# Gresham House Strategic plc

Report and Accounts for the year ended 31 March 2016

**Strategic Public Equity**

Investment returns through bridging the divide between public and private equity markets

**Gresham House Strategic plc invests primarily in UK and European smaller public companies, applying private equity techniques and due diligence alongside a value investment philosophy to construct a focused portfolio expected to be comprised of 10-15 companies.**

The investment manager aims for a considerably higher level of engagement with investee company stakeholders, including; management, shareholders, customers, suppliers and competitors, in order to identify market pricing inefficiencies and support a clear equity value creation plan, targeting above market returns over the longer-term.

**Strategic Public Equity**
*A Private Equity approach to quoted companies*

## CONTENTS



www.ghsplc.com

# HIGHLIGHTS

- Completion of the realisation of asset sales from the historic SPARK Ventures portfolio
- Adoption of new Strategic Public Equity ("SPE") investment strategy and appointment of Gresham House Asset Management Ltd ("GHAM") as Investment Manager
- Placing and Open Offer raising £14.3 million of new equity capital plus £3.8 million asset swap and share consolidation on a 1 for 200 basis
- Rebrand and change of name to Gresham House Strategic plc (GHS) including launch of new website www.ghsplc.com and marketing material
- Appointment of Ken Lever as Non-Executive Director
- Active investment decision to maintain high cash weighting to exploit increasing low valuation opportunities
- £6.2 million deployed in new strategic investment opportunities (including post year-end investments) through primary growth capital and secondary transactions

## Financial Highlights

- Portfolio valuation at 31 March 2016 (including cash and other net assets) of £36.7 million
- Realised and unrealised gains on investments of £3.8 million (31 March 2015: £0.9 million)
- NAV discount reduced from 34% to 20% at the year-end

# CORPORATE INFORMATION

**Directors**
D R W Potter (Chairman)
C R Berry
K Lever
H R Sinclair

**Secretary**
Augentius Corporate Services Limited
2 London Bridge
London SE1 9RA

**Registered Office**
77 Kingsway
London WC2B 5SR

**Investment Manager**
Gresham House Asset Management Limited
107 Cheapside
London EC2V 6DN

**Bankers**
The Royal Bank of Scotland plc
Abbey Gardens
4 Abbey Street
Reading
Berkshire RG1 3BA

**Solicitors**
Nabarro
125 London Wall
London EC2Y 5AL

Bracher Rawlins
77 Kingsway
London
WC2B 6SR

**Auditor**
BDO LLP
55 Baker Street
London W1U 7EU

**Registrars**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Nominated Advisor and Joint Broker**
FinnCap Ltd
60 New Broad Street
London
EC2M 1JJ

**Joint Broker**
Liberum Capital Ltd
25 Ropemaker Street
London
EC27 9LY

# CHAIRMAN'S REPORT

Dear Shareholder

I write to you at the end of a transformational year for your Company as we have evolved from an investment company following a realisation strategy (SPARK Ventures) to Gresham House Strategic plc (GHS) with a focused and engaged Strategic Public Equity investment strategy.

The first part of the year under review was devoted to completing the realisation of asset sales from the old SPARK Ventures ("SPARK") portfolio, negotiating a new management arrangement with Gresham House Asset Management Ltd ("GHAM"), adopting a new investment policy and raising new equity capital. Your Company now has a reinvigorated future and in the process we were also able to negotiate a reduction in fees and incentive payments to the Investment Manager which will further enhance long term shareholder returns. Our confidence in the new arrangements was exemplified by our rebranding as GHS.

To recap the history briefly, in 2009 (after the financial crisis) the shareholders declined to invest new money into SPARK Ventures and triggered a six-year realisation of the portfolio. The execution of this strategy delivered significant returns to shareholders. Each £1 of shares held at the time of the 2009 AGM that approved the realisation strategy had received £1.95 in dividends and cash returns in addition to £0.62 represented by the share price on 8 August 2015 when the new investing policy was approved and the investment mandate was taken on by GHAM.

Your Board concluded that the Company should remain in the investment business, which will enable us to preserve and utilise our substantial tax losses carried forward from the dot-com crash in 2001. These would have been lost if we had simply wound up the Company. The continuation will also avoid further winding up costs which could have been significant.

In August 2015 we appointed the GHAM Strategic Public Equity team to manage the assets utilising the Company's new investment strategy. This strategy is designed to exploit the potential in a focused portfolio of smaller, generally UK quoted, cash generative companies where value can be added by proactively assisting change and development, through the application of techniques and levels of engagement more typical of private equity investors. This team has a proven track record of delivering superior investment returns primarily from their days at Schroder Ventures (London) Limited/SVG Investment Managers. I am pleased to say that Gresham House has also become our largest shareholder, which has the benefit of increasing alignment between shareholders and the manager.

At the commencement of the new arrangements with GHAM we had net assets of £36.4m, including £16.3m of cash, our stake in IMImobile, then valued at £16.3m and three companies acquired by way of asset swaps. The continuation of the vehicle with the new GHS mandate allows the full value of IMImobile to be realised over the longer term. These investments, totalling £3.8m at the time of acquisition, and those made subsequently are fully described in the Investment Manager's report.

I would like to pay a special tribute to my Board colleague and predecessor as Chairman, Tom Teichman, one of the founders of SPARK. I am delighted that he remains involved as a member of the 'Strategic Public Equity' Investment Committee of Gresham House.

The new management arrangements are working well. Gresham House has taken a cautious approach to deploying capital, given perceived relatively high valuations, resulting in our net cash balance at the end of the year being £15.2m. Since being awarded the investment mandate the team has invested £6.2m in new opportunities in addition to the £3.8m of asset swaps in August. The Manager has explicitly stated the view that headline market valuations appear full, and that opportunities will arise as companies disappoint. This has certainly begun to occur and GHS has captured some of these through new investments. I believe the market volatility has fully justified this approach.

Costs were, of necessity, relatively high due to the transactions required to create the new structure and the settlement of incentive fees payable under the previous investment mandate. We anticipate these will normalise in the coming year.

Shareholders will recall that we committed to distribute 50% of capital realisation gains through dividend. Although there was a small gain of £0.26m on Castle Street Investments the costs of paying a dividend out of this would be prohibitive. We intend to dividend out 50% of realised gains once at a level the Board believes to be appropriate. The Manager has also committed to re-invest up to 50% of any future performance fees in GHS shares. I feel therefore that the Company, shareholders and its Manager all share a common goal and full alignment.

In January we strengthened the Board with the appointment of Ken Lever, a very experienced company director who recently stepped down as Chief Executive of Xchanging plc.

Whilst the shares continue to trade at a discount to NAV, it should be noted that the average discount is significantly below that of the six months prior to the new Manager's appointment. The new Manager has only been in situ for 10 months and having rebranded, put in place a disciplined investment process, marketing materials, a new website and investor relations plan, we expect the market to recognise the potential in our portfolio and narrow the discount over the medium term. This is especially the case since we still hold a significant amount of cash alongside an attractively valued portfolio of smaller companies with good growth prospects.

We believe that many good investment opportunities to deploy cash and inject growth capital into smaller companies in support of long-term strategies will arise in the short term.

Markets are, and may remain volatile, and smaller quoted companies will continue to be under-researched and sometimes friendless. The Board is optimistic about the prospects for the underlying investments which should drive NAV growth and with risk appetite stable, the discount to NAV should narrow in the coming year. The Board believes that GHAM is an experienced, capable investor.

It has been an exceptionally active year for the Board, the new Manager and all our advisors and I thank them warmly.

**David Potter**
Chairman
28 June 2016

# INVESTMENT PORTFOLIO HOLDINGS

UK based global provider of software and services that enables organisations to maximise the potential of mobile technologies to improve customer engagement by providing a cloud based platform and a suite of software products to help our clients rapidly create and deploy mobile and digital user journeys.

**Deal type**
Secondary – growth and re-rating

**% ownership of the company**
17.4%

**% of total portfolio**
45%

**Value**
£16.3m

A digital marketing group operating at the intersection of marketing, technology and e-commerce. The company's vision is to build an agile interconnected group focused on helping clients maximise their return on investment from digital marketing. Their strategy is to acquire and connect best-in-class companies spanning the core digital marketing disciplines, providing management experience, access to deeper resources and a strong platform for growth.

**Deal type**
Growth capital supporting buy and build strategy

**% ownership of the company**
11.1%

**% of total portfolio**
6.0%

**Value**
£2.3m

The leading global illustrated book publisher and distribution group focused on niche areas of publishing such as cooking and children's books. The business covers subjects that can be better explained using illustrations or photographs.

**Deal type**
Secondary with primary growth capital supporting acquisitions

**% ownership of the company**
4.6%

**% of total portfolio**
6.0%

**Value**
£2.1m

Hires and sells specialist industrial equipment and is the market leading global supplier of loadbanks. The business also supplies the oil and gas sector with specialist drill tools. The company has offices or agents in the UK, Europe, the Middle East and Asia Pacific. Customers include utility companies, the oil and gas sector, shipping, construction and the public sector.

**Deal type**
Recovery and growth capital

**% ownership of the company**
8.0%

**% of total portfolio**
5.0%

**Value**
£1.8m

A UK domiciled active Asset Manager with an established suite of multi-asset and single strategy equity funds.

**Deal type**
Secondary – operational gearing and AUM growth

**% ownership of the company**
2.9%

**% of total portfolio**
4.0%

**Value**
£1.3m

Sells and administers space in high footfall venues, including shopping centres, garden centres, city centres, retail parks and travel hubs. The company matches brands, promoters and retailers campaigns to the venues and footfalls that are right for them, providing an end-to-end service from design and installation of kiosks to ongoing visual merchandising support for retailers to financial management and activity analysis.

**Deal type**
Secondary – recovery and growth

**% ownership of the company**
10.6%

**% of total portfolio**
3.0%

**Value**
£1.1m

** As of 10 June 2016*

# INVESTMENT MANAGER'S REPORT

## Outgoing Investment Manager's Report

Until 7 August 2015, SPARK Venture Management Limited (SVML) acted as the Company's Investment Manager and had responsibility for the investment activities of the Company.

In the period from 1 April 2015 to 7 August 2015 SVML substantially completed the realisation of the remaining venture capital portfolio leaving the company with one large investment in IMI Mobile plc (IMI), which is quoted on AIM, and cash balances.

The nine assets that were subject to the Hollyport sale agreement were all sold – seven of them to Hollyport and two to other existing shareholders where these shareholders chose not to sell. The total proceeds received amounted to £3.83m, being £166,000 more than we had assumed at 31 March 2015.

We recovered the restricted cash relating to the IPO of IMI of £3.1m and chose not to sell any shares in the period, continuing our belief in IMI's long term potential. The considerable (>20%) recovery in IMI's share price from 121.5p has justified this decision.

In the period between the management buy-out in October 2009 and 7 August 2015, the portfolio of investments which was then valued at £33.8m has been turned into cash of £57.5m and a quoted investment worth £16.5m, representing a money multiple of 2.2x and a gross IRR of approximately 21%. We believe this constitutes a very satisfactory outcome for shareholders. We therefore leave our former role in the belief that we have fulfilled our mandate and we look forward to the Company's future success with its new Investment Manager.

**SPARK Venture Management Limited**
28 June 2016

**On 10 August 2015 GHAM was formally awarded the management contract for the Company and in October the Company was rebranded Gresham House Strategic plc. This is the first annual report since appointing the new investment team and adopting the Strategic Public Equity investment strategy and it is pleasing to report on new investments and a strong pipeline of opportunities.**

## Strategic Public Equity Investment Strategy

We aim to utilise the philosophy, approach and techniques used by private equity investors to identify opportunities, targeting UK and European smaller public companies. We focus on companies with characteristics such as strong cash generation and scope to improve return on capital, and where we believe there are opportunities to create shareholder value through strategic, operational or management initiatives. Our approach is differentiated from many other public equity investment strategies in a number of ways including: depth of due diligence undertaken; the level of interaction and constructive engagement with management teams and Boards; the focused and concentrated portfolio; and the investment horizon in which we typically seek to support a three to five-year value creation plan with identified milestones. We also make use of a network of seasoned executives from a range of professional and commercial backgrounds with whom we consult, including those who form part of the Gresham House Advisory Group.

GHAM believes this approach can lead to superior investment returns as it is targetting inefficiencies in certain segments of the public markets. There are over 1,200 companies in the FTSE Small Cap index and on AIM. These companies typically suffer from a lack of research coverage and may often have limited access to growth capital. This often leads to investment opportunities being overlooked by the wider market.

Our investment strategy has an underlying value philosophy, focusing primarily on cash generative companies where there is scope for management engagement to identify opportunities to implement strategic, management or operational initiatives to create shareholder value and to generate improved equity returns.

The investment process is typically broken into four stages and includes an Investment Committee. Investment returns target a net 15% IRR over the investment holding period (three to five years).

In addition to publicly quoted companies, we also have the flexibility to invest up to 30% of the portfolio in selected unquoted securities including preference shares, convertible instruments, limited partnership interests and other forms of investments.

## Market background

The FTSE All-share and Smaller Companies indices started the year with a continuation of the uncertainty and volatility that characterised Q4 2015. Indices fell sharply, driven by concern over slowing growth in Asia, pressure on oil and commodity prices, a short-term focus on the prospect of US and UK interest rate rises in contrast to negative rates in Europe and fears of deflation, all resulting in an unclear market direction. However, we saw a rebound into Q2 as fears of a rate rise dissipated and following dovish rhetoric in the US and further central bank intervention. The UK market is now focused on the impending vote on Britain's EU membership which is creating inertia with investors.

We have previously commented on market valuations which we continue to see as relatively high on a number of metrics compared to long term averages, with the FTSE small-cap trading at a median P/E multiple of 16x, a dividend yield of 2.8%* and cyclically adjusted P/E ratios towards the top end of their historic ranges. This is against a backdrop where the consensus view is that it will be tough to generate meaningful earnings growth given a slowing global economy, low inflation and operating margins nearing peak levels.

Evidence of this uncertainty can be seen in the significant contraction, globally, in IPO activity and also the increased M&A activity over the last 12 months with companies acquiring growth to maintain valuations and ratings.

Against this uncertain backdrop we continue to see a divergence within the equity markets, not just between larger and smaller company valuations, but also growth versus value. Whilst markets as a whole appear expensive on some metrics, there is considerable dispersion within the indices, notably between large and small companies and also between 'value' and 'growth'. It is well documented that within UK equities, smaller companies have proven to generate significant outperformance over the long term, with further outperformance from 'value' companies[1]. We believe the current environment represents a favourable backdrop in which to implement our focused, engaged strategy and is one which should attract growing interest, particularly in the coming years.

Within the first 10 months as Manager we have constructed what we believe to be an attractive, lowly valued portfolio with good prospects for long term earnings and share price growth. We have an attractive pipeline of investments and deals providing opportunity to generate superior long term returns, focused on smaller companies with "value characteristics" where the team can actively engage with management teams to support a three to five year plan to grow shareholder value. We continue to focus on the inefficient areas of the market, both public and private where we can identify a competitive advantage.

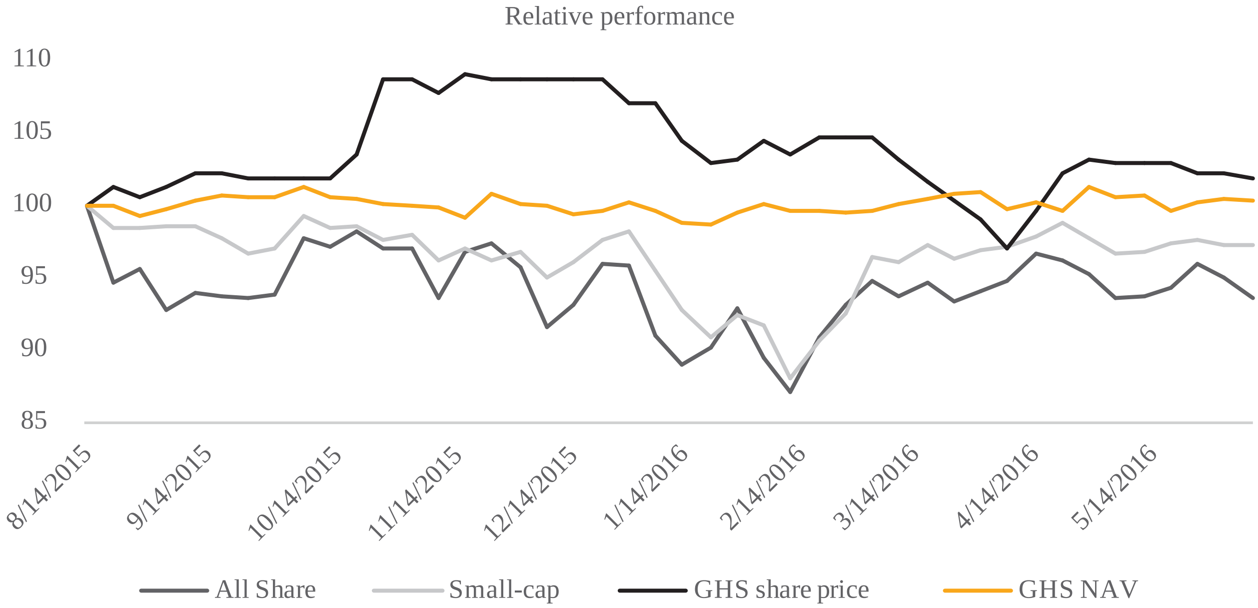
## Performance review

The Gresham House Strategic plc share price has risen 9.6% during the period outperforming the FTSE Smaller companies index by 6.5% and the FTSE All Share index (both excluding Investment Trusts) by 17.5%, with the discount to NAV narrowing from 35% to 20%. The share price has increased 3.0% post period end from April 2016 through to 10 June 2016 outperforming the smaller company indices (excluding Investment Trusts). The NAV has been resilient against a volatile market, economic and political backdrop.

** Bloomberg data, 10 June 2016*

*1 Dimson, E and Marsh P 2014*

At present we hold six companies in the portfolio with a medium term target which would see between 10 and 15 stocks representing more than 80% of the portfolio. The current portfolio of companies is attractively valued, with strong cash generation characteristics. Taking into account cash in the portfolio and the current share price discount to NAV per share, the portfolio is trading on an implied EV/EBITDA multiple below 5x*, which is approximately half the average market rating, and offers estimated EBITDA growth prospects in excess of 10%, also twice the market average. We have an exciting pipeline, including private opportunities, which may potentially be pre-IPO, and we look forward to updating shareholders in due course.




| Performance | Since appointment[1] - Year end 31 March 2016 | Since appointment[1] - 10 June 2016 | 2016 - ytd[2] |
|---|---|---|---|
| GHS NAV | 1.03% | 0.37% | 0.10% |
| FTSE Small Cap (ex IT) | -2.76% | -2.64% | -0.91% |
| FTSE All Share (ex IT) | -5.44% | -6.31% | -2.27% |
| | | | |
| Relative performance | | | |
| Relative FTSE Small Cap (ex IT) | 3.80% | 3.02% | 1.01% |
| Relative FTSE All Share (ex IT) | 6.47% | 6.69% | 2.38% |

*1 14 Aug 2015 - First release of NAV since GHAM appointment as Investment Manager to GHS*
*2 Performance run through to 10 June 2016*

** Excluding cash and Be Heard Group for which there are no current broker forecasts*

| Holding | Value (£m) | % of NAV | % shareholding in company |
|---|---|---|---|
| **31-Mar-16** | | | |
| IMImobile | £15.6 | 42.4% | 17.4% |
| Quarto Group | £2.3 | 6.3% | 4.6% |
| Miton Group | £1.6 | 4.3% | 2.9% |
| SpaceandPeople | £1.2 | 3.3% | 10.6% |
| Be Heard Group | £1.0 | 2.7% | 7.3% |
| Cash and other net assets | £15.0 | 41.0% | |
| Net Asset Value | £36.7 | | |
| | | | |
| Average EV/EBITDA portfolio* | 4.7x | | |
| Estimated EBITDA growth* | 15% | | |
| Average Free Cashflow Yield* | 11.5% | | |
| | | | |
| **10-Jun-16** | | | |
| IMImobile | £16.3 | 44.5% | 17.4 |
| Be Heard Group | £2.3 | 6.3% | 10.0 |
| Quarto Group | £2.1 | 5.7% | 4.6 |
| Northbridge Industrial Services | £2.1 | 5.7% | 9.0 |
| Miton Group | £1.3 | 3.6% | 2.9 |
| SpaceandPeople | £1.0 | 2.8% | 10.6 |
| Cash and other net assets | £11.5 | 31.4% | |
| Net Asset Value | £36.6 | | |
| | | | |
| Average EV/EBITDA portfolio* | 4.1x | | |
| Estimated EBITDA growth* | 11.7% | | |
| Average Free Cashflow Yield* | 13.3% | | |

**GHAM calculations*

## NAV Performance attribution

The NAV performance during the year reflects two different periods within the history of the Company. As noted above, on 10 August 2015, GHAM was formally awarded the investment management responsibility and the Company adopted its new investing policy as set out in the circular to shareholders dated 21 July 2015. The NAV performance in the first half of the year was commented on in the Company's interim results statement and hence commentary has been focused on the second half of the year during which the new investment policy has been in place.

## NAV attribution (30 Aug 2015 - 31 May 2016)

| | Gross | Per share | % |
|---|---|---|---|
| **NAV - 31 Aug 2015** | 37,234 | 10.10 | |
| Be Heard | 101 | 0.03 | 0.3% |
| IMImobile | (211) | -0.06 | -0.6% |
| CSI | 160 | 0.04 | 0.4% |
| Miton | 75 | 0.02 | 0.2% |
| NBI | 282 | 0.08 | 0.8% |
| Quarto | 29 | 0.01 | 0.1% |
| SpaceandPeople | (547) | -0.15 | -1.5% |
| Costs | (744) | -0.20 | -2.0% |
| **NAV - 31 May 2016** | 36,957 | 10.02 | -2.3% |

*Note: The NAV announced differs marginally from above due to slight differences in Bloomberg pricing using the mid-price v accounting policies which use the bid price*
** GHAM calculations*

A number of our portfolio holdings reported positive news flow during the period.

Quarto Group announced results ahead of market expectations with good earnings growth and strong cash generation as a result of organic growth and the highly successful acquisition of Ivy Press.

Miton Group highlighted strong inflows and top quartile fund performance in Q1 2016 resulting in a moderate upgrade to broker forecasts and the shares performed well rising 27%. However, the share price performance reversed following the announcement of the departure of two key fund managers announced in April. We continue to believe the company is attractively valued and are encouraged by the appointment of Andrew Jackson to manage the Value Opportunities fund. The management team's focus should now be on defending assets and returning the group to industry average operating margins.

The only faller in the period, SpaceandPeople plc announced final results in March for the year ended 31 December 2015 which were in line with expectations.

IMImobile, a significant holding within the portfolio released a positive pre-close trading update on 30 March 2016 highlighting a strong pipeline and positive outlook. Preliminary results for the year ended 31 March 2016 are due for release in July and we continue to see opportunity to the upside as the valuation anomaly compared to comparable transactions closes, through identified action points taken by the management.

The fund exited its position in Castle Street Investments on 1 March 2016 generating a gross IRR of 43%.

## Dealing activity

Since being appointed Investment Manager the team has made three new strategic investments building a 10% stake in digital advertising business Be Heard Group plc ("Be Heard"), a 5% stake in Quarto Group Inc ("Quarto") and acquiring an initial 8% stake in specialist industrial business Northbridge Industrial Services plc ("Northbridge"), which we have subsequently increased to 9%.

Two of these investments are primary or new "growth" capital investments. All GHS investments offer a mix of growth, recovery and consolidation opportunities and in all three cases we are supporting strong management teams to deliver a three to five year value creation plan. In the cases of both Be Heard and Northbridge we provided new capital and in all three cases anticipate providing further support and growth capital to the business as the investments progress. More detailed case studies are outlined below.

The Company invested in Be Heard (BHRD) in November 2015 subscribing for new shares at 3.25p in a placing to provide growth capital supporting a new strategy, the build out of the experienced management team and re-admission to AIM. We increased our holding in December 2015 taking advantage of temporary share price weakness. On 14 March, in line with its stated strategy, the company announced the proposed acquisition of design, build and user experience agency MMT Digital alongside a further new issue of equity raising £8m of growth capital. We participated as a cornerstone investor increasing our stake in the company to over 10%.

We acquired an initial holding in Quarto (QRT) in November 2015 (as part of a block secondary placing) with a view to supporting CEO Marcus Leaver's strategy which seeks to build on the international platform focused on niche, illustrated publishing titles, both organically and through bolt on acquisitions. We anticipate opportunities to provide further growth capital in the future as the business scales. The shares have performed well, increasing by 10.2% since the time of our initial investment, in part a result of the company announcing good final results on 17 March with revenue, PBT and the full year dividend slightly ahead of broker forecasts and debt reduction ahead of target. The acquisition of Ivy Press in February 2015 has been a demonstrable success, illustrating the opportunity to generate synergies by leveraging the group's operating and distribution platforms.

We exited our small holding in Castle Street on 1 March 2016, realising a 43% IRR and 1.2x money multiple. At the time Castle Street was taken on as an asset swap in the placing in August 2015, it was a cash shell. The company subsequently raised money to support an acquisition and buy and build strategy focused on IT services. Whilst we could see potential in the company's strategy, a rise in the price coupled with the fact that we saw limited opportunity for us to drive our mandate for investing led to the decision to realise our investment.

Shortly after the year end, and following extensive engagement with the management to craft an appropriate transaction, we made an investment in Northbridge, described more fully below.

## Portfolio review

### *Quarto*

Quarto Group is a leading global illustrated book publisher and distribution group and has been listed on the London Stock Exchange since 1986. Quarto creates more than 1,500 adult and children's books a year. These books are sold into 35 countries and in 25 languages. Subjects range from Art 'How-To', Graphic Design, and Home Improvement, to Cooking, Gardening, Motoring, and Crafts. Quarto specialises in producing books that can be better explained with photographs or illustrations, covering many different subject matters.

Chief Executive, Marcus Leaver, joined the company as COO in May 2012 and became CEO in December that year. He has restructured the business and has a strategy to build the business through consolidating a fragmented industry. The strategic restructure has created a solid platform to implement this buy and build growth strategy and creates the opportunity to become a leader in various areas of niche publication.

We believe significant further value can be generated through ongoing operational improvement, strong cash generation leading to debt reduction, as well as complementary bolt on acquisitions aimed at increasing market share within publishing niches, such as children's books. The strategy is therefore based around profit growth and cash generation. Positive data released in May 2015 showed sales of physical books grew for the first time in four years driven by demand for adult colouring-in and children's books. We increased our position following results taking our stake up to 5%.

## Quarto Group – GHS c.5% shareholding
## "Secondary followed by potential primary growth capital"

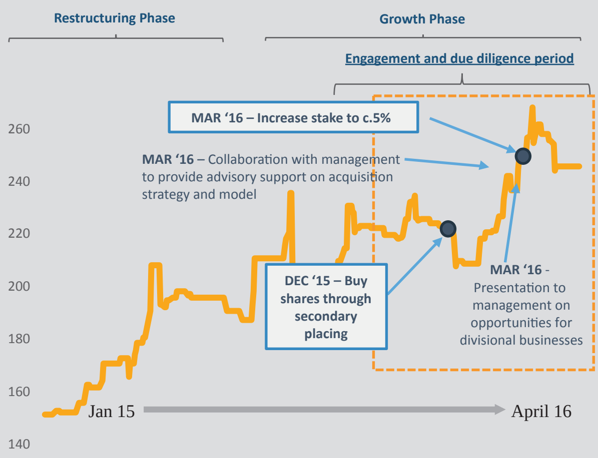
| | |
|---|---|
| **Date of investment:** | December 2015, increasing stake to 5% in March 2016 |
| **Deal Type:** | Secondary block placing with plan for provision of growth capital in support of acquisitions complementing organic growth |
| **Overview:** | Secondary supporting the new management team's organic growth strategy with the agreed potential to provide growth capital to facilitate acquisitions |

### Investment Thesis

Backing management to grow earnings and create value through a combination of:

- **Organic earnings growth** Operational improvement and increasing exposure to higher margin niche publishing areas
- **De-leverage** - Strong cash generation enabling debt reduction
- **Potential to provide primary growth capital to fund enhancing acquisitions**
  - The strategy seeks to acquire smaller publishers for low multiples (4x-5x EBITDA) and integrate them with Quarto trading closer to 7.2x[1] fwd EV/EBITDA, driving operational synergies and enhancing group earnings. Pipeline of identified acquisition opportunities exceeds $25m
- **M&A track record** - Ivy press was acquired in 2015. The team grew EBITDA from c.£0.4m at time of acquisition and generated in excess of £1m within first year of inclusion in the group
- **Trade / PE deal precedents at high relative valuations**[2]

### Engagement




1 *Stockdale Securities research note March 2016*
2 *Gresham House calculations using peer group as determined by GHAM*

*Miton Group plc*

Miton (MGR) is an active investment management company with c.£2.9 billion of assets under management (Feb 2016), operating nine open ended funds, four unit trusts and three investment trusts.

The company has a strategy to focus on fund management and to grow assets under management whilst improving longevity of its assets under management through building its Investment Trust business. Increased scale should also allow the company to leverage its cost base more effectively.

Signs of success in the turnaround of Miton were evident in Q1 2015 with momentum in asset inflows and top quartile performance from the majority of group funds. The business has invested heavily in its operational platforms and IT to support scale and will benefit from significant operational gearing. However, shortly after the period end, the company announced the departure of two high profile fund managers which has affected the positive momentum and has impacted sentiment. The group has some exceptional fund managers, and the subsequent appointment of Andrew Jackson to manage the Value Opportunities Fund, replacing the two departing fund managers is welcome news, although it is too early to predict the impact on AUM flows, not just for that specific fund, but also the impact on fund raising for the European fund. The potential for shareholder value is clear through improvements in operating margins and return on capital employed. We remain happy with our investment and see scope for significant upside over the longer term as these KPIs are achieved.

### *SpaceandPeople*

SpaceandPeople facilitates and manages space on behalf of property managers for marketing campaigns and retailing in high footfall destinations such as shopping centres and travel hubs.

Signs of recovery have been evident with scope to grow the top line and in particular its digital kiosk offering in the UK and to restore margins back to normalised levels. The company announced its preliminary results on 29 March 2016 which were in line with expectations and cited good progress in winning significant new contracts during the period.

Importantly the results confirmed that the UK business is performing well and delivering good growth in the recently launched, and high return on capital, digital Mobile Promotional Kiosk product ("MPK"). This is to some degree replacing legacy Retail Merchandising Units ("RMUs"). Focus is now on delivery and execution of the new contracts won in 2015 in the UK with Network Rail, British Land and in converting the trial with Auchan, one of the largest operators of shopping centres in France. The company is projecting modest growth in earnings for 2016; however the valuation implies little expectation of long term growth.

### *IMImobile*

IMImobile is an enterprise software provider, selling to mobile operators and large consumer-facing enterprises, with three main product offerings:

- The core application, IMIconnect, allows enterprise applications to contact and engage with customers or employees across a variety of mobile and other digital messaging methods, from SMS to social media messaging.
- The IMIcampaign product is an application built on the IMIconnect functionality, enabling control and management of marketing campaigns using a marketing automation software solution.
- The IMIdigital platform is a content management system for (primarily) mobile operator websites, enabling the sale and distribution of digital content to consumers.

The company's business model is increasingly migrating to SaaS, although it also offers fully managed services to its clients using its applications. Operations cover India, MEA, Europe and the UK. The company has recently launched in the US.

The company has been active over the last 12 months restructuring and re-branding the product suite, completing an acquisition and appointing a new corporate broker and PR adviser. Since the period end, John Allwood, the existing senior independent Non-Executive Director has moved to Chairman with founder and former Chairman, Vishwanath Alluri, remaining on the Board as a Non-Executive Director.

The company released a positive pre-close update on 30 March 2016 confirming that the group is trading in line with market expectations which leaves us optimistic for growth prospects for FY17. The business is demonstrating encouraging organic growth across all regions with business units delivering revenue and gross profits growth of 25% and 20% respectively. Performance in Western Europe and the Americas was particularly pleasing where the company had key contract renewals coupled with strong new wins. MEA had an excellent year with an attractive pipeline positioning the business well for continued growth in FY17 whilst the integration of the recent acquisition, Archer, in South Africa is generating good cross-selling opportunities. The company has also completed investment in and simplification of its product suite.

The shares are attractively valued trading below 7x EV/EBITDA which is considerably below trade and private equity multiples for similar businesses. 90% of its revenues are naturally recurring, it is highly cash generative with a strong balance sheet which we believe will enable further consolidation benefits alongside organic growth.

### *Be Heard*

GHS is supporting a buy and build strategy executed by an experienced management team through the issue of primary growth capital. Be Heard has ambitious plans to build an international network of digital marketing, e-commerce specialists through acquisition, with each agency maintaining its own brand and proposition while benefiting from the company management team's significant experience and proven track record of value creation and building businesses in the sector. The company is chaired by industry veteran Peter Scott and his highly capable team who have previously developed and successfully exited advertising businesses such as Aegis, WCRS and the Engine Group.

Be Heard was a cash shell (formerly Mithril) which was listed on the main market in December 2014, raising £3.4m. In November 2015 the company raised a further £5.5m to fund the acquisition of Agenda21, an existing profitable media buying and digital marketing company. Agenda 21's core business is planning, buying and managing multi-channel marketing campaigns across the digital media spectrum on behalf of its clients. This includes search engine marketing/pay per click, search engine optimisation, display advertising, including social, mobile and programmatic opportunities and other paid media, underpinned by Agenda 21's own proprietary analytics. Agenda 21 generated revenues of £14.8m and gross profit of £3.2m in the year-ended 31 December 2014. In the six months to 30 June 2015 the company generated revenues of £7.9m and gross profit of £2m.

In April the company announced its intention to raise a further £8m, partly to fund the acquisition of MMT Digital and introduce additional respected institutional fund managers to the shareholder register. MMT Digital is a leading website design, build and user experience agency based in Uppingham and London. It serves a wide range of clients and offers a fully integrated, bespoke client service across strategy, user experience, design, build and application development. It delivers using an Agile development methodology which leads to deep customer engagement and high utilisation levels for developers. It has a strong development team with expertise in a number of platforms, including Kentico, Drupal, Sitecore and EPiServer. MMT generated revenue of £4.9m and gross profit of £2.7m in the year ended 31 March 2015.

Following our initial investments made in November and December 2015, after the period end we added to our holding participating through a £1.6m cornerstone investment in the previously announced new issue of £8m equity alongside the acquisition of MMT Digital. GHS is now a 10% shareholder.

## Be Heard – GHS c.10% shareholding
## "Primary growth capital, supporting buy & build strategy"

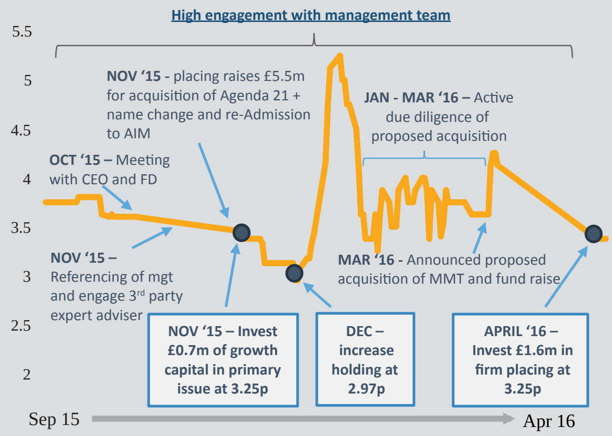
BE HEARD

| | |
|---|---|
| **Date of investment:** | Initial investment November 2015, further investment in April 2016 |
| **Deal Type:** | Growth capital (Primary) |
| **Overview:** | Cornerstone investor supporting capital raise & re-Admission backing a proven management team aiming to build a leading digital marketing network through acquisitive and organic growth |

### Investment Thesis

- **Backing a proven management team** - Strong track record of value creation in the sector and highly capable integrators of businesses
- **Support a buy and build growth and value creation strategy** Paid c.6x EBITDA for the initial acquisition of Agenda21 with an earn-out up to 8x and c.5.5x for the second acquisition of MMT rising to a maximum of 8x
- **Valuation arbitrage** - Larger companies in the sector trade on a range of 9-11x EBITDA[1]
- **Market growth in digital media** is evident with spending on internet advertising forecast to double 2014-2015[2]
- **Significant revenue and cost synergies available from the buy and build strategy**
- **Strong cash flow generation from operations and earnings growth expectation**

### Engagement




1 *Gresham House calculations. GHAM determined peer group including much larger peers which in time as BHRD executes on its buy and build strategy should become appropriate comparable companies.*
2 *Enders Analysis based on GroupM/ZenithOptimedia*

## *New investment post year end*

### *Northbridge Industrial Services*

As noted above, we made a new investment in Northbridge Industrial Services plc after the period end.

Northbridge hires and sells specialist electrical and oil & gas related equipment in a range of international markets, including the UK, US, Europe and Australasia. End markets include utility companies, oil & gas, shipping, construction, data centres and medical.

Loadbank and transformer components are assembled by the group at its manufacturing facility in Burton-on-Trent. The group has grown organically and through acquisitions, most recently by the acquisition of Tasman Tools which was completed in 2014.

We initially engaged with the company's management team in Q3 and Q4 of 2015, exploring ways in which we could support the recovery and long term growth strategy. After a number of constructive discussions, in April we acquired an 8% stake in the business through a primary issue of new shares. Significantly we participated as a cornerstone investor in a placing investing £1.5m of the £4.5m total and underwrote the £1.1m Open Offer. Throughout the investment appraisal process, we conducted site visits, and leveraged third party sector experts within our advisory network in addition to conducting independent research.

We acquired shares at what we believe to be an attractive entry price representing a 40% discount to tangible net asset value and an estimated 4.8x EV/EBITDA multiple. The equity issue has substantially reduced the company's debt and we believe further value can be created through debt paydown, given the strong cash generation and ability to reduce capital expenditure, plus a recovery of margins towards more normalised levels over the medium term. Importantly investor focus has switched from balance sheet concerns over debt covenant headroom to recovery and growth and the company is now well placed to exploit advantageously priced bolt on acquisitions.

## Northbridge Industrial Services – GHS c.9% shareholding
## "Recovery and growth capital investing alongside management"

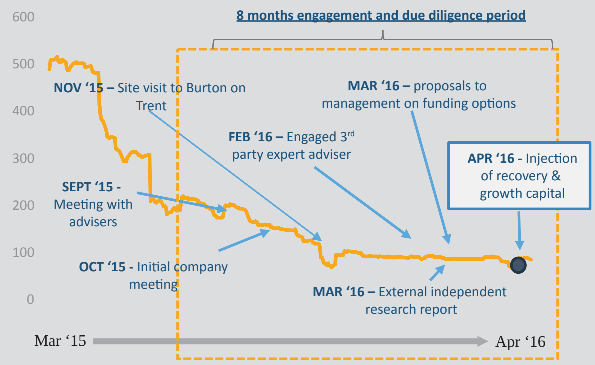
NORTHBRIDGE

| | |
|---|---|
| **Date of investment:** | April 2016 |
| **Deal Type:** | Growth capital (Primary) |
| **Overview:** | Cornerstone investor in a capital raise to reduce debt and support future growth, including underwriting Open Offer. Collaborative engagement with management with a view to supporting the execution of the agreed future strategy |

### Investment Thesis

- **De-leveraging** - cash generation and significant reduction in capex
- **Multiple expansion** - Entry EV/EBITDA at 4.8x representing a 63% discount to peers and a low point compared to the last 2 years' trading range[1]
- **Margin recovery** - Profit growth as margins recover to long-term average
- **Free cash flow yield of 20%**[2] and **Recovery P/E ratio of 5.9x**[3]
- **Liquidation value** - Underpinned by realisable assets. Attractive entry point at 60% of net asset value[4]

### Engagement




1 *Bloomberg data*
2 *Free cashflow yield GH 2016 forecasts (operating cashflow after interest & tax, less maintenance capex. EV based on fully diluted number of shares at 75p and forecast net debt).*
3 *Gresham House forecast 2019 EPS, assuming turnover recovers to 2015 levels and margins return to c.12%, applying entry price of 75p.*
4 *Stockdale Securities forecasts - note 18 April 2016*

## Outlook

The outlook for equity markets as a whole remains mixed with concerns over issues such as the slowing global economy and deflationary pressures, the UK referendum and the broader political temperature in Europe, the migrant crisis and security concerns, as well as the oil price and broader commodity markets leading to volatility. Although traditional valuation metrics do not look excessive for the UK indices, they are towards the upper end of the spectrum with median P/E multiples of 16x and a dividend yield of 2.8% for the FTSE small-cap index (ex. Investment Trusts)*. The extraordinary period of quantitative easing has resulted in an unprecedented low cost of capital which has helped drive corporate ROE and margins towards peak levels. These conditions suggest that medium term real returns from the equity markets are likely to be below their longer term average of 4% - 5%.

However, indices are an average and hide dispersions. We made an active decision to hold a high weighting in cash, in order to benefit from pricing dislocations which we anticipated. These are starting to appear. The valuation discrepancies between small and large companies and between 'value' and 'growth' are, in some cases, extreme. Investors who are prepared to take a longer term view and for those who are prepared to do their research carefully, these conditions can provide attractive investment opportunities. Furthermore, market uncertainty has led to

* *Bloomberg data, 10 June 2016*

a reduction of institutional interest in new equity issues for small companies, so our view is that management teams are increasingly eager to engage with investors who are able to take a longer term view and who are willing to engage with the company's strategy. Many small companies could be viewed as private companies with a quote. Consequently, we remain optimistic for the prospects and the returns from Gresham House Strategic plc which employs a private equity approach to quoted markets.

**Investment Manager**
**Gresham House Asset Management Limited**
28 June 2016

## Investment Team

**Anthony (Tony) Dalwood**
**Fund Manager and Chairman of the Investment Committee**

Tony is an experienced investor and adviser to public and private equity businesses. Tony established SVG Investment Managers (a subsidiary of SVG Capital plc), acting as CEO and then Chairman, and launched Strategic Equity Capital plc. His previous appointments include CEO of SVG Advisers (formerly Schroder Ventures (London) Limited), membership of the UK Investment Committee of UBS Phillips & Drew Fund Management (PDFM), Chair of Downing Active Management Investment Committee and the Board of Schroders Private Equity Funds. He is currently on the Board of the London Pensions Fund Authority and Chairman of the Investment Committee, and Independent Non-Executive Director of JP Morgan Private Equity Limited plc (JPEL).

**Graham Bird**
**Fund Manager and member of the Investment Committee**

Graham leads the strategic public equity team alongside Tony Dalwood. He is experienced in Fund Management and in building both corporate advisory and Asset Management businesses.

Graham spent the last six years as a senior Executive at PayPoint plc, most recently as Director of Strategic Planning and Corporate Development. He was Executive Chairman and President of PayByPhone, a multi-national division of PayPoint operating out of Canada, the UK and France between 2010-2014. Prior to joining PayPoint, Graham was a Fund Manager and Head of Strategic Investment at SVG Investment Managers where he helped to establish and then co-manage the Strategic Recovery Fund II and Strategic Equity Capital Investment Trust.

Before joining SVGIM he was a Director in Corporate Finance at JP Morgan Cazenove.

**Pardip Khroud**
**Investment Team**

Pardip is responsible for sourcing, appraising and managing both public and private equity transactions across a range of sectors.

She has a Bachelor’s Degree in Accounting and Finance from the University of Manchester and qualified as a UK Chartered Accountant with KPMG.

Previously Pardip worked at LDC, the private equity arm of Lloyds Banking Group, where she assumed Board positions on uSwitch (Price Comparison Website) and Bluestone (Financial Services).

**Jonathan Dighe**
**Investment Team**

Jonathan has over five years of UK small cap equities experience, working as both a research analyst and as a Director on the equity sales desk at Charles Stanley Securities where he was responsible for looking after corporate clients, predominantly UK smaller public companies, a number of secondary placings and IPOs.

Prior to joining Charles Stanley Jonathan worked for BP plc and Accenture UK Ltd as a management consultant working on global business transformation projects.

## Investment Team (continued)

**Laurence Hulse**
**Investment Team**

Laurence is a part of the Investment Team at Gresham House, working on both public and private equity transactions across a range of sectors for Gresham House.

Laurence has a Bachelor's Degree in Politics with Economics from the University of Warwick. During his studies and previous to joining Gresham House, Laurence interned at Rothschild's.

## Investment Committee

**Thomas (Tom) Teichman**

Tom has 30 years VC & banking experience and founded Spark in 1995. Former Investment Committee member at Brandt's, Credit Suisse, Bank of Montreal and Mitsubishi Finance London. Start-up investor/Director of lastminute.com, mergermarket.com, Chairman of Kobalt Music, notonthehighstreet.com, ARC, MAID, amongst others. Investor/Director in System C Healthcare, Argonaut Games, World Telecom. Delivered various disposals to trade, P-E, and through IPO. BSc Econ(Hons). He is a Non-Executive Director of Market-Tech.

**Bruce Carnegie-Brown**

Bruce is Chairman of Moneysupermarket.com Group plc. He is also Vice Chairman and Lead Independent Director of Banco Santander S.A. and a Non-Executive Director of Santander UK plc. Until November 2015, he was Chairman of AON UK Ltd. Bruce was previously Managing Partner of 3i Quoted Private Equity and a member of the 3i Group Management Committee and prior to that CEO of Marsh Ltd and President of the European insurance division of Marsh & McLennan Companies Inc. He worked for JP Morgan in a variety of senior roles in the UK and Asia, including Chairman and CEO of JP Morgan Securities Asia, Senior Credit Officer for JP Morgan Europe and Head of European and Asian Debt Capital Markets.

**Rupert Robinson**

Rupert has over 25 years experience in Private Wealth and Asset Management. Former CEO and CIO of Schroders Private Bank he was instrumental in driving organic growth in AUM which doubled between 2008 and 2012 from £4.5 to more than £9bn. Prior to Schroder, Rupert was Head of UK Wealth Management at Rothschild Asset Management.

# BOARD OF DIRECTORS

**David Potter**
**Non-Executive Chairman**

David is the former Deputy Chairman of Investec Bank UK. Prior to this he was Group CEO of Guinness Mahon Group. Between 1981-1989, David was a Managing Director of Samuel Montagu, Midland Montagu and Midland Global Corporate Banking (now HSBC). David was also a Managing Director of CSFB and its predecessor companies (1969-1981). David is currently a Non-Executive Director of Fundsmith Emerging Equities Trust and Chairman of Illustrated London News. He is a Council member of The Centre for the Study of Financial Innovation, Chairman of the National Film and TV Foundation, The Bryanston Foundation and a Trustee of Worldwide Volunteering. He is a member of the Investment Committee of King's College London where he is a Fellow.

Appointed to the Board on 20 March 2002 and became Chairman on 25 September 2009.

**Charles Berry**
**Non-Executive Director**

Charles was an Executive with SPARK from 2001 to 2005 working as a Director at Aspex, Mergermarket, Kobalt, and Insurancewide.com. He was involved with SPARK's investments in Pricerunner (sold to ValueClick), Safelogic (sold to Jasper Design Automation), and IntelligentApps (sold to Sage plc). Since leaving his executive role, Charles has worked at Virgin Group building Virgin's mobile phone and related ventures around the globe, and also at Lloyds Banking Group working on restructuring the bank's customers, and also the Group's Strategy. Charles is now Corporate Development Vice President for DST Systems Inc, a US quoted technology and services business supporting the asset management industry. Appointed to the Board on 15 September 2004. Charles is Chair of the Audit Committee.

**Kenneth Lever**
**Non-Executive Director**

Ken Lever is a Non-Executive Director of DACBeachcroft LLP, a legal firm specialising in insurance and property, a Non-Executive Director of Vertu Motors plc (AIM listed Automotive Retailer) and FM Insurance Limited (a wholly owned subsidiary of FM Global, property insurer). Ken recently stepped down from his role as Chief Executive of Xchanging plc and during his career has held listed company executive Board positions with Tomkins plc, Albright and Wilson plc, Alfred McAlpine plc and private equity owned Numonyx BV. In his early career Ken qualified as a Chartered Accountant and became a partner in Arthur Andersen. Until 2014 Ken was a member of the UK Accounting Standards Board. He graduated from Manchester University with a degree in Management Sciences.

Appointed to the Board on 1 January 2016.

**Helen Sinclair**
**Non-Executive Director**

Helen has an MA in Economics from the University of Cambridge and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly eight years at 3i plc focusing on MBOs and growth capital investments. She later co-founded Matrix Private Equity (now Mobeus) in early 2000 raising Mobeus Income & Growth 2 VCT plc (formerly Matrix e-Ventures VCT plc). She subsequently became Managing Director of Matrix Private Equity before moving to take on a portfolio of Non-Executive Director roles in 2005. She is currently a Non-Executive Director of The Income & Growth VCT plc, Mobeus Income & Growth 4 VCT plc, Downing One VCT plc, FTGS Holdco Ltd, and Chairman of British Smaller companies VCT plc. Appointed to the Board on 17 December 2009.

# CORPORATE GOVERNANCE REPORT

Gresham House Strategic plc is a member of the Association of Investment Companies and follows the AIC Code of Corporate Governance which sets out a framework of best practice for its member companies. Following the recent changes at the Company the Board will be considering its corporate governance arrangements with a view to moving towards best practice in the sector, with the full support of the Manager.

## The Board

The Chairman of the Board is independent and all of the Directors are independent of the Investment Manager. All of the Directors will stand for re-election at each AGM. The Board has a policy to have a balance on the Board in terms of Directors' tenure, so that the knowledge and experience of the company which is brought by longer serving Board members can be complemented by the addition of diverse insights and approaches brought by newer Board members.

Biographical details of each of the Directors are given on page 21. The Directors have a range of skills, knowledge and experience. During the year Ken Lever was appointed as an additional independent Non-Executive Director. The appointment process was undertaken by the other Non-Executive Directors and involved reviewing an extensive long list of candidates. An induction programme is arranged for new Directors which is tailored to their particular needs.

The Board considers investment performance, investor relations, share price performance and other relevant matters at each Board meeting. The Board has a dedicated strategy session at least annually. Policies have been agreed with the Investment Manager and outsourced administration, accounting and company secretarial provider to cover key operational issues.

## Board committees

The Board has an audit committee, the members of which are Charles Berry (Chairman), Ken Lever, and Helen Sinclair. The committee meets at least twice a year before the release of the full and half year results.

The Board does not consider it necessary to have a remuneration committee. It has agreed that the work which would be undertaken by a management engagement committee will be undertaken by the whole Board. The whole Board also acts as the nomination committee. The performance of and contractual arrangements with the Manager will be reviewed at least annually. As the Manager has been appointed during the last year, such a review has not yet been undertaken.

## Shareholder communications

The Board receives a regular analysis of the company's shareholders, which allows it to communicate with them on relevant issues.

Approved by the Board of Directors
and signed on its behalf:

**Augentius Corporate Services Limited**
**Company Secretary**
28 June 2016

# DIRECTORS' REPORT

The contents of the Strategic Report are spread between the Chairman's Statement and Investment Manager's Report. The Directors present their annual report and the audited financial statements for the year ended 31 March 2016.

## Activities

Gresham House Strategic plc (the "company") is an investment company. Its principal activity is to make investments primarily in UK and European smaller public companies, applying private equity style techniques and due diligence alongside a value investment philosophy to construct a focused portfolio which is expected to be comprised of 10 to 15 companies.

The company has no employees but has a Board consisting of four Non-Executive Directors.

## Directors

The Directors who served during the year were:

| | |
|---|---|
| D R W Potter | |
| C R Berry | |
| A D N Betton | (resigned 7 August 2015) |
| K Lever | (appointed 1 January 2016) |
| H R Sinclair | |
| T A Teichman | (resigned 7 August 2015) |

## Directors' indemnity

The Company has maintained a Directors' and Officers' liability insurance policy on behalf of the Directors, indemnifying them in respect of certain liabilities which may be incurred by them in connection with the activities of the company.

## Consolidation of shares and issue of new shares

During the year the company consolidated its issued ordinary shares on a 1 for 200 basis, resulting in 2,250,000 ordinary shares of 50p nominal value and issued 1,593,275 new ordinary shares, raising £14.3m. The total number of shares in issue is now 3,843,275 with 155,771 of these held in treasury.

The company's ordinary shares are quoted on the Alternative Investment Market of the London Stock Exchange under reference GHS.

## Substantial interests

At the date of this report the following substantial interests representing 3% or more of the total voting rights of the company have been notified to the company:

| | Number of shares held | % of Issued shares |
|---|---|---|
| Gresham House Holdings Ltd | 706,806 | 19.17% |
| M&G Investment Management | 431,284 | 11.70% |
| Majedie Asset Management | 368,049 | 9.98% |
| River & Mercantile Asset Management | 312,130 | 8.46% |
| Trium Capital Managers Ltd | 209,408 | 5.68% |
| Smith & Williamson Investment Management | 171,466 | 4.65% |
| Credo Capital | 121,316 | 3.29% |
| Michael Whitaker | 114,161 | 3.10% |

## Purchase of own shares

During the year the company did not buy back any of its ordinary shares (2015: Nil)

## Dividends

No dividends were paid during the year (2015: £5m).

## Future prospects

In July 2015 the company entered into a new Investment Management Agreement with Gresham House Asset Management Ltd ("GHAM"), a wholly owned subsidiary of Gresham House plc. The GHAM team has substantial experience in applying the Strategic Public Equity investment strategy as adopted by the company.

## Risks

The principal uncertainty regarding the company's future financial performance is the performance of its investment portfolio and of IMImobile in particular, given that it forms a relatively high proportion of the company's investment portfolio.

As set out in note 13, the Directors do not consider that the company faces any significant credit risk, liquidity risk or cash flow risk.

## Share price

The average share price of the company's quoted ordinary shares in the year ended 31 March 2016 was 786p pence. In the year the share price reached a maximum of 1000p pence and a minimum of 625p pence. The closing share price on 31 March 2016 was 768 pence.

## Going concern

The Directors consider the company to be a going concern. See note 1 for details.

## Directors and their interests

The Directors serving or appointed during the year ended 31 March 2016 had the following interests in the share capital of the company:

| | | Ordinary shares | |
|---|---|---|---|
| | 21/06/2016 | 31/03/2016 | 31/03/2015*1 |
| | No. | No. | No. |
| CR Berry | 2,550 | 2,550 | 1,439 |
| K Lever | 3,330 | - | - |
| D R W Potter | 8,869 | 5,558 | 2,781 |
| HR Sinclair | 1,767 | 1,767 | 1,212 |

*Note:*
*1 - (2015 restated for comparison on a 1:200 basis)*

## Subsequent events

There have been no material events since the date of the statement of financial position other than those detailed in note 15 to the financial statements.

## Provision of information to auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(2) the Director has taken all the steps that they should have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

## Annual General Meeting

The Notice of Annual General Meeting to be held at 12 noon on Monday 25 July 2016 is set out on pages 53 to 57. Details of the business to be transacted are given below.

## Auditor

BDO LLP has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment will be put to the Annual General Meeting.

## Directors' authority to allot shares

The Directors are seeking authority to allot shares. Resolution 7 in the Notice of Annual General Meeting seeks authority to allot Ordinary Shares up to an aggregate nominal amount of £640,545 (being an amount equal to 33 per cent of the total issued share capital of the company as at the date of this report). Under resolution 8, which is a special resolution, the Directors are also seeking authority to allot new Ordinary Shares and/or sell Ordinary Shares held by the company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply. (This section requires that, when equity securities are allotted for cash, such new shares are first offered to existing equity shareholders in proportion to their existing holdings of shares, this entitlement being known as "pre-emption rights"). The purpose of holding shares in treasury is to allow the company to re-issue those shares quickly and cost-effectively. Allotments of Ordinary Shares under these authorities would allow the Directors to issue shares for cash to take advantage of changes in market conditions that may arise, in order to increase the amount of the company's issued share capital. The purpose of such an increase would be to improve the liquidity of the market in the company's shares and to spread the fixed costs of administering the company over a wider base. The Directors believe that this would increase the investment attractiveness of the company to the benefit of existing shareholders. The Directors have no present intention of using these authorities, if granted.

Resolution 8, if passed, will give the Directors power to allot Ordinary Shares of the company for cash and to sell Ordinary Shares out of treasury up to a maximum nominal amount of £192,163 (being an amount representing 10 per cent of the total issued ordinary share capital of the company as at the date of this report) without the application of the pre-emption rights described above.

Resolution 9 gives the company authority to make market purchases of up to 576,491 Ordinary Shares, representing is per cent of the company's issued ordinary share capital (excluding treasury shares) as at 22 June 2016 (the latest practicable date before publication of this document). The resolution sets minimum and maximum prices. The Directors have no present intention of exercising this authority but will keep the matter under review, taking into account the financial resources of the company, the company's share price and future fund opportunities, the relevant authority will be exercised only if the Directors believe that to do so would be in the interests of shareholders generally. Any purchases of Ordinary Shares would be by means of market purchases through the London Stock Exchange. Listed companies purchasing their own shares are allowed to hold them in treasury as an alternative to cancelling them. No dividends are paid on shares held in treasury and they do not carry voting rights.

The authorities contained in resolutions seven to nine will continue until the Annual General Meeting of the company in 2017, or 30 September 2017 if earlier. It is intended that renewal of these authorities will be sought at each AGM.

## Recommendation

The Board considers that the passing of the resolutions to be proposed at the Annual General Meeting is in the interests of the company and its shareholders as a whole and they unanimously recommend that shareholders vote in favour of those resolutions.

Approved by the Board of Directors
and signed on its behalf.

**Augentius Corporate Services Limited**
**Company Secretary**
28 June 2016

# DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Website publication

The Directors are responsible for ensuring that the annual report and financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained herein.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRESHAM HOUSE STRATEGIC plc

We have audited the financial statements of Gresham House Strategic plc for the year ended 31 March 2016 which comprise the group statement of comprehensive income, the group and company statement of financial position, the group and company statement of cash flows, the group and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Stuart Collins (senior statutory auditor)*
*For and on behalf of BDO LLP, statutory auditor*
*London, United Kingdom*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

| | Notes | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Gains/(losses) on investments at fair value through profit or loss | | | |
| Realised gains/(losses) | | **427** | (407) |
| Unrealised gains/(losses) | | **3,351** | (452) |
| | 8 | **3,778** | (859) |
| **Revenue** | | | |
| Bank interest income | | **29** | 11 |
| Management fee income | | **218** | 75 |
| | | **247** | 86 |
| **Administrative expenses** | | | |
| Salaries and other staff costs | 3 | **(138)** | (216) |
| Other costs | 4 | **(3,625)** | (1,368) |
| **Total administrative expenses** | | **(3,763)** | (1,584) |
| **Profit/(loss) before taxation** | | **262** | (2,357) |
| Taxation | 5 | **-** | - |
| **Profit/(loss) for the financial year** | | **262** | (2,357) |
| **Attributable to:** | | | |
| - Equity shareholders of the parent | | **262** | (2,357) |
| Basic and Diluted earnings per ordinary share for profit/(loss) from continuing operations and for profit/(loss) for the year[1] | 6 | **8.30p** | (112.61)p |

*Note:*
*1 - (31 March 2015 restated for comparison on a 1:200 basis)*

There are no components of Other Comprehensive Income for the current period (2015: None).

# GROUP STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

| | Notes | **31 March 2016 £'000** | 31 March 2015 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments at fair value through profit and loss | 8 | **21,777** | 16,503 |
| | | **21,777** | 16,503 |
| **Current assets** | | | |
| Other receivables | 10 | **69** | 32 |
| Restricted cash | 10 | **-** | 3,123 |
| Cash and cash equivalents | | **16,555** | 3,036 |
| | | **16,624** | 6,191 |
| **Total assets** | | **38,401** | 22,694 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(1,689)** | (95) |
| **Total liabilities** | | **(1,689)** | (95) |
| **Net current assets** | | **14,935** | 6,096 |
| **Net assets** | | **36,712** | 22,599 |
| **Equity attributable to the shareholders of the parent** | | | |
| Issued capital | 12 | **1,932** | 1,135 |
| Share premium | | **13,063** | 9 |
| Revenue reserve | | **11,024** | 10,762 |
| Capital redemption reserve | | **10,693** | 10,693 |
| **Total equity due to ordinary shareholders** | | **36,712** | 22,599 |
| **Net asset value per ordinary share[1]** | | **995.71p** | 1,080p |

| | Notes | **Number '000** | Number '000 |
|---|---|---|---|
| Ordinary shares in issue | 12 | **3,843** | 2,250 |
| Shares held in treasury | | **(156)** | (156) |
| Shares in issue for net asset value per share calculation | | **3,687** | 2,094 |

*Note:*
*1 - (31 March 2015 restated for comparison on a 1:200 basis)*

These financial statements were approved and authorised for issue by the Board of Directors on 28 June 2016. Signed on behalf of the Board of Directors.

David Potter
Chairman

# COMPANY STATEMENT OF FINANCIAL POSITION
# AS AT 31 MARCH 2016

| | Notes | **31 March 2016 £'000** | 31 March 2015 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments at fair value through profit and loss | 8 | **21,777** | 16,496 |
| Investments in subsidiary undertakings | 9 | **534** | 108,231 |
| Deferred tax | 5 | **716** | 796 |
| | | **23,027** | 125,523 |
| **Current assets** | | | |
| Trade and other receivables | 10 | **29** | 30 |
| Cash and cash equivalents | | **16,368** | 2,572 |
| | | **16,397** | 2,602 |
| **Total assets** | | **39,424** | 128,125 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(15,140)** | (127,495) |
| **Total liabilities** | | **(15,140)** | (127,495) |
| **Net current assets/(liabilities)** | | **1,257** | (124,893) |
| **Net assets** | | **24,284** | 630 |
| **Equity** | | | |
| Issued capital | 12 | **1,932** | 1,135 |
| Share premium | | **13,063** | 9 |
| Revenue reserve | | **(1,404)** | (11,207) |
| Capital redemption reserve | | **10,693** | 10,693 |
| **Total equity** | | **24,284** | 630 |

These financial statements were approved and authorised for issue by the Board of Directors on 28 June 2016. Signed on behalf of the Board of Directors.

David Potter
Chairman

# GROUP STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 MARCH 2016

| | Notes | Year ended 31 March 2016 £'000 | Year ended 31 March 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash flow from operations | a | **(200)** | (5,157) |
| **Net cash outflow from operating activities** | | **(200)** | (5,157) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of financial investments | | **(1,546)** | - |
| Sale of financial investments | 8 | **5,195** | 3,515 |
| **Net cash inflow from investing activities** | | **3,649** | 3,515 |
| | | | |
| **Cash flows from financing activities** | | | |
| Share options exercised | | **-** | 202 |
| Dividend paid (D shares) | | **-** | (2,200) |
| Dividend paid (C shares) | | **-** | (4,987) |
| Share buy backs (B shares) | | **-** | (14,000) |
| Proceeds from share issue | | **10,181** | - |
| Transaction costs on issue of shares | | **(111)** | - |
| **Net cash inflow/(outflow) from financing activities** | | **10,070** | (20,985) |
| | | | |
| Change in cash and cash equivalents | | **13,519** | (22,627) |
| Opening cash and cash equivalents | | **3,036** | 25,663 |
| **Closing cash and cash equivalents** | | **16,555** | 3,036 |

**Note**

**a) Reconciliation of profit/(loss) for the year to net cash outflow from operations**

| | | £'000 | £'000 |
|---|---|---|---|
| Profit/(loss) before tax | | **262** | (2,357) |
| (Gains)/losses on investments | 8 | **(3,778)** | 859 |
| **Operating loss** | | **(3,516)** | (1,498) |
| | | | |
| Change in trade and other receivables | | **(37)** | 522 |
| Change in restricted cash | | **3,122** | (3,122) |
| Change in trade and other payables | | **231** | (559) |
| Change in provisions | | **-** | (500) |
| **Net cash outflow from operations** | | **(200)** | (5,157) |

# COMPANY STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 MARCH 2016

| | Note | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash flow from operations | a | **77** | (1,674) |
| **Net cash inflow/(outflow) from operating activities** | | **77** | (1,674) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of financial investments | | **(1,546)** | - |
| Sale of financial investments | 8 | **5,195** | 302 |
| **Net cash inflow from investing activities** | | **3,649** | 302 |
| | | | |
| **Cash flows from financing activities** | | | |
| Share options exercised | | **-** | 202 |
| Dividend paid (D shares) | | **-** | (2,200) |
| Dividend paid (C shares) | | **-** | (4,987) |
| Share buy backs (B shares) | | **-** | (14,000) |
| Proceeds from share issue | | **10,181** | - |
| Transaction costs on issue of shares | | **(111)** | - |
| **Net cash inflow/(outflow) from financing activities** | | **10,070** | (20,985) |
| | | | |
| Change in cash and cash equivalents | | **13,796** | (22,357) |
| Opening cash and cash equivalents | | **2,572** | 24,929 |
| **Closing cash and cash equivalents** | | **16,368** | 2,572 |

**Note**

**a) Reconciliation of profit/(loss) for the year to net cash outflow from operations**

| | | **£'000** | £'000 |
|---|---|---|---|
| Profit/(loss) before tax | 2 | **9,803** | (3,667) |
| Gains/(losses) on investments | 2 | **(3,785)** | 2,193 |
| | | | |
| Non-cash items: | | | |
| Investments in subsidiaries written-off | 9 | **8,752** | - |
| Impairment of investments in subsidiaries | 9 | **98,945** | - |
| Intercompany balances written-off | 11 | **(113,946)** | - |
| Other non-cash items | | **-** | (15) |
| **Operating loss** | | **(231)** | (1,489) |
| | | | |
| Change in trade and other receivables | | **81** | 3,348 |
| Change in trade and other payables | | **227** | (3,033) |
| Change in provisions | | **-** | (500) |
| **Net cash inflow/(outflow) from operations** | | **77** | (1,674) |

# GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

| | D shares £'000 | Ordinary share capital £'000 | Share Premium £'000 | Revenue Reserve £'000 | Capital Redemption Reserve £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| Balance at 31 March 2014 | 10 | 1,350 | 9 | 31,904 | 10,468 | 43,741 |
| Loss and total comprehensive loss for the year | - | - | - | (2,357) | - | (2,357) |
| Share split into 2014 B & C shares and redemption thereof | - | (225) | - | - | 225 | - |
| Share buy backs - 2014 B Shares | - | - | - | (14,000) | - | (14,000) |
| Dividend - 2014 C Shares | - | - | - | (4,987) | - | (4,987) |
| Share options exercised | - | - | - | 202 | - | 202 |
| **Balance at 31 March 2015** | **10** | **1,125** | **9** | **10,762** | **10,693** | **22,599** |
| Profit and total comprehensive income for the year | - | - | - | 262 | - | 262 |
| Shares issued | - | 797 | 13,543 | - | - | 14,340 |
| Share consolidation adjustment | - | - | 9 | - | - | 9 |
| Transaction costs | - | - | (498) | - | - | (498) |
| **Balance at 31 March 2016** | **10** | **1,922** | **13,063** | **11,024** | **10,693** | **36,712** |

# COMPANY STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 MARCH 2016

| | D shares £'000 | Ordinary share capital £'000 | Share Premium £'000 | Revenue Reserve £'000 | Capital Redemption Reserve £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| Balance at 31 March 2014 | 10 | 1,350 | 9 | 11,245 | 10,468 | 23,082 |
| Loss and total comprehensive loss for the year | - | - | - | (3,667) | - | (3,667) |
| Share split into 2014 B & C shares and redemption thereof | - | (225) | - | - | 225 | - |
| Share buy backs - 2014 B Shares | - | - | - | (14,000) | - | (14,000) |
| Dividend - 2014 C Shares | - | - | - | (4,987) | - | (4,987) |
| Share options exercised | - | - | - | 202 | - | 202 |
| **Balance at 31 March 2015** | **10** | **1,125** | **9** | **(11,207)** | **10,693** | **630** |
| Profit and total comprehensive income for the year | - | - | - | 9,803 | - | 9,803 |
| Shares issued | - | 797 | 13,543 | - | - | 14,340 |
| Share consolidation adjustment | - | - | 9 | - | - | 9 |
| Transaction costs | - | - | (498) | - | - | (498) |
| **Balance at 31 March 2016** | **10** | **1,922** | **13,063** | **(1,404)** | **10,693** | **24,284** |

## 1 Basis of preparation and significant accounting policies

Gresham House Strategic plc (the "company") is a company incorporated in the UK and registered in England and Wales (registration number: 3813450). The company was formerly named SPARK Ventures plc but took the opportunity to change the Articles of Association at the Annual General Meeting held on 22 September 2015 to permit the Directors to change the company's name by a resolution of the Board. Accordingly the name was changed to Gresham House Strategic plc on 27 October 2015. The consolidated financial statements for the year ended 31 March 2016 include the financial statements of the company and its subsidiaries (together 'the group'). Separate financial statements of the company are also presented except that the company's statement of comprehensive income and supporting notes are not included. The same accounting policies were applied in preparing the financial statement of the company. The accounting policies applied are consistent with the prior year.

### *Basis of preparation*

The consolidated financial statements for the year ended 31 March 2016 have been prepared in accordance with International Financial Reporting Standards ('IFRS') approved by the International Accounting Standards Board ('IASB'), as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared on a historical cost basis except for the revaluation of certain financial instruments stated at fair value. Standards and interpretations applied for the first time have had no material impact on these financial statements.

The following new standards, interpretations and amendments which will or may have an effect on the group, are effective for annual periods beginning on or after 1 January 2016 and have not yet been applied in preparing these financial statements. None of these new standards or interpretations are expected to have a material impact on the financial statements of the group.

- IFRS 9 will eventually replace IAS 39 in its entirety. This standard becomes effective for accounting periods beginning on or after 1 January 2018. Its adoption may result in changes to the classification and measurement of the Group's financial instruments, including any impairment thereof.

A number of amendments to existing standards which became effective for the first time for accounting periods beginning on or after 1 January 2015, unless otherwise stated, have been adopted in these financial statements as follows:

– Annual Improvements 2010-2012 Cycle
– Annual Improvements 2011-2013 Cycle

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report and Investment Manager's report. The key risks facing the business and management's policy and practices to manage these are further discussed in note 13. In assessing the group as a going concern, the Directors have considered the forecasts which reflect the Directors' proposed strategy for portfolio

## 1 Basis of preparation and significant accounting policies (continued)

*Basis of preparation (continued)*

investments and the current economic outlook. The group's forecasts and projections, taking into account reasonably possible changes in performance, show that the group is able to operate within its available working capital and continue to settle all liabilities as they fall due for the foreseeable future.

The Directors have considered the use of the going concern basis for the preparation of these financial statements within the context of the company's stated investment strategy. The strategy targets superior long term returns through a policy of constructive, active engagement with investee companies, adopting private equity techniques to manage risk. The Investment Managers target smaller, predominantly quoted UK companies which they believe can benefit from strategic, operational or management initiatives and apply structured investment appraisal, due diligence and risk management on these companies. Accordingly the Directors remain of the view that the going concern basis of preparation is appropriate.

*Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company made up to 31 March each year.

Where the company has control over an investee, which is not part of its investment portfolio, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

*Non-controlling interests*

All subsidiaries consolidated in these financial statements are 100% owned (Note 9).

*Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

*Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment.

*Financial instruments:*

**Trade debtors and creditors**

Trade debtors and creditors are accounted for at transaction value when asset or liability is incurred. The fair value equals the carrying amount as these are short term in nature.

## 1 Basis of preparation and significant accounting policies (continued)

*Financial instruments: (continued)*

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Financial Investments**

Investments are included at valuation on the following bases:

(a) Listed investments are recognised on trading date and valued at the closing bid price at the year end.
(b) Unquoted investments where a significant third party funding event has taken place during the year ended 31 March which establishes a new value for that investment are carried at that value.
(c) Investments considered to be mature are valued according to the Directors' best estimate of the group's share of that investment's value. This value is calculated in accordance with British Venture Capital Association (BVCA) guidelines and industry norms and includes calculations based on appropriate earnings or sales multiples.
(d) All other unquoted investments are valued at the Directors' best estimate of the group's share of that investment's value, taking into account any temporary loss in value. For new investments, the cost of investment is generally considered to be its fair value.

The Directors consider that a substantial measure of the performance of the group is assessed through the capital gains and losses arising from the investment activity of the Group.

Consequently, for measurement purposes, financial investments, including equity, loan and similar instruments, are designated at fair value through profit and loss, and are valued in compliance with IAS 39 'Financial Instruments: Recognition and Measurement', IFRS13 'Fair Value Measurement' and the International Private Equity and Venture Capital Valuation Guidelines as recommended by the British Venture Capital Association.

Gains and losses on the realisation of financial investments are recognised in the statement of comprehensive income for the period and taken to retained earnings. The difference between the market value of financial investments and book value to the Group is shown as a gain or loss for the period and taken to the statement of comprehensive income.

Investments in subsidiaries are reflected in the company's statement of financial position at cost less any provisions for diminution in value.

## 1 Basis of preparation and significant accounting policies (continued)

*Revenue*

Sales of services represent the invoiced value of services supplied net of trade discounts, value added tax and other sales related taxes. The sale is recognised upon delivery of the services to the customer provided that all obligations to the customer relating to that delivery of services have been satisfied. If this is not the case then the sale is recognised when all obligations to the customer relating to that delivery of services have been satisfied. Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received. Interest receivable is included on an effective interest rate basis.

Dividends receivable on quoted equity shares are brought into account when the right to receive payment is established and the amount of the dividend can be measured reliably.

*Taxation*

The tax expense included in the statement of comprehensive income comprises current and deferred tax. Current tax is the expected tax payable based on the taxable profit for the period, using tax rates that have been enacted or substantially enacted by the reporting date. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*Foreign exchange*

Transactions denominated in foreign currencies are translated into the functional currency at the rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the rates ruling at that date. These translation differences are dealt with in the statement of comprehensive income.

The financial statements of foreign subsidiaries are translated into sterling at the actual rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing rate is dealt with in reserves.

*Critical accounting judgements and key sources of estimation uncertainty*

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or

## 1 Basis of preparation and significant accounting policies (continued)

### *Critical accounting judgements and key sources of estimation uncertainty (continued)*

actions, actual results ultimately may differ from those estimates. Management believes that the underlying assumptions are appropriate and that the company's financial statements are fairly presented. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 13. Within Gresham House Strategic plc this relates to the unquoted investments.

### *Segmental analysis*

Segmental analysis is not applicable as there is only one operating segment of the business – investment activities. The performance measure of investment activities is considered by the Board to be profitability and is disclosed on the face of the statement of comprehensive income.

## 2 Company Statement of Comprehensive Income

The Group has taken advantage of the exemption conferred by s408 CA 2006 to not disclose a full statement of comprehensive income for the company. The company's profit for the year was £9.803m (2015: loss of £3.667m). The apparent rise in company income over the year is due to the writing off of investment in subsidiaries and intercompany balances with the subsidiary entities that were wound up or due to be wound up, where it was certain that the company will not be able to recover its investments or have to pay back the intercompany balances.

The company has recognised realised and unrealised investment gains/losses through the statement of comprehensive income of £3.785m (2015: £2.193m).

## 3 Information regarding Directors and employees

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| **Directors' remuneration summary** | | |
| Basic salaries | **126** | 195 |
| Social security costs | **12** | 10 |
| Other emoluments | **-** | 11 |
| | **138** | 216 |

## 3 Information regarding Directors and employees (continued)

| | Year ended 31 March 2016 | | | | Year ended 31 March 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Emoluments £'000** | **Bonus accrual (see note below) £'000** | **Social Security costs £'000** | **Total £'000** | Emoluments £'000 | Bonus accrual (see note below) £'000 | Social Security costs £'000 | Total £'000 |
| **Analysis of Directors' remuneration** | | | | | | | | |
| C Berry | **35** | **-** | **-** | **35** | 60 | - | - | 60 |
| D Potter | **50** | **-** | **-** | **50** | 65 | - | - | 65 |
| H Sinclair | **35** | **-** | **-** | **35** | 55 | - | - | 55 |
| K Lever | **6** | **-** | **-** | **6** | - | - | - | - |
| A Carruthers | **-** | **-** | **-** | **-** | - | 3 | - | 3 |
| A Betton | **-** | **-** | **-** | **-** | 15 | - | - | 15 |
| T Teichman | **-** | **-** | **-** | **-** | - | 2 | - | 2 |
| Change in bonus accrual for former directors | **-** | **-** | **-** | **-** | - | 5 | - | 5 |
| Social security costs | **-** | **-** | **12** | **12** | - | 1 | 10 | 11 |
| | **126** | **-** | **12** | **138** | 195 | 11 | 10 | 216 |

In 2003 a former bonus scheme was settled in part by awarding the participants a small stake (3.8%) in the portfolio at that time. Following the payment made in January 2015 relating to disposal of certain investments made in prior years, there is no longer any balance due under this scheme.

| | **Year ended 31 March 2016 No.** | Year ended 31 March 2015 No. |
|---|---|---|
| **Average number of persons employed (including Directors)** | | |
| Investment and related administration | **4** | 3 |
| | **4** | 3 |

## 4 Other costs

Profit/(loss) for the year has been derived after taking the following items into account:

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| Auditors remuneration | | |
| Fees payable to the current auditor for the audit of the company's annual financial statements | **26** | 23 |
| Fees payable to the company's current auditor and its associates for other services: | | |
| The audit of the company's subsidiaries, pursuant to legislation | **2** | 2 |
| Audit related assurance services | **7** | 2 |
| Other services relating to taxation | **37** | 10 |
| | | |
| Analysis of other costs: | | |
| Settlement of dispute with former Director | **-** | 491 |
| Professional fees | **395** | 432 |
| Management fee of Quester Venture Partnership | **218** | 75 |
| Management and secretarial fee | **503** | 313 |
| Management incentive fee | **2,265** | - |
| Other general overheads | **244** | 57 |
| | **3,625** | 1,368 |

In September 2014, the Board agreed settlement terms following a dispute with a former Director of the company over the incentive scheme established in 2003, providing for a total payment of £1.0m which was to be settled in a combination of cash and by the transfer of some shares in IMImobile. £0.5m of this was accrued for payment in 2014 with the remainder in 2015.

Management incentive fee of £2.265m (2015: Nil) was paid to the former Investment Manager, SPARK Venture Management Ltd, upon termination of the investment management agreement.

## 5 Tax on profit from ordinary activities

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| **UK corporation tax** | | |
| Corporation tax liability at 20% (2015: 21%) | **-** | - |
| | | |
| Total current tax | **-** | - |
| | | |
| Deferred tax | **-** | - |
| **Tax on profit/(loss) from ordinary activities** | **-** | - |

## 5 Tax on profit from ordinary activities (continued)

*Factors affecting the tax charge for the current period*

The tax assessed for the year is different than that resulting from applying the standard rate of corporation tax in the UK: 20% (2015: 21%).

The differences are explained below:

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| **Current tax reconciliation** | | |
| Profit/(loss) before taxation | **262** | (2,357) |
| Current tax charge at 20% (2015: 21%) | **52** | (495) |
| | | |
| Effects of: | | |
| Other permanent differences | **-** | (93) |
| Expenses not deductible for tax purposes | **29** | 99 |
| Non-taxable income | **(752)** | (28) |
| Movement in short-term timing differences | **-** | (26) |
| Closing deferred tax averaging | **548** | - |
| Deferred tax not recognised | **123** | 193 |
| Utilisation of capital losses on investment revaluations | **-** | 350 |
| **Tax for the year** | **-** | - |

*Deferred tax*

There remains an unrecognised deferred tax asset in respect of tax losses and other temporary differences. The unrecognised deferred tax asset is £27.8 million (2015: £28.3 million), for the group and £27.8 million (2015: £28.3 million) for the parent company. The reduction in the balances for unrecognised deferred tax is due to the reduction in future corporate tax rates and an increase to management expenses carried forward available for deduction against future income. The assessed loss on which no deferred tax has been recognised amounts to £158m (2015: £141m).

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| **Company deferred tax asset** | | |
| Balance at 1 April | **796** | 781 |
| Movement in the year | **(80)** | 15 |
| **Balance at 31 March** | **716** | 796 |

The movement in the year is taken to the statement of comprehensive income.

The deferred tax asset within the company arises to offset a deferred tax liability within another group company, Quester Venture GP Limited. The deferred tax liability recognised by Quester Venture GP Limited arises in respect of interest free limited recourse loans paid in lieu of the company's entitlement to priority profit share from underlying limited partnerships.

## 6 Earnings per share

Basic earnings per share is calculated by dividing the profit/loss attributable to ordinary shareholders by the weighted average number of ordinary shares during the period. Diluted earnings per share is calculated by dividing the profit/loss attributable to shareholders by the adjusted weighted average number of ordinary shares in issue. The adjustment made is to add the total number of 'in the money' share options in issue to the weighted average number of ordinary shares in issue for basic EPS.

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| **Earnings** | | |
| Profit/(loss) for the year | **262** | (2,357) |
| **Number of shares ('000)** | | |
| Weighted average number of ordinary shares in issue for basic EPS | **3,156** | 2,093 |
| Weighted average number of ordinary shares in issue for diluted EPS | **3,156** | 2,093 |
| **Earnings per share** | | |
| Basic EPS | **8.30p** | (112.61)p |
| Diluted EPS | **8.30p** | (112.61)p |

Number of shares and earnings per share for 2015 are shown above after consolidating the ordinary shares on a 1 for 200 basis. Before the consolidation of shares for 2015 comparatives, the number of shares (both basic and diluted) was 418,547,000 and Earning per share (both basic and diluted) was 0.56 pence.

At a General Meeting of the company held on 6 August 2015, the shareholders approved a 1 for 200 share consolidation thereby resulting in 2,250,000 ordinary shares of 50p nominal value. On 6 August 2015 the Company issued 1,173,000 new ordinary shares at a price of £9.00 per share for cash and 420,275 new ordinary shares were exchanged for shares in quoted companies at prices from £8.91 to £9.26 per share.

As at 31 March 2016, the total number of shares in issue was 3,843,275 with 155,771 of these shares held in treasury. There are no share options outstanding at the end of the year.

## 7 Dividends

| | **Year ended 31 March 2016 £'000** | Year ended 31 March 2015 £'000 |
|---|---|---|
| Dividend paid in respect of year to 31 March 2016 | - | - |
| Dividend paid on C shares in respect of year to 31 March 2015: 4.5p per share paid in April 2014 | - | 4,987 |

C shares received a dividend of 4.5p per share in April 2014, after which the shares were deferred and subsequently cancelled in May 2014.

## 8 Investments at fair value through profit and loss

*Group*

| | Value at 31 March 2015 £'000 | Year ended 31 March 2016 Additions £'000 | Disposals at valuation £'000 | Revaluations £'000 | Value at 31 March 2016 £'000 |
|---|---|---|---|---|---|
| Investments in quoted companies held at start of the year | 12,808 | **-** | **-** | **2,787** | 15,595 |
| Investments in quoted companies acquired during the year | - | **6,691** | **(1,370)** | **818** | 6,139 |
| Other unquoted investments | 3,695 | **-** | **(3,825)** | **173** | 43 |
| **Total investments at fair value through profit and loss** | 16,503 | **6,691** | **(5,195)** | **3,778** | 21,777 |

Investments in quoted companies have been valued according to the quoted share price as at 31 March 2016. Other unquoted investments represent a share in Quester Venture Partnership and investments sold to Hollyport.

The revaluations above are shown on the face of the statement of comprehensive income as realised and unrealised gains or losses on investments at fair value through profit and loss.

On 6 August 2015 the Company issued 1,173,000 new ordinary shares at a price of £9.00 per share for cash and 420,275 new ordinary shares were exchanged for shares in quoted companies at prices from £8.91 to £9.26 per share. The resulting new investments of £3.78m are included in Additions in the table above.

*Company*

| | **Value at 31 March 2016 £'000** | Value at 31 March 2015 £'000 |
|---|---|---|
| Opening valuation | **16,496** | 4,669 |
| Acquisitions | **6,691** | 14,319 |
| Unrealised and realised gains/(losses) on valuations | **3,785** | (2,115) |
| Disposals | **(5,195)** | (377) |
| **Closing valuation** | **21,777** | 16,496 |

## 9 Investments in Subsidiary undertakings

*Company*

| | 31 March 2016 £'000 | 31 March 2015 £'000 |
|---|---|---|
| Cost: | | |
| Balance at 1 April | **120,824** | 120,824 |
| Investments in subsidiary undertakings written off | **(8,752)** | - |
| **Balance at 31 March** | **112,072** | 120,824 |
| Impairment: | | |
| Balance at 1 April | **12,593** | 12,593 |
| Impairment for the year | **104,645** | - |
| Impairment reversed | **(5,700)** | - |
| **Balance at 31 March** | **111,538** | 12,593 |
| **Net book value at 31 March** | **534** | 108,231 |

During the year, £8.75m (2015: Nil) of investments in subsidiary undertakings, that were acquired pre 2009, were written off, along with the related impairment of £5.7m (2015: Nil) and £104.6m (2015: Nil) of investment in subsidiary undertakings was further impaired as certain subsidiaries were already dissolved, or in the process of being wound up.

The company's subsidiary undertakings included in the consolidation at 31 March 2016 and their principal activities and countries of incorporation are set out below:

| | Country of incorporation | Business activity | Class of shares held | Proportion held and % voting rights |
|---|---|---|---|---|
| SPARK Services Ltd | UK | Business services | Ordinary | 100% |
| SPARK India Ltd | Mauritius | Investment in India | Ordinary | 100% |
| Quester Venture GP Ltd | UK | General partner of limited partnership | A Ordinary & Preference | 100% |

A complete list of the company's subsidiaries is given in Note 14.

## 10 Other receivables

| | Group 31 March 2016 £'000 | Group 31 March 2015 £'000 | Company 31 March 2016 £'000 | Company 31 March 2015 £'000 |
|---|---|---|---|---|
| Amounts owed by subsidiary undertakings | **-** | - | **7** | 2 |
| Social security and other taxes | **45** | 28 | **-** | 28 |
| Other debtors | **2** | 3 | **-** | - |
| Prepayments and accrued income | **22** | 1 | **22** | - |
| | **69** | 32 | **29** | 30 |
| Restricted cash | **-** | 3,123 | **-** | - |

The restricted cash in 2015 was an amount held in escrow pending clarification of certain tax issues relating to the IMImobile IPO and restructuring. This has now been received.

## 11 Trade and other payables

| | **Group 31 March 2016 £'000** | Group 31 March 2015 £'000 | **Company 31 March 2016 £'000** | Company 31 March 2015 £'000 |
|---|---|---|---|---|
| Trade creditors | **241** | 56 | **241** | 56 |
| Amounts owed to subsidiary undertakings | **-** | - | **13,465** | 127,404 |
| Social security and other taxes | **8** | 7 | **7** | 6 |
| Other creditors | **1,371** | 1 | **1,362** | 3 |
| Accruals and deferred income | **69** | 31 | **65** | 26 |
| | **1,689** | 95 | **15,140** | 127,495 |

During the year, £113.9m (2015: Nil) of intercompany balances were written off due to certain subsidiaries which, were already or in the process of being wound up and it is certain that the company will not be required to repay the intercompany balances.

Included in other creditors is £1.362m that relates to the acquisition of further equity in Quarto Group, an existing investment, in March 2016. This was settled in April 2016.

## 12 Called up share capital

| | **Group 31 March 2016 £'000** | Group 31 March 2015 £'000 | **Company 31 March 2016 £'000** | Company 31 March 2015 £'000 |
|---|---|---|---|---|
| **Called up, allotted and fully paid:** | | | | |
| 3,843,275 (2015: 2,250,000 restated) ordinary shares of 50p (2015: 50p restated) | **1,922** | 1,125 | **1,922** | 1,125 |
| 2,000,000 (2015: 2,000,000) D shares of 0.5p (2015: 0.5p) | **10** | 10 | **10** | 10 |
| | **1,932** | 1,135 | **1,932** | 1,135 |

At a General Meeting of the company, held on 6 August 2015, the shareholders approved a 1 for 200 share consolidation thereby resulting in 2,250,000 ordinary shares of 50p nominal value. The number of ordinary shares before consolidation was 450,000,000 of 0.25p.

On 6 August 2015 the company issued 1,173,000 new ordinary shares at a price of £9.00 per share for cash and 420,275 new ordinary shares were exchanged for shares in quoted companies at prices from £8.91 to £9.26 per share.

Transaction costs of £498k were incurred and taken to share premium as shown in the company statement of changes in equity on page 34. Gross transaction costs of £398k were settled in exchange for new shares issued.

As at 31 March 2016, the total number of shares in issue were 3,843,275 (2015: 450,000,000) with 155,771 (2015: 31,154,311) of these shares held in treasury. The reduction arose from the share consolidation on 1 for 200 basis.

The average share price of Gresham House Strategic plc quoted ordinary shares in the year ended 31 March 2016 was 786 pence. In the year the share price reached a maximum of 1,000 pence and a minimum of 625 pence. The closing share price on 31 March 2016 was 768 pence.

## 12 Called up share capital (continued)

The Group's shares are listed on London's AIM market under reference GHS.

During 2015, the ordinary shares of 0.3p per share were reclassified as ordinary shares of 0.25p per share. At the same time the shareholders were issued with either 1 B share or 1 C share depending on the shareholder preference in an election. If a shareholder did not make an election, they received C shares by default. Each B share was repurchased by the company's broker at 4.5p per share and then sold on to the company and cancelled in May 2014. Each C share received a dividend of 4.5p per share on 25 April 2014, after which the shares were deferred and subsequently bought back for 1.0p for the whole class and cancelled in May 2014. The total amount returned to shareholders holding B or C shares amounted to £19.0m. The deferred shares of 0.3p each carried no rights to dividends, had no rights to a return of capital on a winding up and had no rights to attend, speak at or vote at a General Meeting of the Company.

During 2016, there were no purchases or cancellations of treasury shares. In April 2014, 8,090,909 shares that were formerly held in treasury were issued to the persons exercising share options under the 2005 Executive Share Option Scheme.

The company's D shares were created to incentivise the outgoing manager to maximise the value of the portfolio in cash by 31 March 2014 and to make this cash available to shareholders. It was calculated that the D shareholders were due a payment of £2.2m as at 31 March 2014. This payment was made in September 2014. Following the payment made to the D shareholders, the rights attached to the D share holders lapsed.

## 13 Financial instruments and financial risk management

The group invests in quoted companies in accordance with the investment policy and Strategic Private Equity investment strategy. In addition to investments in smaller listed companies in UK, the group maintains liquidity balances in the form of cash held for follow-on financing and debtors and creditors that arise directly from its operations. As at 31 March 2016, £21.7m of the group's net assets were invested in quoted investments and £16.6m in liquid balances (31 March 2015: £16.5m in investments and £3m in liquidity).

In pursuing its investment policy, the group is exposed to risks that could result in a reduction in the value of net assets and consequently funds available for distribution by way of dividend or for re-investment.

The main risks arising from the group's financial instruments are due to fluctuations in market prices (market price risk), currency risk and cash flow interest rate risk, although credit risk and liquidity risk are also discussed below. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These have been in place throughout the current and preceding years.

All financial assets with the exception of investments, which are held at fair value through profit and loss, are categorised as loans and receivables and all financial liabilities are categorised as amortised cost.

## 13 Financial instruments and financial risk management (continued)

### *a) Market risk*

### *i) Price risk*

Market price risk arises from uncertainty about the future valuations of financial instruments held in accordance with the group's investment objectives. These future valuations are determined by many factors but include the operational and financial performance of the underlying investee companies, as well as market perceptions of the future of the economy and its impact upon the economic environment in which these companies operate. This risk represents the potential loss that the Group might suffer through holding its investment portfolio in the face of market movements, which was a maximum of £21.7m (2015: £16.5m).

The investments in equity and fixed interest stocks of unquoted companies that the group holds are not traded and as such the prices are more uncertain than those of more widely traded securities. As, in a number of cases, the unquoted investments are valued by reference to price earnings ratios prevailing in quoted comparable sectors, their valuations are exposed to changes in the price earnings ratios that exist in quoted markets.

The Board's strategy in managing the market price risk is determined by the requirement to meet the group's investment objective. Risk is mitigated to a limited extent by the fact that the group holds investments in several companies. At 31 March 2016, the group held interests in 6 companies (2015: 10 companies). The Directors monitor compliance with the investment policy, review and agree policies for managing this risk and monitor the overall level of risk on the investment portfolio on a regular basis.

### *Market price risk sensitivity*

The Board considers that the value of investments in equity instruments is ultimately sensitive to changes in quoted share prices, insofar as such changes eventually affect the enterprise value of unquoted companies. The table below shows the impact on the return and net assets if there were to be a 20% (2015: 20%) movement in overall share prices.

| | **2016 £'000s Profit and net assets** | 2015 £'000s Profit and net assets |
|---|---|---|
| Decrease if overall share prices fell by 20% (2015: 20%), with all other variables held constant. | **(4,347)** | (3,301) |
| Decrease in earnings, and net asset value per Ordinary share (in pence)[1] | **(117.90)p** | (157.62)p |
| Increase if overall share prices rose by 20% (2014: 20%), with all other variables held constant. | **4,347** | 3,301 |
| Increase in earnings, and net asset value per Ordinary share (in pence)[1] | **117.90p** | 157.62p |

*Note:*
*1 - (31 March 2015 restated for comparison on a 1:200 basis)*

The impact of a change of 20% (2015: 20%) has been selected as this is considered reasonable given the current level of volatility, observed both on a historical basis, and market expectations for future movement.

## 13 Financial instruments and financial risk management (continued)

### *ii) Currency risk*

The group does not hold any significant assets or liabilities denominated in a currency other than sterling, the functional currency. The transactions in foreign currency for the group are highly minimal. Therefore currency risk sensitivity analysis was not preformed as the results would not be significantly affected by movements in the value of foreign exchange rates.

### *iii) Cash flow interest rate risk*

As the group has no borrowings, it only has limited interest rate risk. The impact is on income and operating cash flow and arises from changes in market interest rates. Some of the group's cash resources are placed on interest paying current account to take advantage of preferential rates and are subject to interest rate risk to that extent.

### *b) Credit risk*

Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the group.

The group's maximum exposure to credit risk is:

| | **31 March 2016 £'000s** | 31 March 2015 £'000s |
|---|---|---|
| Loan stock investments | **-** | 100 |
| Cash and cash equivalents | **16,555** | 3,036 |
| Escrow balance | **-** | 3,123 |
| Trade and other debtors | **69** | 32 |
| | **16,624** | 6,291 |

Credit risk relating to loan stock investments in unquoted companies is considered to be part of market risk.

The group's cash balances are maintained by major UK clearing banks. The balance at 31 March 2016 was unusually high following the Placing and Open Offer that took place in August 2015 and yet to be fully utilised in accordance with the investment policy and strategy.

### *c) Liquidity risk*

The Directors consider that there is no significant liquidity risk faced by the group. The group maintains sufficient investments in cash to pay accounts payable and accrued expenses. All liabilities are current and repayable upon demand.

### *Fair values of financial assets and financial liabilities*

Financial assets and liabilities are carried in the statement of financial position at either their fair value (investments), or the statement of financial position amount is a reasonable approximation of the fair value (dividends receivable, accrued income, accruals, and cash at bank).

## 13 Financial instruments and financial risk management (continued)

*Fair values of financial assets and financial liabilities (continued)*

As at 31 March 2016, all investments, except for the investment in Quester Venture Partnership (Level 3), fall into the category 'Level 1' under the IFRS 7 fair value hierarchy (2015: IMImobile only). A reconciliation of fair value measurements in Level 1 is set out in Note 8 to these financial statements.

Level 3 unquoted equity and loan stock investments are valued in accordance with International Private Equity and Venture Capital Guidelines as follows:

| | **31 March 2016** | | 31 March 2015 | |
|---|---|---|---|---|
| | **Material investments included** | **£'000s** | Material investments included | £'000s |
| Cost (reviewed for impairment) | **None** | **43** | None | 36 |
| Contracted sales proceeds in post balance sheet period | **None** | - | DEM, Gambling Compliance, By Design, Academia, Mind Candy | 3,659 |
| | | **43** | | 3,695 |

In April 2015, an agreement was entered into with Hollyport to sell the entire portfolio of unquoted investments for £3.7m. This price has been used as the best indicator of fair value for these investments as at 31 March 2015. The sale was formally completed in April 2015.

Valuation policy: Every six months, the investment manager within Gresham House Asset Management Limited is asked to revalue the investments that he looks after and submit his valuation recommendation to the Investment Committee and the Finance Team. The Investment Committee considers the recommendation made, and assuming the finance team confirm that the investment valuation calculations are correct, submits its valuation recommendations to the Board of GHS to consider. The final valuation decision taken by the Board is made after taking into account the recommendation of the Manager and after taking account of the views of the company's auditors.

The quoted investments have been valued by multiplying the number of shares held with the closing bid price as at 31 March 2016. As such, there are no unobservable inputs that have been used in valuing investments.

*Capital disclosures*

The group's objective has been to maximise shareholder value from all assets, which in recent years has been to realise its portfolio at the most advantageous time and return the proceeds to shareholders.

The capital subscribed to the group has been managed in accordance with the group's objectives. The available capital at 31 March 2016 is £36.7m (31 March 2015: £22.6m) as shown in the statement of financial position, which includes the group's share capital and reserves.

The company has no borrowings and there are no externally imposed capital requirements other than the minimum statutory share capital requirements for public limited companies.

## 14 Related party transactions

The related parties of Gresham House Strategic plc are its Directors, persons connected with its Directors and its Manager and its subsidiary undertakings as listed in note 9.

Transactions and balances between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation. The details of salary related transactions between the group and its Directors are given in Note 3.

Details of related party transactions between the company and its subsidiaries and of non-salary related transactions involving Directors are detailed below. The below subsidiary companies also form a complete list of the company's subsidiary undertakings:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| The balances owed by subsidiary undertakings to the company are as follows: | | |
| SPARK Services Ltd | **7** | 2 |
| | **7** | 2 |

The balances owed to subsidiary undertakings by the company are as follows:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Internet Indirect Ltd | - | 79,315 |
| NewMedia Spark Ltd | - | 26,608 |
| Spark India | **11,782** | 11,791 |
| Globalnet Financial.com Inc | - | 3,034 |
| NewMedia Spark Holdings Gmbh | - | 722 |
| Quester Venture GP Ltd | **1,683** | 1,652 |
| Newmedia Spark BV | - | 4,251 |
| Spark Services Ltd | - | 31 |
| Newmedia Spark Secretaries Limited (dissolved March 2016) | - | - |
| Spark Group Limited (dissolved April 2016) | - | - |
| Wycombe Ah Realisations Limited (dissolved May 2016) | - | - |
| | **13,465** | 127,404 |

During the year to 31 March 2016, Gresham House Strategic plc was charged management fees of £240k (2015: £Nil) by Gresham House Asset Management Limited (GHAM) following the new management agreement entered into with GHAM on 21 July 2015 and which became effective following shareholder approval on 6 August 2015. As at 31 March 2016, the company had a balance of £136k (2015: £Nil) owing to GHAM.

As at 31 March 2016, the following shareholders of the company, that are related to GHAM, had the following interests in the issued shares of the company as follows:

| | | |
|---|---|---|
| A L Dalwood | 11,111 | Ordinary shares |
| G Bird | 19,444 | Ordinary shares |
| Gresham House Holdings Ltd | 706,806 | Ordinary shares |

## 14 Related party transactions (continued)

During the year to 31 March 2016, SPARK Venture Management Ltd (SVML), former investment manager to the company, received management fees of £2.5m (2015: £313k), other fees of £15k (2015: £Nil), secretarial fees of £Nil (2015: £100k) from Gresham House Strategic plc and £218k (2015: £75) from Quester Venture Partnership for its management. Quester Venture GP Ltd is the general partner of Quester Venture GP Partnership which is the General Partner of Quester Venture Partnership, an entity the company has invested into. The apparent rise in management fee is due to the incentive fee of £2.265m which was paid to SVML on termination of investment management agreement.

In September 2014, Gresham House Strategic plc paid £2.2m under the D share incentive scheme. Details of this scheme are provided in note 12. The £2.2m payment was made in proportion to the D shares held which were held by Andrew Carruthers (580,000 D shares), Jay Patel (580,000 D shares), Tom Teichman (500,000 D shares), Andrew Betton (180,000 D shares) and Kiko Duffy (160,000 D shares), former Directors of the company and individuals related to SVML.

There are no other related party transactions of which we are aware in the year ended 31 March 2016.

## 15 Subsequent events note

There were no material events after the statement of financial position that have a bearing on the understanding of the consolidated financial statements.

# Gresham House Strategic plc

(the "**Company**")

NOTICE IS GIVEN that the Annual General Meeting of the Company will be held at the offices of Bracher Rawlins LLP, 2nd Floor, 77 Kingsway, London WC2B 6SR at 12 noon on Monday 25 July 2016 to consider the following resolutions, of which resolutions 1 to 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

## Ordinary Resolutions

1. To receive the annual report and accounts for the year ended 31 March 2016

2. To elect Ken Lever as a director of the Company

3. To re-elect Charles Berry as a director of the Company

4. To re-elect David Potter as a director of the Company

5. To re-elect Helen Sinclair as a director of the Company

6. To reappoint BDO (UK) LLP as auditors to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the directors to determine their fees.

7. THAT the directors of the Company be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for, or convert any security into, shares in the Company ("Rights") up to an aggregate nominal amount of £640,545 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company or on 30 September 2017, whichever is earlier, and provided further that the Company shall be entitled before such expiry to make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors shall be entitled to allot shares and grant Rights under such offer or agreement as if this authority had not expired.

## Special Resolutions

8. THAT, subject to and conditional upon the passing of resolution 7 above, the directors of the Company be empowered under section 570 of the Companies Act 2006 ("the Act") to allot equity securities (within the meaning of section 560 of the Act) for cash and/or to sell or transfer shares held by the Company in treasury (as the directors shall deem appropriate) under the authority conferred on them under section 551 of the Act by resolution 7 above as if section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with any rights issue or other pro-rata offer in favour of the holders of ordinary shares of 50 pence each in the Company where the equity securities respectively attributable to the interests of all such holders of shares are proportionate (as nearly as may be) to the respective numbers of shares held by them, provided that the directors of the Company may make such arrangements in respect of overseas holders of shares and/or to deal with fractional entitlements as they consider necessary or convenient; and

(b) the allotment (otherwise than under sub-paragraph (a) above) of equity securities and/or the sale or transfer of shares held by the Company in treasury (as the directors shall deem appropriate) up to an aggregate nominal amount of £192,163.

and this authority shall expire on the earlier of 30 September 2017 or the conclusion of the Company's Annual General Meeting in 2017 provided that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities under such offers or agreements as if the power conferred by this resolution had not expired and provided further that this authority shall be in substitution for, and to the exclusion of, any existing authority conferred on the directors.

9. THAT, the Company be generally and unconditionally authorised to make market purchases (as defined in the Companies Act 2006) of ordinary shares of 50 pence each in the capital of the Company ("ordinary shares") on such terms and in such manner as the directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares authorised to be purchased shall be 576,491;

(b) the minimum price which may be paid for an ordinary share is 50 pence;

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share (as derived from the Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority conferred by this resolution shall expire at the end of next year's Annual General Meeting (or if earlier at the close of business on 30 September 2017) unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

By order of the Board

**Augentius Corporate Services Ltd**
Company Secretary

30 June 2016

*Registered Office:*
77 Kingsway
London WC2B 6SR

## NOTES

*1. Right to attend, speak and vote*

If you want to attend, speak and vote at the AGM you must be on the Company's register of members at 12 noon on Thursday 21 July 2016. This will allow us to confirm how many votes you have on a poll. Changes to the entries in the register of members after that time, or, if the AGM is adjourned, 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.

*2. Appointment of proxies*

If you are a member of the Company you may appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the meeting. You may only appoint a proxy using the procedures set out in these notes and in the notes on the proxy form, which you should have received with this notice of meeting.

A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes on the form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

You may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares which you hold. If you wish to appoint more than one proxy you may photocopy the proxy form or alternatively you may contact the Company's registrars, Capita Asset Services, by calling 0871 664 0300 (+44 208 639 3399 if calling from outside the United Kingdom) between 9.00 am and 5.30 pm on any business day.

*3. Appointment of proxy using hard copy proxy form*

The notes to the proxy form explain how to direct your proxy how to vote on each resolution or to withhold their vote. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you do not indicate on the proxy form how your proxy should vote, they will vote or abstain from voting at their discretion. They will also vote (or abstain from voting) at they think fit in relation to any other matter which is put before the meeting.

To appoint a proxy using the proxy form, the form must be completed, signed and received by the Company's registrars no later than 48 hours (excluding non-working days) before the meeting. Any proxy forms (including any amended proxy forms) received after the deadline will be disregarded. A form of proxy may be returned in any of the following ways:

a) in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or

b) electronically via www.capitashareportal.com

c) in the case of CREST members, by using the CREST electronic proxy appointment service in accordance with the procedures set out below.

If the shareholder is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer or attorney. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

*4. Appointment of proxy via CREST*

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service providers), should refer to their CREST sponsor or voting service providers), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages/Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

*5. Appointment of proxy by joint members*

In the case of joint holders, where more than one joint holder purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

*6. Changing your instructions*

To change your proxy instructions simply submit a new proxy form using the methods set out above. The amended instructions must be received by the Company's registrars by the same cut-off time noted above. Where you have appointed a proxy using a hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact the Company's registrars, Capita Asset Services, by calling 0871 664 0300 (+44 208 639 3399 if calling from outside the United Kingdom) between 9.00 am and 5.30 pm on any business day. If you submit more than one valid proxy form, the one received last before the latest time for the receipt of proxies will take precedence.

*7. Termination of proxy appointments*

In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, your revocation notice must be received by the Company's registrars no later than 48 hours (excluding non-working days) before the meeting. If your revocation is received after the deadline, your proxy appointment will remain valid. However, the appointment of a proxy does not prevent you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

*8. Corporate Representatives*

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

*9. Communications with the Company*

Except as provided above, members who have general queries about the meeting should telephone the Company's registrars Capita Asset Services, by calling 0871 664 0300 (+44 208 639 3399 if calling from outside the United Kingdom) between 9.00 am and 5.30 pm on any business day (no other methods of communication will be accepted). You may not use any electronic address provided either in this notice of general meeting; or any related documents (including the proxy form), to communicate with the Company for any purposes other than those expressly stated.

*10. Issued shares and total voting rights*

As at 5.00pm, on the day immediately prior to the date of posting of this notice of meeting, the Company's issued share capital comprised of 3,843,275 ordinary shares of 50 pence each, with 155,771 ordinary shares held in treasury. Each ordinary share (except for the ordinary shares held in treasury) carries the right to one vote and therefore, the total number of voting rights in the Company at that time was 3,687,504.

Gresham House Asset Management Ltd
107 Cheapside,
London,
EC2V 6DN

T: 020 3837 6270
E: info@greshamhouse.com

www.greshamhouse.com
www.ghsplc.com