the six-month period to the end of the year.

A CULTURE OF RISK MANAGEMENT

THE EFFECTIVE MANAGEMENT OF RISKS IS CENTRAL TO THE LONG-TERM SUSTAINABILITY OF OUR BUSINESS

Gresham House plc follows a structured approach to the management of risks across the Group. We do this using a documented risk management framework. Underpinning the framework are the following four principles:

1. 'RISKS ARE OWNED': GOVERNANCE AND CULTURE

The Board of directors is responsible for the overall management of risk within the Group. This includes the identification, measurement, control and monitoring of all relevant risks across the Group. An Audit Committee considers Group wide risks on a regular basis and makes recommendations to the Board.

The Group plans to adopt a three lines of defence model as follows:

BOARD OF DIRECTORS			
First line of defence Business Operations	**Risk ownership** This covers functions that own and manage risks, primarily frontline operations staff. In the first line, risk management is embedded into the activities of each business area and assigned to individual risk owners who ensure that the risks as assigned to them are effectively supervised and managed.	External Audit	Regulatory Authorities
Second line of defence Risk & Compliance	**Oversight/Challenge/Support for first line** These cover functions that implement the risk management system, providing for continuous risk identification, assessment, monitoring and reporting. It also supports the first line in ensuring that the risks encountered are effectively managed.		
Third line of defence Internal Audit	**Independent Assurance** This function implements assurance processes linked to key business risks and processes and provides recommendations to the Board.		

Risk culture

The Board recognises that a risk management framework is of little value unless it is embraced and used by the people in the organisation. Through the behaviours and attitudes of its staff, Gresham House can ensure that it creates, over time, a risk aware culture, where risk based decisions are made knowingly and there is a desire to learn from mistakes and drive continuous improvement in processes and systems.

The Board recognise that a proper risk culture is dependent on having the right tone at the top, putting in place a structured approach to decision making and investing in its people.

Risks are made visible: Risk Identification and Prioritisation

Risk identification is a two-step process involving:

- Identification of the strategic objectives of the Group as a whole and supporting business processes; and
- Identification of the risk events that might impede the achievement of objectives or delivery of business processes.

RISK MANAGEMENT

Once risks have been identified they are captured and quantified as part of the risk assessment process. Some risks are inherent to Gresham House as a result of the business that it undertakes – for example, market, liquidity, operational and strategic risks. However, the risk horizon is never static and new risks do arise from either internal or external factors. These risks are identified and captured as emerging risks.

Given the number of risks that may be relevant to a group like Gresham House, it is vital that we are able to prioritise the risks we face. Risk prioritisation reflects an understanding of risk exposures relative to each other and the efficient application of resources within the Group. The risk assessment process delivers a defined methodology in order to establish the impact and likelihood of a risk to Gresham House.

2. RISKS ARE DISCUSSED AND UNDERSTOOD: RISK APPETITE, TOLERANCE AND LIMITS

Gresham House accepts that risk is inherent in its business activities and seeks to maintain a risk profile that delivers the best potential growth within an acceptable risk level. The purpose of a risk management framework is to support the creation of a risk aware culture by ensuring that business decisions are made on an informed basis to reflect agreed business strategy and risk tolerance.

Risk tolerance represents the level of risk that the Board considers acceptable to expose the organisation to in order to achieve its strategic objectives. As such, it defines the Group's willingness to accept risk and the boundaries for risk taking. The tolerance is quantified and performance is tracked and controlled to ensure the business operates within the agreed parameters. A comprehensive set of risk limits underlie the risk tolerances – for example, investment allocation limits, payment authorities, etc.

3. APPROPRIATE ACTION IS TAKEN: RISK MANAGEMENT AND CONTROLS

Once risks have been identified and their exposure assessed, consideration is given to the controls and other mitigation strategies that can be applied to manage the risks appropriately and within the agreed risk tolerance. Approaches taken to manage those risks may include:

- Taking steps to reduce the likelihood or impact of the risk through the use of effective controls;
- Avoiding the risk altogether;
- Substituting the risk with a less risky alternative such as through the use of outsourced service providers;
- Transferring the risk by making someone else accountable for its management through contracts or financial measures such as hedging or (re)insurance; and
- Accepting the risk as being either an opportunity worth pursuing or a threat with an acceptable impact and/or likelihood such that no further action is needed or possible.

As part of the risk assessment process, controls and mitigation strategies are documented for each material risk with risk owners acknowledging ownership for the maintenance and operation of controls.

4. THE GROUP LEARNS FROM ITS RISK TAKING: RISK REPORTING AND COMMUNICATION

Risk reporting is integral to the Group's risk management framework and takes place at a number of different levels throughout the business. It provides senior management, the Board and relevant external parties with sufficient information to enable them to assess:

- Management of risks in line with strategic objectives and agreed risk tolerances; and
- The effectiveness of the control environment.

The Board/Audit Committee meets quarterly to review and, where required, challenge the Group's management of risks and any significant changes to profile of risks including actions being taken to mitigate or control key risk exposures. Risks are thus regularly tracked to ensure consistency with expectations.

Principal risks

The Group maintains a risk register which records all the key risks which are relevant to the Group. Identified risks are assigned to risk owners who ensure that the mitigation controls remain effective. The principal risks which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the 2016 Annual Report and Accounts. The principal risks to which the Group is exposed are set out in the table below.

RISK MANAGEMENT

STRATEGIC AND BUSINESS RISKS

RISK DESCRIPTION	MITIGATION CONTROLS	TREND	STRATEGIC FRAMEWORK LINK
STRATEGY DESIGN RISK **The risk that the Board may set a strategy that does not align with shareholders' expectations.** **Potential impact** **This could lead to increased difficulties with attracting the required levels of investment and shareholder dissatisfaction.**	Open communications between the management of the Group and major shareholders on strategy. Clear correspondence with existing and potential investors for each launched fund stating investment objectives and other fund details. An annual business plan is defined at the start of the new financial year which includes financial forecasts. These forecasts are reviewed and approved by the Board. An Annual Report is published and available to shareholders and other stakeholders which highlights the Board's view of the previous year and expectations for the coming financial period.	–	1 3 4
LOSS OF KEY PERSONNEL RISK **The Company's development and prospects are dependent upon the service and performance of the directors and senior management. The loss of the services of any of the directors or senior management could cause disruption to the strategic objectives and day-to-day operations of the Group.** **Potential impact** **This could lead to reputational damage, loss of key investors and reduced revenues.**	The Board has constituted a Remuneration Committee which regularly reviews remuneration levels to ensure they remain competitive and align management with the long-term success of the Company through deferred awards. Minimum notice periods are included in key persons' contracts of employment to ensure any departures are efficiently managed. Succession planning is in place to ensure there is cover for key roles in the event of loss of services of any of the directors or senior management.	–	1 2 3 4
ACQUISITION RISK **As the Group grows through a series of acquisitions, there is the risk that the synergies and other benefits envisaged prior to the acquisition do not materialise.** **Potential impact** **Loss of investor confidence, material write downs of Group assets.**	Acquisitions follow a structured process involving senior management and consultations with significant external stakeholders. All acquisitions involve a thorough due diligence exercise involving professional advisers as necessary to ensure minimal levels of uncertainty, concluding in approval requirement from the Gresham House Investment Committee. The remuneration structure in place for senior management ensures there is alignment of interests of senior managers with those of shareholders.	–	2 4

REGULATORY RISK

RISK DESCRIPTION	MITIGATION CONTROLS	TREND	STRATEGIC FRAMEWORK LINK
CONDUCT RISK As the Group expands to include more companies and employees, there is the risk that these new persons are not properly integrated into the culture and operations of the Group leading to an increased risk of poor conduct. **Potential impact** Regulatory censure, fines, and reputational damage.	All employees are issued with the compliance manual and relevant policies to ensure they are apprised of their obligations in all aspects of the Group's activities. Acknowledgment of receipt and agreement to abide by the policies are also required of all employees. Ongoing compliance monitoring takes place to detect any breaches that have occurred of the Group's policies. A remuneration policy is in place that incorporates the remuneration principles, discourages excessive risk taking and strikes an appropriate balance between fixed and variable pay. Whistleblowing arrangements are in place and have been communicated to staff.		1 3 4
BREACHES RISK Companies in the Group have a number of regulatory obligations as issued by the FCA, the Exchange and other regulatory bodies. There is the risk that the Group breaches its obligations under the various regulations. **Potential impact** Regulatory censure, fines, and reputational damage.	A comprehensive set of compliance policies and procedures have been approved and issued to staff to guide their various activities. Periodic training to staff is in place to ensure all staff are aware of the requirements and their obligations in meeting those requirements. Professional advisers have been engaged to provide advice to the executive team on varying regulatory subjects.		1 3 4

ECONOMIC RISK

RISK DESCRIPTION	MITIGATION CONTROLS	TREND	STRATEGIC FRAMEWORK LINK
MACROECONOMIC RISK This is the risk of an adverse impact on our revenue and profitability from an economic downturn. Brexit and other risks to the UK economy could negatively impact demand for our services, leading to reduced Assets Under Management (AUM), and ability to take advantage of new investment opportunities. **Potential impact** Reduced revenue and profitability.	The Group has diversified its portfolio to include New Energy assets. This will complement the existing Strategic Equity and Real Assets divisions. The Investment Committee terms of reference also includes thresholds for concentration risk. Adherence to these thresholds are monitored by the LPs of managed funds and/or the Board within the terms of the mandate. The Board and Management Committee regularly review the economic landscape to identify any emerging risks that have a significant impact on the Group and ensure active steps are taken towards mitigating their impact.		1 3 4

INVESTMENT RISK

RISK DESCRIPTION	MITIGATION CONTROLS	TREND	STRATEGIC FRAMEWORK LINK
INVESTMENT RISK The risk that investments deviate from expected performance due to systematic and/or unsystematic factors. **Potential impact** Loss of investor confidence, reduced AUM and profitability.	The listed funds in the Group publish NAVs on a regular basis which ensures their performance is monitored. Each fund has a dedicated fund manager which ensures performance is closely monitored and action can be proactively taken if necessary. Investment Committees review proposed investments in detail and provide external challenge and rigour to the investment process. Some of the funds have board seats in investee companies (the private entities) which will ensure the Group has up to date and appropriate information on the performance of those entities.	–	1 3 4

OPERATIONAL RISK

RISK DESCRIPTION	MITIGATION CONTROLS	TREND	STRATEGIC FRAMEWORK LINK
FAILURE OF PROCESSES AND SYSTEMS The risk of significant internal processes and operational systems occurring. **Potential impact** This could lead to operational losses, dissatisfied clients or suppliers, and a damaged reputation.	Suitable and appropriate governance arrangements have been put in place including the establishment of an Operations Committee which meets bi-weekly to discuss operational matters. Key issues and decisions are escalated to the Board. New recruits are provided with adequate training on the Group's internal processes to ensure they are conversant with them. The Group has put in place a three lines of defence model as discussed in the opening sections of this Risk Management report. The Group engages suitably qualified third parties in all outsourcing arrangements and carries out regular due diligence on these third parties.	–	1 3 4
CYBER RISK The risk that the Group's systems are accessed by unauthorised persons and client data is breached. **Potential impact** Reputational damage, fines from the regulator, loss of investor confidence.	The Group has upgraded its cyber-defence systems and continues to monitor those systems for any breaches. Awareness campaigns have been run with members of staff to inform about cyber security risks and their responsibilities for ensuring security of Group data. The Group has agreements with reputable third parties who support the Group's processes for ensuring the security of the Group's systems.	↑	1 3 4

FINANCIAL RISKS

RISK DESCRIPTION	MITIGATION CONTROLS	TREND	STRATEGIC FRAMEWORK LINK
LIQUIDITY RISK The risk of insufficient liquidity within the Group to meet its financial obligations as they fall due. **Potential impact** Reputational damage, loss of investor confidence.	The Group maintains minimum levels of liquidity at all times to support working capital requirements. Liquidity forecasts are prepared across the Group with adequate measure put in place to ensure future cash flows are appropriately provided for.	–	1 3 4

IMPACT INVESTING

INVESTING TO GENERATE SOCIAL AND ENVIRONMENTAL IMPACT ALONGSIDE A FINANCIAL RETURN

Gresham House aims to deliver sustainable financial returns in the longer term, driving value through strong corporate engagement, governance and social responsibility. To achieve this, it is Gresham House's policy to give appropriate consideration to Environmental, Social and Governance ("ESG") factors. Gresham House recognises that the integration of ESG considerations into its business processes can have a positive impact on financial performance and sustainability. Achieving social impact is an aspect of long-term asset management which can be built into a robust investment process without impacting the financial return.

In particular, Gresham House seeks to deliver specific investment solution outcomes from predominantly investment in alternative assets, incorporating an ESG and social impact approach across smaller UK infrastructure and housing-related investments, renewable and efficient energy, timber and strategic public and private equity.

Impact investing is a term used to describe how investments can generate social and environmental impact alongside a financial return. Two of the major sectors for impact investing are housing and energy and there are many other examples of how impact investments can deliver financial returns, for example Energy Storage Systems.

Energy Storage Systems ('ESS') are large-scale battery sites that store energy in periods of surplus and then deliver electricity into the National Grid at periods of deficit or stress in the system – typically in the evening. Investments in ESS, either directly or through a vehicle such as a listed investment trust, deliver investors a financial return from the contracts the National Grid tender to ESS operators for providing this vital grid rebalancing service, which generates an income yield forecast to be c.12% per annum in the first five years*. ESS investments also serve as an impact investment alongside delivering financial returns as they provide wider social and environmental benefits such as:

- Reducing an investors carbon footprint;
- Stability of power infrastructure systems (e.g. National Grid);
- Reducing energy wastage; and
- Providing a power supply framework in which less predictable, green sources of power such as wind and solar can operate.

Active engagement from investors and managers can influence companies' and developers' behaviours to deliver specific ESG goals or 'impacts' from their investors. Research indicates that investment strategies dynamically targeting investments with improving ESG goals have outperformed strategies that focus on static ESG criteria. Traditionally, active engagement meant selecting investments or managers with a stated philosophy of making sustainable investments or even just avoiding flagged 'negative' sectors such as extractive industries, oil and gas or tobacco. However, the asset management industry is evolving with the growing demand for impact and ESG investments and fund managers are starting to offer a more dynamic approach to funds. For example, an investor in a Limited Partnership that is focused on UK infrastructure could allocate additional capital on a deal-by-deal basis to projects that have specific relevance to their ESG objectives, for example at the local-community or regional level.

*MSCI ESG Research 'Optimising Environmental, Social and Governance Factors in Portfolio Construction' by Nagy, Cogan and Sinnreich (2012)

The ESG policy is set out in seven principles:

- Encourage a work environment which values and respects all employees;
- Incorporate ESG considerations into all investment analysis and decision-making processes where relevant;
- Ensure Group-wide awareness of ESG issues and compliance with the Group ESG policy;
- Adopt a responsible and ethical approach to governance;
- Promote awareness and adoption of ESG considerations;
- Inform our investors of this ESG policy and provide them with information on our approach to ESG issues; and
- Signatory of UNPRI (United Nations Principles for Responsible Investment). These are based on accepted international conventions, which are targeted corporate investors, while the UN Global Compact deals with the individual company's position on human rights, labour, environment and corruption.

CORPORATE GOVERNANCE

LEADERSHIP AND EFFECTIVENESS

Governance

DIRECTORS

ANTHONY TOWNSEND
Independent, Non-Executive Chairman (age 70)

ANTHONY DALWOOD
Chief Executive Officer (age 47)

KEVIN ACTON
Finance Director (age 40)

EXPERIENCE AND SKILLS

Anthony Townsend

Anthony has spent over 40 years working in the City of London and was Chairman of the Association of Investment Companies from 2001 to 2003. He is Chairman of Baronsmead Second Venture Trust plc, F&C Global Smaller Companies plc, Finsbury Growth & Income Trust plc and Miton Global Opportunities Trust plc.

He was a Director of Brit Insurance Holdings plc from 1999 to 2008 and represented it on the Council of Lloyd's of London from 2006 to 2008. He was Managing Director of Finsbury Asset Management Limited from 1988 to 1998. He was a Non-Executive Director of Worldwide Healthcare Trust plc from 1995 to 2013 and retired as a Chairman of British & American Investment Trust plc on 31 December 2017. Anthony is currently Chairman of the Remuneration Committee and a member of the Audit Committee.

R A

Anthony Dalwood

Tony is an experienced investor and adviser to public and private equity businesses. Tony established SVG Investment Managers (a subsidiary of SVG Capital plc) and acted as CEO and Chairman of this entity, and launched Strategic Equity Capital plc. His previous appointments include CEO of SVG Advisers (formerly Schroders Ventures (London) Limited), membership of the UK Investment Committee of UBS Phillips & Drew Fund Management (PDFM) and the board of Schroders Private Equity Funds.

He is currently the Chairman of the Investment Panel and board member of the London Pensions Fund Authority, a Director of JPEL plc and a Director of Branton Capital. He is also a member of the CFA (UK) and adviser to St. Edmunds College, Cambridge Endowment Fund.

Kevin Acton

Kevin is the Finance Director for Gresham House plc and has over 15 years of finance and operational experience in private equity and asset management. Kevin joined Gresham House from Oaktree Capital Management where he was a Senior Vice President responsible for finance and operations in the European principal team covering private equity and debt opportunity funds. Prior to joining Oaktree, Kevin was Director, Group Reporting and Valuations for 3i Group plc. Kevin qualified as a Chartered Accountant with Deloitte and is a fellow of the Institute of Chartered Accountants of England and Wales.

A – AUDIT
R – REMUNERATION
– CHAIR OF COMMITTEE

DIRECTORS

RACHEL BEAGLES

Non-Executive Director – to be appointed 1 March 2018 (age 50)

Rachel has agreed to join the Company as Non-Executive Director on 1 March 2018. Rachel is currently Chairman of the Association of Investment Companies, and Securities Trust of Scotland plc, and also Senior Independent Director of both the Aberdeen New India Investment Trust plc and BlackRock Emerging Europe plc, where she also chairs the audit committee. Previously, she has been Vice-Chairman of Newlon Housing Trust and a Non-Executive Director and Audit Committee Chair of Crown Place VCT plc and Schroder UK Mid Cap Fund plc. Prior to this, Rachel was a Managing Director and Co-Head of the pan-European banks equity research and sales team at Deutsche Bank's corporate and investment banking division, following a period as a Director of Bankers Trust International.

R A

RICHARD CHADWICK

Non-Executive Director (age 66)

Richard is a chartered accountant who was appointed to the Board of the Company on 17 June 2008 as a Non-Executive Director. Richard spent 27 years within the J Sainsbury plc group of companies where he gained considerable experience of property development and financing, having been Director of Corporate Finance and of business development, and a Non-Executive Director of the group's property development company. Richard is a current member of both the Audit and Remuneration Committees and recently took on the role of Audit Committee Chairman and Senior Independent Director.

R A

SIMON STILWELL

Non-Executive Director (age 49)

Simon joined the Company as Non-Executive Director on 18 December 2017. Simon has over 20 years' experience in the City and was, until 2015, Chief Executive of Liberum, the investment bank that he co-founded in 2007. Prior to Liberum, Simon was head of sales for small companies at Collins Stewart plc and was also a Director at Beeson Gregory Limited. Simon is presently a member of both the Remuneration and Audit committees, and CEO of Vitesse Media Plc, an AIM listed digital media and events business.

R A

PETER MOON

Senior Non-Executive Director - resigned 31 December 2017 (age 68)

Peter started working in the City of London in 1972 and worked as an investment analyst and fund manager in a number of roles in unit and investment trusts, insurance and finally pension schemes. The last 25 years of his career were spent as the investment manager of the British Airways Pensions Scheme and Chief Investment Officer of the Universities Superannuation Scheme.

He is currently a Director of Scottish American Investment Company and First Property Group and Bell Potter Securities Limited. Peter was Chairman of the Audit Committee and a member of the Remuneration Committee. He retired from the Company on 31 December 2017.

R A

Details of Directors' emoluments together with the Directors' interests in shares are provided in the Remuneration Report. There were no contracts of significance in which the Directors had a material interest.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

CORPORATE GOVERNANCE IS AT THE HEART OF THIS ORGANISATION TO MAINTAIN INTEGRITY AND DELIVER VALUE FOR SHAREHOLDERS AND CLIENTS

ANTHONY TOWNSEND CHAIRMAN

As Gresham House plc is listed on the Alternative Investment Market it is not required to comply with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 ("the UK Code"). However, the Board recognises the importance of sound corporate governance and intends to comply with the Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA Code") as published by the Quoted Companies Alliance ("QCA") insofar as reasonably practicable given the Company's nature and size. The QCA Code was devised by the QCA in consultation with a number of significant institutional small company investors as an alternative corporate governance code to the UK Code, applicable to, and more suitable for, many AIM companies.

This report sets out the procedures and systems currently in place and explains why the Board considers them effective.

THE BOARD

The Board currently comprises two Executive and three Non-Executive Directors as described on page 32.

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 communications. 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 2017. 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 followed. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole. Richard Chadwick is the Senior Independent Director.

The Board has established three Committees to deal with specific aspects of the Group's affairs: Audit, Remuneration and Investment Committees.

INDEPENDENCE OF THE DIRECTORS

The QCA Code requires the Company to have at least two independent non-executive directors. In judging independence, the Board takes into account whether or not a director is independent of management and any business or other relationship that could affect or interfere with the exercise of objective judgement by that director, or his/her ability to act in the best interests of the Company and its subsidiaries. Using these criteria, the Board considers Anthony Townsend, Simon Stilwell and Richard Chadwick to be independent.

TENURE

All directors are subject to re-election by shareholders at the first AGM following their

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

appointment and, thereafter, are subject to retirement by rotation and re-election by shareholders in accordance with the Articles of Association whereby one third of the directors retire every year, or where their number is not a multiple of three, then the number constituting at least one third retire from office. Notwithstanding the foregoing, every director shall retire who was not appointed at either of the two previous annual general meetings and who has served for more than two years since his/her appointment or last reappointment. Directors are not appointed for specified terms nor have any automatic right of re-appointment.

The directors retiring in accordance with the Company's Articles of Association are Simon Stilwell and Anthony Townsend. The Chairman has carefully considered the position of each of the directors and considers their contribution to be significant and effective; accordingly, he recommends their election and re-election. The Chairman also recommends the election of Rachel Beagles who will be appointed as a non-executive director on 1 March 2018.

The Chairman has introduced a formal Board evaluation process and is satisfied that each director contributes effectively to their role.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Board 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 ten Board meetings, three 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:

AUDIT COMMITTEE

The Audit Committee, which was chaired by Peter Moon and will be chaired in the future by Richard Chadwick, operates within

BOARD OVERVIEW

	Board	Remuneration Committee	Audit Committee
Anthony Townsend	10*	1*	3
Anthony Dalwood	10	–	–
Kevin Acton	10	–	–
Richard Chadwick	9	1	3
Peter Moon**	10	1	3*
Simon Stilwell***	–	–	–

* Denotes Committee Chair.
** Resigned on 31 December 2017.
***Appointed on 18 December 2017.

OUR CORPORATE GOVERNANCE FRAMEWORK

THE BOARD

The Board has established three committees to deal with specific aspects of the Group's affairs: Audit, Remuneration and Investment Committees.

AUDIT COMMITTEE

Peter Moon (Chairman – resigned 31 December 2018)

Anthony Townsend

Richard Chadwick

Simon Stilwell (from 18 December 2017)

Rachel Beagles (to be appointed 1 March 2018)

Read more on page 36

REMUNERATION COMMITTEE

Anthony Townsend (Chairman)

Peter Moon (resigned 31 December 2018)

Richard Chadwick

Simon Stilwell (from 18 December 2017)

Rachel Beagles (to be appointed 1 March 2018)

Read more on page 37

INVESTMENT COMMITTEE

Anthony Dalwood (Chairman)

Bruce Carnegie Brown

Rupert Robinson

Read more on page 37

defined terms of reference and comprises the three Non-Executive Directors of the Company. The specific responsibilities of the Audit Committee include a review of the Group's annual and half yearly results, a review of internal and financial controls applicable to the Group, the terms of appointment of the auditor together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non-audit services by the auditor. It also provides a forum through which the auditor may report to the Board and is scheduled to meet normally at least twice a year.

The Audit Committee is responsible for considering and reporting any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to shareholders in respect of the audit of the financial statements for the year ended 31 December 2017.

The key areas of risk that have been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company are as follows:

- Accounting for investment in Gresham House Strategic plc;
- Accounting for the acquisition of the Hazel Capital business;
- British Strategic Investment Fund distributor fees;
- Revenue recognition, performance and management fees; and
- Valuation of unlisted securities.

Accounting for investment in Gresham House Strategic plc

The Board remains satisfied that the Group did not exercise control over GHS (which has an independent board with no company board representations and our stake and investment management agreement does not give rise to control).

Nonetheless, because of the close relationship between GHAM and GHS, the Board has concluded that the Group does exercise significant influence over GHS. As a result of this, it remains appropriate to account for our stake in GHS as an associate of the Group. The stake in GHS was acquired in August 2015, however, the requirement to account for GHS as an associate arose with effect from 23 November 2015, the date of the acquisition of Aitchesse Limited, from which date the Company ceased being an investing company and became an operating company which resulted in a reassessment of the accounting for all such equity investments. The Board concluded that the Company continues to have significant influence over GHS.

Accounting for the acquisition of the Hazel Capital business

On 31 October 2017, the Group announced the acquisition of the Hazel Capital business, through the purchase of management contracts and master service agreements, as well as the employment of the Hazel Capital team. The team hired have formed the Group's latest strategy, the New Energy strategy, focused on renewable energy asset management. The New Energy strategy is part of the Group's Real Assets division.

The contracts purchased have been fair valued and the difference between this and the consideration paid of £600k has been accordingly classified as goodwill. Revenues from the contracts have been recognised with effect from 31 October 2017 along with the associated costs of the team and providing the management services of these contracts.

A long-term incentive plan ("LTIP") has been put in place for the New Energy management team. This has been assessed with reference to IFRS3 to confirm that this is deemed a remuneration arrangement and not part of consideration for the business.

British Strategic Investment Fund ("BSIF") distributor fees

The British Strategic Investment Fund, a Limited Partnership, had its first successful close on 16 June 2017 and finished the year with £165 million of committed capital. The Group used a distribution agent to commit the Royal County of Berkshire Pension Fund to BSIF, which has a distribution fee for introducing an investor to the fund.

The distributor is required to provide a service from the date the investor commits to the fund, up until the final capital drawdown during the investment period. As such, the distributor fee has been amortised over the service period. The service period has been assessed with reference to the expected size of the fund at final close on 31 December 2018 and the pipeline of investments expected to be executed over the three-year investment period of the fund from final close. As at 31 December 2017, it was estimated that the fund would be fully invested within three years from 31 December 2017 and as such with the investor committing to the fund on 16 June 2017, the service period has been estimated at three and a half years and the distributor fee recognised on a straight-line basis over the service period. The service period will be monitored as the fund has its final close.

Revenue recognition, performance and management fees

The revenue recognition of the Group is driven by asset management fees, which are recognised in line with the investment management or advisory agreements in place with the appropriate funds. These are typically based on the committed capital of Limited Partnership funds, or Net Asset Values ("NAV") for listed vehicles managed or advised by the Group. The NAV is typically the last audited or publicly available NAV announced by the Board of these companies and is therefore independently approved. Limited partnerships and other fund management fees are typically based on committed capital, or an independent valuation where appropriate. Performance fees are recognised only when the Group is entitled to receive the performance fee per the management contract.

Valuation of unlisted securities

Investment valuations have been performed consistently with prior periods and in accordance with industry guidelines as detailed in Principal Accounting Policy (j) (iii).

Having challenged management on the assumptions used, the Audit Committee confirm that they are not aware of any material misstatements, satisfied that the key areas of risk and judgement have been addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

NON-AUDIT SERVICES

Non-audit services provided by the external auditor are reviewed by the Audit Committee to ensure that independence and objectivity is monitored by way of assessment and consideration of any potential threats to auditor independence. Details of the fees paid to the auditor for audit services, audit related services and other non-audit services are shown in note 3 of these financial statements.

Having regard to all the relevant factors, the Audit Committee has recommended to the

Board that in the normal course of events and subject to shareholder approval at the 2018 AGM, BDO LLP be reappointed as external auditor of the Company and Group for the forthcoming year.

REMUNERATION COMMITTEE

The Remuneration Committee is also a formally constituted Committee of the Board with defined terms of reference. It consists of the three Non-Executive Directors under the chairmanship of Anthony Townsend. The other members of the committee were Peter Moon and Richard Chadwick. Simon Stilwell replaced Peter Moon as member of the Remuneration Committee following Peter Moon's retirement from the Board on 31 December 2017. The Committee is responsible for reviewing the performance of the executive directors and to set the scale and structure of their remuneration and the basis of their service agreements, and meets at least annually. The Committee is also responsible for recommending the allocation of long-term incentive arrangements to employees. Responsibility for setting the remuneration of senior staff will sit with the executive directors mindful of the policies being set by the Remuneration Committee.

Further information can be found in the Remuneration Report.

INVESTMENT COMMITTEE

The Investment Committee is chaired by Anthony Dalwood with the other members being three experienced investment management professionals. The purpose of the Investment Committee is to promote and maintain a prudent and effective allocation of capital across the Company's balance sheet capital and meets on a regular basis as and when required. All investment decisions require the following approvals:

— Investments below 2% of NAV requires the approval of an executive director;

— Investments between 2% and 5% of NAV require a majority approval of the Investment Committee; and

— Investments above 5% of NAV require unanimous approval of the Investment Committee.

ADVISORY GROUP

The Company has developed an Advisory Group of experienced business people to act as advisers, deal introducers and business counsellors. They will be available to provide industry insights for our investment appraisals and support for investee companies working alongside the Investment Committee.

NOMINATION COMMITTEE

The Company has not established a Nomination Committee. 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.

INTERNAL CONTROLS

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. These procedures include an annual review of the significant risks faced by the Group and an assessment of their potential impact and likelihood of occurrence. The Board takes advice from external advisors where considered necessary including where any significant transaction is being considered. The Board is satisfied with the effectiveness of internal controls but, by their very nature, these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function and has concluded 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.

SHARE CAPITAL AND VOTING RIGHTS

As at 1 January 2017 and 31 December 2017 there were 10,185,487 and 12,536,957 ordinary shares respectively in issue with a nominal value of 25p each. The ordinary shares are quoted on the Alternative Investment Market of the London Stock Exchange.

Details of substantial shareholdings and control can be found in the Directors' Report. The voting rights of shareholders are as follows:

Each shareholder has the right to:

- Participate in distributions of profits in proportion to the nominal capital paid up on the shares held;
- One vote on a show of hands, and on a poll one vote per share held, at a general meeting of the Company. A member entitled to more than one vote need not cast all votes the same way;
- A dividend subject to the discretion of the directors of the Company, apportioned and paid proportionately to the amounts paid up on the shares; and
- In the event of a winding up of the Company the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of regular and effective communication with shareholders. The primary forms of communication are:

- The annual and interim financial statements;
- Announcements released to the London Stock Exchange;
- The annual and any general meetings; and
- Regular face to face meetings with major shareholders and management.

REMUNERATION COMMITTEE

The Remuneration Committee consists of the three Non-Executive Directors of the Company under the chairmanship of Anthony Townsend. The Committee meets at least annually and is responsible for determining the terms of service and remuneration of the executive directors.

The Committee's main roles and responsibilities are to review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders.

In determining the remuneration of executive directors, the Committee will seek to enable the Company to attract and retain executives of the highest calibre. The Committee will also make recommendations to the full Board concerning the incentivisation of employees through long-term equity incentive schemes.

No director is permitted to participate in discussions or decisions concerning their own remuneration.

The full Board of directors are responsible for determining the level of fees paid to the Non-Executive Directors. Non-Executive Directors are not eligible for long-term incentive schemes.

DIRECTORS' SHARE INTERESTS

The beneficial interests of the directors who served during the year and their connected persons in the ordinary share capital of the Company as at 31 December 2017 are set out below:

	2017 Number of shares	2016 Number of shares
Anthony Townsend	**34,855**	34,855
Anthony Dalwood	**241,784**	209,133
Peter Moon*	**34,855**	34,855
Kevin Acton	**13,237**	1,587

*Resigned 31 December 2017.

In addition, the following directors who served during the year held supporter warrants. Each supporter warrant will entitle the holder to subscribe for one ordinary share at an exercise price of 323.27 pence exercisable at any time between 1 December 2015 and 31 December 2019.

	2017 Number of shares	2016 Number of shares
Anthony Townsend	**34,000**	34,000
Anthony Dalwood	**212,500**	212,500
Peter Moon*	**29,750**	29,750

*Resigned 31 December 2017.

Further details of the supporter warrants can be found in note 26 to these financial statements.

Directors' service contracts are governed by the following policies:

(a) The notice period required by either the Company or the director to terminate the contract is 12 months for Anthony Dalwood, six months for Kevin Acton and three months for Anthony Townsend, Simon Stilwell and Richard Chadwick;

(b) In the event that a Non-Executive Director is not re-elected by shareholders in accordance with the Articles of Association his/her appointment shall terminate with immediate effect and the individual is entitled to payment in lieu of notice being the maximum notice period in his/her contract;

(c) In the event of termination for events as specified in the contract including negligence and incompetence in the performance of his/her duties, misconduct and serious breaches of the rules of the FCA, then the Company may terminate employment summarily without any payment in lieu of notice; and

(d) A discretionary bonus scheme was introduced by the Company in 2015 and all executive directors are eligible to participate in such a scheme.

REMUNERATION POLICY

The Remuneration Committee reviews the Company's remuneration philosophy and structure to ensure that the remuneration framework remains effective in supporting the Company's business objectives, in line with best practice, and fairly rewards individuals for the contribution that they make to the business, having regard to the size and complexity of the Group's operations and the need to retain, motivate and attract employees of the highest calibre.

The Remuneration Committee intends that base salary and total remuneration of executive directors should be in line with the market. Remuneration is benchmarked against rewards available for equivalent roles in a suitable comparator group with the aim of paying neither significantly above nor below the median for each element of remuneration. The Committee also considers general pay and employment conditions of all employees within the Group and is sensitive to those, to prevailing market conditions, and to governance trends when assessing the level of salaries and remuneration packages of executive directors.

The total remuneration package links corporate and individual performance with an appropriate balance between short and long-term elements, and fixed and variable components. The policy is designed to incentivise executives to meet the Company's strategic objectives, such that a significant portion of total remuneration is performance related. The current remuneration of executive directors comprises the following five components:

- Basic salary;
- Pension arrangements (only basic salary is pensionable);
- Annual bonus;
- Bonus share matching plan; and
- Long-term incentive plans.

BASIC SALARY
Basic salary represents a value which reflects the Remuneration Committee's assessment of the market rate for relevant positions and the individual director's experience and value to the business.

PENSIONS
The Company provides for the auto-enrolment into a pension scheme for the benefit of directors or employees. A contribution to pension or equivalent schemes remains an entitlement of all employees, in the instance an employee 'opts out', arrangements are in place to ensure the Company makes appropriate contributions.

ANNUAL BONUS
The Company operates a discretionary bonus scheme which provides for a performance related bonus based on the Group's results and, in certain cases, the result of the relevant businesses for which they may be responsible. The individual targets for the executive directors are established by the Remuneration Committee with a view to maximising shareholder value and meeting other Group objectives.

The Chairman and the Non-Executive Directors are not eligible to participate in this bonus scheme.

BONUS SHARE MATCHING PLAN
The Company introduced in 2016 a share matching plan linked to the discretionary annual bonus scheme to encourage management to invest in the long-term growth of the Company.

Subject to Remuneration Committee approval, management and employees entitled to a bonus may be permitted (but not required) to defer and reinvest up to 100% of their annual bonus into ordinary shares which will be released to them after three years together with any additional matching shares subject to performance criteria set out below. In 2017 the Remuneration Committee approved the reinvestment of up to 50% of annual bonuses into ordinary shares by management and employees (2016: 50%).

In the event that the Company achieves a mid-market closing price equal to 7% per annum compound growth from the date of deferral, the participants will receive 50% of the matching shares benefit. In the event that the Company's share price outperforms the FTSE All Share Index from the date of deferral, the participant will receive 50% of the matching shares.

Shares will be awarded in the ratio of one share for each share invested. In the event that this performance condition is not met, the participants will receive only the ordinary shares acquired with the deferred bonus.

In total, the Company proposes that the total ordinary shares issued and issuable in satisfaction of the incentive arrangements and pursuant to the exercise of supporter warrants will not exceed 20% of the Company's total issued share capital.

LONG-TERM INCENTIVE PLAN
On 28 July 2016, the Company implemented a long-term incentive plan to align management with the interests of shareholders. These arrangements only reward the participants if shareholder value is created.

For the purposes of the plan, "shareholder value" shall broadly mean the difference between the market capitalisation of the Company at the point in time that any assessment is made and the sum of:

(i) the market capitalisation of the Company a) at 1 December 2014 for first awards made to management who joined the Company before 30 September 2015; and b) at the date of award in all other cases; and

(ii) the aggregate value (at the subscription price) of all ordinary shares issued thereafter and up to the point in time that any assessment is made, in each case adjusted for dividends and capital returns to shareholders and/or issue of new shares.

The beneficiaries of the plan will in aggregate be entitled to an amount of up to 20% of shareholder value (as defined above) created, subject to the performance criteria set out below. Individual participation in the shareholder value created is determined by the Remuneration Committee in respect of the executive directors.

There are certain hurdles the Company's share price has to achieve before an award vests.

In the event that the Company achieves an average mid-market closing price equal to compound growth at 7% per annum for a period of 10 consecutive dealing days in the period after 1 December 2016 for first awards to management who joined the Company before 30 September 2015 and from the second anniversary of the date of award in all other cases, 50% of the award will vest.

In the event that the share price of the Company outperforms the FTSE All Share Index in the period after 1 December 2016, and from the second anniversary of the date of the award in all other cases, 50% of the award will vest.

Each award requires a minimum term of employment of three years and awards are made to current management and new joiners at the Company's discretion.

DIRECTORS' EMOLUMENTS

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

Year ended 31 December 2017	Basic salary £'000	Fees £'000	Benefits £'000	Bonuses £'000	Deferred bonuses £'000	Pensions £'000	Share based payments £'000	2017 £'000
Executive:								
Anthony Dalwood (i)	**185**	**–**	**2**	**110**	**110**	**19**	**33**	**459**
Kevin Acton	**160**	**–**	**2**	**75**	**20**	**16**	**9**	**282**
Non-Executive:								
Anthony Townsend	**50**	**–**	**–**	**–**	**–**	**–**	**–**	**50**
Peter Moon (ii)	**25**	**–**	**–**	**–**	**–**	**–**	**–**	**25**
Richard Chadwick (iii)	**5**	**15**	**–**	**–**	**–**	**–**	**–**	**20**
Simon Stilwell (iv)	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Total	**426**	**15**	**4**	**185**	**130**	**35**	**42**	**837**

(i) Payments have been made in lieu of contribution towards pension scheme.
(ii) Resigned 31 December 2017.
(iii) Fees paid to Richard Chadwick have been paid to a business in which he has a material interest.
(iv) Appointed 18 December 2017.

Year ended 31 December 2016	Basic salary £'000	Fees £'000	Benefits £'000	Bonuses £'000	Deferred bonuses £'000	Pensions £'000	Share based payments £'000	2016 £'000
Executive:								
Anthony Dalwood (iv)	185	–	3	101	101	18	25	433
Michael Phillips (i), (iv)	165	–	2	110	–	16	19	312
Kevin Acton (ii)	86	–	1	41	41	9	1	179
Non-Executive:								
Anthony Townsend	50	–	–	–	–	–	–	50
Peter Moon	25	–	–	–	–	–	–	25
Richard Chadwick (iii)	–	20	–	–	–	–	–	20
Total	511	20	6	252	142	43	45	1,019

(i) Resigned 31 December 2016.
(ii) Appointed 6 June 2016.
(iii) Fees paid to Richard Chadwick have been paid to a business in which he has a material interest.
(iv) Payments have been made in lieu of contribution towards pension scheme.

On behalf of the Board,

ANTHONY TOWNSEND
CHAIRMAN, REMUNERATION COMMITTEE
28 February 2018

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The Group Statement of Comprehensive Income is set out on page 48 and shows the results for the year ended 31 December 2017.

The directors recommend that no final dividend for the year ended 31 December 2017 be paid as a result of the losses incurred by the Company during the year (2016: nil).

PRINCIPAL ACTIVITIES, REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The review of the business and a summary of future developments are included in the Chairman's Statement on pages 6 to 7 and the Chief Executive's Report on pages 8 to 11.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group are explained in the Risk Management section on pages 25 to 29.

DIRECTORS

The present directors are listed on page 32 together with brief biographical details. The directors who served during the period under review were:-

Anthony Townsend	Non–Executive Chairman
Anthony Dalwood	Chief Executive
Kevin Acton	Finance Director
Richard Chadwick	Non-Executive
Peter Moon	Non-Executive (resigned 31 December 2017)
Simon Stilwell	Non-Executive (appointed 18 December 2017)
Rachel Beagles	Non-Executive (to be appointed 1 March 2018)

In accordance with the Company's Articles of Association Anthony Townsend will stand for re-election and Simon Stilwell and Rachel Beagles will stand for election at the forthcoming Annual General Meeting of the Company.

The Board confirms that the performance of each of the directors seeking re-election or election continues to be effective and demonstrates commitment to the role, and the Board believes that it is therefore in the best interests of shareholders that the directors be re-elected or elected.

DIRECTORS' INDEMNITY

The Company has, as permitted by the Companies Act 2006 and the Company's Articles of Association, maintained a directors' and officers' liability insurance policy on behalf of the directors, indemnifying them in respect of certain liabilities which may be incurred by them in connection with the activities of the Company. This policy does not provide cover for fraudulent or dishonest actions by the directors.

SUBSTANTIAL INTERESTS

As at 31 December 2017 the following substantial interests representing 3% or more of the total voting rights of the Company have been notified to the Company:

Beneficial shareholder	Number of shares	% of issued share capital
The Royal County of Berkshire Pension Fund	2,546,372	20.3
Revcap Estates 24 Limited	1,170,452	9.3
Majedie Asset Management Limited	1,125,438	9.0
LMS Capital plc	801,985	6.4
The Estate of A P Stirling	784,224	6.3
River & Mercantile Asset Management LLP	752,683	6.0
Saffie Investments Ltd	520,000	4.2
Alliance Trust	432,163	3.5

COMPANIES ACT 2006 DISCLOSURES

In accordance with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 the directors disclose the following information:

– The structure of the Company's capital is summarised in notes 25 and 26. 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 voting rights that the Company is aware of, nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;

– There exist no securities carrying special rights with regard to the control of the Company;

– The provisions concerning the appointment and replacement of directors are contained in the Company's Articles of Association and the Companies Act 2006;

- No agreements exist to which the Company is a party that may affect its control following a takeover bid; and
- There are no agreements in place between the Company and its directors providing for compensation for loss of office in the event of the Company being taken over.

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company's financial risk management objectives can be found in note 31 of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and have elected to prepare the parent company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the directors are required to:

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

WEBSITE PUBLICATION

The directors are responsible for ensuring the Annual Report and the financial statements are made available on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

AUDITOR'S RIGHT TO INFORMATION

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

POST BALANCE SHEET EVENTS

Details of events that have taken place after the period end can be found in note 34.

GOING CONCERN

After making enquiries, the directors have formed a judgement that at the time of approving the financial statements, there is a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis in preparing the financial statements.

SHARE QUOTE

The Group's ordinary shares and shareholder warrants are quoted on the Alternative Investment Market of the London Stock Exchange.

SHARE CAPITAL

Changes to share capital during the period are shown in note 25 to the financial statements.

By Order of the Board,

JOHN-PAUL PRESTON
SECRETARY

28 February 2018

5 New Street Square
London EC4A 3TW

FINANCIAL STATEMENTS

Financial Statements

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

OPINION

We have audited the financial statements of Gresham House plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Group statement of comprehensive income, the Group and Company statements of financial position, the Group and Company statements of changes in equity, the Group and Company statements of cash flows, principal accounting policies and notes to the financial statements.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ('UK) (ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

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

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW IT WAS ADDRESSED
Asset management income recognition – £5.8 million (2016: £3.2 million) The principal risk of fraud and manual error comes from the ability to manipulate the results through the inappropriate recognition of revenue based on overstatement of the net asset value (the 'NAV') of assets under management. Income may also be overstated by manipulation of the percentage used for the calculation of asset management income. The accounting policy for revenue is disclosed in the principal accounting policies. Further information on the makeup of asset management income is included in Note 1 to the financial statements.	We obtained an understanding of the controls and processes for asset management income recognition. We recalculated the annual asset management income in accordance with the underlying signed asset management agreements and valuation reports. On a sample basis, we traced monthly asset management income from the general ledger to supporting invoices and cash receipts. On a sample basis, we traced the NAV to third party sources such as London Stock Exchange data or independent valuation reports to ensure asset management income was calculated on an appropriate NAV. We assessed whether the disclosures relating to income were appropriate and in line with the principal accounting policies.
Valuation and impairment of unlisted investment - £1.9 million (2016: £2.3 million) Investments in unlisted securities comprise primarily of unlisted investments (carried at fair value) and loans and receivables (accounted for at amortised costs). The Group holds unlisted investments including investments for which the underlying assets are of a specialised nature. The valuation of the Group's unlisted investments require significant judgement to be applied, including in the valuation models used, and require well documented reasoning to support the judgements made. In some cases, third party expert valuations were utilised to support management's judgements. There is a risk that the unlisted investments may be incorrectly valued or impaired. There is a risk that loans and receivables may be impaired if future underlying cash flows of the borrower does not support the carrying value of the loans and receivables. The accounting policy for the valuation and impairment of unlisted investments is disclosed in the principal accounting policies.	We obtained and challenged management's assessment of the valuation and impairment of unlisted investments. For specialised equity assets, we obtained the third party valuations used to support management's valuation assessment. We assessed whether the experts engaged for the valuations were appropriately qualified in accordance with IAS 39 requirements. We also confirmed that the recent purchase price of a specialised asset was aligned to the valuation of the specialised assets used in the financial statements. For assets held at amortised cost we obtained and challenged management's assessment of impairment. Our procedures included challenge of the third party report supporting management's impairment judgement.
Accounting for Hazel business combination In November 2017, the Group announced the acquisition of the renewable energy asset management business of Hazel Capital LLP ('Hazel'). The cash consideration for the acquisition was £0.6 million. The same contract also included terms for the investment in battery storage projects once certain clauses had been met. Additionally, management also set the terms of a new Long-Term Incentive Plan ('LTIP') agreement for the management team joining Gresham from Hazel. Due to the multiplicity of the acquisition agreement, there was a risk that firstly, the purchase should have been treated as a consolidation of a subsidiary rather than the purchase of specific assets of Hazel. Secondly, there was a risk that the LTIP issued to the Hazel management team represented part of the consideration for the business of Hazel rather than post acquisition remuneration and finally that the agreement to invest in battery storage projects should have been reflected as investments in the statement of financial position as at 31 December 2017. Further information on the Hazel acquisition is included in Note 5 to the financial statements.	We critically assessed the signed business purchase agreement to confirm the specific details of the transaction and developed our own view of the appropriate accounting treatment. We assessed whether the business purchase agreement for a stake in the battery storage projects represented a separate transaction and whether an obligation existed that would require disclosure within the financial statements. We challenged management's assessment of whether the LTIP represented part of the consideration for the Hazel Capital LLP business combination under IFRS 3 Business Combination. We challenged the appropriateness of the inputs and assumptions used to calculate the fair value of the two intangible assets acquired, namely, management contracts and master service agreements. We confirmed the arithmetical accuracy of the valuation model used. We considered the appropriateness of the accounting disclosure in accordance with IFRS 3.
Accounting for distribution fees Gresham House British Strategic Investment Fund LP ("BSIF") was launched on the 16 June 2017 to invest in housing and infrastructure assets. Gresham House Asset Management Limited ("GHAM"), a subsidiary of the Group, used an external agent to manage the committed investment by The Royal County of Berkshire Pension Fund into BSIF. A signed distribution agreement between GHAM and the agent reflects the performance requirements of the agent. The agreement also sets out the timing of the fee payment by GHAM to the agent which does not match the expected timing of the performance requirements. There is a risk that the agent's fee will not be accounted for appropriately. Specifically, whether the entire fee, which is material, should be recognised as an expense in the statement of comprehensive income in the year ended 31 December 2017 or whether it should be spread over a period. If the latter, then there is a risk that the period chosen does not adequately reflect the expected performance period of the agent outlined in the agreement. The accounting policy is disclosed in the principal accounting policies.	We have obtained the signed agreement to confirm the specific details of the consideration to be paid and performance requirements. We have critically evaluated management's recognition of the distributor's fee with reference to the performance requirements within the agreement. We challenged management's assessment of the performance period with reference to the investment team plans and the current pipeline of investments. We have created an expectation of the fee expense to be recognised in the year based on our understanding of the contractual terms of the agreement. We compared our expectation to the amount recognised in the financial statements.

OUR APPLICATION OF MATERIALITY
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our opinion. Materiality is assessed on both quantitative and qualitative grounds.

Materiality	£500,000
Specific materiality	£100,000
Reporting threshold	£10,000

MATERIALITY
We consider materiality to be the magnitude by which misstatements, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined the materiality for the Group and Parent Company financial statements as a whole to be £500,000 (2016: £500,000), which was set at 1.5% of total assets. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that total assets would be the most appropriate basis for determining overall materiality as we consider this to be one of the principal considerations for users of the Group in assessing the financial performance of the Group.

We also determined that for other classes of transactions, balances or disclosures relating to the trading performance, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. As a result, we determined that a materiality for these areas should be £100,000 (2016: £100,000), representing 2.2% of revenue. This specific materiality applies to those items which may affect the Group's trading results (being the profit before tax excluding fair value movement on investments and investment property, amortisation and share of profit from associates).

REPORTING THRESHOLD
An amount below which identified misstatements are considered as being clearly trivial. We agreed with the Audit Committee that we would report all individual audit differences in excess of £10,000 (2016: £10,000) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates. We considered that the Group had two significant components, the Parent Company and the rest of the Group. The two components were subject to full scope audits. All work was undertaken by the Group audit team.

OTHER INFORMATION
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

MICHELLE CARROLL
(SENIOR STATUTORY AUDITOR)
For and on behalf of BDO LLP,
Statutory Auditor
55 Baker Street, London, UK

28 February 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016* £'000
Income	1		
Asset management income		**5,805**	3,202
Dividend and interest income		**431**	249
Other operating income		**221**	45
Total income		**6,457**	3,496
Operating costs			
Administrative overheads	3	**(8,021)**	(6,892)
Net operating loss before exceptional items		**(1,564)**	(3,396)
Finance costs	6	**(344)**	(442)
Exceptional items	**	**(308)**	–
Net operating loss after exceptional items		**(2,216)**	(3,838)
Gains and losses on investments:			
Share of associate's (losses)/profits	17	**(68)**	628
Losses on investments held at fair value	11	**(230)**	(147)
Movement in fair value of contingent consideration		**(56)**	(253)
Movement in fair value of deferred receivable		**148**	202
Operating loss before taxation		**(2,422)**	(3,408)
Taxation	8	**–**	33
Operating loss from continuing operations		**(2,422)**	(3,375)
(Loss)/profit from discontinued operations	7	**(1,104)**	339
Total comprehensive income		**(3,526)**	(3,036)
Attributable to:			
Equity holders of the parent		**(3,124)**	(3,027)
Non-controlling interest		**(402)**	(9)
		(3,526)	(3,036)
Basic and diluted loss per ordinary share (pence)	9	**(25.9)**	(30.3)

* Comparatives for the year ended 31 December 2016 have been restated to reflect the reclassification of the Group's legacy property activities as discontinued operations (see note 7)

** Exceptional items relate to professional fees incurred in respect of the acquisition of the Hazel Capital LLP business which took place on 31 October 2017

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2017

Group
YEAR ENDED 31 DECEMBER 2017

	Notes	Ordinary share capital £'000	Share premium £'000	Share warrant reserve £'000	Retained reserves £'000	**Equity attributable to equity share-holders £'000**	Non-controlling interest £'000	**Total equity £'000**
Balance at 31 December 2016		2,546	2,611	319	18,657	**24,133**	491	**24,624**
Comprehensive income for the year								
Loss for the year		–	–	–	(3,124)	**(3,124)**	(402)	**(3,526)**
Total comprehensive income for the year		–	–	–	(3,124)	**(3,124)**	(402)	**(3,526)**
Contributions by and distributions to owners								
Transfer of non-controlling interest deficit		–	–		(388)	**(388)**	388	**–**
Share based payments	27	–	–	–	123	**123**	–	**123**
Issue of shares	25	588	7,038	–	–	**7,626**	–	**7,626**
Total contributions by and distributions to owners		588	7,038	–	(265)	**7,361**	388	**7,749**
Balance at 31 December 2017		3,134	9,649	319	15,268	**28,370**	477	**28,847**

YEAR ENDED 31 DECEMBER 2016

	Notes	Ordinary share capital £'000	Share premium £'000	Share warrant reserve £'000	Retained reserves £'000	Equity attributable to equity share-holders £'000	Non-controlling interest £'000	Total equity £'000
Balance at 31 December 2015		2,463	1,688	64	21,611	25,826	–	25,826
Comprehensive income for the year								
Loss for the year		–	–	–	(3,027)	(3,027)	(9)	(3,036)
Total comprehensive income for the year		–	–	–	(3,027)	(3,027)	(9)	(3,036)
Contributions by and distributions to owners								
Non-controlling interest in Gresham House Friends & Family Fund LP		–	–	–	–	–	500	500
Share warrants issued	26	–	–	255	–	255	–	255
Share based payments	27	–	–	–	73	73	–	73
Issue of shares	25	83	923	–	–	1,006	–	1,006
Total contributions by and distributions to owners		83	923	255	73	1,334	500	1,834
Balance at 31 December 2016		2,546	2,611	319	18,657	24,133	491	24,624

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2017

Company

YEAR ENDED 31 DECEMBER 2017

	Notes	Ordinary share capital £'000	Share premium £'000	Share warrant reserve £'000	Retained reserves £'000	Total equity £'000
Balance at 31 December 2016		2,546	2,611	319	16,153	21,629
Comprehensive income for the year						
Loss for the year		–	–	–	(684)	(684)
Total comprehensive income for the year		–	–	–	(684)	(684)
Contributions by and distributions to owners						
Issue of shares	25	588	7,038	–	–	7,626
Total contributions by and distributions to owners		588	7,038	–	–	7,626
Balance at 31 December 2017		3,134	9,649	319	15,469	28,571

YEAR ENDED 31 DECEMBER 2016

	Notes	Ordinary share capital £'000	Share premium £'000	Share warrant reserve £'000	Retained reserves £'000	Total equity £'000
Balance at 31 December 2015		2,463	1,688	64	16,939	21,154
Comprehensive income for the year						
Loss for the year		–	–	–	(786)	(786)
Total comprehensive income for the year		–	–	–	(786)	(786)
Contributions by and distributions to owners						
Issue of shares	25	83	923	–	–	1,006
Share warrants issued	26	–	–	255	–	255
Total contributions by and distributions to owners		83	923	255	–	1,261
Balance at 31 December 2016		2,546	2,611	319	16,153	21,629

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

Assets	Notes	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Non-current assets					
Investments – securities	11	**2,989**	2,834	**1,310**	1,116
Tangible fixed assets	13	**196**	179	**51**	13
Investment in subsidiaries	16	**–**	–	**18,265**	16,292
Investment in associate	17	**6,462**	6,530	**–**	–
Intangible assets	14	**6,327**	6,630	**198**	–
Long-term receivables	15	**1,618**	4,095	**–**	–
		17,592	20,268	**19,824**	17,421
Current assets					
Trade receivables	18	**2,089**	1,259	**–**	–
Accrued income and prepaid expenses		**785**	917	**219**	219
Deferred receivable	15	**2,075**	1,139	**–**	–
Other current assets	19	**–**	–	**7,878**	9,734
Cash and cash equivalents		**9,785**	2,802	**6,484**	858
Non-current assets held for sale					
Property investments	12	**1,986**	9,628	**–**	–
Total current assets and non-current assets held for sale		**16,720**	15,745	**14,581**	10,811
Total assets		**34,312**	36,013	**34,405**	28,232
Current liabilities					
Trade and other payables	20	**5,463**	2,229	**282**	87
Short-term borrowings	21	**–**	1,015	**5,552**	1,377
		5,463	3,244	**5,834**	1,464
Total assets less current liabilities		**28,849**	32,769	**28,571**	26,768
Non-current liabilities					
Deferred taxation	22	**–**	–	**–**	–
Long-term borrowings	23	**–**	4,881	**–**	4,881
Other creditors	24	**2**	3,264	**–**	258
		2	8,145	**–**	5,139
Net assets		**28,847**	24,624	**28,571**	21,629
Capital and reserves					
Ordinary share capital	25	**3,134**	2,546	**3,134**	2,546
Share premium	28	**9,649**	2,611	**9,649**	2,611
Share warrant reserve	28	**319**	319	**319**	319
Retained reserves	28	**15,268**	18,657	**15,469**	16,153
Equity attributable to equity shareholders		**28,370**	24,133	**28,571**	21,629
Non-controlling interest	28	**477**	491	**–**	–
Total equity		**28,847**	24,624	**28,571**	21,629
Basic net asset value per ordinary share (pence)	29	**226.3**	236.9	**227.9**	212.4
Diluted net asset value per ordinary share (pence)	29	**211.2**	236.9	**224.4**	212.4

The loss after tax for the Company for the year ended 31 December 2017 was £684,000. The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 28 February 2018.

Kevin Acton
Finance Director

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Cash flow from operating activities					
Net cash utilised in operations	30		**(1,615)**		(3,337)
Corporation tax received/(paid)		**33**		(204)	
Interest paid on loans		**(236)**		(226)	
			(203)		(430)
Net cash flow from operating activities			**(1,818)**		(3,767)
Cash flow from investing activities					
Purchase of investments		**(5,177)**		(1,831)	
Sale of investments		**4,946**		918	
Sale of investment properties		**6,680**		–	
Deferred proceeds received on sale of investment properties		**1,635**		1,041	
Expenditure on investment properties		**(137)**		(353)	
Purchase of fixed assets		**(137)**		(125)	
Sale of fixed assets		**23**		37	
Purchase of intangible fixed assets		**(762)**		(148)	
			7,071		(461)
Cash flow from financing activities					
Repayment of loans		**(5,896)**		(4,454)	
Receipt of loans		**–**		6,833	
Share issue proceeds		**7,626**		6	
LMS warrants issued		**–**		255	
			1,730		2,640
Increase/(decrease) in cash and cash equivalents			**6,983**		(1,588)
Cash and cash equivalents at start of year			**2,802**		4,390
Cash and cash equivalents at end of year			**9,785**		2,802

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Cash flow from operating activities					
Net cash utilised in operations	30		**(443)**		(406)
Interest paid on loans			**(236)**		(194)
Net cash flow from operating activities			**(679)**		(600)
Cash flow from investing activities					
Purchase of investments		**(5,177)**		(581)	
Sale of investments		**4,946**		918	
Investment in subsidiary		**(1,973)**		(1,250)	
Purchase of fixed assets		**(48)**		(16)	
Purchase of intangible fixed assets		**(219)**		–	
			(2,471)		(929)
Cash flow from financing activities					
Repayment of loans		**(5,896)**		(1,604)	
Receipt of loans		**–**		6,833	
Advanced to Group undertakings		**(6,462)**		(4,789)	
Receipts from Group undertakings		**13,508**		1,314	
Share issue proceeds		**7,626**		6	
LMS warrants issued		**–**		255	
			8,776		2,015
Increase in cash and cash equivalents			**5,626**		486
Cash and cash equivalents at start of year			**858**		372
Cash and cash equivalents at end of year			**6,484**		858

PRINCIPAL ACCOUNTING POLICIES

The Group's principal accounting policies are as follows:

(a) Basis of preparation

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

The Group has considerable financial resources and ongoing investment management contracts. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective at year-end. The directors do not intend to early adopt these standards. After initial review, the directors estimate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial application, other than presentation or disclosure, and a full assessment will be conducted subsequent to the year-end:

(i) IFRS 9 Financial Instruments (effective 1 January 2018)

(ii) IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

(iii) IFRS 16 Leases (effective 1 January 2019)

(b) Basis of consolidation

Subsidiaries

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to the year-end as if they formed a single entity. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates

Where the Group has significant influence, it has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the Group Statement of Financial Position at cost. Subsequently, associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the Group Statement of Comprehensive Income.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment will be tested for impairment in the same way as other non-financial assets.

(c) Presentation of Statement of Comprehensive Income

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. Details of the Company's results for the year are set out in note 28, the loss for the year being £684,000 (2016: £786,000).

(d) Segment reporting

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

The Group's reportable segments, which are those reported to the Board are Real Assets, Strategic Equity and Central.

PRINCIPAL ACCOUNTING POLICIES

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable is stated net of value added tax and is earned within the United Kingdom.

(i) Asset management income

Revenue represents management and advisory fees for the provision of fund management and forestry management services and is recognised in the Statement of Comprehensive Income when the services are performed net of VAT.

(ii) Rental income

Rental income comprises property rental income receivable net of VAT, recognised on a straight-line basis over the lease term and excludes service charges recoverable from the tenant.

(iii) Dividend and interest income

Income from listed securities is recognised when the right to receive the dividend has been established. Interest receivable is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Interest income is accrued on a time basis by reference to the principal outstanding.

(iv) Performance fees

Performance fees will be recognised on the date of entitlement in accordance with the management contract.

(f) Expenses

All expenses and interest payable are accounted for on an accruals basis.

(g) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

The carrying amount of property, plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal.

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their estimated useful lives to the Group commencing from the time the asset is held ready for use, and are depreciated at the following rates:

Office equipment	25%
Motor vehicles	25%
Leasehold property	10%

(h) Taxation

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

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

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

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

PRINCIPAL ACCOUNTING POLICIES

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

(i) Operating leases and hire purchase contracts

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

(j) Investments

Financial assets designated as at fair value through profit and loss ("FVTPL") 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. All equity investments that were previously classified as held at fair value through profit or loss have been reassessed as at the date the Company became a trading company. The equity investments which do not meet the definitions of an associate or subsidiary remain held at fair value through profit and loss.

(i) Properties

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

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

(ii) Assets held for sale

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell (except where the exemptions of paragraph 5 of IFRS 5 apply) and are classified as such if their carrying amount will be recovered through a sale transaction rather than through continuing use. Investment property that is held for sale is measured at fair value in accordance with paragraph 5 of IFRS 5.

This is the case when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the sale is considered to be highly probable. A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset and a further active programme to locate a buyer and complete the plan has been initiated. Further, the asset has to be marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale is expected to qualify for recognition as a completed sale within one year from the date that it is classified as held for sale.

(iii) Securities

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

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

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

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

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

PRINCIPAL ACCOUNTING POLICIES

(iv) Loans and receivables
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 both the amortised cost relating to the interest income and in respect of capital provisions are reflected in the Statement of Comprehensive Income. Loan stock accrued interest is recognised in the Statement of Financial Position as part of the carrying value of the loans and receivables at the end of each reporting period.

(k) Exceptional items
The Group presents as exceptional items on the face of the Consolidated Statement of Comprehensive Income those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year so as to facilitate comparison with prior years and to assess better trends in financial performance.

(l) Intangible assets
(i) Goodwill
Goodwill, representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired, is capitalised in the Statement of Financial Position. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses.

Goodwill will be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Management contracts and client relationships
Intangible assets, such as management contracts and client relationships acquired as part of a business combination or separately, are capitalised where it is probable that future economic benefits attributable to the assets will flow to the Group and the fair value of the assets can be measured reliably.

They are recorded initially at fair value and then amortised, if appropriate, over their useful lives. The fair value at the date of acquisition is calculated using discounted cash flow methodology and represents the valuation of the net residual income stream arising from the management contracts or distribution agreements in place at the date of acquisition. The management contracts and client relationships are included in the Statement of Financial Position as intangible assets. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives as follows:

- Client relationships arising on acquisition — 5 years
- Management contracts arising on acquisition — 1 to 3 years depending on the specific management contract details

(iii) Website and client portal
Costs associated with the development of the Group's website and client portal are capitalised in the Statement of Financial Position and are amortised over the estimated useful life of 4 years.

Amortisation methods, useful lives and residual values will be reviewed at each reporting date and adjusted if appropriate.

At each period end date, reviews are carried out of the carrying amounts of intangible assets to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount, which is the higher of value in use and fair value less costs to sell, of the asset is estimated in order to determine the extent, if any, of the impairment loss.

If the recoverable amount of an asset or cash-generating unit ("CGU") is estimated to be less than its net carrying amount, the net carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment losses are recognised immediately in the Statement of Comprehensive Income. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, the Group considers, as a minimum, the following indications:

(a) Whether the asset's market value has increased significantly during the period;

PRINCIPAL ACCOUNTING POLICIES

(b) Whether any significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated; and

(c) Whether market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

(m) Financial instruments

Financial assets and financial liabilities are recognised on the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to settle on a net basis, or realise the asset and liability simultaneously and where the Group intends to net settle.

(i) Trade and other receivables

Receivables are short-term in nature. Trade and other receivables are recognised and carried at the lower of their invoiced value and recoverable amount. Provision is made when there is objective evidence that the Group will not be able to recover balances in full.

(ii) 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.

(iii) Non-current receivables

Deferred receivables are recognised at the discounted value of those receipts.

(iv) Dividends payable

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

(v) 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 loans are charged to the Statement of Comprehensive Income as incurred.

(vi) Trade and other payables

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

(vii) Borrowing costs

Unless capitalised under IAS 23, Borrowing Costs, all borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the period in which they are incurred. Finance charges, including premiums paid on settlement or redemption and direct issue costs and discounts related to borrowings, are accounted for on an accruals basis and charged to the Consolidated Statement of Comprehensive Income using the effective interest method.

(viii)Contingent consideration

Contingent consideration arises when settlement of all or any part of the cost of a business combination or other acquisition, for example management contract, is deferred. It is stated at fair value at the date of acquisition, which is determined by discounting the amount due to present value at that date.

Estimates are required in respect of the amount of contingent consideration payable on acquisitions, which is determined according to formulae agreed at the time of the business combination, and normally related to the future earnings of the acquired business. The directors review the amount of contingent consideration likely to become payable at each period end date, the major assumption being the level of future profits of the acquired business. Contingent consideration payable is discounted to its fair value in accordance with applicable International Financial Reporting Standards.

PRINCIPAL ACCOUNTING POLICIES

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

(o) Share based payments
The Group issued equity-settled share based payments to certain directors and employees. Equity-settled share based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using a Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each period end date for cash-settled share based payments.

(p) Non-controlling interests
Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and for acquisitions post 3 October 2010 following adoption of IAS 27, Consolidated and Separate Financial Statements (Revised 2008), the non-controlling interests' share of changes in equity since the date of the combination.

Prior to the adoption of IAS 27 (Revised 2008) losses attributable to non-controlling interests in excess of the non-controlling interests' share in equity were allocated against the interests of the Group except to the extent that the non-controlling interests have a binding obligation and is able to make an additional investment to cover such losses. When the subsidiary subsequently reports profits, the non-controlling interests do not participate until the Group has recovered all of the losses of the non-controlling interests it previously reported.

(q) 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:

(i) Consolidation of third party funds managed by the Group;

(ii) Value of investment properties;

(iii) Value of investments at fair value through profit and loss;

(iv) Impairment in the value of loans;

(v) Accounting for distribution fees;

(vi) Valuation of employee share and bonus matching schemes;

(vii) Valuation and estimated useful life of intangible assets; and

(viii) Valuation of contingent consideration.

Consolidation of third party funds managed by the Group
When assessing whether the Group controls funds that are managed on behalf of third parties, the Group is required to assess whether it has power over these funds; exposure, or rights, to variable returns from its involvement with the fund; and has the ability to use its power over the funds to affect the amount of the Group's returns. This can also be considered when the Group is acting in its capacity as agent or principal. An agent is acting on behalf of third party investors, whereas a principal is acting for its own benefit.

PRINCIPAL ACCOUNTING POLICIES

IFRS 10 provides guidance for considering the assessment of whether fund managers are acting as agent or principal, and therefore whether the Group should consolidate the funds that it manages or not. The key considerations when assessing this are decision making authority of the fund manager, rights held by third parties, remuneration and exposure to returns. The following provides further detail on the directors' assessment of control over the funds that are managed by Gresham House Asset Management Limited ("GHAM"), the FCA regulated entity within the Group.

Gresham House Strategic Public Equity LP ("SPE LP") is managed by GHAM, a subsidiary of Gresham House plc. GHAM in its role as investment advisor is exposed to variable returns through its management fee, however the Company is not directly invested in SPE LP. The limited partners of SPE LP have the ability to remove the manager without cause, one year after the final close of SPE LP on obtaining limited partner special consent. The directors' assessment indicates that GHAM is acting as agent for SPE LP and therefore should not consolidate SPE LP.

Gresham House Forestry Fund LP ("GHF LP") is managed by GHAM. GHAM is exposed to variable returns through its management fee and acquisition fees, as well as the Company's limited partnership interest in Gresham House Forestry Friends and Family LP ("GHFF"), a vehicle which in turn is a limited partner in GHF LP.

The limited partners of GHF LP have the ability to remove the manager without cause, one year after the final close of GHF LP on obtaining limited partner special consent. There are a number of limited partners that would be required to co-ordinate to remove the manager. The directors' assessment of this right indicates that the manager is acting as agent for GHF LP and therefore should not consolidate GHF LP.

The directors' assessment of GHFF, however, indicates that it is in a controlling position and therefore should consolidate this in the Group financial statements.

Gresham House Strategic plc ("GHS") is managed by GHAM and the Company also holds 19.3% of the ordinary share capital as at 31 December 2017. The directors' consider that the Company exercises significant influence over GHS, but not control, through its holding and the investment management agreement in place with GHAM. GHS has therefore been classified as an associate.

Gresham House British Strategic Investment Fund ("BSIF") is managed by GHAM. The manager is exposed to variable returns through its management fee. Neither the Company, nor any of its subsidiaries are directly invested in BSIF and therefore are not exposed to the variable returns as an investor in the fund. The limited partners of BSIF also have the ability to remove the manager without cause, one year after the final close of BSIF. The directors' assessment of this right and the fact that the Company is not invested in BSIF indicates that the manager is acting as agent for BSIF and therefore should not consolidate BSIF.

Value of investments at fair value through profit and loss
The investments which are held at fair value through profit and loss in unquoted companies require judgement to be exercised, with reference to the valuation policy and International Private Equity Valuation guidelines. Further details can be found in note 11.

Impairment in the value of loans
Impairment reviews of the loans held by the Group require a careful assessment of the performance and financial position of the company involved from the best information that is available. This assessment requires the exercise of judgement to conclude whether an impairment is appropriate to the loans held by the Group. Further details can be found in note 11.

Accounting for distribution fees
A distribution agent was used to commit an investor to BSIF. The distributor is required to provide a service from the date the investor commits to the fund, up until the final capital drawdown during the investment period. As such, the distributor fee has been amortised over the service period. The service period has been assessed with reference to the expected size of the fund at final close on 31 December 2018 and the pipeline of investments expected to be executed over the three-year investment period of the fund from final close. As at 31 December 2017, it was estimated that the fund would be fully invested within three years from 31 December 2017 and as such with the investor committing to the fund on 16 June 2017, the service period has been estimated at three and a half years and the distributor fee spread on a straight-line basis over the service period. The service period will be monitored as the fund has its final close.

Valuation of employee share and bonus matching schemes
The Group introduced a long-term incentive plan for the New Energy team who joined in October 2017. The long-term incentive plan is based on the profits created by the New Energy team over the period to 31 December 2020. This has been recognised at fair value and under IFRS2 has been assessed as an equity settled payment. The fair value has been determined by modelling scenarios and weighting the estimated

PRINCIPAL ACCOUNTING POLICIES

probability of each outcome. Appropriate discounts have then been applied to reflect the lack of marketability and control to determine the fair value.

The bonus share matching scheme was implemented in the year as described in the remuneration report. The bonus shares to be awarded after the three year period and subject to performance conditions have been fair valued using a monte carlo simulation. The key variables include the risk-free rate of 0.32% and volatility of the Company share price of 16%. Further details can be found in note 27.

Valuation and estimated useful life of intangible assets
Intangible assets are fair valued at initial recognition with reference to expected cash flows from specific management contracts and associated costs. The useful lives have been estimated with reference to the minimum contractual terms.

Goodwill has been reviewed for impairment with reference to the performance of the underlying businesses. In the case of Gresham House Forestry, an estimate of the value of the business today has been made using the 2017 earnings and an appropriate multiple for a business of this size. The value of the business is in excess of the carrying amount of this cash generating unit.

There is no impairment of goodwill at 31 December 2017 and any reasonable change in key assumptions in the determination of the recoverable amount do not result in an impairment in goodwill.

Further details can be found in note 14.

Valuation of contingent consideration
The fair value of contingent consideration for the Gresham House Forestry business and the LMS contract has been estimated with reference to the contractual requirements. In the case of Gresham House Forestry this has involved calculating the EBITDA over the period to 31 December 2017 and estimating the EBITDA from 1 January 2018 to 28 February 2018 and applying suitable discount rates. In the case of the LMS contract assumptions around NAV growth have been used to estimate the NAV as at 16 August 2018. Further details can be found in note 24.

NOTES TO THE ACCOUNTS

1 INCOME

	2017 £'000	2016 £'000
Asset management income		
Fund management income	**2,966**	1,082
Forestry management income	**2,839**	2,120
	5,805	3,202
Dividend and interest income		
Dividend income – Listed UK	**106**	7
Interest receivable: Banks	**2**	4
Other	**323**	238
	431	249
Other operating income		
Arrangement fees	**135**	–
Reversal of provision against loans	**9**	5
Consultancy fees receivable	**14**	40
Other income	**63**	–
	221	45
Total income	**6,457**	3,496
Total income comprises		
Asset management income	**5,805**	3,202
Dividends	**106**	7
Interest	**325**	242
Other operating income	**221**	45
	6,457	3,496

2 SEGMENTAL REPORTING

The Board and management team of the Company have organised and report the performance of the business by Real Assets, Strategic Equity and Central segments. These have evolved as the business has grown to become the specialist asset manager that it is today.

Real Assets includes the Forestry, New Energy and Housing and Infrastructure divisions.

Strategic Equity includes the Public Equity and Private Assets divisions.

Central includes the general income created and costs incurred by the central functions of the business that are not directly linked to Real Assets or Strategic Equity.

As a result of reclassifying the legacy property portfolio as discontinued operations, this is no longer classified as a business segment and is separately reported.

All activity and revenue is derived from operations within the United Kingdom.

NOTES TO THE ACCOUNTS

2 SEGMENTAL REPORTING – CONTINUED

31 December 2017

Revenue	Real Assets £'000	Strategic Equity £'000	Central £'000	Consolidated £'000
Asset management income	**3,820**	**1,915**	**–**	**5,735**
Interest income	**1**	**2**	**322**	**325**
Dividend income	**–**	**106**	**–**	**106**
Other operating income	**–**	**133**	**158**	**291**
Total revenue	**3,821**	**2,156**	**480**	**6,457**
Segment expenses	**(1,920)**	**(2,447)**	**(2,457)**	**(6,824)**
Finance costs	**–**	**–**	**(344)**	**(344)**
Adjusted operating profit/(loss)	**1,901**	**(291)**	**(2,321)**	**(711)**
Exceptional items				**(308)**
Depreciation and amortisation				**(1,209)**
Profit on disposal of tangible fixed assets				**12**
Share of associate's loss				**(68)**
Losses on investments at fair value				**(230)**
Movement in fair value of contingent consideration				**(56)**
Movement in fair value of deferred receivable				**148**
Loss before taxation from continuing operations				**(2,422)**

31 December 2016 (restated)

Revenue	Real Assets £'000	Strategic Equity £'000	Central £'000	Consolidated £'000
Asset management income	2,120	1,082	–	3,202
Interest income	1	1	247	249
Other operating income	–	–	45	45
Total revenue	2,121	1,083	292	3,496
Segment expenses	(1,422)	(1,647)	(2,390)	(5,459)
Finance costs	–	–	(442)	(442)
Adjusted operating profit/(loss)	699	(564)	(2,540)	(2,405)
Depreciation and amortisation				(1,441)
Profit on disposal of tangible fixed assets				8
Share of associate's profit				628
Losses on investments at fair value				(147)
Movement in fair value of contingent consideration				(253)
Movement in fair value of deferred receivable				202
Loss before taxation from continuing operations				(3,408)

Comparatives for the year ended 31 December 2016 have been restated to reflect the reclassification of the Group's legacy property activities as discontinued operations (see note 7)

During the year the Group had four customers accounting for more than 10% of the Group's revenue, totalling £3,876,000 (2016: four customers, totalling £2,483,000).

NOTES TO THE ACCOUNTS

2 SEGMENTAL REPORTING – CONTINUED

Other information

31 December 2017

	Real Assets £'000	Strategic Equity £'000	Legacy Property £'000	Central £'000	Consolidated £'000
Segment assets	**4,120**	**11,760**	**5,759**	**12,673**	**34,312**
Segment liabilities	**(350)**	**(336)**	**(90)**	**(4,689)**	**(5,465)**
	3,770	**11,424**	**5,669**	**7,984**	**28,847**
Capital expenditure	**667**	**542**	**137**	**5,056**	**6,402**
Depreciation and amortisation	**674**	**487**	**5**	**31**	**1,197**
Non-cash expenses other than depreciation	**–**	**–**	**–**	**123**	**123**
Goodwill included within segment assets	**3,218**	**–**	**–**	**–**	**3,218**

31 December 2016

	Real Assets £'000	Strategic Equity £'000	Legacy Property £'000	Central £'000	Consolidated £'000
Segment assets	2,853	8,914	15,775	8,471	36,013
Segment liabilities	(296)	(144)	(526)	(10,423)	(11,389)
	2,557	8,770	15,249	(1,952)	24,624
Capital expenditure	1,865	581	311	16	2,773
Depreciation and amortisation	1,250	157	5	3	1,415
Non-cash expenses other than depreciation	–	–	–	73	73
Goodwill included within segment assets	2,942	–	–	–	2,942

NOTES TO THE ACCOUNTS

3 OPERATING COSTS

Administrative overheads comprise the following:

	2017 £'000	2016 £'000
Directors' emoluments (excluding benefits in kind and share based payments)	**791**	968
Auditor's remuneration *	**127**	106
Amortisation	**1,122**	1,364
Depreciation	**87**	77
Profit on disposal of assets	**(12)**	(8)
Wages and salaries	**3,185**	2,234
Social security costs	**531**	428
Operating lease rentals – land and buildings	**–**	3
Share based payments	**123**	73
Other operating costs	**2,067**	1,647
	8,021	6,892
Staff costs (including directors' emoluments) were:		
Wages, salaries and fees	**3,852**	3,100
Social security costs	**537**	434
Pension costs	**214**	151
	4,603	3,685

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

	2017 £'000	2016 £'000
Audit fees	**127**	106
Auditor's other fees –other services	**–**	12
	127	118

The directors consider the auditor was 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 32 (2016: 26). The Company has no employees.

The Group has no commitments under operating leases for the current and prior year.

NOTES TO THE ACCOUNTS

4 DIRECTORS' EMOLUMENTS

The emoluments of the directors are disclosed in the Remuneration Report on pages 38 to 40.

The directors are considered to be the Group's only key management personnel. Employers' National Insurance Contributions in respect of the directors for the year were £102,000 (2016: £137,000).

5 BUSINESS COMBINATIONS DURING THE PERIOD

The Company acquired the asset management business of Hazel Capital LLP (Hazel Capital), a leading UK manager of new energy infrastructure, on 31 October 2017. This included the novation and acquisition of investment advisory contracts for Hazel Renewable Energy VCT1 plc and Hazel Renewable Energy VCT2 plc and other master service agreements. The Hazel Capital team were also employed by Gresham House Holdings Limited.

The team has been hired to run the Gresham House New Energy division, adding a further complementary alternative asset management division to the Group and growing assets under management.

The fair value of the assets acquired and the consideration paid under IFRS 3 are as follows:

	£'000
Identifiable assets acquired	
Fair value of management contracts	324
Goodwill	276
	600
Consideration	
Cash	600

Goodwill

Goodwill arises due to the excess of the fair value of the consideration payable over the fair value of the net assets acquired. It is mainly attributable to the skills of the team acquired, the synergies expected to be achieved from the acquisition and the business development potential.

Actual revenue and profits of Hazel Capital

The actual revenues and profits that have been generated by the Gresham House New Energy division, since the acquisition of the Hazel Capital asset management business on 31 October 2017 to 31 December 2017 are:

	£'000
Revenues	259
Profit before tax	28

The disclosure of hypothetical revenues and profits of Hazel Capital for the year ended 31 December 2017 is not considered relevant due to the nature of the transaction. The entire Hazel Capital LLP business was not acquired and there will be revenues and expenses not relevant to the business acquired.

Fair value

The fair value of the management contracts has been estimated using a discounted cash flow model. The estimated cash flows have been valued at a discount of 15%. This resulted in fair value of £324,000.

Costs associated with the acquisition of the business of Hazel Capital totalled £308,000 and are shown as an exceptional item in the Group Statement of Comprehensive Income.

There were no new business combinations that took place during the year ended 31 December 2016.

NOTES TO THE ACCOUNTS

6 FINANCE COSTS

	2017 £'000	2016 £'000
Interest payable on loans and overdrafts	**170**	293
Finance fees	**174**	149
	344	442

7 DISCONTINUED OPERATIONS

Discontinued operations represent the legacy property portfolio of the Group, with the sale of the Southern Gateway site completing during the year, and the sale of the remaining land at Newton-le-Willows completing in February 2018.

The disposal group fulfilled the requirements of IFRS 5 to be classified as "discontinued operations" in the Consolidated Statement of Comprehensive Income, the results of which are set out below:

	2017 £'000	2016 £'000
Rental Income	**531**	741
Other operating income	**22**	27
Property outgoings	**(191)**	(290)
(Loss)/profit on disposal of investment properties	**(1,135)**	103
Movement in fair value of investment property	**(331)**	(242)
Net (loss)/profit from discontinued operations	**(1,104)**	339
Attributable to:		
Equity holders of the parent	**(716)**	330
Non-controlling interest	**(388)**	9
	(1,104)	339

Property outgoings comprise the following:

	2017 £'000	2016 £'000
Wages and salaries	**49**	49
Redundancy costs	**41**	–
Social security costs	**6**	6
Other operating costs (net of service charges recoverable from tenants of £584,000 (2016: £803,000))	**95**	**235**
	191	**290**

Cash flows from discontinued operations were:

	2017 £'000	2016 £'000
Cash flow from operating activities	**670**	728
Cash flow from investing activities	**8,178**	688
Cash flow from financing activities	**–**	–

NOTES TO THE ACCOUNTS

8 TAXATION

	2017 £'000	2016 £'000
(a) Analysis of charge in period:		
UK Corporation tax at 19.25% (2016: 20%)	**–**	–
Overprovision in prior year	**–**	(33)
Total tax credit	**–**	(33)

	2017 £'000	2016 £'000
(b) Factors affecting tax credit for period:		
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	**(679)**	(614)
Tax effect of:		
Investment losses not taxable	**46**	29
Dividend income not taxable	**(20)**	(1)
Amortisation not taxable	**212**	238
Expenses disallowed	**86**	69
Other gains and losses not taxable	**(5)**	(138)
Movement in losses carried forward	**360**	384
Actual tax credit	**–**	(33)

The Group has unutilised tax losses of approximately £12.5 million (2016: £11.2 million) available against future corporation tax liabilities. The potential deferred taxation asset of £2.1 million (2016: £2.2 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 from the same trade to recover these amounts in full.

9 EARNINGS PER SHARE

(a) Basic and diluted loss per share

	2017	2016
Total net loss attributable to equity holders of the parent (£'000)	**(3,124)**	(3,027)
Weighted average number of ordinary shares in issue during the period	**12,073,106**	9,976,412
Basic and diluted loss per share attributable to equity holders of the parent (pence)	**(25.9)**	(30.3)

898,747 (2016: nil) shares were deemed to have been issued at nil consideration as a result of the shareholder, supporter warrants and LMS warrants granted and shares which could be issued under the bonus share matching plan and long-term incentive plans which, as required under IAS 33, Earnings per Share, have not been recognised as they would reduce the loss per share (see note 26).

(b) Adjusted earnings per share

Adjusted earnings per share is based on adjusted operating loss, which is stated after charging interest but before depreciation, amortisation, profit on disposal of tangible fixed assets and exceptional items. This has been restated compared to prior periods to reflect the classification of the legacy property portfolio as discontinued operations and simplify the non-GAAP measure of the performance as an asset manager.

Adjusted loss for calculating adjusted earnings per share:

	2017 £'000	2016 £'000
Operating loss before taxation for the year	**(2,216)**	(3,838)
Add back:		
Exceptional operating expenses	**308**	–
Depreciation and amortisation	**1,209**	1,441
Profit on disposal of tangible fixed assets	**(12)**	(8)
Adjusted loss attributable to equity holders of the parent	**(711)**	(2,405)
Adjusted loss per share (pence)	**(5.9)**	(24.1)

NOTES TO THE ACCOUNTS

10 DIVIDENDS

No dividends have been paid or proposed in the year (2016: nil).

11 INVESTMENTS – SECURITIES

An analysis of total investments is as follows:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Listed securities – on the London Stock Exchange	**281**	–	**281**	–
Securities dealt in under AIM	**787**	468	**787**	468
Securities dealt in under NEX Exchange	**38**	31	**38**	31
Unlisted securities	**1,883**	2,335	**204**	617
Closing value at 31 December	**2,989**	2,834	**1,310**	1,116
Investments valued at fair value through profit and loss	**2,830**	2,217	**1,151**	499
Loans and receivables valued at amortised cost	**159**	617	**159**	617
	2,989	2,834	**1,310**	1,116

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Opening cost	**4,565**	6,094	**2,815**	6,094
Opening net unrealised losses	**(1,731)**	(4,526)	**(1,699)**	(4,526)
Opening value	**2,834**	1,568	**1,116**	1,568
Movements in the year:				
Purchases at cost	**5,331**	2,331	**5,331**	581
Sales – proceeds	**(4,946)**	(918)	**(4,946)**	(918)
Sales – realised gains & (losses) on sales	**(81)**	(2,942)	**(81)**	(2,942)
Net unrealised gains & (losses)	**(149)**	2,795	**(110)**	2,827
Closing value	**2,989**	2,834	**1,310**	1,116
Closing cost	**4,869**	4,565	**3,119**	2,815
Closing net unrealised losses	**(1,880)**	(1,731)	**(1,809)**	(1,699)
Closing value	**2,989**	2,834	**1,310**	1,116

Gains and losses on investments held at fair value

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Net realised gains & (losses) on disposal	**(81)**	(2,942)	**(81)**	(2,942)
Net unrealised gains & (losses)	**(149)**	2,795	**(110)**	2,827
Net losses on investments	**(230)**	(147)	**(191)**	(115)

Net unrealised gains and losses includes the impairment of a loan and accrued interest of £619,000 due from Kemnal Investments Limited, a legacy investment included within the central segment. The loan was due for repayment in February 2018, however pressure on the capital structure and a review of the business model has required the Group to fully impair the investment.

An analysis of investments is as follows:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Equity investments	**2,830**	2,217	**1,151**	499
Unquoted loan stock	**159**	617	**159**	617
	2,989	2,834	**1,310**	1,116

Further information on the measurement of fair value can be found in note 32.

NOTES TO THE ACCOUNTS

12 NON-CURRENT ASSETS HELD FOR SALE – PROPERTY INVESTMENTS

The orderly disposal of the legacy investment property portfolio has been ongoing in the year to 31 December 2017, with the sale of the Southern Gateway site completing during the year, and the sale of the remaining land at Newton-le-Willows completing in February 2018. As such, property investments have been classified as non-current assets held for sale.

A further analysis of total investment properties is as follows:

	Group	
Net book value and valuation	**2017 £'000**	2016 £'000
At 1 January	**9,628**	9,559
Additions during the year – expenditure on existing properties	**137**	311
Disposals during the year – gross proceeds	**(7,250)**	(103)
Disposal costs	**570**	–
Movement in rent free receivable	**367**	–
(Loss) / profit on disposal of investment properties	**(1,135)**	103
Movement in fair value during the year	**(331)**	(242)
At 31 December	**1,986**	9,628

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 Statement of Comprehensive Income.

The Group completed the sale of the remaining property investment in February 2018 and the valuation as at 31 December 2017 has been based on the net sales proceeds received.

The gross property valuation has been adjusted for the fixed rental uplift as follows:

	2017 £'000	2016 £'000
Gross valuation	**1,986**	10,000
Rent free receivable	**–**	(372)
	1,986	9,628

Operating leases

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

	2017 £'000	2016 £'000
Not later than one year	**–**	723
Between 2 and 5 years	**–**	1,271
Over 5 years	**–**	914
	–	2,908

Rental income recognised in the Statement of Comprehensive Income amounted to £531,000 (2016: £741,000).

The commercial leases vary according to the condition of the units let. The commercial units are leased on terms where the tenant has the responsibility for repairs and running costs for each individual unit (other than roof repairs in certain circumstances) with a service charge payable to cover estate services provided by the landlord.

NOTES TO THE ACCOUNTS

12 NON-CURRENT ASSETS HELD FOR SALE – PROPERTY INVESTMENTS – CONTINUED

The cost of the above properties as at 31 December 2017 is as follows:

	Group £'000
Brought forward	9,887
Additions during the year	137
Disposals during the year	(8,287)
	1,737

Capital commitments

Capital expenditure contracted for but not provided for in the financial statements for the Group was £nil (2016: £118,000) and for the Company was £nil (2016: £nil).

Movement in fair value of investment properties

	Group 2017 £'000	Group 2016 £'000
Realised (losses)/gains on disposal of investment property	**(1,135)**	103
Decrease in fair value	**(331)**	(242)
Movement in fair value of investment property	**(1,466)**	(139)

Further information on the measurement of fair value can be found in note 32.

13 TANGIBLE FIXED ASSETS

Group

	2017 Office equipment £'000	2017 Motor vehicles £'000	2017 Leasehold property £'000	2017 Total £'000	2016 Office equipment £'000	2016 Motor vehicles £'000	2016 Leasehold property £'000	2016 Total £'000
Cost								
As at 1 January	**16**	**237**	**10**	**263**	–	154	10	164
Additions	**56**	**59**	**–**	**115**	16	115	–	131
Disposals during the year	**–**	**(75)**	**–**	**(75)**	–	(32)	–	(32)
As at 31 December	**72**	**221**	**10**	**303**	16	237	10	263
Depreciation								
As at 1 January	**3**	**80**	**1**	**84**	–	10	–	10
Charge for the year	**11**	**75**	**1**	**87**	3	73	1	77
Disposals during the year	**–**	**(64)**	**–**	**(64)**	–	(3)	–	(3)
As at 31 December	**14**	**91**	**2**	**107**	3	80	1	84
Net book value as at 31 December	**58**	**130**	**8**	**196**	13	157	9	179

NOTES TO THE ACCOUNTS

13 TANGIBLE FIXED ASSETS – CONTINUED

Company

	2017 Office equipment £'000	2016 Office equipment £'000
Cost		
As at 1 January	**16**	–
Additions	**48**	16
As at 31 December	**64**	16
Depreciation		
As at 1 January	**3**	–
Charge for the year	**10**	3
As at 31 December	**13**	3
Net book value as at 31 December	**51**	13

14 INTANGIBLE ASSETS

Group

	2017					2016			
	Goodwill £'000	**Customer relationships £'000**	**Contracts £'000**	**Website & client portal £'000**	**Total £'000**	Goodwill £'000	Customer relationships £'000	Contracts £'000	Total £'000
Cost									
As at 1 January	**2,942**	**3,072**	**1,980**	**–**	**7,994**	2,942	3,072	574	6,588
Additions through business combinations	**276**	**–**	**324**	**–**	**600**	–	–	–	–
Other additions	**–**	**–**	**–**	**219**	**219**	–	–	1,406	1,406
As at 31 December	**3,218**	**3,072**	**2,304**	**219**	**8,813**	2,942	3,072	1,980	7,994
Amortisation									
As at 1 January	**–**	**615**	**749**	**–**	**1,364**	–	–	–	–
Charge for the year	**–**	**614**	**487**	**21**	**1,122**	–	615	749	1,364
As at 31 December	**–**	**1,229**	**1,236**	**21**	**2,486**	–	615	749	1,364
Net book value as at 31 December	**3,218**	**1,843**	**1,068**	**198**	**6,327**	2,942	2,457	1,231	6,630
Remaining amortisation period	**n/a**	**3 years**	**1.5–3 years**	**4 years**		n/a	4 years	2.5 years	

The website and client portal expenditure was undertaken by the Company.

NOTES TO THE ACCOUNTS

15 NON-CURRENT ASSETS – LONG-TERM RECEIVABLES

On 22 September 2015, the sale of 25.8 acres of the site at Newton-le-Willows to Persimmon Homes Limited ("Persimmon") was completed. An initial payment of £944,610 was received with further payments of £937,252 received in 2016 and £1,634,083 during the year. The balance of the consideration, at fair value, will be receivable in two tranches as follows:

	£'000
On 22 March 2018 – included within current assets	2,075
On 22 March 2019	1,618
	3,693

The total cash value of the deferred receipts is £3,734,000, though this has been designated at fair value through the Statement of Comprehensive Income.

The discount rate applied was 1.61% (2016: 2.49%) being the average rate of borrowing on Persimmon's debt facilities.

Long-term receivables consist of the following:

	Group	
	2017 £'000	2016 £'000
Deferred receivables	**1,618**	4,041
Other debtors	**–**	54
	1,618	4,095

16 INVESTMENTS IN SUBSIDIARIES

	Company	
Subsidiary undertakings	**2017 £'000**	2016 £'000
At 1 January	**16,292**	2,822
Additions	**1,973**	16,544
Disposals	**–**	(3,074)
At 31 December	**18,265**	16,292

NOTES TO THE ACCOUNTS

16 INVESTMENTS IN SUBSIDIARIES – CONTINUED

The subsidiary undertakings of Gresham House plc are as follows:

	Held by Company %	Held by other Group companies%	Country of incorporation and registered office
Acqco Store Limited	–	100	5 New Street Square, London EC4A 3TW, England
Aitchesse Limited	–	100	Riverview House, Friarton Road, Perth, PH2 8DF, Scotland
Chartermet Limited	–	75	5 New Street Square, London EC4A 3TW, England
Deacon Commercial Development and Finance Limited	–	100	5 New Street Square, London EC4A 3TW, England
Deacon Knowsley Limited	–	75	5 New Street Square, London EC4A 3TW, England
Gresham House Asset Management Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Capital Partners Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House EIS Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Finance Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Forestry Limited	–	100	Riverview House, Friarton Road, Perth, PH2 8DF, Scotland
Gresham House Forestry Friends and Family LP	71.4	–	Riverview House, Friarton Road, Perth, PH2 8DF, Scotland
Gresham House (General Partner) Limited	–	100	Riverview House, Friarton Road, Perth, PH2 8DF, Scotland
Gresham House GP LLP	–	100	Riverview House, Friarton Road, Perth, PH2 8DF, Scotland
Gresham House Holdings Limited	100	–	5 New Street Square, London EC4A 3TW, England
Gresham House Housing Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Infrastructure Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Investment Management Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Investment Management (Guernsey) Limited	–	100	Dorey Court, Admiral Park, St Peter Port, GY1 2HT, Guernsey
Gresham House Investors Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House New Energy Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Private Capital Solutions Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Private Equity Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Private Wealth Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Real Assets Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Renewable Infrastructure Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Renewable Energy VCT1 Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Renewable Energy VCT2 Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Services Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Smaller Companies Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House SPE Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Special Situations Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House Value Limited	–	100	5 New Street Square, London EC4A 3TW, England
Gresham House VCT Limited	–	100	5 New Street Square, London EC4A 3TW, England
Knowsley Industrial Property Limited	–	100	5 New Street Square, London EC4A 3TW, England
New Capital Developments Limited	–	75	5 New Street Square, London EC4A 3TW, England
New Capital Holdings Limited	–	75	5 New Street Square, London EC4A 3TW, England
Newton Estate Limited	–	100	5 New Street Square, London EC4A 3TW, England
Security Change Limited	–	100	5 New Street Square, London EC4A 3TW, England
Wolden Estates Limited	–	100	5 New Street Square, London EC4A 3TW, England

NOTES TO THE ACCOUNTS

17 INVESTMENT IN ASSOCIATE

The Board believe that Gresham House plc exercises significant influence over Gresham House Strategic plc ("GHS"), but not control, through its 19.3% equity investment as well as the investment management agreement between GHAM and GHS.

	Group	
	2017 £'000	2016 £'000
Investment in associate	**5,902**	5,902
Share of associate's profit	**560**	628
	6,462	6,530

The latest published financial information of GHS was the unaudited interim results for the six months to 30 September 2017. The assets and liabilities at that date are shown below:

	2017 £'000	2016 £'000
Non-current assets	**33,570**	25,233
Current assets	**6,728**	14,886
Current liabilities	**(1,039)**	(224)
Net assets	**39,259**	39,895

The GHS group unaudited statement of comprehensive income noted realised and unrealised gains from continuing operations on investments at fair value through profit and loss of £1,028,000 and revenues of £245,000 for the six months ended 30 September 2017.

The registered office of GHS is 77 Kingsway, London, WC2B 5SR.

18 TRADE RECEIVABLES

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Amounts receivable within one year:				
Trade receivables	**2,089**	1,259	**–**	–
Less allowance for credit losses	**–**	–	**–**	–
	2,089	1,259	**–**	–

Trade receivables are assessed for impairment when older than 90 days. As at 31 December 2017, trade receivables of £286,000 (2016: £20,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
1-3 months	**254**	–	**–**	–
3-6 months	**5**	20	**–**	–
More than 6 months	**27**	–	**–**	–
	286	20	**–**	–

As at 31 December 2017 trade receivables of £nil (2016: £nil) were impaired and provided for.

NOTES TO THE ACCOUNTS

19 OTHER CURRENT ASSETS

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Amounts owed by Group undertakings	–	–	7,878	9,734
	–	–	7,878	9,734

20 TRADE AND OTHER PAYABLES

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade creditors	274	225	–	–
Other creditors	380	332	14	14
Accruals	1,516	1,672	17	73
Contingent consideration (note 24)	3,293	–	251	–
	5,463	2,229	282	87

21 SHORT-TERM BORROWINGS

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Bank loans – within current liabilities (note 23)	–	1,015	–	1,015
Amounts owed to Group undertakings	–	–	5,552	362
	–	1,015	5,552	1,377

22 DEFERRED TAXATION

Under International Accounting Standards ("IAS") 12 (Income Taxes) provision is made for the deferred tax liability associated with the revaluation of property investments.

The deferred tax provision on the revaluation of property investments calculated under IAS 12 is £nil at 31 December 2017 (2016: £nil) due to the availability of losses and indexation allowances.

23 LONG-TERM BORROWINGS

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Bank loans	–	4,881	–	4,881
	–	4,881	–	4,881

On 12 April 2016, the Company signed a £7.0 million banking facility agreement with Kleinwort Benson Bank Limited ("the facility"). The facility was secured against the Group's property assets and the deferred receivable from the sale of the Newton-le-Willows site to Persimmon in September 2015.

The facility was repaid in full on 14 September 2017 following the sale of the Group's property asset, Southern Gateway in Speke.

The interest payable on the facility was LIBOR plus 4.5%.

NOTES TO THE ACCOUNTS

24 NON-CURRENT LIABILITIES – OTHER CREDITORS

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Contingent consideration	**–**	3,237	**–**	258
Other creditors	**2**	27	**–**	–
	2	3,264	**–**	258

Contingent consideration – Gresham House Forestry
Contingent consideration will be payable if Gresham House Forestry ("GHF") achieves certain EBITDA targets. The amount of additional consideration payable shall increase on a sliding scale depending on the EBITDA achieved in the period to 28 February 2018. The contingent consideration shall be payable if GHF achieves EBITDA between a range of £1,733,333 and £3,466,666 with the full £3,697,237 of additional consideration being payable if EBITDA of £3,466,666 or more is achieved and no additional consideration being payable if EBITDA of less than £1,733,333 is achieved.

In the event of the target being achieved, the Company is obliged to issue a further 736,074 shares to the vendors. The fair value of the contingent consideration has been based on the mid-market share price on 23 November 2015, the date of the acquisition of GHF, at 357.5p per share. The directors, having carefully reviewed the future business prospects of GHF, believe that 87% of the EBITDA will be achieved.

The additional consideration shall be satisfied by:

- the payment of up to £1,500,055 in cash to the vendors; and
- the issue of up to 736,074 new ordinary shares to the vendors.

Fair value
The fair value of the contingent consideration is estimated using an income approach based on a discount assuming approximately 75% pay-out of the contingent consideration as anticipated by the Board, supported by forecasts of the trading of GHF in the period to 28 February 2018.

Contingent cash payable has been valued at a discount of 13.5%.

The entire amount of the contingent consideration is recognised as a financial liability and is measured at fair value through comprehensive income at each reporting date.

The minimum contingent consideration is £nil.

Contingent consideration – LMS Capital plc
On 16 August 2016, Gresham House Asset Management ("GHAM") was appointed the investment manager of LMS Capital plc ("LMS"). The Company issued a first tranche of 332,484 new ordinary shares to LMS with a value of £1 million on 16 August 2016 and will issue a second tranche of new ordinary shares on the second anniversary of the appointment up to a value of £1.25 million subject to certain performance conditions. The contingent consideration for the second tranche payment of the LMS contract has a fair value of £251,000.

The second tranche issue of new ordinary shares will depend on the following:

- LMS extending the term of the portfolio management agreement for two years following the second anniversary of appointment on 16 August 2016;
- There being no material changes to the terms of the portfolio management agreement; and
- LMS undertaking not to return capital to shareholders during the two-year period following the second anniversary of appointment.

NOTES TO THE ACCOUNTS

24 NON-CURRENT LIABILITIES – OTHER CREDITORS – CONTINUED

The value of the second tranche will be calculated by the Net Asset Value ("NAV") of the portfolio on the second anniversary of appointment:

- If the NAV is below £67.5 million, no shares will be issued;
- If the NAV is between £70.0 million and £80.0 million, the value of the second tranche shares will be between £500,000 and £1 million calculated on a straight-line basis;
- If the NAV is between £80.0 million and £85.0 million, the value of the second tranche shares will be between £1 million and £1.25 million calculated on a straight-line basis; and
- If the NAV is above £85.0 million the maximum value of shares issued will be capped at £1.25 million.

Fair value

The fair value of the contract has been estimated using an equal weighting of three scenarios. The estimated cash flows in each case has been valued at a discount of 15%. This resulted in fair value of £1,251,000, with a contingent consideration of £251,000, which has been included in current liabilities as deferred consideration, note 20.

The Company also issued 909,908 LMS Warrants to LMS on 14 October 2016, details are included in note 26.

GHAM will receive an annual management fee of:

- 1.5% of the average NAV of LMS for an NAV of up to £100 million;
- 1.25% of the average NAV of LMS for an NAV of between £100 million and £150 million;
- 1.0% of the average NAV of LMS for an NAV of greater than £150 million

GHAM will also receive a performance fee of 15% on the gain in NAV of new investments made since being appointed the investment manager of LMS, subject to a hurdle rate of 8%.

25 SHARE CAPITAL

Share Capital	2017 £'000	2016 £'000
Allotted: Ordinary – 12,536,957 (2016: 10,185,487) fully paid shares of 25p each	**3,134**	2,546

On 13 March 2017, the Company issued 2,251,372 new ordinary shares at a price of 325p per share to the Royal County of Berkshire Pension Fund. A further 100,097 new ordinary shares were issued on 13 March 2017 at a price of 308.95p to management and employees under the Company's bonus share matching plan. Additionally, 1 shareholder warrant was exercised during the year at a price of 323.27p

26 SHARE WARRANTS

Group

	2017				2016			
	Shareholder warrants	Supporter warrants	LMS warrants	Total warrants	Shareholder warrants	Supporter warrants	LMS warrants	Total warrants
Balance at 1 January	**1,071,813**	**850,000**	**909,908**	**2,831,721**	1,073,775	850,000	–	1,923,775
Warrants granted during the year	**–**	**–**	**–**	**–**	–	–	909,908	909,908
Warrants exercised during the year	**(1)**	**–**	**–**	**(1)**	(1,962)	–	–	(1,962)
As at 31 December	**1,071,812**	**850,000**	**909,908**	**2,831,720**	1,071,813	850,000	909,908	2,831,721

NOTES TO THE ACCOUNTS

26 SHARE WARRANTS – CONTINUED

Shareholder warrants

On 1 December 2014, the Company issued 1,073,904 shareholder warrants to existing shareholders as at the close of business on 28 November 2014 on a 1:5 basis, such warrants having been admitted to trading on AIM. Shareholder warrants are freely transferable, are exercisable at any time between 1 January 2015 and 31 December 2019 at an exercise price of 323.27p per ordinary share and are subject to the terms of the shareholder warrant instrument dated 7 October 2014.

Supporter warrants

On 1 December 2014, the Company issued 850,000 supporter warrants to the new directors and certain members of the Investment Committee and Advisory Group at a price of 7.5p per warrant. Supporter warrants have the same entitlements as the shareholder warrants save that (i) they are not freely transferable (such supporter warrants only being transferable to certain family members, trusts or companies connected with the relevant warrant holder) and accordingly not quoted on AIM; (ii) are not exercisable until 1 December 2015; and (iii) are subject to the terms of the supporter warrant instrument dated 7 October 2014.

LMS warrants

On 14 October 2016, the Company issued 909,908 LMS warrants to LMS Capital plc ("LMS"). The LMS warrants entitle LMS to exercise one LMS warrant for one ordinary share in the Company from 14 October 2016 to 30 June 2018 at an exercise price of 323.27 pence per ordinary share. LMS paid a warrant purchase price of 28 pence per LMS warrant, totalling £255,000. The LMS warrants are not transferrable, unless consent of the Board of the Company has been provided and were issued in accordance with the LMS Warrant Instrument dated 14 October 2016.

During the year, 1 shareholder warrant was converted into ordinary shares resulting in the issue of 1 new ordinary share (2016: 1,962). Since the year end a further 3,422 shareholder warrants have been exercised.

27 SHARE BASED PAYMENTS

Long-term incentive plan

Following approval from shareholders at the General Meeting of the Company on 20 November 2015, the directors implemented a long-term incentive plan ("plan") to incentivise the management team as well as align their interests with those of shareholders on 28 July 2016 through enhancing shareholder value.

For the purposes of the plan, "shareholder value" is the difference between the market capitalisation of the Company at the point in time that any assessment is made and the sum of:

(i) the market capitalisation of the Company a) at 1 December 2014 for first awards made to management who joined the Company before 30 September 2015 ("old joiners") and b) at the date of award in all other cases ("new joiners"); and

(ii) the aggregate value (at the subscription price) of all ordinary shares issued thereafter and up to the point in time that any assessment is made, in each case adjusted for dividends and capital returns to shareholders and/or issue of new shares.

The beneficiaries of the plan, will in aggregate be entitled to an amount of up to 13.8% of shareholder value created, subject to performance criteria set out below. Individual participation in the shareholder value created will be determined by the Remuneration Committee.

There will be certain hurdles the Company's share price has to achieve before an award vests.

In the event that the Company achieves an average mid-market closing price equal to compound growth at 7% per annum for a period of 10 consecutive dealing days in the period after 1 December 2016 for first awards to management who joined the Company before 30 September 2015 and from the second anniversary of the date of award in all other cases, 50% of the award will vest.

In the event that the share price of the Company outperforms the FTSE All Share Index in the period after 1 December 2016, and from the second anniversary of the date of the award in all other cases, 50% of the award shall vest.

Each award will require a minimum term of employment of three years and awards will be made to current management and new joiners at the Company's discretion.

NOTES TO THE ACCOUNTS

27 SHARE BASED PAYMENTS – CONTINUED

IFRS 2: Share Based Payments sets out the criteria for an equity settled share based payment, which has market performance conditions. The plan meets these criteria and should therefore be recognised at award as fair value and amortised over the vesting period of two years. There is no amount payable by the beneficiaries on exercise. The table below details the number of shares issued in the year:

	2017				2016		
	A Shares Old joiners	**A Shares New joiners**	**B Shares**	**Total LTIP**	A Shares Old joiners	A Shares New joiners	Total LTIP
Balance at 1 January	**908**	**92**	**–**	**1,000**	908	92	1,000
Issued in the year	**–**	**–**	**280**	**280**	–	–	–
As at 31 December	**908**	**92**	**280**	**1,280**	908	92	1,000
Exercisable at year end	**908**	**–**	**–**	**908**	–	–	–
Months to vesting	**–**	**7**	**20**		12	19	

The weighted average time to vesting is 16 months.

Fair value

The fair value of the award has been determined using an expected returns model, which is based on a number of scenarios and probabilities of the Company's performance for the period when the awards may be exercised. The assumptions in the model have estimated the shareholder value created and applied discounts for liquidity and likelihood of exercise by participants. The weighted average valuation of the Company has been used to calculate the expected shareholder value created and consequently the value of the plan. The fair value of the plan at award was £29,000 (£139.42 per share), which will be amortised over the two-year vesting period.

Renewable Energy team long-term incentive plan

The Renewable Energy management team has a long-term incentive plan in place, which granted the team a total of 1,000 A Shares in Gresham House New Energy Limited on 31 October 2017. The vesting date of the A Shares is 31 December 2020, at which point the holders are entitled to receive either Gresham House plc shares, or cash at the Company's discretion in exchange for their A Shares.

The value of the A Shares at vesting is based on a calculation, which is based on the average profits generated by the New Energy division between 31 October 2017 and 31 December 2020.

The fair value of the award has been determined using an expected returns model, which is based on a number of scenarios and probabilities of the New Energy division's performance for the period from 31 October 2017 to 31 December 2020. The assumptions in the model have estimated the average profits over the period and applied discounts for liquidity and control and consequently the value of the A Shares. The fair value of the A Shares at award was £276,000 (£276 per share), which will be amortised over the three year and two month vesting period.

The settlement of the A Shares can be in either the Company's ordinary shares or in cash at the discretion of the Company. Under the guidance in IFRS 2:41, it has been considered that the A Share settlement should be treated as an equity settled instrument.

Bonus share matching plan

The Company introduced in 2016 a share matching plan linked to the discretionary annual bonus scheme to encourage management to invest in the long-term growth of the Company.

Subject to Remuneration Committee approval, management and employees entitled to a bonus may be permitted (but not required) to defer and reinvest up to 100% of their annual bonus into ordinary shares which will be released to them after three years together with any additional matching shares subject to performance criteria set out below. In 2017 the Remuneration Committee approved the reinvestment of up to 50% of annual bonuses into ordinary shares by management and employees (2016: 50%).

In the event that the Company achieves a mid-market closing price equal to 7% per annum compound growth from the date of deferral, the participants will receive 50% of the matching shares benefit. In the event that the Company's share price out-performs the FTSE All Share Index from the date of deferral, the participant will receive 50% of the matching shares.

NOTES TO THE ACCOUNTS

27 SHARE BASED PAYMENTS – CONTINUED

Shares will be awarded in the ratio one share for each share invested. In the event that this performance condition is not met, the participants will receive only the ordinary shares acquired with the deferred bonus.

The bonus shares to be awarded after the three year period and subject to performance conditions have been fair valued using a monte carlo simulation. The key variables include the risk-free rate of 0.32% and volatility of the Company share price of 16%. The fair value of the matching shares relating to the 2016 bonuses is £87,084 (£0.87 per share) and will be amortised over the three-year vesting period.

28 RESERVES

Group

	2017 Share premium account £'000	2017 Share warrant reserve £'000	2017 Retained reserves £'000	2016 Share premium account £'000	2016 Share warrant reserve £'000	2016 Retained reserves £'000
Balance at 1 January	**2,611**	**319**	**18,657**	1,688	64	21,611
Loss and total comprehensive income	**–**	**–**	**(3,124)**	–	–	(3,027)
Transfer of non-controlling interest deficit	**–**	**–**	**(388)**	–	–	–
Issue of shares	**7,038**	**–**	**–**	923	–	–
Issue of warrants	**–**	**–**	**–**	–	255	–
Share based payments	**–**	**–**	**123**	–	–	73
As at 31 December	**9,649**	**319**	**15,268**	2,611	319	18,657

Company

	2017 Share premium account £'000	2017 Share warrant reserve £'000	2017 Retained reserves £'000	2016 Share premium account £'000	2016 Share warrant reserve £'000	2016 Retained reserves £'000
Balance at 1 January	**2,611**	**319**	**16,153**	1,688	64	16,939
Loss and total comprehensive income	**–**	**–**	**(684)**	–	–	(786)
Issue of shares	**7,038**	**–**	**–**	923	–	–
Issue of warrants	**–**	**–**	**–**	–	255	–
As at 31 December	**9,649**	**319**	**15,469**	2,611	319	16,153

Non-controlling interest:	2017 £'000	2016 £'000
Balance as at 1 January	**491**	–
Interest in trading result for the year	**(106)**	56
Interest in investments – securities	**(12)**	500
Interest in movement in investment property for the year	**(284)**	(65)
Transfer deficit balance	**388**	–
	477	491

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium account	Amount subscribed for share capital in excess of nominal value.
Share warrant reserve	Share warrants for which consideration has been received but which are not exercised yet.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

NOTES TO THE ACCOUNTS

29 NET ASSET VALUE PER SHARE

Basic	2017	2016
Equity attributable to holders of the parent (£'000)	**28,370**	24,133
Number of ordinary shares in issue at the end of the period	**12,536,957**	10,185,487
Basic net asset value per share (pence)	**226.3**	236.9

Diluted	2017	2016
Equity attributable to holders of the parent (£'000)	**28,370**	24,133
Adjusted number of ordinary shares in issue at the end of the period	**13,435,704**	10,185,487
Diluted net asset value per share (pence)	**211.2**	236.9

Diluted net asset value per share is based on the number of shares in issue at the year end together with 898,747 shares deemed to have been issued at nil consideration as a result of shareholder, supporter and LMS warrants granted and shares which could be issued under the bonus share matching plan and long-term incentive plans.

These shares and warrants had no dilutive effect in the prior year as the exercise price of the warrants is 323.27p which was higher than the average market price of ordinary shares during the year.

The movement during the year of the assets attributable to ordinary shares were as follows:

	£'000
Total net assets attributable at 1 January 2017	24,133
Total recognised losses for the year	(3,512)
Share based payments	123
Issue of shares	7,626
Total net assets attributable at 31 December 2017	28,370

30 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Net operating loss after exceptional items	**(2,216)**	(3,838)	**(500)**	(2,086)
(Loss)/profit from discontinued operations	**(1,104)**	339	**–**	–
Movement in fair value of investment property	**1,466**	139	**–**	–
Interest payable	**170**	293	**170**	260
Depreciation	**87**	77	**31**	3
Profit on disposal of tangible fixed assets	**(12)**	(8)	**–**	–
Amortisation	**1,122**	1,364	**–**	–
Share based payments	**123**	72	**–**	–
Intercompany loans waived	**–**	–	**–**	2,000
	(364)	(1,562)	**(299)**	177
Decrease / (increase) in long-term receivables	**54**	(54)	**–**	–
(Increase) / decrease in current assets	**(1,219)**	(430)	**(154)**	164
(Decrease) / increase in current liabilities	**(86)**	(1,291)	**10**	(747)
	(1,615)	(3,337)	**(443)**	(406)

NOTES TO THE ACCOUNTS

31 FINANCIAL INSTRUMENTS

The Group consists of the Company and subsidiary undertakings whose principal activities are asset management, forestry management and property investment.

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

(iv) short-term and long-term borrowings.

As at 31 December 2017 the following categories of financial instruments were held by:-

Group

	2017		2016	
Financial assets per Statement of Financial Position	**Loans and receivables £'000**	**Assets at fair value through compre-hensive income £'000**	Loans and receivables £'000	Assets at fair value through compre-hensive income
Investments – securities	**159**	**2,830**	617	2,217
Trade and other receivables – current and non-current	**2,089**	**3,693**	1,259	5,180
Accrued income	**563**	**–**	387	–
Cash and cash equivalents	**9,785**	**–**	2,802	–
	12,596	**6,523**	5,065	7,397

	2017		2016	
Financial liabilities per Statement of Financial Position	**Other financial liabilities £'000**	**Liabilities at fair value through compre-hensive income £'000**	Other financial liabilities £'000	Liabilities at fair value through compre-hensive income £'000
Trade and other payables – short-term *	**2,170**	**3,293**	2,229	–
Bank loans – short & long-term	**–**	**–**	5,896	–
Other creditors – long-term	**2**	**–**	27	3,237
	2,172	**3,293**	8,152	3,237

* £284,000 (2016: £245,000) of corporation tax, PAYE and VAT payable is included within trade and other payables.

Company

	2017		2016	
Financial assets per Statement of Financial Position	**Loans and receivables £'000**	**Assets at fair value through compre-hensive income £'000**	Loans and receivables £'000	Assets at fair value through compre-hensive income £'000
Investments – securities	**159**	**1,151**	617	499
Accrued income	**219**	**–**	219	–
Amounts owed by Group undertakings	**7,878**	**–**	9,734	–
Cash and cash equivalents	**6,484**	**–**	858	–
	14,740	**1,151**	11,428	499

NOTES TO THE ACCOUNTS

31 FINANCIAL INSTRUMENTS – CONTINUED

Financial liabilities per Statement of Financial Position	2017 Other financial liabilities £'000	2017 Liabilities at fair value through compre-hensive income £'000	2016 Other financial liabilities £'000	2016 Liabilities at fair value through compreh-ensive income £'000
Trade and other payables – short-term	**31**	**251**	87	–
Other loans – short & long-term	**5,552**	**–**	6,258	–
Other creditors – long-term	**–**	**–**	–	258
	5,583	**251**	6,345	258

The carrying value of loans and receivables and other financial liabilities are not materially different to their fair values. The Group's activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The main risks to which the Group is exposed are market price risk, credit risk, interest rate risk and liquidity risk. The nature and extent of the financial instruments outstanding at the Statement of Financial Position date and the risk management policies employed by the Group are summarised below.

Market price risk
Market price risk is the risk that changes in market prices will adversely affect the Group's income due to a decline in the underlying value of assets under management, resulting in lower fees.

The objective of market price risk management is to manage and control market price exposure, while optimising the return on risk. The Group manages strategic equity funds. Forestry asset management fees are not linked directly to market prices.

Market price risk arises from uncertainty about the future prices of financial instruments held within the Group's portfolio. It represents the potential loss that the Group 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.

Unquoted investments are valued as per accounting policy (j) 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.

Based on values as at 31 December 2017, a 10% movement in the net asset values of those funds exposed to public markets would result in a £153,000 movement in both profit and net assets.

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:

	2017 £'000	2016 £'000
Loan stock investments	**159**	617
Deferred receivable – short and long-term	**3,693**	5,180
Trade and other receivables – short-term	**2,089**	1,259
Accrued income	**563**	387
Cash and cash equivalents	**9,785**	2,802
	16,289	10,245

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. The Company's exposure to credit risk is restricted to investments, cash and cash equivalents, other loans, amounts owed by Group undertakings and accrued income totalling £14,740,000 (2016: £11,428,000).

Cash and cash equivalents consist of cash in hand and balances with banks. To reduce the risk of counterparty default the Group deposits its surplus funds in approved high-quality banks.

NOTES TO THE ACCOUNTS

31 FINANCIAL INSTRUMENTS – CONTINUED

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

(a) Loan stock investments	2017 £'000	2016 £'000
Repayable within:-		
1 year	–	151
1-2 years	–	466
2-3 years	–	–
3-4 years	103	–
4-5 years	56	–
	159	617

As at 31 December 2017 loan stock investments totalling £718,000 (2016: £340,000) were impaired and provided for.

As at 31 December 2017 other loans totalling £54,000 (2016: £155,000) were impaired and provided for.

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

The Group's assets include fixed and floating rate interest instruments as detailed below. The Group is exposed to interest rate movements on its floating rate liabilities.

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 December 2017 and 2016 were:

Group As at 31 December 2017	Non-interest bearing assets/ liabilities £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liabilities £'000	Floating rate liabilities £'000	Net total £'000
Investments - securities	2,830	159	–	–	–	2,989
Cash	–	–	9,785	–	–	9,785
Trade and other receivables	2,089	–	–	–	–	2,089
Accrued income	563	–	–	–	–	563
Creditors						
– falling due within 1 year	(5,463)	–	–	–	–	(5,463)
– falling due after 1 year	–	–	–	(2)	–	(2)
	19	159	9,785	(2)	–	9,961

NOTES TO THE ACCOUNTS

31 FINANCIAL INSTRUMENTS – CONTINUED

As at 31 December 2016	Non-interest bearing assets/ liabilities £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liabilities £'000	Floating rate liabilities £'000	Net total £'000
Investments - securities	2,217	617	–	–	–	2,834
Cash	–	–	2,802	–	–	2,802
Trade and other receivables	1,259	–	–	–	–	1,259
Accrued income	387	–	–	–	–	387
Creditors						
– falling due within 1 year	(2,229)	–	–	–	(1,015)	(3,244)
– falling due after 1 year	(3,237)	–	–	(27)	(4,881)	(8,145)
	(1,603)	617	2,802	(27)	(5,896)	(4,107)

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

Fixed rate assets comprise fixed rate loans, unsecured loans and loans repayable on demand, with a weighted average interest rate of 7.6% (2016: 10.0%).

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

Fixed rate liabilities include hire purchase contracts and short-term loan notes.

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

The interest rate exposure profile of the Company's financial assets and liabilities as at 31 December 2017 and 2016 were:

Company **As at 31 December 2017**	**Non-interest bearing assets/ liabilities £'000**	**Fixed rate assets £'000**	**Floating rate assets £'000**	**Fixed rate liabilities £'000**	**Floating rate liabilities £'000**	**Net total £'000**
Investments - securities	**1,151**	**159**	**–**	**–**	**–**	**1,310**
Cash	**–**	**–**	**6,484**	**–**	**–**	**6,484**
Accrued income	**219**	**–**	**–**	**–**	**–**	**219**
Owed by Group undertakings	**7,878**	**–**	**–**	**–**	**–**	**7,878**
Creditors						
– falling due within 1 year	**(282)**	**–**	**–**	**–**	**–**	**(282)**
	8,966	**159**	**6,484**	**–**	**–**	**15,609**

NOTES TO THE ACCOUNTS

31 FINANCIAL INSTRUMENTS – CONTINUED

As at 31 December 2016	Non-interest bearing assets/ liabilities £'000	Fixed rate assets £'000	Floating rate assets £'000	Fixed rate liabilities £'000	Floating rate liabilities £'000	Net total £'000
Investments - securities	499	617	–	–	–	1,116
Cash	–	–	858	–	–	858
Accrued income	219	–	–	–	–	219
Owed by Group undertakings	9,734	–	–	–	–	9,734
Creditors						
– falling due within 1 year	(87)	–	–	–	(1,105)	(1,192)
– falling due after 1 year	(258)	–	–	–	(4,881)	(5,139)
	10,107	617	858	–	(5,986)	5,596

Although the Company holds investments that pay interest, the Board does not consider it appropriate to assess the impact of interest rate changes upon the value of the investment portfolio as interest rate changes are only one factor affecting market price and the impact is likely to be immaterial. The Group has no bank borrowings and as such, the Board does not consider it appropriate to show the sensitivity of interest payable to changes in interest rates.

Liquidity risk

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

The Group aims to hold sufficient cash to fulfil its requirements with respect to regulatory capital. During the year the Group and its subsidiary entities complied with all regulatory capital requirements. As the bank borrowings have been repaid liquidity risk is considered immaterial.

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

As at 31 December 2017	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**
Trade payables	**274**	**–**	**–**
Accruals	**1,516**	**–**	**–**
Contingent consideration	**1,500**	**–**	**–**
Other creditors	**379**	**–**	**–**
	3,669	**–**	**–**

As at 31 December 2016	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Bank borrowings	1,413	2,264	2,863
Trade payables	225	–	–
Accruals	1,672	–	–
Contingent consideration	–	1,500	–
Other creditors	359	–	–
	3,669	3,764	2,863

NOTES TO THE ACCOUNTS

31 FINANCIAL INSTRUMENTS – CONTINUED

Capital risk management

The Group manages its capital to ensure that entities within the Group and the Company will be able to continue to trade in an orderly fashion whilst maintaining sustainable returns to shareholders.

The capital structure of the Group and Company consist of short and long-term borrowings as disclosed in notes 21 and 23, cash and cash equivalents and equity attributable to equity shareholders of the Company comprising issued share capital, share premium, share warrant reserve and retained reserves as disclosed in notes 24 to 27. The Board reviews the capital structure of the Group and the Company on a regular basis to ensure it complies with all regulatory capital requirements. The financial measures that are subject to review include cash flow projections and the ability to meet capital expenditure and other contracted commitments, projected gearing levels and interest covenants although no absolute targets are set for these.

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Debt	**–**	(5,896)	**–**	(5,896)
Cash and cash equivalents	**9,785**	2,802	**6,484**	858
Net assets	**28,847**	24,624	**28,571**	21,629
Net cash / (debt)	**9,785**	(3,094)	**6,484**	(5,038)
Net cash / (debt) as a % of net assets	**33.9%**	(12.6%)	**22.7%**	(23.3%)

32 FAIR VALUE MEASUREMENTS

Valuation inputs

IFRS 13 – Fair Value Measurement - requires an entity to classify its financial assets and liabilities held at fair value according to a hierarchy that reflects the significance of observable market inputs. The classification of these assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments, the valuation of which incorporate significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or analytical techniques.

For investment properties, the significant unobservable input used in the valuation at 31 December 2017 are the expected net sales proceeds.

For investments in securities, which includes early-stage private equity investments, the significant unobservable inputs used include cash flow forecasts and discount rates. An increase in the discount rate applied will decrease the fair value of the investment whereas a decrease in the rate will increase the fair value. No reasonable foreseeable changes to significant unobservable inputs will result in a material impact to profit and loss or equity.

The valuation techniques used by the Company for level 3 financial assets can be found in accounting policy (j) (iii) and (iv).

Further details of the securities portfolio can be found in note 11 and of the property portfolio in note 12 of these financial statements.

NOTES TO THE ACCOUNTS

32 FAIR VALUE MEASUREMENTS – CONTINUED

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

Group	31 December 2017 £'000	Level 1 £'000	Level 3 £'000
Financial assets at fair value through profit and loss:			
Property investments	**1,986**	**–**	**1,986**
Investments – securities			
– Equities	**2,830**	**1,106**	**1,724**
Trade and other receivables – short and long-term	**3,693**	**–**	**3,693**
	8,509	**1,106**	**7,403**

	31 December 2016 £'000	Level 1 £'000	Level 3 £'000
Financial assets at fair value through profit and loss:			
Property investments	9,628	–	9,628
Investments – securities			
– Equities	2,217	499	1,718
Trade and other receivables – long-term	5,180	–	5,180
	17,025	499	16,526

Company	31 December 2017 £'000	Level 1 £'000	Level 3 £'000
Financial assets at fair value through profit and loss:			
Investments – securities			
– Equities	**1,151**	**1,106**	**45**
	1,151	**1,106**	**45**

	31 December 2016 £'000	Level 1 £'000	Level 3 £'000
Financial assets at fair value through profit and loss:			
Investments – securities			
– Equities	499	499	–
	499	499	–

NOTES TO THE ACCOUNTS

32 FAIR VALUE MEASUREMENTS – CONTINUED

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

Group 31 December 2017	Property investments £'000	Investments – securities £'000	Trade and other receivables £'000	Total £'000
Opening balance	**9,628**	**1,718**	**5,180**	**16,526**
Total gains and (losses):				
In Statement of Comprehensive Income	**(1,466)**	**(41)**	**148**	**(1,359)**
Additions	**137**	**47**	**–**	**184**
Disposals	**(6,313)**	**–**	**(1,635)**	**(7,948)**
Closing balance	**1,986**	**1,724**	**3,693**	**7,403**
Total gains and (losses) for the period included in comprehensive income for assets held at the end of the reporting period	**(331)**	**(41)**	**148**	**(224)**

31 December 2016	Property investments £'000	Investments – securities £'000	Trade and other receivables £'000	Total £'000
Opening balance	9,559	1	5,916	15,476
Total gains and (losses):				
In Statement of Comprehensive Income	(139)	(32)	202	31
Additions	311	1,750	–	2,061
Disposals	(103)	(1)	(938)	(1,042)
Closing balance	9,628	1,718	5,180	16,526
Total gains and (losses) for the period included in comprehensive income for assets held at the end of the reporting period	(242)	(32)	202	(72)

Company: 31 December 2017	Investments – securities £'000	Total £'000
Opening balance	**–**	**–**
Total gains and (losses):		
In Statement of Comprehensive Income	**(2)**	**(2)**
Additions	**47**	**47**
Closing balance	**45**	**45**
Total gains or losses for the period included in comprehensive income for assets held at the end of the reporting period	**(2)**	**(2)**

31 December 2016	Investments – securities £'000	Total £'000
Opening balance	1	1
Disposals	(1)	(1)
Closing balance	–	–
Total gains or losses for the period included in comprehensive income for assets held at the end of the reporting period	–	–

NOTES TO THE ACCOUNTS

32 FAIR VALUE MEASUREMENTS – CONTINUED

The only financial liabilities held at fair value relates to the deferred consideration on the acquisition of Gresham House Forestry Limited and the appointment of Gresham House Asset Management Limited as investment manager to LMS Capital plc amounting to £3,293,000. This is measured using level 3 valuation techniques. The only such financial liabilities held at fair value within the Company relates to the LMS contingent consideration totalling £251,000.

Price risk sensitivity

Based on values as at 31 December 2017 a 10% movement in the fair values of the Group's equity and direct property investments would be equivalent to a movement of £482,000 in both profit and net assets.

33 RELATED PARTY TRANSACTIONS

Group

During the year management fees totalling £611,610 (2016: £542,453) were invoiced to Gresham House Strategic plc ("GHS"), a company in which the Group has a 19.3% interest. At the year-end £62,063 (2016: £57,803) was due from GHS.

During the year management fees totalling £1,143,334 (2016: £479,996) were invoiced to LMS Capital plc ("LMS"), a company with a significant shareholding in the Company as disclosed in the directors' report. At the year-end £104,870 (2016: £253,725) was due from LMS.

During the year management fees of £223,335 (2016: £nil) were invoiced to Hazel Capital LLP ("Hazel"), an entity in which Ben Guest, head of the New Energy strategy, has a material interest. Conversely, the Group was invoiced £58,848 (2016: £nil) by Hazel for office costs. These transactions reflect the activity of the New Energy strategy with effect from 31 October 2017. At the year end £164,487 (2016: £nil) was due from Hazel.

Company

During the year the Company received loans totalling £8,560,271 from (2016: advanced £3,098,028 to) Security Change Limited. At the year-end £5,488,358 was due to (2016: £3,071,913 due from) Security Change Limited. No interest was charged during the year (2016: £nil).

During the year the Company received £nil (2016: £8,278,000) from Gresham House Finance Limited. At the year-end £221,400 (2016: £221,400) was owed by Gresham House Finance Limited. No interest was charged during the year (2016: £nil).

During the year the Company received £297,476 (2016: £361,460) from Gresham House Forestry Limited. At the year-end £63,984 (2016: £361,460) was owed to Gresham House Forestry Limited. No interest was charged during the year (2016: £nil).

During the year the Company advanced loans totalling £1,329,661 (2016: £2,005,085) to Gresham House Holdings Limited. At the year-end £7,656,723 (2016: £6,327,062) was owed by Gresham House Holdings Limited. No interest was charged during the year (2016: £nil).

During the year the Company charged management fees totalling £nil (2016: £nil) to Gresham House Asset Management Limited. At the year-end £nil (2016: £113,733) was owed by Gresham House Asset Management Limited.

34 POST BALANCE SHEET EVENTS

On 6 February 2018, the sale of the land at Newton-le-Willows was completed with the Group receiving gross proceeds of £2.1 million.

CORPORATE INFORMATION

Company Number	871 incorporated in England	
Directors	Anthony Townsend	Non–Executive Chairman
	Anthony Dalwood	Chief Executive
	Kevin Acton	Finance Director
	Richard Chadwick	Non-Executive
	Simon Stilwell	Non-Executive
	Rachel Beagles	Non-Executive (to be appointed 1 March 2018)
Secretary	John-Paul Preston	
Registered Office	5 New Street Square London EC4A 3TW	
Auditor	BDO LLP 55 Baker Street London W1U 7EU	
Nominated Adviser & Brokers	Liberum Capital Limited Ropemaker Place London EC2Y 9LY	
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA	
Solicitors	Eversheds Sutherland (International) LLP One Wood Street London EC2V 7WS	

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Gresham House plc (the "Company") will be held at the offices of Eversheds Sutherland (International) LLP, One Wood Street, London, EC2V 7WS on 17 May 2018 at 10.00 am for the purpose of considering and (if thought fit) passing the Resolutions set out below of which Resolutions 1 to 7 will be proposed as ordinary resolutions and Resolutions 8 and 9 will be proposed as special resolutions.

ORDINARY RESOLUTIONS

1 To receive and adopt the accounts for the year ended 31 December 2017 together with the directors' report and the report of the auditor;

2 To elect as a director Simon Stilwell who retires in accordance with the Company's articles of association and offers himself for re-election;

3 To re-elect as a director Anthony Townsend who retires in accordance with the Company's articles of association and offers himself for election;

4 To elect as a director Rachel Beagles who was appointed as director since the last Annual General Meeting;

5 To re-appoint BDO LLP as the Company's auditor in accordance with Section 489 of the Companies Act 2006 (the "Act"), to hold office from the conclusion of the Meeting until the conclusion of the next annual general meeting;

6 To authorise the directors to fix the remuneration of the auditors;

7 That, in substitution for any existing authorities to allot shares or to grant rights to subscribe for or to convert any security into shares in the Company (but without prejudice to the validity of any allotment or any agreement to allot shares entered into pursuant to such previous authorities), the directors of the Company be and are generally and unconditionally authorised in accordance with section 551 of the Act to exercise all powers of the Company to:

a. allot shares or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,045,032; and

b. allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £2,090,064 (such amount to be reduced by the nominal amount of any shares allotted or rights granted under paragraph (a) of this Resolution 6) in connection with an offer by way of a rights issue or other pre-emptive offering to:

(i) the holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

(ii) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors of the Company otherwise consider necessary,

and so that, in each case, the directors of the Company may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any of the requirements of any regulatory body or stock exchange or any other matter, and this authority shall take effect on the date of passing of this Resolution and shall (unless previously revoked, renewed or varied) expire on the earlier of the end of the Company's next Annual General Meeting or the date falling 15 months after the date of passing of this Resolution, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require the allotment of ordinary shares in pursuance of such an offer or agreement as if such authority had not expired.

SPECIAL RESOLUTIONS

8 That, subject to the passing of Resolution 7 above and in substitution for any existing authorities to disapply pre-emption rights in connection with any allotment of shares or grant of rights to subscribe for or convert any security into shares in the Company for cash, the directors of the Company be and are empowered in accordance with section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred on them in Resolution 7 above as if section 561(1) of the Act did not apply to such allotment, provided that this authority shall be limited to allotments of equity securities:

a. in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as practicable) to their respective holdings, subject

NOTICE OF ANNUAL GENERAL MEETING

to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

b. otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £470,265,

and this authority shall take effect on the date of passing of this Resolution and shall (unless previously revoked, renewed or varied) expire on the earlier of the end of the Company's next Annual General Meeting or the date falling 15 months after the date of passing of this Resolution, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require the allotment of ordinary shares in pursuance of such an offer or agreement as if such authority had not expired;

9 That, in substitution for any existing authorities to make market purchases of ordinary shares in the capital of the Company (but without prejudice to the validity of any purchase or any agreement to purchase entered into pursuant to such previous authorities), the Company be and is generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of ordinary shares in such manner and on such terms as the directors of the Company may from time to time determine, and where such shares are held as treasury shares, the Company may use them for the purposes set out in sections 727 or 729 of the Act, including for the purpose of its employee share schemes, provided that:

a. the maximum number of ordinary shares which may be purchased is 1,254,038;

b. the minimum purchase price which may be paid for any ordinary share is 25 pence (exclusive of expenses); and

c. the maximum purchase price which may be paid for any ordinary share in the capital of the Company shall not be more than the higher of (in each case exclusive of expenses):

(i) 5 per cent. above the average middle market quotations for an ordinary share as derived from the AIM Appendix to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and

(ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share, as derived from the trading venue where the purchase is carried out,

and this authority shall take effect on the date of passing of this Resolution and shall (unless previously revoked, renewed or varied) expire on the earlier of the end of the Company's next Annual General Meeting or the date falling 15 months after the date of passing of this Resolution, save in relation to purchases of ordinary shares, the contract(s) for which were concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry.

By Order of the Board,

JOHN-PAUL PRESTON
SECRETARY

28 February 2018

5 New Street Square
London EC4A 3TW

EXPLANATORY NOTES

The following notes give an explanation of the proposed resolutions.

Resolution 1 to 7 (inclusive) are proposed as Ordinary Resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 8 and 9 are proposed as Special Resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

The directors consider the passing of all of the Resolutions to be in the best interests of the Company and its shareholders and accordingly recommend that you vote in favour of these Resolutions as they intend to do so in respect of their own shareholdings.

Resolution 1 – Receiving the Account and Reports
At the Meeting, the directors will present to the shareholders the annual accounts, together with the directors' reports and auditors' reports on the accounts, for the financial year ended 31 December 2017.

Resolutions 2, 3 and 4 - Re-election or election of Directors
The articles of association of the Company require certain of the directors to retire by rotation at each Annual General Meeting. At the Meeting, Simon Stilwell, Anthony Townsend and Rachel Beagles will retire. Each of Simon, Anthony, and Rachel are offering themselves for re-election or election and resolutions 2, 3, and 4 propose their re-election or election as directors.

Brief biographies of the directors are set out on page 32 of the Annual Report and Accounts.

Resolution 5 – Re-appointment of Auditors
This resolution concerns the re-appointment of BDO LLP as auditors until the conclusion of the next general meeting at which accounts are laid, that is, the next Annual General Meeting.

Resolution 6 – Auditors' Remuneration
This resolution authorises the directors to fix the auditors' remuneration.

Resolution 7 – Authority to allot shares or grant subscription or conversion rights
The resolution asks shareholders to grant the directors authority under section 551 of the Act to allot shares or grant such subscription or conversion rights as are contemplated by sections 551(1)(a) and (b) respectively of the Act up to a maximum aggregate nominal value of £2,090,064, being approximately two thirds of the nominal value of the issued ordinary share capital of the Company as at 28 February 2018. As at 28 February 2018, the Company held no treasury shares.

£1,045,032 of this authority is reserved for a fully pre-emptive rights issue. This is the maximum permitted amount under best practice corporate governance guidelines. The authority will expire at the next Annual General Meeting or the date falling 15 months from the passing of the resolution, whichever is earlier. The directors consider it important to have the maximum ability and flexibility to raise finance to enable the Company to respond to market development and conditions. Any allotment or any agreement to allot shares entered into pursuant to previous authorities remains valid. The resolution replaces a similar resolution passed at general meetings of the Company held on 10 March and 18 May 2017.

Resolution 8 – Disapplication of pre-emption rights
If the directors wish to allot new shares or other equity securities for cash, the Act requires that such shares or other equity securities are offered first to existing shareholders in proportion to their existing holding. The allotment of equity securities as referred to in this resolution includes the sale of any shares which the Company holds in treasury following a purchase of its own shares.

Resolution 8 asks shareholders to grant the directors (i) a general authority to allot equity securities for cash up to an aggregate nominal value of £470,265 (being 15% of the Company's issued ordinary share capital as at 28 February 2018) without first offering the securities to existing shareholders.

The resolution also disapplies the statutory pre-emption provisions in connection with a rights issue only in relation to the amount permitted under Resolution 7 allowing the directors to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise.

The authority will expire at the next Annual General Meeting or the date falling 15 months from the passing of the resolution, whichever is earlier. The resolution replaces a similar resolution passed at general meetings of the Company held on 10 March and 18 May 2017.

EXPLANATORY NOTES

Resolution 9 - Purchases of own shares by the Company
Resolution 9 seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, such authority being limited to the purchase of 10% of the ordinary shares in issue as at 28 February 2018. The maximum and minimum prices payable are also limited in the resolution. The authority will only be exercised if the directors consider that there is likely to be a beneficial impact on earnings per ordinary share and that it is in the best interests of the Company at the time. The resolution replaces a similar resolution passed at general meetings of the Company held on 10 March and 18 May 2017. The Company will be able to hold the ordinary shares which have been repurchased as treasury shares and re-sell them for cash, cancel them or use them for the purposes of its employee share schemes.

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those members registered on the Company's register of members at:

   - 6.00 pm on 15 May 2018; or,

   - if this Meeting is adjourned, at 6.00 pm on the day two working days prior to the adjourned Meeting,

   shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at such time.

2. Any member or his or her proxy attending the Meeting has the right to ask any question at the Meeting relating to the business of the Meeting.

Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. A member may appoint more than one proxy to attend the Meeting, provided each proxy is appointed to exercise the rights attached to a different share or shares held by that member (the number of shares in respect of which each proxy is appointed must be specified). The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person").

4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

6. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:

   - completed and signed;

   - sent or delivered to Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA; and

   - received by Neville Registrars no later than 10.00 am on 15 May 2018.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by a director or by any duly authorised officer or attorney.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

EXPLANATORY NOTES

Appointment of proxies through CREST

7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's "(EUI)" specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Neville Registrars (ID 7RA11) by 10.00 am on 15 May 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

Changing proxy instructions

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

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. Telephone 0121 585 1131 (lines are open Mon-Fri 9.00 am – 5.00 pm) or from overseas +44 121 585 1131.

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

Termination of proxy appointments

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by a director or duly authorised officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   The revocation notice must be received by Neville Registrars no later than 10.00 am on 15 May 2018.

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

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

Joint holders of shares

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

EXPLANATORY NOTES

Availability of documents

11. Copies of the terms and conditions of appointment of the Non-Executive Directors are available for inspection at the registered offices of the Company, 5 New Street Square London EC4A 3TW, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the conclusion of the Meeting and will be available for inspection at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

Issued shares and total voting rights

12. As at 28 February 2018, being the last business day prior to the publication of this notice, the Company's issued share capital comprised 12,540,379 ordinary shares of 25 pence, carrying one vote each. Therefore, the Company's total voting rights as at 28 February 2018 are 12,540,379.

Communication

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

    - calling our shareholder helpline on 0121 585 1131, (lines are open Mon-Fri 9.00 am – 5.00 pm) or from overseas +44 121 585 1131.

    You may not use any electronic address provided either:

    - in this notice of Meeting; or
    - any related documents (including the Chairman's letter and proxy form),
    - to communicate with the Company for any purposes other than those expressly stated.

Information to be published

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

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

Nominated Person

16. A Nominated Person may under an agreement between him/her and the member who nominated him/her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

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

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