

gresham computing plc

annual report 2004



greshamTM
banking • integration • storage



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Gresham Computing plc
Registered No. 1072032

Directors

A M Howarth	Non-Executive Chairman
J E Aves	Non-Executive Director, 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

Auditors

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

Registrars

Lloyds TSB Registrars
Registrar's Department
The Causeway
Worthing
West Sussex
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Financial PR

Financial Dynamics
Holborn Gate
26 Southampton Buildings
London
WC2A 1PB

Joint Brokers

KBC Peel Hunt Ltd
62 Threadneedle Street
London
EC2R 8HP

Joint Brokers and Financial Advisers

Robert W Baird Ltd
Mint House
77 Mansell Street
London
E1 8AF

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ

Solicitors

Shoosmiths
Russell House
1550 Parkway
Solent Business Park
Fareham
PO15 7AG



A M Howarth

Non-Executive Chairman

Alan, aged 59, was appointed to the board in August 2003 and was appointed Chairman in May 2004, 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 69 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 41, 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 with Deloitte & Touche.



S W Purchase

Commercial Director

Steve, aged 52, 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 42, joined Gresham in January 1998 as Finance Director and Company Secretary. He was appointed Operations Director in April 2004 and works closely with operational management. 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 39, joined Gresham in February 2004 as Company Secretary. He was appointed Finance Director in 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.

J E Aves retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

I am pleased to report:

- Turnover up by 21%, operating losses reduced by 35% and retained loss after tax for the year reduced by 54%;
- Significant progress with the Cable & Wireless Real Time Nostro ("CWRTN") service; and
- Solid progress in our Integration and Storage businesses during the year.

Financial performance for the year ended 31 December 2004

- Turnover for the year up by 21% to £12.4m (2003: £10.2m);
- Operating loss reduced by 35% to £1.4m (2003: £2.2m loss);
- Loss before tax reduced by 39% to £1.2m for the year (2003: £2.0m loss);
- Retained loss after tax reduced by 54% to £0.9m for the year (2003: £1.9m loss); and
- Net funds of £3.0m at 31 December 2004.

Banking

Progress with the Cable & Wireless Real Time Nostro ("CWRTN") service during the year and in the first part of 2005 has been significant.

The CWRTN service went live and the first subscription revenue from the service was earned in the year. This was a major step forward since it demonstrated that the technology works and that the service is of commercial value. Since then we have seen continued progress.

Citibank, Commonwealth Bank of Australia, National Australia Bank and Standard Bank of South Africa agreed to become data providers, joining: ANZ, Barclays, Bangkok Bank, JP Morgan Chase, Mizuho Corporate Bank and RBC Financial Group.

More recently, in April 2005, Bank of America also signed up as a data provider to the service, bringing the number of "top 10" banks¹ that have agreed to provide data to the service to 4 and the total number of data providers to 11.

8 of these 11 data providers, including 3 of the "top 10" largest banks in the world¹, are now live as providers to the service. In addition, a number of other banks are considering providing data to the service.

The ongoing addition of new data providers is important as the board believes that the speed of roll out of CWRTN to subscribers will be determined by the value users can extract from the service. That value increases in line with the number of data providers that sign up to the service since this broadens the currency coverage and value of funds over which subscribers can obtain real-time information.

As of today, 2 banks are subscribers to the browser service. One further bank has agreed to be a subscriber to

the browser service and several other banks are currently trialling the browser service. October 2004 saw the launch of RTN direct at SIBOS, in Atlanta, with Barclays as the first signed user. The RTN direct service differs from the browser service in that data can be streamed directly into a bank's systems from the RTN hub, with data delivered as soon as the transaction information is available on the service. This allows the user bank's IT systems to receive a 'pushed' information feed and immediately process the transaction data in their back office systems. Barclays went live as subscribers to the direct service in early 2005 and a number of other major banks are currently evaluating the direct service.

Most recently, in late April 2005, we were pleased to see the announcement by TietoEnator, a leading global provider of IT services and solutions for the finance industry in Northern Europe, who agreed to support the RTN direct service, enabling users of TietoEnator's new ProLiquidity Bank solution to calculate liquidity positions in real time utilising account data from CWRTN.

Cable & Wireless have advised the market that the preferred method of data delivery to and from the CWRTN hub is via the SWIFTNet IP infrastructure. SWIFT is the industry-owned co-operative supplying secure, standardised messaging services and interface software to 7,600 financial institutions in 200 countries. Co-operation with SWIFT is key, enabling banks to maximise the value of their investment in the SWIFTNet IP infrastructure.

During the year, we were also pleased to see a significant increase in the number of participants in the Real Time Nostro User Group, chaired by Barclays Bank. This group continues as a forum for sharing CWRTN service ideas and experiences as well as key issues associated with cash management. The forum reinforces Real Time Nostro as a global industry initiative.

Notes

¹ Measured by Capital (Source: *The Banker: "Top 1000 World Banks at 31 December 2003", July 2004*).

Integration

We experienced solid revenue growth in our Integration business during the year. The most significant single contract was a bank to corporate contract with a major UK bank. This contract, announced in April 2004, was to license Casablanca, our flagship integration software, in conjunction with a third party's application software to provide a working capital "straight through processing" solution between the bank and its major corporate customers. We have now successfully deployed and delivered the software for the first project under this contract, involving one of the bank's larger customers and anticipate building on this success in the near future.

The working capital area is becoming a significant focus for us and we have continued to make good progress with a number of potentially significant opportunities for the group in this area. We are currently developing a solution in the bank to corporate market, which we initially intend

to deliver in Asia alongside a local leading communications group.

In addition, our Casablanca Java Integration Broker has been chosen by HP to support their Real Time Financial Services architecture and Single Customer View solution, because of its ability to interoperate seamlessly with HP's Non Stop platform to create a new generation large integration hub. While this particular relationship has yet to produce first revenues, this new opportunity helps to underline the increasing value we believe will be derived from Casablanca.

Casablanca is an integral part of our offerings both in our bank to bank and bank to corporate initiatives, giving our clients and partners a significant advantage over more traditional integration products or approaches. Casablanca is increasingly giving us access to significant opportunities in our chosen markets, typically alongside major partners, from which we expect business to develop over time.

Storage

The upturn in market conditions for storage seen towards the end of 2003 continued into 2004, with Storage revenues up significantly in the year compared to 2003, despite increasing market competition and a weak dollar.

We have also continued to invest in the development of our storage products in order to expand their market reach and are currently engaged in alpha testing an entirely new product range designed to address the growing market for secondary storage consolidation. The new product complements our current EDT (Enterprise Distributape) product and provides interoperability of all back-up applications and associated library storage devices as well as providing an excellent platform for enabling storage consolidation. The technology underpinning this new product is patent pending, and is being developed utilising our extensive knowledge of tape resource management. It has received an early positive reception within our chosen markets. On satisfactory completion of testing, we anticipate taking this product to market in the second half of 2005.

Future Outlook

The business has made significant advances in the past year.

Our strategy continues to be to build on short and long-term opportunities generated in our chosen markets and delivered by utilising our specialist industry knowledge, know-how, technology and skills. In particular, our strategy is to pursue our core business areas of banking, integration and storage. We will continue to focus on these areas and seek to divest our non-core activities at appropriate times in order to maximise shareholder value.

Market acceptance for CWRTN continues to grow. During 2005, we expect to see growth in the number of data providers and subscribers of both the browser and direct service. While revenues are initially relatively small and, as previously indicated, will take a number of years to build to their full potential, we believe that CWRTN is our

most significant market opportunity and has the potential to deliver the largest returns in the Group's history. Progress in 2004 has moved us considerably closer to realising this potential and we expect to make further advances in 2005.

In our Integration business, we also anticipate realising some of the significant opportunities that we have developed, particularly from our working capital solutions, integration capabilities and strengthened relationship with HP. Many of these opportunities require significant strategic definition and analysis, as well as involving a fairly lengthy decision making process. Whilst progress towards realising these opportunities has so far this year been slower than we would have liked, we expect to grow revenues in 2005.

Established relationships with world-class companies such as StorageTek and IBM, together with the development of exciting new technology, places our Storage division in a good position to build on its 2004 performance.

Overall, the Board believes that the business is now well placed to capitalise on the strength of these opportunities in order to deliver continued growth in 2005 and beyond.



Alan Howarth
Chairman
26 April 2005

The directors present their report and the group financial statements for the year ended 31 December 2004.

Results and dividends

The group loss for the year, after taxation, amounted to £893,000 (31 December 2003: loss £1,943,000). The directors do not recommend a final ordinary dividend, which leaves a retained loss of £893,000 to be transferred to reserves.

Principal activities

The group's principal activities during the year were the provision of solutions, software products, consultancy services 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 and 4.

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 at 31 December 2004 and their interests in the ordinary share capital of the company (all beneficially held), at dates shown, or date of appointment if later, other than with respect to options to acquire shares (which are disclosed in the Directors' Remuneration Report) were as follows:

	31 December 2004	1 January 2004
J E Aves	10,000	10,000
C M Errington (appointed 19 April 2004)	—	—
A M Howarth (appointed 11 August 2003)	—	—
D Osman	56,342	5,942
S W Purchase	4,034,591	4,284,591
A J S Walton-Green	493,147	462,990

S J Green was a director until his retirement on 28 May 2004.

On 8 February 2005, Alan Howarth & Associates Ltd, a company controlled by A M Howarth, purchased 3,200 ordinary shares. There have been no further changes in the directors' interests shown above from 31 December 2004 to 26 April 2005.

Mr J E Aves retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

Directors' Professional Indemnity Insurance

During the year, and up to the date of approval of the financial statements, the company had in place third party indemnity provision for the benefit of all directors of the company.

Substantial shareholdings

As at 26 April 2005 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	5,908,844	11.9
The Valentina Discretionary Trust	4,655,491	9.4
M A Green	3,273,290	6.6
The Northwestern Mutual Life Insurance Company	1,999,680	4.0
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

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 2004 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 and that appropriate training is arranged. 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 through focus on areas that it can control such as energy saving, recycling and appropriate disposal of old computer equipment and mobile phones.

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, such as forward currency contracts, to manage the financial risks associated with the group's underlying business activities and the financing of those activities.

Note 21 to the financial statements analyses the group's financial instruments.

Interest rate risks

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

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 £827,571 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 £124,135, 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. 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. Significant progress has been made on transition matters, based on IFRS in issue, during 2004 and early 2005 which will allow the company to report under IFRS 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; and

- The company is currently discussing with its auditors the assistance and advice that they can provide throughout the transition period. External professional advice will continue to be taken on specific IFRS matters as they arise where considered necessary by the directors.

Based on assessments carried out to date on IFRS in issue at 1 January 2005, 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; and
- The company anticipates changes in accounting for the following significant items; goodwill, share options and research and development expenditure.

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.

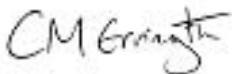
The current timetable for adoption of IFRS is as follows:

- 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 by way of a separate Stock Exchange announcement prior to the issue of interim results for 2005;
- The interim financial report for the period ending 30 June 2005 will be prepared under IFRS (with IFRS comparatives); and
- Consolidated financial statements for the full year to 31 December 2005 will be prepared under IFRS (with IFRS comparatives).

Auditors

A resolution to reappoint 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
26 April 2005

Compliance with the Combined Code on Corporate Governance

The board endorses the ideals and the ethos behind the Combined Code on Corporate Governance (the "Code") issued in July 2003. This statement describes how the company applies the principles of the Code and the company's compliance with the specific provisions of the Code.

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

- A4.1 Code provision requires the formation of a nomination committee to lead and oversee the application of Code principles as they relate to board and senior management appointments. The company does not have a nomination committee as the board is relatively small and all directors are consulted in reaching a consensual and collective decision over board appointments. The board considers that the input from all directors is important given the size of the company and such input does not disrupt the normal operations of the board. The need for a nomination committee is however kept under review taking into account changes in the company's size, complexity and circumstances; and
- B2.1 and C3.1 Code provisions require that a board establishes audit and remuneration committees consisting solely of independent non-executive directors. The company's audit and remuneration committees are currently made up of two independent non-executive directors: J E Aves (Chairman) and AM Howarth. S J Green resigned from both committees on 28 May 2004, following his retirement from the company on the same date. S J Green was not deemed independent of the company for the purposes of the Code, because of his significant shareholding in the company, and therefore, up until his resignation on 28 May 2004, the company did not comply with the provision of the Code requiring that all members of the audit and remuneration committee be independent non-executives.

The board

The company is headed by a board of directors, collectively responsible for the success of the company. The board currently comprises an independent non-executive chairman (A M Howarth), a senior independent non-executive director (J E Aves), the chief executive (A J S Walton-Green) and three further executive directors (D Osman, S W Purchase and C M Errington). S J Green retired from the board and its committees on 28 May 2004.

The board is responsible for the overall management of the company, directing and supervising its affairs within a framework of prudent and effective controls which enable risk to be assessed and managed. The board sets the company's strategic aims, ensuring that appropriate financial and human resources are in place to meet its objectives, and reviews management performance.

The non-executive directors constructively challenge and assist in the development of strategy. They scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The board normally meets once a month to review matters such as financial performance, current trading, key business initiatives and risks, strategy, budget and business plans. Presentations are regularly made to the board by the executive directors and operational management.

The board has a schedule of matters specifically reserved to it for decision. This schedule includes, among other matters: the establishment of the company's overall strategic direction and strategic plans for the major business units; approval of budgets, financial objectives and policies; approval of significant capital expenditure; approval of acquisitions and disposals; approval of the company's financial statements and published reports; appointment of advisers; the establishment of the company's systems of internal control and risk management and the appointment of key senior executives. The board has delegated some of its responsibilities to an executive operational board, audit and remuneration committees.

The executive operational board assists in developing and implementing the company's strategic direction and ensuring its resources are well managed. The operational board normally meets once a month and has a range of responsibilities, which include:

- reviewing operational performance and taking actions to enhance or improve performance;
- implementing agreed strategies and board decisions;
- monitoring the performance of employees and assigning appropriate resources;
- identifying and discussing risk and taking appropriate action to control risk; and
- recommending actions to the board on matters reserved for the board as a whole.

Operational board papers and minutes of meetings are circulated to the full board.

Attendance at meetings

The following table summarises the attendance of board members at board and committee meetings during the year:

	Board	Operational Board	Audit Committee	Remuneration Committee
Number of meetings held	11	11	3	3
Number of meetings attended:				
J E Aves	11	—	3	3
C M Errington ^{1,2}	8	8	2	2
S J Green ³	5	—	1	1
A M Howarth	11	—	3	3
D Osman ²	10	10	1	—
S W Purchase	10	10	—	—
A J S Walton-Green ²	11	11	3	3

¹ from date of appointment to the board 19 April 2004

² in attendance at Audit and Remuneration Committees by invitation

³ to date of retirement 28 May 2004

Chairman and chief executive

The roles of the chairman and executive management, led by the chief executive officer, are separated and clearly defined:

- the non-executive chairman, A M Howarth, is responsible for leadership of the board, ensuring effectiveness in all aspects of its role, setting the board's agenda and conducting board meetings, and ensuring effective communication with shareholders and the conduct of shareholder meetings; and
- executive management led by the chief executive, A J S Walton-Green, has been delegated responsibility by the board for the day-to-day management of the company within the control and authority framework set up by the board. The levels of authority for management are periodically reviewed by the board and are documented. The chief executive is assisted in managing the business by the other executive directors through an operational board.

The division of responsibility between the chairman and chief executive is clearly established, set out in writing and agreed by the board.

Board balance and independence

The board includes a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the board's decision taking. The size of the board and balance of skills is considered appropriate for the requirements of the business. No one other than the committee chairman and members is entitled to be present at a meeting of the audit or remuneration committee, but others may attend at the invitation of the committee.

As a smaller company, Code provision A3.2 requires the company to have at least two independent non-executive directors. The board considers that J E Aves and A M Howarth are independent, and the reasons for this decision are set out below.

The board has reviewed the independence of J E Aves and A M Howarth, including an assessment of their overall character and approach, and concluded based on the following guiding principles that they were both independent throughout the year. They have not been previous employees of the group, have had no material business relationships with the group, do not participate in the share option schemes, are not members of the company's pension scheme, have no close family ties with the company's advisers, directors or senior employees, hold no cross directorships linking them with other directors, do not represent significant shareholders and have served on the board for less than nine years. Both have nominal shareholdings in the company, which the board considers appropriate without compromising independence.

J E Aves receives a director's fee for his duties as a director and additionally receives fees for the provision of independent marketing services to the company, comprising advice and clarification on marketing matters as they affect the company and monitoring of the company's interaction with customers at a senior relationship level. The marketing role is one of an independent sounding board for the executive team on marketing strategy and customer relationships. His terms of appointment also provide for the payment of further fixed sums per additional day spent on company business where authorised in advance by the board. No such additional payments were made in the year. The board therefore considers J E Aves to be independent.

A M Howarth currently receives no additional remuneration other than a director's fee, although his terms of appointment provide for the payment of further fixed sums per additional day spent on company business where authorised in advance by the board. Notwithstanding his role as the company's non-executive chairman the board has concluded, based on careful consideration of factors including his overall character and approach, that AM Howarth is independent for the purposes of the Code.

The board keeps the assessment of non-executive independence under regular review, taking into account changes in circumstances and factors likely to compromise independence.

Appointment to the board

Appointments to the board are made on merit and against objective criteria. Care is taken to ensure that appointees have enough time to devote to the job, especially in the case of chairmanships. The board keeps under review, and takes appropriate action, to ensure orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board.

The Code provisions require the formation of a nomination committee to lead and oversee the application of Code principles as they relate to board and senior management appointments. The company does not have a nomination committee.

The board considers the other significant commitments of non-executive directors prior to appointment, to ensure that they have sufficient time to meet what is expected of them, and keeps changes to these commitments under review. The terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting).

S J Green retired as non-executive chairman on 28 May 2004 and was succeeded by A M Howarth. Neither an external search consultancy nor open advertising was used in connection with this change as A M Howarth was already on the board and his appointment to the role of chairman was part of a planned succession. The board took into account Mr Howarth's skills and experience in approving his appointment as chairman and, in the circumstances, did not consider it appropriate or necessary to seek an external candidate. A M Howarth's other significant commitments are as a non-executive director for one other listed company and as the chairman of a public body. Prior to his retirement, S J Green had no other significant commitments.

The board as a whole keeps under review the need for a third independent non-executive director.

Information and professional development

The board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information which is provided by operational management and enhanced or clarified where necessary.

All directors receive induction on joining the board and the chairman ensures that directors continually update their skills and knowledge and familiarity with the company required to undertake their role both on the board and on board committees. The company provides the necessary resources for developing and updating its directors' knowledge and capabilities.

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required. The company secretary is responsible for advising the board, through the chairman, on all governance matters and for ensuring that board procedures are complied with and applicable rules and regulations followed. The board considers that, given the size of the company and resources available, the current dual role of the company secretary, who is also an executive director, is acceptable subject to the following safeguards. The effectiveness of this arrangement is monitored and reviewed annually to ensure that the independence of the company secretary as regards corporate governance responsibilities is not compromised. The appointment and removal of the company secretary is a matter for the board as a whole.

The directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees are also provided with sufficient resources to undertake their duties.

During the year, directors attended various seminars and conferences held by industry and professional bodies covering topics such as: business strategy, emerging industry trends, executive remuneration, financial reporting, corporate governance, corporate taxation and market regulation. In addition, board meetings regularly include sessions on recent developments in governance and other relevant corporate matters.

Performance evaluation

The board has undertaken a formal review encompassing the performance of the board as a whole, its committees and each director. In performing these reviews, criteria that are taken into account include the ability of the director to: take the perspective of creating shareholder value; to contribute to the development of strategy and identification of risks; to provide clarity of direction to management; to be a source of wise counsel; to bring a broad perspective to discussions and an understanding of key issues; to commit the time required to fulfil the role; and to listen to and respect the ideas of fellow directors and management.

The senior non-executive director, J E Aves, is responsible for, and has undertaken, the performance evaluation of the chairman, taking into account the views of the executive directors and the criteria above.

Re-election

All directors are submitted for re-election at regular intervals, subject to continued satisfactory performance. The board keeps under review the need for refreshing of the board and takes appropriate action.

All directors are subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at three yearly intervals. Non-executive directors are appointed for specified terms subject to re-election and to Companies Act provisions relating to the removal of a director.

The chairman has formally reviewed the performance of J E Aves, who is seeking re-election as a non-executive director, and satisfied himself that his performance continues to be effective and that he continues to demonstrate commitment to the role.

Accountability and audit

Financial reporting

The board is responsible for presenting a balanced and understandable assessment of the company's position and prospects, extending to interim reports and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Internal control

The board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the company's assets. 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 board has reviewed and reported on the effectiveness of the group's system of internal controls during the year. This review covered all material controls, including financial, operational and compliance controls and risk management systems.

The company's 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 continue 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 and reports from the operational board;
- 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; and
- 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.

Audit committee and auditors

The board has established formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and maintaining an appropriate relationship with the company's auditors.

The board has established an audit committee currently consisting of two independent non-executive directors, J E Aves (Chairman) and A M Howarth. S J Green resigned from this committee on 28 May 2004, following his retirement from the company on the same date. The board has satisfied itself that A M Howarth has recent and relevant financial experience.

The committee has written terms of reference setting out its main roles and responsibilities which were reviewed and updated during the year. These terms of reference are available from the company secretary on request.

The work of the committee in discharging its responsibilities includes:

- monitoring the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, and reviewing financial reporting judgments contained in them;
- reviewing the company's internal financial controls and reviewing the company's internal control and risk management systems;
- reviewing the company's whistle-blowing arrangements;
- reviewing the need for a separate internal audit function;
- making recommendations to the board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements; and
- developing and implementing policy on engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the board, identifying any matters of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The committee has met with senior management and the external auditors to review financial reporting at both the half and full year, including discussions as to the scope, materiality, timing and findings of the annual audit.

The committee seeks to maintain auditor objectivity and independence by reviewing and controlling the manner in which non-audit services are awarded to the auditor on at least an annual basis. The company has a rigorous policy designed to ensure that the auditors' independence is not compromised by their undertaking inappropriate non-audit work. All significant non-audit work, and any work of a non-compliance consultancy nature, commissioned from the external auditors requires audit committee approval.

The committee formally reviews the independence of the external auditors on an annual basis and has undertaken its annual review of the nature and amount of non-audit work undertaken by the external auditors and satisfied itself that there is no effect on their independence. The majority of non-audit services provided in the year, as set out in the notes to the financial statements, related to corporate taxation compliance services, which the committee considers is appropriate in the circumstances. No consultancy services of a non-compliance nature were purchased from the external auditors during the year.

During the year, the committee considered the need for a separate internal audit function and concluded that, based on the size of the group, a separate internal audit function is not necessary at this stage, but has instituted a cyclical review of compliance with internal control procedures. The need for an internal audit function is reviewed at least annually.

The committee has reviewed arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and concluded that they remain appropriate.

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.

Relations with shareholders

Dialogue with institutional shareholders

The board as a whole is responsible for ensuring that a dialogue is maintained with shareholders based on the mutual understanding of objectives.

The chief executive and finance director, and on occasion the chairman and senior non-executive director, meet with major shareholders on a regular basis, including presentations after the company's preliminary announcement of the year end results and at the half year. Non-executives are offered the opportunity to attend meetings with major shareholders and attend where requested.

The board is kept informed of the views of shareholders at each board meeting through a standing agenda item to receive a report from the chief executive and finance director, together with formal feedback on shareholders' views gathered and supplied by the company's advisors. The views of private and smaller shareholders, typically arising from the AGM or from direct contact with the company, are also communicated to the board on a regular basis.

J E Aves, the senior independent non-executive director, is available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate.

Constructive use of the AGM

The board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

All members of the board attended the company's last AGM and the chairman aims to ensure that all members of the board will be available at the forthcoming AGM.

Proxy votes are counted and, except where a poll is called, the level of proxies lodged on each resolution, and the balance for and against the resolution and the number of abstentions, is reported after each resolution has been dealt with on a show of hands at the AGM.

Details of resolutions to be proposed at the AGM can be found in the Notice of the Meeting. A separate resolution is proposed for each substantially separate issue including a separate resolution relating to the report and accounts.

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which amended the Companies Act 1985. 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

The board has established a remuneration committee currently consisting of two independent non-executive directors, J E Aves (chairman) and A M Howarth. S J Green resigned from this committee on 28 May 2004, following his retirement from the company on the same date.

The committee has written terms of reference setting out its main roles and responsibilities which were reviewed and updated during the year. These terms of reference are available from the company secretary on request.

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, for which rates are individually set; and
- 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 of a similar size and in similar market sectors.

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 dependent on the achievement of profitability targets set at the beginning of the year. No such bonus payments were made for the year ending 31 December 2004.

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 the increase in the retail price index plus five per cent per annum over a three year period. Un-approved 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.

DIRECTORS' REMUNERATION REPORT

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.

The calculation of earnings per share will be affected by the introduction of International Financial Reporting Standards during 2005. For options granted prior to this change, performance in regard to earnings per share criteria will continue to be assessed on a consistent UK GAAP basis.

Service agreements

A J S Walton-Green, S W Purchase and D Osman have service agreements dated 1 August 2000. Following a review, these service agreements have been amended and are terminable by 12 months' rolling notice from either side.

C M Errington's service agreement commenced on 1 August 2004 and is also terminable by 12 months' rolling notice from either side.

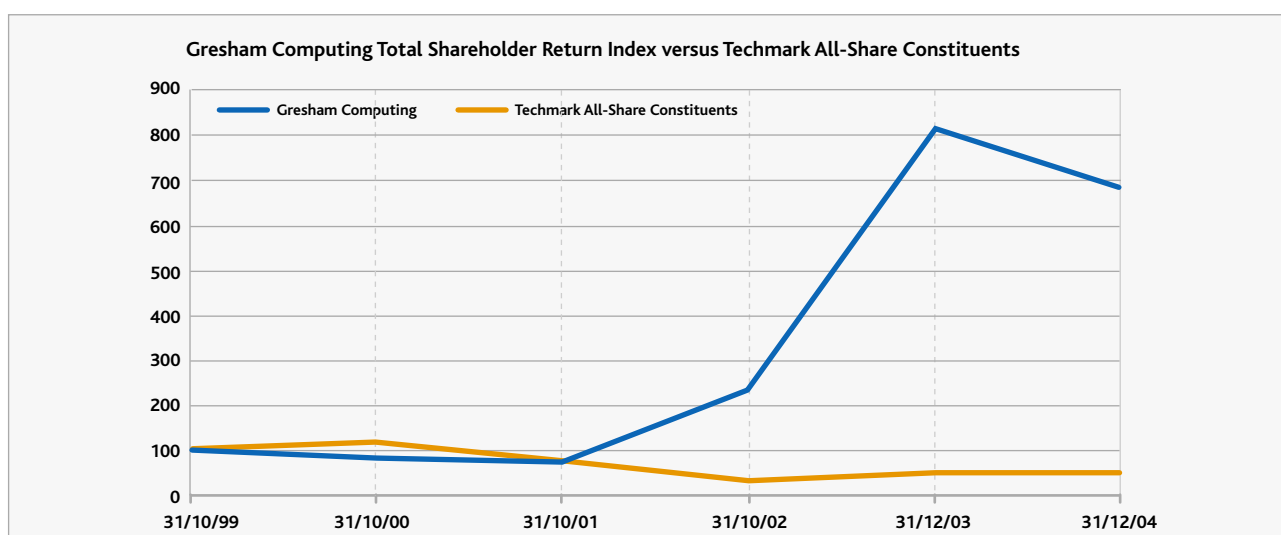
Compensation for loss of office is considered on a case by case basis and in accordance with any service agreement requirements.

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 any additional duties at fixed day rates. Non-executive directors are appointed for an initial period of two 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. Compensation for loss of office is not payable to non-executive directors.

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.



Audited information

Directors' emoluments

	Fees/basic salary £	Benefits in kind £	Performance related bonus £	2004 Total emoluments £	2003 Total emoluments £
<i>Executive</i>					
C M Errington ¹	64,053	401	—	64,454	—
D Osman ⁴	120,000	12,627	—	132,627	102,886
S W Purchase ⁴	120,000	12,094	—	132,094	102,338
A J S Walton-Green ⁴	150,000	14,010	—	164,010	133,396
<i>Non-executive</i>					
J E Aves ²	25,200	—	—	25,200	25,000
S J Green ³	14,583	—	—	14,583	30,000
A M Howarth	24,000	—	—	24,000	9,385
	517,836	39,132	—	556,968	403,005

¹ from appointment 19 April 2004

² paid to J E Aves Associates

³ retired 28 May 2004

⁴ in 2003 each director waived £30,000 of their basic salary

Directors' pension entitlements

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

	2004 £	2003 £
C M Errington ¹	2,687	—
D Osman	15,000	9,600
S W Purchase	15,000	15,000
A J S Walton-Green	18,750	9,855
	51,437	34,455

¹ from appointment 19 April 2004

Directors' share options

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

	Options at 1 January 2004	Granted/ (cancelled) in the year	Exercised	Options at 31 December 2004	Date of grant	Exercise price	Date first exercisable	Expiry date
C M Errington	—	—	—	—	—	—	—	—
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	01.10.03	31.03.04
	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	12,548	(S)	—	12,548	24.05.02	21.5p	01.07.05	01.01.06

DIRECTORS' REMUNERATION REPORT

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 (a former director) 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 17 March 2004, when the opening 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.

On 28 June 2004, D Osman settled an option held over 100,000 ordinary shares of 5 pence each beneficially held by S J Green, a former director, at an exercise price of 55 pence per share, which was due to expire on 17 July 2004. The terms of the agreement were that D Osman received 84,000 shares in settlement of the option. At the time of the agreement, the opening market price of the shares was £3.25, resulting in a notional gain of £273,000. D Osman subsequently sold 33,600 of these shares at a price of £3.28 per share to satisfy the tax liability arising on the receipt of the shares. D Osman retains ownership of the balance of 50,400 shares.

The closing market price of the company's shares on 31 December 2004 was 276.0 pence. During the year, the closing price per ordinary share ranged from 240.0 pence to 454.5 pence.

Approval

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



J E Aves
26 April 2005

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 2004 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 and the related notes 1 to 24. 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. The directors are also responsible for preparing the Directors' Remuneration Report.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Directors' Report, Corporate Governance Statement and unaudited part of the Directors' Remuneration Report. 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

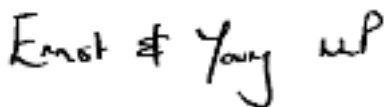
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be 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 2004 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
Registered Auditor
Southampton
26 April 2005

	Notes	2004 £'000	2003 £'000
Turnover	2	12,398	10,245
Cost of sales		(5,796)	(4,535)
Gross profit		6,602	5,710
Administrative expenses		(8,012)	(7,868)
Operating loss	3	(1,410)	(2,158)
Interest receivable		217	209
Interest payable	6	(5)	(6)
Loss on ordinary activities before taxation	2	(1,198)	(1,955)
Taxation credit on loss on ordinary activities	7	305	12
Loss on ordinary activities after taxation		(893)	(1,943)
Retained loss for the year		(893)	(1,943)
Basic loss per share — pence	9	(1.81)	(4.05)
Diluted loss per share — pence	9	(1.81)	(4.05)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 £'000	2003 £'000
Loss for the financial year	(893)	(1,943)
Exchange difference on retranslation of net assets of subsidiary undertakings	(29)	(110)
Total recognised gains and losses relating to the year	(922)	(2,053)

RECONCILIATION OF GROUP SHAREHOLDERS' FUNDS

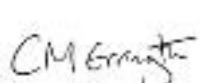
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 £'000	2003 £'000
Total recognised gains and losses relating to the year	(922)	(2,053)
Issue of shares (net of associated costs)	89	4,052
Total movements during the year	(833)	1,999
Opening shareholders' funds	9,306	7,307
Closing shareholders' funds	8,473	9,306



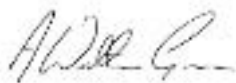
	Notes	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	10	1,137	1,043
Tangible assets	11	1,241	1,336
		2,378	2,379
Current assets			
Debtors	13	7,640	6,301
Cash at bank and in hand		3,016	4,923
		10,656	11,224
Creditors: amounts falling due within one year	14	4,293	3,820
Net current assets		6,363	7,404
Total assets less current liabilities		8,741	9,783
Creditors: amounts falling due after more than one year	15	268	477
		8,473	9,306
Capital and reserves			
Called up share capital	18	2,479	2,464
Share premium account	18	9,713	9,639
Special reserve	18	313	313
Merger reserve	18	726	726
Profit and loss account	18	(4,758)	(3,836)
Shareholders' funds — equity interests		8,473	9,306

On behalf of the board



C Errington

26 April 2005



A Walton-Green

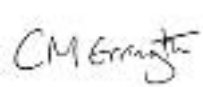
26 April 2005

COMPANY BALANCE SHEET

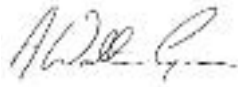
AT 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Investments	12	13,904	13,205
Current assets			
Debtors	13	7,252	5,487
Cash at bank and in hand		1,937	4,213
		9,189	9,700
Creditors: amounts falling due within one year	14	146	140
Net current assets		9,043	9,560
Total assets less current liabilities		22,947	22,765
Capital and reserves			
Called up share capital	18	2,479	2,464
Share premium account	18	9,713	9,639
Special reserve	18	313	313
Merger reserve	18	6,609	6,609
Profit and loss account	18	3,833	3,740
Shareholders' funds — equity interests		22,947	22,765

On behalf of the board



C Errington
26 April 2005



A Walton-Green
26 April 2005

	Notes	2004 £'000	2003 £'000
Net cash outflow from operating activities	20(a)	(2,011)	(3,083)
Returns on investments and servicing of finance			
Interest received		199	225
Interest paid		(5)	(6)
		194	219
Taxation			
Corporation tax received/(paid)		—	(21)
Overseas tax (paid)/received		(40)	12
		(40)	(9)
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(278)	—
Payments to acquire tangible fixed assets		(234)	(167)
		(512)	(167)
Acquisitions and disposals			
Disposal of associated undertaking	13	387	(25)
		387	—
Net cash outflow before financing		(1,982)	(3,065)
Financing			
Issue of share capital		91	4,184
Share issue costs		(2)	(132)
Repayments of finance leases		(5)	(76)
Net inflow from financing		84	3,976
(Decrease)/increase in cash	20(b)	(1,898)	911

RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
(Decrease)/increase in cash		(1,898)	911
Repayments of capital element of finance leases		5	76
Change in net funds resulting from cash flows		(1,893)	987
Exchange differences		(9)	3
Movement in net funds		(1,902)	990
Net funds at 1 January		4,918	3,928
Net funds at 31 December	20(b)	3,016	4,918

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 accounts 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 3 to 10 years
Computer equipment	— over 1 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. The amounts will be recognised as costs in the profit and loss account in line with the recognition of income from the associated contracts.

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 retranslated at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account.

Group

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising on the retranslation of opening net assets are 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:

	Inter-segment Turnover 2004 £'000	Inter-segment turnover 2004 £'000	External turnover 2004 £'000	Inter-segment Turnover 2003 £'000	Inter-segment turnover 2003 £'000	External turnover 2003 £'000
Solutions	4,350	—	4,350	2,842	(16)	2,826
Specialist contract staff	2,359	(11)	2,348	1,789	(21)	1,768
Enterprise solutions	6,709	(11)	6,698	4,631	(37)	4,594
Enterprise software	5,704	(4)	5,700	5,658	(7)	5,651
	12,413	(15)	12,398	10,289	(44)	10,245

Geographical analysis of turnover by source:

	Inter-segment Turnover 2004 £'000	Inter-segment turnover 2004 £'000	External turnover 2004 £'000	Inter-segment Turnover 2003 £'000	Inter-segment turnover 2003 £'000	External turnover 2003 £'000
United Kingdom	7,968	—	7,968	6,302	(31)	6,271
North America	2,654	(577)	2,077	3,058	(828)	2,230
Rest of World	3,097	(744)	2,353	2,686	(942)	1,744
	13,719	(1,321)	12,398	12,046	(1,801)	10,245

Geographical analysis of turnover by destination:

	2004 £'000	2003 £'000
United Kingdom	7,052	4,908
North America	1,595	1,641
Rest of World	3,751	3,696
	12,398	10,245

2. Turnover and segmental analysis (continued)

Common costs comprise the costs of all central group services. Analysis of loss on ordinary activities before taxation by segment:

	2004 £'000	2003 £'000
Enterprise solutions	(1,732)	(1,998)
Enterprise software	1,248	669
	(484)	(1,329)
Common costs	(926)	(829)
Operating loss	(1,410)	(2,158)
Net interest receivable	212	203
Loss on ordinary activities before taxation	(1,198)	(1,955)

Analysis of loss on ordinary activities before taxation by source:

	2004 £'000	2003 £'000
United Kingdom	(318)	(976)
North America	75	(125)
Rest of World	(241)	(228)
	(484)	(1,329)
Common costs	(926)	(829)
Operating loss	(1,410)	(2,158)
Net interest receivable	212	203
Loss on ordinary activities before taxation	(1,198)	(1,955)

Analysis of net assets by segment:

	2004 £'000	2003 £'000
Enterprise solutions	545	513
Enterprise software	3,869	3,046
	4,414	3,559
Unallocated net assets	4,059	5,747
Total net assets	8,473	9,306

Analysis of net assets by location:

	2004 £'000	2003 £'000
United Kingdom	3,138	2,355
North America	(233)	(233)
Rest of World	1,509	1,437
	4,414	3,559
Unallocated net assets	4,059	5,747
Total net assets	8,473	9,306

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

3. Operating loss

This is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration — audit services UK*	46	41
— audit services overseas	31	25
	77	66
— non-audit services UK	23	29
— non-audit services overseas	2	3

* Of this amount, £18,000 (2003: £17,000) relates to the company.

Research and development expenditure	1,471	1,872
Depreciation	323	390
Amortisation of intangible assets	159	132
Operating lease rentals — land and buildings	700	680
— plant and machinery	200	288

4. Directors' remuneration

The emoluments of the directors are as follows:

	2004 £'000	2003 £'000
Fees	64	64
Other emoluments:		
Basic salaries	454	300
Benefits	39	39
Pension contributions	51	34
	608	437

Details of directors' emoluments are given in the Directors' Remuneration Report on pages 14 to 17.

5. Staff costs

	2004 £'000	2003 £'000
Wages and salaries	6,347	6,424
Social security costs	861	790
Other pension costs	288	288
	7,496	7,502

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

Office, management and technical	145	151
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6. Interest payable

	2004 £'000	2003 £'000
Finance charges payable under finance leases and hire-purchase contracts	—	5
Bank interest and similar charges	5	1
	5	6

7. Taxation on loss on ordinary activities

	2004 £'000	2003 £'000
The tax charge comprises:		
Current tax		
UK Corporation tax	—	—
Foreign tax	—	(12)
Adjustments in respect of prior years		
UK Corporation tax	(305)	—
Foreign tax	—	—
Total current tax credit	(305)	(12)
Total deferred tax (note 17)	—	—
Total tax credit on loss on ordinary activities	(305)	(12)

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 before tax is as follows:

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(1,198)	(1,955)
Tax on group loss on ordinary activities at 30% (2003: 30%)	(359)	(587)
Effects of:		
Expenses not deductible for tax purposes	74	85
Deduction in respect of share option exercise	(262)	(557)
Other short-term timing differences	(65)	76
Capital allowances in excess of depreciation	(48)	(52)
Utilisation of losses and indexation	(12)	—
Increase in tax losses carried forward	962	1,079
Adjustments to tax losses in respect of prior periods	(290)	(56)
Adjustments to tax charge in respect of prior periods	(305)	—
Group current tax credit for the period	(305)	(12)

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.

Claims have been made under the Research and Development tax credit regime for a cash refund from the surrender of enhanced qualifying losses giving rise to a tax credit in the year.

Factors that may affect future tax charges

At 31 December 2004 the group has a substantial unrecognised deferred tax asset of £3,074,000 as analysed in note 17. 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.

8. Profit attributable to members of the parent undertaking

The profit dealt with in the financial statements of the parent undertaking was £93,000 (2003: £186,000).

9. Earnings per share

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

	2004 £'000	2003 £'000
Loss for the financial year	(893)	(1,943)
	2004 Number of shares	2003 Number of shares
Weighted average number of shares:		
For basic earnings per share	49,407,419	48,022,384
Potential ordinary shares — share options	—	—
Diluted weighted average number of shares	49,407,419	48,022,384

For the years ended 31 December 2004 and 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.

10. Intangible fixed assets

GROUP	Computer software rights £'000	Goodwill on acquisitions £'000	Patents and trademarks £'000	Total £'000
Cost:				
At 1 January 2004	669	3,400	—	4,069
Exchange differences	2	(95)	—	(93)
Additions	270	—	8	278
At 31 December 2004	941	3,305	8	4,254
Amortisation:				
At 1 January 2004	669	2,357	—	3,026
Exchange differences	—	(68)	—	(68)
Provided during the year	51	108	—	159
At 31 December 2004	720	2,397	—	3,117
Net book value:				
At 31 December 2004	221	908	8	1,137
At 1 January 2004	—	1,043	—	1,043

Computer software rights are amortised on a straight-line basis over their estimated useful life of 5 years. Goodwill is amortised on a straight-line basis 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. Patents are amortised on a straight-line basis over the expected life of the protection afforded, a period of 5 to 15 years.

11. Tangible fixed assets

GROUP	Freehold premises £'000	Short leasehold premises £'000	Computer equipment £'000	Plant, fixtures and equipment £'000	Total £'000
Cost:					
At 1 January 2004	1,298	648	2,427	620	4,993
Additions	—	5	207	22	234
Exchange differences	—	(6)	(33)	(2)	(41)
Disposals	—	—	(9)	—	(9)
At 31 December 2004	1,298	647	2,592	640	5,177
Depreciation:					
At 1 January 2004	402	574	2,130	551	3,657
Provided during the year	58	26	209	30	323
Exchange differences	—	(3)	(30)	(2)	(35)
Disposals	—	—	(9)	—	(9)
At 31 December 2004	460	597	2,300	579	3,936
Net book value:					
At 31 December 2004	838	50	292	61	1,241
At 1 January 2004	896	74	297	69	1,336

12. Investments

COMPANY	Subsidiary undertakings £'000
Cost:	
At 1 January 2004	17,348
Additions	699
At 31 December 2004	18,047
Provisions for impairment in value:	
At 1 January 2004	4,143
Additions	—
At 31 December 2004	4,143
Net book value:	
At 31 December 2004	13,904
At 1 January 2004	13,205

The addition during the year represents further share capital introduced into Gresham Computing Pty Limited.

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
<i>Subsidiary undertakings</i>				
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
Gresham Software Labs Pty Limited	Australia*	Ordinary shares	100%	Software products and solutions

* 100% held indirectly through an intermediate holding company

13. Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	2,433	1,615	—	—
Amounts owed by subsidiary undertakings	—	—	6,841	4,693
Prepayments and accrued income	1,204	1,271	11	7
Long-term contract balances	3,154	2,524	—	—
Convertible bond receivable	400	787	400	787
Corporation tax recoverable	449	104	—	—
	7,640	6,301	7,252	5,487

On 31 December 2004, £387,000 was received on maturity of the first tranche of convertible bonds receivable in respect of the disposal of an associated undertaking in prior years.

14. Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Obligations under finance leases and hire-purchase	—	5	—	—
Amounts owed to subsidiary undertakings	—	—	68	57
Trade creditors	677	430	3	3
Corporation tax payable	20	20	—	—
Other taxes and social security costs	696	314	—	—
Other creditors and accruals	885	1,244	75	80
Deferred income	2,015	1,807	—	—
	4,293	3,820	146	140

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

	Group	
	2004 £'000	2003 £'000
Deferred income	268	477
	268	477

16. Obligations under leases

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

	Land and buildings 2004 £'000	Other 2004 £'000	Land and buildings 2003 £'000	Other 2003 £'000
GROUP				
Operating leases which expire:				
Within one year	23	28	44	72
Within two to five years	639	61	514	84
Over five years	—	—	—	—
	662	89	558	156
			Land and buildings 2004 £'000	Land and buildings 2003 £'000
COMPANY				
Operating leases which expire:				
Within one year			—	—
Within two to five years			340	340
Over five years			—	—
			340	340

17. 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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital allowances in advance of depreciation	370	449	—	—
Other timing differences	58	134	—	—
Tax losses	2,646	2,175	—	39
Unrecognised deferred tax asset	3,074	2,758	—	39

18. Share capital and reserves

	Authorised		Allotted, called up and fully paid	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Share capital				
Ordinary shares of 5p each	3,250	3,250	2,479	2,464
13% gross cumulative convertible preference shares of 20p each	550	550	—	—
	3,800	3,800	2,479	2,464

During the year, 305,708 ordinary shares were issued following the exercise of share options, for a total cash consideration of £91,247.

Reconciliation of shareholders' funds and movements on reserves

	Share capital £'000	Share premium account £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
GROUP						
At 1 January 2004	2,464	9,639	313	726	(3,836)	9,306
Exchange differences on retranslation of net assets of subsidiary undertakings	—	—	—	—	(29)	(29)
Issue of ordinary shares	15	76	—	—	—	91
Share issue costs	—	(2)	—	—	—	(2)
Retained loss for the year	—	—	—	—	(893)	(893)
At 31 December 2004	2,479	9,713	313	726	(4,758)	8,473
COMPANY						
At 1 January 2004	2,464	9,639	313	6,609	3,740	22,765
Issue of ordinary shares	15	76	—	—	—	91
Share issue costs	—	(2)	—	—	—	(2)
Retained profit for the year	—	—	—	—	93	93
At 31 December 2004	2,479	9,713	313	6,609	3,833	22,947

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 2004 and 2003 is £7,326,000. Goodwill previously written off to reserves will remain so written off as permitted by FRS 10.

19. 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.

Executive share option schemes

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 five per cent per annum above the retail price index.

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

At 31 December 2004, 15 participants held options under these schemes.

Options are capable of exercise after three years and within ten years of the date of grant.

From 30 July 2004, all new options granted under these schemes are only exercisable based on the performance in the first relevant three year period; remeasurement over successive periods is not permitted.

Savings related option scheme

The group also operates a Savings Related Option Scheme (Save As You Earn — 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 per cent. The company has taken advantage of the exemption allowed under UITF 17 for SAYE schemes. At 31 December 2004 there were 28 participants in the SAYE scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2004, 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
	637,897	2	36.00	July 2003 – July 2010
	150,000	1	26.75	Apr 2005 – Apr 2012
	20,000	1	77.75	Sept 2005 – Sept 2012
	15,000	6	70.00	Apr 2006 – Apr 2013
	40,000	2	269.50	May 2006 – May 2013
	20,000	1	322.50	May 2007 – May 2014
	1,017,897			
SAYE Scheme	465,529	28	21.50	July 2005 – Jan 2006

20. Notes to the statement of cash flow

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

	2004 £'000	2003 £'000
Operating loss	(1,410)	(2,158)
Depreciation	323	390
Amortisation	159	132
Increase in debtors	(1,318)	(1,586)
Increase in creditors	235	139
Net cash outflow	(2,011)	(3,083)

(b) Analysis of net funds

	At 1 January 2004 £'000	Cash flow £'000	Exchange differences £'000	At 31 December 2004 £'000
Cash at bank and in hand	4,923	(1,898)	(9)	3,016
Finance leases	(5)	5	—	—
	4,918	(1,893)	(9)	3,016

21. 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 assets and maturity of financial assets

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

	Fixed rate financial assets 2004 £'000	Floating rate financial assets 2004 £'000	Total 2004 £'000	Fixed rate financial assets 2003 £'000	Floating rate financial assets 2003 £'000	Total 2003 £'000
Sterling	—	1,946	1,946	—	4,135	4,135
US dollar	—	173	173	—	339	339
Australian dollar	—	68	68	—	139	139
Canadian dollar	—	180	180	—	131	131
Euro	400	641	1,041	787	179	966
Other	—	8	8	—	—	—
Total	400	3,016	3,416	787	4,923	5,710

Fixed rate financial assets comprise a Convertible Eurobond issued by SQS Software Quality Systems AG. The remaining element of the bond matures on 30 June 2005. The fixed interest rate on the bond is 7%. In connection with this Convertible Eurobond, the group was also issued with warrants over 15,556 SQS Software Systems AG ordinary shares with an exercise price of €18.16. The warrants are exercisable at any time in the period to 31 July 2008. The warrants are held at £nil value in the financial statements.

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

21. Financial instruments (continued)

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:

Functional currency of group operation	Net foreign currency monetary assets						
	Euro 2004 £'000	US Dollar 2004 £'000	Other 2004 £'000	Total 2004 £'000	Euro 2003 £'000	US Dollar 2003 £'000	Total 2003 £'000
Sterling	932	140	15	1,087	938	111	1,049
Australian dollar	217	123	25	365	—	103	103
Canadian dollar	—	253	—	253	—	246	246
	1,149	516	40	1,705	938	460	1,398

Borrowing facilities

The undrawn committed facilities available in respect of which all conditions precedent had been met at 31 December 2004 was £nil (2003: £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. The SQS warrants are considered to have an immaterial fair value as at 31 December 2004 and 2003 taking into account the saleability of the underlying shares and their potential value.

22. Pension commitments

The group operates defined contribution schemes for staff and directors. The assets of the schemes are held separately from those of the group in independently administered funds. At 31 December 2004 there were outstanding contributions of £27,000 (2003: £26,000).

23. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil for the group and £nil for the company (2003: £240,000 and £nil respectively).

24. Post-balance sheet events

On 17 February 2005, the company issued 63,492 new ordinary shares of 5 pence each pursuant to the acquisition of the trade and intellectual property of IM Computing Limited, a company specialising in the control of Instant Messaging. The maximum consideration payable in respect of this acquisition is £500,000, comprising £200,000 being the new shares issued above with a further, future, payment of up to £300,000 payable in cash or shares, at the option of the Company, according to the achievement of certain financial targets in respect of the business transferred within a 5 year period from acquisition.

NOTICE OF ANNUAL GENERAL MEETING

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 1 July 2005 at 10.00 a.m. for the following purposes:

To conduct the following ordinary business:

Ordinary Resolutions

- 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 2004.
- B. To consider and, if thought appropriate, to approve the directors' remuneration report for the year ended 31 December 2004.
- C. To reappoint 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 J E Aves as a director following his retirement by rotation.

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

Special Business

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 £827,571 during the period commencing on the date of the passing of this resolution and ending on the earlier of 1 August 2006 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 2006, 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 £124,135.

By order of the board



C M Errington
Company Secretary
26 April 2005

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 fifteen minutes prior to and during the meeting.
6. Brief personal details of J E Aves, who is the director proposed for re-election, can be found on page 2.



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