gresham computing plc

annual report 2003

gresham
banking • integration • storage

CONTENTS

Gresham Computing plc
Registered No. 1072032

Directors

S J Green	Non-Executive Chairman
A M Howarth	Non-Executive Director and Chairman designate
J E Aves	Non-Executive Director and Chairman of Audit and Remuneration Committees
A J S Walton-Green	Chief Executive
S W Purchase	Commercial Director
D Osman	Operations Director
C M Errington	Finance Director

Secretary

C M Errington

Registered Office

Sopwith House
Brook Avenue
Warsash
Southampton
SO31 9ZA

Brokers

KBC Peel Hunt Ltd
62 Threadneedle Street
London
EC2R 8HP

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ

Registrars

Lloyds TSB Registrars
Registrar's Department
The Causeway
Worthing
West Sussex
BN99 6DA

Solicitors

Blake Lapthorn Linnell
Kings Court
21 Brunswick Place
Southampton
SO15 2AQ

S J Green
Non-Executive Director and Chairman
Sid, aged 64, founded the group in 1969 and was instrumental in its development and subsequent USM listing in 1991. He retired as Chief Executive in 1993 to become a non-executive director. Sid has served as Chairman since April 2000, but will retire from the board at the conclusion of the Annual General Meeting in order to pursue his retirement at his home in Portugal.

A M Howarth
Non-Executive Director and Chairman designate
Alan, aged 58, was appointed to the board on 11 August 2003 and has agreed to replace Sid as Chairman following the Annual General Meeting. He has spent over 20 years as a management consultant advising major private and public organisations on strategic and operational improvement. Alan was formerly Managing Director of Compass Management Consulting Limited and prior to that a partner with Ernst & Young. Additional non-executive directorships include the MacLellan Group plc and various interests in public bodies and smaller private concerns.

J E Aves
Non-Executive Director and Chairman of Audit and Remuneration Committees
Ted, aged 68, was appointed to the board in June 2001 and is the group's senior independent non-executive director. He also serves as chairman of the audit and remuneration committees. Ted has extensive experience in advising organisations on corporate marketing and strategic direction. He was previously Chairman of the consulting division of ECM and Vice-Chairman of Benton & Bowles.

A J S Walton-Green
Chief Executive
Andrew, aged 40, joined the group as Chief Executive in April 2000 and has played a key role in the transformation of the group since that time. Prior to joining the group, Andrew spent 10 years in consulting and senior management positions as a Chartered Accountant: first with Ernst & Young, then as Director for e-business activities with Deloitte & Touche.

S W Purchase
Commercial Director
Steve, aged 51, has been a mainstay of the group since he joined Gresham as a Programmer in 1973. He became Commercial Director in 1982. Steve's considerable technical knowledge and pragmatic approach continue to play a major role in the direction of Gresham's product and strategic development.

D Osman
Operations Director
Dean, aged 41, joined Gresham in January 1999 as Finance Director and Company Secretary. He was appointed Operations Director on 19 April 2004 in order to work closely with operational management and strengthen the group's operational performance. Prior to joining the group, Dean developed considerable management, accounting and business experience working for 15 years as a Chartered Accountant with Ernst & Young in the UK and United States.

C M Errington
Finance Director
Chris, aged 38, joined Gresham in February 2004 as Company Secretary. He was appointed Finance Director on 19 April 2004. Chris brings to the group considerable technical knowledge and management experience. He has over 13 years of experience as a Chartered Accountant, most recently with BDO Stoy Hayward and before that with Ernst & Young, where his focus was with fast growth and listed companies in the technology sector.

A J S Walton-Green and D Osman retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. In addition, having been appointed since the last Annual General Meeting, A M Howarth and C M Errington offer themselves for re-election.

Results

I am pleased to report the group's final results for the year ended 31 December 2003. The group's turnover for the year was £10.2 million (2002: £11.6 million). The operating loss was £2.2 million (2002: £3.5 million loss). Loss before taxation was £1.95 million (2002: £3.3 million loss on continuing operations, £1.1 million profit including the disposal of SIM) with a retained loss for the period of £1.9 million (2002: £1.2 million profit). The resultant loss per share is 4.05 pence (2002: 7.92 pence loss before the disposal of SIM, 2.51 pence profit per share after the disposal of SIM).

The trading conditions faced by the group during the year were generally challenging, although our storage business saw an improvement in market conditions in the second half of the year. The decrease in group turnover is largely attributable to our contract staff agency for which trading conditions, in common with other such agencies, remained difficult throughout the period. Notwithstanding the market conditions, we have significantly reduced the level of operating loss while continuing to invest in the development of the business. Since year end we have seen a gradual improvement in the market conditions facing the business.

The group's financial position was strengthened during the year by the raising of £3.9 million through a share placement. As a result the net funds position has increased from £3.9 million last year to £4.9 million at 31 December 2003.

Strategy

We continue our strategy of focusing on the core areas of the business; Banking, Integration and Storage. 2004 will be a key year in starting to deliver against the opportunities these businesses have developed. In the past twelve months we have successfully increased market awareness of the group and its capabilities, particularly in the finance and banking sector. As we move forward we believe that our proven integration technology and skills combined with our banking systems know-how will underpin the future development of the group. We have current developments under way that will build on our skills and market recognition in this area by expanding our offerings in the rapidly growing Bank to Bank and Bank to Corporate systems marketplace.

Banking

Our primary focus in this area continues to be in the delivery of application software and marketing support to the Cable & Wireless Real Time Nostro ("C&WRTN") service. Although it has taken longer to bring the service to market than we had hoped, considerable progress has been made in the past year towards the commercial realisation of the service. I am pleased to be able to report that C&WRTN has gone live utilising US Dollar information from JP Morgan Chase with the Royal Bank of Scotland as initial subscribers.

C&WRTN continues to be well received by the market. This can be seen by the impressive list of banks that have already agreed to provide data to the service: ANZ Bank, Barclays, Bangkok Bank, JP Morgan Chase, Mizuho Corporate Bank and RBC Global Services. In addition, the Royal Bank of Scotland, Santander Central Hispano and Dresdner Kleinwort Wasserstein have already agreed to be subscribers for the service.

Your board considers that C&WRTN has the potential to deliver the most significant returns in the group's history. C&WRTN is a subscription based service and the group will receive a share of these revenues through its contract with Cable & Wireless. We expect that, as with any subscription based service, initially revenues from C&WRTN will grow gradually from this point and build significantly over the coming years as the service is rolled out. The board believes that the speed of roll out of C&WRTN will be determined by the number of data providers that sign up to the service which will broaden its currency coverage and the level of user satisfaction.

Integration

Although, 2003 was a disappointing year for our integration business in terms of financial results we were successful in developing a number of partnerships that have increased our routes to market, and in generating increased interest in our integration capabilities and products. We also increased the market awareness of our integration capabilities and focused on the enhancement of our integration products.

The essential groundwork of 2003 has started to bear fruit in the early months of 2004. We have recently signed our most significant integration contract for some years with a major UK bank, to licence our own software in conjunction with a partner. This contract is an important strategic step for us in the Bank to Corporate systems marketplace. We anticipate that this contract will provide us with a sound base for a recurring revenue stream as we will be jointly marketing with the bank our offering to the bank's customers.

We believe that our proven integration and development capabilities combined with the increased market awareness of the group, particularly but not exclusively in the finance and banking sector, will enable the early progress of 2004 to be sustained throughout the year and beyond.

Storage

The performance of our storage division showed considerable improvement in the second half of the year as market conditions improved. However, the increase in activity was in part offset by the weakness of the US dollar in the second half of the year. During the year we expanded our current niche product range by increasing the number of platforms it serves. In addition, we have continued to develop new products in order to enhance our offering to a wider storage market.

Since the end of the year we have also broadened our routes to market with the recent completion of a worldwide distribution agreement with StorageTek. As a result of these factors, we believe that this division is well equipped to build on the performance in the second half of 2003 and to deliver revenue growth in 2004.

Board of directors

I am happy to announce that we have today appointed Chris Errington as the finance director of the group. Chris joined us in February as company secretary and his appointment will strengthen the management team. Dean Osman now takes on a new role as the group's operations director where he will be focused on assisting operational management to improve the performance of the group. I would like to thank Dean for the important part he has played in the development of the group over the last few years and wish him well in this new role where his detailed knowledge of the business will be invaluable.

After serving the group for the past 35 years, I have decided to retire from the Board following the Annual General Meeting on 28 May. I believe that we have now put the past few difficult years behind us and are now suitably positioned to deliver on the significant opportunities we have generated in the last three years. I am delighted that Alan Howarth, who was appointed as a non-executive director in August, has agreed to take on the role of chairman following the Annual General Meeting.

Alan brings to the group extensive business and management experience and I am confident of his ability to oversee the exciting next stage of the group's development.

Outlook

C&WRTN remains our most significant market opportunity and has the potential to deliver the most substantial returns in the group's history. The continuing progress on C&WRTN has moved us much closer to realising this potential and has significantly raised the profile of the group in our chosen markets. Our strategy is to build on this opportunity by utilising our know-how, technology and skills in the finance and banking sector to expand our offerings in the rapidly growing Bank to Bank and Bank to Corporate systems marketplace. We are also encouraged by the recent progress made in our integration and storage businesses and consider that they are now better placed to deliver revenue growth in 2004 and beyond.

The continuing focus of the group and all its employees is to deliver the significant medium and long term growth that the group has the potential to achieve. As I conclude my last report to you as chairman, I consider that we are now well placed to start delivering against the opportunities in the core businesses that we have so resolutely developed.

As always, and sadly, for the last time, I must extend my gratitude and thanks to our staff for their unstinting efforts, as well as to my fellow directors and to our patient shareholders for their considerable efforts in bringing the Company to this exciting stage of its development.

S J Green
Chairman
19 April 2004

The directors present their report and the group financial statements for the year ended 31 December 2003.

Results and dividends

The group loss for the year, after taxation, amounted to £1,943,000 (2002: profit £1,175,000). The directors do not recommend a final ordinary dividend, which leaves the loss of £1,943,000 to be transferred to reserves.

Principal activities

The group's principal activities during the year continued to be focused on its core business markets of Banking, Integration and Storage through the provision of solutions, software and specialist contract staff.

Review of the business and future developments

A review of the group's business during the year and future developments is contained in the Chairman's Statement on pages 3 to 5.

Fixed assets

In the opinion of the directors, the market value of freehold premises is not significantly different from the book value.

Research and development

The group actively reviews technical development in its markets with a view to taking advantage of the available opportunities to maintain and improve its competitive position. The group has continued to invest in product research and development during the year.

Directors and their interests

The directors, who served throughout the year except as otherwise stated, and their interests in the share capital of the company (all beneficially held) at 31 December 2003, other than with respect to options to acquire shares, which are disclosed in the Directors' Remuneration Report, were as follows:

	Ordinary shares of 5 pence each	
	31 December 2003	1 January 2003 or subsequent date of appointment
J E Aves	10,000	10,000
S J Green	5,625,491	5,625,491
A M Howarth (appointed 11 August 2003)	–	–
D Osman	5,942	5,942
S W Purchase	4,284,591	4,254,434
A J S Walton-Green	462,990	462,990

C M Errington was appointed as a director on 19 April 2004 and has no interest in the share capital of the company.

During the period from 31 December 2003 until 19 April 2004 there have been no changes in directors' interests, except for an increase in A J S Walton-Green's holding by 30,157 ordinary shares following his exercise of an SAYE option on 17 March 2004.

Substantial shareholdings

On 19 April 2004 the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

	Number	Percentage held
J P Morgan Fleming Asset Management (UK) Limited	5,810,987	11.8
M A Green	3,273,290	6.6
Herald Investment Trust plc	1,875,000	3.8
Aberdeen Asset Managers Limited	1,629,358	3.3
Legal & General Group Plc	1,533,290	3.1
SIS SEGAIntersettle AG/Omnibus Ord a/c	1,498,000	3.0

No other person, other than the directors, has reported a holding of 3% or more of the issued ordinary share capital.

Supplier payment policy

The company has due regard to the payment terms of its suppliers and, whilst not following a specific code, generally settles all undisputed accounts at the due date for payment. At 31 December 2003 the group's creditor days were 45.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled it is the group's policy that every effort is made to ensure that their employment with the group continues. It is the group's policy that the training, career development and promotion of disabled persons, should as far as possible be identical with that of other employees.

Environmental considerations

The directors consider that because of the nature of the activities of the group it does not have a significant impact on the environment in which it operates. However, the group recognises the importance of environmental responsibility and seeks, wherever possible, to reduce its environmental impact.

Financial risk management

The majority of the group's transactions are denominated in the transacting company's own operational currency. However, where applicable, due consideration is given to employing financial instruments to manage the financial risks associated with the group's underlying business activities and the financing of those activities.

Interest rate risks

The group does not currently employ financial instruments to hedge the risk of variation in the UK bank base rate, as the majority of the group's funds are in the form of sterling, variable rate short term deposits.

Liquidity risk

The group seeks to ensure that it has sufficient long term funding and committed bank facilities in place to meet the requirements of the group.

Foreign currency risk

The group has operating subsidiaries in several countries with the majority of investment held in the UK. Foreign currency borrowings are not used to hedge foreign currency net investments.

Share capital

Resolutions will be proposed at the Annual General Meeting to renew the authorities given to the directors to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £822,122 representing one-third of the issued ordinary share capital and to allot and grant rights over shares for cash up to a maximum nominal amount of £123,318, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

International Financial Reporting Standards (IFRS)

Under a European Union Regulation, UK listed companies are required to prepare their consolidated financial statements in accordance with adopted IFRS for accounting periods starting on, or after, 1 January 2005. Guidance has been issued by the Committee of European Securities Regulators on how listed European companies can effectively communicate to investors the financial impact of the transition to IFRS in 2005 and, in connection with that guidance, the Financial Services Authority has encouraged companies to provide disclosure and information necessary to assess their progress with the transition to IFRS. In accordance with this guidance, an overview of the company's current position as regards progress to the 2005 transition is provided below:

- The directors believe that the company has sufficient qualified internal resources to manage and perform the required transition to IFRS in 2005. The recent addition of a new finance director has strengthened the company's resources in this area and he is leading the internal transition process. Significant progress will have been made on transition matters, based on IFRS in issue, during 2004 allowing the company to report under IFRS as required in 2005 (including comparatives for 2004);

- Staff performing key roles in the transition have already received, and will continue to receive, IFRS training provided by suitably qualified external organisations. The company is currently discussing with its auditors the assistance and advice that they can provide throughout the transition period, including the initial identification of likely differences arising on the transition. External professional advice will be taken on specific IFRS matters as they arise where considered necessary by the directors.

Based on our assessments carried out to date on IFRS in issue at 1 January 2004, the key differences likely to apply to the company's consolidated financial statements are:

- The presentation of primary statements is likely to be different in respect of format and content;

- We anticipate changes in accounting for the following significant items; goodwill, share options and exchange rates used to translate the results of foreign operations in the income statement

This is not an exhaustive list and the differences are subject to change as more information becomes available as to the exact content of final IFRS that will be applicable to the company in 2005.

The current timetable for adoption of IFRS will require the company to report:

- Where the financial reporting impact of IFRS can be identified by the company in a sufficiently reliable manner, quantified information as to changes will be presented in the financial statements for the full year to 31 December 2004 by way of a note disclosure;

- Consolidated results under IFRS in its interim financial report for the period ending 30 June 2005 (with IFRS comparatives); and

- Consolidated financial statements for the full year to 31 December 2005 (with IFRS comparatives).

Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board

C M Errington
Company Secretary
19 April 2004

Compliance with the Combined Code

The board endorses the ideals and the ethos behind the Combined Code regarding corporate governance.

This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Combined Code issued in June 1998.

Statement by the directors on compliance with the provisions of the Combined Code

The company has been in compliance with the provisions of the Combined Code for the year with the exception of the following provisions:

B2.1 & B2.2 The remuneration committee did not comprise solely independent non-executive directors.

And, up to the date of appointment of Mr A M Howarth on 11 August 2003:

A3.2 The majority of non-executive directors were not independent of the company.

D3.1 The audit committee did not comprise the minimum of three non-executive directors, the majority of whom should be independent.

The workings of the board and its committees

The board currently comprises a non-executive chairman (S J Green), a senior independent non-executive director (J E Aves), an independent non-executive director (A M Howarth), the chief executive (A J S Walton-Green) and three further executive directors (D Osman, S W Purchase and C M Errington).

The non-executive chairman is not deemed independent of the company for the purposes of the Combined Code because of his significant shareholding in the company. As a result, and as noted above, the company has not complied for the whole year with those provisions of the Combined Code relating to board balance and non-executive directors. The board considers that the balance of directors is appropriate given the small size of the group.

The board is responsible for the proper management of the group. It normally meets once a month and has a schedule of matters specifically reserved for its decision. Monthly management reports for each division are circulated to board members prior to each meeting. The directors make further enquiries of operational management where necessary. The chairman is responsible for ensuring that directors are properly briefed on issues arising at board meetings.

Independent professional advice, at the company's expense, may be taken by the directors in the furtherance of their duties. The company secretary is responsible for ensuring that board procedures are followed, applicable rules and regulations are complied with, and is available to provide advice to the directors. The board also monitors the requirement for on-going and initial training of directors.

Non-executive directors are appointed for specified terms and are subject to re-election on a three yearly basis. All directors are subject to election by shareholders at the first opportunity after their appointment and are subject to re-election after three years.

The board has appointed audit and remuneration committees, as follows:

- The audit committee, consisting of J E Aves (chairman), S J Green and A M Howarth (from 11 August 2003), has met with senior management to review financial reporting at both the half and full year. Its duties include monitoring the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors. In addition, the committee reviews the interim and annual reports prior to them being approved by the board.

- The remuneration committee comprises J E Aves (chairman), A M Howarth (from 11 August 2003) and S J Green. The committee meets to oversee all aspects of the remuneration of executive directors and their performance incentives. The committee monitors available data on comparable executive remuneration.

The company does not have a nomination committee as the board is relatively small and all directors are consulted in reaching a decision over board appointments.

Relations with shareholders

The board recognises the importance of communication with shareholders. There is regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year. The board is kept informed as to relations with shareholders in general.

The board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The board aims to ensure that the chairmen of the audit and remuneration committees are available at Annual General Meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting can be found in the Notice of the Meeting.

Going concern

After making appropriate enquiry, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, a period not less than 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' statement on internal controls

The board has reviewed the effectiveness of the group's system of internal controls during the year. The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of controls, financial and otherwise, that is appropriate to the business environment in which it operates and the risks to which it is exposed. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. Action has been taken by the board to enhance financial and other controls during the year. In addition, steps are continuing to be taken to further embed internal control and risk management processes into the operations of the business and to deal with areas of improvement which come to management's and the board's attention.

An embedded ongoing process for identifying, evaluating and managing the significant risks faced by the group has been in place throughout the year and remains in place up to the date of the approval of the financial statements. The process is regularly reviewed by the board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

The processes used by the board to review the effectiveness of the system of internal control include:

- Review of management reports;
- Discussions with management on risk areas identified by management and the board;
- Review and update of the group's policy and procedures;
- Review of external audit plans;
- Review of significant issues arising from the external audit;
- Results of site visits carried out by members of the board;
- Annual review of the control environment and procedures.

Control environment

The group operates within a control framework developed and strengthened over a number of years and communicated as appropriate by a series of written procedures. These lay down accounting policies and financial control procedures, in addition to controls of a more operational nature. The key procedures that the directors have established with a view to providing internal control are as follows:

- The establishment of the organisation structure and the delegated responsibilities of operational management;

- The definition of authorisation limits, including matters reserved for the board;
- The establishment of detailed operational budgets for each financial year;
- Reporting and monitoring performance against budgets and rolling forecasts;
- The security of physical property and of computer information;
- Detailed financial due-diligence on all acquisitions.

The board considers at least annually the need for a separate internal audit function. However, based on the size of the group, the board does not consider that a separate internal audit function is necessary at this stage, but has instituted a cyclical review of compliance with internal control procedures.

Compliance with the Combined Code (July 2003)

In July 2003, the new Combined Code was published which applies to reporting years beginning on or after 1 November 2003. This new Combined Code will, therefore, apply to the company for the year ending 31 December 2004. The board is currently considering and reviewing compliance with the new Code and will formally report the results of this review in the company's next annual report.

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which amended the Companies Act 1985 and introduced new statutory requirements for the disclosure of directors' remuneration. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements are to be approved.

The Regulations require the auditors to report to the company's members on the "auditable part" of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

Members: J E Aves (Chairman), A M Howarth (from 11 August 2003) and S J Green.

The remuneration committee, in consultation with the chief executive (in an advisory capacity), decides the base salary, incentives and benefits for the executive directors.

Remuneration policy for current and future years

The committee decides a compensation package for each director, which is designed to attract, motivate and retain directors of the highest calibre.

The pay and benefits of executive directors are selected from:

- Basic salary.
- Annual bonus.
- Share options.
- Pension contributions made to defined contribution schemes, usually calculated as a percentage of base salary. Rates are individually set.
- Other benefits are provided in the form of company cars (or cash alternative), medical insurance and holiday entitlement in line with normal industry practice.

Basic salary

An executive director's basic salary is set by the committee to reflect the director's experience and responsibility and market conditions. The basic salary is reviewed annually and on changes of an individual's position or responsibility level. In deciding appropriate levels the committee takes account of the remuneration paid by other comparable companies. Basic salaries for executive directors were last increased on 1 November 2000.

For the year ending 31 December 2003 Messrs D Osman, S W Purchase and A J S Walton-Green each waived £30,000 of their basic salary. For the year ending 31 December 2004 Messrs D Osman, A J S Walton-Green and S W Purchase will receive their normal basic annual salary.

Annual bonus payments

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is the profitability of the group. The annual bonus plan generally allows for incentive payments of up to 100% of basic salary. No incentive payments were made for the year ending 31 December 2003.

Share options

Directors are eligible to participate in the company's executive share option schemes. The committee is responsible for supervising the executive share option schemes and the grant of options under its terms. Options may only be granted at an exercise price of not less than the average of the mid-market price of ordinary shares on the day prior to the date of grant. The exercise conditions for options granted under the executive share option schemes are as follows:

a) Options granted prior to 18 August 1998: growth in the group's reported earnings per share in excess of the retail price index over a three year period.

b) Options granted after 18 August 1998: growth in the group's reported earnings per share in excess of 5% per annum of the increase in the retail price index over a three year period. Unapproved executive share options granted after 18 August 1998 may also be subject to additional individual performance criteria designed to reward performance and enhance shareholder return.

The conditions are based on earnings per share to align the objectives of management and shareholders, as this is considered to be a suitable measure of shareholder return.

Directors are also entitled to participate in the group's Savings Related Option scheme where options are granted to all eligible employees at a discount of 20% to the average mid-market price three days before invitations to join the scheme are issued.

Service agreements

Messrs A J S Walton-Green, S W Purchase and D Osman have service agreements dated 1 August 2000. These service agreements are terminable by 12 months' rolling notice from either side except in certain circumstances where a change of control occurs, when a notice period of up to 36 months applies, which will subsequently reduce to 12 months. These provisions were considered essential in order to recruit and retain executive directors.

Compensation for loss of office is considered on a case by case basis and in accordance with any service agreement requirements.

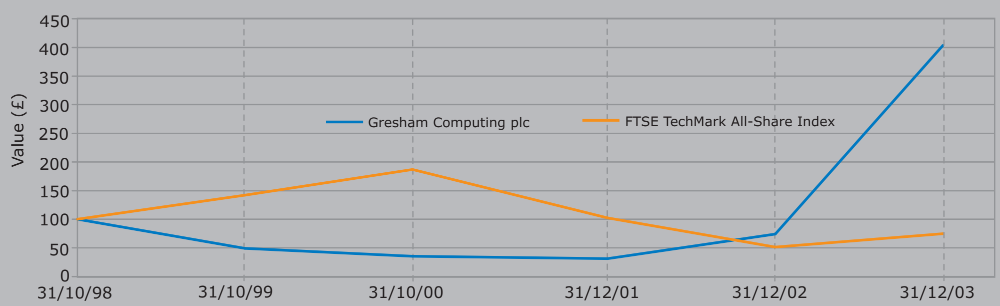
Non-executive directors

The level of non-executive directors' remuneration is determined by the board after considering the fee levels in comparable businesses. A basic fee is set for normal duties and supplementary fees are paid for additional duties. Non-executive directors are appointed for an initial period of three years and thereafter by agreement. Non-executive directors are not eligible for pensions, incentives or any similar payments other than normal out of pocket expenses incurred on behalf of the business.

Performance graph

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the Techmark All-Share Index also measured by total shareholder return. The Techmark All-Share Index has been selected for this comparison as the directors consider it to be a suitable widely-based index representing the same sector as the company.

Total shareholder return Source: Datastream



This graph shows the value, by the end of 2003, of £100 invested in Gresham Computing on 31 October 1998 compared with the value of £100 invested in the FTSE TechMark All-Share Index. The other points plotted are values at intervening financial year ends.

Audited information

Directors' emoluments

	Fees/Basic salary £	Benefits in kind £	Performance related bonus £	2003 Total emoluments £	2002 Total emoluments £
Executive					
D Osman	90,000	12,886	–	102,886	136,621
S W Purchase	90,000	12,338	–	102,338	134,304
A J S Walton–Green	120,000	13,396	–	133,396	166,079
Non–executive					
S J Green	30,000	–	–	30,000	36,665
J E Aves[1]	25,000	–	–	25,000	32,550
A M Howarth	9,385	–	–	9,385	–
	364,385	38,620	–	403,005	506,219

[1] *Paid to J E Aves Associates Limited*

Directors' pension entitlements

Three directors were members of defined contribution schemes. Contributions paid by the company in respect of the directors were as follows:

	2003 £	2002 £
D Osman	9,600	9,495
S W Purchase	15,000	15,000
A J S Walton-Green	9,855	9,585
	34,455	34,080

Directors' share options

Details of options for directors who served during the year are as follows:

	Options at 1 January 2003		Granted/ (cancelled) in the year	Exercised	Options at 31 December 2003	Date of grant	Exercise price	Date first exercisable	Expiry date
D Osman	81,081	E	–	–	81,081	21.01.98	37p	22.01.01	21.01.08
	43,919	E	–	–	43,919	17.02.99	142p	18.02.02	17.02.09
	80,000	E*	–	–	80,000	25.07.00	36p	26.07.03	25.07.10
	100,000	G	–	–	100,000	17.07.01	55p	18.07.01	17.07.04
	44,186	S	–	–	44,186	24.05.02	21.5p	01.07.05	31.12.05
A J S Walton-Green	557,897	E*	–	–	557,897	25.07.00	36p	26.07.03	25.07.10
	30,157	S	–	–	30,157	08.09.00	23p	01.11.03	30.04.04
	250,000	G	–	–	250,000	17.07.01	25p	18.07.01	17.07.06
	12,548	S	–	–	12,548	24.05.02	21.5p	01.07.05	31.12.05
S W Purchase	30,157	S	–	30,157	–	08.09.00	23p		
	12,548	S	–	–	12,548	24.05.02	21.5p	01.07.05	31.12.05

E denotes options granted under Executive share option schemes, S denotes options granted under Savings Related Option Scheme (SAYE), G denotes options granted by S J Green over shares beneficially held by him (no performance conditions over these options) and *denotes options over which the executive has agreed to pay any employer's national insurance arising from the exercise of the options.

On 6 November 2003, when the closing market price of shares was 406.5 pence, S W Purchase exercised 30,157 SAYE share options resulting in a notional gain of £115,652. SW Purchase retains ownership of these shares.

After the year end on 17 March 2004, when the closing market price of shares was 401.0 pence, A J S Walton-Green exercised 30,157 SAYE share options resulting in a notional gain of £113,993. A J S Walton-Green retains ownership of these shares.

The closing market price of the company's shares on 31 December 2003 was 335 pence. During the year, the closing price per ordinary share ranged from 44 pence to 455 pence.

Approval

This report was approved by the board of directors and is signed on its behalf by:

J E Aves
19 April 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss of the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRESHAM COMPUTING plc

We have audited the group's financial statements for the year ended 31 December 2003 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Group Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flow, Reconciliation of Net Cash Flows to Movement in Net Funds and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the loss of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Southampton
19 April 2004

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	10,245	11,578
Cost of sales		4,535	6,707
Gross profit		5,710	4,871
Administrative expenses – pre-exceptional items		7,868	8,160
Administrative expenses – exceptional items	6	–	252
Administrative expenses – total		7,868	8,412
Operating loss	3	(2,158)	(3,541)
Share of operating loss in associate		–	(398)
Total operating loss: group and share of associate		(2,158)	(3,939)
Profit on sale of discontinued operations	6	–	4,881
(Loss)/profit on ordinary activities before interest and taxation		(2,158)	942
Interest receivable		209	234
Interest payable	7	(6)	(28)
		203	206
(Loss)/profit on ordinary activities before taxation	2	(1,955)	1,148
Taxation credit on (loss)/profit on ordinary activities	8	12	27
(Loss)/profit on ordinary activities after taxation		(1,943)	1,175
Dividends	10	–	–
Retained (loss)/profit for the year		(1,943)	1,175
Basic (loss)/earnings per share – pence	11	(4.05)	2.51
Diluted (loss)/earnings per share – pence	11	(4.05)	2.45

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(1,943)	1,175
Exchange difference on retranslation of net assets of subsidiary undertakings	(110)	(1)
Total recognised gains and losses relating to the year	(2,053)	1,174

RECONCILIATION OF GROUP SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2003

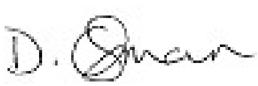
	2003 £'000	2002 £'000
Total recognised gains and losses relating to the year	(2,053)	1,174
Issue of shares (net of associated costs)	4,052	105
Total movements during the year	1,999	1,279
Opening shareholders' funds	7,307	6,028
Closing shareholders' funds	9,306	7,307

GROUP BALANCE SHEET

AT 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	12	1,043	1,121
Tangible assets	13	1,336	1,556
		2,379	2,677
Current assets			
Debtors	15	6,301	4,861
Cash at bank and in hand		4,923	4,009
		11,224	8,870
Creditors: amounts falling due within one year	16	3,820	3,498
Net current assets		7,404	5,372
Total assets less current liabilities		9,783	8,049
Creditors: amounts falling due after more than one year	17	477	742
		9,306	7,307
Capital and reserves			
Called up share capital	20	2,464	2,350
Share premium account	20	9,639	5,701
Special reserve	20	313	313
Merger reserve	20	726	726
Profit and loss account	20	(3,836)	(1,783)
Shareholders' funds – equity interests		9,306	7,307

On behalf of the board



D Osman
19 April 2004

A Walton-Green
19 April 2004

	Notes	2003 £'000	2002 £'000
Fixed assets			
Investments	14	13,205	13,205
Current assets			
Debtors	15	5,487	1,925
Cash at bank and in hand		4,213	3,526
		9,700	5,451
Creditors: amounts falling due within one year	16	140	129
Net current assets		9,560	5,322
Total assets less current liabilities		22,765	18,527
Capital and reserves			
Called up share capital	20	2,464	2,350
Share premium account	20	9,639	5,701
Special reserve	20	313	313
Merger reserve	20	6,609	6,609
Profit and loss account	20	3,740	3,554
Shareholders' funds – equity interests		22,765	18,527

On behalf of the board

D Osman
19 April 2004

A Walton-Green
19 April 2004

GROUP STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Net cash outflow from operating activities	22	(3,083)	(3,223)
Dividend received from associated undertaking		–	79
Returns on investments and servicing of finance			
Interest received		225	232
Interest paid		(6)	(28)
Dividends paid to preference shareholders		–	(66)
		219	138
Taxation			
Corporation tax paid		(21)	(38)
Overseas tax received		12	–
		(9)	(38)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(167)	(194)
Receipts from sale of tangible fixed assets		–	3
		(167)	(191)
Acquisitions and disposals			
Disposal of associated undertaking		–	6,751
Costs of disposal		(25)	(173)
		(25)	6,578
Equity dividends paid		–	–
Net cash (outflow)/inflow before financing		(3,065)	3,343
Financing			
Issue of share capital		4,184	105
Share issue costs		(132)	–
Repayment of short-term loans		–	(250)
Repayments of finance leases		(76)	(130)
Net inflow/(outflow) from financing		3,976	(275)
Increase in cash	22(b)	911	3,068

RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Increase in cash		911	3,068
Repayments of loans		–	250
Repayments of capital element of finance leases		76	130
Change in net funds resulting from cashflows		987	3,448
Inception of finance leases		–	(19)
Exchange differences		3	(14)
Movement in net funds		990	3,415
Net funds at 1 January		3,928	513
Net funds at 31 December	22(b)	4,918	3,928

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group financial statements consolidate the financial statements of Gresham Computing plc and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for Gresham Computing plc as provided by section 230 of the Companies Act 1985.

Entities other than subsidiary undertakings, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant interest are treated as associates. In the group accounts, associates are accounted for using the equity method.

Where the net assets of a subsidiary undertaking, over which there is a minority interest, are in deficit, the group does not recognise the minority interest as an asset.

Goodwill

Goodwill arising on acquisitions prior to 31 October 1998 was set off directly against reserves. Positive goodwill arising on acquisitions since 1 November 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	– over 50 years
Leasehold premises	– over the lease term
Plant, fixtures and equipment	– over 5 to 10 years
Computer equipment	– over 3 to 5 years

Long-term contracts

Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances. Amounts recoverable on long-term contracts are stated at the net sales value of the work done less amounts received as progress payments on account.

Research and development

Research and development expenditure is written off as incurred.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Income for software maintenance contracts is recognised evenly over the period of the maintenance contract. Deferred income represents amounts invoiced for software maintenance in excess of revenue recognised on software maintenance contracts.

Pension costs

The group operates defined contribution pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured, on a non-discounted basis, at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account.

Group

The financial statements of the overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising on the re-translation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account.

Leasing and hire-purchase commitments

Assets held under finance leases and hire-purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of payments is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

2. Turnover and segmental analysis

The group's principal areas of activity, which are continuing, are the provision of solutions, software and specialist contract staff.

Analysis of turnover by segment:

	Turnover 2003 £'000	Inter-segment turnover 2003 £'000	External turnover 2003 £'000	Turnover 2002 £'000	Inter-segment turnover 2002 £'000	External turnover 2002 £'000
Solutions	2,842	(16)	2,826	2,549	–	2,549
Specialist contract staff	1,789	(21)	1,768	3,456	(55)	3,401
Enterprise solutions	4,631	(37)	4,594	6,005	(55)	5,950
Enterprise software	5,658	(7)	5,651	5,628	–	5,628
	10,289	(44)	10,245	11,633	(55)	11,578

Geographical analysis of turnover by source:

	Turnover 2003 £'000	Inter-segment turnover 2003 £'000	External turnover 2003 £'000	Turnover 2002 £'000	Inter-segment turnover 2002 £'000	External turnover 2002 £'000
United Kingdom	6,302	(31)	6,271	7,755	(3)	7,752
North America	3,058	(828)	2,230	2,799	(751)	2,048
Rest of World	2,686	(942)	1,744	2,764	(986)	1,778
	12,046	(1,801)	10,245	13,318	(1,740)	11,578

Geographical analysis of turnover by destination:

	2003 £'000	2002 £'000
United Kingdom	4,908	7,006
North America	1,641	1,918
Rest of World	3,696	2,654
	10,245	11,578

2. Turnover and segmental analysis (continued)

Common costs comprise the costs of all central group services.

Analysis of (loss)/profit on ordinary activities before taxation by segment:

	2003 £'000	2002 £'000
Enterprise solutions	(1,998)	(2,686)
Enterprise software	669	291
	(1,329)	(2,395)
Common costs	(829)	(1,146)
Operating loss	(2,158)	(3,541)
Share of operating loss of associate	–	(398)
Total operating loss: group and share of associate	(2,158)	(3,939)
Non-operating exceptional items	–	4,881
Net interest receivable	203	206
(Loss)/profit on ordinary activities before taxation	(1,955)	1,148

Analysis of (loss)/profit on ordinary activities before taxation by source:	2003 £'000	2002 £'000
United Kingdom	(976)	(1,835)
North America	(125)	(491)
Rest of World	(228)	(69)
	(1,329)	(2,395)
Common costs	(829)	(1,146)
Operating loss	(2,158)	(3,541)
Share of operating loss of associate	–	(398)
Total operating loss: group and share of associate	(2,158)	(3,939)
Non-operating exceptional items	–	4,881
Net interest receivable	203	206
(Loss)/profit on ordinary activities before taxation	(1,955)	1,148

Analysis of net assets by segment:	2003 £'000	2002 £'000
Enterprise solutions	513	931
Enterprise software	3,046	1,591
Continuing operations	3,559	2,522
Unallocated net assets	5,747	4,785
Total net assets	9,306	7,307

Analysis of net assets by location:	2003 £'000	2002 £'000
United Kingdom	2,355	1,325
North America	(233)	(175)
Rest of World	1,437	1,372
	3,559	2,522
Unallocated net assets	5,747	4,785
Total net assets	9,306	7,307

Unallocated net assets comprise certain fixed assets, tax, dividends payable and net cash.

3. Operating loss

This is stated after charging:

	2003 £'000	2002 £'000
Auditors' remuneration – audit services UK*	41	38
– audit services overseas	25	26
	66	64
– non-audit services UK	29	39
– non-audit services overseas	3	9

* Of this amount £17,000 (2002: £5,000) relates to the company. In addition, the profit on disposal of SIM in 2002 includes a charge for non-audit services of £6,000 incurred in respect of the disposal.

	2003 £'000	2002 £'000
Research and development expenditure	1,872	1,519
Depreciation of owned assets	388	389
Depreciation of assets held under finance leases and hire-purchase contracts	2	78
Amortisation of intangible assets and provision for impairment in value of goodwill	132	153
Operating lease rentals – land and buildings	680	723
– plant and machinery	288	327

4. Directors' remuneration

The emoluments of the directors are as follows:

	2003 £'000	2002 £'000
Fees	64	69
Other emoluments:		
Basic salaries	300	405
Benefits	39	32
Pension contributions	34	34
	437	540

Details of directors' emoluments are given in the Directors' Remuneration Report on pages 13 to 16.

5. Staff costs

	2003 £'000	2002 £'000
Wages and salaries	6,424	6,410
Social security costs	790	754
Other pension costs	288	263
	7,502	7,427

The average monthly number of employees, including executive directors was as follows:

	2003	2002
Office, management and technical	151	152

6. Exceptional items

	2003 £'000	2002 £'000
Recognised in arriving at operating loss:		
Reorganisation and restructuring costs	–	252
Recognised below operating loss:		
Profit on sale of 49.99% interest in SIM Group Limited	–	(4,881)

The effect on the taxation charge of the exceptional items recognised below operating profit in 2002 was a charge of £1,164,000, which was offset by the utilisation of trading and capital losses.

7. Interest payable

	2003 £'000	2002 £'000
Finance charges payable under finance leases and hire-purchase contracts	5	10
Bank interest and similar charges	1	18
	6	28

8. Taxation on (loss)/profit on ordinary activities

The tax credit comprises:	2003 £'000	2002 £'000
Current tax		
UK Corporation Tax	–	–
Withholding Tax	–	59
	–	59
Foreign tax	(12)	–
	(12)	59
Adjustments in respect of prior years		
UK Corporation Tax	–	39
Foreign tax	–	(19)
Total current tax (credit)/charge	(12)	79
Total deferred tax (note 19)	–	–
Share of associate's tax	–	(106)
Total tax credit on (loss)/profit on ordinary activities	(12)	(27)

8. Taxation on (loss)/profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK Corporation tax to the (loss)/profit before tax is as follows:

	2003 £'000	2002 £'000
(Loss)/profit on ordinary activities before tax	(1,955)	1,148
Less share of associate's loss	–	(342)
Group (loss)/profit on ordinary activities before tax	(1,955)	1,490
Tax on group (loss)/profit on ordinary activities at 30% (2002: 30%)	(587)	447
Effects of:		
Expenses not deductible for tax purposes	85	78
Deduction in respect of share option exercise	(557)	–
Other short term timing differences	76	(5)
Capital allowances in excess of depreciation	(52)	(212)
Utilisation of losses and indexation	–	(747)
Increase in tax losses carried forward	1,079	439
Withholding tax	–	59
Adjustments to tax losses in respect of prior periods	(56)	–
Adjustments to tax charge in respect of prior periods	–	20
Group current tax (credit)/charge for the period	(12)	79

Factors affecting the current tax charge

The deduction in respect of share option exercise arises from the relief available in Schedule 23 of the Finance Act 2003: Corporation tax relief for employee share acquisitions, which allows for a deduction based on gains arising on the exercise of certain share options.

Factors that may affect future tax charges

At 31 December 2003 the group has a substantial unrecognised deferred tax asset of £2,758,000 as analysed in note 19. Realisation of this unrecognised deferred tax asset may reduce future tax charges. The realisation of the asset is dependent upon the group making suitable future profits in the subsidiaries where the tax losses have been incurred.

9. Profit attributable to members of the parent undertaking

The profit dealt with in the financial statements of the parent undertaking was £186,000 (2002: profit £2,432,000).

10. Dividends

	2003 £'000	2002 £'000
Equity dividends	–	–

11. Earnings per share

The calculations of earnings per share are based on the following earnings and numbers of shares.

	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(1,943)	1,175

	2003 Number of shares	2002 Number of shares
Weighted average number of shares:		
For basic earnings per share	48,022,384	46,816,200
Potential ordinary shares – share options	–	1,197,072
Diluted weighted average number of shares	48,022,384	48,013,272

For the year ended 31 December 2003, the loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the potential diluting events would have the effect of reducing the loss per ordinary share and are therefore not dilutive under the terms of FRS 14.

12. Intangible fixed assets

GROUP	Computer software rights £'000	Goodwill on acquisitions £'000	Total £'000
Cost:			
At 1 January 2003	669	3,325	3,994
Exchange difference	–	75	75
At 31 December 2003	669	3,400	4,069
Amortisation:			
At 1 January 2003	669	2,204	2,873
Exchange difference	–	21	21
Provided during the year	–	132	132
At 31 December 2003	669	2,357	3,026
Net book value:			
At 31 December 2003	–	1,043	1,043
At 1 January 2003	–	1,121	1,121

Goodwill is amortised over its estimated useful life ranging from 10 to 15 years, chosen to take account of the underlying benefit of the goodwill to the group.

During the year, the directors revised the useful life of goodwill associated with the purchase of one of its Australian businesses from 15 years to 10 years. This change has been made following a review of the uses for the associated goodwill in the business. The impact of this change is not material to the results of the group in this or future years.

13. Tangible fixed assets

GROUP	Freehold premises £'000	Short leasehold premises £'000	Computer equipment £'000	Plant fixtures & equipment £'000	Total £'000
Cost:					
At 1 January 2003	1,298	652	2,373	604	4,927
Additions	–	–	149	18	167
Exchange differences	–	(4)	(32)	(1)	(37)
Disposals	–	–	(63)	(1)	(64)
At 31 December 2003	1,298	648	2,427	620	4,993
Depreciation:					
At 1 January 2003	344	530	1,999	498	3,371
Provided during the year	58	49	228	55	390
Exchange differences	–	(5)	(34)	(1)	(40)
Disposals	–	–	(63)	(1)	(64)
At 31 December 2003	402	574	2,130	551	3,657
Net book value:					
At 31 December 2003	896	74	297	69	1,336
At 1 January 2003	954	122	374	106	1,556

Included in the above net book values are the following amounts for assets held under finance leases and hire purchase contracts:

	2003 £'000	2002 £'000
Computer equipment	5	24
Plant fixtures and equipment	–	65
Short leasehold premises	–	22
Freehold premises	–	115

14. Investments

COMPANY	Subsidiary undertakings £'000
Cost:	
At 1 January 2003	17,348
Additions	–
At 31 December 2003	17,348
Provisions for impairment in value:	
At 1 January 2003	4,143
Additions	–
At 31 December 2003	4,143
Net book value:	
At 31 December 2003	13,205
At 1 January 2003	13,205

14. Investments (continued)

Details of the significant investments in which the group and company (unless indicated) holds 20% or more of the nominal value of any class of capital are as follows:

Name of company	Country of registration and operation	Holding	Proportion held	Nature of business
Subsidiary undertakings				
Gresham Computer Services Limited	England	Ordinary shares	100%	Software products and solutions
Gresham Consultancy Services Limited	England	Ordinary shares	100%	Specialist contract staff and placements
Gresham Financial Systems Limited	England	Ordinary shares	100%	Solutions provision to finance and banking
Online Financial Services Inc	Canada	Ordinary shares	100%	Software products and solutions
Gresham Enterprise Storage Inc	USA	Ordinary shares	100%	Enterprise storage solutions
Gresham SA	France*	Ordinary shares	100%	Enterprise storage software
Redstone Software Inc	USA	Ordinary shares	92%	Software products
Gresham Computing Pty Limited	Australia	Ordinary shares	100%	Solutions provision to finance and banking

* 100% held indirectly through an intermediate holding company

15. Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	1,615	1,593	–	–
Amounts owed by subsidiary undertakings	–	–	4,693	1,221
Prepayments and accrued income	1,271	1,132	7	12
Long-term contract balances	2,524	1,353	–	–
Convertible bond receivable	787	692	787	692
Corporation tax recoverable	104	91	–	–
	6,301	4,861	5,487	1,925

Of the amount due under the convertible bond receivable, £393,500 is due after more than one year.

16. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Obligations under finance leases and hire-purchase (note 18)	5	76	–	–
Amounts owed to subsidiary undertakings	–	–	57	–
Trade creditors	430	400	3	10
Corporation tax payable	20	38	–	21
Other taxes and social security costs	314	304	–	–
Other creditors and accruals	1,244	1,148	80	98
Deferred income	1,807	1,532	–	–
	3,820	3,498	140	129

17. Creditors: amounts falling due after more than one year

	Group	
	2003	2002
	£'000	£'000
Obligations under finance leases and hire-purchase contracts (note 18)	–	5
Deferred income	477	737
	477	742

18. Obligations under leases and hire-purchase contracts

Finance leases and hire-purchase contracts are as follows:

	Group	
	2003	2002
	£'000	£'000
Amounts payable:		
Within one year	5	76
Within two to five years	–	5
	5	81
Presented as:		
Current obligations (note 16)	5	76
Non-current obligations (note 17)	–	5
	5	81

18. Obligations under leases and hire-purchase contracts (continued)

Annual commitments under non-cancellable operating leases are as follows:

GROUP	Land and buildings 2003 £'000	Other 2003 £'000	Land and buildings 2002 £'000	Other 2002 £'000
Operating leases which expire:				
Within one year	44	72	162	11
Within two to five years	514	84	245	244
Over five years	–	–	230	–
	558	156	637	255

COMPANY	Land and buildings 2003 £'000	Land and buildings 2002 £'000
Operating leases which expire:		
Within one year	–	–
Within two to five years	340	155
Over five years	–	185
	340	340

19. Provisions for liabilities and charges

Potential deferred tax assets, which have not been recognised in the accounts, for the group and company are as follows:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Capital allowances in advance of depreciation	449	497	–	–
Other timing differences	134	55	–	–
Tax losses	2,175	1,119	39	–
Unrecognised deferred tax asset	2,758	1,671	39	–

20. Share capital and reserves

Share capital

	Authorised		Allotted, called up and fully paid	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Ordinary shares of 5p each	3,250	3,250	2,464	2,350
13% gross cumulative convertible preference shares of 20p each	550	550	–	–
	3,800	3,800	2,464	2,350

During the year 755,640 shares were issued following the exercise of options, for a total cash consideration of £184,000, and a further 1,538,500 shares were issued for a cash consideration of £4,000,000 following a placing.

Reconciliation of shareholders' funds and movements on reserves

GROUP	Share capital £'000	Share premium account £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	2,350	5,701	313	726	(1,783)	7,307
Exchange differences on retranslation of net assets of subsidiary undertakings	–	–	–	–	(110)	(110)
Issue of ordinary shares	114	4,070	–	–	–	4,184
Share issue costs	–	(132)	–	–	–	(132)
Retained loss for the year	–	–	–	–	(1,943)	(1,943)
At 31 December 2003	2,464	9,639	313	726	(3,836)	9,306

COMPANY	Share capital £'000	Share premium account £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	2,350	5,701	313	6,609	3,554	18,527
Issue of ordinary shares	114	4,070	–	–	–	4,184
Share issue costs	–	(132)	–	–	–	(132)
Retained profit for the year	–	–	–	–	186	186
At 31 December 2003	2,464	9,639	313	6,609	3,740	22,765

The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The cumulative amount of goodwill written off to reserves at 31 December 2003 and 2002 is £7,326,000. Goodwill previously written off to reserves will remain so written off as permitted by FRS 10.

21. Share options

The grant of all options is made by the remuneration committee. In granting executive share options the remuneration committee has regard to both the participant's level of responsibility within the group and to individual and group performance.

Options issued prior to 18 August 1998 were issued under the Gresham Telecomputing Share Option Scheme and are only exercisable if the group's earnings per share increase by more than the retail price index over a three year period. All executive share options granted after 18 August 1998 are granted under the Gresham Computing 1998 Executive Share Option Scheme. Approved options under this scheme are only exercisable if over a three year period the group's earnings per share increase by 5% per annum above the retail price index.

Any unapproved options granted under this scheme may also be subject to additional individual performance criteria.

Options are capable of exercise after three years and within 10 years of the date of grant. In total 22 executives hold options under these option schemes.

The group also operates a Savings Related Option Scheme (SAYE) for eligible employees. Under the SAYE scheme, eligible employees can enter into an Inland Revenue approved savings contract with a building society for three years, whereby shares may be acquired with payments made under the contract. The option price is the average market price for the three days prior to invitations being issued to join the scheme discounted by 20%. The company has taken advantage of the exemption allowed under UITF 17 for SAYE schemes. At 31 December 2003 there were 29 participants in the SAYE scheme.

Outstanding options to subscribe for ordinary shares of 5 pence at 31 December 2003, including those noted in the Directors' Remuneration Report are as follows:

	Number of options	Number of option holders	Option price (pence)	Dates normally exercisable
Executive share option schemes				
	81,081	1	37.00	Jan 2001 – Jan 2008
	43,919	1	142.00	Feb 2002 – Feb 2009
	10,000	2	45.50	Feb 2003 – Feb 2010
	25,000	1	54.00	Feb 2003 – Feb 2010
	637,897	2	36.00	July 2003 – July 2010
	25,000	1	27.50	Aug 2003 – Aug 2010
	25,000	1	26.50	Jan 2004 – Jan 2011
	210,000	6	29.25	Aug 2004 – Aug 2011
	150,000	1	26.75	Apr 2005 – Apr 2012
	20,000	1	77.75	Sep 2005 – Sep 2012
	35,000	7	77.75	Apr 2006 – Apr 2013
	40,000	2	269.50	May 2006 – May 2013
SAYE Scheme	42,287	2	23.00	Nov 2003 – Apr 2004
	478,077	29	21.50	Jul 2005 – Jan 2006

22. Notes to the statement of cash flow

(a) Reconciliation of operating loss to net cash flow from operating activities

	2003 £'000	2002 £'000
Operating loss	(2,158)	(3,541)
Depreciation	390	467
Amortisation	132	153
Increase in debtors	(1,586)	(286)
Increase/(decrease) in creditors	139	(16)
Net cash outflow	(3,083)	(3,223)

(b) Analysis of net funds

	At 1 January 2003 £'000	Cash flow £'000	Exchange differences £'000	At 31 December 2003 £'000
Cash at bank and in hand	4,009	911	3	4,923
Finance leases	(81)	76	–	(5)
	3,928	987	3	4,918

(c) Exceptional items

The net cash outflow from operating activities includes cash outflows of £87,000 (2002: £177,000 in respect of the exceptional costs detailed in note 6).

23. Financial instruments

An explanation of the group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the group in its activities can be found in the Directors' Report. The group has taken advantage of the exemption available for short-term creditors and debtors.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group excluding short-term creditors was as follows:

	Fixed rate financial liabilities 2003 £'000	Floating rate financial liabilities 2003 £'000	Total 2003 £'000	Fixed rate financial liabilities 2002 £'000	Floating rate financial liabilities 2002 £'000	Total 2002 £'000
Sterling	–	–	–	–	60	60
US dollar	5	–	5	21	–	21
Total	5	–	5	21	60	81

The floating rate financial liabilities comprise:

- Sterling denominated finance leases that bear interest at rates based on UK bank base rates.

The fixed rate financial liabilities comprise:

- US dollar finance leases at a weighted average interest rate of 15%.

23. Financial instruments (continued)

Interest rate risk profile of financial assets and maturity of financial assets

The financial assets of the group excluding short–term debtors were as follows:

	Fixed rate financial assets 2003 £'000	Floating rate financial assets 2003 £'000	Total 2003 £'000	Fixed rate financial assets 2002 £'000	Floating rate financial assets 2002 £'000	Total 2002 £'000
Sterling	–	4,135	4,135	–	3,503	3,503
US dollar	–	339	339	–	286	286
Australian dollar	–	139	139	–	112	112
Canadian dollar	–	131	131	–	85	85
Euro	787	179	966	692	23	715
Total	787	4,923	5,710	692	4,009	4,701

Fixed rate financial assets comprise a Convertible Eurobond issued by SQS Software Quality Systems AG. The terms of the bond were amended in October 2003 such that the bond now matures in two equal instalments on 31 December 2004 and 30 June 2005 (the bond was previously redeemable at any time after 31 July 2003). In addition, the fixed interest rate on the bond was increased from 5% (2002 year end) to 7% (2003 year end).

Floating rate financial assets comprise cash deposits with banks earning interest at applicable bank base rates with no notice or penalty for withdrawal.

Currency exposures

The table below shows the group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved. These exposures were as follows:

	Net foreign currency monetary assets					
Functional currency of group operation	Euro 2003 £'000	US Dollar 2003 £'000	Total 2003 £'000	Euro 2002 £'000	US Dollar 2002 £'000	Total 2002 £'000
Sterling	938	111	1,049	769	435	1,204
Australian dollar	–	103	103	–	77	77
Canadian dollar	–	246	246	–	101	101
	938	460	1,398	769	613	1,382

23. Financial instruments (continued)

Maturity of financial liabilities

The maturity profile of the group's financial liabilities was as follows:

	2003 £'000	2002 £'000
In one year or less, or on demand	5	76
In more than one year but not more than two	–	5
	5	81

Borrowing facilities

The undrawn committed facilities available in respect of which all conditions precedent had been met at 31 December 2003 was £nil (2002: £nil).

Fair values of financial assets and financial liabilities

The directors consider that there is no material difference between the fair value and book value of the group's financial assets and liabilities.

24. Pension commitments

The group operates defined contribution schemes for staff and directors. The assets of the scheme are held separately from those of the group in independently administered funds. At 31 December 2003 there were outstanding contributions of £26,000 (2002: £28,000).

25. Related party transactions

SIM Group Limited was an associated undertaking until its disposal on 15 April 2002. During 2002 the group purchased services from SIM Group Limited and its subsidiaries totalling £99,000 on an arms length basis and sold services of £330,000 to SIM Group Limited and its subsidiaries on an arms length basis.

The group paid Mr Robert Bartlett, who is a director of SIM Group Limited, a bonus of £26,530 on the completion of the disposal of the group's shares in SIM Group Limited and granted options to Mr Bartlett for the purchase of £455,200 of the Convertible Eurobonds received from SQS Software Quality Systems AG. The option to purchase these bonds was not taken up.

26. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £240,000 for the group and £nil for the company (2002: £nil and £nil respectively). The amount contracted for is in respect of the purchase of the eSave data storage management suite from Axway, which completed on 1 January 2004.

Notice is hereby given that the Annual General Meeting of Gresham Computing plc will be held at the offices of KBC Peel Hunt Ltd, 4th Floor, 111 Old Broad Street, London, EC2N 1PH on 28 May 2004 at 10.00 a.m. for the following purposes:

To conduct the following ordinary business:

A. To consider and, if thought appropriate, to approve the company's financial statements and the reports of the directors and auditors for the year ended 31 December 2003.

B. To consider and, if thought appropriate, to approve the directors' remuneration report for the year ended 31 December 2003.

C. To re-appoint Ernst & Young LLP as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix their remuneration.

D. To re-elect A J S Walton-Green as a director following his retirement by rotation.

E. To re-elect D Osman as a director following his retirement by rotation.

F. To re-elect A M Howarth as a director, having been appointed a director since the conclusion of the last Annual General Meeting.

G. To re-elect C M Errington as a director, having been appointed a director since the conclusion of the last Annual General Meeting.

And thereafter to conduct the following special business, namely to consider and, if thought fit, to pass the following resolutions:

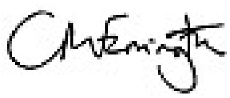
1. Ordinary Resolution. That the directors be and they are hereby authorised, in addition to any authority previously conferred on them, generally and unconditionally pursuant to section 80(1) of the Companies Act 1985 ("The Act") to exercise all the powers of the company to allot relevant securities (as defined in subsection (2) of section 80) up to an aggregate nominal amount of £822,122 during the period commencing on the date of the passing of this resolution and ending on the earlier of 1 August 2005 and the close of the next Annual General Meeting of the company, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after the date of expiry of this authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

2. Special Resolution. That the directors be and are hereby empowered to allot pursuant to Section 95 of the Act, equity securities (as defined in section 94 (2) of the Act) for cash pursuant to the authority conferred by section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment provided that such power shall expire at the close of the next Annual General Meeting, or on 1 August 2005, whichever is the earlier, and shall be limited:

   (i) to the allotment of equity securities in connection with any rights issue in favour of, or general offer to, ordinary shareholders or preference shareholders open for acceptance for a period fixed by the directors where the offers of such allotments are proportionate at a record date selected by the directors (as nearly as may be) to the respective numbers of ordinary shares or preference shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any legal or practical problems arising in any territory or in connection with fractional entitlements, record dates or otherwise or in respect of the requirement of any regulatory body or stock exchange;

   (ii) to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities (as defined in section 94(2) of the Act) up to an aggregate nominal value of £123,318.

By order of the board



C M Errington
Company Secretary
19 April 2004

Registered office:
Sopwith House, Brook Avenue,
Warsash, Southampton SO31 9ZA
Registered No. 1072032

Notes:

1. Members entitled to attend and vote at the meeting will be those entered on the share register 48 hours prior to the meeting. As permitted by regulation 41 of the 2001 Regulations regarding Notices of Meetings, changes to entries on the share register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
2. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the company.
3. To be valid, the Form of Proxy and the authority (if any) under which it is signed or a certified copy of such authority must be deposited at the company's registered office not less than 48 hours before the time fixed for the meeting. A Form of Proxy and a reply paid envelope are enclosed.
4. When completing the Proxy Form, please ensure that an 'X' is inserted in the appropriate box, either 'FOR' or 'AGAINST' in respect of each resolution shown; otherwise your proxy will vote or abstain as he thinks fit in relation to such resolutions.
5. Copies of the service contracts of the directors and the register of directors' interests will be available for inspection at the company's registered office during the normal business hours on any weekday (Saturdays and bank holidays excluded) from the date of this notice until the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.
6. Brief personal details of A J S Walton-Green, D Osman, A M Howarth and C M Errington, who are the directors proposed for re-election, can be found on page 2.

gresham
banking • integration • storage

Sopwith House Brook Avenue Warsash Southampton SO31 9ZA

Tel: +44 (0) 1489 555500 Fax: +44 (0) 1489 555560 www.gresham-computing.com