

gresham computing plc

annual report 2007

Gresham
real time solutions

THURSDAY



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DIRECTORS AND ADVISERS

Gresham Computing plc
Registered Number 1072032
A public limited company incorporated in England and Wales

Directors

A M Howarth	Non-Executive Chairman
J E Aves	Senior Non-Executive Director
A J S Walton-Green	Chief Executive Officer
C M Errington	Finance Director

Secretary

C M Errington

Registered Office

Sopwith House
Brook Avenue
Warsash
Southampton
SO31 9ZA

Broker and Financial Adviser

KBC Peel Hunt
111 Old Broad Street
London
EC2N 1PH

Auditors

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

Solicitors

Blake Laphorn Tarlo Lyons
New Court 1 Barnes Wallis Road
Segensworth East
Fareham
Hampshire
PO15 5UA

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ

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DIRECTORS

A M Howarth

Non-Executive Chairman

Alan, aged 62, 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 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 72, 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 44, 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.

C M Errington

Finance Director

Chris, aged 42, 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.

CHAIRMAN'S STATEMENT

Overview of the year

I am pleased to report that we have made substantial progress in 2007 towards our strategic objectives

We have significantly grown our cash reporting business, launched our supply chain financing solution and successfully installed our storage backup virtualisation technology in multiple customer sites

We have invested heavily over the last few years to build an innovative range of products in the payments, cash management and storage markets with a view to securing the longer-term benefits of recurring revenues, predominantly from selling software as a service

Strategy

Our strategy is to grow the business by focusing on real-time financial and storage solutions. Our preferred model is to work closely with our customers and partners globally to add value to their business and hence our own

The markets for real-time financial solutions and storage solutions are huge and we believe that Gresham technology is well placed to satisfy a significant part of the growing demand for both. We have strengthened our businesses with the addition of new people and increased our sales and marketing capabilities to achieve growth based on meeting the needs of our customers

When the time is right, we will seek acquisitions to accelerate our growth in the real-time financial solutions market. During the year under review, we identified a number of businesses within the group that do not fit with our core focus. As a result, we are currently reviewing our options regarding these businesses and expect this review may give rise to one or more business disposals in the current financial year

Real-time financial solutions

Cash reporting

During the year, we further increased the number of providers and currencies available on the Claret Cash Reporting Service at the request of our user banks. We now have 29 major banks (an increase of 7 in 12 months) that have agreed to provide data to the service of which data from 20 of them is now available in 19 currencies, with more on the way. There are 9 user banks, some of which have deeply embedded our solution in their back office environment. We are currently collating data and building the business case for another 20 banks

We continue to see transaction traffic with a value in excess of \$500 billion per day passing across our service to users

We are already seeing significant interest in us delivering this solution to the broker dealer community via their primary bankers. Our outsourced real-time information solution provides efficiency and speed to market for banks wishing to provide this service

When the service was originally launched the primary targets were the banks as the end users of the data. Our experience indicates that while the pressure for real-time data grows, especially in a credit crunch, the most significant driver of new revenues for us is the demand for intra-day/real-time cash management information from the banks' corporate customers. This can then be used by the corporate for intraday decision making and hence drives new revenues for the bank. It also acts as a differentiator in a globally competitive market. The visibility of real-time data is a significant enabler to risk management, which is particularly relevant in uncertain economic times

As at 31 December 2007, our solutions were enabling 10 corporate customers of a major UK clearing bank with intraday cash management information. I am pleased to report that a hosted version of this service went live in the first quarter of 2008 and the number of customers is now growing. We currently have a pipeline of several hundred new corporate users and will be working closely with our partners to bring these onboard during 2008 and beyond

Supply chain finance

Unlocking the working capital tied up between corporate buyers and their suppliers is of immense value. We have developed a world leading technology solution for multiple forms of trade finance and are currently engaged in rolling this service out to market with some major players

Our supply chain finance technology went live in the second half of 2007, initially in Australia. The "Optus Early Pay" collaboration between Optus, a global bank and Gresham is focused on providing a comprehensive solution for supply chain financing. The first major corporate buyer, a multi-billion turnover listed company, went live in Q3 2007 on this service and we are working to on-board their suppliers. Four more major buyers are currently integrating to the service. Our banking partner has developed a strong pipeline and has aggressive growth plans for 2008 and beyond

Treasury management

In February 2008, we were pleased to announce a substantial contract win for a treasury management solution with a blue chip customer. The implementation of this solution is expected to be completed during 2008

This new win follows earlier successful implementations at both Petronas and Khazanah in Malaysia where we continue to deliver enhancements and provide support

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CHAIRMAN'S STATEMENT

Storage

Our storage solutions provide advanced backup/restore capability designed to meet the needs of the largest and most complex businesses but are also equally effective in the mid market. We focus on ease of use, scalability and performance and have over 4,000 installations of our software including 90 customers in the global Fortune 500.

Historically we have sold largely through major resellers hence our brand awareness has been lower than one would expect for a company with such an established client base. In 2007, we made significant steps to grow our brand recognition within the global storage technology industry in order to gain more attention to our newest storage product. We have invested in senior experienced professionals for major account development, reseller partner management and global marketing. We also increased our engagement with the press and industry analyst community to educate our customers, our partners and the market on our solutions.

During 2007, we successfully launched our Backup Virtualization solution, which allows multiple backup applications to write to any number of disks or tape. I am pleased to report that we now have 15 implementations, including a number of Fortune 500 companies. These solutions are typically running in complex open and mainframe system environments both in the US and Europe.

Financials

During the year we continued to invest in our three core technologies, cash reporting, supply chain finance and backup virtualisation. Alongside this we continue to invest in brand awareness and marketing focused on our core target markets for these technologies.

Group revenues were £13.4m (2006 £14.5m) generating a loss after tax of £2.4m (2006 loss £0.4m) with cash at year end of £2.3m (2006 £3.6m). We saw an EBITDA loss of £2.2m (2006 loss £49,000), with an adjusted EBITDA loss of £1.5m (2006 loss £85,000).

Overall, we saw growth from all three of our core technology solutions. We invested in taking them to market faster and with greater brand awareness.

We saw lower revenues in non core areas, especially our Staff IT contracting arm and in legacy products. We also saw the deferral of a significant treasury management contract from 2007 to Q1 2008. A significant proportion of our revenues are from overseas and the weakened US Dollar has also adversely impacted revenues.

In aligning the business with our core technologies we have been able to reduce cost and increase focus going into 2008. During 2007, we incurred one off restructuring costs of

approximately £700,000 in non core areas, with a cash pay back period of less than six months. The benefits of this restructuring are already being felt.

EMEA revenues were £8.2m (2006 £8.8m) with growth in our core businesses offset by lower sales volumes in non core businesses. North American revenues were steady at £3.9m (2006 £3.9m) with growth in sales of our new technology offset by unfavourable foreign currency rates. Asia Pacific revenues were £1.3m (2006 £1.8m) which reflects the focus on establishing longer term revenues from the supply chain financing service as opposed to short term services/product. Within this region, we saw one major treasury management deal fall away and one deferred into 2008. The benefits from this focus on core technologies resulted in good progress with our supply chain financing technology in Australia and winning of the deferred treasury management deal in 2008.

EBITDA calculated as earnings before interest, tax, amortisation and depreciation

Adjusted EBITDA calculated as EBITDA before non-cash share option charges and one off restructuring charge in 2007 of £700,000

Board change

After several years overseeing the transition of the group to this point, I have decided that the time is right to step down from my role as Chairman of the board on announcement of these preliminary results.

I am delighted to announce that Eric Sepkes has agreed to become Chairman of the Group.

Eric is a very well known figure in the global banking community, with particular interests in international payments, cash management and trade finance. Eric completed 38 years with Citigroup where he held various management positions, including Operations and Treasury and Cash Management, and most recently held a senior strategic role in Global Transaction Services. Eric has been involved in Payment Infrastructures since 1985, when he was responsible for managing Citibank's entry into CHAPS (Clearing House Automatic Payment System) where he was director for 12 years and Chairman for 3 years. He was Chairman and Deputy Chairman of the Euro Banking Association between 1994 and 2005. He was the founder and coordinator of the European Payments Group (formerly Heathrow Group) and was a member of both APACS (the UK trade association for payments and for those institutions that deliver payment services to customers) and the European Council. Latterly he was a member of APACS Senior Sponsors Committee for Faster Payments in the UK.

CHAIRMAN'S STATEMENT

Enc is a well known industry speaker and event chairman retaining key roles at many industry events including International Payments Systems week and the Supply Chain Management Forum

I welcome Enc to the Board and to the position of Chairman

Outlook

We started the year with a very substantial level of contracted revenues for 2008 in the above mentioned areas of our business. We also have a strong pipeline of new or incremental revenue in each of our core areas of business. We are aggressively pursuing these opportunities, which we believe should have a significant impact on our trading performance in 2008 and beyond. We will dispose of non-core businesses as the opportunity arises.

I am pleased to report that our trading performance in Q1 2008 was significantly ahead of that seen in the comparative period with cash balances broadly similar to those held at 31 December 2007. We are working towards improving these results further during 2008 and beyond.



Alan Howarth
Chairman
28 April 2008

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DIRECTORS' REPORT

The directors present their report and the Group financial statements for the year ended 31 December 2007

Results and dividends

The Group loss for the year, after taxation, amounted to £2,420,000 (2006 loss £374,000). The directors do not recommend a final ordinary dividend, which leaves the loss of £2,420,000 to be deducted from reserves. No dividends are recommended and none were paid in the prior year.

Principal activities

The Group's principal activities during the year continued to be the provision of Real Time Financial Solutions and Storage Solutions.

Business review and future developments

The Chairman's Statement on pages 3 to 5 of this report covers the Directors' review of business performance, including a view on development and its position at the year end, using performance indicators employed by the Directors in monitoring the business. The statement also includes an indication of likely future developments in the business of the company.

The market, principal risks and uncertainties facing the Company are discussed below.

Financial instruments

Treasury policies

The objective of the treasury team is to manage the Group's financial risk, consider and where appropriate secure cost-effective funding for the Group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group. The treasury team is accountable through the finance director to the board.

The Group finances its activities with cash and short-term deposits, as disclosed in note 18 to the Group financial statements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Group's operating activities.

Where appropriate, the Group enters into derivative transactions, specifically through forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. It is and has been throughout 2007 and 2006 the Group's policy that no trading in derivatives shall be undertaken.

Financial instruments give rise to foreign currency, interest rate, credit and liquidity risk. Information on how these risks arise is set out below, as are the objectives, policies and processes agreed by the board for their management and the methods used to measure each risk. Derivative instruments are used to change the economic characteristics of financial instruments in accordance with the Group's treasury policies.

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, Canadian Dollar, Australian Dollar and Euro 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 2007, the Group had hedged none of its foreign currency sales for which firm commitments existed at the balance sheet date.

DIRECTORS' REPORT

The Group's exposure to foreign currency risk is shown (by way of sensitivity to a reasonably possible change in exchange rates) in the foreign currency risk table in note 21

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Group provides solutions and services on deferred terms and where it invests or deposits surplus cash

Group policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. Solutions and services may be sold on a cash-with-order basis to mitigate credit risk. Bad debt insurance is not carried.

Performance of individual businesses is monitored at both operating unit and Group level allowing the early identification of major risks and reducing the likelihood of an unmanaged concentration of credit risk.

Group policies also restrict the counterparties with which derivative transactions can be contracted and funds may be invested to those approved by the treasury team and approved by the board, comprising banks and financial institutions with a high credit rating. The treasury team ensures that exposure is spread across a number of approved financial institutions.

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. An overdraft facility of £500,000 has been agreed with the Company's bankers to provide additional liquidity should it be required.

Financial position

Capital management

Capital comprises the working capital of the Group as set out in the notes to the Group financial statements with the key element being cash and cash equivalents totaling £2.3m for the year ended 31 December 2007.

The primary objective of the Group's capital management is to ensure that it maintains sufficient funds in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares subject always to the rules governing such new issues. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

Distributions and capital raising

No dividends were paid or proposed during the year. In September 2007, £2.6m net of expenses was raised by way of a placing of new ordinary shares to strengthen the Group's balance sheet, to fund its ongoing capital requirements and to fund the expansion of its business.

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.

Market landscape and risks

Market landscape

Gresham sells solutions into a global market, primarily to large organisations and with a key focus on the financial services sub market segment.

The financial services markets are large and in a state of transition, driven principally by technology and the need to service customers differently in an ever more regulated and customer demand led environment. Whilst there are strong drivers for market change, such as regulatory pressure and customer demand, the pace of change is typically slower in the financial services market. However, once a decision to change has been made it tends to be followed through with more vigour than other markets. The result is long lived embedded technology that remains part of the market infrastructure for extended

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DIRECTORS' REPORT

periods of time. Financial institutions are looking for trusted vendors that can offer solutions targeted at the changes they are facing, such as cash reporting and the use of real-time financial information. Gresham is well placed to deliver against this changing market landscape with its suite of Claret Real-Time Financial Solutions with the aim of becoming an embedded long-lived part of the market for an extended period of time.

The global storage market remains buoyant as organisations deal with the storage requirements for ever increasing volumes of data, in particular management of storage growth, continuous data protection and mitigating risks associated with removable storage, often with resources that are shrinking. Whilst the market continues to make increasing use of disk based storage, notably the rise of Virtual Tape, the deep storage medium of choice for global CTOs remains real tape. Gresham has already moved with the market and created a leading VTL solution addressing this growing market segment and, significantly, our VTL technology addresses the two key market requirements of utilising disk for fast access and tape for deep storage.

Market risks

Long lead time and timing of deals

Our target markets are dominated by truly global large organisations seeking enterprise class solutions to often mission critical issues. For example, a bank seeking to embed the use of real-time data for the first time will normally do so having carefully considered the knock-on impact that such a change will have across the whole business before proceeding. As a result, the timing of a decision to buy new technology is often difficult to predict and predicated on the momentum of change in a particular customer. This uncertainty over decision making can impact the forecasting of revenue recognition in the financial statements, with deals falling in one period or the other dependent on customer specific issues. Gresham works closely with organisations and seeks to become a trusted provider because such status tends to bring more clarity to the buying process and reduces, but does not eliminate, the uncertainty over timing of orders.

Global markets

Our customers tend to operate on a global basis and are looking for a seamless service from vendors treating them as one business regardless of location. To service these global markets effectively, Gresham has established operations in key locations to service customers globally and we also work closely with partners, such as Sun StorageTek, Wall Street Systems, Tributary Systems and HP to extend our global reach further. Through such partnerships and the use of centrally hosted solutions, such as the Claret Cash Reporting Service, Gresham operates on a truly global basis in servicing customers.

Highly competitive and dominated by giants

Our target customers tend to buy solutions and embed them in their businesses for significant periods of time. This coupled with large market size provides significant opportunity for vendors leading to a high level of competition. Vendors in this market tend to be either very large or niche players. Over time, the niche vendors are often absorbed into the larger organisation through acquisition perpetuating the dominant position of key vendors. Gresham adopts a strategy of being a flexible niche player offering expert and innovative solutions to specific market problems to address this market risk.

Foreign exchange

Operating globally and especially in the financial services and storage markets often brings with it a requirement to trade in US Dollar, Australian Dollar, Canadian Dollar and Euro. This introduces exchange rate volatility risk which is mitigated where significant through the use of foreign exchange instruments.

Principal risks and uncertainties

Regulation

The financial services market is highly regulated and this regulation continues to evolve in line with the perceived risks in the market. Regulation is typically effected by government, regulatory bodies and industry bodies. Whilst such regulation is generally good news for a solution provider such as Gresham, it is possible that regulation could lead to a change in the market that limits our ability to continue selling. We keep a close track on regulation and seek to ensure that our solutions evolve slightly ahead of regulation so as to mitigate the risk of a regulator limiting our market potential.

People

People are key to Gresham's expertise and ability to deliver on a global basis. Retaining people and allowing them to fulfil their potential is important. Loss of key people would slow our ability to grow the business and we seek to provide rewards and job fulfilment that mitigates the risk of losing key people.

DIRECTORS' REPORT

Technology

Gresham is an innovative company that develops valuable technology and there is a risk that such technology will be made redundant through copying, further advances in technology or dominant competitive pressures. We aim to keep our technology updated so as to meet both existing and emerging requirements and remain vigilant to changes in market trends. Whilst we carefully assess whether to address emerging trends with new technology there is a risk that the market will ultimately move in a different direction leaving us with technology that no longer addresses the needs of the market.

Wherever possible we seek to protect our technology through patent applications. We also rely on trade secret, copyright and trademark laws, as well as the confidentiality and other restrictions contained in our respective sales contracts and confidentiality agreements to protect our proprietary rights. These legal protections afford only limited protection.

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.

Events since the balance sheet date

On 22 February 2008, the Group announced a substantial contract win in the real time financial solutions segment for a treasury management solution with a major customer in Australia. The implementation is expected to be completed during 2008.

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 disabled 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.

Within the Storage market the focus has started to change from the number of servers and the amount of disk and tape that are being managed in the data centre to the number of kilowatts of power and the number of BTU's of cooling that are needed. A typical return on investment analysis now typically includes an environmental impact assessment. Whilst Gresham Enterprise Storage is not a hardware developer we do put a solution together using our software and hardware that can provide the best functionality and performance that we may need along with the best reliability and cost of ownership that we can provide for the market segment.

We are pleased to now provide a MAID (Massive Array of Inert Disks) solution to be used as the disk cache in our Enterprise-class Claret VTL. This allows the disk subsystem to operate at full performance during the backup window but then allows the disks to spin down and then if they are not used for a longer period the disk will turn off and just leave the electronics on. This latter state saves about 75% of the normal operating power and fits very well in a tape environment where it may be used heavily for 8-12 hours and then is just waiting for the next backup window to occur. When it starts up again it might take about 10-15 seconds for the first data but that is similar to a tape mount, and after that it is totally available with disk performance. MAID satisfies our high performance requirements and yet can still provide a lower overall power solution to our customers and is a natural fit for our product.

We continue to look at other ways of controlling our environmental impact.

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DIRECTORS' REPORT

Directors and their interests

The directors at 31 December 2007 and their interests in the share capital of the Company (all beneficially held, other than with respect to options to acquire ordinary shares (which are detailed in the analysis of options included in the report on directors' remuneration), are as follows

	Ordinary shares of 5 pence each	
	31 December 2007	1 January 2007
J E Aves	10,000	10,000
C M Errington	2,268	—
R Glenn	—	—
A M Howarth	12,291	3,200
A J S Walton-Green ¹	677,513	665,695

¹ Includes 352,990 shares held by his wife and children

On 8 January 2008, A J S Walton-Green purchased an additional 42,500 ordinary shares taking his total beneficial holding to 720,013 ordinary shares

R Glenn resigned as a director effective 31 January 2008. In addition to the directors listed above, S W Purchase was a director until his resignation on 30 November 2007.

There have been no further changes in the directors' interests disclosed above from 31 December 2007 to 20 April 2008.

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.

Directors' liabilities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report. A qualifying third party indemnity provision was in force during the year and continues to be in force as at the date of this report.

Directors and Officers liability insurance with an indemnity limit of £10 million has been purchased in order to minimise the potential impact of proceedings against directors.

Major interests in shares

The Company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the Company as at 20 April 2008.

	Percentage	
	Number	Held
Gartmore Investment Management plc	10,131,536	19.2%
J O Hambro Capital Management Limited	6,400,750	12.1%
The Valentina Discretionary Trust	3,880,491	7.3%
S W Purchase	3,797,139	7.2%
UBS Investment Bank	3,438,229	6.5%
M A Green	3,273,290	6.2%
Herald Investment Trust plc	2,804,100	5.3%
Strathclyde Pension Fund *	2,620,733	5.0%
The Northwestern Mutual Life Insurance Company	2,007,004	3.8%
Aberdeen Asset Managers Limited	1,629,358	3.1%

* Disclosed position is also included within the Gartmore Investment Management plc notification.

DIRECTORS' REPORT

Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2007, the Company had an average of 45 days purchases owed to trade creditors

Special business at the annual general meeting

The special business to be conducted at the AGM covers the directors' authority to allot shares and the partial disapplication of pre-emption rights

Resolutions will be proposed 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 £880,847 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 £132,126, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders

In the opinion of the directors, the passing of these resolutions is in the best interests of the shareholders

Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law

At 31 December 2007, the Company's issued share capital comprised

	Number	Nominal value £	% of total Share capital
Ordinary shares of £0.05 each	52,850,890	2,642,545	100%

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights

Ordinary shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting

There are no restrictions on the transfer of ordinary shares in the Company other than

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods), and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the company require the approval of the company to deal in the company's securities

The Company's articles of association may only be amended by a special resolution at a general meeting of the shareholders. Directors are reappointed by ordinary resolution at a general meeting of the shareholders. The Board can appoint a director but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Any director who has held office for more than three years since their last appointment must offer themselves up for re-election at the annual general meeting

Significant interests

Directors' interests in the share capital of the Company are shown in the table on page 10. Major interests (i.e. those >3%) of which the Company has been notified are shown on page 10

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DIRECTORS' REPORT

Change of control

The Company is party to a number of agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid. In general, where such clauses are included they permit the other party to the agreement to terminate on a change of control at their option, subject to continuing to satisfy pre-termination obligations.

In the event of a change of control, if A J S Walton-Green gives notice of termination of his employment within a period of two years following the change then the Company shall pay him a sum equal to one year's salary as at the date the notice was given. There are no other agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Power of directors to issue or buy back shares

The directors are authorised to allot and grant rights over the un-issued share capital up to a maximum nominal amount of £839,181 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 £125,877, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

The directors have no existing authorities to buy back shares over and above the authorities conferred by, and subject to, the Companies Act.

Auditors

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

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the group's auditors in connection with preparing their report) of which the Company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



CM Errington
Company Secretary
28 April 2008



CORPORATE GOVERNANCE STATEMENT

The Company is committed to meeting high standards of corporate governance and as such the board acknowledges its contribution to achieving management accountability, improving risk management and ultimately to creating shareholder value. This statement explains how the Company has applied the main and supporting principles of corporate governance and describes the Company's compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 and appended to the Listing Rules.

Statement by the Directors on compliance with the Combined Code

The Company has complied with the provisions set out in Section 1 of the Combined Code throughout the year with the exception of the matters referred to below.

Provision A4.1 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 and its committees

Board composition and independence

The board currently comprises the non-executive chairman, chief executive, finance director and one non-executive director. 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 roles of chairman and chief executive are distinct, are set out in writing and agreed by the Board. The chairman is responsible for the effectiveness of the board and ensuring communication with shareholders and the chief executive is accountable for the management of the Group.

Executive directors Steve Purchase and Rob Glenn left the company in November 2007 and January 2008 respectively.

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

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. 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. During the year, he was paid no additional fees. The board considers J. E. Aves to be independent.

A. M. Howarth receives a director's fee for his duties as a director. 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. During the year, he was paid no additional fees. 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.

gresham computing plc**CORPORATE GOVERNANCE STATEMENT**

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.

Operation of the board

The board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 23 and a statement on going concern is given on page 7.

The board normally meets once a month and has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. Other matters are delegated to the management board, supported by policies for reporting to the board. Presentations are made to the board on regular occasions by the executive directors and operational management.

The company secretary, C M Errington, is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with and for advising the board, through the chairman on governance matters. The Company maintains appropriate insurance cover in respect of legal action against the Company's directors, but no cover exists in the event that the director is found to have acted fraudulently or dishonestly.

The chairman and other non-executive director are able to meet without executives present prior to each board meeting. The agenda and relevant briefing papers for each board meeting are distributed by the company secretary, usually a week in advance of each board meeting.

The following board committees deal with the specific aspects of the Group's affairs. Terms of reference of each committee, explaining its role and the authority delegated to it by the board, are available on request from the company secretary. The committee chairmen report regularly to the whole board and are required to confirm that the committees have sufficient resources to undertake their duties.

Audit committee

The audit committee comprises J E Aves (chairman) and A M Howarth. The board is satisfied that at least one member of the audit committee has recent and relevant financial experience and that in the opinion of the board the audit committee comprises only independent non-executive directors, as required by provision C 3.1 of the Combined Code.

Two of the three audit committee meetings were attended by the lead external audit partner and all three by the chief executive and finance director, at the invitation of the Committee. The role and responsibilities of the audit committee are set out in terms of reference available on request from the company secretary and are described in more detail in the Report of the audit committee on page 16.

Remuneration committee

The remuneration committee comprises J E Aves (chairman) and A M Howarth both of whom are considered by the board to be independent non-executive directors.

Where appropriate, the committee is independently advised by a leading firm of remuneration consultants and consults with the chairman of the board. The remuneration consultants appointed have no other connection with the Company. The committee is responsible for setting remuneration for all executive directors and the chairman appointed by the Company, including pension rights and provision for compensation payments. The committee also recommends and monitors the level and structure of remuneration for senior management. The remuneration of non-executive directors is a matter for the executive members of the board, within limits set in the Articles of Association. The remuneration committee consults with the chief executive concerning the remuneration of other executive directors. Further details of the role and responsibilities of the remuneration committee and its activities during the year are given in the report on directors' remuneration on pages 19 to 22.

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

Retirement and re-election

All directors are subject to election by shareholders after their appointment and to re-election thereafter at intervals of no more than three years

Non-executive directors are appointed for specified terms, initially two years with the opportunity for renewal by the Company thereafter. Recommendation to reappoint a non-executive director for a third term is preceded by a rigorous review by the board and takes into account the need for progressive refreshing of the board. Non-executive directors who have served more than nine years are subject to annual reelection.

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.

Report of the audit committee

The audit committee is responsible for reviewing the Group's internal control and risk management systems, and reviewing and monitoring the effectiveness of internal and external audit. Its role includes monitoring the integrity of the Group's financial statements and other formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them.

The audit committee advises the board on the appointment, reappointment and removal of external auditors and approves their remuneration and terms of engagement, including developing and implementing a policy on the provision of non-audit services by the external audit firm. It also reviews and monitors the independence and objectivity of the external auditor.

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 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. No non-audit services were provided in the year.

CORPORATE GOVERNANCE STATEMENT

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.

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.

DIRECTORS' REMUNERATION REPORT

Information not subject to audit

Remuneration committee and advisers

The remuneration is chaired by J E Aves (chairman) and its other member is A M Howarth

The committee makes recommendations to the board, within agreed terms of reference, on an overall remuneration package for executive directors and other senior executives. During the year, the committee was advised by Kepler Associates regarding share incentives. A J S Walton-Green, the chief executive, provides advice in relation to the remuneration of other senior executives.

Remuneration policy

The Group's policy on directors' remuneration for the current and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package consists of basic salary, benefits, share options, performance related bonuses and pensions, with a significant proportion based on performance and dependent upon the achievement of demanding targets. Consideration is given to pay and employment policies elsewhere in the Group, especially when determining annual salary increases.

Executive remuneration package

The remuneration committee's policy is to align executive directors' remuneration packages to support the Company's business strategy whilst ensuring that rewards are market competitive. The Group's share option and bonus arrangements include demanding performance targets based around share price and financial performance respectively. The performance measures are designed to closely align with shareholders' returns over the longer term. The details of individual components of the remuneration package and service contracts are discussed below.

Basic salary and benefits

Salary and benefits are reviewed annually. Directors received no increase in basic salary for the 2007 calendar year. Benefits principally comprise private healthcare.

Share options

Share options are awarded by the remuneration committee. 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 and, in the case of the EOP 2007 scheme, at a 10 pence premium to this price. Performance conditions are based around achievement of earnings per share increase targets for the old Executive Option schemes and fixed share price targets for the new EOP 2007 scheme. Further information concerning share options can be found in note 23 to the Group financial statements.

Performance related bonuses

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 2007 or 2006.

Pensions

The Company makes contributions to defined contribution schemes, usually calculated as a percentage of base salary, for which rates are individually set.

Fees

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 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.

Service contracts

It is the Company's policy to offer directors service contracts terminable with a maximum of 12 months' rolling notice from either side.

None of the non-executive directors have a service contract. Letters of Appointment provide for an initial period of two years, subject to review.

There are no predetermined special provisions for executive directors with regard to compensation in the event of loss of office. The remuneration committee considers the circumstances of individual cases of early termination and in exceptional circumstances only would recommend compensation payments in excess of the Company's contractual obligations.

Service contracts

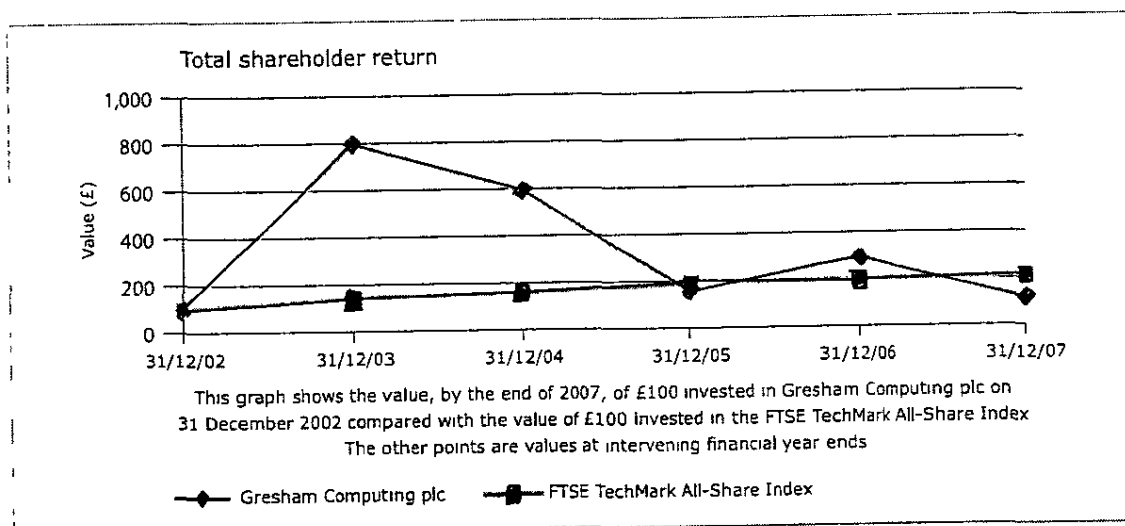
A J S Walton-Green has a service agreement dated 15 June 2005, which is terminable by 12 months' rolling notice from either side. C M Errington has a service agreement dated 11 January 2005, which is terminable by 12 months' rolling notice from either side.

A M Howarth has a letter of appointment dated 17 May 2006 due for renewal by 16 May 2008. J E Aves has a letter of appointment dated 25 April 2008 due for renewal by 24 April 2010.

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 December 2002 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.



DIRECTORS' REMUNERATION REPORT

Information subject to audit

Directors' remuneration

The remuneration of the directors is as follows

	Basic Salary/ Fees £	Benefits in kind £	Performance related bonus £	Compensation for loss of office £	Total 2007 £	Total 2006 £
<i>Executive directors</i>						
C M Errington	150,000	2,443	—	—	152,443	140,223
R Glenn ¹	140,000	2,006	—	50,000	192,006	86,652
S W Purchase ²	148,500	2,219	—	134,000	284,719	159,466
A J S Walton-Green	192,000	3,013	—	—	195,013	196,966
<i>Non-executive directors</i>						
J E Aves ³	30,000	—	—	—	30,000	35,000
A M Howarth	30,000	—	—	—	30,000	30,000
	690,500	9,681	—	184,000	884,181	648,307

¹ comparative from date of appointment 23 May 2006, resigned 31 January 2008

² at the option of the director, waived basic salary of £7,500 in 2006

³ to date of resignation 30 November 2007

⁴ £15,000 of which was paid to J E Aves Associates in 2006

The remuneration package of each executive director includes non-cash benefits comprising the provision of private health insurance

Pension contributions

Contributions paid by the Company in respect of the directors were as follows

	2007 £	2006 £
C M Errington	7,500	6,812
R Glenn ¹	17,000	3,500
S W Purchase ²	18,563	20,250
A J S Walton-Green	24,000	23,280
	67,063	53,842

¹ comparative from date of appointment 23 May 2006, resigned 31 January 2008

² includes £10,000 in respect of compensation for loss of office

³ to date of resignation 30 November 2007

gresham computing plc

DIRECTORS' REMUNERATION REPORT

Interests in options

The Company has two share option schemes the Executive Scheme 1998, from which no further grants will be made, and the Executive Option Plan 2007 by which executive directors and other senior executives are able to subscribe for ordinary shares in the Company. Further details concerning the share option schemes in place can be found in note 25 to the Group financial statements.

The interests of the directors in share options (under the 1998 and 2007 schemes) were as follows

	Options at 1 January 2007	Granted/ (lapsed) In the year	Options at 31 December 2007	Date of grant	Exercise price	Date first exercisable	Expiry date
C M Errington	—	111,111	—	111,111	22 10 07	115p	23 10 10
	—	111,111	—	111,111	22 10 07	115p	23 10 11
	—	277,778	—	277,778	22 10 07	115p	23 10 12
	—	500,000	—	500,000			
R Glenn	—	111,111	—	111,111	22 10 07	115p	23 10 10
	—	111,111	—	111,111	22 10 07	115p	23 10 11
	—	277,778	—	277,778	22 10 07	115p	23 10 12
	—	500,000	—	500,000			
A J S Walton Green	557,897*	—	—	557,897	25 07 00	36p	28 07 03
	—	166,667	—	166,667	22 10 07	115p	23 10 10
	—	166,667	—	166,667	22 10 07	115p	23 10 11
	—	416,666	—	416,666	22 10 07	115p	23 10 12
	557,897	750,000	—	1,307,897			

*resigned 31 January 2008 whereupon all options lapsed

*denotes options granted under Executive Scheme 1998

*denotes awards granted under the EOP 2007 scheme

*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 2007 was 56 pence. During the year, the closing price per ordinary share ranged from 152 pence to 52 pence.

Gains made on the exercise of director share options are disclosed in note 7 to the Group financial statements.

The interests of the directors to subscribe for or acquire ordinary shares have not changed since the year end.

On behalf of the board



J E Aves

Chairman of the remuneration committee

28 April 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in relation to the Group financial statements

The directors are responsible for preparing the Annual Report and the Group 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 Group 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 Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- 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 Group'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 Group 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.

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

gresham computing plc

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

We have audited the group financial statements of Gresham Computing plc for the year ended 31 December 2007 which comprise Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the 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 2007 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities 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 are 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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 2006 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 unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. 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 2007 and of its loss for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the group financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Southampton
28 April 2008

Ernst & Young LLP

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	31 December 2007 £'000	31 December 2006 £'000
Revenue	3,4,26	13,423	14,522
Cost of goods sold		(7,192)	(6,928)
Gross profit		6,231	7,594
Administrative expenses		(9,184)	(8,124)
Trading loss	5	(2,953)	(530)
Finance revenue	3,8	107	132
Finance costs	8	(23)	(16)
Loss before taxation		(2,869)	(414)
Taxation	9	449	40
Attributable to equity holders of the parent	24	(2,420)	(374)
Loss per share (total and continuing)			
Basic loss per share — pence	10	(4 74)	(0 74)
Diluted loss per share — pence	10	(4 74)	(0 74)

gresham computing plc

**GROUP STATEMENT OF RECOGNISED
INCOME AND EXPENSE**
FOR THE YEAR ENDED 31 DECEMBER 2007

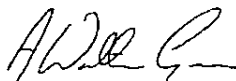
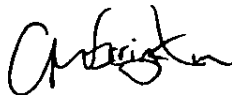
	31 December 2007 £'000	31 December 2006 £'000
Exchange differences on translation of foreign operations	68	(103)
Net income/(expense) recognised directly in equity	68	(103)
Attributable loss for the period	(2,420)	(374)
Total recognised expense for the period	(2,352)	(477)

GROUP BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	31 December 2007 £'000	31 December 2006 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	1,327	1,195
Intangible assets	13	6,086	5,879
		7,413	7,074
Current assets			
Trade and other receivables	17	3,650	3,543
Inventories	15	100	—
Income tax receivable	17	374	305
Other financial assets	15	20	32
Cash and cash equivalents	18	2,300	3,557
		6,444	7,437
Total Assets		13,857	14,511
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Called up equity share capital	22	2,643	2,518
Share premium account	24	12,564	10,037
Other reserves	24	1,039	1,039
Foreign currency translation reserve	24	(64)	(132)
Retained earnings	24	(8,761)	(6,383)
	24	7,421	7,079
Non-current liabilities			
Deferred income	19	715	1,562
Provisions	19	—	90
Current liabilities			
Income tax payable	19	61	121
Trade and other payables	19	5,460	5,659
Provisions	19	200	—
Total liabilities		6,436	7,432
Total Equity and Liabilities		13,857	14,511

On behalf of the Board


C M Errington
28 April 2008

A J S Walton-Green
28 April 2008


gresham computing plc

GROUP CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

		31 December 2007 £'000	31 December 2006 £'000
	Notes		
Cash flows from operating activities			
Loss before taxation		(2,869)	(414)
Depreciation, amortisation and impairment	5	741	481
Share based payment expense/(credit)	23	42	(36)
Increase in inventories		(100)	—
(Increase)/Decrease in trade and other receivables		(188)	1,337
(Decrease)/Increase in trade and other payables		(1,151)	1,408
Movement in provisions		110	33
Net finance income		84	116
Cash (outflow)/inflow from operations		(3,331)	2,925
Net income taxes received		474	—
Net cash (outflow)/inflow from operating activities		(2,857)	2,925
Cash flows from investing activities			
Interest received	8	(107)	(132)
Purchase of property, plant and equipment	12	(324)	(180)
Payments to acquire intangible fixed assets	13	(662)	(956)
Net cash used in investing activities		(1,093)	(1,268)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	22	2,750	33
Share issue costs	24	(98)	—
Interest paid	8	11	8
Decrease in obligations under finance leases	25	—	(59)
Net cash generated by/(used in) financing activities		2,663	(18)
Net (decrease)/increase in cash and cash equivalents	25	(1,287)	1,639
Cash and cash equivalents at beginning of period	25	3,557	1,973
Exchange adjustments	25	30	(55)
Cash and cash equivalents at end of period	25	2,300	3,557

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

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

The financial statements of Gresham Computing plc and its subsidiaries (the "Group") for the year ended 31 December 2007 were authorised for issue by the board of directors on 28 April 2008 and the balance sheet was signed on the board's behalf by AJS Walton-Green and CM Errington. Gresham Computing plc is a public limited company incorporated and domiciled in England and 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 (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2007.

The principal accounting policies adopted by the Group are set out below.

2. Accounting policies

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2007 and applied in accordance with the Companies Act 1985. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2007.

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

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group in the current or prior periods. In certain cases, they did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures

The principal effects of these changes are as follows:

- IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where necessary.
- IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in the Directors' Report.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

2 Accounting policies (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Revenue and profit recognition

Fixed price contracts are accounted for in accordance with IAS 11 'Construction Contracts'. Revenue and profits are recognised on a percentage-of-completion basis, as costs incurred relate to total costs for the contract, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably, requires management to exercise judgement, whilst calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

Impairment of goodwill and development costs

The determination of whether or not these intangible assets have been impaired requires an estimate to be made of the value in use of the cash-generating unit to which intangible has been allocated. The value in use calculation includes estimates about future financial performance of the cash-generating units, including management's estimates of long term operating margins and long-term growth rates. The carrying amount of these intangibles and the key assumptions used in the calculation of value in use of the cash-generating units to which the intangibles are allocated are disclosed in note 14.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management is also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield. The assumptions and models used are disclosed in note 23.

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.

Foreign currency translation

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. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

2. Accounting policies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On transition to IFRS from 1 January 2004, the exemption available under IFRS 1 was taken to start the currency translation reserves at nil.

Goodwill

Business combinations on or after 1 January 2004 have been accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 31 December 2003 is recorded at its carrying amount under UK GAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

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, usually at geographical 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.

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 31 December 1997 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2. Accounting policies (continued)

Purchased intangibles with finite lives, 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 estimated useful life of these intangible assets ranges between 2 and 10 years depending on their nature.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Development intangible assets have lives ranging from 2 to 20 years depending on their nature. 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 accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land, on a straight-line basis over its expected useful life as follows:

- Freehold buildings at 2% per annum to their residual values,
- Fixtures and fittings over the term of the underlying property lease,
- Plant and equipment 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.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement in the period of derecognition.

Leases

Group as a lessee

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

2. Accounting policies (continued)

Group as a lessor

Where the Group has spare capacity in offices held under operating leases and where the head lease permits, the Group sub leases space acting in a lessor capacity. The rental income is recognised on a straight line basis over the lease term and shown separately from the Group's full obligation under the head operating lease.

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. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on 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.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit and 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, where allowed and appropriate, 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. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2 Accounting policies (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows

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, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Assets are carried in the balance sheet at fair value with gains or losses 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 the income statement 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 assets 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, through the use of an allowance account. The amount of the loss is 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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- Raw materials, consumables and goods for resale – purchase cost on a first-in, first-out basis,
- Work in progress and finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

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.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

2. Accounting policies (continued)**Amounts recoverable on contracts**

Amounts recoverable on contracts represent revenue recognised to date less amounts invoiced to clients. Full provision is made for known or anticipated project losses.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks 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, net of outstanding bank overdrafts.

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, associates and joint ventures, 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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

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.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2 Accounting policies (continued)

Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable

Revenue recognition

Revenue, comprising sales of products and services to third parties, is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes. The following criteria must also be met before revenue is recognised:

Software licences

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

Rendering of services

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

Subscriptions and maintenance

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

Solution sales

Contracts for the delivery of solutions with multiple elements, typically involving software licences, rendering of services, subscriptions and maintenance, hardware are unbundled where possible and revenue is recognised based on the accounting policy applicable to each constituent part.

Where objective unbundling of a solution is not possible, revenue is recognised 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 such 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

Interest income is recognised as finance revenue as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

2 Accounting policies (continued)

Fair value of awards with a financial result based performance target is determined by management using the Black Scholes pricing model

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative

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

The share-based payment expense is recognised as a staff cost and the associated credit entry is made against equity

The Group has taken advantage of the exemption in IFRS 1 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, the Group's date of transition to IFRS

New standards and interpretations not applied

IASB and IFRIC have issued the following relevant standards and interpretations with an effective date after the date of these financial statements

International Accounting Standards (IAS/IFRSs)	Effective date*
IFRS 2 Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3 Business Combinations (revised January 2008)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IAS 1 Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 27 Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 12 Service Concession Arrangements	1 January 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008

Whilst the revised IAS 1 will have no impact on the measurement of the Group's results or net assets it is likely to result in certain changes in the presentation of the Group's financial statements from 2009 onwards. IFRS 8 requires disclosure based on information presented to the board. This is not expected to change the business segments about which information is given. The Group has one customer in the real time financial solutions segment that accounts for 11% of Group revenues

gresham computing plc

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

2. Accounting policies (continued)

The amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are not vesting conditions, and whereas a failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit) it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or counterparty. The amendment is mandatory for periods beginning on or after 1 January 2009 and the Group is currently assessing its impact on the financial statements, although it is not expected to be material.

The Group does not anticipate early adopting the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 1 January 2010. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price, and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of non-controlling interest (formerly minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement.

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be re-measured to fair value, which will impact the gain or loss recognised on disposal. The Group is currently assessing the impact on its financial statements from adopting IAS 27 revised.

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

* The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group has elected to prepare their financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

	2007	2006
	£'000	£'000
Sale of goods and services	13,423	14,522
Finance revenue	107	132
	<u>13,530</u>	<u>14,654</u>

Sale of goods and services includes £192,000 of contract revenue recognised in the period (2006: £393,000).

4. Segment information

Segments

The primary segment reporting format is determined to be geographical segments as the group's risks and rates of return are affected predominantly by differences in geography. Secondary segment information is reported by business segment. The operating businesses are organised and managed separately according to geography, with each segment representing a strategic business unit that offers the Claret range of solutions to market.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

4 Segment information (continued)

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 and destination. The geographical segments relate primarily to operations in the following countries: Asia Pacific, Australia and Malaysia, EMEA, UK and Northern Europe, North America, United States of America, Canada and the Caribbean.

The real time financial solutions segment is a supplier of solutions predominantly to the finance and banking markets. Included within the real time financial solutions segment is the group's IT staff placement business and, because this business contributes significant revenues, certain additional information concerning the results of this business have been provided to aid understanding of the overall segment results. The storage solutions segment is a supplier of solutions predominantly to the enterprise level storage market.

Transfer prices between 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.

Primary reporting format — Geographic segments

The following tables present revenue and profit/loss and certain asset and liability information regarding the group's geographical segments for the years ended 31 December 2007 and 2006, all of which are continuing.

Revenue by source

	Year ended 31 December 2007			Year ended 31 December 2006		
	Segment	Inter-	Sales to	Segment	Inter-	Sales to
	revenue	segment	external	revenue	segment	external
	£'000	£'000	customers	£'000	£'000	customers
Asia Pacific	2,034	(755)	1,279	2,384	(613)	1,771
EMEA	8,203	(14)	8,189	8,869	(54)	8,815
North America	5,770	(1,815)	3,955	3,936	—	3,936
	16,007	(2,584)	13,423	15,189	(667)	14,522

Revenue by destination

	2007	2006
	£'000	£'000
Asia Pacific	1,107	1,601
EMEA	9,157	9,817
North America	3,159	3,104
	13,423	14,522

Result by segment

	Year ended 31 December 2007				Year ended 31 December 2006			
	Asia	North			Asia	North		
	Pacific	EMEA	America	Total	Pacific	EMEA	America	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment result	(555)	(272)	(406)	(1,233)	(81)	95	711	725
Unallocated expenses				(1,720)				(1,255)
Trading loss				(2,953)				(530)
Net finance revenue				84				116
Loss before income tax				(2,869)				(414)
Income tax credit				449				40
Net loss for the year				(2,420)				(374)

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NOTES TO THE FINANCIAL STATEMENTS

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4 Segment information (continued)

Assets by segment

	Year ended 31 December 2007				Year ended 31 December 2006			
	Asia Pacific £'000	EMEA £'000	North America £'000	Total £'000	Asia Pacific £'000	EMEA £'000	North America £'000	Total £'000
Segment assets	1,670	5,684	2,911	10,265	1,438	5,943	2,166	9,547
Unallocated assets				3,592				4,964
Total assets				13,857				14,511
Segment liabilities	(690)	(3,863)	(1,814)	(6,367)	(342)	(5,219)	(1,536)	(7,097)
Unallocated liabilities				(69)				(335)
Total liabilities				(6,436)				(7,432)

Other segment information

	Year ended 31 December 2007				Year ended 31 December 2006			
	Asia Pacific £'000	EMEA £'000	North America £'000	Total £'000	Asia Pacific £'000	EMEA £'000	North America £'000	Total £'000
Capital expenditure*								
Tangible assets	9	42	273	324	14	65	101	180
Intangible assets	—	121	541	662	—	380	576	956
	9	163	814	986	14	445	677	1,136
Depreciation	18	74	111	203	12	186	42	240
Amortisation	15	331	192	538	15	185	13	213
Impairment losses	—	—	—	—	—	28	—	28

Unallocated assets and liabilities comprise certain property, plant and equipment, cash and taxation

Secondary reporting format — Business segments

The following tables present revenue, expenditure and certain asset information regarding the group's business segments for the years ended 31 December 2007 and 2006

Revenue by business segment	2007 £'000	2006 £'000
Real Time Financial Solutions	10,969	11,823
Storage Solutions	2,454	2,699
	13,423	14,522

Included in the Real Time Financial Solutions business segment is £2,952,000 of revenue in respect of the IT staff placement business (2006 £3,411,000)

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4 Segment information (continued)

Other information

	Year ended 31 December 2007			Year ended 31 December 2006		
	Real Time Financial Solutions £'000	Storage £'000	Total £'000	Real Time Financial Solutions £'000	Storage £'000	Total £'000
Assets by business segment						
Segment assets	8,126	2,139	10,265	7,849	1,698	9,547
Unallocated assets			3,592			4,964
Total assets			13,857			14,511
Capital expenditure						
Tangible assets	69	255	324	88	92	180
Intangible assets	121	541	662	475	481	956
	190	796	986	563	573	1,136

Unallocated assets and liabilities comprise certain property, plant and equipment, cash and taxation

5 Group trading loss

This is stated after charging/(crediting)

	2007 £'000	2006 £'000
Research and development costs written off	900	789
Amortisation of deferred development costs recognised in admin expenses	517	138
Total research and development costs	1,417	927
Depreciation of property, plant and equipment	203	240
Amortisation of intangible assets (excluding development costs)	21	75
Impairment of intangible assets	—	28
Total depreciation and amortisation expense	224	343
Net foreign currency differences – losses/(gains)	(21)	42
Operating lease payments		
Minimum lease payments	637	689
Sublease payments	(179)	(225)
	458	464
(Decrease)/increase in provision for impairment of trade receivables recognised in administrative expenses	(13)	57

During the year ended 31 December 2007, the Group restructured a number of business lines with the aim of significantly reducing the cost base and increasing focus. The associated one off restructuring cost arising from this exercise totalled approximately £700,000 in 2007 and is included within administrative expenses.

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NOTES TO THE FINANCIAL STATEMENTS

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6 Auditors' remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group

	2007 £'000	2006 £'000
Audit of the group financial statements	25	20
Other fees to auditors		
— auditing the accounts of subsidiaries	64	59
— other services pursuant to legislation	—	10
	64	69

7 Staff costs and directors' emoluments

a) Staff costs

	2007 £'000	2006 £'000
Wages and salaries	7,224	6,798
Social security costs	815	870
Other pension costs	355	310
	8,394	7,978

Included in wages and salaries is a total expense of share-based payments of £42,000 (2006 £36,000 credit) 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 made up as follows

	2007	2006
Management	21	21
Administration	22	20
Technical	93	95
	136	136

b) Directors' emoluments

	2007 £'000	2006 £'000
Directors' emoluments including pension contributions	951	816
Number of directors accruing benefits under a defined contribution scheme	3	4

Aggregate gains made by directors on the exercise of share options¹

	2007 £'000	2006 £'000
A J S Walton-Green	—	200
	—	200

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

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

8 Finance costs/revenue

	2007 £'000	2006 £'000
Finance costs		
Finance charges payable under finance leases	—	6
Other bank charges	11	2
Change in fair value of SQS warrants	12	8
Total finance costs	23	16
Finance revenue		
Bank interest receivable	107	132
Total finance revenue	107	132

9 Taxation

a) Tax on loss on ordinary activities

Tax (credited)/charged in the income statement

	2007 £'000	2006 £'000
Current income tax		
UK Corporation tax credit	(184)	(90)
Foreign Corporation tax charge	37	12
Foreign withholding tax charge	29	50
	(118)	(28)
Amounts over provided in previous years — UK	(357)	(12)
Amounts over provided in previous years — Overseas	26	—
Total current income tax	(449)	(40)
Deferred tax	—	—
Tax credit in the income statement	(449)	(40)

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% (2006 - 30%). The differences are reconciled below

	2007 £'000	2006 £'000
Loss before taxation	(2,869)	(414)
Accounting loss multiplied by the UK standard rate of corporation tax of 30% (2006 30%)	(861)	(124)
(Income not taxable)/expenses not deductible for tax purposes	(26)	18
Tax relief on share based payments	—	(21)
Increase in losses carried forwards	413	363
R&D tax credit — current year	(184)	(90)
R&D tax credit — prior year	(357)	—
Losses surrendered for R&D tax credit — current year	345	—
Losses surrendered for R&D tax credit — prior year	260	—
Utilisation of losses	—	(13)
Movement on unrecognised temporary differences	(52)	(222)
Withholding tax written off	—	(53)
Other tax relief	(6)	9
Overseas tax relief	19	—
Other adjustments in respect of prior periods	—	(13)
Total tax credit reported in the income statement	(449)	(40)

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

9. Taxation (continued)

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 2007, there was no recognised deferred tax liability (2006: 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 (2006: £nil).

e) Deferred tax

Recognised deferred tax

There is no deferred tax included in either the Group balance sheet or Group income statement (2006: £nil).

Unrecognised potential deferred tax assets

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

	2007 £'000	2006 £'000
Depreciation in advance of capital allowances	65	118
Share-based payments temporary differences	73	224
Other temporary differences	766	797
Tax losses	3,518	3,453
Unrecognised deferred tax asset	4,422	4,592
Gross tax losses unrecognised	12,564	11,510

The UK Corporation tax rate will decrease from 30% to 28% from 1 April 2008. The unrecognised deferred tax balance has been adjusted in the current year to reflect this change.

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 except when such dilutive instruments would reduce the loss per share.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

10 Loss per ordinary share (continued)

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

	2007 £'000	2006 £'000
Loss attributable to equity holders of the parent	(2,420)	(374)
	2007	2006
Basic weighted average number of shares	51,042,671	50,293,800
Dilutive potential ordinary shares		
Employee share options	—	—
Diluted weighted average number of shares	51,042,671	50,293,800
Basic loss per share — pence	(4.74)	(0.74)
Diluted loss per share — pence	(4.74)	(0.74)

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 (2006: None)

12 Property, plant and equipment

31 December 2006

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2006	1,298	651	3,740	5,689
Additions	—	6	174	180
Disposals	—	(118)	(1,602)	(1,720)
Exchange adjustment	—	(8)	(122)	(130)
At 31 December 2006	1,298	531	2,190	4,019
Depreciation				
At 1 January 2006	(402)	(618)	(3,398)	(4,418)
Charge for year	—	(13)	(227)	(240)
Disposals	—	118	1,602	1,720
Exchange adjustment	—	6	108	114
At 31 December 2006	(402)	(507)	(1,915)	(2,824)
Net carrying amount				
At 31 December 2006	896	24	275	1,195
At 1 January 2006	896	33	342	1,271

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

12. Property, plant and equipment (continued)

31 December 2007

	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2007	1,298	531	2,190	4,019
Additions	—	—	324	324
Disposals	—	—	(514)	(514)
Exchange adjustment	—	3	50	53
At 31 December 2007	1,298	534	2,050	3,882
Depreciation				
At 1 January 2007	(402)	(507)	(1,915)	(2,824)
Charge for year	—	(16)	(187)	(203)
Disposals	—	—	514	514
Exchange adjustment	—	—	(42)	(42)
At 31 December 2007	(402)	(523)	(1,630)	(2,555)
Net carrying amount				
At 31 December 2007	896	11	420	1,327
At 1 January 2007	896	24	275	1,195

Assets held under finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2007 was £nil (2006 £nil). Additions during the year include £nil (2006 £nil) of plant and equipment held under finance leases and hire purchase.

13 Intangible assets

31 December 2006

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2006	705	1,145	1,052	2,902
Additions	954	2	—	956
Reclassification	3,338	—	—	3,338
Exchange adjustment	(4)	(4)	(48)	(56)
At 31 December 2006	4,993	1,143	1,004	7,140
Amortisation and impairment				
At 1 January 2006	(7)	(1,016)	—	(1,023)
Charge for year	(138)	(75)	—	(213)
Impairment charge	—	(28)	—	(28)
Exchange adjustment	—	3	—	3
At 31 December 2006	(145)	(1,116)	—	(1,261)
Net carrying amount				
At 31 December 2006	4,848	27	1,004	5,879
At 1 January 2006	698	129	1,052	1,879

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

13 Intangible assets (continued)

31 December 2007

	Development costs £'000	Patents and licences £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2007	4,993	1,143	1,004	7,140
Additions	658	4	—	662
Exchange adjustment	7	—	78	85
At 31 December 2007	5,658	1,147	1,082	7,887
Amortisation and impairment				
At 1 January 2007	(145)	(1,116)	—	(1,261)
Charge for year	(517)	(21)	—	(538)
Impairment charge	—	—	—	—
Disposals	—	—	—	—
Exchange adjustment	(2)	—	—	(2)
At 31 December 2007	(664)	(1,137)	—	(1,801)
Net carrying amount				
At 31 December 2007	4,994	10	1,082	6,086
At 1 January 2007	4,848	27	1,004	5,879

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. These costs are amortised over their useful economic lives of 2 to 20 years.

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 7 years and licences have no life remaining.

14 Impairment of goodwill and intangibles

Goodwill (indefinite life)

Goodwill acquired through business combinations has been allocated to one individual cash-generating unit ("CGU"), the lowest level at which goodwill is monitored for internal management purposes, for impairment testing.

Asia Pacific real-time financial solutions cash-generating unit

The recoverable amount of this CGU 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% (2006 7%) and cash flows beyond the 5 year period are extrapolated using a 5% growth rate (2006 7%) that is a prudent approximation to the long term average growth rate for the real-time financial solutions market.

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14 Impairment of goodwill and intangibles (continued)

Carrying amount of goodwill

	2007 £'000	2006 £'000
Asia Pacific real-time financial solutions CGU	1,082	1,004

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 is most sensitive to assumptions around

Gross margins, based on average values achieved in the three years preceding the start of the budget period,

Growth rates, based on internally estimated growth rates for the market and the business offerings, and

Discount rate, based on the pre tax weighted average cost of capital of the CGU

Sensitivity to changes in assumptions

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

Development costs (finite life)

Development costs have a carrying amount of £4,994,000 (2006 £4,848,000) 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 following table summarises the net book value of development costs across both primary and secondary segments

	Real-time financial £'000	Storage £'000	Total 2007 £'000	Real-time financial £'000	Storage £'000	Total 2006 £'000
Asia Pacific	42	—	42	52	—	52
EMEA	3,562	—	3,562	3,755	—	3,755
North America	33	1,357	1,390	90	951	1,041
Net book value	3,637	1,357	4,994	3,897	951	4,848

The total value of development costs not yet available for use at 31 December 2007 is £nil (2006 £238,000, which related to one CGU in the EMEA real-time financial solutions segment). The recoverable amount of development costs allocated to CGUs 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. Discount rates of 7% based on the pre tax weighted average cost of capital of the cash generating unit is expected to apply in respect of future cash flows

NOTES TO THE FINANCIAL STATEMENTS

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14 Impairment of goodwill and intangibles (continued)

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 unit to exceed its recoverable amount

Patents and licenses (finite life)

The following impairment charges have been made in respect of licenses

	2007 £'000	2006 £'000
Gresham SA	—	28
	—	28

Gresham SA is a subsidiary operating in the EMEA Storage Solutions segment and the impairments relate to a write-down of intangible software licenses to a nil value following the initiation of solvent voluntary liquidation proceedings

15. Inventories and Other financial assets

Inventories

	2007 £'000	2006 £'000
Goods for resale	100	—
	100	—

Inventories comprise the third party hardware necessary for deployment of certain Storage solutions

Other financial assets

	2007 £'000	2006 £'000
Financial assets — current		
SQS warrants (see Note 21)	20	32
	20	32

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16. Investments

Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows

Name of subsidiary company	Country of incorporation	Holding (shares)	Proportion of voting rights and shares held	Nature of Business
Gresham Computer Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Financial Systems Limited	England	Ordinary	100%	Real time financial solutions
Gresham Consultancy Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Computing Inc	USA	Ordinary	100%	Real time financial solutions
Gresham Enterprise Storage Inc	USA	Ordinary	100%	Storage
Online Financial Services Inc	Canada	Ordinary	100%	Real time financial solutions
Redstone Software Inc	USA	Ordinary	92%	Real time financial solutions
Gresham Computing Pty Limited	Australia	Ordinary	100%	Real time financial solutions
Gresham Software Labs Pty Limited ¹	Australia	Ordinary	100%	Real time financial solutions
Gresham Computing Sdn Bhd ¹	Malaysia	Ordinary	100%	Real time financial solutions
Gresham SA ^{1 2}	France	Ordinary	100%	Storage

¹ held by a subsidiary undertaking

² in members solvent voluntary liquidation

17. Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	2,385	2,078
Prepayments and accrued income	1,230	1,272
Amounts recoverable on contracts	35	193
	3,650	3,543
Income tax receivable	374	305

The following table provides disclosure of contracts in progress at the balance sheet date

	2007 £'000	2006 £'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses to date	585	393
Less: progress billings	(550)	(200)
	35	193
Recognised as		
Amounts due from customers included in trade and other receivables above	35	193

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AT 31 DECEMBER 2007

17. Trade and other receivables (continued)

Trade receivables are denominated in the following currencies

	2007 £'000	2006 £'000
Sterling	1,116	894
Euro	346	106
US Dollar	632	652
Canadian Dollar	172	232
Australian Dollar	96	109
Other currencies	23	85
	2,385	2,078

There is no significant concentration of trade receivables around major customers in either year

Trade receivables are non-interest bearing and are generally on 30 - 60 days' terms and are shown net of provision for impairment. The nominal value of trade receivables that were impaired and fully provided for together with the movements in the provision for impairment of receivables were as follows

	2007 £'000	2006 £'000
At 1 January	108	61
Charge for the year	—	57
Amounts written off	(5)	(10)
Unused amounts reversed	(13)	—
At 31 December	90	108

At 31 December, the analysis of trade receivables that were past due but not impaired is as follows

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired				120 days £'000
			< 30 days £'000	30 - 60 days £'000	60 - 90 days £'000	90 - 120 days £'000	
2007	2,385	1,917	295	108	15	12	38
2006	2,078	1,709	84	129	142	—	14

The Group's customers primarily comprise national and international banks, government bodies and substantial private and public companies. As a result, the credit quality of trade receivables that are neither past due nor impaired has been assessed by the Directors to be relatively high, taking account of a low historic experience of bad debts and relatively good ageing profiles.

18. Cash and short term deposits

	2007 £'000	2006 £'000
Cash at bank and in hand	1,300	3,557
Short-term deposits	1,000	—
	2,300	3,557

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. The fair value of cash and cash equivalents is £2,300,000 (2006 £3,557,000).

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

18. Cash and short term deposits (continued)

At 31 December 2007, the Group had available £500,000 (2006: £nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facility falls due for review within one year. This facility is secured on the fixed and floating assets of the parent and UK subsidiary companies.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises cash at bank and in hand and short-term deposits.

19 Trade, other payables and provisions

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

	2007 £'000	2006 £'000
Current		
Trade payables	1,026	784
Other payables	1,565	1,866
Deferred income	2,869	3,099
	5,460	5,749
Income tax payable	61	121

	2007 £'000	2006 £'000
Non current		
Deferred income	715	1,562
	715	1,562

	Restructuring provision £'000
At 1 January 2007	—
— Current	90
— Non-current	90
	110
Arising during the year	110
At 31 December 2007	200
— Current	—
— Non-current	200

The restructuring provision relates to a rationalisation of the Group's property portfolio and has been reclassified from accruals in 2007. This rationalisation is expected to be completed by 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

20. Obligations under leases

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties that have an average duration of between 3 and 10 years. 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 2007 £'000	Other 2007 £'000	Total 2007 £'000	Land and buildings 2006 £'000	Other 2006 £'000	Total 2006 £'000
Not later than one year	345	42	387	535	30	565
After one but not more than five years	92	54	146	399	31	430
	437	96	533	934	61	995

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 is as follows:

	Land and buildings 2007 £'000	Land and buildings 2006 £'000
Not later than one year	53	173
After one but not more than five years	—	53
	53	226

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 following table sets out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk:

	2007 £'000	2006 £'000
Floating rates		
Cash at bank and in hand and short-term deposits all maturing within 1 year	2,300	3,557
	2,300	3,557

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.

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

21. Financial instruments (continued)

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.

The Group has established procedures to minimise the risk of default by trade debtors including credit checks undertaken before a customer is accepted. Historically, these procedures have proved effective in minimising the level of impaired and past due debtors.

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates with all other variables held constant, of the Group's profit before tax due to change in the fair value of cash and cash equivalents.

	Increase/Decrease in exchange rates	Effect on profit before tax £'000
2007		
Euro	+10%	(10)
	-10%	10
Australian Dollar	+10%	(8)
	-10%	8
US Dollar	+10%	(16)
	-10%	16
Canadian Dollar	+10%	(4)
	-10%	4
2006		
Euro	+10%	(12)
	-10%	12
Australian Dollar	+10%	(20)
	-10%	20
US Dollar	+10%	(10)
	-10%	10
Canadian Dollar	+10%	(6)
	-10%	6

	Book value		Fair value	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Financial assets				
Cash	2,300	3,557	2,300	3,557
SQS warrants	20	32	20	32

For other financial instruments not listed above, such as trade receivables, inventories and trade payables, the book value is equal to the fair value.

SQS warrants

The Company holds warrants over 52,800 Software Quality Systems AG ("SQS") ordinary shares, which were issued in 2005. These are treated as financial assets held at fair value through profit or loss. The warrants ("SQS warrants") have an exercise price of £1.90 and are exercisable at any time in the period 12 August 2005 to 31 July 2008.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

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 for both years

Risk free interest rate	4%
Expected share price volatility	60%
Expected life of warrants (years)	1.5

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.

The warrants were exercised in 2008 and the resulting equity instruments sold in the market at their fair value.

22. Authorised and issued share capital

Authorised share capital	2007		2006	
	Number	£	Number	£
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares issued and fully paid

	Number	Nominal value £'000	Consideration received £'000
At 1 January 2006	50,269,809	2,513	—
Issued for cash on exercise of share options	81,081	5	33
At 1 January 2007	50,350,890	2,518	—
Issued for cash (net of £98,000 expenses)	2,500,000	125	2,652
At 31 December 2007	52,850,890	2,643	—

There are no preference shares in issue (2006 none)

Further to an acquisition made in February 2005, deferred consideration of £300,000 is payable in cash or shares, at the option of the Company, dependent on the achievement of certain financial targets in respect of the business transferred within a 5 year period from acquisition. No further payments have been made in respect of this acquisition to the date of these financial statements and no contingent consideration, in the form of shares or cash, has been recognised because in the opinion of the directors it is not probable that such additional payments will be made.

An explanation of the Group's capital management process and objectives is set out in the discussion of capital management on page 7 in the Directors' report.

23. Share-based payments

The grant of all options and awards 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 Option Plan 2007 ("EOP")

This Plan was approved by shareholders on 29 June 2007 in General Meeting. The Remuneration Committee has restricted participation in the Plan to the Company's key executives, including the executive directors, to ensure awards are targeted at those employees best placed to drive achievement of the Company's strategic and financial goals.

23. Share-based payments (continued)

Awards made under the Plan are structured as stock appreciation rights (SARs) which give a participant the right to benefit from a rise in the market value of shares the subject of an award from date of grant to the relevant vesting date. On exercise, a participant is required to pay the Company by way of subscription an amount equal to the aggregate nominal value of the shares to be issued to him.

There are two elements to each SAR award: a Basic award and, for every two Basic awards, a Bonus award, each exercisable on the achievement of the challenging performance targets described further below.

The performance criteria are based on the achievement of fixed target Company share prices (target share prices), with a minimum target share price of £2.50 to be achieved before any Basic awards are exercisable and a price of £4.00 to be achieved before Bonus awards are exercisable. Unexercised awards will lapse six years from the date of grant.

An award of SARs entitles the holder to acquire such number of shares as has a value equal to the increase in the market value of the shares subject to the award between the date of grant and the date of vesting. The strike price for each share comprised in an award at date of grant is to be determined by the Committee but will not be less than the average of the middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the three dealing days immediately preceding the appropriate date plus a premium of 10 pence for each such share.

An eligible participant will, other than in the case of any adjustments made to reflect a promotion or significant change in responsibilities, receive only one grant of awards under the Plan. The maximum aggregate market value of the Basic component of an award at date of grant to any participant will not exceed an amount being equal to six times basic salary.

Basic awards

Basic awards will vest, subject to the achievement of target share prices, in one-third increments over each of the third, fourth and fifth years from date of grant respectively (each a Basic Performance Period) as follows:

- one-third at the end of year 3 for achieving a target share price of £2.50,
- one-third at the end of year 4 for achieving a target share price of £3.00, and
- one-third at the end of year 5 for achieving a target share price of £4.00.

Bonus awards

Bonus awards are granted as to one Bonus award for every two Basic awards and will vest in full, subject to achievement of a target share price of £4.00, at the end of the fifth year from date of grant (the Bonus Performance Period).

General

When assessing the achievement of target share prices, the Company's share price performance will be calculated based on the average middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the twenty dealing days immediately preceding each of the third, fourth and fifth anniversaries of the date of grant, as appropriate.

Any SARs subject to a Basic or Bonus award which do not become exercisable in full according to performance measured over the relevant Basic or Bonus Performance Period will nevertheless become exercisable to the extent that one or more of the target share prices described above are achieved on average in any consecutive 20 dealing day period from the fifth to the sixth anniversaries of grant. Any SARs subject to a Basic or Bonus award which remain unexercisable after this second test of the performance conditions will lapse.

In the event of a takeover or proposal for a scheme of arrangement of the Company (not being an internal corporate reorganisation), the Committee will accelerate vesting of a participant's Basic and Bonus awards according to a formula which assesses the target share price performance condition as at the date the relevant transaction becomes or is declared wholly unconditional or otherwise completes as if all of the Basic and Bonus Performance Periods had elapsed at that date.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

23. Share-based payments (continued)

Alternatively, following a takeover awards may, with the agreement of the acquiring company and the consent of the participant, be rolled-over to become awards over the acquiring company's shares. In the absence of roll-over or exercise as above, awards will lapse.

Awards will lapse on cessation of employment other than in the circumstances referred to above or if awards are not exercised *within the prescribed periods*. Awards will also lapse to the extent that the relevant target share price is not satisfied at the end of the relevant performance periods or on any re-test.

At 31 December 2007, 33 participants held awards under this scheme (nil 2006).

Executive Scheme 1998

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 as approved by shareholders in general meeting.

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 2007, 12 participants held options under this scheme (2006: 13). No further options will be granted in respect of this scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2007, including those noted in the Directors' Remuneration Report are as follows:

	Note	2007 Number	2007 WAEP	2006 Number	2006 WAEP
Executive Scheme 1998 (options)					
Outstanding at 1 January	1	784,314	56	957,893	67
Granted during the year		—	—	—	—
Exercised	2	—	—	(83,581)	38
Forfeited		(5,000)	46	(89,998)	198
Outstanding at 31 December	1	779,314	56	784,314	56
Exercisable at 31 December		719,316	51	724,316	50
Weighted average remaining contractual life (years)		2.98		3.98	
EOP 2007 Scheme (awards)					
Outstanding at 1 January	1	—	—	—	—
Granted during the year		4,359,999	115	—	—
Exercised	2	—	—	—	—
Forfeited		—	—	—	—
Outstanding at 31 December	1	4,359,999	115	—	—
Exercisable at 31 December		—	—	—	—
Weighted average remaining contractual life (years)		9.82		0.00	

WAEP: Weighted Average Exercise Price (Pence per share)

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

23 Share-based payments (continued)

All share options and awards were granted with an exercise price per share equal to the share price at the date of grant, or in the case of the EOP 2007 awards at a premium of 10 pence above 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'). No price is payable on award of share options or awards.

Note 1 Included within this number of options are options over 686,816 (2006 691,816) shares (Executive Scheme 1998) that have not been accounted for 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 exercises under the Executive Scheme 1998 in 2006 was 121 pence.

4,359,999 awards were granted in 2007 under the EOP 2007 scheme (none in 2006). The weighted average fair value of options granted during 2007 was 105 pence.

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2007, 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 Scheme 1998	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	5,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	2,300
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0 700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1 200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	779,314					436,156
EOP 2007	4,359,999	22-Oct-07	1 15	23-Oct-10	23-Oct-17	See note

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £218,000, which is calculated on the assumption that one share is issued at par to satisfy each award.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2006, 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 Scheme 1998	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	10,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	4,600
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0 700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1 200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	784,314					438,456

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

23. Share-based payments (continued)

The fair value of equity-settled share options granted is estimated as at the date of grant as follows

Executive Scheme 1998

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. No options were granted in 2007 or 2006.

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.

EOP 2007

The fair value of equity-settled share options granted has been estimated as at the date of grant, by an independent remuneration consultant with the relevant skills, with a Monte-Carlo risk neutral model using a lognormal distribution to simulate thousands of share price outcomes, 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 year ended 31 December 2007.

Vesting date	Between 3 and 6 years
Expiry date	6 years after grant
Exercise price	£1.15
Share price at valuation	£1.05
Vested options expected life	The minimum of 1 year after vesting and full term to expiry
Volatility	50% (expected future volatility, based on historical analysis and trend)
Dividend yield	0%
Risk free rate	4.85 (spot yield on valuation date of 6-year nil-coupon UK government bonds)
Simulations	60,000
Impact of continued employment conditions	30% attrition rate on average

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/(income) recognised in the income statement for all equity settled share-based payments in respect of employee services received is as follows:

	2007 £'000	2006 £'000
Expense/(income) recognised in respect of share-based payments	42	(36)

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NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2007

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 2006	2,513	10,009	1,039	(29)	(5,973)	7,559
Exchange differences on translation of foreign operations	—	—	—	(103)	—	(103)
Share based payment	—	—	—	—	(36)	(36)
Issue of shares	5	28	—	—	—	33
Attributable loss for the period	—	—	—	—	(374)	(374)
At 31 December 2006	2,518	10,037	1,039	(132)	(6,383)	7,079
Exchange differences on translation of foreign operations	—	—	—	68	—	68
Share based payment	—	—	—	—	42	42
Issue of shares	125	2,625	—	—	—	2,750
Share issue costs	—	(98)	—	—	—	(98)
Attributable loss for the period	—	—	—	—	(2,420)	(2,420)
At 31 December 2007	2,643	12,564	1,039	(64)	(8,761)	7,421

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.

Other reserves

The balance classified as other reserves comprises a special reserve of £313,000 and merger reserve of £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 2007 and 2006 is £7,326,000. Goodwill previously written off to reserves will remain so written off.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

25. Additional cash flow information

Analysis of group net funds

	1 January 2007 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2007 £'000
Cash and cash equivalents	3,557	(1,287)	30	—	2,300
Finance leases	—	—	—	—	—
	3,557	(1,287)	30	—	2,300

	1 January 2006 £'000	Cash flows £'000	Exchange differences £'000	Non cash movements £'000	31 December 2006 £'000
Cash and cash equivalents	1,973	1,639	(55)	—	3,557
Finance leases	(59)	59	—	—	—
	1,914	1,698	(55)	—	3,557

26 Change of arrangement with Cable & Wireless

As a result of the new arrangement agreed with Cable & Wireless in April 2006, a one off payment of cash was made to Gresham by Cable & Wireless in 2006. In addition, from April 2006 additional fixed quarterly payments are being made to Gresham by Cable & Wireless. The initial one off payment is being deferred in the balance sheet and released on a straight line basis to revenue over a period of 3 years from May 2006 to match the cost of the additional obligations taken on by Gresham under this new agreement. The further fixed quarterly payments, which are paid in advance, are also being deferred in the balance sheet and released on a straight line basis to revenue over the quarters to which they relate.

During the period, the revenue recognised in the income statement in respect of this arrangement totalled £1,373,000 (2006: £916,000).

27 Post balance sheet event

On 22 February 2008, the Group announced a substantial contract win in the real time financial solutions segment for a treasury management solution with a major customer in Australia. The implementation is expected to be completed during 2008.

28 Capital commitments

At 31 December 2007, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2006: £nil).

29. 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 from which no liability is expected to arise.

30. 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. The share-based payments charge arising in respect of main board directors in 2007 was £36,000 (2006: £nil).

**THE FOLLOWING NOTES
RELATE TO THE COMPANY ONLY**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

**Statement of directors' responsibilities in relation to the
parent company financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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 group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the parent company financial statements of Gresham Computing plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes 1 to 15. 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 2007.

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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are 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 whether in our opinion the information given in the directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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, the Chairman's Statement and the Corporate Governance 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 IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the company's affairs as at 31 December 2007,
- 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, and
- the information given in the directors' report is consistent with the parent company financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Southampton
28 April 2008

gresham computing plc

COMPANY BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	31 December 2007 £'000	31 December 2006 £'000
Fixed assets			
Investments	5	18,946	18,904
		18,946	18,904
Current assets			
Debtors	6	8,689	4,210
Cash at bank and in hand		996	1,952
		9,685	6,162
Creditors amounts falling due within one year	7	3,071	2,142
Net current assets		6,614	4,020
Total assets less current liabilities		25,560	22,924
Provisions for liabilities	9	200	—
Net assets		25,360	22,924
Capital and reserves			
Called up share capital	10	2,643	2,518
Share premium account	11	12,564	10,037
Special reserve	11	313	313
Merger reserve	11	6,609	6,609
Profit and loss account	11	3,231	3,447
Shareholders funds — equity interests	11	25,360	22,924

On behalf of the board

CM Errington

CM Errington
28 April 2008

A Walton-Green

A Walton-Green
28 April 2008

A Walton-Green

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

1 Accounting policies**Basis of preparation**

The parent company financial statements of Gresham Computing plc (the "Company") are presented, as required by the Companies Act 1985, and were approved for issue on 28 April 2008

The financial statements are prepared under the historical cost convention as modified for financial instruments that are measured at fair value and are prepared in accordance with applicable accounting standards

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 *Financial Instruments Disclosures* and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial Instruments Disclosures*

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

Impairment of financial assets

The Company 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 profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

Other receivables

Where the time value of money is material, other receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

gresham computing plc

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

1 Accounting policies (continued)**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 undiscounted 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.

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. 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 payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the period to the next rent review.

Classification of shares as debt or equity

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- (ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

When shares are issued, any component that creates a financial liability of the Company is presented as a liability in the balance sheet, measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

1 Accounting policies (continued)

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Share-based payments – Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value of awards with a market condition based performance target is determined by an external valuer using a Monte Carlo simulation pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

Fair value of awards with a financial result based performance target is determined by management using the Black Scholes pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

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.

The share-based payment expense is recognised as a staff cost and the associated credit entry is made against equity.

2 Auditors' remuneration

		2007 £'000	2006 £'000
Audit of the financial statements	Audit services – parent	10	8
	Taxation compliance services	–	–
	IFRS transition work	–	10
		10	18
Additional information			
Audit services – group		15	12
Audit services – subsidiaries		64	59
		79	71

gresham computing plc

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

3. Directors' remuneration

Information concerning directors' remuneration and gains on exercise of share options can be found in the Directors' remuneration report on pages 19 to 22 and in note 7 to the Group financial statements

4. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends are proposed for approval at the AGM (2006 None)

5. Investments

	Subsidiaries 2007 £'000	Subsidiaries 2006 £'000
Cost		
At 1 January	23,047	23,047
Capital contribution (FRS 20 share based payments expense)	42	—
At 31 December	23,089	23,047
Impairment provisions		
At 1 January	(4,143)	(4,143)
At 31 December	(4,143)	(4,143)
Net book value		
At 31 December	18,946	18,904

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows

Name of subsidiary company	Country of incorporation	Holding (shares)	Proportion of voting rights and shares held	Nature of business
Gresham Computer Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Financial Systems Limited	England	Ordinary	100%	Real time financial solutions
Gresham Consultancy Services Limited	England	Ordinary	100%	Real time financial solutions
Gresham Computing Inc	USA	Ordinary	100%	Real time financial solutions
Gresham Enterprise Storage Inc	USA	Ordinary	100%	Storage
Online Financial Services Inc	Canada	Ordinary	100%	Real time financial solutions
Redstone Software Inc	USA	Ordinary	92%	Real time financial solutions
Gresham Computing Pty Limited	Australia	Ordinary	100%	Real time financial solutions
Gresham Software Labs Pty Limited ¹	Australia	Ordinary	100%	Real time financial solutions
Gresham Computing Sdn Bhd ¹	Malaysia	Ordinary	100%	Real time financial solutions
Gresnam SA ^{1,2}	France	Ordinary	100%	Storage

¹ held by a subsidiary undertaking

² in members' voluntary solvent liquidation

6. Debtors

	2007 £'000	2006 £'000
Amounts owed by subsidiary undertakings	8,600	4,165
Prepayments and accrued income	69	13
SQS warrants	20	32
	8,689	4,210

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007/06

7. Creditors. amounts falling due within one year

	2007 £'000	2006 £'000
Amounts owed to subsidiary undertakings	3,035	2,001
Trade creditors	2	35
Other creditors and accruals	34	106
	3,071	2,142

8. Deferred tax

The company has an unrecognised deferred tax asset as follows

	2007 £'000	2006 £'000
Tax losses	174	125

The UK corporation tax rate will decrease from 30% to 28% from 1 April 2008. The deferred tax balance has been adjusted in the current year to reflect this change.

9. Provisions for liabilities

	2007 £'000	2006 £'000
Restructuring provision	200	—

The restructuring provision relates to the rationalisation of the companies property leases

10 Share capital

Authorised share capital	2007		2006	
	Number	£	Number	£
Ordinary shares of 5 pence each	65,000,000	3,250,000	65,000,000	3,250,000
Preference shares of 20 pence each	2,750,000	550,000	2,750,000	550,000
	67,750,000	3,800,000	67,750,000	3,800,000

Ordinary shares issued and fully paid	Number	Nominal Consideration	
		value £'000	received £'000
At 1 January 2006	50,269,809	2,513	—
Issued for cash on exercise of share options	81,081	5	33
At 1 January 2007	50,350,890	2,518	
Issued for cash by way of a placing	2,500,000	125	2,652
At 31 December 2007	52,850,890	2,643	

The consideration received in respect of the placing in 2007 is shown net of £98,000 of share issue costs

There are no preference shares in issue (2006 none)

gresham computing plc

NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2007

11 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2006	2,513	10,009	313	6,609	3,658	23,102
Issue of ordinary shares	5	28	—	—	—	33
Share issue costs	—	—	—	—	—	—
Retained loss for the year	—	—	—	—	(211)	(211)
At 31 December 2006	2,518	10,037	313	6,609	3,447	22,924
Issue of ordinary shares	125	2,625	—	—	—	2,750
Share issue costs	—	(98)	—	—	—	(98)
Share based payments expense	—	—	—	—	42	42
Retained loss for the year	—	—	—	—	(258)	(258)
At 31 December 2007	2,643	12,564	313	6,609	3,231	25,360

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.

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 2007 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 Scheme 1998	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	5,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	2,300
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0 700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1 200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	779,314					436,156
EOP 2007	4,359,999	22-Oct-07	1 15	23-Oct-10	23-Oct-17	See note

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £218,000, which is calculated on the assumption that one share is issued at par to satisfy each award.

Further information concerning share based payments can be found in note 23 to the Group financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

12. Other financial commitments

At 31 December 2007 the Company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2007 £ 000	Land and buildings 2006 £'000
Operating leases which expire		
Within one year	123	103
Within two to five years	—	185
	123	288

13. Capital commitments

At 31 December 2007, company amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil (2006 £nil)

14. Contingent liabilities

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

15. Share-based payments

The grant of all options and awards 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 Option Plan 2007 ("EOP")

This Plan was approved by shareholders on 29 June 2007 in General Meeting. The Remuneration Committee has restricted participation in the Plan to the Company's key executives, including the executive directors, to ensure awards are targeted at those employees best placed to drive achievement of the Company's strategic and financial goals.

Awards made under the Plan are structured as stock appreciation rights (SARs) which give a participant the right to benefit from a rise in the market value of shares the subject of an award from date of grant to the relevant vesting date. On exercise, a participant is required to pay the Company by way of subscription an amount equal to the aggregate nominal value of the shares to be issued to him.

There are two elements to each SAR award: a Basic award and, for every two Basic awards, a Bonus award, each exercisable on the achievement of the challenging performance targets described further below.

The performance criteria are based on the achievement of fixed target Company share prices (target share prices), with a minimum target share price of £2.50 to be achieved before any Basic awards are exercisable and a price of £4.00 to be achieved before Bonus awards are exercisable. Unexercised awards will lapse six years from the date of grant.

An award of SARs entitles the holder to acquire such number of shares as has a value equal to the increase in the market value of the shares subject to the award between the date of grant and the date of vesting. The strike price for each share comprised in an award at date of grant is to be determined by the Committee but will not be less than the average of the middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the three dealing days immediately preceding the appropriate date plus a premium of 10 pence for each such share.

An eligible participant will, other than in the case of any adjustments made to reflect a promotion or significant change in responsibilities, receive only one grant of awards under the Plan. The maximum aggregate market value of the Basic component of an award at date of grant to any participant will not exceed an amount being equal to six times basic salary.

gresham computing plc

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

15. Share-based payments (continued)

Basic awards

Basic awards will vest, subject to the achievement of target share prices, in one-third increments over each of the third, fourth and fifth years from date of grant respectively (each a Basic Performance Period) as follows

- one-third at the end of year 3 for achieving a target share price of £2 50,
- one-third at the end of year 4 for achieving a target share price of £3 00, and
- one-third at the end of year 5 for achieving a target share price of £4 00

Bonus awards

Bonus awards are granted as to one Bonus award for every two Basic awards and will vest in full, subject to achievement of a target share price of £4 00, at the end of the fifth year from date of grant (the Bonus Performance Period)

General

When assessing the achievement of target share prices, the Company's share price performance will be calculated based on the average middle-market price of a share, as derived from The London Stock Exchange Daily Official List, on the twenty dealing days immediately preceding each of the third, fourth and fifth anniversaries of the date of grant, as appropriate

Any SARs subject to a Basic or Bonus award which do not become exercisable in full according to performance measured over the relevant Basic or Bonus Performance Period will nevertheless become exercisable to the extent that one or more of the target share prices described above are achieved on average in any consecutive 20 dealing day period from the fifth to the sixth anniversaries of grant. Any SARs subject to a Basic or Bonus award which remain unexercisable after this second test of the performance conditions will lapse

In the event of a takeover or proposal for a scheme of arrangement of the Company (not being an internal corporate reorganisation), the Committee will accelerate vesting of a participant's Basic and Bonus awards according to a formula which assesses the target share price performance condition as at the date the relevant transaction becomes or is declared wholly unconditional or otherwise completes as if all of the Basic and Bonus Performance Periods had elapsed at that date

Alternatively, following a takeover awards may, with the agreement of the acquiring company and the consent of the participant, be rolled-over to become awards over the acquiring company's shares. In the absence of roll-over or exercise as above, awards will lapse

Awards will lapse on cessation of employment other than in the circumstances referred to above or if awards are not exercised within the prescribed periods. Awards will also lapse to the extent that the relevant target share price is not satisfied at the end of the relevant performance periods or on any re-test

At 31 December 2007, 33 participants held awards under this scheme (nil 2006)

Executive Scheme 1998

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 as approved by shareholders in general meeting

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

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

15 Share-based payments (continued)

At 31 December 2007, 12 participants held options under this scheme (2006 13) No further options will be granted in respect of this scheme

Outstanding options and awards to subscribe for ordinary shares of 5p at 31 December 2007, 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 £'000	Date first exercisable	Expiry date	Cash receivable if exercised £'000
Executive Scheme 1998	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	5,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	2,300
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0 700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1 200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	779,314					436,156
EOP 2007	4,359,999	22-Oct-07	1 15	23-Oct-10	23-Oct-17	See note

The cash receivable on exercise of the EOP 2007 awards depends on the market price at the date of exercise which is used in calculating the actual number of shares to be issued to satisfy the award. The award holder is then required to pay 5 pence for every share issued under this scheme. The maximum cash receivable if all awards were exercised is £218,000, which is calculated on the assumption that one share is issued at par to satisfy each award.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2006, 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 £'000	Date first exercisable	Expiry date	Cash receivable if exercised £'000
Executive Scheme 1998	43,919	17-Feb-99	1 420	18-Feb-02	17-Feb-09	62,365
	10,000	9-Feb-00	0 460	10-Feb-03	9-Feb-10	4,600
	637,897	25-Jul-00	0 360	28-Jul-03	27-Jul-10	229,643
	12,500	22-Apr-03	0 700	23-Apr-06	22-Apr-13	8,750
	20,000	28-May-04	3 225	29-May-07	28-May-14	64,500
	49,998	22-Jun-05	1 200	23-Jun-08	22-Jun-15	59,998
	10,000	30-Sep-05	0 860	1-Oct-08	30-Sep-15	8,600
	784,314					438,456

The fair value of equity-settled share options granted is estimated as at the date of grant as follows

Executive Scheme 1998

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. No options were granted in 2007 or 2006.

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

gresham computing plc

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2007

15 Share-based payments (continued)

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.

EOP 2007

The fair value of equity-settled share options granted has been estimated as at the date of grant, by an independent remuneration consultant with the relevant skills, with a Monte-Carlo risk-neutral model using a lognormal distribution to simulate thousands of share price outcomes, 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 year ended 31 December 2007.

Vesting date	Between 3 and 6 years
Expiry date	6 years after grant
Exercise price	£1.15
Share price at valuation	£1.05
Vested options expected life	The minimum of 1 year after vesting and full term to expiry
Volatility	50% (expected future volatility, based on historical analysis and trend)
Dividend yield	0%
Risk free rate	4.85 (spot yield on valuation date of 6-year nil-coupon UK government bonds)
Simulations	60,000
Impact of continued employment conditions	30% attrition rate on average

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 resulting expense is recorded in the Company financial statements as a capital contribution to the subsidiaries for whom the employees perform services with the credit entry being made to reserves.

Gresham
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