

gresham computing plc

annual report 2002



greshamTM
banking • integration • storage



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Gresham Computing plc
Registered No. 1072032

Directors

S J Green	Non-Executive Chairman
J E Aves	Non-Executive Director, Chairman of Audit and Remuneration Committees
A J S Walton-Green	Chief Executive
S W Purchase	Commercial Director
D Osman	Finance Director

Secretary

D Osman

Registered Office

Sopwith House
Brook Avenue
Warsash
Southampton
SO31 9ZA

Auditors

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

Registrars

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

Brokers

KBC Peel Hunt Ltd
62 Threadneedle Street
London
EC2R 8HP

Bankers

HSBC Bank plc
165 High Street
Southampton
SO14 2NZ

Solicitors

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

Results

I am pleased to report the group's final results for the year ended 31 December 2002. Comparative figures are for the 14 months to 31 December 2001 following our change in financial year-end in 2001.

The group's turnover for the period was £11.6 million (2001: £18.3 million from continuing operations). The operating loss was £3.5 million (2001: £3.9 million). Profit before taxation was £1.1 million (2001: £1 million loss) with retained profits for the period of £1.2 million (2001: £1.5 million loss). The resultant basic earnings per share is 2.51 pence (2001: 3.32 pence loss).

Trading conditions throughout the period have remained difficult across all areas of the business. Notwithstanding this, we have continued to invest in the development of the business in line with our objective of generating long term growth.

On 15 April 2002 the group completed the disposal of its remaining interest in SIM Group Limited for proceeds of £7.4 million resulting in a profit on disposal in the year of £4.9 million. Overall the disposal of SIM Group realised £13.3 million with a profit on disposal of £7.5 million.

From the date of the disposal of the first tranche of shares on 25 June 2001 until the disposal of the remaining shares, SIM Group Limited was included in Gresham's results as an associated undertaking. The profit before tax for the year includes a £0.4 million loss related to the trading activities and goodwill amortisation of SIM Group Limited (2001: £0.4 million profit).

The group's financial position has been strengthened during the period with a net funds position at 31 December 2002 of £3.9 million (2001: £0.5 million).

Strategy

We have continued our strategy of focusing on the areas of the business that we consider to have the potential to deliver substantial shareholder returns over the medium and long term; Finance and Banking, Integration and Storage Management. We have continued to invest in the

business and we have made considerable progress towards our strategic objectives.

Banking

The utilisation of nostro information in real time has increasingly become a major banking industry initiative. This is highlighted by the announcement, in March 2003, of the merger of the Cable & Wireless and SWIFT working parties forming the Real Time Nostro Account Information Steering Group consisting of 18 major banks. The International Payments Conference held in London this month further demonstrated the importance of this initiative.

Our primary focus in this area continues to be the delivery of the Real Time Nostro ("RTN") service to the market with Cable & Wireless. Although it is taking longer to bring the service to market than we initially expected, we believe that RTN is well-placed to take advantage of the increased banking focus in this area. Considerable progress has been made towards the implementation of the service in the past few months. The product is undergoing operational testing in preparation for full user acceptance testing. RTN has been well received by the market and discussions are advanced with a number of major financial institutions regarding the utilisation of the service. We expect the service to commence revenue generation in the second half of the year. Your board believes that revenue from RTN will build significantly over time as the service is rolled out.

Integration

Through our continued investment in our flagship integration product, Casablanca has developed into a leading offering with world-class potential. Casablanca facilitates the rapid and effective integration of legacy and open systems without the need for large-scale system redevelopment. These capabilities combined with the proven ability to enable the rapid deployment of a Single Customer View are generating considerable interest, particularly in the Finance and Banking sector. Although these opportunities are yet to result in significant revenue,

“While it has been a long haul to get us to this point, I now believe that we have every reason to expect a significant upturn in our fortunes in the medium and long term as a result of having RTN, this unique real time solution.”

Andrew Walton-Green, CEO of Gresham Computing plc

we expect that the competitive advantages of Casablanca will enable the level of opportunities to be sustained and that these will be converted into an increasing revenue stream as the year progresses.

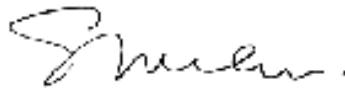
Storage

The market for storage products remains highly competitive with price competition being one of the key differentiators. The results achieved by our Storage division have been disappointing. Our development programme seeks to rationalise as well as expand the scope and functionality of our range of storage products in order to enhance our offering to the wider storage market. A key success factor for this enhanced streamlined product offering will be the establishment of effective routes to market. Consequently we are actively seeking to develop partnership arrangements with the largest application and storage vendors in the market.

Outlook

Over the past year considerable progress has been made towards our objective of providing the group with a platform for sustainable long term growth. We consider that RTN has the potential to deliver the most significant returns in the group's history. The next twelve months will be pivotal in achieving our objectives. Although market conditions remain difficult, we are encouraged by the increasing market interest in RTN and Casablanca. Our focus will be to realise the interest that we have generated in order to deliver the significant medium and long term growth that we believe is achievable.

The progress of the past few months has only been possible as a result of the enthusiasm, dedication and loyalty of our staff and the support of our shareholders. To all of them I extend my heartfelt thanks and look forward to seeing their confidence in the company fully justified during the next twelve months.



Sid Green

15 April 2003

The directors present their report and the group financial statements for the year ended 31 December 2002.

Results and dividends

The group profit for the year, after taxation, amounted to £1,175,000 (14 months ended 31 December 2001: loss £1,417,000). The directors do not recommend a final ordinary dividend, which leaves £1,175,000 to be transferred to reserves.

Principal activities

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

Review of the business and future developments

A review of the group's business during the year and future developments is contained in the Chairman's Statement on pages 2 and 3.

Fixed assets

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

Research and development

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

Directors and their interests

The directors at 31 December 2002 and their interests in the share capital of the company (all beneficially held), other than with respect to options to acquire shares (which are disclosed in the Directors' Remuneration Report) were as follows:

	Ordinary Shares at	
	31 December 2002	31 December 2001
S J Green	5,625,491	5,625,491
J E Aves (Senior independent non-executive director)	10,000	—
A J S Walton-Green	462,990	462,990
D Osman	5,942	5,942
S W Purchase	4,254,434	4,254,434

During the period from 31 December 2002 until 14 April 2003 there have been no changes in the directors' interests.

Mr S J Green and Mr S W Purchase retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Sid Green founded Gresham in 1969 and is the group's non-executive chairman.

Steve Purchase joined Gresham in 1973 and has been the group's commercial director since 1982.

Substantial shareholdings

On 14 April 2003 the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

	Number	Percentage held
The Fleming Mercantile Investment Trust plc	4,372,500	9.3
Aberdeen Asset Managers Limited	3,660,398	7.8
Herald Investment Trust plc	1,875,000	4.0
M A Green	3,923,290	8.3

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

Supplier payment policy

The company has due regard to the payment terms of its suppliers and, whilst not following a specific code, generally settles all undisputed accounts at the due date for payment. At 31 December 2002 the group's creditor days were 41.

Disabled employees

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

Environmental considerations

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

Financial risk management

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

Note 23 to the financial statements analyses the group's financial instruments.

Interest rate risks

The majority of the group's funds are in the form of sterling, variable rate short-term deposits.

The group does not employ financial instruments to hedge the risk of variation in the UK bank base rate.

Liquidity risk

The group seeks to ensure that it has sufficient long-term funding and committed bank facilities in place to meet the requirements of the group. Note 23 analyses the long-term funding available to the group.

Foreign currency risk

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

Share capital

Resolutions will be proposed at the Annual General Meeting to renew the authorities given to the directors to allot and grant rights over the unissued share capital up to a maximum nominal amount of £783,765 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 £117,564, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

Auditors

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



D Osman
Company Secretary
15 April 2003

Compliance with the Combined Code

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

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

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

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

- A3.2 The majority of non-executive directors were not independent of the company.
- D3.1 The audit committee did not comprise the minimum of three non-executive directors, the majority of whom should be independent.
- B2.1 The remuneration committee did not comprise solely independent non-executive directors.
& B2.2

The workings of the board and its committees

The board currently comprises a non-executive chairman, a senior independent non-executive director, the chief executive and two further executive directors. The chairman, S J Green, is not deemed independent of the company for the purposes of the combined code because of his shareholding in the company. As a result, the company has not complied for the whole year with those provisions of the Combined Code relating to board balance and non-executive directors. The board considers that the balance of directors is appropriate given the small size of the group.

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

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

The board monitors the requirement for ongoing and initial training of directors.

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

The board has appointed audit and remuneration committees.

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

The remuneration committee comprises J E Aves (chairman) and S J Green. The committee meets to oversee all aspects of the remuneration of executive directors and their performance incentives. The committee monitors available data on comparable executive remuneration.

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

Relations with shareholders

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

The board uses the annual general meeting to communicate with private and institutional investors and welcomes their participation. The board aims to ensure that the chairmen of the audit and remuneration committees are available at

annual general meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting can be found in the Notice of the Meeting.

Going concern

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

Directors' statement on internal controls

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

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

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

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

Control environment

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

- The establishment of the organisation structure and the delegated responsibilities of operational management;
- The definition of authorisation limits, including matters reserved for the board;
- The establishment of budgets for each financial year at a detailed level, and active reporting and monitoring of actual performance against them;
- Reporting of performance against budgets and rolling forecasts;
- The security of physical property and of computer information;
- Detailed financial due diligence on all acquisitions.

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

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which amended the Companies Act 1985 and introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

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

Unaudited information

Remuneration committee

The remuneration committee, in consultation with the chief executive (in an advisory capacity), decides the basic salary, incentives and benefits for the executive directors. The members of the committee during the year were J E Aves (chairman) and S J Green.

Remuneration policy

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

The pay and benefits of executive directors are selected from:

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

Basic salary

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

For the year ending 31 December 2003 Messrs D Osman, S W Purchase and A J S Walton-Green have agreed to waive £30,000 each of their basic salary. The waived salary may be repaid to the directors dependent on the achievement of certain profitability targets for the year.

Annual bonus payments

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is the profitability of the group. The annual bonus plan generally allows incentive payments of up to 100% of basic salary. No incentive payments were made for the year ended 31 December 2002.

Share options

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

- a) Options granted prior to 18 August 1998: growth in the group's reported earnings per share in excess of the retail price index over a three year period.
- b) Options granted after 18 August 1998: growth in the group's reported earnings per share in excess plus five per cent per annum of the increase in the retail price index over a three year period.

DIRECTORS' REMUNERATION REPORT

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

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

Service agreements

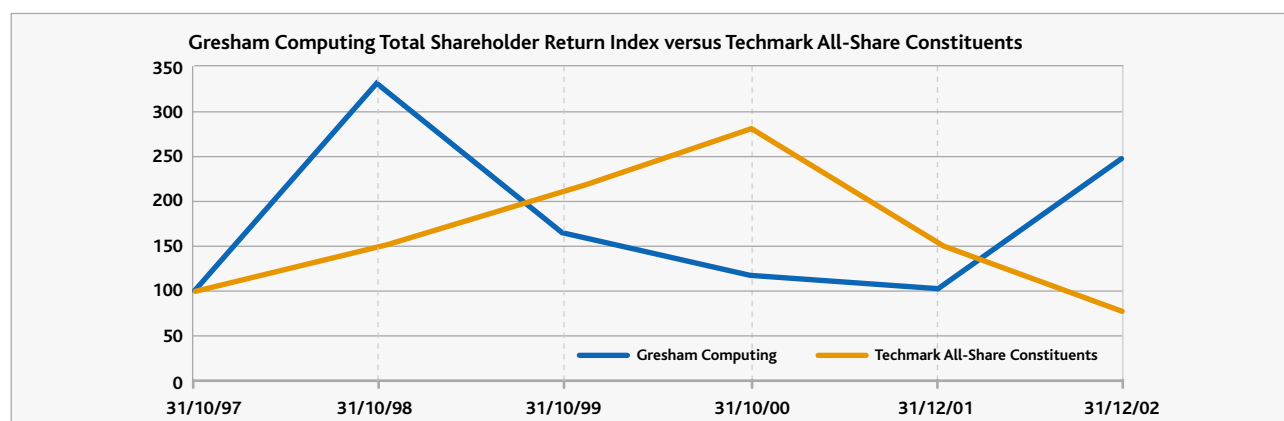
All executive directors have service agreements dated 1 August 2000. The service agreements are terminable by 12 months' rolling notice from either side except in certain circumstances where a change of control occurs, when a notice period of up to 36 months applies, which will subsequently reduce to 12 months. These provisions were considered essential in order to recruit and retain executive directors. Compensation for loss of office is considered on a case by case basis and in accordance with any service agreement requirements.

Non-executive directors

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

Performance graph

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



Audited information

Directors' emoluments

	Fees/basic salary	Benefits in kind	Performance related bonus	Year ended 31 December 2002 Total emoluments	14 months ended 31 December 2001 Total emoluments
	£	£	£	£	£
<i>Executive</i>					
D Osman	125,000	11,621	—	136,621	151,731
S W Purchase	125,000	9,304	—	134,304	149,623
A J S Walton-Green	155,000	11,079	—	166,079	187,060
<i>Non-executive</i>					
S J Green	36,665	—	—	36,665	39,167
J E Aves	32,550	—	—	32,550	15,675
	474,215	32,004	—	506,219	543,256

Directors' pension entitlements

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

	Year ended 31 December 2002 £	14 months ended 31 December 2001 £
D Osman	9,495	10,710
S W Purchase	15,000	9,771
A J S Walton-Green	9,585	10,710
	34,080	31,191

Directors' share options

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


	Options at 1 January 2002	Granted/ (cancelled) in the year	Exercised	Options at 31 December 2002	Date of grant	Exercise price	Date first exercisable	Expiry date
D Osman	81,081	(E) —	—	81,081	21.01.98	37p	22.01.01	21.01.08
	43,919	(E) —	—	43,919	17.02.99	142p	18.02.02	17.02.09
	12,187	(S) (12,187)	—	—	29.09.98	80p		
	*80,000	(E) —	—	80,000	25.07.00	36p	26.07.03	25.07.10
	100,000	(G) —	—	100,000	17.07.01	55p	18.07.01	17.07.04
	—	44,186 (S)	—	44,186	24.05.02	21.5p	01.07.05	31.12.05
S W Purchase	30,157	(S) —	—	30,157	08.09.00	23p	01.10.03	31.03.04
		12,548 (S)	—	12,548	24.05.02	21.5p	01.07.05	31.12.05
A J S Walton-Green	*557,897	(E) —	—	557,897	25.07.00	36p	26.07.03	25.07.10
	30,157	(S) —	—	30,157	08.09.00	23p	01.10.03	31.03.04
	250,000	(G) —	—	250,000	17.07.01	25p	18.07.01	17.07.04
	—	12,548 (S)	—	12,548	24.05.02	21.5p	01.07.05	31.12.05

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

The market price of the company's shares on 31 December 2002 was 61.25 pence. During the year the closing price per ordinary share ranged from 23 pence to 95.5 pence.

Approval

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



J E Aves
15 April 2003

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

We have audited the group's financial statements for the year ended 31 December 2002 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Group Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flow, Reconciliation of Net Cash Flows to Movement in Net Funds and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Southampton
15 April 2003

The maintenance and integrity of the Gresham Computing plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

		Before goodwill amortisation	Goodwill amortisation	Total group	Before goodwill amortisation	Goodwill amortisation	Total group
		Year ended 31 December			14 months ended 31 December		
		2002	2002	2002	2001	2001	2001
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Turnover							
Continuing operations		11,578	—	11,578	18,321	—	18,321
Discontinued operations		—	—	—	6,440	—	6,440
Group turnover	2	11,578	—	11,578	24,761	—	24,761
Cost of sales	2	6,707	—	6,707	13,988	—	13,988
Gross profit		4,871	—	4,871	10,773	—	10,773
Administrative expenses							
— pre-exceptional items	2	8,052	108	8,160	12,643	627	13,270
Administrative expenses							
— exceptional items	6	252	—	252	260	1,155	1,415
Administrative expenses		8,304	108	8,412	12,903	1,782	14,685
Operating loss	3	(3,433)	(108)	(3,541)	(2,130)	(1,782)	(3,912)
Continuing operations		(3,433)	(108)	(3,541)	(3,034)	(1,533)	(4,567)
Discontinued operations		—	—	—	904	(249)	655
Share of operating (loss)/profit in associate		(342)	(56)	(398)	450	(88)	362
Total operating loss: group and share of associate		(3,775)	(164)	(3,939)	(1,680)	(1,870)	(3,550)
Profit on disposal of tangible fixed assets (continuing operations)	6	—	—	—	84	—	84
Profit on sale of operations (discontinued operations)	6	4,881	—	4,881	2,647	—	2,647
		4,881	—	4,881	2,731	—	2,731
Profit/(loss) on ordinary activities before interest and taxation		1,106	(164)	942	1,051	(1,870)	(819)
Interest receivable		234	—	234	53	—	53
Interest payable	7	(28)	—	(28)	(207)	—	(207)
		206	—	206	(154)	—	(154)
Profit/(loss) on ordinary activities before taxation		1,312	(164)	1,148	897	(1,870)	(973)
Taxation on profit/(loss) on ordinary activities	8	(27)	—	(27)	444	—	444
Profit/(loss) on ordinary activities after taxation		1,339	(164)	1,175	453	(1,870)	(1,417)
Dividends — non-equity interests	10	—	—	—	66	—	66
Retained profit/(loss) for the year/period		1,339	(164)	1,175	387	(1,870)	(1,483)
Basic earnings per share (pence)	11	2.86	(0.35)	2.51	0.87	(4.19)	(3.32)
Diluted earnings per share (pence)	11	2.79	(0.34)	2.45	0.87	(4.19)	(3.32)



	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Profit/(loss) for the financial year/period	1,175	(1,417)
Exchange difference on retranslation of net assets of subsidiary undertakings	(1)	(2)
Total recognised gains and losses relating to the year/period	1,174	(1,419)

RECONCILIATION OF GROUP SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2002

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Total recognised gains and losses	1,174	(1,419)
Dividends	—	(66)
Issue of shares	105	—
Total movements during the year/period	1,279	(1,485)
Opening shareholders' funds	6,028	7,513
Closing shareholders' funds	7,307	6,028

GROUP BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	12	1,121	1,274
Tangible assets	13	1,556	1,832
Investment in associate	14	—	2,865
		2,677	5,971
Current assets			
Debtors	15	4,861	4,008
Cash at bank and in hand		4,009	958
		8,870	4,966
Creditors: amounts falling due within one year	16	3,498	4,146
Net current assets		5,372	820
Total assets less current liabilities		8,049	6,791
Creditors: amounts falling due after more than one year	17	742	763
		7,307	6,028
Capital and reserves			
Called up share capital	20	2,350	2,332
Share premium account	20	5,701	5,614
Special reserve	20	313	313
Merger reserve	20	726	726
Profit and loss account	20	(1,783)	(2,957)
Shareholders' funds — equity interests		7,307	6,028

On behalf of the board

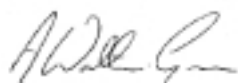
D Osman
15 April 2003

A Walton-Green
15 April 2003



	Notes	2002 £'000	2001 £'000
Fixed assets			
Investments	14	13,205	9,765
Current assets			
Debtors	15	1,925	5,893
Cash at bank and in hand		3,526	406
		5,451	6,299
Creditors: amounts falling due within one year	16	129	74
Net current assets		5,322	6,225
Total assets less current liabilities		18,527	15,990
Capital and reserves			
Called up share capital	20	2,350	2,332
Share premium account	20	5,701	5,614
Special reserve	20	313	313
Merger reserve	20	6,609	6,609
Profit and loss account	20	3,554	1,122
Shareholders' funds — equity interests		18,527	15,990

On behalf of the board

D Osman

15 April 2003

A Walton-Green

15 April 2003

GROUP STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Net cash outflow from operating activities	22	(3,223)	(848)
Dividend received from associated undertaking		79	—
Returns on investments and servicing of finance			
Interest received		232	39
Interest paid		(28)	(207)
Dividends paid to preference shareholders		(66)	(132)
		138	(300)
Taxation			
Corporation tax paid		(38)	(154)
Overseas tax received		—	10
		(38)	(144)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(194)	(477)
Receipts from sale of tangible fixed assets		3	442
		(191)	(35)
Acquisitions and disposals			
Disposal of subsidiary undertaking		—	5,850
Disposal of associated undertaking		6,751	—
Costs of disposal		(173)	(434)
Net cash disposed of with subsidiary undertaking		—	(363)
		6,578	5,053
Net cash inflow before financing		3,343	3,726
Financing			
Issue of share capital		105	—
Repayment of long-term loans		—	(2,500)
Receipt of short-term loans		—	250
Repayment of short-term loans		(250)	(219)
Repayments of finance leases		(130)	(216)
Net outflow from financing		(275)	(2,685)
Increase in cash in the year/period		3,068	1,041



	Notes	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Increase in cash		3,068	1,041
Cash inflow from increase in loans		—	(31)
Repayments of loans		250	2,500
Repayments of capital element of finance leases		130	216
Change in net funds resulting from cash flows		3,448	3,726
Finance lease obligations disposed of with subsidiary undertaking		—	109
Inception of finance leases		(19)	(105)
Exchange differences		(14)	—
Movement in net funds		3,415	3,730
Net funds/(debt) at 1 January/1 November		513	(3,217)
Net funds at 31 December	22	3,928	513

1. Accounting policies

Basis of preparation

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

Basis of consolidation

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

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

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

Goodwill

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

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

Intangible assets

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

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

Depreciation

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

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

Long-term contracts

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

Research and development

Research and development expenditure is written off as incurred.

Turnover

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

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

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

Pension costs

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

Taxation

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

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

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

Foreign currencies

Company

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

Group

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

Leasing and hire-purchase commitments

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

2. Turnover and segmental analysis

The group's principal areas of activity are the provision of software and solutions.

Analysis of turnover by segment:

	Inter-segment			External		
	Turnover	turnover	turnover	Turnover	turnover	turnover
	Year ended 31 December					
	2002	2002	2002	2001	2001	2001
	£'000	£'000	£'000	£'000	£'000	£'000
Solutions	2,549	—	2,549	4,748	(2)	4,746
Specialist contract staff	3,456	(55)	3,401	6,167	(1,291)	4,876
Enterprise solutions	6,005	(55)	5,950	10,915	(1,293)	9,622
Enterprise software	5,628	—	5,628	8,699	—	8,699
Continuing operations	11,633	(55)	11,578	19,614	(1,293)	18,321
SIM Testing (discontinued)	—	—	—	6,449	(9)	6,440
	11,633	(55)	11,578	26,063	(1,302)	24,761

Geographical analysis of turnover by source:

	Inter-segment			External		
	Turnover	turnover	turnover	Turnover	turnover	turnover
	Year ended 31 December					
	2002	2002	2002	2001	2001	2001
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom — continuing operations	7,755	(3)	7,752	12,742	(1,244)	11,498
United Kingdom — discontinued operations	—	—	—	6,449	(9)	6,440
North America	2,799	(751)	2,048	4,710	(226)	4,484
Rest of World	2,764	(986)	1,778	2,765	(426)	2,339
	13,318	(1,740)	11,578	26,666	(1,905)	24,761

Geographical analysis of turnover by destination:

	Year	14 months
	ended 31	ended 31
	December	December
	2002	2001
	£'000	£'000
United Kingdom — continuing operations	7,006	10,002
United Kingdom — discontinued operations	—	6,440
Europe	1,049	1,730
North America	1,918	4,498
Rest of World	1,605	2,091
	11,578	24,761

2. Turnover and segmental analysis (continued)

Common costs comprise the costs of all central group services.

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

	Profit/(loss) before goodwill amortisation			Total group 2002 £'000	Profit/(loss) before goodwill amortisation		
	Year ended 31 December				14 months ended 31 December		
	2002 £'000	2002 £'000	2002 £'000		2001 £'000	2001 £'000	2001 £'000
Enterprise solutions	(2,626)	(60)	(2,686)	(2,106)	(72)	(2,178)	
Enterprise software	339	(48)	291	737	(1,461)	(724)	
Continuing operations	(2,287)	(108)	(2,395)	(1,369)	(1,533)	(2,902)	
SIM Testing (discontinued)	—	—	—	904	(249)	655	
	(2,287)	(108)	(2,395)	(465)	(1,782)	(2,247)	
Common costs	(1,146)	—	(1,146)	(1,665)	—	(1,665)	
Operating loss	(3,433)	(108)	(3,541)	(2,130)	(1,782)	(3,912)	
Share of operating (loss)/profit of associate	(342)	(56)	(398)	450	(88)	362	
Total operating loss: group and share of associate	(3,775)	(164)	(3,939)	(1,680)	(1,870)	(3,550)	
Non-operating exceptional items	4,881	—	4,881	2,731	—	2,731	
Net interest receivable/(payable)	206	—	206	(154)	—	(154)	
Profit/(loss) on ordinary activities before taxation	1,312	(164)	1,148	897	(1,870)	(973)	

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

	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	(1,835)	—	(1,835)	(238)	—	(238)
North America	(491)	—	(491)	(977)	(1,411)	(2,388)
Rest of World	39	(108)	(69)	(154)	(122)	(276)
	(2,287)	(108)	(2,395)	(1,369)	(1,533)	(2,902)
United Kingdom (discontinued)	—	—	—	904	(249)	655
	(2,287)	(108)	(2,395)	(465)	(1,782)	(2,247)
Common costs	(1,146)	—	(1,146)	(1,665)	—	(1,665)
Operating loss	(3,433)	(108)	(3,541)	(2,130)	(1,782)	(3,912)
Share of operating (loss)/profit of associate	(342)	(56)	(398)	450	(88)	362
Total operating loss: group and share of associate	(3,775)	(164)	(3,939)	(1,680)	(1,870)	(3,550)
Non-operating exceptional items	4,881	—	4,881	2,731	—	2,731
Net interest receivable/(payable)	206	—	206	(154)	—	(154)
Profit/(loss) on ordinary activities before taxation	1,312	(164)	1,148	897	(1,870)	(973)

Net assets by segment are shown below:

	2002			2001		
	Net assets	Capitalised goodwill	Total	Net assets	Capitalised goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Enterprise solutions	269	662	931	(493)	721	228
Enterprise software	1,132	459	1,591	874	508	1,382
Continuing operations	1,401	1,121	2,522	381	1,229	1,610
Unallocated net assets			4,785			1,553
Associated undertaking			—			2,865
Total net assets			7,307			6,028

2. Turnover and segmental analysis (continued)

Net assets by location is shown below:

	2002 £'000	2001 £'000
United Kingdom	1,325	4
Rest of Europe	(20)	78
North America	(175)	352
Rest of World	1,392	1,176
Continuing operations	2,522	1,610
Unallocated net assets	4,785	1,553
Associated undertaking	—	2,865
Total net assets	7,307	6,028

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

Cost of sales and operating expenses:

	Year ended 31 December 2002			14 months ended 31 December 2001		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	6,707	—	6,707	10,200	3,788	13,988
Administrative expenses						
— pre-exceptional items	8,160	—	8,160	11,264	2,006	13,270
— exceptional items	252	—	252	1,415	—	1,415
Administrative expenses	8,412	—	8,412	12,679	2,006	14,685

3. Operating loss

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
This is stated after charging:		
Auditors' remuneration — audit services UK*	38	56
— audit services overseas	26	58
	64	114
— non-audit services UK	39	11
— non-audit services overseas	9	24

* Of this amount £5,000 (2001: £5,000) relates to the company. In addition, the profit on disposal of SIM includes a charge for non-audit services of £6,000 (2001: £261,000) incurred in respect of the disposal.

Research and development expenditure	1,519	1,553
Depreciation of owned assets	389	773
Depreciation of assets held under finance leases and hire-purchase contracts	78	117
Amortisation of intangible assets and provision for impairment in value of goodwill	153	1,903
Operating lease rentals — land and buildings	723	831
— plant and machinery	327	473

4. Directors' remuneration

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
The emoluments of the directors are as follows:		
Fees	69	55
Other emoluments:		
Basic salaries	405	440
Benefits	32	48
Pension contributions	34	31
	540	574

Details of directors' emoluments are given in the Directors' Remuneration Report on pages 8 to 10.

5. Staff costs

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Wages and salaries	6,410	10,892
Social security costs	754	1,062
Other pension costs	263	382
	7,427	12,336
The average monthly number of employees, including executive directors, was as follows:		
Office, management and technical	152	216

6. Exceptional items

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Recognised in arriving at operating loss:		
Reorganisation and restructuring costs	252	263
Provision for impairment in value of goodwill	—	1,155
Reversal of previous provision for impairment in value of freehold property	—	(125)
Provision for impairment in value of leasehold property improvements	—	122
	252	1,415
Recognised after operating loss:		
Profit on disposal of tangible fixed assets	—	(84)
Profit on sale of 50.01% interest in SIM Group Limited (Note 14)	—	(2,647)
Profit on sale of 49.99% interest in SIM Group Limited (Note 14)	(4,881)	—
	(4,881)	(2,731)

The effect on the taxation charge for the period of the exceptional items recognised below operating profit is a charge of £1,164,000 (2001: £613,000) which has been offset by the utilisation of operating and capital losses.

7. Interest payable

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Finance charges payable under finance leases and hire-purchase contracts	10	57
Other interest	—	14
Bank interest	18	136
	28	207

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

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
The tax charge comprises:		
Current tax		
UK Corporation tax	—	272
Withholding tax	59	—
	59	272
Foreign tax	—	5
	59	277
Adjustments in respect of prior years		
UK Corporation tax	39	(7)
Foreign tax	(19)	39
Total current tax	79	309
Total deferred tax (note 19)	—	—
Share of associates' tax	(106)	135
Total tax on profit/(loss) on ordinary activities	(27)	444

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

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Profit/(loss) on ordinary activities before tax	1,148	(973)
Less share of associate's (loss)/profit before tax	(342)	450
Group profit on ordinary activities before tax	1,490	(1,423)
Tax on group profit/(loss) on ordinary activities at 30% (2001: 30%)	447	(427)
Effects of:		
Expenses not deductible for tax purposes	78	140
Other short-term timing differences	(5)	145
Capital allowances in excess of depreciation	(212)	378
Utilisation of losses and indexation	(747)	(194)
Increase in tax losses carried forward	439	235
Withholding tax	59	—
Adjustments to tax charge in respect of prior periods	20	32
Group current tax charge for the period	79	309

Factors that may affect future tax charges:

At 31 December 2002 the group has a substantial unrecognised deferred tax asset of £1,671,000 as analysed in note 19. Realisation of this unrecognised deferred tax asset may reduce future tax charges. The realisation of the asset is dependent upon the group making future profits in the subsidiaries where the tax losses have been incurred.

9. Profit attributable to members of the parent undertaking

The profit dealt with in the financial statements of the parent undertaking was £2,432,000 (2001: £379,000).

10. Dividends

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Non-equity dividends on preference shares	—	66

11. Earnings per share

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

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Profit/(loss) for the year/period	1,175	(1,483)
	Year ended 31 December 2002 number of shares	14 months ended 31 December 2001 number of shares
Weighted average number of shares:		
For basic earnings per share	46,816,200	44,625,110
Potential ordinary shares	1,197,072	—
Diluted weighted average number of shares	48,013,272	44,625,110

For the period ended 31 December 2001, the loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the potential diluting events would have the effect of reducing the loss per ordinary share and are therefore not dilutive under the terms of FRS 14.

12. Intangible fixed assets

GROUP	Computer software rights £'000	Goodwill on acquisitions £'000	Total £'000
Cost:			
At 1 January 2002 and 31 December 2002	669	3,325	3,994
Amortisation:			
At 1 January 2002	624	2,096	2,720
Provided during the year	45	108	153
At 31 December 2002	669	2,204	2,873
Net book value at 31 December 2002	—	1,121	1,121
Net book value at 1 January 2002	45	1,229	1,274

Goodwill is amortised over its estimated useful life ranging from 10 to 15 years.

13. Tangible fixed assets

GROUP	Freehold premises £'000	Short leasehold premises £'000	Computer equipment £'000	Plant, fixtures and equipment £'000	Total £'000
Cost:					
At 1 January 2002	1,298	657	2,475	606	5,036
Additions	—	2	201	10	213
Exchange differences	—	(7)	(72)	(5)	(84)
Disposals	—	—	(231)	(7)	(238)
At 31 December 2002	1,298	652	2,373	604	4,927
Depreciation:					
At 1 January 2002	286	458	2,019	441	3,204
Provided during the year	58	78	267	64	467
Exchange differences	—	(6)	(56)	(3)	(65)
Disposals	—	—	(231)	(4)	(235)
At 31 December 2002	344	530	1,999	498	3,371
Net book value:					
At 31 December 2002	954	122	374	106	1,556
At 1 January 2002	1,012	199	456	165	1,832

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

	2002 £'000	2001 £'000
Computer equipment	24	27
Plant fixtures and equipment	65	87
Short leasehold premises	22	45
Freehold premises	115	135

14. Investments

GROUP: associated undertaking	Share of net tangible assets £'000	Goodwill £'000	Total £'000
At 1 January 2002	518	2,347	2,865
Share of loss retained by associate	(236)	—	(236)
Amortisation of goodwill	—	(56)	(56)
Dividend received from associated undertaking	(79)	—	(79)
Disposal	(203)	(2,291)	(2,494)
At 31 December 2002	—	—	—

On 15 April 2002 the group disposed of its 49.99% interest in its associated undertaking SIM Group Limited. The disposal is analysed as follows:

	£'000
Net assets disposed of:	
Share of net assets of associated undertaking	203
Goodwill	2,291
	2,494
Profit on disposal (after goodwill of £2,291,000)	4,881
	7,375
Satisfied by:	
Cash	6,751
Convertible bond	692
Less disposal expenses	(68)
	7,375

14. Investments (continued)

The convertible bond, which is denominated in Euros was issued by SQS Software Quality Systems AG in part consideration of the proceeds. The convertible bond bears interest at a rate of 1% above the LIBOR rate on 15 April 2002 for sterling deposits and is redeemable at par value at any time after 1 August 2003. The group has granted options to employees of SIM Group to acquire the convertible bonds up to 30 June 2003 at the par value of the bonds. The convertible bond is also convertible into 31,112 ordinary shares SQS Software Quality Systems AG, at the option of the bondholder.

COMPANY	Subsidiary undertakings £'000	Associated undertaking £'000	Total £'000
Cost:			
At 1 January 2002	6,706	3,059	9,765
Additions — capitalisation of inter-company accounts	8,049	—	8,049
Provision for impairment in value	(1,350)	—	(1,350)
Disposal	(200)	(3,059)	(3,259)
At 31 December 2002	13,205	—	13,205

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

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

* 100% held indirectly through an intermediate holding company

15. Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade debtors	1,593	2,258	—	—
Amounts owed by subsidiary undertakings	—	—	1,221	5,750
Amounts owed by associated undertaking	—	304	—	128
Prepayments and accrued income	1,132	920	12	15
Amounts recoverable on long-term contracts	—	98	—	—
Long-term contract balances	1,353	280	—	—
Convertible bond receivable (note 14)	692	—	692	—
Corporation tax recoverable	91	148	—	—
	4,861	4,008	1,925	5,893

16. Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Obligations under finance leases and hire-purchase contracts (note 18)	76	129	—	—
Short-term bank loans	—	250	—	—
Trade creditors	400	810	10	8
Corporation tax payable	38	—	21	—
Overseas tax payable	—	54	—	—
Other taxes and social security costs	304	375	—	—
Other creditors and accruals	1,148	748	98	—
Deferred income	1,532	1,714	—	—
Proposed dividends	—	66	—	66
	3,498	4,146	129	74

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

	Group	
	2002 £'000	2001 £'000
Obligations under finance leases and hire-purchase contracts (note 18)	5	66
Deferred income	737	697
	742	763

18. Obligations under leases and hire-purchase contracts

	Group			
	2002	2001		
	£'000	£'000		
Amounts payable:				
Within one year	76	129		
In two to five years	5	66		
	81	195		
Finance leases and hire-purchase contracts are analysed as follows:				
Current obligations (note 16)	76	129		
Non-current obligations (note 17)	5	66		
	81	195		
Annual commitments under non-cancellable operating leases are as follows:				
	Land and buildings	Other	Land and buildings	Other
	2002	2002	2001	2001
GROUP	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	162	11	8	14
Within two to five years	245	244	392	279
Over five years	230	—	295	—
	637	255	695	293
			Land and buildings	Land and buildings
			2002	2001
COMPANY			£'000	£'000
Operating leases which expire:				
Within one year			—	—
Within two to five years			155	—
Over five years			185	295
			340	295

19. Provisions for liabilities and charges

The group has a potential deferred tax asset, which has not been recognised in the financial statements, as follows:

	Group		Company	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Depreciation in advance of capital allowances	497	709	—	—
Other timing differences	55	50	—	19
Tax losses	1,119	1,464	—	593
Unrecognised deferred tax asset	1,671	2,223	—	612

20. Share capital and reserves

	Authorised		Allotted, called up and fully paid	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Share capital:				
Ordinary shares of 5p each	3,250	3,250	2,350	2,332
13% gross cumulative convertible preference shares of 20p each	550	550	—	—
	3,800	3,800	2,350	2,332

During the year 360,612 shares were issued following the exercise of options for a total consideration of £105,000.

Reserves:

	Share capital £'000	Share premium account £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000
GROUP					
At 1 January 2002	2,332	5,614	313	726	(2,957)
Exchange differences on retranslation of net assets of subsidiary undertakings	—	—	—	—	(1)
Issue of ordinary shares	18	87	—	—	—
Retained profit for the year	—	—	—	—	1,175
At 31 December 2002	2,350	5,701	313	726	(1,783)
COMPANY					
At 1 January 2002	2,332	5,614	313	6,609	1,122
Issue of ordinary shares	18	87	—	—	—
Retained profit for the year	—	—	—	—	2,432
At 31 December 2002	2,350	5,701	313	6,609	3,554

The special reserve arose on the cancellation of deferred ordinary shares in June 1992. The cumulative amount of goodwill written off to reserves at 31 December 2002 and 2001 is £7,326,000. Goodwill previously written off to reserves will remain so written off as permitted by FRS 10.

21. Share options

The grant of all options is made by the remuneration committee. In granting executive share options the remuneration committee has regard to both the participant's level of responsibility within the group and to individual and group performance. All the options issued prior to 18 August 1998 were issued under the Gresham Telecomputing Share option scheme and are only exercisable if the group's earnings per share increase by more than the retail price index over a three-year period. All options granted after 18 August 1998 are granted under the Gresham Computing 1998 Executive Share Option Scheme. Approved options under this scheme are only exercisable if over a three-year period the group's earnings per share increase by five per cent above the retail price index per annum. Any unapproved options granted under this scheme may also be subject to additional individual performance criteria. Options are capable of exercise after three years and within ten years of the date of grant. In total 16 executives hold options under these option schemes.

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

At 31 December 2002 there were 41 participants in the SAYE scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2002, including those noted in the Directors' Remuneration Report, are as follows:

	Number of options	Number of option holders	Option price (pence)	Dates normally exercisable
Executive share option schemes				
	81,081	1	37	Jan 2001 – Jan 2008
	43,919	1	142	Feb 2002 – Feb 2009
	10,000	2	45.5	Feb 2003 – Feb 2010
	25,000	1	54	Feb 2003 – Feb 2010
	637,897	2	36	July 2003 – July 2010
	25,000	1	27.5	Aug 2003 – Aug 2010
	25,000	1	26.5	Jan 2004 – Jan 2011
	295,000	8	29.25	Aug 2004 – Aug 2011
	150,000	1	26.75	Apr 2005 – Apr 2012
	120,000	2	77.75	Sept 2005 – Sept 2012
SAYE scheme				
	570,788	32	23	Oct 2003 – Mar 2004
	547,711	34	21.5	Jul 2005 – Jan 2006
Other share options				
	50,000	1	39.5	Sept 2001 – Sept 2003
	150,000	1	26.75	Apr 2002 – Apr 2004

22. Notes to the statement of cash flow

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

	Year ended 31 December 2002 £'000	14 months ended 31 December 2001 £'000
Operating loss	(3,541)	(3,912)
Depreciation	467	887
Amortisation	153	1,903
(Increase)/decrease in debtors	(286)	1,150
Decrease in creditors	(16)	(876)
Net cash outflow	(3,223)	(848)

(b) Analysis of net funds

	At 1 January 2002 £'000	Cash flow £'000	Exchange differences £'000	Inception of finance leases £'000	At 31 December 2002 £'000
Cash at bank in hand	958	3,068	(17)	—	4,009
Short-term loans	(250)	250	—	—	—
Finance leases	(195)	130	3	(19)	(81)
	513	3,448	(14)	(19)	3,928

(c) Exceptional items

The net cash outflow from operating activities includes cash outflows of £177,000 (2001: £352,000) in respect of the exceptional costs detailed in note 6.

23. Derivatives and other financial instruments

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

Interest rate risk profile of financial liabilities

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

	31 December 2002			31 December 2001		
	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Total £'000	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Total £'000
Sterling	—	60	60	—	424	424
US dollar	21	—	21	—	21	21
Total	21	60	81	—	445	445

The floating rate financial liabilities comprise:

- Sterling denominated finance leases (and bank loans in 2001) that bear interest at rates based on the UK bank base rates.

The fixed rate financial liabilities comprise:

- US dollar finance leases at a weighted average interest rate of 15% with a weighted average maturity date of March 2004.

23. Derivatives and other financial instruments (continued)

Interest rate risk profile of financial assets

Interest based on the applicable base rates is earned on the floating rate financial assets. The interest rate profile of the floating rate financial assets of the group excluding short-term debtors was as follows:

	2002 £'000	2001 £'000
Sterling	3,503	584
US dollar	286	151
Australian dollar	112	120
Canadian dollar	85	78
Other	23	25
	4,009	958

At 31 December 2002 the group also had a fixed rate financial asset of £692,000 in the form of a Convertible Eurobond from SQS Software Quality Systems AG, at a fixed interest rate of 5% which matures on 31 July 2003.

Currency exposures

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

Functional currency of group operation	Net foreign currency monetary assets					
	Euro 2002 £'000	US Dollar 2002 £'000	Total 2002 £'000	Euro 2001 £'000	US Dollar 2001 £'000	Total 2001 £'000
Sterling	769	435	1,204	—	261	261
Australian dollar	—	77	77	—	121	121
Canadian dollar	—	101	101	—	61	61
	769	613	1,382	—	443	443

Maturity of financial liabilities

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

	2002 £000	2001 £000
In one year or less, or on demand	76	379
In more than one year but not more than two	5	66
	81	445

Borrowing facilities

The undrawn committed facilities available in respect of which all conditions precedent had been met at 31 December 2002 was £nil (2001: £500,000).

Fair values of financial assets and financial liabilities

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

24. Pension commitments

The group operates defined contribution schemes for staff and directors. The assets of the scheme are held separately from those of the grouping independently administered funds. At 31 December 2002 there were outstanding contributions of £28,000 (2001: £18,000).

25. Related party transactions

SIM Group Limited was an associated undertaking until its disposal on 15 April 2002. During the year the group purchased services from SIM Group Limited and its subsidiaries totalling £99,000 (2001: £131,000) on an arm's length basis and sold services of £330,000 (2001: £717,000) to SIM Group Limited and its subsidiaries on an arm's length basis.

In 2001 the group entered into an agreement with Mr Robert Bartlett, who is a director of SIM Group Limited. Pursuant to that agreement the group paid Mr Bartlett a bonus of £26,530 on the completion of the disposal of the group's shares in SIM Group Limited (2001: £100,000). Pursuant to that agreement the group has granted options to Mr Bartlett to purchase £455,200 of the Convertible bonds received from SQS Software Quality Systems AG by 30 June 2003.

Notice is hereby given that the Annual General Meeting of Gresham Computing plc will be held at Sopwith House, Brook Avenue, Warsash, Southampton, SO31 9ZA on 30 May 2003 at 10.00 a.m. for the following purposes:

To conduct the following ordinary business:

- A. To consider and, if thought appropriate, to approve the group's financial statements and the reports of the directors and auditors for the year ended 31 December 2002.
- B. To consider and, if thought appropriate, to approve the Directors' Remuneration Report for the year ended 31 December 2002.
- C. To reappoint Ernst & Young LLP as auditors of the company to hold office until the conclusion of the next general meeting at which financial statements are laid before the company and to authorise the directors to fix their remuneration.
- D. To re-elect S J Green as a director following his retirement by rotation.
- E. To re-elect S W Purchase as a director following his retirement by rotation.

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

1. That the directors be and they are hereby authorised, in addition to any authority previously conferred on them, generally and unconditionally pursuant to section 80(1) of the Companies Act 1985 (The Act) to exercise all the powers of the company to allot relevant securities (as defined in subsection (2) of section 80) up to an aggregate nominal amount of £783,765 during the period commencing on the date of the passing of this resolution and ending on the earlier of 1 August 2004 and the close of the next Annual General Meeting of the company, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after the date of expiry of this authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
2. That the directors be and are hereby empowered to allot pursuant to Section 95 of the Act, equity securities (as defined in section 94 (2) of the Act) for cash pursuant to the authority conferred by section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment provided that such power shall expire at the close of the next Annual General Meeting, or on 1 August 2004, whichever is the earlier, and shall be limited:
 - (i) to the allotment of equity securities in connection with any rights issue in favour of, or general offer to, ordinary shareholders or preference shareholders open for acceptance for a period fixed by the directors where the offers of such allotments are proportionate at a record date selected by the directors (as nearly as may be) to the respective numbers of ordinary shares or preference shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any legal or practical problems arising in any territory or in connection with fractional entitlements, record dates or otherwise or in respect of the requirement of any regulatory body or stock exchange;
 - (ii) to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities (as defined in section 94(2) of the Act) up to an aggregate nominal value of £117,564.

Notes:

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

By order of the board



D Osman

Company Secretary

15 April 2003

Registered office:

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