CHAIRMAN'S STATEMENT

Results

Group Turnover for the year ended 31 October 2000 was £23.3 million (1999: £30.4 million), after exceptional items and before goodwill amortisation there was a pre-tax loss of £3.6 million (1999: £0.4 million). The resultant loss per ordinary share was 9.38 pence (1999: 2.29 pence). The second half of the year has seen considerable restructuring of the business resulting in exceptional items of £815,000.

Your board and management team have taken significant steps throughout the year to improve the performance of the group and also to develop an effective strategy for the business. I am pleased to be able to report that we have made considerable progress towards these objectives in the past six months. The pre-tax loss before exceptional items and goodwill amortisation for the six months ended 31 October 2000 was significantly reduced from £1,698,000 in the first half of the year to £383,000 (1999 H2: loss £1,342,000). In the second half of the year we recorded an increase in group revenue of eight percent reversing the decline in revenue reported in the previous two half years. Also during the second half of the year gross margin increased from 40% to 42%.

During the year we have placed considerable emphasis on cash management and despite the level of operating loss we generated £695,000 of cash from operations and recorded a small increase in overall indebtedness of £307,000.

Operations

As I mentioned in my Interim Statement last July and as a result of the strategic review of the business undertaken last year, the current operations of the group have been organised into five business streams. As the management team makes progress in the implementation of our agreed strategy these streams will evolve further to reflect the most effective and efficient organisation of our business units.

Enterprise Software Solutions

Turnover increased during the year by 23% to £8.3 million (1999: £6.7 million), primarily as a result of a 100% increase in revenue from storage management solutions. In order to maximise the return from the group's IPR we are actively pursuing a strategy of expanding our routes to market through the utilisation of sales channels. In September, we entered into a worldwide distribution agreement with ACI Worldwide for our Tandem operational product (TOPS) and anticipate that further sales channels will be added during the next year for our products. Considerable interest is also being shown in Casablanca, our JAVA Enterprise Application Integration (EAI) product, through Casablanca Software Limited, a new subsidiary which has recently been established to fully exploit the potential of this product. Utility products continue to provide a strong maintenance revenue stream and in October we concluded a five year maintenance agreement with a significant UK outsourcing customer in excess of £1 million.

SIM Testing

SIM Testing recorded revenue for the full year of £4.5 million compared with £2.7 million in 1999 which represented the revenue for the first seven months after acquisition. Our strategy of providing automated and bespoke end to end testing through long term relationships with key accounts has proved to be a significant success. Turnover in the second half of 2000 grew by 48% over that recorded in the first half and this trend has continued into 2001.

Specialist Contract Staff

The specialist contract staff business recorded reduced gross revenues of £4.8 million (1999: £6.6 million) largely as a result of the Y2K microclimate. However, this division remains profitable and continues to be an important provider of human resources to the group and our key accounts.

Financial Services

Financial Services recorded revenue of £5.8 million (1999: £12.3 million). As previously reported this division has suffered a significant decline over the past 18 months as a result of the effect of the Y2K close down and also over capacity in the market we previously focused on. During the second half of the year it became apparent that this division would take longer to turnaround than initially expected. As a result it has been restructured to focus on IPR-led solutions in what remains an important vertical market for us.

Integration Solutions

Integration solutions recorded services revenue of £1.3 million (1999: £3.2 million). This division has been restructured to focus on IPR-led opportunities and also to provide a range of EAI solutions and services.

CHAIRMAN'S STATEMENT

(continued)

The new structure for the group outlined above has been used as the basis of the segmental analysis shown in note 2.

Strategy

Gresham's core business is the provision of enterprise solutions through niche technologies and specialist services. As noted above our Integration Solutions and Financial Services divisions are taking longer to turnaround than our other businesses. These two divisions are increasingly becoming IPR-led niche solution providers operating within our enterprise products and services framework. As we further develop this focus it is likely that we will dispose of non-core business units when we can maximise shareholder value from them.

Outlook

I am very pleased to be able to report that the group returned to operating profitability before goodwill amortisation in December.

Since the year end our Enterprise Software Solutions and SIM Testing businesses have continued to perform strongly. The directors expect that this trend will continue, with a return to operating profitability in the second half of the year and for the year as a whole.

Employees

The directors and I would like to take this opportunity to thank our staff. 2000 was a tough year for us all. Some difficult decisions were made and I would like to record my gratitude to each of you for your significant contribution in moving us back into a position to resume profitability and growth.

Sid Green
Chairman
25 January 2001

DIRECTORS AND ADVISORS

Gresham Computing plc
Registered No. 1072032

Directors

S J Green	Non-Executive Chairman
A J S Walton-Green	Chief Executive
S W Purchase	
D Osman	

Secretary
D Osman

Registered Office
Mitchell House
Brook Avenue
Warsash
Southampton
SO31 9ZA

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

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

Bankers
Barclays Bank
50 Pall Mall
PO Box 15161
London
SW1A 1QA

Solicitors
Denton Wilde Sapte
5 Chancery Lane
Clifford's Inn
London
EC4A 1BU

DIRECTOR'S REPORT

The directors present their report and the group accounts for the year ended 31 October 2000.

Results and dividends

The group trading loss for the year, after taxation, amounted to £4,006,000 (1999: loss £840,000). The directors do not recommend a final ordinary dividend which, after preference dividends of £66,000, leaves £4,072,000 to be deducted from reserves.

Principal activities

The group's principal activity during the year was the provision of solutions through a combination of software products, consultancy services and specialist contract staff and placements.

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 report on pages 1 and 2.

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 developments in its markets with a view to taking advantage of the available opportunities to maintain and improve its competitive position. All costs associated with product development have been written off as incurred.

Directors and their interests

The directors during the year were as follows:

A J S Walton-Green (appointed 11 April 2000)
D Osman
S W Purchase
S J Green
T L Read (resigned 31 January 2000)
A Davies (resigned 6 April 2000)
P W Bickerton (resigned 3 April 2000)
G M R Graham (resigned 3 April 2000)
C D Jakes (resigned 3 April 2000)
W G Simpson (appointed 26 November 1999, resigned 6 April 2000)

The beneficial interests of the directors in the share capital of the company are disclosed in the report of the remuneration committee.

Independent non-executive directors

Prior to 3 April 2000 there were three independent non-executive directors, Roger Graham, Peter Bickerton and Clifford Jakes. All resigned on 3 April 2000.

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 October 2000 the group's creditor days were 49.

Substantial shareholdings

The directors have been notified of the following holdings in excess of three per cent of the issued ordinary share capital at 25 January 2001:

	Number of ordinary shares	Issued ordinary share capital %
Aberdeen Asset Managers Limited	2,000,000	4.54
M A Green	3,109,078	7.05

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

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 £734,646 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 £110,197, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

Financial risk management

The majority of the group's transactions are denominated in the transacting company's own operational currency. However, 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.

DIRECTOR'S REPORT
(continued)

Note 24 to these accounts analyses the group's derivatives and other financial instruments. Further information concerning the preference shares can be found in note 20.

Interest rate risks
The majority of the group's borrowings are in the form of sterling, variable rate loans and overdrafts.
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. Note 17 analyses the long term funding available to the group.

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

Auditors
A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the Board
D. Osman
D Osman
Company Secretary
25 January 2001

CORPORATE GOVERNANCE

Compliance with the Combined Code

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

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

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

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

A6.2 Until the company's Annual General Meeting on 10 April 2000, when the Articles of Association were changed, it was not compliant with provision A6.2 of the Combined Code requiring directors to be re-elected on a three year rotational basis.

The changes in board composition during the year have led to non-compliance with a number of provisions. The board is currently reviewing the situation and intends to strengthen the board, including the appointment of non-executive members, during the current year. As a result, the following provisions have not been complied with since 3 April 2000:

A2.1 An independent non-executive director has not been in place.
A3.1 Non-executive directors did not comprise more than one third of the board.
A3.2 The majority of non-executive directors were not independent of the company.
B2.1 The Remuneration Committee did not include independent non-executive directors.
B2.2 The Remuneration Committee did not comprise solely of non-executive directors.
D3.1 The audit committee did not comprise the minimum of three non-executive directors, the majority of whom should be independent.

The group has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange to listed companies in December 1998. The board has continued to review and report on the effectiveness of internal financial controls for the year ended 31 October 2000. The review was performed on the basis of the criteria set out in the Guidance for Directors 'Internal Control and Financial Reporting' issued in December 1994. The board has assessed the criteria for the review of internal control as set out in the guidance 'Internal Control: Guidance for Directors on the Combined Code' and the implications of the subsequent Turnbull report issued in 1999. The board expects a process to be in place during 2001 that will allow the directors to perform their review of internal control and report the results of that review to the board. The board, therefore, expects the company to be fully compliant with the requirements of section D2.1 of the Combined Code, relating to internal control, for the year ending 31 October 2002.

The workings of the board and its committees

During the year there have been a number of changes in the composition of the board. As a result of these changes, the board currently comprises a non-executive chairman, the chief executive and two further executive directors. From 3 April 2000 the company had only one non-executive director who is not deemed independent of the company because of his shareholding in the company. As a result of these changes, the company has not complied for the whole year with those provisions of the Combined Code relating to board balance and non-executive directors.

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

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

The board monitors the requirement for on-going and initial training of directors.

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

The board has appointed audit and remuneration committees.

The audit committee, consisting of three independent non-executive directors until 3 April 2000 and thereafter

CORPORATE GOVERNANCE

Compliance with the Combined Code *(continued)*

consisting of S J Green, has met with senior management to review financial reporting at both the half year and the full year. Its duties include monitoring the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors. In addition the committee reviews the interim and annual reports prior to them being approved by the board.

Until 3 April 2000 the remuneration committee comprised three independent non-executive directors and currently comprises S J Green and S W Purchase. The committee meets to oversee all aspects of the remuneration of executive directors and their performance incentives. The committee is advised as necessary by a leading firm of remuneration consultants.

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

Relations with shareholders

The board recognises the importance of communications with shareholders. There is regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year.

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

Accountability and audit

Going concern

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

Internal financial controls

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 effective internal financial 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 budgets for each financial year at a detailed level, and active reporting and monitoring of actual performance against them;
- the security of physical property and of computer information;
- detailed financial due-diligence on all acquisitions.

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 the system of internal financial controls. Action has been taken by the board to strengthen financial and other controls during the year.

Any system of internal controls provides reasonable but not absolute assurance against material mis-statement or loss. The internal financial control systems of the group are designed to give assurance with respect to:

- the reliability of financial information used within the business or for publication, and the maintenance of proper accounting records;
- the business being operated efficiently and effectively;
- the safeguarding of assets against unauthorised use or disposition.

The board does not consider that a separate internal audit function is necessary for the group at this stage.

REPORT ON DIRECTOR'S REMUNERATION

The remuneration committee, in consultation with the chief executive (in an advisory capacity), decides the base salary, incentives and benefits for the executive directors. The members of the committee until 3 April 2000 were Peter Bickerton (chairman), Clifford Jakes and Roger Graham, all independent non-executive directors of the company. Subsequent to 3 April 2000 the members of the committee were Sid Green and Steve Purchase, except that Mr Purchase did not participate in setting his own remuneration.

The committee decides a compensation package for each director which is designed to attract, motivate and retain directors of the highest calibre. Incentives are designed to encourage a commitment to growth of shareholder value and to ensure that rewards are aligned with shareholders' interests. In making judgements on the level of compensation, the committee takes account of the rewards paid by other comparable companies.

The pay and benefits of executive directors are selected from:

- Base salary, which is reviewed annually, is set to reflect the director's experience, responsibilities and marketability.
- Annual bonus, which is designed to encourage short-term performance. Under these arrangements, the payment of a bonus is dependent on achievement of specific objectives related to the operating performance of the group, set by the renumeration committee.
- Longer term incentives which are designed to encourage long-term growth in shareholder value. Executive directors are eligible for participation in the approved and unapproved Executive Share Option Scheme and are also eligible to join the Savings Related Share Option Scheme.
- Pension contributions are made to defined contribution schemes, usually, calculated as a percentage of base salary. Rates are individually set.
- Other benefits are provided in the form of company cars (or cash alternative), medical insurance and holiday entitlement in line with normal industry practice.

Service agreements

Service agreements for executive directors are terminable by 12 months' notice from either side except in certain circumstances where a change of control occurs, when a notice period of up to 36 months applies, which will subsequently reduce to 12 months. These provisions were considered essential in order to recruit and retain executive directors. Compensation for loss of office is considered on a case by case basis and in accordance with any service agreement requirements.

Non-executive directors

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

REPORT ON DIRECTORS' REMUNERATION

Directors' remuneration

	Base Salary £	Benefits in kind £	Pension contributions £	Performance related bonus £	Fees £	Compensation for loss of office £	**2000 Total emoluments £**	1999 Total emoluments £
S J Green	–	–	–	–	20,000	–	**20,000**	20,000
D Osman	85,000	13,737	5,100	–	–	–	**103,837**	114,304
S W Purchase	85,000	14,695	8,375	–	–	–	**108,070**	117,415
A J S Walton-Green	69,231	6,079	5,355	–	–	–	**80,665**	–
P W Bickerton	–	–	–	–	8,333	–	**8,333**	20,000
G M R Graham	–	–	–	–	12,500	–	**12,500**	30,000
C D Jakes	–	–	–	–	8,564	–	**8,564**	2,051
M Greenbank	–	–	–	–	–	–	–	137,595
W G Simpson	34,500	4,633	1,875	–	–	53,000	**94,008**	–
T L Read	44,135	4,729	13,056	–	–	153,836	**215,756**	189,220
A Davies	31,250	5,290	2,590	–	–	30,000	**69,130**	92,877
	349,116	49,163	36,351	–	49,397	236,836	**720,863**	723,462

Directors' interests in shares

	At 31 October 2000		At 1 November 1999 or date of appointment if later	
	Preference shares	**Ordinary shares**	Preference shares	Ordinary shares
S J Green	**660,018**	**5,165,473**	1,474,230	8,274,551
D Osman	–	**5,942**	–	5,942
S W Purchase	**765,465**	**3,488,969**	765,465	3,488,969
A J S Walton-Green	**42,525**	**210,465**	42,525	210,465

All interests of the directors at 31 October 2000 in the shares are beneficially held.

The disclosed shareholding of S J Green at 1 November 1999 included 154,194 preference shares and 220,943 ordinary shares held solely by his former spouse and 2,888,135 ordinary shares and 660,018 preference shares held in joint names for the sole benefit of his former spouse. Following the finalisation of his divorce settlement during the year, he no longer has an interest in any of these shares and so they have been excluded from the above disclosure at 31 October 2000.

The entire disclosed shareholding of A J S Walton-Green is held in his spouse's name.

The disclosed shareholding of S W Purchase includes 765,465 preference shares held by his spouse.

There have been no changes in the directors' interests in shares or share options between 31 October 2000 and 25 January 2001.

REPORT ON DIRECTORS' REMUNERATION
(continued)

Directors' options

	Options at 1 November 1999	Granted/ (cancelled) in the year	Exercised	**Options at 31 October 2000**	Date of grant	Exercise price	Date first exercisable	Expiry date
D Osman	81,081 E	–	–	**81,081**	21.01.98	37p	22.01.01	21.01.08
	43,919 E	–	–	**43,919**	17.02.99	142p	18.02.02	17.02.09
	12,187 S	–	–	**12,187**	29.09.98	80p	01.11.01	01.05.02
	50,000 G	–	–	**50,000**	16.06.99	137.5p	17.06.99	16.06.02
	–	80,000 E (1)	–	**80,000**	25.07.00	36p	26.07.03	25.07.10
A J S Walton-Green	–	557,897 E (1)	–	**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
S W Purchase	12,187 S	(12,187)	–	–	29.09.98	80p	01.11.01	01.05.02
	–	30,157 S	–	**30,157**	08.09.00	23p	01.10.03	31.03.04
T L Read	88,235 E	–	–	**88,235**	12.08.97	34p	13.08.00	11.02.01
	900,000 G	(900,000)	–	–	07.07.97	55p	31.07.97	08.02.00
	12,187 S	(12,187)	–	–	29.09.98	80p	01.11.01	31.01.00
A Davies	15,000 E	(15,000)	–	–	02.03.95	32p	03.03.98	02.03.05
	12,187 S	(12,187)	–	–	29.09.98	80p	01.11.01	01.05.02
	250,000 G	(250,000)	–	–	16.06.99	137.5p	17.06.99	16.06.02
P W Bickerton	100,000 G	(100,000)	–	–	07.07.97	55p	31.07.97	31.07.00
G M R Graham	250,000 G	(250,000)	–	–	07.07.97	55p	31.07.97	31.07.00

E = Executive share option scheme
G = Options granted by S J Green and S W Purchase on shares held by them
S = Options granted under the SAYE share option scheme
1 = The executive has agreed to pay any employers national insurance arising on the exercise of these options.

W G Simpson was granted 50,000 options at £1.375 on 16 June 1999 under the Executive Share Option Scheme and a further 270,000 options at 45.5 pence on 9 February 2000. All these options lapsed on 12 April 2000.
C D Jakes did not have any share options during the year.

Notes

The option price of executive share options is not less than the average of the middle market price of ordinary shares as derived from the London Stock Exchange Daily Official List on the three dealing days prior to the date of grant.

Executive share options become exercisable three years after the date of the grant and lapse ten years after the date of grant. Exercise is subject to performance conditions as detailed in note 21.

The options granted by S J Green and S W Purchase over their shares are exercisable at any stage during a three year period from the date of grant. There are no performance conditions relating to these options.

Options under the Savings Related Share Option scheme were granted, according to the scheme rules, to all eligible employees at a discount of 20% to the mid-market price on the day before invitations to join the scheme were issued.

The market price of the company's shares on 31 October 2000 was 29.5p. During the year the price per ordinary share ranged from 25.5p to 77p.

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND REPORT OF THE AUDITORS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts.

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

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.

AUDITORS' REPORT TO THE SHAREHOLDERS OF GRESHAM COMPUTING PLC

We have audited the accounts on pages 12 to 36, which have been prepared under the historical cost convention and the accounting policies set out on pages 18 and 19.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report. As described above, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 the 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 on pages 6 and 7 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion
We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 October 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Southampton
25 January 2001

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 October 2000

	Notes	Before goodwill amortisation 2000 £'000	Goodwill amortisation 2000 £'000	Total Group 2000 £'000	Before goodwill amortisation 1999 £'000	Goodwill amortisation 1999 £'000	Total Group 1999 £'000
Turnover	2	23,325	–	23,325	30,350	–	30,350
Cost of sales	5	13,796	–	13,796	18,373	–	18,373
GROSS PROFIT		9,529	–	9,529	11,977	–	11,977
Administrative expenses – pre-exceptional items		11,357	703	12,060	11,613	463	12,076
Administrative expenses – exceptional items	6	1,489	–	1,489	620	–	620
Administrative expenses		12,846	703	13,549	12,233	463	12,696
OPERATING LOSS	3	(3,317)	(703)	(4,020)	(256)	(463)	(719)
Bank interest receivable		11	–	11	20	–	20
Interest payable	7	(264)	–	(264)	(165)	–	(165)
		(253)	–	(253)	(145)	–	(145)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,570)	(703)	(4,273)	(401)	(463)	(864)
Taxation on loss on ordinary activities	8	(267)	–	(267)	(24)	–	(24)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(3,303)	(703)	(4,006)	(377)	(463)	(840)
Dividends – equity interests	10	–	–	–	–	–	–
– non-equity interests	10	66	–	66	66	–	66
RETAINED LOSS FOR THE YEAR		(3,369)	(703)	(4,072)	(443)	(463)	(906)
Basic and diluted earnings per share (pence)	11	(7.76)	(1.62)	(9.38)	(1.12)	(1.17)	(2.29)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 October 2000

	2000 **£'000**	1999 £'000
Loss for the financial year	**(4,006)**	(840)
Exchange difference on retranslation of net assets of subsidiary undertakings	**(92)**	(45)
Total recognised gains and losses relating to the year	**(4,098)**	(885)

RECONCILIATION OF SHAREHOLDERS' FUNDS
for the year ended 31 October 2000

	2000 **£'000**	1999 £'000
Total recognised gains and losses	**(4,098)**	(885)
Dividends	**(66)**	(66)
Issue of shares (net of share issue costs)	**2,925**	7,527
Shares to be issued	**(2,925)**	1,156
Goodwill on acquisitions	**–**	104
Total movements during the year	**(4,164)**	7,836
Opening shareholders' funds	**11,677**	3,841
Closing shareholders' funds	**7,513**	11,677

GROUP BALANCE SHEET

at 31 October 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Intangible assets	12	**8,047**	8,868
Tangible assets	13	**2,737**	3,345
		10,784	12,213
CURRENT ASSETS			
Debtors	15	**6,851**	8,270
Cash at bank and in hand		**343**	231
		7,194	8,501
Creditors: amounts falling due within one year	16	**6,807**	6,558
NET CURRENT ASSETS		**387**	1,943
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,171**	14,156
Creditors: amounts falling due after more than one year	17	**3,658**	2,430
Provisions for liabilities and charges	19	**–**	49
		7,513	11,677
CAPITAL AND RESERVES			
Called up share capital	20	**2,714**	2,618
Shares to be issued		**–**	2,925
Share premium account	22	**5,232**	3,969
Special reserve	22	**313**	313
Merger reserve	22	**726**	–
Profit and loss account	22	**(1,472)**	1,852
		7,513	11,677
SHAREHOLDERS' FUNDS			
Equity interests		**7,003**	11,167
Non-equity interests		**510**	510
		7,513	11,677

On behalf of the Board

D Osman
25 January 2001

AJS Walton-Green
25 January 2001

COMPANY BALANCE SHEET

at 31 October 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Investments	14	**15,621**	16,435
CURRENT ASSETS			
Debtors	15	**2,433**	1,869
Cash at bank and in hand		**257**	526
		2,690	2,395
Creditors: amounts falling due within one year	16	**134**	695
NET CURRENT ASSETS		**2,556**	1,700
Creditors: amounts falling due after more than one year	17	**2,500**	2,000
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,677**	16,135
CAPITAL AND RESERVES			
Called up share capital	20	**2,714**	2,618
Shares to be issued		**–**	2,925
Share premium account	22	**5,232**	3,969
Special reserve	22	**313**	313
Merger reserve	22	**6,609**	5,043
Profit and loss account	22	**809**	1,267
		15,677	16,135
SHAREHOLDERS' FUNDS			
Equity interests		**15,167**	15,625
Non-equity interests		**510**	510
		15,677	16,135

On behalf of the Board

D. Osman

D Osman
25 January 2001

AJS Walton-Green
25 January 2001

GROUP STATEMENT OF CASH FLOW

for the year ended 31 October 2000

	Notes	2000 £'000	1999 £'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	23	**695**	(147)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**11**	20
Interest paid		**(264)**	(165)
Dividends paid to preference shareholders		**–**	(53)
		(253)	(198)
TAXATION			
Corporation tax paid (including advance corporation tax)		**(278)**	(405)
Overseas tax paid		**(10)**	(106)
		(288)	(511)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		**(503)**	(1,573)
Receipts from sale of tangible fixed assets		**133**	67
		(370)	(1,506)
ACQUISITIONS			
Purchase consideration for subsidiary undertakings		**(66)**	(2,585)
Acquisition costs		**–**	(428)
Net cash acquired with subsidiary undertakings		**–**	(20)
		(66)	(3,033)
EQUITY DIVIDENDS PAID		**–**	(217)
NET CASH OUTFLOW BEFORE FINANCING		**(282)**	(5,612)
FINANCING			
New long-term loans		**500**	2,000
Repayment of long-term loans		**–**	(86)
Receipt of short-term loans		**(4)**	–
Repayment of short-term loans		**–**	(73)
Receipts from finance lease facility		**–**	419
Repayments of finance leases		**(272)**	(218)
Net proceeds of shares issued		**–**	2,432
Net inflow from financing		**224**	4,474
DECREASE IN CASH IN THE YEAR		**(58)**	(1,138)

RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET DEBT

for the year ended 31 October 2000

	Notes	**2000 £'000**	1999 £'000
Decrease in cash		**(58)**	(1,138)
Cash inflow from increase in loans		**(500)**	(2,000)
Repayments of loans		**4**	159
Receipts from finance lease facility		**–**	(419)
Repayments of capital element of finance leases		**272**	218
Change in net funds resulting from cashflows		**(282)**	(3,180)
Exchange differences		**(25)**	1
Acquisitions		**–**	(90)
MOVEMENT IN NET DEBT		**(307)**	(3,269)
NET DEBT AT 1 NOVEMBER		**(2,910)**	359
NET DEBT AT 31 OCTOBER	23	**(3,217)**	(2,910)

NOTES TO THE ACCOUNTS
at 31 October 2000

1. Accounting policies
Basis of preparation
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

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

Acquisitions made during a year are included in the group profit and loss account and statement of cashflows from their relevant dates of acquisition.

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.

Deferred income
Deferred income represents fees for software maintenance contracts invoiced in advance of the period to which they relate.

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

Freehold buildings	–	over 50 years
Leasehold premises	–	over the lease term
Plant, fixtures and equipment	–	over 5 to 10 years
Computer equipment	–	over 3 to 5 years
Motor vehicles	–	over 4 years

NOTES TO THE ACCOUNTS

at 31 October 2000 *(continued)*

1. Accounting policies *(continued)*

Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of work carried out at the end of the year, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on contracts in the year in which they are first forecast.

Research and development

Research and development expenditure is written off as incurred.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that taxation will be payable.

Foreign currencies

Company

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

Group

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

Financial instruments

The group's policy is not to undertake any trading activities in financial instruments.

Due consideration is given to hedging foreign currency transactions but during the year and at the year-end no derivative instruments were employed within the group.

The group has taken advantage of the exemption available for short-term debtors and creditors.

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.

Pension

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.

NOTES TO THE ACCOUNTS

at 31 October 2000 *(continued)*

2. Turnover and segmental analysis

The group's principal areas of activity are enterprise products and services, SIM Testing and specialist contract staff.

Common costs comprise the cost of all central group services.

All group operations at 31 October 2000 are ongoing. Group turnover and loss on ordinary activities are analysed as follows:

	Turnover 2000 £'000	**Inter segment turnover 2000 £'000**	**External turnover 2000 £'000**	Turnover 1999 £'000	Inter segment turnover 1999 £'000	External turnover 1999 £'000
Enterprise products and services						
Enterprise software solutions	**8,288**	**–**	**8,288**	6,748	–	6,748
Integration solutions	**1,344**	**–**	**1,344**	3,241	–	3,241
Financial services	**5,768**	**–**	**5,768**	12,314	–	12,314
	15,400	**–**	**15,400**	22,303	–	22,303
SIM Testing	**4,533**	**–**	**4,533**	2,714	–	2,714
Specialist contract staff	**4,757**	**(1,365)**	**3,392**	6,571	(1,238)	5,333
	24,690	**(1,365)**	**23,325**	31,588	(1,238)	30,350

	Operating profit/(loss) before goodwill amortisation 2000 £'000	**Goodwill amortisation 2000 £'000**	**Operating profit/(loss) 2000 £'000**	Operating profit/(loss) before goodwill amortisation 1999 £'000	Goodwill amortisation 1999 £'000	Operating profit/(loss) 1999 £'000
Enterprise products and services						
Enterprise software solutions	**1,612**	**(262)**	**1,350**	1,476	(195)	1,281
Integration solutions	**(526)**	**–**	**(526)**	239	–	239
Financial services	**(1,907)**	**(60)**	**(1,967)**	312	(45)	267
	(821)	**(322)**	**(1,143)**	2,027	(240)	1,787
SIM Testing	**54**	**(381)**	**(327)**	98	(223)	(125)
Specialist contract staff	**184**	**–**	**184**	554	–	554
	(583)	**(703)**	**(1,286)**	2,679	(463)	2,216
Common costs			**(2,734)**			(2,935)
Operating loss			**(4,020)**			(719)
Net interest payable			**(253)**			(145)
			(4,273)			(864)

Geographical analysis of turnover by source and destination

	Source		Destination	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
United Kingdom	**17,206**	26,146	**12,317**	18,232
Europe	**481**	730	**3,539**	7,161
North America	**5,590**	3,405	**5,669**	2,824
Rest of world	**1,725**	1,558	**1,800**	2,133
Inter-segment sales	**(1,677)**	(1,489)	**–**	–
	23,325	30,350	**23,325**	30,350

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

2. Turnover and segmental analysis *(continued)*

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

	Operating profit/(loss) before goodwill amortisation 2000 £'000	Goodwill amortisation 2000 £'000	Operating profit/(loss) 2000 £'000	Operating profit/(loss) before goodwill amortisation 1999 £'000	Goodwill amortisation 1999 £'000	Operating profit/(loss) 1999 £'000
United Kingdom	(329)	(381)	(710)	3,485	(222)	3,263
Europe	(103)	–	(103)	39	–	39
North America	6	(220)	(214)	(965)	(165)	(1,130)
Rest of world	(157)	(102)	(259)	120	(76)	44
	(583)	(703)	(1,286)	2,679	(463)	2,216
Common costs			(2,734)			(2,935)
Net interest payable			(253)			(145)
Loss on ordinary activities before taxation			(4,273)			(864)

Net assets by segment and location are shown below:

	Net assets 2000 £'000	Capitalised goodwill 2000 £'000	Total 2000 £'000	Net assets 1999 £'000	Capitalised goodwill 1999 £'000	Total 1999 £'000
Enterprise products and services	1,398	2,762	4,160	4,600	3,083	7,683
SIM Testing	455	5,119	5,574	712	5,501	6,213
Specialist contract staff	288	–	288	229	–	229
	2,141	7,881	10,022	5,541	8,584	14,125
Unallocated net liabilities			(2,509)			(2,448)
Total net assets			7,513			11,677

	2000 £'000	1999 £'000
United Kingdom	5,799	9,360
Rest of Europe	41	97
North America	2,481	2,649
Rest of World	1,701	2,019
	10,022	14,125
Unallocated net liabilities	(2,509)	(2,448)
Total net assets	7,513	11,677

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

NOTES TO THE ACCOUNTS
at 31 October 2000 ***(continued)***

3. Operating loss
This is stated after charging:

	2000 £'000	1999 £'000
Auditors' remuneration – audit services UK	**35**	40
– audit services overseas	**15**	10
	50	50
– non-audit services UK	**217**	93*
– non-audit services overseas	**5**	66*

* includes £nil (1999: £116,000) in respect of acquisition costs which are included in the cost of investment.

	2000 £'000	1999 £'000
Research and development expenditure	**1,241**	1,449
Depreciation of owned assets	**736**	730
Depreciation of assets held under finance leases and hire-purchase contracts	**202**	105
Amortisation of intangible assets	**821**	594
Operating lease rentals – land and buildings	**647**	384
– plant and machinery	**443**	382

4. Directors' remuneration
The emoluments of the directors are as follows:

	2000 £'000	1999 £'000
Fees	**49**	72
Other emoluments:		
Basic salaries	**349**	430
Benefits	**49**	67
Pension contributions	**37**	41
Performance related bonus	**–**	32
Compensation for loss of office	**237**	81
	721	723

Details of directors emoluments are given in the report of the remuneration committee on pages 8 to 10.

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

5. Staff costs

	2000 £'000	1999 £'000
Wages and salaries	**10,904**	11,045
Social security costs	**1,082**	1,135
Other pension costs	**449**	367
	12,435	12,547

As disclosed in 1999, all staff costs were charged to administrative expenses. In the current year profit and loss account, all staff costs associated with service delivery has been charged to cost of sales. The comparative numbers for 1999 have been re-stated accordingly with £6,432,000 being transferred from administrative expenses to cost of sales.

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

Office, management and technical	**261**	300

6. Exceptional costs

Exceptional costs comprised the following:

	2000 £'000	1999 £'000
Compensation for loss of office	**237**	81
Reorganisation and restructuring costs	**982**	539
Bad debts	**175**	–
Provision for diminution in value of leasehold property improvements	**95**	–
	1,489	620

7. Interest payable

	2000 £'000	1999 £'000
Finance charges payable under finance leases and hire-purchase contracts	**54**	51
Bank interest	**210**	114
	264	165

8. *Taxation on profit on ordinary activities*

	2000 £'000	1999 £'000
Corporation tax at 30% (1999: 31%)	**(151)**	85
Corporation tax overprovided in previous years	**(18)**	(47)
Corporation tax	**(169)**	38
Overseas taxation	**(49)**	(43)
Deferred taxation (note 19)	**(49)**	(19)
	(267)	(24)

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

9. Loss attributable to members of the parent undertaking

The loss dealt with in the accounts of the parent undertaking was £392,000 (1999: loss £65,000).

10. Dividends

	2000 **£'000**	1999 £'000
Non-equity dividends on preference shares	**66**	66

11. Earnings per ordinary share

The calculation of earnings per ordinary share has been based on the loss attributable to ordinary shareholders, adjusted for preference dividends, of £4,072,000 (1999: £906,000 loss) and on a weighted average number of ordinary shares of 43,427,491 (1999: 39,613,267).

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

12. Intangible fixed assets

GROUP

	Computer software rights £'000	Goodwill on acquisitions £'000	Total £'000
Cost:			
At 1 November 1999 and 31 October 2000	**669**	**9,047**	**9,716**
Amortisation:			
At 1 November 1999	385	463	848
Provided during the year	118	703	821
At 31 October 2000	**503**	**1,166**	**1,669**
Net book value at 31 October 2000	**166**	**7,881**	**8,047**
Net book value at 1 November 1999	284	8,584	8,868

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

13. Tangible fixed assets

GROUP

	Freehold premises £'000	Short leasehold premises £'000	Computer equipment £'000	Motor vehicles £'000	Plant fixtures & equipment £'000	Total £'000
Cost:						
At 1 November 1999	1,415	423	2,724	315	973	5,850
Additions	–	161	310	–	32	503
Exchange differences	–	8	56	–	5	69
Disposals	–	(15)	(584)	(121)	(41)	(761)
At 31 October 2000	**1,415**	**577**	**2,506**	**194**	**969**	**5,661**
Depreciation:						
At 1 November 1999	268	83	1,541	166	447	2,505
Provided during the year	72	63	624	60	119	938
Provision for diminution in value	–	95	–	–	–	95
Exchange differences	–	5	29	–	2	36
Disposals	–	(7)	(533)	(88)	(22)	(650)
At 31 October 2000	**340**	**239**	**1,661**	**138**	**546**	**2,924**
Net book value:						
At 31 October 2000	**1,075**	**338**	**845**	**56**	**423**	**2,737**
At 1 November 1999	1,147	340	1,183	149	526	3,345

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

	2000 £'000	1999 £'000
Computer equipment	**176**	209
Motor vehicles	**65**	168
Plant fixtures and equipment	**322**	406

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

14. Investments

COMPANY

Investment in unlisted subsidiary undertakings:

	£'000
Cost:	
At 1 November 1999	16,435
Reclassification of funding loan for subsidiary company	(814)
At 31 October 2000	**15,621**

The principal trading companies in the group are:

Name of Company	Country of registration and operation	Holding	Proportion held	Nature of business
Gresham Computer Services Limited	England	Ordinary shares	100%	Software products and consultancy
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 consultancy
Gresham Enterprise Storage Inc	USA	Ordinary shares	100%	Enterprise storage solutions
Gresham SA	France	Ordinary shares	100%	Enterprise storage solutions
SIM Group	England	Ordinary shares	100%	Software testing
Gresham Computing Pty	Australia	Ordinary shares	100%	Solutions provision to finance and banking

* 86% held indirectly through an intermediate holding company.

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

15. Debtors

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Trade debtors	**5,616**	7,699	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**2,433**	1,855
Prepayments and accrued income	**1,235**	558	**–**	1
Advance corporation tax recoverable	**–**	13	**–**	13
	6,851	8,270	**2,433**	1,869

Advance corporation tax recoverable of £nil (1999: £13,000) falls due after more than one year.

16. Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire-purchase contracts (note 18)	**225**	257	**–**	–
Unsecured short-term bank loans	**219**	198	**–**	–
Bank overdrafts	**426**	256	**–**	–
Trade creditors	**1,557**	1,212	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**–**	629
Corporation tax payable	**8**	477	**–**	–
Overseas tax payable	**–**	41	**–**	–
Advance corporation tax payable	**–**	13	**–**	–
Other taxes and social security costs	**821**	801	**–**	–
Other creditors and accruals	**1,839**	1,692	**2**	–
Deferred income	**1,580**	1,545	**–**	–
Accrued preference dividends	**132**	66	**132**	66
	6,807	6,558	**134**	695

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

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire-purchase contracts (note 18)	**190**	430	**–**	–
Revolving credit facility	**2,500**	2,000	**2,500**	2,000
Deferred income	**968**	–	**–**	–
	3,658	2,430	**2,500**	2,000

The revolving credit facility and bank overdraft are secured upon freehold property and certain United Kingdom based assets. Interest is payable at 1.5% above the UK bank base rate and the revolving credit facility is committed until 30 April 2002 and is therefore classified as long term.

NOTES TO THE ACCOUNTS

at 31 October 2000 *(continued)*

18. Obligations under leases and hire-purchase contracts

	Group		Company	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Amounts payable:			–	–
Within one year	**230**	268	–	–
In two to five years	**192**	435	–	–
	422	703	–	–
Less: finance charges allocated to future periods	**(7)**	(16)	–	–
	415	687	–	–
Finance leases and hire-purchase contracts are analysed as follows:				
Current obligations (note 16)	**225**	257	–	–
Non-current obligations (note 17)	**190**	430	–	–
	415	687	–	–

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

GROUP

	2000		1999	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	**20**	**143**	–	75
Within two to five years	**511**	**133**	420	361
Over five years	**295**	–	185	–
	826	**276**	605	436

COMPANY

	2000 Land and buildings £'000	1999 Land and buildings £'000
Operating leases which expire:		
Within one year	–	–
Within two to five years	–	40
Over five years	**295**	185
	295	225

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

19. Provisions for liabilities and charges

Provision has been made for deferred taxation in the accounts as follows:

	Group		Company	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Capital allowances in advance of depreciation	**–**	56	**–**	–
Other timing differences	**–**	(7)	**–**	–
	–	49	**–**	–

There is no unprovided deferred tax liability.

20. Share capital

	Authorised		Allotted, called up and fully paid	
	2000	1999	**2000**	1999
	£'000	£'000	**£'000**	£'000
Ordinary shares of 5p each	**3,250**	3,250	**2,204**	2,108
13% gross cumulative convertible preference shares of 20p each	**550**	550	**510**	510
	3,800	3,800	**2,714**	2,618

During the year the following ordinary shares were issued pursuant to acquisitions made in the prior years:

	Number issued	Price £	Consideration £'000
Newlog SA earn-out shares	58,480	0.890	52
Automated Solutions earn-out shares	549,728	1.400	770
International Software Services warranty shares	129,940	1.455	189
Oz-ease warranty shares	240,385	1.455	350
SIM Group warranty shares	933,998	1.675	1,564
	1,912,531		2,925

Each 13% gross cumulative convertible preference share is convertible at the option of the shareholders into one ordinary share of 5p during certain periods each year up to 30 September 2001. Beyond this date the right to conversion lapses. In the event of conversion of 75% or more of the preference shares the company has the right compulsorily to convert the balance outstanding.

The preference shares carry no vote at meetings unless the dividend thereon is six months or more in arrears, in which case each preference share carries one vote or one vote per holder on a show of hands. At 31 October 2000, the preference dividends accrued in respect of the prior year remain unpaid and were more than six months in arrears.

On a winding-up the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, the nominal value and any premium paid or credited on issue of the preference shares together with any arrears on accrued dividends on the shares.

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

21. Share options

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

All the options issued prior to 18 August 1998 were issued under the Gresham Telecomputing Share option scheme and are only exercisable if the groups' earnings per share increase by more than the retail price index over a three year period. All 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 groups' earnings per share increase by 5% above the retail price index per annum. Any un-approved options granted under this scheme may also be subject to additional individual performance criteria. Options are capable of exercise after three years and within ten years of the date of grant. In total 38 executives hold options under these option schemes.

The Group also operates a Save As You Earn Scheme (SAYE) for eligible employees. Under the SAYE scheme, eligible employees can enter into an Inland Revenue approved savings contract with a building society for three years, whereby shares may be acquired with payments made under the contract. The option price is the average market price for the three days prior to invitations being issued to join the scheme discounted by 20%.

At 31 October 2000 there were 80 participants in the SAYE scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 October 2000, including those noted in the remuneration committee report are as follows:

	Number of options	Number of option holders	Option price (pence)	Dates normally exercisable
Executive share option schemes				
	15,000	2	43	Jan 1999 – Jan 2006
	88,235	2	34	Aug 2000 – Aug 2007
	81,081	1	37	Jan 2001 – Jan 2008
	35,259	2	106	Jun 2001 – Jun 2008
	10,000	1	105	Jul 2001 – Jul 2008
	78,919	3	142	Feb 2002 – Feb 2009
	35,000	15	131	Jun 2002 – Jun 2009
	60,000	7	45.5	Feb 2003 – Feb 2010
	75,000	3	54	Feb 2003 – Feb 2010
	637,897	2	36	Jul 2003 – Jul 2010
	133,000	5	27.5	Aug 2003 – Aug 2010
	25,000	1	28	Aug 2003 – Aug 2010
	28,000	6	40.5	Aug 2003 – Aug 2010
SAYE scheme	138,931	19	80	Nov 2001 – May 2002
	23,327	9	98	Aug 2002 – Feb 2003
	1,153,877	64	23	Oct 2003 – Mar 2004
Other share option schemes	50,000	1	43.5	Sep 2000 – Jul 2001
	50,000	1	39.5	Sep 2001 – Sep 2003

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

22. Reserves

GROUP

	Share premium account £'000	Merger reserve £'000	Special reserve £'000	Profit and loss account £'000
At 1 November 1999	3,969	–	313	1,852
Exchange differences on retranslation of net assets of subsidiary undertakings	–	–	–	(92)
Arising on other shares issued in the year	1,263	1,566	–	–
Transfer of goodwill previously written off to other reserves	–	(840)	–	840
Retained loss for the year	–	–	–	(4,072)
At 31 October 2000	**5,232**	**726**	**313**	**(1,472)**

COMPANY

	Share premium account £'000	Merger reserve £'000	Special reserve £'000	Profit and loss account £'000
At 1 November 1999	3,969	5,043	313	1,267
Arising on share issues	1,263	1,566	–	–
Retained loss for the year	–	–	–	(458)
At 31 October 2000	**5,232**	**6,609**	**313**	**809**

During the year 933,998 ordinary shares issued as final consideration for the acquisition of SIM Group and 54,480 issued as final consideration for Newlog SA, qualified for Companies Act Section 131 merger relief.

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 October 2000 is £7,326,000 (1999: £7,326,000). Goodwill previously written off to reserves will remain so written off as permitted by FRS 10. The goodwill previously written off to reserves would be charged in the profit and loss account on any subsequent disposal of the business to which it related.

NOTES TO THE ACCOUNTS

at 31 October 2000 *(continued)*

23. Notes to the statement of cash flow

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

	2000 £'000	1999 £'000
Operating (loss)	**(4,020)**	(719)
Depreciation	**938**	835
Provision for diminution in value of leasehold property	**95**	–
Amortisation	**821**	594
(Profit)/loss on sale of fixed assets	**(22)**	3
Decrease in debtors	**1,406**	563
Increase/(decrease) in creditor	**1,580**	(1,381)
Foreign exchange movement	**(103)**	(42)
Net cash inflow/(outflow) from operating activities	**695**	(147)

(b) Analysis of net debt

	At 1 November 1999 £'000	Cash flow £'000	Exchange differences £'000	Other non-cash movements £'000	**At 31 October 2000 £'000**
Cash at bank in hand	231	112	–	–	**343**
Bank overdrafts	(256)	(170)	–	–	**(426)**
Cash	(25)	(58)	–	–	**(83)**
Long-term loans	(2,000)	(500)	–	–	**(2,500)**
Short-term loans	(198)	4	(25)	–	**(219)**
Finance leases	(687)	272	–	–	**(415)**
	(2,910)	(282)	(25)	–	**(3,217)**

(c) Major non-cash transactions

During the year, £2,925,000 of ordinary shares were issued to vendors as final consideration for acquisitions made in the prior years. See note 20 for further details.

(d) Exceptional items

Net cash inflow from operating activities includes cash outflows of £1,303,000 (1999: £375,000) in respect of the exceptional costs detailed in note 6.

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

24. Derivatives and other 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 on pages 4 and 5.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group, as at 31 October, excluding short term creditors was as follows:

2000	Total £'000	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000
Sterling	3,851	542	3,309
US dollar	219	–	219
Total	4,070	542	3,528
1999			
Sterling	3,439	603	2,836
US dollar	204	–	204
Other	7	–	7
Total	3,650	603	3,047

Currency	Fixed rate financial liabilities Weighted average interest rate %	Fixed rate financial liabilities period for which rate is fixed years
2000		
Sterling - Preference shares	13	–
Sterling - Finance leases	12	1
1999		
Sterling - Preference shares	13	–
Sterling - Finance leases	12	2

The floating rate financial liabilities comprise:

- sterling denominated bank loans, overdrafts and finance leases that bear interest at rates based on the UK bank base rates; and
- US dollar bank loan bears interest at rates based on US bank base rate.

The fixed rate financial liabilities relate to finance leases and preference shares.

Interest rate risk profile of preference shares

The company has in issue £510,000 of cumulative convertible preference shares with a fixed coupon rate of 13%. The shares are denominated in sterling and are explained further in note 20.

NOTES TO THE ACCOUNTS

at 31 October 2000 *(continued)*

24. Derivatives and other financial instruments *(continued)*

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group, as at 31 October, excluding short term debtors was as follows:

	Total £'000	Floating rate financial assets £'000
2000		
US dollar	109	109
Australian dollar	93	93
Canadian dollar	121	121
Other	20	20
Total	343	343
1999		
Sterling	88	88
Canadian dollar	89	89
Other	54	54
Total	231	231

Floating rate financial assets comprise cash deposits and attract interest at prevailing bank rates.

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.

As at 31 October, these currency exposures were as follows:

Functional currency of group operations	Net foreign currency monetary assets/(liabilities)		
	US dollar £'000	Euro £'000	Total £'000
2000			
Sterling	125	–	125
Total	125	–	125
1999			
Sterling	–	150	150
Total	–	150	150

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 October was as follows:

	2000 £'000	1999 £'000
In one year or less, or on demand	**872**	710
In more than one year but not more than two	**2,688**	230
In more than two years, but not more than five	**–**	2,200
In more than five years*	**510**	510
	4,070	3,650

*preference shares

Borrowing facilities

The group has various borrowing facilities available to it. The undrawn committed facilities available at 31 October in respect of which all conditions precedent had been met at that date are as follows:

	2000 £'000	1999 £'000
Expiring in one year or less	**–**	650
Expiring in more than one year but not more than two years	**–**	–
Expiring in more than two years	**–**	–
	–	650

Subsequent to the year end the group has reconfirmed its overall facilities with Barclays Bank comprising £2.5million term loan and an overdraft facility of £800,000. Pursuant to this agreement, the group is committed to issuing £100,000 worth of warrants, granted at market price, to subscribe for ordinary shares on 26 January 2001. The review date for the overdraft and loan facilities are November 2001 and April 2002 respectively.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets, financial liabilities and non-equity shares as at 31 October. The disclosures below do not include short term debtors and creditors.

	Book value 2000 £'000	Fair value 2000 £'000	Book value 1999 £'000	Fair value 1999 £'000
Borrowings	**(3,145)**	**(3,145)**	(2,453)	(2,453)
Finance leases	**(415)**	**(430)**	(687)	(694)
Cumulative preference shares	**(510)**	**(853)**	(510)	(880)
Cash and short term deposits	**343**	**343**	231	231

The fair value of all items has been calculated by discounting the expected future cash flows at prevailing interest rates.

25. Capital commitments

Amounts contracted for but not provided for in the accounts amounted to £nil (1999: £200,000).

26. Contingent liability

The Company has given cross guarantees on the bank overdrafts and loans of other group undertakings which are secured by specific charges over the assets of the company and other assets within the group. At 31 October 2000, the contingent liability covered by the cross guarantee was £925,000 (1999: £1,144,000).

NOTES TO THE ACCOUNTS

at 31 October 2000 ***(continued)***

27. 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 the balance sheet date there were outstanding contributions of £39,000 (1999: £35,000).

28. Related party transactions

Until 4 April 2000, Close Brothers Corporate Finance Limited ("CBCFL") continued to serve as the groups' financial advisors. GMR Graham is a director of ("CBCFL"). The group did not expense any fees from CBCFL during the year (1999: £90,000).

The group purchased travel services from Oxspeed Limited and Aerospeed Limited, companies in which SW Purchase is the controlling shareholder, totalling £2,000 (1999: travel, training and sponsorship £65,000).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Gresham Computing plc will be held at the Solent Hotel, Rookery Avenue, Whiteley, Fareham, Hampshire on Thursday 29 March 2001 at 10.00 a.m. for the following purposes:

To conduct the following ordinary business:

A. To consider and, if thought appropriate, to approve the company's accounts and the reports of the directors and auditors for the year ended 31 October 2000.

B. To re-appoint Ernst & Young 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.

C. To re-elect D Osman, a director retiring by rotation under Article 87 of the company's Articles of Association.

D. To re-appoint A J S Walton-Green as a director, having been appointed a director since the conclusion of the last Annual General Meeting.

And thereafter to conduct the following special business, namely to consider and, if thought fit, to pass the following resolutions, number 1 being proposed as ordinary resolution and number 2 as a special resolution.

1. 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 £734,646 during the period commencing on the date of the passing of this resolution and ending on the earlier of 1 May 2002 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. 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 May 2002, 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 £110,197.

By order of the Board

D Osman
Company Secretary
25 January 2001

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

NOTICE OF ANNUAL GENERAL MEETING
(continued)

Notes:

1. 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.
2. 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.
3. 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.
4. Holders of the preference shares are entitled to receive notice of and to attend and speak at general meetings of the company. They have no right to vote at such meetings unless the dividend thereon is 6 months or more in arrears.
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 the directors proposed for re-appointment are as follows:

A J S Walton-Green	Mr Walton-Green was appointed to the board in April 2000. Prior to joining the company he was a director of Deloitte & Touche, where he was responsible for leading the e-business activities on the South coast.
D Osman	Mr Osman joined the company in January 1999 as Finance Director. Prior to joining Gresham he worked for Ernst & Young for 14 years during which time he gained considerable experience of hi-tech companies in both the UK and US.