

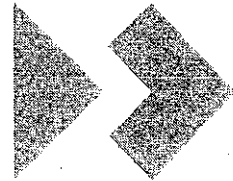
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gresham computing plc


annual report 2005



greshamTM
banking • integration • storage



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DIRECTORS AND ADVISERS

Gresham Computing plc
Registered No. 1072032

Directors

A M Howarth	Non-Executive Chairman
J E Aves	Non-Executive Director
A J S Walton-Green	Chief Executive Officer
S W Purchase	Commercial Director
D Osman	Operations Director
C M Errington	Finance Director

Secretary

C M Errington

Registered Office

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Auditors

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Registrars

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Registrar's Department
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Financial PR

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Broker and Financial Adviser

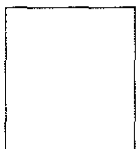
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Solicitors

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New Court 1 Barnes Wallis Road
Segensworth East
Fareham
Hampshire
PO15 5UA

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ



A M Howarth
Non-Executive Chairman

Alan, aged 60, 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, Highams Systems Services 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 70 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 42, joined the group as Chief Executive in April 2000 and has played a key role in the transformation of the group since that time. Prior to joining the group, Andrew spent 10 years in consulting and senior management positions as a Chartered Accountant: first with Ernst & Young, then as Director for e-business activities with Deloitte & Touche.



S W Purchase
Commercial Director

Steve, aged 53, 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 43, joined Gresham in January 1998 as Finance Director and Company Secretary. He was appointed Operations Director in April 2004 in order to work closely with operational management and strengthen the group's operational performance. Prior to joining the group, Dean had 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 40, 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.

I am pleased to present my report on the group's activities and results for the year ended 31 December 2005, which are in line with the period-end trading update that we issued on 31 January 2006. In addition, I am also pleased to report that we have today reached an agreement with Cable & Wireless concerning the Real Time Nostro service, which amends our respective roles and responsibilities and provides a secure platform for the continued roll-out of the Cable & Wireless Real Time Nostro service with greater potential for Gresham.

Update on CWRTN and amendment to agreement with Cable & Wireless

The CWRTN service gathered momentum in 2005 as global banks increasingly address the use of real time information in their businesses. Since our update to the market in January I am pleased to report the following progress:

- Two further major banks have agreed to take the CWRTN Direct service taking the total number of banks that have agreed to take the CWRTN Direct service to 4, 3 of which are top 20 banks. Several major banks are currently evaluating the CWRTN Direct service;
- The CWRTN Direct service was enhanced by Gresham in March 2006 to allow data delivery using the preferred SWIFTNet method in the first half of 2006. This is important since banks can now utilise their existing SWIFT infrastructure to participate in the CWRTN Direct service;
- A further major bank has subscribed to the CWRTN Browser service, taking the total number to 4, including 2 of the world's top 10 banks. There are currently in excess of 10 banks trialling the CWRTN Browser service; and
- We have added 2 further major banks as agreed Providers, increasing the total number of banks that have agreed to provide data from 18 to 20, including 7 of the top 20 banks in the world and all of the top 4 (Bank of America, Citibank, HSBC and JP Morgan). Importantly, the majority of these banks are now live as providers of data to the service with their data available to subscribing banks. Discussions continue with a large number of potential providers of data to the service.

Gresham and Cable & Wireless today announce a revision to their operating responsibilities in the delivery of the collaborative CWRTN service. Under the new arrangement, effective immediately, Gresham will assume primary responsibility for the sales, marketing, integration

and application software management of this global banking industry initiative. Cable & Wireless will continue to support the roll out of this solution globally and in particular will be responsible for the secure hosting and managed infrastructure, which are fundamental to the integrity and delivery of the service. These new arrangements strongly align both parties' operating responsibilities with their core strengths and are aimed at ensuring that our customers are served in the most appropriate manner.

Under the agreement both parties will continue to share net subscription revenues generated by CWRTN with the shares amended to reflect ongoing operating responsibilities. Gresham will henceforth receive a significant majority of revenues arising from the service. Cable & Wireless will be providing the ongoing hosting and infrastructure services for CWRTN as well as making a substantial up-front cash payment to Gresham and an ongoing contribution to the costs of taking CWRTN to market.

Summary of financial performance

Results are in line with our period-end trading update issued 31 January 2006. Revenues increased to £14.0m from £12.4m in 2004 and the loss before tax increased slightly to £1.2m (2004: £1.1m loss before tax). Year end cash was £2.0m and our cash position improved further in January following a significant customer receipt and will increase significantly in the first half of 2006 following today's agreement with Cable & Wireless.

Enterprise Solutions

Overall, the results achieved by our Enterprise Solutions business were disappointing and were adversely affected by contract delays and the absence of significant licence revenues. However, trading and opportunities improved in the second half of 2005 and this trend has continued in 2006. We continue to see growth from a strong customer pipeline in our Integrated Client Money Solution working alongside a major bank as well as increased activity from our Solutions business generally.

We continue to invest in developing our patent pending payables financing solution, Gresham Payables Financing Solution ("GPFS"), and remain in contractual discussions with a number of parties regarding taking GPFS to market in 2006, with a model of building a sound base of recurring revenues over time.

Our staff placement business grew strongly during the year, with revenues increasing by 66% over 2004 in an ever challenging market. The growth arose from the

provision of temporary staff, with higher margin permanent staff revenues remaining at low levels in line with market conditions.

Enterprise Software

Revenue in our Enterprise Software division continued to be underpinned by a strong support and maintenance revenue base and grew 10% in the year.

Our US storage business performed strongly in 2005 and contributed significantly to the overall revenue growth of the Enterprise Software division. We have continued to invest in our new Storage Consolidation Platform ("SCP"), which we will be bringing to market in 2006 largely through OEM channels. The SCP product suite has been engineered to address the full breadth of the secondary storage back-up and archive market thus satisfying the key demands of end customers for this solution. The exceptional functionality and flexibility of our platform will prove particularly useful to library vendors but also has wide market applicability for enterprise storage customers and wider than that to all concerned in the Storage Area Network (SAN) arena. SCP provides a significant opportunity to widen and solidify our global customer base and generate strong growth in the Enterprise Software division.

The overall growth in Enterprise Software was achieved despite a particularly poor performance from our French back-up business. Actions have been taken in the first half of 2006 to significantly reduce our ongoing exposure in that particular market.

Future Outlook

The agreement announced today with Cable & Wireless is extremely positive for the future of Gresham. The demands for real time access to banks' trading information have if anything increased since the CWRTN venture was launched and we feel that we are now reaching an inflexion point in the life of the service. This has been evidenced by a doubling in the number of subscribers and providers in the last 12 months. That we continue to be supported by Cable & Wireless and now have the opportunity to derive a greater share of the revenue from the service is positive news for us and our shareholders.

Going forward, we have the platform in place to commit significant resource to a strong market focused sales and marketing effort to accelerate revenues in 2006 and beyond. This will mean a greater investment than previously anticipated over the next two years as we put more resources into building the revenues, however, the

additional revenue share and long term potential of CWRTN make this a worthy area for investment.

CWRTN solves a problem for banks looking to deal with increasing regulatory pressures around international payments and this factor will encourage take up of the service. We are already beginning to see interest from banking regulators in the application of the CWRTN service.

In the early part of 2006, we secured a major contract providing Enterprise Solutions in Malaysia building on our strong customer credentials in that region. We see further growth in this region and in March 2006 we opened an office in Kuala Lumpur, Malaysia, to service our major customers in that area.

In addition we will bring new solutions to market in 2006, including our exciting new Storage Consolidation Platform ("SCP") technology, which we consider to have significant potential.

We are currently taking steps to strengthen our sales and marketing resources, both in response to today's CWRTN announcement and also to improve our sales approach to market generally.

During 2005, we took actions to reduce our recurring indirect cost base to allow investment in expanding our customer and market facing activities. We expect the impact of these moves to be seen in 2006.

Taking into account all these factors, we anticipate improved trading in 2006 together with a continued roll-out of CWRTN.



Alan Howarth
Chairman
26 April 2006



The directors present their report and the group financial statements for the year ended 31 December 2005.

International Financial Reporting Standards (IFRS)

These group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). A regulatory statement was issued in September 2005 containing a full reconciliation of the results previously presented under UK GAAP to IFRS together with further information explaining the changes in respect of the group. Information concerning the differences arising from this change can be found in note 30.

Results and dividends

The group loss for the year, after taxation, amounted to £1,101,000 (2004: loss £762,000). The directors do not recommend a final ordinary dividend, which leaves the loss of £1,101,000 to be deducted from reserves. No dividends were recommended or paid in the prior year.

Principal activities

The group's principal activities during the year continued to be the provision of Enterprise Solutions and Software Solutions.

Review of the business and future developments

A review of the group's business during the year and future developments is contained in the Chairman's Statement on pages 3 to 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 2005 and their interests in the share capital of the company (all beneficially held), at dates shown, other than with respect to options to acquire shares (which are disclosed in the Directors' Remuneration Report) were as follows:

	Ordinary share of 5 pence each	
	31 December 2005	1 January 2005
J E Aves	10,000	10,000
C M Errington	—	—
A M Howarth	3,200	—
D Osman	100,528	56,342
S W Purchase	4,047,139	4,034,591
A J S Walton-Green	540,695	493,147

There have been no further changes in the directors' interests shown above from 31 December 2005 to 26 April 2006.

Having reached the age of 70, J E Aves is required to seek reappointment at each Annual General Meeting and, being eligible, offers himself for re-election. J E Aves has an unexpired term of appointment of one year. S W Purchase retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election. S W Purchase has a service agreement dated 1 August 2000, which is terminable by 12 months' rolling notice from either side.

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 2006 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
Gartmore Investment Management plc	7,566,252	15.1%
JO Hambro Capital Management Limited	4,912,500	9.8%
The Valentina Discretionary Trust	3,880,491	7.7%
M A Green	3,273,290	6.5%
The Northwestern Mutual Life Insurance Company	1,999,680	4.0%
Herald Investment Trust plc	1,875,000	3.7%
Aberdeen Asset Managers Limited	1,629,358	3.2%
Strathclyde Pension Fund *	1,601,707	3.2%
UBS AG	1,575,673	3.1%

* Disclosed interest is also included within the holding of Gartmore Investment Management plc.

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 2005 the group's creditor days were 42 (2004: 45).

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to all employees for training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

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 group finances its activities with a combination of finance leases and cash, as disclosed in note 21. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the group's operating activities. Where considered appropriate, the group also enters into forward currency contracts to manage the currency risks arising from the group's operations. The group does not trade in financial instruments.

Foreign currency risk

The group has invested in operations outside the United Kingdom and also buys and sells goods and services denominated in currencies other than sterling. As a result the value of the group's non-sterling revenues, purchases,

financial assets and liabilities and cash flows can be affected significantly by movements in exchange rates in general and in US Dollar, Euro, Canadian Dollar, Malaysian Ringgit and Australian Dollar rates in particular.

The group's transactional currency exposures arise from sales or purchases by an operating unit in currencies other than its functional currency. Where considered appropriate, the foreign currency risk arising on contracted future receipts in foreign currencies is mitigated using standard forward rate contracts taken out with the group's bankers. These contracts provide protection against currency depreciation whilst also allowing the group to share in some of the upside of significant currency appreciations.

At 31 December 2005, the group had taken out a financial instrument with its bankers to sell US\$200,000 of foreign currency arising on sales for which firm commitments existed at the balance sheet date. This financial instrument was settled in January 2006.

Interest rate risks

The group has cash deposits and no bank borrowings. The group does not currently employ financial instruments to hedge the risk of variation in the bank base rates, as the majority of the group's funds are in the form of major currency, variable rate short term deposits.

Liquidity risk

The group seeks to ensure that it has sufficient long term funding and, as appropriate, committed bank facilities in place to meet the requirements of the group. Excess cash is invested with banks on a short term basis with no penalty for early repayment.

Credit risk

The principal credit risks arise from non-payment by customers and through investment of surplus cash. Individual exposures are monitored with customers to ensure that the group's exposure to bad debts is not significant. Terms for deferral of significant payments are granted only to customers who demonstrate an appropriate payment history and financial standing. Surplus cash deposits are made with banks that have a sufficiently high credit rating.

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 £837,830 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 £125,674, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

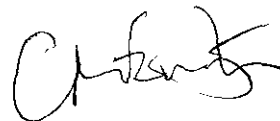

Going concern

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

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

By order of the board



C M Errington
Company Secretary
26 April 2006

Statement by the Directors on compliance with the Combined Code

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 Combined 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.

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 (C M Errington, D Osman and S W Purchase).

The board is responsible for 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 for reviewing 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 made to the board on regular occasions 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 advisors; 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.

CORPORATE GOVERNANCE STATEMENT

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	10	3	2
Number of meetings attended:				
J E Aves	11	—	3	2
C M Errington ¹	10	9	3	—
A M Howarth	11	—	3	2
D Osman	10	9	—	—
S W Purchase	11	10	—	—
A J S Walton-Green ¹	11	10	2	2

¹ in attendance at Audit and Remuneration Committees by invitation

Chairman and chief executive

The roles of the chairman and executive management, led by the chief executive, 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 scheme, 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 A M 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 by any person 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).

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 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 are continuing to be taken to further embed internal control and risk management processes into the operations of the business and to deal with areas of improvement which come to management's and the board's attention.

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

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

- review of management reports 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; and
- 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. The board has satisfied itself that A M Howarth has recent and relevant financial experience. 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 A M Howarth is independent for the purposes of the Code provision C3.1 regarding his membership of the audit committee.

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;
- 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

CORPORATE GOVERNANCE STATEMENT

has also met with the auditors and management to discuss the adoption of International Financial Reporting Standards and reviewed the impact of adoption on the financial statements.

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 non-audit services provided in the year, as set out in the notes to the financial statements, related to 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.

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 where 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 independent auditors to report to the Company's members on 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 regulation). This 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. 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 A M Howarth is independent for the purposes of the Code provision B2.1 regarding his membership of the remuneration committee.

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, 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 ended 31 December 2005 or 2004.

DIRECTORS' REMUNERATION REPORT

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:

- 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.
- 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 on average 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

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.

From 30 July 2004, all new options granted under these executive schemes are only exercisable based on the performance in the first relevant three year period from a fixed point; rolling re-testing is not allowed. For options granted before this date, rolling re-testing is still permitted in accordance with the terms on which they were issued.

Vesting continues to be measured based on UK GAAP earnings per share for executive options granted prior to the adoption of IFRS.

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

Service agreements

A J S Walton-Green, S W Purchase and D Osman have service agreements dated 1 August 2000, which are terminable by 12 months' rolling notice from either side. C M Errington has a service agreement dated 1 August 2004, which is 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.

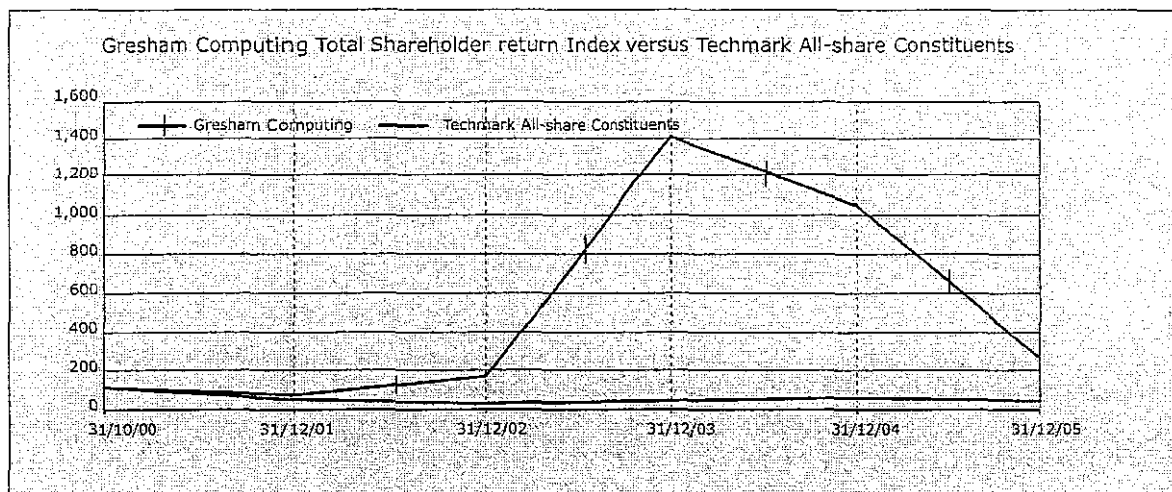
Non-executive directors

The level of non-executive directors' remuneration is determined by the executive directors 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 following their appointment at an AGM and thereafter by agreement. A M Howarth has a letter of appointment dated 11 August 2003 and this is due for renewal before 27 May 2006. J E Aves has a letter of appointment dated 26 April 2006 and this is due for renewal annually. 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 graph below shows the total shareholder return for each of the last five financial years in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 31 October 2000 in a holding of the company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE TechMark All-Share index.

The FTSE TechMark All-Share was selected as it represents a broad equity market index in which the company is a constituent member.



Audited information

Directors' emoluments

	Basic salary/ fees £	Benefits in kind £	Performance related bonus £	2005 Total emoluments £	2004 Total emoluments £
<i>Executive</i>					
C M Errington ¹	95,000	443	—	95,443	64,454
D Osman ²	131,500	3,591	—	135,091	132,627
S W Purchase ³	129,000	3,591	—	132,591	132,094
A J S Walton-Green	181,500	3,591	—	185,091	164,010
<i>Non-executive</i>					
J E Aves ⁴	28,800	—	—	28,800	25,200
A M Howarth	28,500	—	—	28,500	24,000
	594,300	11,216	—	605,516	542,385

¹ comparative is from appointment 19 April 2004

² at the option of the director, waived £10,250 of basic salary 2005 and continued to waive £12,000 per annum until 31 March 2006

³ at the option of the director, waived £22,500 of basic salary 2005 and continues to waive £30,000 per annum

⁴ £17,550 of which was paid to J E Aves Associates (2004: £25,200)

Benefits in kind comprise private medical insurance and car allowance.

DIRECTORS' REMUNERATION REPORT

Directors' pension entitlements

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

	2005	2004
	£	£
C M Errington ^a	4,750	2,687
D Osman	16,437	15,000
S W Purchase	15,750	15,000
A J S Walton-Green	20,528	18,750
	57,465	51,437

^a comparative is from date of appointment 19 April 2004

Directors' share options

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

	Options at 1 January 2005	Granted/ (cancelled) in the year	Exercised	Options at 31 December 2005	Date of grant	Exercise price	Date first exercisable	Expiry date	Market price at exercise
C M Errington	—	—	—	—				—	
D Osman	81,081 ^c	—	—	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	—
	44,186 ^s	—	(44,186)	—	24.05.02	21.5p	01.07.05	31.12.05	110p
	249,186	—	(44,186)	205,000					
S W Purchase	12,548 ^a	—	(12,548)	—	24.05.02	21.5p	01.07.05	01.01.06	110p
A J S Walton- Green	557,897 ^{e*}	—	—	557,897	25.07.00	36p	26.07.03	25.07.10	
	250,000 ^g	—	—	250,000	17.07.01	25p	18.07.01	17.07.05	
	12,548 ^s	—	(12,548)	—	24.05.02	21.5p	01.07.05	31.12.05	71.5p
	820,445	—	(12,548)	807,897					

^c denotes options granted under Executive share option schemes

^e denotes options granted under Savings Related Option Scheme (SAYE)

^a denotes options granted by S J Green over shares beneficially held by him (no performance conditions)

^s denotes options over which the executive has agreed to pay any employer's national insurance arising from the exercise of the options.

The closing market price of the company's shares on 31 December 2005 was 81 pence. During the year, the closing price per ordinary share ranged from 68 pence to 340 pence.

Gains made on the exercise of director share options are disclosed in note 7(b).

Approval

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



J E Aves
26 April 2006



Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the group and the financial performance and cash flows 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the group has complied with IFRSs, subject to any material departures disclosed and explained in 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 enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 SHAREHOLDERS OF GRESHAM COMPUTING plc

We have audited the group financial statements of Gresham Computing plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 30. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Gresham Computing plc for the year ended 31 December 2005 and on 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 and the group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 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 group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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 group financial statements 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 group financial statements.

Opinion

In our opinion the group financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Southampton
26 April 2006

Ernst & Young LLP

	Notes	31 December 2005 £'000	31 December 2004 £'000
Revenue	3,4	13,982	12,398
Cost of goods sold		(7,205)	(5,796)
Gross profit		6,777	6,602
Administrative expenses		(8,133)	(7,867)
Trading loss	5	(1,356)	(1,265)
Finance revenue	3,8	124	217
Finance costs	8	(14)	(19)
Loss before tax		(1,246)	(1,067)
Taxation	9	145	305
Attributable to equity holders of parent	24	(1,101)	(762)
Loss per share (total and continuing)			
Basic loss per share — pence	10	(2.20)	(1.54)
Diluted loss per share — pence	10	(2.20)	(1.54)

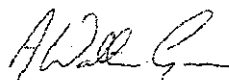
GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £'000	2004 £'000
Exchange difference on translation of foreign operations	—	(29)
Net expense recognised directly in equity	—	(29)
Attributable loss for the period	(1,101)	(762)
Total recognised income and expense for the period	(1,101)	(791)

	Notes	31 December 2005 £'000	31 December 2004 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	1,271	1,400
Intangible assets	13	1,879	1,245
		3,150	2,645
Current assets			
Trade and other receivables	16	8,175	6,791
Income tax receivable	16	252	449
Other financial assets	15	40	400
Cash and cash equivalents	17	1,973	3,016
		10,440	10,656
Total assets		13,590	13,301
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called up equity share capital	22	2,513	2,479
Share premium account	24	10,009	9,713
Other reserves	24	1,039	1,039
Foreign currency translation reserve	24	(29)	(29)
Retained earnings	24	(5,973)	(4,914)
	24	7,559	8,288
Non-current liabilities			
Financial liabilities	19	21	40
Deferred income	18	680	268
Current liabilities			
Financial liabilities	19	43	61
Income tax payable	18	109	20
Trade and other payables	18	5,178	4,624
Total liabilities		6,031	5,013
Total equity and liabilities		13,590	13,301

On behalf of the board


C Errington
26 April 2006

A Walton-Green
26 April 2006



GROUP STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Cashflows from operating activities			
Trading loss		(1,356)	(1,265)
Depreciation and amortisation	5	586	389
Share based payment expense	23	42	29
Increase in trade and other receivables		(1,424)	(1,318)
Increase in trade and other payables		976	238
<i>Cash outflow from operations</i>		(1,176)	(1,927)
Net income taxes received/(paid)		431	(40)
Net cash outflow from operating activities		(745)	(1,967)
Cash flows from investing activities			
Interest received	8	84	199
Repayment of convertible bonds	15	400	389
Purchase of property, plant and equipment		(155)	(234)
Disposal of property, plant and equipment		4	-
Payments to acquire intangible fixed assets	13,25	(709)	(278)
Net cash (used in)/generated from investing activities		(376)	76
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	22	140	91
Share issue costs	24	(10)	(2)
Interest paid	8	(14)	(19)
Decrease in obligations under finance leases	25	(65)	(77)
Net cash generated/(used in) by financing activities		51	(7)
Net decrease in cash and cash equivalents	25	(1,070)	(1,898)
Cash and cash equivalents at beginning of period	25	3,016	4,923
Exchange adjustments	25	27	(9)
Cash and cash equivalents at end of period	25	1,973	3,016

1. Authorisation of financial statements and statement of compliance with IFRSs

The group financial statements of Gresham Computing plc (the 'group') for the year ended 31 December 2005 were authorised for issue by the board of the directors on 26 April 2006 and the balance sheets were signed on the board's behalf by A J S Walton-Green and C M Errington. Gresham Computing plc is a public limited company incorporated and domiciled in England & Wales. The company's ordinary shares are traded on the London Stock Exchange.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as they apply to the financial statements of the group for the year ended 31 December 2005 applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the group are set out below.

2. Accounting policies

Basis of preparation

This is the first year in which the group has prepared its financial statements under IFRSs and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRSs. The group issued a public statement in September 2005 incorporating its preliminary IFRS financial statements for 2004 and reconciliations to IFRSs from the previously published UK GAAP financial statements. The impact of this transition on the financial statements is presented in note 30.

The group financial statements are presented in £ Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Basis of consolidation

The group financial statements consolidate the financial statements of Gresham Computing plc and the entities it controls (its subsidiaries) drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions. These impact the reported amounts of assets and liabilities and the reported amount of revenues and expenses during the reporting period.

Foreign currency translation

The presentational and functional currency of Gresham Computing plc is £ Sterling. Balance sheet items of overseas companies are translated into £ Sterling at the year-end rates of exchange. Income statement items and the cash flows of overseas subsidiary undertakings are translated at the average rates for the year.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The following are recorded as movements in the currency translation reserves: exchange differences on the translation at closing rates of exchange of overseas opening net assets and the differences arising between the translation of profits at average and closing exchange rates. On the disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity, within the currency translation reserve, relating to that particular subsidiary is recognised in the income statement.

2. Accounting policies (continued)

Goodwill

Goodwill recognised prior to the date of transition to IFRS on 1 January 2004 is stated at net book value as at this date. Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over net fair value of identifiable assets, liabilities and contingent liabilities acquired, is capitalised. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement. Any impairment of goodwill charged to the income statement cannot be reversed by subsequent accounting policies.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Goodwill arising on acquisitions prior to 1 November 1998 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

IFRS 3 'Business Combinations' has not been retrospectively applied to combinations before the date of transition to IFRS.

Intangible assets

Purchased intangibles, including purchased patents, know-how, trademarks, licences and distribution rights are capitalised at cost and amortised on a straight line basis over their estimated useful lives. The amortisation of those intangibles acquired as part of a business combination is presented within administrative expenses. The estimated useful life of intangible assets ranges between 3 and 10 years depending on their nature.

The group considers that the regulatory, technical and market uncertainties inherent in the development of new products and technologies means that internal development costs should not be capitalised as intangible fixed assets until commercial viability of a project is demonstrable and appropriate resource is in place to launch the product. Research and development expenditure prior to this point in time is expensed as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation charges in respect of intangible assets are included in administrative expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and provision for impairment where appropriate. Freehold land is not depreciated. Freehold buildings are depreciated down to their residual value on a straight-line basis at 2% per annum. Fixtures and fittings are depreciated on a straight-line basis over the term of the underlying lease. Plant and equipment is depreciated on a straight-line basis over lives ranging between 1 and 10 years to write down the assets to their residual value based on current prices for an asset of the age the plant and equipment is expected to be at the end of its useful life. Residual values and useful lives are reviewed on an annual basis.

2. Accounting policies (continued)

Impairment of assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2. Accounting policies (continued)

Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised;

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Derivative financial instruments

The group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency. From 1 January 2004, such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Pensions and other post-retirement benefits

The group operates defined contribution pension schemes and contributions are recognised in the income statement in the period in which they become payable.

Leases – Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the group. All other leases are classified as operating leases.

Assets held under finance leases are capitalised as property, plant or equipment and depreciated accordingly. The capital element of future lease payments is included in borrowings and interest is charged to the income statement on an effective interest basis over the term of the lease.

2. Accounting policies (continued)

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Lease incentives are recognised on a straight line basis over the lease term.

Revenue recognition

Revenue comprises sales of products and services to third parties at amounts invoiced net of trade discounts and rebates, excluding sales taxes, when the significant risks and rewards of ownership of the products and services have passed to the buyer and can be reliably measured and reasonably assured of recoverability.

Revenue on software licences is recognised when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, such as a signed contract or purchase order;
- Delivery has occurred and no future elements to be delivered are essential to the functionality of the delivered element;
- The fee is fixed or determinable; and
- Collectibility is probable.

Revenue from the provision of professional services, such as implementation, training and consultancy, is recognised as the services are performed.

Revenue from subscription services and maintenance is recognised rateably over the period of the contract.

Larger contracts for the delivery of solutions with multiple elements, typically involving licence, professional services and maintenance, are unbundled and revenue is recognised based on the accounting policy applicable to each constituent part.

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

Interest income is recognised as interest accrues using the effective rate of interest method.

Rental income arising from sub-letting premises held under operating leases is accounted for on a straight-line basis over the lease term.

Long-term contracts

Cumulative costs incurred net of amounts transferred to cost of goods sold, less provision for contingencies and anticipated future losses on contracts, are included as contract costs. The contract costs are recognised as costs in the income statement in line with the recognition of income from the associated contracts.

The recoverability of costs and carrying value of the related assets, as disclosed in note 16, involves a significant degree of estimation, predominantly in respect of estimating the timing and amount of future income arising on longer term contracts. Changes to these estimates could have a material impact on the carrying amounts of such assets in future financial periods.

Share-based payments

The group operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The cumulative expense recognised at each reporting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors, will be vested. The expense is recognised as a staff cost and the associated credit entry is made against equity.

Fair value is determined by management using the Black Scholes pricing model. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

2. Accounting policies (continued)

The group has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards so as to apply IFRS 2 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS / IFRSs)		Effective date
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Fair Value Option	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 8	Scope of IFRS 2	1 May 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2005	2004
	£'000	£'000
Sales of goods and services	13,982	12,398
Finance revenue	124	217
	<u>14,106</u>	<u>12,615</u>

4. Segment information

The primary segment reporting format is determined to be business segments as the group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The solutions segment is a supplier of solutions predominantly to the finance and banking markets. The software segment is a supplier of software products and related services.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The group's geographical segments are based on the location of the group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

4. Segment information (continued)

Primary reporting format – Business segments

The following tables present revenue and profit/loss and certain asset and liability information regarding the group's business segments for the years ended 31 December 2005 and 2004, all of which are continuing.

Revenue	Year ended 31 December 2005			Year ended 31 December 2004		
	Segment revenue	Inter-segment revenue	Sales to external customers	Segment revenue	Inter-segment revenue	Sales to external revenue
	£'000	£'000	£'000	£'000	£'000	£'000
Solutions	3,777	(1)	3,776	4,350	—	4,350
Specialist contract staff	3,908	(16)	3,892	2,359	(11)	2,348
Enterprise Solutions	7,685	(17)	7,668	6,709	(11)	6,698
Enterprise Software	6,314	—	6,314	5,704	(4)	5,700
	13,999	(17)	13,982	12,413	(15)	12,398

Result by segment	Year ended 31 December 2005			Year ended 31 December 2004		
	Enterprise Solutions	Enterprise Software	Total	Enterprise Solutions	Enterprise Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Segment result	(1,980)	1,726	(254)	(1,705)	1,293	(412)
Unallocated expenses			(1,102)			(853)
Trading loss			(1,356)			(1,265)
Net finance revenue			110			198
Loss before income tax			(1,246)			(1,067)
Income tax credit			145			305
Net loss for year			(1,101)			(762)

	Year ended 31 December 2005			Year ended 31 December 2004		
	Enterprise Solutions	Enterprise Software	Total	Enterprise Solutions	Enterprise Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	5,976	4,223	10,199	5,750	2,940	8,690
Unallocated assets			3,391			4,611
Total assets			13,590			13,301
Segment liabilities	(4,214)	(1,367)	(5,581)	(3,661)	(601)	(4,262)
Unallocated liabilities			(450)			(751)
Total liabilities			(6,031)			(5,013)

4. Segment information (continued)

Other segment information

	Year ended 31 December 2005			Year ended 31 December 2004		
	Enterprise Solutions	Enterprise Software	Total	Enterprise Solutions	Enterprise Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Capital expenditure:						
Tangible assets	51	96	147	97	197	294
Intangible assets	431	478	909	—	278	278
	482	574	1,056	97	475	572
Depreciation	143	137	280	205	133	338
Amortisation	42	49	91	—	51	51
Impairment losses	115	100	215	—	—	—

Unallocated assets and liabilities comprise certain property, plant and equipment, cash, convertible bonds, holiday pay, finance leases and taxation.

Secondary reporting format - Geographical segments

The following tables present revenue, expenditure and certain asset information regarding the group's geographical segments for the years ended 31 December 2005 and 2004.

Revenue by destination

	2005	2004
	£'000	£'000
Europe, Middle East and Africa	9,910	8,632
North America	2,571	1,595
Asia Pacific	1,501	2,171
	13,982	12,398

Other geographical information

Location of assets	Year ended 31 December 2005			
	EMEA	North America	Asia Pacific	Total
	£'000	£'000	£'000	£'000
Segment assets	7,574	1,007	1,841	10,422
Unallocated assets				3,168
Total assets				13,590
Capital expenditure:				
Tangible assets	92	50	5	147
Intangible assets	352	479	78	909
	444	529	83	1,056

4. Segment information (continued)

Other geographic information

Location of assets

Year ended 31 December 2004

	EMEA £'000	North America £'000	Asia Pacific £'000	Total £'000
Segment assets	7,180	575	1,458	9,213
Unallocated assets				4,088
Total assets				13,301
Capital expenditure:				
Tangible assets	222	35	37	294
Intangible assets	278	—	—	278
	500	35	37	572

Unallocated assets and liabilities comprise certain property, plant and equipment, cash, convertible bonds, holiday pay, finance leases and taxation.

5. Trading loss

Trading loss is revenue less cost of goods sold and administrative expenses. This is stated after charging/(crediting):

	2005 £'000	2004 £'000
Research and development expenditure written off	900	1,471
Depreciation of property, plant and equipment	280	338
Amortisation of intangible assets	91	51
Impairment of intangible assets	215	—
Total amortisation and depreciation expense	586	389
Foreign exchange gains	(82)	(75)
Operating lease payments	661	726
Sub lease rentals receivable	(225)	(225)

6. Auditors' remuneration

New requirements for the disclosure of remuneration paid by the group to its auditors were introduced in the Companies (Audit, Investigations and Community Enterprise) Act 2004 and regulations specifying these requirements were issued in 2005, and are mandatory for accounting periods beginning on or after 1 October 2005.

Notwithstanding this, the group has elected to give disclosures that comply with these requirements, in particular regarding fees other than for the audit of the financial statements, as well as disclosing the total of non-audit fees for the company and its UK subsidiary undertakings, in accordance with the extant legislation.

	2005 £'000	2004 £'000
Audit of the financial statements		
Audit services UK	49	46
Audit services overseas	28	31
	77	77
Other fees to auditors		
Taxation compliance services UK	12	21
IFRS transition review UK	17	2
Taxation compliance overseas	18	2
	47	25

7. Staff costs and directors' emoluments

a) Staff costs

	2005 £'000	2004 £'000
Wages and salaries	7,032	6,376
Social security costs	943	861
Other pension costs	307	288
	8,282	7,525

Included in wages and salaries is a total expense of share-based payments of £42,000 (2004: £29,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The average monthly number of employees during the year was:

	Average	
	2005 Number	2004 Number
Management	22	23
Administration	23	23
Technical	100	99
	145	145

b) Directors' emoluments

	2005 £'000	2004 £'000
Directors' emoluments	606	542
Directors' pension contributions	57	51
	663	593

	2005 £'000	2004 £'000
Aggregate gains made by directors on the exercise of share options ¹		
A J S Walton-Green ²	6	114
D Osman ^{2,3}	39	273
S Purchase ²	11	—
	56	387
Number of directors accruing benefits under a defined contribution scheme	4	4

¹ Notional gain calculated as the difference between the option exercise price and the market price at the date of exercise

² In 2005, no shares were sold on exercise of these options

³ In 2004, only shares sufficient to satisfy the tax liability arising were sold on exercise

8. Finance costs/revenue

Finance Costs	2005 £'000	2004 £'000
Finance charges payable under finance leases	11	14
Other bank charges	3	5
Total finance costs	14	19
Finance revenue		
Bank interest receivable	84	151
SQS warrants	40	—
Convertible bond interest receivable	—	66
Total finance revenue	124	217

9. Taxation

a) Tax on loss on ordinary activities

Tax (credited)/charged in the income statement

Tax (credited)/charged in the income statement	2005 £'000	2004 £'000
Current income tax:		
UK Corporation tax	(100)	—
Foreign withholding tax	89	—
Current income tax (credit)/charge	(11)	—
Amounts over provided in previous years	(134)	(305)
Total current income tax	(145)	(305)
Deferred tax		
Origination and reversal of temporary differences	—	—
Tax losses	—	—
Total deferred tax	—	—
Tax credit in the income statement	(145)	(305)

9. Taxation (continued)

b) Reconciliation of the total tax charge

The tax credit in the income statement for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are reconciled below:

	2005 £'000	2004 £'000
<i>Accounting loss before tax</i>	(1,246)	(1,067)
At UK standard rate of corporation tax of 30% (2004: 30%)	(374)	(320)
Expenses not deductible for tax purposes	99	33
Tax relief on share based payments	(166)	(262)
Increase in losses carried forwards	788	951
Surrender of losses for R&D tax credit	(125)	—
Adjustment in respect of R&D tax credit loss surrender	25	—
Utilisation of losses	(113)	—
Movement on temporary differences	(61)	(63)
Movement on accelerated capital allowances	(180)	(48)
Withholding tax written off	89	—
Other	7	(2)
Surrender of losses for R&D tax credit prior year	(167)	(381)
Adjustment in respect of R&D tax credit loss surrender prior year	33	76
Adjustments in respect of prior periods	—	(289)
Total tax credit reported in the income statement	(145)	(305)

c) Unrecognised tax losses

The group has tax losses that are available indefinitely for offset against future taxable profits of the companies in which the losses arose as analysed in (e) below. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the group and they have arisen in subsidiaries that have been loss-making for some time.

d) Temporary differences associated with group investments

At 31 December 2005, there was no recognised deferred tax liability (2004: nil) for taxes that would be payable on the un-remitted earnings of certain of the group's subsidiaries, as the group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

The temporary differences associated with investments in subsidiaries for which deferred tax liability has not been recognised aggregate to £nil (2004: £nil).

e) Deferred tax

Recognised deferred tax

There is no deferred tax included in either the group balance sheet or group income statement (2004: £nil).

Unrecognised potential deferred tax assets

The deferred tax not recognised in the group balance sheet is as follows:

	2005 £'000	2004 £'000
Depreciation in advance of capital allowances	190	370
Share-based payments temporary differences	99	957
Other temporary differences	145	206
Tax losses	3,127	2,646
Unrecognised deferred tax asset	3,561	4,179
Gross tax losses unrecognised	10,423	8,820

10. Loss per ordinary share

Basic loss per share amounts are calculated by dividing net loss or profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss or profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the loss and share data used in the basic and diluted loss per share computations:

	2005 £'000	2004 £'000
Net loss attributable to equity holders of the parent	(1,101)	(762)
	2005 number	2004 number
Basic weighted average number of shares	49,945,603	49,407,419
Dilutive potential ordinary shares:		
Employee share options	—	—
Diluted weighted average number of shares	49,495,603	49,407,419

The employee share options are not dilutive because they would reduce the loss per share in both years.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

11. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2004: none).

12. Property, plant and equipment

31 December 2005

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost:				
At 1 January 2005	1,298	644	3,511	5,453
Additions	—	—	147	147
Disposals	—	—	(9)	(9)
Exchange adjustment	—	7	91	98
At 31 December 2005	1,298	651	3,740	5,689
Depreciation:				
At 1 January 2005	(402)	(594)	(3,057)	(4,053)
Charge for year	—	(17)	(263)	(280)
Disposals	—	—	4	4
Exchange adjustment	—	(7)	(82)	(89)
At 31 December 2005	(402)	(618)	(3,398)	(4,418)
Net carrying amount:				
At 31 December 2005	896	33	342	1,271
At 1 January 2005	896	50	454	1,400

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

12. Property, plant and equipment (continued)

31 December 2004

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost:				
At 1 January 2004	1,298	648	3,257	5,203
Additions	—	5	289	294
Disposals	—	—	—	—
Exchange adjustment	—	(9)	(35)	(44)
At 31 December 2004	1,298	644	3,511	5,453
Depreciation:				
At 1 January 2004	(402)	(574)	(2,774)	(3,750)
Charge for year	—	(23)	(315)	(338)
Disposals	—	—	—	—
Exchange adjustment	—	3	32	35
At 31 December 2004	(402)	(594)	(3,057)	(4,053)
Net carrying amount:				
At 31 December 2004	896	50	454	1,400
At 1 January 2004	896	74	483	1,453

Assets held under finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2005 was £59,000 (2004: £101,000). Additions during the year include £23,000 (2004: £61,000) of plant and equipment held under finance leases and hire purchase.

13. Intangible assets

31 December 2005

	Development costs £'000	Software development £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost:					
At 1 January 2005	—	—	949	1,016	1,965
Additions	627	78	—	—	705
Acquisitions	—	—	204	—	204
Disposals	—	—	—	—	—
Exchange adjustment	—	—	(8)	36	28
At 31 December 2005	627	78	1,145	1,052	2,902
Depreciation:					
At 1 January 2005	—	—	(720)	—	(720)
Charge for year	—	(7)	(84)	—	(91)
Impairment charge	—	—	(215)	—	(215)
Disposals	—	—	—	—	—
Exchange adjustment	—	—	3	—	3
At 31 December 2005	—	(7)	(1,016)	—	(1,023)
Net carrying amount:					
At 31 December 2005	627	71	129	1,052	1,879
At 1 January 2005	—	—	229	1,016	1,245

13. Intangible assets (continued)

31 December 2004

	Development costs £'000	Software development £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost:					
At 1 January 2004	—	—	669	1,043	1,712
Additions	—	—	278	—	278
Disposals	—	—	—	—	—
Exchange adjustment	—	—	2	(27)	(25)
At 31 December 2004	—	—	949	1,016	1,965
Depreciation:					
At 1 January 2004	—	—	(669)	—	(669)
Charge for year	—	—	(51)	—	(51)
Impairment charge	—	—	—	—	—
Disposals	—	—	—	—	—
Exchange adjustment	—	—	—	—	—
At 31 December 2004	—	—	(720)	—	(720)
Net carrying amount:					
At 31 December 2004	—	—	229	1,016	1,245
At 1 January 2004	—	—	—	1,043	1,043

Development costs

Development costs are internally generated and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised on a straight line basis over their useful lives. These assets are tested for impairment where an indicator of impairment arises and annually prior to them being made available for use.

Software development costs

Software development costs are internally generated software assets for use in the group and are capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised under the straight line method over a period of 5 years. These assets are tested for impairment where an indicator of impairment arises.

Patents and licences

Patents and licences are the third party costs incurred in seeking and obtaining protection for certain of the group's products and services. These intangible assets have been assessed as having a finite life and are being amortised evenly over their useful economic life, to a maximum of 10 years. Patents have a remaining life of 9 years and licences a remaining life of 3 to 4 years.

Acquisition

On 17 February 2005, the group issued 63,492 new ordinary shares of 5 pence each with a value of £200,000 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. Costs of £4,000 have been included in the purchase price. The intellectual property acquired is being amortised over a period of 5 years on a straight line basis. No further payments have been made in respect of this acquisition to the date of these financial statements and no contingent consideration has been recognised because in the opinion of the directors there is uncertainty over whether any such additional payments will be made based on current trading.

13. Intangible assets (continued)

Impairment

The total impairment charge of £215,000 made in the year (2004: £nil) comprised:

- £100,000 in respect of a write-down of intangible software licences to their value in use in Gresham SA, a subsidiary that forms part of the Software segment. This write down reflects a reduction in the trading prospects for this entity taking into account growth rates of less than 5% and a cost of capital of approximately 7%; and
- £115,000 in respect of a write-down of intangible intellectual property, as noted in the 'Acquisition' paragraph above, to its value in use in the Real Time Secure Communications cash generating unit that forms part of the Solutions segment. This write down reflects a reduction in the value in use of certain elements of the intellectual property arising from a change in the customer requirements being targeted and takes into account a cost of capital of approximately 7%.

Goodwill

Goodwill was purchased as part of a business combination. As from 1 January 2004, the date of transition to IFRS, goodwill was no longer amortised but is now subject to annual impairment testing.

14. Impairment of goodwill and intangibles

Goodwill

Goodwill acquired through business combinations has been allocated to two individual cash-generating units, the lowest level at which goodwill is monitored for internal management purposes, for impairment testing as follows:

Australian Solutions cash-generating unit

The recoverable amount of the Australian Solutions unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by the board and take account of a 5 year period. The discount rate applied to cash flow projections is 7% (2004: 7%) and cash flows beyond the 5 year period are extrapolated using a 5% growth rate (2004: 5%) that is a prudent approximation to the long term average growth rate for the Solutions market.

Australian Software cash-generating unit

The recoverable amount of the Australian Software unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by the board and take account of a 5 year period. The discount rate applied to cash flow projections is 7% (2004: 7%) and cash flows beyond the 5 year period are extrapolated using a 5% growth rate (2004: 5%) that is a prudent approximation to the long term average growth rate for the Software market.

Carrying amount of goodwill

	Solutions Unit £'000	Software Unit £'000	Total £'000
Carrying amount of goodwill	622	430	1,052

Key assumptions used in the value in use calculations

Key assumptions are made by management based on past experience taking into account external sources of information around gross margins, growth rates and discount rates for similar businesses.

The calculation of value in use for both the Australian Solutions and the Australian Software units is most sensitive to assumptions around:

- *Gross margins*, which are based on average values achieved in the three years preceding the start of the budget period;
- *Growth rates*, which are based on internally estimated growth rates for the market and the business' offerings; and
- *Discount rate*, which is based on the pre tax weighted average cost of capital of the cash generating units.

Sensitivity to changes in assumptions

There are no reasonably possible changes in the key assumptions which could cause the carrying value of the units to exceed its recoverable amount.

14. Impairment of goodwill and intangibles (continued)

Development costs

Development costs have a net book value of £627,000 (2004: Nil) and are allocated to individual cash-generating units, being the lowest level at which these intangible assets are monitored for internal management purposes, for impairment testing on an annual basis prior to being made available for use or sooner where an indicator of impairment exists. The majority of the development costs relate to a cash generating unit in the Enterprise Solutions segment with the balance relating to a cash generating unit in the Enterprise Software segment.

The recoverable amount of development costs allocated to cash-generating units has been determined based on a value in use assessment and the cashflows generated. In determining the recoverable amount the most recent budgets approved by the board have been used as a basis for estimating future cash flows.

Key assumptions used in the value in use calculations

Where the development costs relate to products or solutions that will be sold in an existing known market past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the development costs relate to products or solutions that will be sold into a new or emerging market past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins. The recoverable amount of development costs has been considered over only a 5 year period taking into account the relatively fast moving nature of the markets in which the products and solutions will be deployed. Growth rates in excess of 10% are considered achievable once the product or solution is established in a market, over a 5 year period, but prior to this growth rates will be higher because the starting point is a zero base of sales. Discount rates of 7% based on the pre tax weighted average cost of capital of the cash generating units are expected to apply in respect of future cash flows.

The calculation of value in use for both units is most sensitive to assumptions around the timing and quantum of sales arising from the intangible when made available for use and therefore the recoverable amount is highly sensitive to levels of future sales falling below expectations and budgets.

Sensitivity to changes in assumptions

There are no reasonably possible changes in the key assumptions which could cause the carrying value of the units to exceed its recoverable amount.

15. Other financial assets

	2005 £'000	2004 £'000
Financial assets – current		
Convertible bonds (see note 21)	—	400
SQS warrants (see note 21)	40	—
	40	400

16. Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	4,064	2,433
Contract costs	3,178	3,154
Prepayments and accrued income	933	1,204
	8,175	6,791
Income tax receivable	252	449

Certain contract costs may not be recoverable within one year even though they are presented as current assets in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

17. Cash and cash equivalents

	2005	2004
	£'000	£'000
<i>Cash at bank and in hand</i>	1,973	3,016

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the group and earn interest at the respective short-term deposit rates, with no penalty for early withdrawal. There is no difference between the book value and fair value of cash and cash equivalents.

18. Trade and other payables

	2005	2004
	£'000	£'000
<i>Current</i>		
<i>Trade payables</i>	964	677
<i>Other payables</i>	1,871	1,932
<i>Deferred income</i>	2,343	2,015
	5,178	4,624
<i>Income tax payable</i>	109	20
	2005	2004
	£'000	£'000
<i>Non-current</i>		
<i>Deferred income</i>	680	268
	680	268

Trade payables, other payables and deferred income are non-interest bearing.

19. Financial liabilities

	Effective interest rate	Maturity	2005	2004
			£'000	£'000
<i>Current</i>				
<i>Obligations under finance leases</i>	8%	2006	38	61
<i>Foreign currency contracts held for trading</i>		2006	5	—
			43	61
<i>Non-current</i>				
<i>Obligations under finance leases</i>	8%	2006-2008	21	40

20. Obligations under leases and hire purchase contracts

Obligations under finance leases and hire purchase contracts

The group has finance leases in respect of computer equipment, included in plant and machinery. Future minimum lease payments under finance leases together with present value of the net minimum lease payments are as follows:

	2005 £'000	2004 £'000
Future minimum payments due:		
Not later than one year	41	66
After one year but not more than five years	24	45
	65	111
Less finance charges allocated to future periods	(6)	(10)
Present value of minimum lease payments	59	101
The present value of minimum lease payments is analysed as follows:		
Not later than one year	38	61
After one year but not more than five years	21	40
	59	101

Obligations under operating lease agreements

The group has entered into commercial leases on certain properties and items of machinery. These leases typically have an average duration of between 3 and 10 years at inception. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2005 £'000	Other 2005 £'000	Land and buildings 2004 £'000	Other 2004 £'000
Not later than one year	549	28	636	17
After one but not more than five years	615	8	1,227	10
	1,164	36	1,863	27

A group company has sublet space in certain leasehold properties and the future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 December 2005 is as follows:

	Land and buildings 2005 £'000	Land and buildings 2004 £'000
Not later than one year	225	225
After one but not more than five years	226	451
	451	676

21. Financial instruments

An explanation of the group's financial instrument risk management objectives, policies and strategies are set out in the discussion of treasury policies on pages 6 to 7 in the Directors' Report.

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the group as at 31 December is as follows:

	2005			2004		
	Within		Total	Within		Total
	1 year £'000	1-2 years £'000	£'000	1 year £'000	1-2 years £'000	£'000
Fixed rate						
Convertible bonds	—	—	—	400	—	400
Obligations under finance lease contracts	(38)	(21)	(59)	(61)	(40)	(101)
Floating rate						
Cash	1,973	—	1,973	3,016	—	3,016

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Credit risk

There are no significant concentrations of credit risk within the group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the group's financial instruments that are carried in the financial statements.

	Book value		Fair value	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Financial assets				
Cash	1,973	3,016	1,973	3,016
Convertible bonds	—	400	—	400
SQS warrants	40	—	40	—
Financial liabilities				
Interest-bearing loans and borrowings:				
Finance lease obligations	(59)	(101)	(59)	(101)
Forward currency contracts held for trading	(5)	—	(5)	—

Convertible bonds and SQS warrants

The convertible bonds were issued by Software Quality Systems AG ("SQS") in prior years along with 15,556 warrants over SQS ordinary shares exercisable at a price of €18.16 at any time in the period to 31 July 2008. The convertible bonds and warrants are recorded at cost in 2004 because, in the absence of a public market for the instruments, an accurate fair value could not be determined. The convertible bonds earned fixed interest at 7% per annum. The warrants were issued without payment of consideration and are therefore recorded at nil cost in 2004.

During 2005, SQS obtained a listing on the UK Alternative Investment Market and the convertible bonds were repaid in full. As a result of the listing, the 15,556 warrants held over SQS shares were cancelled and 52,800 new warrants were issued for no consideration. The new warrants ("SQS warrants") have an exercise price of £1.90 and are exercisable at any time in the period to 31 July 2008.

21. Financial instruments (continued)

The fair value of the SQS warrants has been calculated as at the year end date using a Black Scholes model. The following table lists the inputs to the model:

Risk free interest rate	4%
Expected share price volatility	60%
Expected life of warrants (years)	2.5

The expected life of the warrants has been estimated and is not necessarily indicative of the period to exercise. The expected volatility is an estimate of the underlying volatility of similar equity instruments taking into account the nature of business conducted, which may also not necessarily be the actual outcome. No other features of the conversion rights were incorporated into the measurement of fair value.

Finance lease obligations

The fair value of finance lease obligations is not materially different to the book value due to the relatively low value involved and short periods of lease.

Forward currency contracts held for trading

The fair value of this financial instrument has been calculated by reference to forward exchange rates for contracts of a similar maturity profile at the year end.

Foreign currency risk

At 31 December 2005, the group held one forward exchange contract (2004: nil) to mitigate the foreign currency risk of a contracted sales receipt of US Dollars due in January 2006. The loss on this instrument at 31 December 2005 has been recognised in the income statement. The terms of the forward contracts were as follows:

Forward contracts to hedge contracted sales receipts	Maturity	Exchange rate	Fair value Asset/(Liability) £'000
Sell US\$200,000	31 Jan 2006	£/US\$ 1.79	(5)

Borrowing facilities

The balance of undrawn committed borrowing facilities available to the group for future operating activities and to settle capital commitments in respect of which all conditions precedent had been met at 31 December 2005 was £nil (2004: £nil).

22. Authorised and issued share capital

Authorised share capital	2005		2004	
	Number '000	£'000	Number '000	£'000
Ordinary shares of 5 pence each	65,000	3,250	65,000	3,250
Preference shares of 20 pence each	2,750	550	2,750	550
	67,750	3,800	67,750	3,800

Ordinary shares issued and fully paid	Number	Nominal Consideration value received	
		£'000	£'000
At 1 January 2004	49,285,080	2,464	—
Issued for cash on exercise of share options	305,708	15	91
At 1 January 2005	49,590,788	2,479	—
Issued in respect of IPR purchase by subsidiary (note 13)	63,492	3	200
Issued for cash on exercise of share options	615,529	31	140
At 31 December 2005	50,269,809	2,513	

There are no preference shares in issue (2004: none).

23. Share-based payments

The grant of all options is made by the Remuneration Committee and such grants involve equity settlement. 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, on average, over a three year period the group's earnings per share increase by five per cent per annum above the retail price index. 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.

From 30 July 2004, all new options granted under these executive schemes are only exercisable based on the performance in the first relevant three year period from a fixed point; rolling re-testing is not allowed. For options granted before this date, rolling re-testing is still permitted in accordance with the terms on which they were issued.

Vesting continues to be measured based on UK GAAP earnings per share for executive options granted prior to the adoption of IFRS.

At 31 December 2005, 16 participants held options under these schemes (2004: 15).

All Employee Savings Related Share Option Schemes

The group also operated a Savings Related Option Scheme (Save As You Earn - SAYE) for eligible employees. Under the SAYE scheme, eligible employees may 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.

At 31 December 2005 there were no participants in the SAYE scheme (2004: 28).

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2005, including those noted in the Directors' Remuneration Report are as follows:

	Note	2005 Number	2005 WAEP	2004 Number	2004 WAEP
Executive Share Option Scheme					
Outstanding at 1 January	1	1,017,897	56	1,302,897	46
Granted during the year		109,996	117	20,000	323
Exercised	2	(150,000)	27	(255,000)	31
Forfeited		(20,000)	78	(50,000)	46
Outstanding at 31 December	1	957,893	65	1,017,897	56
Exercisable at 31 December		772,897	42	772,897	42
Weighted average remaining contractual life (years)		5.09		5.83	
SAYE Scheme					
Outstanding at 1 January	1	465,529	22	520,364	22
Granted during the year		—	—	—	—
Exercised	2	(465,529)	22	(50,708)	23
Forfeited		—	—	(4,127)	22
Outstanding at 31 December	1	—	—	465,529	22
Exercisable at 31 December		—	—	—	—
Weighted average remaining contractual life (years)		0.00		1.00	

WAEP: Weighted Average Exercise Price (Pence per share)

23. Share-based payments (continued)

All share options were granted with an exercise price equal to the share price at the date of grant and therefore the weighted average share price for option grants is the same as the weighted average exercise price ('WAEP').

Note 1: Included within this number of options are options over 772,897 (2004: 942,897) shares (Executive Share Option Scheme) and options over nil (2004: 465,529) shares (SAYE Scheme) that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Note 2: The weighted average share price at the date of exercise for the options exercised is: Executive share option schemes 128 pence (2004: 316 pence) and SAYE schemes 111 pence (2004: 365 pence).

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2005, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry Date	Cash receivable if exercised £
Executive Share Option Schemes						
	81,081	21 Jan 1998	0.370	22 Jan 2001	21 Jan 2008	30,000
	43,919	17 Feb 1999	1.420	18 Feb 2002	17 Feb 2009	62,365
	10,000	9 Feb 2000	0.460	10 Feb 2003	9 Feb 2010	4,600
	637,897	25 Jul 2000	0.360	28 Jul 2003	27 Jul 2010	229,643
	15,000	22 Apr 2003	0.700	23 Apr 2006	22 Apr 2013	10,500
	40,000	28 May 2003	2.695	28 May 2006	28 May 2013	107,800
	20,000	28 May 2004	3.225	29 May 2007	28 May 2014	64,500
	99,996	22 Jun 2005	1.200	23 Jun 2008	22 Jun 2015	119,995
	10,000	30 Sept 2005	0.860	01 Oct 2008	30 Sept 2015	8,600
	957,893					638,003

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2004, including those noted in the Directors' Remuneration Report showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £	Date first exercisable	Expiry Date	Cash receivable if exercised £
Executive Share Option Schemes						
	81,081	21 Jan 1998	0.3700	22 Jan 2001	21 Jan 2008	30,000
	43,919	17 Feb 1999	1.4200	18 Feb 2002	17 Feb 2009	62,365
	10,000	9 Feb 2000	0.4600	10 Feb 2003	9 Feb 2010	4,600
	637,897	25 Jul 2000	0.3600	28 Jul 2003	27 Jul 2010	229,643
	150,000	26 Apr 2002	0.2675	27 Apr 2005	26 Apr 2012	40,125
	20,000	20 Sep 2002	0.7775	21 Sep 2005	20 Sep 2012	15,550
	15,000	22 Apr 2003	0.7000	23 Apr 2006	22 Apr 2013	10,500
	40,000	28 May 2003	2.6950	29 May 2006	28 May 2013	107,800
	20,000	28 May 2004	3.2250	29 May 2007	28 May 2014	64,500
	1,017,897					565,083
SAYE schemes	465,529	24 May 2002	0.2150	1 July 2005	31 Dec 2005	100,089

23. Share-based payments (continued)

The weighted average fair value of options granted during the year was 69 pence (2004: 190 pence).

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December:

	2005	2004
Risk free interest rate	4%	4%
Expected share price volatility	90%	90%
Expected life of options (years)	3	3
Dividend yield	—	—

In all cases, the exercise price at the date of grant is equal to the market price at the date of grant.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The expense recognised in the income statement for equity settled share-based payments in respect of employee services received is as follows:

	2005	2004
	£'000	£'000
Expense recognised in respect of share-based payments	42	29

24. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Currency translation reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2004	2,464	9,639	1,039	—	(4,181)	8,961
Exchange differences on translation of foreign operations	—	—	—	(29)	—	(29)
Share based expense recognised in the income statement	—	—	—	—	29	29
Issue of shares	15	76	—	—	—	91
Share issue costs	—	(2)	—	—	—	(2)
Attributable loss for the period	—	—	—	—	(762)	(762)
At 31 December 2004	2,479	9,713	1,039	(29)	(4,914)	8,288
Exchange differences on translation of foreign operations	—	—	—	—	—	—
Share based expense recognised in the income statement	—	—	—	—	42	42
Issue of shares	34	306	—	—	—	340
Share issue costs	—	(10)	—	—	—	(10)
Attributable loss for the period	—	—	—	—	(1,101)	(1,101)
At 31 December 2005	2,513	10,009	1,039	(29)	(5,973)	7,559

Share capital

The balance classified as share capital represents the nominal value arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares.

24. Reconciliation of movements in equity (continued)

Share premium

The balance classified as share premium represents the premium arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, any issues of shares or debentures of the company.

Other reserves

The balance classified as other reserves comprises a special reserve (£313,000) and merger reserve (£726,000). The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999.

Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Retained earnings

The cumulative amount of goodwill written off to reserves at 31 December 2005 and 2004 is £7,326,000. Goodwill previously written off to reserves will remain so written off.

25. Additional cash flow information

Analysis of group net funds

	1 January 2005 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2005 £'000
Cash and cash equivalents	3,016	(1,070)	27	—	1,973
Finance leases	(101)	65	—	(23)	(59)
	2,915	(1,005)	27	(23)	1,914

	1 January 2004 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2004 £'000
Cash and cash equivalents	4,923	(1,898)	(9)	—	3,016
Finance leases	(117)	77	—	(61)	(101)
	4,806	(1,821)	(9)	(61)	2,915

The purchase by the group of Intellectual Property Rights, as described in note 13, involved the issue of shares to the value of £200,000 with no resulting cash flow movement.

26. Post balance sheet event

On 26 April 2006, the group agreed with Cable & Wireless certain amendments to the arrangement between the parties concerning the Cable & Wireless Real Time Nostro Service ("CWRTN"). Further details of these amendments and their impact can be found in the Chairman's Statement on pages 3 to 4.

In March 2006, a new subsidiary, Fortune Band (M) Sdn Bhd, was incorporated in Malaysia to operate the group's contracts in that region.

27. Capital commitments

At 31 December 2005, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2004: £nil).

28. Contingent liabilities

In the normal course of business, the parent company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings.

29. Related party transactions

Key management personnel are defined for the purpose of these financial statements as the main board directors and information concerning the remuneration of these directors can be found in the Remuneration Report. No share based payments charge arises in respect of any main board director (2004: £nil).

30. Transition to IFRSs

For all periods up to and including the year ended 31 December 2004, the group prepared financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2005, are the first the group is required to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the group has started from an opening balance sheet as at 1 January 2004, the date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. This note explains the principal adjustments made by the group in restating its UK GAAP balance sheet as at 1 January 2004 and its previously published UK GAAP financial statements for the year ended 31 December 2004. The adjustments to IFRSs are classified below under two headings: 'reclassifications' and 'remeasurements'.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs as effective for December 2005 year ends retrospectively. The group has taken the following exemptions:

Cumulative Translation Differences

Translation differences arise from the consolidation of the results of foreign operations at average rate and the balance sheet at year-end rates of exchange. UK GAAP does not require these translation differences to be separately identified and accounted for in subsequent disposals of foreign operations. Under IFRS the translation differences arising are separately recorded in equity. On disposal of a foreign operation, the cumulative translation differences for that foreign operation are transferred to the income statement as part of the gain or loss on disposal.

Under IFRS 1, the group is not required to record cumulative translation differences arising prior to the transition date. The group has utilised this exemption and all cumulative translation differences are deemed to be zero as at 1 January 2004. All subsequent disposals will exclude any translation differences arising prior to the date of transition.

Business Combinations

Under IFRS 1, the group may elect not to apply IFRS 3 Business Combinations retrospectively to transactions occurring prior to the date of transition to IFRS and management has elected to take this exemption. The group has utilised this exemption and the carrying amount of goodwill in the opening IFRS balance sheet is that recorded under UK GAAP at the date of transition. As from the date of transition, goodwill is not amortised but subject to annual tests for impairment. Goodwill set off against reserves or amortised prior to the date of transition ceases to exist under IFRS and is therefore not recycled to the income statement on any subsequent disposal of the business to which it relates.

Share-based Payments

IFRS requires the cost of all share-based payments to be charged against profits over their respective vesting periods. Share based-payments include executive and employee share option schemes. The accounting cost is the fair value, at the date of grant, calculated using an option pricing model. Under UK GAAP, the costs of share awards are charged against profits over the vesting period based on their intrinsic value, if any.

Under IFRS 1, the group is required to restate its comparative years for all grants of equity instruments made on or after 7 November 2002 that have not vested by 1 January 2005. The group has not applied IFRS 2 to grants made before this date.

30. Transition to IFRSs (continued)

Group reconciliation of equity as at 01 January 2004

	Notes	UK GAAP £'000	Note A Reclassification £'000	Note B Remeasurement £'000	IFRS £'000
Assets					
Non-current assets					
Property, plant and equipment	A(ii)	1,336	117	—	1,453
Intangible assets		1,043	—	—	1,043
Financial assets	A(i)	—	394	—	394
		2,379	511	—	2,890
Current assets					
Trade and other receivables	A(i)	6,197	(787)	—	5,410
Income tax receivable		104	—	—	104
Other financial assets	A(i)	—	393	—	393
Cash and cash equivalents		4,923	—	—	4,923
		11,224	(394)	—	10,830
Total Assets		13,603	117	—	13,720
Equity and liabilities					
Equity attributable to equity holders of the parent					
Called up equity share capital		2,464	—	—	2,464
Share premium account		9,639	—	—	9,639
Other reserves		1,039	—	—	1,039
Foreign currency translation reserve		—	—	—	—
Retained earnings	B(iii), B(iv)	(3,836)	—	(345)	(4,181)
		9,306	—	(345)	8,961
Non-current liabilities					
Financial liabilities					
Deferred income	A(ii)	—	52	—	52
		477	—	—	477
Current liabilities					
Financial liabilities					
Income tax payable	A(ii)	—	65	—	65
Trade and other payables	B(iii), B(iv)	3,800	—	345	4,145
Total liabilities		4,297	117	345	4,759
Total equity and liabilities		13,603	117	—	13,720

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

30. Transition to IFRSs (continued)

Group reconciliation of equity as at 31 December 2004

	Notes	UK GAAP £'000	Note A Reclassification £'000	Note B Remeasurement £'000	IFRS £'000
Assets					
Non-current assets					
Property, plant and equipment	A(ii), B(ii)	1,241	101	58	1,400
Intangible assets	B(i)	1,137	—	108	1,245
		2,378	101	166	2,645
Current assets					
Trade and other receivables	A(i)	7,191	(400)	—	6,791
Income tax receivable		449	—	—	449
Other financial assets	A(i)	—	400	—	400
Cash and cash equivalents		3,016	—	—	3,016
		10,656	—	—	10,656
Total Assets		13,034	101	166	13,301
Equity and liabilities					
Equity attributable to equity holders of the parent					
Called up equity share capital		2,479	—	—	2,479
Share premium account		9,713	—	—	9,713
Other reserves		1,039	—	—	1,039
Foreign currency translation reserve		—	(29)	—	(29)
Retained earnings	B(i), B(ii), B(iii), B(iv)	(4,758)	29	(185)	(4,914)
		8,473	—	(185)	8,288
Non-current liabilities					
Financial liabilities	A(ii)	—	40	—	40
Deferred income		268	—	—	268
Current liabilities					
Financial liabilities	A(ii)	—	61	—	61
Income tax payable		20	—	—	20
Trade and other payables	B(iii), B(iv)	4,273	—	351	4,624
Total liabilities		4,561	101	351	5,013
Total equity and liabilities		13,034	101	166	13,301

Group reconciliation of income and expense for the period ended 31 December 2004

	Notes	UK GAAP £'000	Note A Reclassification £'000	Note B Remeasurement £'000	IFRS £'000
Revenue		12,398	—	—	12,398
Cost of goods sold		(5,796)	—	—	(5,796)
Gross profit		6,602	—	—	6,602
Administrative expenses	A(ii), B(i), B(ii), B(iii), B(iv), B(v)	(8,012)	14	131	(7,867)
Trading loss		(1,410)	14	131	(1,265)
Finance revenue		217	—	—	217
Finance costs	A(ii)	(5)	(14)	—	(19)
Loss before tax		(1,198)	—	131	(1,067)
Taxation		305	—	—	305
Attributable to equity holders of the parent		(893)	—	131	(762)

30. Transition to IFRSs (continued)

Restatement of equity from UK GAAP to IFRS – notes

(A) Reclassification changes

Under IFRS, the following presentational changes are required to the income statement and balance sheet: (i) Convertible Bond Receivable to show the non-current elements on the face of the balance sheet rather than in a note and (ii) Finance Leases where leases previously treated as operating leases under UK GAAP are now presented as Finance Leases under IFRS with a reclassification of costs to finance charges. There is no change to reported income as a result of either change.

(B) Measurement changes

(i) Goodwill amortisation reversal

Under UK GAAP, amortisation is charged to the profit and loss account so as to write off goodwill over its estimated life. Under IFRS, goodwill is not amortised but is reviewed for impairment annually. This adjustment adds back goodwill previously charged in reported financial statements in reconciling UK GAAP to IFRS.

No impairment charge was booked against goodwill at the date of transition as a result of the impairment review undertaken.

(ii) Residual value of property

Under UK GAAP, depreciation is charged to the profit and loss account so as to write freehold property down to its residual value, as at the date capitalised, over its estimated life. Under IFRS, the residual value has been reassessed and, because the residual value of the freehold property exceeds the recorded net book value at transition, the resulting depreciation charge is nil. This adjustment adds back depreciation previously charged in reported financial statements in reconciling UK GAAP to IFRS.

(iii) Lease incentives

Under UK GAAP, rent free periods are amortised over the period from the date of grant to the next rent review. Under IFRS, rent free periods are amortised over the period from the date of grant to the end of the lease. This adjustment spreads the benefit of rent free periods over the longer period to the end of the lease compared to that reported under UK GAAP in financial statements in reconciling UK GAAP to IFRS.

(iv) Holiday pay

Under UK GAAP, provision for holiday pay is a matter of accounting policy and the group policy was not to provide for holiday pay. Under IFRS, provision for holiday pay is required. This adjustment reflects the changes in provision for holiday pay in reconciling UK GAAP to IFRS.

(v) Share options

Under UK GAAP, share option costs are not expensed and the costs of share awards are charged against profits over the vesting period based on their intrinsic value, if any. IFRS requires the cost of all share-based payments to be charged against profits over their respective vesting periods. Share-based payments include executive and employee share option schemes. The accounting cost is the fair value at the date of grant calculated using an option pricing model. The expense is recognised as a staff cost and the associated credit entry is made against equity. This adjustment records the relevant charge for share based payments in reconciling UK GAAP to IFRS.

(C) Restatement of cash flow statement from UK GAAP to IFRS

The transition from UK GAAP to IFRS has no effect upon the reported cash flows of the group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities – operating activities, investing activities and financing activities.

THE FOLLOWING NOTES
RELATE TO THE COMPANY ONLY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

We have audited the parent company financial statements of Gresham Computing plc for the year ended 31 December 2005 which comprise the Balance Sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Gresham Computing plc for the year ended 31 December 2005.

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, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company 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 parent company 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 regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

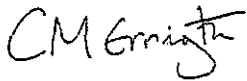
Ernst & Young LLP
Registered auditor
Southampton
26 April 2006

COMPANY BALANCE SHEET

AT 31 DECEMBER 2005

	Notes	31 December 2005 £'000	31 December 2004 £'000
<i>Fixed assets</i>			
Investments	5	18,904	13,904
		18,904	13,904
<i>Current assets</i>			
Debtors	6	3,285	7,252
Cash at bank and in hand		1,040	1,937
		4,325	9,189
<i>Creditors: amounts falling due within one year</i>	7	127	146
Net current assets		4,198	9,043
Total assets less current liabilities		23,102	22,947
<i>Capital and reserves</i>			
Called up share capital	9	2,513	2,479
Share premium account	10	10,009	9,713
Special reserve	10	313	313
Merger reserve	10	6,609	6,609
Profit and loss account	10	3,658	3,833
Shareholders' funds - equity interests	10	23,102	22,947

On behalf of the board



C Errington
26 April 2006



A Walton-Green
26 April 2006



1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention as modified for financial instruments that are measured at fair value. The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. No profit and loss account is presented for the company as provided by section 230 of the Companies Act 1985. The company's result for the year is shown in note 10.

New accounting policies

In these financial statements, the following new standards have been adopted for the first time:

Standard	Topic	Impact on financial statements
FRS 20	Share based payments	None
FRS 21	Events after the balance sheet date	None
FRS 23	The effects of changes in foreign exchange rates	None
FRS 25	Financial instruments – presentation and disclosure	None
FRS 26	Financial instruments – measurement	See note (i) below
FRS 28	Comparative amounts	None

(i) The impact of FRS 26 is to fair value two financial instruments as follows:

- a) warrants over shares in SQS AG have been measured at fair value giving rise to a profit of £40,000 in 2005 (2004: £nil); and
- b) a foreign exchange contract has been measured at fair value giving rise to a loss of £5,000 (2004: £nil).

Investments

Investments are recorded at cost less provision for impairment.

Financial assets

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss recognised in the income statement.

Loans and receivables

Loans and receivables (convertible bonds receivable) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 rates expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date as they apply in the periods in which the timing differences are expected to reverse.

1. Accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date of the transaction or at the contracted rate if the transaction is matched by a forward exchange contract.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date or, if appropriate, at the forward contract rate. Resulting exchange gains and losses are taken to the profit and loss account.

Financial instruments

The company uses forward foreign currency contracts to reduce exposure to movements in foreign exchange rates. Such instruments are stated at fair value. Gains and losses arising from changes in fair value are taken to the profit and loss account in the period.

Related party transactions

The company has taken advantage of the exemption under FRS 8 from disclosing related party transactions with entities that are part of the Gresham Computing plc group.

Leasing commitments

Rentals paid under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

2. Auditors' remuneration

New requirements for the disclosure of remuneration paid by the company to its auditors were introduced in the Companies (Audit, Investigations and Community Enterprise) Act 2004 and regulations specifying these requirements were issued in 2005, and are mandatory for accounting periods beginning on or after 1 October 2005.

Notwithstanding this, the company has elected to give disclosures that comply with these requirements, in particular regarding fees other than for the audit of the financial statements, as well as disclosing the total of non-audit fees for the company, in accordance with the extant legislation.

		2005 £'000	2004 £'000
Audit of the financial statements	Audit services UK	18	17
Other fees to auditors	Taxation compliances services UK	1	1
	IFRS transition review UK	17	—
		36	18

3. Directors' remuneration

Information concerning directors' remuneration can be found in the Directors' remuneration report on pages 14 to 17.

4. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2004: None).

5. Investments

	Subsidiaries 2005 £'000	Subsidiaries 2004 £'000
Cost:		
At 1 January	18,047	17,348
Additions	5,000	699
At 31 December	23,047	18,047
Impairment provisions:		
At 1 January	(4,143)	(4,143)
Impairment charge in year	—	—
At 31 December	(4,143)	(4,143)
Net book value:		
At 31 December	18,904	13,904

The addition of £5m during the year represents the recapitalisation of two existing subsidiaries by conversion of intercompany debt to equity.

The company holds equity in the following principal subsidiary undertakings:

Name of undertaking	Country of incorporation	Holding	Proportion held	Nature of business
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 for finance and banking
Online Financial Services Inc	Canada	Ordinary shares	100%	Software products and solutions
Gresham Enterprise Storage Inc	USA	Ordinary shares	100%	Storage software products and solutions
Gresham SA*	France	Ordinary shares	100%	Storage software products and solutions
Redstone Software Inc	USA	Ordinary shares	92%	Software products and solutions
Gresham Computing Pty Limited	Australia	Ordinary shares	100%	Solutions for finance and banking
Gresham Software Labs Pty Limited*	Australia	Ordinary shares	100%	Software products and solutions

* 100% held indirectly through an intermediate holding company

6. Debtors

	2005 £'000	2004 £'000
Amounts owed by subsidiary undertakings	3,232	6,841
Prepayments and accrued income	53	11
Convertible bond receivable	—	400
	3,285	7,252

7. Creditors: amount falling due within one year

	2005 £'000	2004 £'000
Amounts owed by subsidiary undertakings	—	68
Trade creditors	36	3
Other creditors and accruals	86	75
Forward currency contracts	5	—
	127	146

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2005

8. Deferred tax

The company has an unrecognised deferred tax asset at a 30% tax rate as follows:

	2005	2004
	£'000	£'000
Tax losses	65	—
	65	—

9. Share capital

Authorised share capital

	2005		2004	
	Number '000	£'000	Number '000	£'000
Ordinary shares of 5 pence each	65,000	3,250	65,000	3,250
Preference shares of 20 pence each	2,750	550	2,750	550
	67,750	3,800	67,750	3,800

Ordinary shares issued and fully paid

	Number	Nominal Consideration	
		value £'000	received £'000
At 1 January 2004	49,285,080	2,464	—
Issued for cash on exercise of share options	305,708	15	91
At 1 January 2005	49,590,788	2,479	—
Issued in respect of IPR purchase by subsidiary	63,492	3	200
Issued for cash on exercise of share options	615,529	31	140
At 31 December 2005	50,269,809	2,513	

There are no preference shares in issue (2004: none).

10. Reconciliation of shareholders' funds and movements on reserves

	Share capital £'000	Share premium £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
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
Issue of ordinary shares	34	306	—	—	—	340
Share issue costs	—	(10)	—	—	—	(10)
Retained loss for the year	—	—	—	—	(175)	(175)
At 31 December 2005	2,513	10,009	313	6,609	3,658	23,102

Share capital

The balance classified as share capital represents the nominal value arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares.

Share premium

The balance classified as share premium represents the premium arising from the issue of the company's equity share capital, comprising 5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the share premium account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, any issues of shares or debentures of the company.

10. Reconciliation of shareholders' funds and movements on reserves (continued)

Other reserves

The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The merger reserve arose on issue of shares in respect of acquisitions and mergers in the period 1992 to 1999.

Share options

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2005 showing the range of exercise prices and dates are as follows:

	Number of share options	Date of grant	Exercise price £'000	Date first exercisable	Expiry date	Cash receivable if exercised £'000
Executive Share Option Schemes						
	81,081	21 Jan 1998	0.370	22 Jan 2001	21 Jan 2008	30,000
	43,919	17 Feb 1999	1.420	18 Feb 2002	17 Feb 2009	62,365
	10,000	9 Feb 2000	0.460	10 Feb 2003	9 Feb 2010	4,600
	637,897	25 Jul 2000	0.360	28 Jul 2003	27 Jul 2010	229,643
	15,000	22 Apr 2003	0.700	23 Apr 2006	22 Apr 2013	10,500
	40,000	28 May 2003	2.695	29 May 2006	28 May 2013	107,800
	20,000	28 May 2004	3.225	29 May 2007	28 May 2014	64,500
	99,996	22 Jun 2005	1.200	23 Jun 2008	22 Jun 2015	119,995
	10,000	30 Sept 2005	0.860	01 Oct 2008	30 Sept 2015	8,600
	957,893					638,003

Further information concerning 'Share-based payments' can be found in note 23 to the group financial statements.

11. Other financial commitments

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £'000	Land and buildings £'000
Operating leases which expire:		
Within one year	—	—
Within two to five years	340	340
	340	340

12. Capital commitments

At 31 December 2005, company amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2004: £nil).

13. Contingent liabilities

In the normal course of business, the company has issued general guarantees in respect of the contractual obligations of certain subsidiary undertakings.

14. Financial instruments

The company has taken the exemption available in FRS 25 'Financial Instruments: Disclosure and Presentation' from disclosing the parent company financial instruments information, as the consolidated entity has complied with the disclosure requirements of IAS 32 in note 21 to the group financial statements.



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