

Annual Report & Accounts 2001



GRESHAM
computing plc



software&solutions

Directors and Advisers

Gresham Computing plc
Registered No. 1072032

Directors

S J Green	Non-Executive Chairman
J E Aves	Non-Executive Director
A J S Walton-Green	Chief Executive
S W Purchase	Commercial Director
D Osman	Finance Director

Secretary

D Osman

Registered Office

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Brook Avenue
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Auditors

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Wessex House
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Registrars

Lloyds TSB Registrars
Registrar's Department
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Bankers

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165 High Street
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Solicitors

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Clifford's Inn
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Chairman's Statement

Results

In this statement the period refers to the 14 months ended 31 December 2001 and the comparative figures are for the year ended 31 October 2000. Turnover for the period was £24.8 million (2000: £23.3 million). The profit before tax and goodwill amortisation was £0.9 million (2000: loss of £3.6 million), while the loss per ordinary share after goodwill amortisation was 3.32 pence (2000: 9.38 pence).

Turnover from ongoing operations was £18.3 million (2000: £18.8 million). SIM Group Limited, which is classified as a discontinued operation following the disposal of 50% plus one controlling share by the group on 25 June 2001, contributed revenue up to that date of £6.4 million (year ended 31 October 2000: £4.5 million). The total operating loss before goodwill amortisation and impairment was £1.7 million (2000: £3.3 million). A profit on disposal of operations and fixed assets contributed £2.7 million, and the charge for goodwill amortisation during the period was £1.9 million, which included an exceptional charge for impairment of £1.2 million and a charge of £0.3 million in respect of SIM Group.

Trading conditions throughout the period were difficult, in particular for our solutions business, however the board has continued to invest in research and development to maximise the group's intellectual property for the long term. The group's financial position has significantly improved following the disposal of the first tranche of shares in SIM Group and careful cash management. At 31 December

2001 the group had a net cash balance of £0.5 million compared with net debt at 31 October 2000 of £3.2 million.

Disposal of SIM Group

The disposal of the SIM group, which is consistent with our corporate strategy realised £5.85 million for the first tranche of shares, resulting in a profit on disposal of £2.6 million in the results for the period.

The completion of the disposal of our remaining shares in SIM Group was completed on 15 April 2002 for initial proceeds of £6.9 million and further proceeds of ten per cent of the turnover achieved by SIM Group in the year ending 31 October 2002. This will result in a profit on disposal of approximately £5 million being recorded in the first half of 2002. These proceeds further strengthen the group's financial position. The total proceeds for the disposal of SIM Group are expected to exceed £13 million, an excellent return on the £6 million cost of acquiring SIM Group in April 1999.

Strategy

Two years ago, the initial action of the executive team was to evaluate the potential value within the group of companies, following the series of acquisitions, which commenced four years ago. That process identified intellectual property of immense potential within the group even though it required further investment to be fully developed. Despite the difficult trading and financial position of the group at that time, the board have continued to invest in our intellectual property throughout the period and will

"We have put in place a strategy that we believe has the potential to deliver substantial shareholder returns over the next five years"

Andrew Walton-Green, CEO of Gresham Computing plc

GRESHAM
computing plc

continue the investment in order to recognise that potential.

Our strategy is to focus primarily on the three areas of operation that we consider to have significant long-term growth prospects: Storage Management; Casablanca and Real Time Nostro. These three areas will be underpinned by the traditional strength of Gresham in its ongoing support and maintenance of customers. Loss-making businesses that have no part in our strategy have been greatly reduced in size. This process has led to the closure in March 2002 of the Automated Solutions business and a resultant write-off of goodwill of £1.2 million in these accounts.

Storage management

The Extended Data Technology (EDT) family of products provide enhanced integration and efficiency for Tivoli Storage Manager and StorageTek library users. Sales of EDT during the period have not yet met our expectations, as a result of difficult market conditions in the US. In addition, our channel relationships are taking longer than expected to become fully operational. However, we consider that EDT and its successors have considerable market potential. To realise this potential we are forging business relationships with world class providers of storage media, including our global distribution agreement announced with Tivoli-IBM in June 2001.

Casablanca

Casablanca is the group's flagship enterprise application integration (EAI) engine. Through its orchestration layer,

Casablanca has the capability not only of integrating large numbers of applications but other EAI software tools as well. During the period contracts have been signed with two leading banks for Casablanca software. This resurgence of interest has arisen from the development of the new 'C3' version of Casablanca, adding speed and scalability to what was already a fine product. This will provide an excellent platform for further sales to financial organisations. Casablanca has a wide range of applications and we intend to use the financial sector as a platform to advance into other markets.

Real Time Nostro

The revenue sharing contract with Cable & Wireless to provide the Real Time Nostro software is possibly our most exciting opportunity. With the combination of Gresham's thought leadership and the backing and renowned technical and delivery resources of Cable & Wireless, Real Time Nostro is now positioned to be commercially realised. The Real Time Nostro service remains on target to be operational in the second half of the year. Whilst the build-up of revenues will initially be slow as the service is rolled out, the directors consider that this service provides the group with an excellent opportunity for significant recurring revenue growth in 2003 and beyond.

Outlook

We are committed to continue to invest in order to deliver the potential long-term growth within the business. This continued investment, combined with the difficult trading conditions experienced by all our businesses including SIM Group

during the first quarter of 2002 is expected to result in an operating loss for 2002, although this is expected to be more than offset by the profit realised on the disposal of the Tranche 2 SIM Group shares. We anticipate that our significant business opportunities will come on stream during the second half of 2002 and build in 2003 providing the group with a platform for growth in 2003 and beyond.

The past three years have been the most difficult period in the history of Gresham, and shareholders will naturally have felt concern for the security of their investment during this period. Being a significant shareholder myself, I have no hesitation in expressing my total confidence in the executive arm of the board. We have chosen a strategy for recovery that needs great courage and, due to the skill and determination of the board and management team, we are now beginning to deliver on this strategy. There is still much to do, but I believe that your company is now firmly back on track to regain growth and prosperity.

This position would never have been possible without the loyalty and ingenuity of our staff. They have weathered the worst of the recent times and yet have given unstintingly of their efforts, and to every one of them I extend my heartfelt gratitude and thanks.



Sid Green
April 15, 2002

Chief Executive's Report

The past two years have been particularly challenging for everyone at Gresham. However, I believe that we have come a long way in that time.

Our achievements

We have:

- clarified our purpose and strategy;
- moved to a net cash position;
- secured the ability to invest further in the development of the group;
- simplified our business and operating structure into two main lines; and
- developed relationships with some of the world's most respected companies.

Our focus

My objective is to deliver significant and enduring value to shareholders. We will only achieve this through a focus on business offerings where we have valuable expertise, which in turn gives our clients competitive advantage. The three areas in which we are investing relate to our niche expertise in the financial and storage markets.

Storage management

The rapid expansion of data storage requirements is a well documented industry trend.

A key element of the new storage topography has been the establishment of Storage Area

Networks (SAN), enabling high speed data exchange over a dedicated network. The explosive growth in data volume requirements from enterprise businesses present a significant opportunities, both in the medium and long-term.

The Extended Data Technology (EDT) product set is middleware technology that acts as the 'glue' between IBM's Tivoli Storage Manager and Third-party tape library storage. We provide a strong ROI and deliver multiple benefits including, improved utilisation of expensive back-up tape drives & media whilst reducing the high cost of managing and administering the ever increasing storage requirements.

We are currently working on significantly extending the scope and functionality of the EDT product set including back-up media and library virtualisation, which will begin a phased roll out during the back half of 2002.

Casablanca - Enterprise Application Integration (EAI) Orchestration Software

It is recognised that the prime value of IT systems is the data that they contain not the IT infrastructure itself which is, or should be, a delivery medium. Data and systems have been built over time incurring great expense, however the data is often 'locked' into an application preventing its wider use. The integration

... described real time nostro information as the "Holy Grail in correspondent banking"

Martin Leboutitz of JP Morgan Chase



of application software to 'unlock' this data is complex, time consuming and often requires significant on-going costs in subsequent maintenance. Large established businesses (Enterprises) often have a plethora of hardware and software systems, much of which needs to be brought together in order to fulfil the needs of the 'modern' internal or external customer.

The traditional way to solve this problem is to write new point-to-point 'connectivity' code, however this is laborious, time consuming and relatively high risk. EAI software seeks to ease the process of integration, minimizing the requirement for new code to be written and seeking to perform integration in a more standardised way.

Following extensive development effort, our latest release of Casablanca has been installed in two of the largest Banks in the world to provide real-time access to previously 'locked' data. Casablanca is a comprehensive, functionally rich software environment which allows the user to integrate disparate systems at the application level in a highly cost effective manner. We believe it has significant potential, particularly in the finance and banking sector, where the volumes and frequency of legacy data are most common place.

C&W Real Time Nostro

Over three years ago Gresham were involved in initiating a forum of global clearing banks who were keen to solve some of the inefficiencies of the correspondent banking system which affect some 7000 banks across the globe. We worked with a selection of the world's largest banks to define the technical specifications for a global open standard which would facilitate the near real time exchange of information between banks in a common format.

For each bank to operate and maintain their own unique system seemed highly inefficient. Together with Cable & Wireless, we identified that we could offer a secure, hosting and global delivery system that would deliver a state of the art cost effective solution to each subscriber. C&W Real Time Nostro (www.cw.com/realtimenostro) will provide banks and their correspondents with real-time information on their dealings with each other. This will allow the users of the service to better manage their liquidity, reduce their costs and improve customer service.

We are currently working with a small number of pilot banks and have targeted the service to be operational in the second half of the year.

At a recent banking conference in New York, the Chairman of the conference,

Martin Leboutitz of JP Morgan Chase described real time nostro information as "the Holy Grail in correspondent banking".

Cable & Wireless and Gresham see C&W Real Time Nostro as the first tactical implementation of a longer term strategic goal: to improve the security and stability of the world's financial markets by creating a technology foundation that provides aggregated, real-time financial information.

The future

I would like to thank the Gresham employees and others who have helped us to get to this point.

The past twelve months have seen us move out of debt whilst continuing to invest in the business. As a direct result of our investments over the past 18 months we are now in a position to move forward with increased purpose and focus. We have put in place a strategy that we believe has the potential to deliver substantial shareholder returns over the next five years.



A J S Walton-Green

Chief Executive

15 April 2002

Directors' Report

The directors present their report and the group accounts for the period ended 31 December 2001.

Results and dividends

The group trading loss for the period, after taxation, amounted to £1,417,000 (year ended 31 October 2000: loss £4,006,000). The directors do not recommend a final ordinary dividend, which, after preference dividends of £66,000, leaves £1,483,000 to be deducted from reserves.

Change of year end

During the period the year end of the company was changed from 31 October 2001 to 31 December 2001. The accounts are therefore for the fourteen month period ended on 31 December 2001.

Principal activities

The group's principal activity during the year was 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 and Chief Executive's reports on pages 2 to 5.

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. All costs associated with research and development are written off as incurred.

Directors and their interests

The directors during the period were as follows:

A J S Walton-Green
D Osman
S W Purchase
S J Green
J E Aves (appointed 21 June 2001)

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

Independent non-executive directors

J E (Ted) Aves, who was appointed on 21 June 2001, is the company's independent non-executive director. Ted, aged 65, has extensive experience in corporate marketing and was previously Chairman of the consulting division of ECM and Vice-Chairman at Benton & Bowles.

Substantial shareholdings

The directors have been notified of the following holdings in excess of three per cent of the issued ordinary share capital at 14 April 2002:

	Number of ordinary shares	Issued ordinary share capital %
Aberdeen Asset Managers Limited	2,000,000	4.29
Herald Investment Trust Limited	1,875,000	4.02
M A Green	3,923,290	8.41

No other person, other than the directors, has reported holding 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 2001 the group's creditor days were 49.

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 £777,384 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 £116,607, representing 5% of the issued ordinary share capital, without first making a pro rata offer to all existing shareholders.

Financial risk management

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

However, due consideration is given to employing financial instruments, such as forward currency contracts, to manage the financial risks associated with the group's underlying business activities and the financing of those activities.

Note 23 to these accounts analyses the group's derivatives and other financial instruments.

Interest rate risks

The majority of the group's borrowings are in the form of sterling, variable rate loans and overdrafts.

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

Liquidity risk

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

Auditors

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board



D Osman

Company Secretary

15 April 2002

Corporate Governance Statement

Compliance with the combined code

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

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

Statement by the directors on compliance with the provisions of the combined code

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

Throughout the entire period:

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.

Until October 2001 when the group's processes surrounding risk management were formalised and embedded:

D2.1 The group did not have a formalised embedded process for risk management.

Until the appointment of J E Aves as an independent non-executive director on 21 June 2001:

A3.1 Non-executive directors did not comprise more than one-third of the board.

The workings of the board and its committees

The board currently comprises a non-executive chairman, an independent non-executive director, the chief executive and two further executive directors. Until 21 June 2001 the company had only one non-executive director who is not deemed independent of the company because of his shareholding in the company. As a result the company has not complied for the whole year with those provisions of the Combined Code relating to board balance and non-executive directors.

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

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

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 S J Green until 21 June 2001 and thereafter consisting of S J Green and J E Aves (chairman), has met with senior management to review financial reporting at both the half year and the full year. Its duties include monitoring the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditors. In addition, the committee reviews the interim and annual reports prior to them being approved by the board.

Until 21 June 2001 the remuneration committee comprised S J Green (chairman) and S W Purchase, thereafter S J Green and J E Aves (chairman). 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 accounts.

Directors' statement on internal controls

The board has reviewed the effectiveness of the system of internal controls. 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 directors are also responsible for reviewing the effectiveness of internal controls. 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 embed internal control and risk management 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 was formalised in October 2001 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. During the preceding part of the period the board was actively involved in

the risk management of the group and formalising the procedures to meet the requirements of the Turnbull guidance.

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 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 financial control are as follows:

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

- detailed financial due diligence on all acquisitions.

The 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.

Directors' Remuneration Report

The remuneration committee, in consultation with the chief executive (in an advisory capacity), decides the base salary, incentives and benefits for the executive directors. The members of the committee until 21 June 2001 were S J Green and S W Purchase, except that Mr Purchase did not participate in setting his own remuneration. Subsequent to 21 June 2001 the members of the committee were S J Green and J E Aves.

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

The pay and benefits of executive directors are selected from:

- Base salary, which is reviewed annually, is set to reflect the director's experience, responsibilities and marketability.

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

Service agreements

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

Non-executive directors

The level of non-executive director's 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.

Directors' remuneration

	Base Salary	Benefits in kind	Pension contributions	Performance related bonus	Fees	14 months ended 31 December 2001 Total emoluments	Year ended 31 October 2000 Total emoluments
	£	£	£	£	£	£	£
S J Green	—	—	—	—	39,167	39,167	20,000
J E Aves	—	—	—	—	15,675	15,675	—
D Osman	135,000	16,731	10,710	—	—	162,441	103,837
S W Purchase	135,000	14,623	9,771	—	—	159,394	108,070
A J S Walton-Green	170,000	17,060	10,710	—	—	197,770	80,665
P W Bickerton	—	—	—	—	—	—	8,333
G M R Graham	—	—	—	—	—	—	12,500
C D Jakes	—	—	—	—	—	—	8,564
W G Simpson	—	—	—	—	—	—	94,008
T L Read	—	—	—	—	—	—	215,756
A Davies	—	—	—	—	—	—	69,130
	440,000	48,414	31,191	—	54,842	574,447	720,863

Directors' Remuneration Report

Directors' interests in shares

	At 31 December 2001		At 1 November 2000 or date of appointment if later	
	Preference shares	Ordinary shares	Preference shares	Ordinary shares
S J Green	—	5,625,491	660,018	5,165,473
J E Aves	—	—	—	—
D Osman	—	5,942	—	5,942
S W Purchase	—	4,254,434	765,465	3,488,969
A J S Walton-Green	—	462,990	42,525	210,465

All interests of the directors at 31 December 2001 in the shares are beneficially held.

The disclosed shareholding of A J S Walton-Green includes 252,990 shares held in his spouse's name.

There have been no changes in the directors' interests between 31 December 2001 and 15 April 2002.

Directors' options

	Options at 1 November 2000	Granted/ (cancelled) in the year	Exercised	Options at 31 December 2001	Date of grant	Exercise price	Date first exercisable	Expiry date
D Osman	81,081 E	—	—	81,081	21.01.98	37p	22.01.01	21.01.08
	43,919 E	—	—	43,919	17.02.99	142p	18.02.02	17.02.09
	12,187 S	—	—	12,187	29.09.98	80p	01.11.01	01.05.02
	80,000 E (1)	—	—	80,000	25.07.00	36p	26.07.03	25.07.10
	— 100,000 G	(50,000)	—	100,000	17.07.01	55p	18.07.01	17.07.04
	50,000 G		—	—	16.06.99	137.5p	17.06.99	16.06.02
A J S Walton-Green	557,897 E (1)	—	—	557,897	25.07.00	36p	26.07.03	25.07.10
	30,157 S	—	—	30,157	08.09.00	23p	01.10.03	31.03.04
	— 250,000 G		—	250,000	17.07.01	25p	18.07.01	17.07.06
S W Purchase	30,157 S	—	—	30,157	08.09.00	23p	01.10.03	31.03.04

E = Executive share option scheme.

G = Options granted by S J Green over shares held beneficially by him (no performance conditions over these options).

S = Options granted under the SAYE share option scheme.

1 = The executive has agreed to pay any employer's national insurance arising on the exercise of these options.

J E Aves did not have any share options during the year.

Notes

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

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

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

The market price of the company's shares on 31 December 2001 was 25.75p. During the period the closing price per ordinary share ranged from 16.5p to 34.5p.

Statement of Directors' Responsibilities and Report of the Auditors

Statement of directors' responsibilities in respect of the accounts

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

- Select suitable accounting policies and then apply them consistently;

- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

The directors are responsible for keeping proper accounting records which disclose,

with reasonable accuracy at any time, the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report to the Shareholders of Gresham Computing plc

We have audited the group's financial statements for the period ended 31 December 2001 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flow and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements 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 are 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 either the group's corporate governance procedures or its risk and control procedures.

We read the 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, Chairman's Statement, Chief Executives' Report, Corporate Governance Statement and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

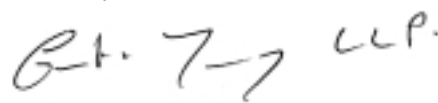
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 2001 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Southampton
15 April 2002

Notes:

1. 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.
2. 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 14 months ended 31 December 2001

	Notes	Before goodwill amortisation 14 months ended 31 December 2001 £'000	Goodwill amortisation 2001 £'000	Total Group 2001 £'000	Before goodwill amortisation Year ended 31 October 2000 £'000	Goodwill amortisation 2000 £'000	Total Group 2000 £'000
Turnover							
Continuing operations		18,321	—	18,321	18,792	—	18,792
Discontinued operations		6,440	—	6,440	4,533	—	4,533
Group turnover	2	24,761	—	24,761	23,325	—	23,325
Cost of sales	2	13,988	—	13,988	13,796	—	13,796
Gross profit		10,773	—	10,773	9,529	—	9,529
Administrative expenses							
— pre-exceptional items	2	12,643	627	13,270	11,357	703	12,060
Administrative expenses							
— exceptional items	6	260	1,155	1,415	1,489	—	1,489
Administrative expenses		12,903	1,782	14,685	12,846	703	13,549
Operating loss	3	(2,130)	(1,782)	(3,912)	(3,317)	(703)	(4,020)
Continuing operations		(3,034)	(1,533)	(4,567)	(3,371)	(322)	(3,693)
Discontinued operations		904	(249)	655	54	(381)	(327)
Share of operating profit in associate		450	(88)	362	—	—	—
Total operating loss: group and share of associate		(1,680)	(1,870)	(3,550)	(3,317)	(703)	(4,020)
Profit on disposal of tangible fixed assets (continuing operations)	6	84	—	84	—	—	—
Profit on sale of operations (discontinued operations)	6	2,647	—	2,647	—	—	—
		2,731	—	2,731	—	—	—
Profit/(loss) on ordinary activities before interest and taxation		1,051	(1,870)	(819)	(3,317)	(703)	(4,020)
Interest receivable		53	—	53	11	—	11
Interest payable	7	(207)	—	(207)	(264)	—	(264)
		(154)	—	(154)	(253)	—	(253)
Profit/(loss) on ordinary activities before taxation		897	(1,870)	(973)	(3,570)	(703)	(4,273)
Taxation on profit/(loss) on ordinary activities	8	444	—	444	(267)	—	(267)
Profit/(loss) on ordinary activities after taxation		453	(1,870)	(1,417)	(3,303)	(703)	(4,006)
Dividends — non-equity interests	10	66	—	66	66	—	66
Retained loss for the period/year		387	(1,870)	(1,483)	(3,369)	(703)	(4,072)
Basic and diluted earnings per share (pence)	11	0.87	(4.19)	(3.32)	(7.76)	(1.62)	(9.38)

Group Statement of Total Recognised Gains and Losses

the period ended 31 December 2001

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Loss for the financial period/year	(1,417)	(4,006)
Exchange difference on retranslation of net assets of subsidiary undertakings	(2)	(92)
Total recognised gains and losses relating to the period	(1,419)	(4,098)

Reconciliation of Consolidated Shareholders' Funds

for the period ended 31 December 2001

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Total recognised gains and losses	(1,419)	(4,098)
Dividends	(66)	(66)
Issue of shares	—	2,925
Shares to be issued	—	(2,925)
Total movements during the year	(1,485)	(4,164)
Opening shareholders' funds	7,513	11,677
Closing shareholders' funds	6,028	7,513

Group Balance Sheet

at 31 December 2001

	Notes	31 December 2001 £'000	31 October 2000 £'000
Fixed assets			
Intangible assets	12	1,274	8,047
Tangible assets	13	1,832	2,737
Investment in Associate	14	2,865	—
		5,971	10,784
Current assets			
Debtors	15	4,008	6,851
Cash at bank and in hand		958	343
		4,966	7,194
Creditors: amounts falling due within one year	16	4,146	6,807
Net current assets		820	387
Total assets less current liabilities		6,791	11,171
Creditors: amounts falling due after more than one year	17	763	3,658
		6,028	7,513
Capital and reserves			
Called up share capital	20	2,332	2,714
Share premium account	20	5,614	5,232
Special reserve	20	313	313
Merger reserve	20	726	726
Profit and loss account	20	(2,957)	(1,472)
		6,028	7,513
Shareholders' funds			
Equity interests		6,028	7,003
Non-equity interests		—	510
		6,028	7,513

On behalf of the board



D Osman
15 April 2002



A Walton-Green
15 April 2002

	Notes	31 December 2001 £'000	31 October 2000 £'000
Fixed assets			
Investments	14	9,765	15,621
Current assets			
Debtors	15	5,893	2,433
Cash at bank and in hand		406	257
		6,299	2,690
Creditors: amounts falling due within one year	16	74	134
Net current assets		6,225	2,556
Creditors: amounts falling due after more than one year	17	—	2,500
Total assets less current liabilities		15,990	15,677
Capital and reserves			
Called up share capital	20	2,332	2,714
Share premium account	20	5,614	5,232
Special reserve	20	313	313
Merger reserve	20	6,609	6,609
Profit and loss account	20	1,122	809
		15,990	15,677
Shareholders' funds			
Equity interests		15,990	15,167
Non-equity interests		—	510
		15,990	15,677

On behalf of the board



D Osman
15 April 2002



A Walton-Green
15 April 2002

Group Statement of Cash Flow

for the period ended 31 December 2001

	Notes	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Net cash (outflow)/inflow from operating activities	22	(848)	695
Returns on investments and servicing of finance			
Interest received		39	11
Interest paid		(207)	(264)
Dividends paid to preference shareholders		(132)	—
		(300)	(253)
Taxation			
Corporation tax paid		(154)	(278)
Overseas tax refunded/(paid)		10	(10)
		(144)	(288)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(477)	(503)
Receipts from sale of tangible fixed assets		442	133
		(35)	(370)
Acquisitions and disposals			
Sale of subsidiary undertaking		5,850	—
Costs of disposal		(434)	—
Net cash disposed of with subsidiary undertaking		(363)	—
Purchase consideration for subsidiary undertakings		—	(66)
		5,053	(66)
Equity dividends paid		—	—
Net cash inflow/(outflow) before financing		3,726	(282)
Financing			
New long-term loans		—	500
Repayment of long-term loans		(2,500)	—
Receipt of short-term loans		250	(4)
Repayment of short-term loans		(219)	—
Repayments of finance leases		(216)	(272)
Net (outflow)/inflow from financing		(2,685)	224
Increase/(decrease) in cash in the period/year		1,041	(58)

Reconciliation of Net Cash Flows to Movement in Net Funds

for the period ended 31 December 2001

	Notes	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Increase/(decrease) in cash		1,041	(58)
Cash inflow from increase in loans		(31)	(500)
Repayments of loans		2,500	4
Repayments of capital element of finance leases		216	272
Change in net funds resulting from cash flows		3,726	(282)
Finance lease obligations disposed of with subsidiary undertaking		109	—
Other		(105)	—
Exchange differences		—	(25)
Movement in net funds		3,730	(307)
Net debt at 1 November		(3,217)	(2,910)
Net funds/(debt) at 31 December/31 October	22	513	(3,217)

1. Accounting policies

Basis of preparation

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

Basis of consolidation

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

The group profit and loss account and statement of cash flows include the results and cash flows of SIM Group Limited for the period to 25 June 2001, the date on which the group disposed of 50.01% of the share capital of SIM Group Limited. Subsequent to that date SIM Group Limited was accounted for as an associate.

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

Goodwill

Goodwill arising on acquisitions prior to 31 October 1998 was set off directly against reserves.

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

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

Intangible assets

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

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

Deferred income

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

Depreciation

Depreciation is provided for 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
Plants, fixtures and equipment	— over 5 to 10 years
Computer equipment	— over 3 to 5 years
Motor vehicles	— over 4 years

Long-term contracts

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

Research and development

Research and development expenditure is written off as incurred.

Deferred taxation

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

Foreign currencies Company

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

Group

The accounts of 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 is 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.

Pension

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

2. Turnover and segmental analysis

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

	14 months ended 31 December 2001			Year ended 31 October 2000		
	Turnover	Inter-segment turnover	External turnover	Turnover	Inter-segment turnover	External turnover
	£'000	£'000	£'000	£'000	£'000	£'000
Solutions	4,748	(2)	4,746	7,112	—	7,112
Specialist contract staff	6,167	(1,291)	4,876	4,757	(1,365)	3,392
Enterprise Solutions	10,915	(1,293)	9,622	11,869	(1,365)	10,504
Enterprise Software	8,699	—	8,699	8,288	—	8,288
Continuing operations	19,614	(1,293)	18,321	20,157	(1,365)	18,792
SIM Testing (discontinued)	6,449	(9)	6,440	4,533	—	4,533
	26,063	(1,302)	24,761	24,690	(1,365)	23,325

Geographical analysis of turnover by source

	14 months ended 31 December 2001			Year ended 31 October 2000		
	Turnover	Inter-segment turnover	External turnover	Turnover	Inter-segment turnover	External turnover
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom — continuing operations	12,742	(1,244)	11,498	12,673	(1,545)	11,128
United Kingdom — discontinued operations	6,449	(9)	6,440	4,533	—	4,533
North America	4,710	(226)	4,484	5,590	(56)	5,534
Rest of world	2,765	(426)	2,339	2,206	(76)	2,130
	26,666	(1,905)	24,761	25,002	(1,677)	23,325

Geographical analysis of turnover by destination

	14 months ended	Year ended
	31 December	31 October
	2001	2000
	£'000	£'000
United Kingdom — continuing operations	10,002	7,784
United Kingdom — discontinued operations	6,440	4,118
Europe — continuing operations	1,730	3,539
Europe — discontinued operations	—	415
North America	4,498	5,669
Rest of world	2,091	1,800
	24,761	23,325

2. Turnover and segmental analysis (continued)

Analysis of profit/(loss) on ordinary activities before taxation by segment. Common costs comprise the costs of all central group services.

	Profit/(loss) before goodwill amortisation			Profit/(loss) before goodwill amortisation		
	14 months ended 31 December		Year ended 31 October		2000 £'000	
	2001 £'000	2001 £'000	2001 £'000	2000 £'000		
Enterprise Solutions	(2,106)	(72)	(2,178)	(2,249)	(60)	(2,309)
Enterprise software	737	(1,461)	(724)	1,612	(262)	1,350
Continuing operations	(1,369)	(1,533)	(2,902)	(637)	(322)	(959)
SIM Testing (discontinued)	904	(249)	655	54	(381)	(327)
Common costs	(465)	(1,782)	(2,247)	(583)	(703)	(1,286)
	(1,665)	—	(1,665)	(2,734)	—	(2,734)
Operating loss	(2,130)	(1,782)	(3,912)	(3,317)	(703)	(4,020)
Share of operating profit of associate	450	(88)	362	—	—	—
Non-operating exceptional items	2,731	—	2,731	—	—	—
Net interest payable	(154)	—	(154)	(253)	—	(253)
Profit/(loss) on ordinary activities before taxation	897	(1,870)	(973)	(3,570)	(703)	(4,273)

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

	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	(238)	—	(238)	(383)	—	(383)
North America	(977)	(1,411)	(2,388)	6	(220)	(214)
Rest of world	(154)	(122)	(276)	(260)	(102)	(362)
	(1,369)	(1,533)	(2,902)	(637)	(322)	(959)
United Kingdom (discontinued)	904	(249)	655	54	(381)	(327)
	(465)	(1,782)	(2,247)	(583)	(703)	(1,286)
Common costs	(1,665)	—	(1,665)	(2,734)	—	(2,734)
Share of operating profit of associate	450	(88)	362	—	—	—
Total operating loss: Group and share of associate	(1,680)	(1,870)	(3,550)	(3,317)	(703)	(4,020)
Non-operating exceptional items	2,731	—	2,731	—	—	—
Net interest payable	(154)	—	(154)	(253)	—	(253)
Profit/(loss) on ordinary activities before taxation	897	(1,870)	(973)	(3,570)	(703)	(4,273)

Net assets by segment and location are shown below:

	Net assets		Total	Net assets		Total
	2001	Capitalised goodwill		2000	Capitalised goodwill	
	£'000	31 December 2001 £'000	2001 £'000	31 October 2000 £'000	2000 £'000	
Enterprise solutions	(493)	721	228	1,187	793	1,980
Enterprise software	874	508	1,382	499	1,969	2,468
Continuing operations	381	1,229	1,610	1,686	2,762	4,448
SIM Testing (discontinued)	—	—	—	455	5,119	5,574
	381	1,229	1,610	2,141	7,881	10,022
Unallocated net assets/(liabilities)			1,553			(2,509)
Associate undertaking			2,865			—
Total net assets			6,028			7,513

2. Turnover and segmental analysis (continued)

Net assets by location are shown below:

	31 December 2001 £'000	31 October 2000 £'000
United Kingdom	4	225
Rest of Europe	78	41
North America	352	2,481
Rest of world	1,176	1,701
Continuing operations	1,610	4,448
United Kingdom (discontinued)	—	5,574
	1,610	10,022
Unallocated net assets/(liabilities)	1,553	(2,509)
Associate undertaking	2,865	—
Total net assets	6,028	7,513

Unallocated net (liabilities)/assets comprise certain fixed assets, tax, dividends payable and net cash/(debt).

Cost of sales and operating expenses

	14 months ended 31 December 2001			Year ended 31 October 2000		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	10,200	3,788	13,988	10,838	2,958	13,796
Administrative expenses						
— pre-exceptional items	11,264	2,006	13,270	10,256	1,804	12,060
— exceptional items	1,415	—	1,415	1,392	97	1,489
Administrative expenses	12,679	2,006	14,685	11,648	1,901	13,549

3. Operating loss

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
This is stated after charging:		
Auditors' remuneration — audit services UK*	56	35
— audit services overseas	58	15
	114	50
— non-audit services UK	11	217
— non-audit services overseas	24	5

* Of this amount £5,000 (2000: £5,000) relates to the company.

In addition, the profit on disposal of SIM Group includes non-audit services of £261,000 incurred in respect of the disposal.

Research and development expenditure	1,553	1,241
Depreciation of owned assets	773	736
Depreciation of assets held under finance leases and hire-purchase contracts	117	202
Amortisation of intangible assets and provision for impairment in value of goodwill	1,903	821
Operating lease rentals — land and buildings	831	647
— plant and machinery	473	443

4. Directors' remuneration

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
The emoluments of the directors are as follows:		
Fees	55	49
Other emoluments:		
Basic salaries	440	349
Benefits	48	49
Pension contributions	31	37
Performance related bonus	—	—
Compensation for loss of office	—	237
	574	721

Details of directors' emoluments are given in the directors' remuneration report on pages 10 to 11.

5. Staff costs

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Wages and salaries	10,892	10,904
Social security costs	1,062	1,082
Other pension costs	382	449
	12,336	12,435

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

Office, management and technical	216	261
----------------------------------	-----	-----

6. Exceptional items

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Recognised in arriving at operating loss:		
Compensation for loss of office	—	237
Reorganisation and restructuring costs	263	982
Bad debt provision	—	175
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	95
	1,415	1,489
Recognised below 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)	—
	(2,731)	—

The effect on the taxation charge for the period of the exceptional items recognised below operating profit is disclosed in note 8.

7. Interest payable

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Finance charges payable under finance leases and hire-purchase contracts	57	54
Other interest	14	—
Bank interest	136	210
	207	264

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

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Corporation tax at 30% (2000: 30%)	272	(151)
Share of associates' tax	135	—
Corporation tax overprovided in previous years	(7)	(18)
Corporation tax	400	(169)
Overseas taxation	44	(49)
Deferred taxation (note 19)	—	(49)
	444	(267)

The corporation tax charge of £272,000 arises on the profits of the SIM Group prior to the disposal of 50.01% of its share capital on 25 June 2001. The tax effect in the profit and loss account relating to the exceptional items recognised below operating profit is a charge of £613,000 which has been offset by the utilisation of operating losses.

9. Profit/(Loss) attributable to members of the parent undertaking

The profit dealt with in the accounts of the parent undertaking was £379,000 (2000: loss £392,000).

10. Dividends

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Non-equity dividends on preference shares	66	66

11. Earnings per ordinary share

The calculation of earnings per ordinary share has been based on the loss attributable to ordinary shareholders, adjusted for preference dividends, of £1,483,000 (2000: £4,072,000 loss) and on a weighted average number of ordinary shares of 44,625,110 (2000: 43,427,491).

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

	Computer software rights £'000	Goodwill on acquisitions £'000	Total £'000
Cost:			
At 1 November 2000	669	9,047	9,716
Disposals	—	(2,861)	(2,861)
Transfer of goodwill to associate undertaking	—	(2,861)	(2,861)
At 31 December 2001	669	3,325	3,994
Amortisation:			
At 1 November 2000	503	1,166	1,669
Provided during the period	121	627	748
Provision for impairment in value of goodwill	—	1,155	1,155
Disposals	—	(426)	(426)
Transfer of goodwill to associate undertaking	—	(426)	(426)
At 31 December 2001	624	2,096	2,720
Net book value at 31 December 2001	45	1,229	1,274
Net book value at 1 November 2000	166	7,881	8,047

The provision for impairment in value of goodwill relates to a full provision against the carrying value of the goodwill arising from the acquisition of the business trade and assets of Automated Solutions Inc in February 1999.

Goodwill is amortised over its estimated useful life, for each acquisition and during the period this ranged from 6 to 15 years.

13. Tangible fixed assets

GROUP	Freehold premises £'000	Short leasehold premises £'000	Computer equipment £'000	Motor vehicles £'000	Plant fixtures and equipment £'000	Total £'000
Cost:						
At 1 November 2000	1,415	577	2,506	194	969	5,661
Additions	2	222	262	80	16	582
Exchange differences	—	—	(7)	—	—	(7)
Disposals	(279)	(2)	(113)	(183)	(130)	(707)
Transfers	160	—	—	—	(160)	—
Disposal of subsidiary undertaking	—	(140)	(173)	(91)	(89)	(493)
At 31 December 2001	1,298	657	2,475	—	606	5,036
Depreciation:						
At 1 November 2000	340	239	1,661	138	546	2,924
Provided during the period	100	106	576	20	88	890
Provision for impairment in value	—	122	—	—	—	122
Exchange differences	—	—	(3)	—	—	(3)
Disposals	(44)	—	(90)	(88)	(127)	(349)
Transfers	15	—	—	—	(15)	—
Reversal of previous provision for impairment in value	(125)	—	—	—	—	(125)
Disposal of subsidiary undertaking	—	(9)	(125)	(70)	(51)	(255)
At 31 December 2001	286	458	2,019	—	441	3,204
Net book value:						
At 31 December 2001	1,012	199	456	—	165	1,832
At 1 November 2000	1,075	338	845	56	423	2,737

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

	2001 £'000	2000 £'000
Computer equipment	27	176
Motor vehicles	—	65
Plant fixtures and equipment	267	322

Following a review of the value of freehold premises, £125,000 of the previous provision for impairment in value of freehold premises was reversed. The freehold premises were valued at £1,030,000, their open market value, in accordance with the rules of the Royal Institution of Chartered Surveyors by Palmer Snell Chartered Surveyors on 19 September 2001.

14. Investments

GROUP: associate undertaking.

SIM Group Limited became an associate undertaking on 25 June 2001 when the group disposed of 50% of the share capital plus one controlling share.

	Share of net tangible assets £'000	Goodwill £'000	Total £'000
At 25 June 2001	203	2,435	2,638
Share of profit retained by associate	315	—	315
Amortisation of goodwill	—	(88)	(88)
At 31 December 2001	518	2,347	2,865

Additional disclosures are given in respect of SIM Group Limited, which exceeds certain thresholds under Financial Reporting Standard No. 9 Associates and Joint Ventures as follows:

	31 December 2001 £'000
Fixed assets	118
Current assets	1,304
Share of gross assets	1,422
Liabilities due within one year	(880)
Liabilities due after more than one year	(24)
Share of gross liabilities	(904)
Share of net assets	518

The disclosures regarding the profit and loss of SIM Group Limited represent the group's share of the related headings from 25 June 2001 to 31 December 2001.

	£'000
Turnover	2,756
Profit before tax	450
Taxation	135
Profit after tax	315

14. Investments (continued)

COMPANY	Subsidiary undertakings £'000	Associates £'000	Total £'000
Cost:			
At 1 November 2000	15,621	—	15,621
Provision for impairment in value	(2,793)	—	(2,793)
Disposal	(3,063)	—	(3,063)
Transfer from subsidiary undertaking to associate undertaking	(3,059)	3,059	—
At 31 December 2001	6,706	3,059	9,765

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
Subsidiary undertakings				
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
Gresham Computing Pty	Australia	Ordinary shares	100%	Solutions provision to finance and banking
Associate undertaking				
SIM Group	England	Ordinary shares	49.99%	Software testing

* 86% held indirectly through an intermediate holding company

SIM Group Limited

On 23 May 2001 the company entered into contracts with SQS Software Quality Systems AG (SQS) to dispose of 50% of the share capital of SIM Group Limited plus one controlling share (the Tranche 1 Agreement) and the remaining shares to SQS (the Tranche 2 Agreement). Following the receipt of shareholder approval the Tranche 1 Agreement was completed on 25 June 2001.

14. Investments (continued)

The initial consideration for the Tranche 1 Agreement was £5,250,000 with further proceeds of up to £750,000 dependent on the achievement of certain turnover targets. On 10 December 2001 the turnover achieved by SIM Group for the year ended 31 October 2001 was agreed at £10,288,000. As a result further proceeds under the Tranche 1 Agreement of £600,000 was received on 24 December 2001. This increased the proceeds from the Tranche 1 Agreement to £5,850,000. The Tranche 1 disposal is analysed as follows:

	£'000
Net assets disposed of:	
Fixed assets	238
Debtors	2,335
Cash	363
Obligations under finance leases and hire-purchase contracts	(109)
Other creditors	(2,421)
Goodwill	2,435
	2,841
Share of net assets of associate undertaking retained	(203)
Profit on disposal (after goodwill of £2,435,000)	2,647
	5,285
Satisfied by:	
Cash	5,850
Less disposal expenses	(565)
	5,285

The profit attributable to members of the holding company includes £622,000 recorded by SIM Group up to 25 June 2001, the date of completion of the Tranche 1 Agreement. During the same period SIM Group contributed £1,134,000 of the group's net operating cash flows, paid £9,000 in respect of servicing of finance, paid £50,000 in respect of taxation and utilised £25,000 for capital expenditure and £15,000 for financial investment.

The Tranche 2 Agreement

Under the terms of the Tranche 2 Agreement the disposal of the remaining issued share capital of SIM Group Limited is expected to be completed on the earlier of the date of the first stage of any SQS initial public offering and 30 June 2002. The proceeds for the Tranche 2 Agreement are dependent on the turnover achieved by SIM Group in the two years ending on 31 October 2002. Following the agreement of turnover of SIM Group for the year ended 31 October 2001, under the terms of the Tranche 2 Agreement the proceeds will comprise:

- 1) £6,912,000 payable at the option of the company in cash, bonds or a combination of cash and bonds at completion. The bonds are unsecured interest bearing bonds which will be convertible into ordinary shares of SQS at a pre-IPO price and are redeemable in cash from seven months after completion of the Tranche 2 Agreement; and
- 2) Ten per cent of the revenue achieved by SIM in the year ending 31 October 2002 payable in cash by 30 December 2002.

15. Debtors

	Group		Company	
	31 December 2001 £'000	31 October 2000 £'000	31 December 2001 £'000	31 October 2000 £'000
Trade debtors	2,258	5,616	—	—
Amounts owed by subsidiary undertakings	—	—	5,750	2,433
Amounts owed by associate undertaking	304	—	128	—
Prepayments, work in progress and accrued income	920	1,235	15	—
Amounts recoverable on long-term contracts	378	—	—	—
Corporation tax recoverable	148	—	—	—
	4,008	6,851	5,893	2,433

16. Creditors: amounts falling due within one year

	Group		Company	
	31 December 2001 £'000	31 October 2000 £'000	31 December 2001 £'000	31 October 2000 £'000
Obligations under finance leases and hire-purchase contracts (note 18)	129	225	—	—
Short-term bank loans	250	219	—	—
Bank overdrafts	—	426	—	—
Trade creditors	810	1,557	8	—
Corporation tax payable	—	8	—	—
Overseas tax payable	54	—	—	—
Other taxes and social security costs	375	821	—	—
Other creditors and accruals	748	1,839	—	2
Deferred income	1,714	1,580	—	—
Proposed dividends	66	132	66	132
	4,146	6,807	74	134

The short-term bank loans at 31 December 2001 were secured by a fixed and floating charge over certain assets of the group.

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

	Group		Company	
	31 December 2001 £'000	31 October 2000 £'000	31 December 2001 £'000	31 October 2000 £'000
Obligations under finance leases and hire-purchase contracts (note 18)	66	190	—	—
Revolving credit facility	—	2,500	—	2,500
Deferred income	697	968	—	—
	763	3,658	—	2,500

The revolving credit facility at 31 October 2000 which was secured by a first fixed and floating charge over the group's assets was repaid in full during the period.

18. Obligations under leases and hire-purchase contracts

	Group			
	31 December 2001 £'000	31 October 2000 £'000		
Amounts payable:				
Within one year	129	230		
In two to five years	66	192		
	195	422		
Less: finance charges allocated to future periods	—	(7)		
	195	415		
Finance leases and hire-purchase contracts are analysed as follows:				
Current obligations (note 16)	129	225		
Non-current obligations (note 17)	66	190		
	195	415		
Annual commitments under non-cancellable operating leases are as follows:				
	At 31 December 2001		At 31 October 2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
GROUP				
Operating leases which expire:				
Within one year	8	14	20	143
Within two to five years	392	279	511	199
Over five years	295	—	295	—
	695	293	826	342
			31 December 2001 Land and buildings £'000	31 December 2000 Land and buildings £'000
COMPANY				
Operating leases which expire:				
Within one year			—	—
Within two to five years			—	—
Over five years			295	295
			295	295

19. Provisions for liabilities and charges

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

	Group		Company	
	31 December 2001 £'000	31 October 2000 £'000	31 December 2001 £'000	31 October 2000 £'000
Capital allowances in advance of depreciation	—	—	—	—
Other timing differences	—	—	—	—
	—	—	—	—

There is no unprovided deferred tax liability.

20. Share capital and reserves

Share capital

	Authorised		Allotted, called up and fully paid	
	31 December 2001 £'000	31 October 2000 £'000	31 December 2001 £'000	31 October 2000 £'000
Ordinary shares of 5p each	3,250	3,250	2,332	2,204
13% gross cumulative convertible preference shares of 20p each	550	550	—	510
	3,800	3,800	2,332	2,714

On 30 September 2001 the holders of all 2,551,550 outstanding 13% gross convertible preference shares of 20p each converted their preference shares into new ordinary shares of 5p each. As a result 2,551,550 new ordinary shares were issued and there are no remaining preference shares in issue.

Reserves

	Share capital £'000	Share premium account £'000	Special reserve £'000	Merger reserve £'000	Profit and loss account £'000
GROUP					
At 1 November 2000	2,714	5,232	313	726	(1,472)
Exchange differences on retranslation of net assets of subsidiary undertakings	—	—	—	—	(2)
Conversion of preference shares to ordinary shares	(382)	382	—	—	—
Retained loss for the period	—	—	—	—	(1,483)
At 31 December 2001	2,332	5,614	313	726	(2,957)
COMPANY					
At 1 November 2000	2,714	5,232	313	6,609	809
Conversion of preference shares to ordinary shares	(382)	382	—	—	—
Retained loss for the period	—	—	—	—	313
At 31 December 2001	2,332	5,614	313	6,609	1,122

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 2001 and 31 October 2000 is £7,326,000. Goodwill previously written off to reserves will remain so written off as permitted by FRS 10. The goodwill previously written off to reserves would be charged in the profit and loss account on any subsequent disposal of the business to which it related.

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, 25 executives hold options under these option schemes.

The group also operates a Save As You Earn Scheme (SAYE) 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 2001 there were 49 participants in the SAYE scheme.

Outstanding options to subscribe for ordinary shares of 5p at 31 December 2001, including those noted in the remuneration committee report, are as follows:

	Number of options	Number of option holders	Option price (pence)	Dates normally exercisable
Executive share option schemes				
	7,500	1	43	Jan 1999 – Jan 2002*
	81,081	1	37	Jan 2001 – Jan 2008
	10,000	1	142	Jun 2001 – Jun 2002*
	43,919	1	142	Feb 2002 – Feb 2009
	16,000	7	131	Jun 2001 – Jun 2002*
	25,000	3	45.5	Feb 2003 – Feb 2010
	25,000	1	54	Jun 2001 – Jun 2002*
	25,000	1	54	Feb 2003 – Feb 2010
	637,897	2	36	Jul 2003 – Jul 2010
	25,000	1	27.5	Aug 2003 – Aug 2010
	24,000	5	40.5	Jun 2001 – Jun 2002*
	25,000	1	26.5	Jan 2004 – Jan 2011
	295,000	8	29.25	Aug 2004 – Aug 2011
SAYE scheme				
	77,996	12	80	Nov 2001 – May 2002
	11,466	4	98	Aug 2002 – Feb 2003
	697,311	40	23	Oct 2003 – Mar 2004
Other share options				
	50,000	1	39.5	Sep 2001 – Sep 2003
	337,269	1	29.65	Jan 2001 – Jan 2004

* Indicates options granted to employees of SIM Group. Under the rules of the share option scheme these options became exercisable for a period of one year from the date of disposal of the first tranche of shares in SIM Group on 25 June 2001.

22. Notes to the statement of cash flow

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

	14 months ended 31 December 2001 £'000	Year ended 31 October 2000 £'000
Operating loss	(3,912)	(4,020)
Depreciation and impairment of tangible fixed assets	887	1,033
Amortisation and impairment in value of goodwill	1,903	821
(Profit)/loss on sale of fixed assets	—	(22)
Decrease in debtors	1,150	1,406
(Decrease)/increase in creditors	(876)	1,580
Foreign exchange movement	—	(103)
Net cash (outflow)/inflow from operating activities	(848)	695

(b) Analysis of net funds/(debt)

	At 1 November 2000 £'000	Cash flow £'000	Disposal of subsidiary £'000	Exchange differences £'000	Other non-cash movements £'000	At 31 December 2001 £'000
Cash at bank in hand	343	978	(363)	—	—	958
Bank overdrafts	(426)	426	—	—	—	—
Cash	(83)	1,404	(363)	—	—	958
Long-term loans	(2,500)	2,500	—	—	—	—
Short-term loans	(219)	(31)	—	—	—	(250)
Finance leases	(415)	216	109	—	(105)	(195)
	(3,217)	4,089	(254)	—	(105)	513

(c) Exceptional items

Net cash (outflow)/inflow from operating activities includes cash outflows of £352,000 (2000: £1,303,000) in respect of the exceptional costs detailed in note 6.

(d) Major non-cash transactions

During the period the group acquired £105,000 of tangible fixed assets under finance leases.

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 on page 7. 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 2001			31 October 2000		
	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	—	424	424	542	3,309	3,851
US dollar	—	21	21	—	219	219
Total	—	445	445	542	3,528	4,070

The floating rate financial liabilities comprise:

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

The fixed rate financial liabilities at 31 October 2000 included £510,000 of cumulative convertible preference shares with a fixed coupon rate of 13% which were converted into ordinary shares during the period. The remaining fixed rate liabilities at 31 October 2000 comprised finance leases held by SIM Group.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group, all of which were floating rate, excluding short-term debtors was as follows:

	31 December 2001 £'000	31 October 2000 £'000
Sterling	584	—
US dollar	151	109
Australian dollar	120	93
Canadian dollar	78	121
Other	25	20
Total	958	343

23. Derivatives and other financial instruments (continued)

Currency exposures

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

Functional currency of group operations	Net US dollar monetary assets	
	31 December 2001 £'000	31 October 2001 £'000
Sterling	261	125
Australian dollar	121	—
Canadian dollar	61	124
Total	443	249

Maturity of financial liabilities

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

	31 December 2001 £'000	31 October 2000 £'000
In one year or less, or on demand	379	872
In more than one year, but not more than two	66	2,688
In more than two years, but not more than five	—	—
In more than five years	—	510
	445	4,070

The financial liabilities at 31 October 2000 included a secured floating rate revolving credit facility of £2,500,000 which was due to expire in April 2002, this facility was repaid in full during the period and cancelled. Financial liabilities at 31 October 2000 also included £510,000 of fixed rate cumulative convertible preference shares which were converted into ordinary shares during the period.

23. Derivatives and other financial instruments (continued)

Borrowing facilities

The undrawn committed facilities available in respect of which all conditions precedent had been met at 31 December 2001 was £500,000 (31 October 2000: £nil). the £500,000 unutilised facility is part of a revolving loan facility of £750,000 which expires in September 2002. The facility is secured by a first fixed charge over certain of the group's assets.

Fair values of financial assets and financial liabilities

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

	Book value	Fair value	Book value	Fair value
	31 December		31 October	
	2001	2001	2000	2000
	£000	£000	£000	£000
Borrowings	(250)	(250)	(3,145)	(3,145)
Finance leases	(195)	(195)	(415)	(430)
Cumulative preference shares	—	—	(510)	(853)
Cash and short-term deposits	958	958	343	343

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

24. Pension commitments

The group operates defined contribution schemes for staff and directors. The assets of the schemes are held separately from those of the group in independently administered funds. At 31 December 2001 there were outstanding contributions of £18,000 (31 October 2000: £39,000).

25. Related party transactions

Subsequent to SIM Group Limited becoming an associated undertaking on 25 June 2001 the group purchased services from SIM Group Limited and its subsidiaries totalling £131,000 on an arm's length basis and sold services of £717,000 to SIM Group Limited and its subsidiaries on an arm's length basis.

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 £100,000 on the successful completion of the disposal of the first 50.01% of SIM Group Limited. On completion of the Tranche 2 agreement Mr Bartlett would be entitled to receive options at par value over £455,200 of convertible bonds in SQS Software Quality Systems AG which the Group may receive as part of the Tranche 2 proceeds and also a further bonus equivalent to 0.5% of the turnover recorded by SIM Group Limited during the year ending 31 October 2002 subject to a maximum of £125,000. The amount of convertible bonds that Mr Bartlett will be entitled to receive was based on the turnover achieved by SIM Group during the six months ended 31 October 2001.

26. Capital commitments

Amounts contracted for but not provided for in the accounts at 31 December 2001 amounted to £nil (at 31 October 2000: £nil).

27. Contingent liabilities

The company has given cross guarantees on the bank overdrafts and loans of other group undertakings, which are secured by specific charges over the assets of the company and other assets within the group. At 31 December 2001 the contingent liability covered by the cross guarantee was £nil (31 October 2000: £925,000).

28. Post-balance sheet events

On 15 April 2002 the company completed the Tranche 2 Agreement for the disposal of its remaining shares in SIM Group Limited receiving £6,220,000 in cash and £692,000 in convertible bonds. Pursuant to the Tranche 2 Agreement the company will also receive by 30 December 2002 further proceeds of 10% of the turnover achieved by SIM Group in the year ending 31 October 2001.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Gresham Computing plc will be held at at Sopwith House, Brook Avenue, Warsash, Southampton, SO31 9ZA on 24 May 2002 at 10.00 a.m. for the following purposes:

To conduct the following ordinary business:

- A. To consider and, if thought appropriate, to approve the company's accounts and the reports of the directors and auditors for the period ended 31 December 2001.
- B. To reappoint Ernst & Young LLP as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix their remuneration.
- C. To reappoint J E Aves as a director, having been appointed a director since the conclusion of the last Annual General Meeting.

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

1. That the directors be and they are hereby authorised, in addition to any authority previously conferred on them, generally and unconditionally pursuant to section 80(1) of the Companies Act 1985 ("The Act") to exercise all the powers of the company to allot relevant securities (as defined in subsection (2) of section 80) up to an aggregate nominal amount of £777,384 during the period commencing on the date of the passing of this resolution and ending on the earlier of 1 August 2003 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 2003, 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 £116,607.

Notes:

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

By order of the board



D Osman
Company Secretary
15 April 2002

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