

## COMPANIES HOUSE COPY

**GLADSTONE PLC**  
**REPORT AND ACCOUNTS**  
**YEAR ENDED 31 AUGUST 2003**



**Hacker  
Young**  
Chartered Accountants

# GLADSTONE PLC

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# GLADSTONE PLC

## DIRECTORS, SECRETARY AND ADVISERS

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<b>Directors</b>	Ben Merrett Jeremy Stokes Derick Martin  Nicholas Montgomery	<i>(Chief Executive Officer)</i> <i>(Non-Executive Chairman)</i> <i>(Non-Executive Director,</i> <i>appointed 23 December 2002)</i> <i>(Non-Executive Director,</i> <i>appointed 18 August 2003)</i>
<b>Company Secretary</b>	Nicholas Montgomery	
<b>Registered Office</b>	Hithercroft Road Wallingford Oxfordshire OX10 9BT	
<b>Company Number</b>	3327360	
<b>Corporate Finance Advisers</b>	Brewin Dolphin Securities Limited National House 36 St Ann Street Manchester M60 2EP	
<b>Auditors</b>	Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH	
<b>Solicitors</b>	Pitmans 47 Castle Street Reading Berkshire RG1 7SR	
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
<b>Principal Bankers</b>	Royal Bank of Scotland plc PO Box 12264 3 <sup>rd</sup> Floor 1 Princes Street London EC2R 8PB	

# GLADSTONE PLC

## NON-EXECUTIVE CHAIRMAN'S STATEMENT

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The Group's first full year profit confirms the turnaround of the MRM division. Tight control of Gladstone's expenditure further enhanced the final result. The large losses experienced in the previous financial year have been dramatically reversed into more predictable levels of profit. Despite the modest growth in shareholder value over the last 2 years, I still believe that the market undervalues us.

We continue to look for acquisition opportunities. We have been one of a very small number of IT stocks who have recently raised cash. This has had the effect of strengthening our balance sheet. Apart from providing the finance to stabilise the Group two years ago, over the last year the directors have made further investments in the Company's equity. They currently own 22.79% of the Company.



**Jeremy Stokes**  
Non-Executive Chairman

30 January 2004

# **GLADSTONE PLC**

## **CHIEF EXECUTIVE OFFICER'S REPORT**

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### **OVERVIEW**

Given the Group's history of losses, the attainment of profit during this year is particularly pleasing. We are now generating around twice the combined results of Membertrack Ltd and Microcache Ltd before they were acquired. The payment of all material legacy costs referred to in previous statements is now behind us. Profits and cash generation have been sustained long enough to engender investor confidence and management time is now firmly focused on business development. I believe that we have the best products in our market. We also have significant industry knowledge built over many years and have developed professional services sensitive to the market's requirements. These factors should ensure that we will continue to beat our competition in the UK local authority and privately owned health and leisure sectors.

### **FINANCIAL RESULTS**

Our earnings per share before goodwill and exceptional items have increased to 1.53p (last year loss 1.50p).

Our software support contracts and rentals have grown from 31% to 37% of turnover.

Group profit of £184k after goodwill and exceptional items represents an improvement of around £1.9m on last year despite turnover declining from £8.6m to £7.9m. This decline was due to lower hardware and professional services revenues.

In the year to 31 August 2002, directors' emoluments reduced from £1,038,056 (14 month period) to £365,074. Directors' emoluments for the year to 31 August 2003 were £195,084.

### **MARKET SEGMENTS**

Our local authority clients are still responding to the Electronic Government Interoperability Framework, ("EGIF") directive. The current emphasis is to facilitate bookings made by the public through the internet, functionality that has been available in our software for some time. In the privately owned sector, consumers demand for health and leisure facilities across the UK remains strong. However, it is estimated that new clubs are currently opening at half the rate seen over the past 5 years. Consolidation amongst UK operators appears inevitable. In the past, IT systems have often been reviewed when ownership changes have taken place and this may well present us with an opportunity.

### **MARKET SOLUTIONS**

We now have over 40 clients who have upgraded to our market leading database platform. We pioneered this central database technology a few years ago and our competition has struggled to emulate our offering. As low cost broadband connectivity becomes a reality, private sector operators will be able to significantly improve their service to members by deploying our product in this manner. Other operational gains may also result by using this methodology. Our local authority clients are able to use centrally consolidated data to examine and report on key utilisation statistics. Pursuing this upgrade path reduces the number of sites using legacy software and helps us improve the service we provide to our customers. We are still significantly investing in our core product, MRM.plus2, to ensure that we retain our market leading position. We have a strong team of developers, quality assurance staff and system testers. An offshore capability is available to us in support of this resource when appropriate. Our bookings software will be the first competitive offering to facilitate internet payments as well as being chip and pin compliant.

# **GLADSTONE PLC**

## **CHIEF EXECUTIVE OFFICER'S REPORT**

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### **HISTORIC ISSUES**

The cash elements of all the previously reported issues inherited from the previous board have been settled, including the payment of £170k to the Inland Revenue relating to PAYE on some of the previous directors' profit on share options. Our efforts to persuade the Inland Revenue that the Company should not be liable for this payment failed. Given the high cost of pursuing recovery of this amount and the uncertainty of outcome, we have decided not to take this matter any further.

### **DIVIDEND PAYMENT**

The directors have decided not to pay a dividend.

### **TRADING UPDATE**

Our MRM trading division is performing in line with management expectations. We raised £260k by an equity placing in September 2003 and will continue to use this cost efficient route to raise funds for expansion when appropriate. We are continually looking for the right international opportunities and are exploring the use of overseas distributors. Holmes Place, one of our private sector clients, recently decided to upgrade to our central database solution and will be using our software across 5 European countries. We have good reason to be optimistic about the future.

### **REORGANISING THE SHAREHOLDER BASE**

We currently have over 8,000 shareholders. Approximately 6,000 of these shareholders have 1,000 or fewer shares with an average current market value of around £40 if they wish to sell, before dealing costs are taken into account. Like many other IT companies, significant investor interest was experienced during the dot-com boom when valuations were far higher than now. The Board believes that many small shareholders have been deterred from selling their shares as a result of disproportionately high dealing costs. The Board has also become increasingly concerned at the expense involved in maintaining such a large register and maintaining contact with such a large number of small shareholders. The Board has given considerable thought to this issue and as a result will be proposing a resolution to reorganise the share capital of the Company at the next Annual General Meeting. Detailed proposals are set out in the Notice of Extraordinary General Meeting attached. This proposed reorganisation will have the effect of consolidating small shareholdings which will then be sold in the market. Thus small shareholders will realise some value from their shares without incurring the level of dealing charges that they would otherwise suffer.



**Ben Merrett**  
Chief Executive Officer

30 January 2004

# **GLADSTONE PLC**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2003**

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The Directors present their annual report and the audited financial statements of the Group and of the Company for the year ended 31 August 2003.

### **Activities and review of business**

The Group maintains its position as a leading supplier of customer relationship management software to the leisure sector. Further details regarding the Group's activities can be found in the Chief Executive Officer's Report on page 3.

Note 12 to the financial statements contains a list of the Company's subsidiaries at 31 August 2003.

### **Results and dividends**

The results for the year are shown on page 19 and are discussed in more detail in the Chief Executive Officer's Report.

The Group reports a profit of £627,712 (31 August 2002: loss £628,922) before the amortisation of goodwill, exceptional items and taxation. After providing for the amortisation of goodwill and exceptional items, the Group reports a profit after taxation of £183,583 (31 August 2002: loss £1,676,703). The only exceptional item in the year was goodwill amortisation of £444,129. This has been charged in line with the requirements of Financial Reporting Standard 10 'Goodwill and intangible assets'. Goodwill arising on the Group's various acquisitions in prior years is being written off over their useful economic lives of 20 years (see note 10).

The Directors do not recommend the payment of a dividend.

# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2003

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### Directors

The following Directors held office during the year as set out below:

B Merrett	
S Preston	(Resigned 28 February 2003)
J Stokes	
D Martin	(Appointed 23 December 2002)
N Montgomery	(Appointed 18 August 2003)

At the forthcoming Annual General Meeting, Ben Merrett will retire and offer himself for re-election.

The biographical details of the present Directors are as follows:

#### **Ben Merrett (aged 41), Chief Executive Officer**

Ben is a graduate of Warwick University and Sandhurst. He completed an MBA at Cranfield School of Management in 1992. He subsequently held a number of senior management posts in BT, Clerical Medical and Perot Systems prior to being appointed as Managing Director of World Online UK Limited's Business Internet Services subsidiary in February 2000.

#### **Jeremy Stokes (aged 42), Non-executive Chairman**

Jeremy is an experienced entrepreneur who has founded, developed and sold a number of businesses. He has served on the board of a number of private companies. In 1996 he founded Localtel Limited, an internet service provider, that was acquired by World Online UK Limited in 1999 for some £35 million. Jeremy then served as Managing Director of World Online UK Limited until leaving to pursue other business interests.

#### **Derick Martin (aged 40), Non-Executive Director**

Derick is also an experienced and successful entrepreneur. Prior to his involvement in Telecoms, he acted as an advisor to retail and wholesale businesses operating primarily in the food industry. Derick worked closely with Jeremy during the formation and development of Localtel and launched the UK's first unmetered Internet access product, screaming.net. Derick is Chairman of the iDG group of companies which has interests in call centre management, outsourced management services, mail order, e-commerce and publishing.

#### **Nicholas Montgomery (aged 52), Non-Executive Director**

Nicholas qualified as a Chartered Accountant with Deloittes. He has performed group finance roles with McLeod Russel plc and Eurotherm International plc. He was finance director for Pearpoint Ltd specialists in opto-electronics. He has developed corporate modelling and consolidation software for use over a wide range of businesses and has worked closely with Ben during the last 2½ years.



# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2003

### Directors' interests

The beneficial interests in the issued share capital of the Company of the Directors who held office at 31 August 2003 were as follows:

	31 August 2003 Ordinary shares of 1p each		31 August 2002 Ordinary shares of 10p each	
	Number	Percentage of issued ordinary share capital	Number	Percentage of issued ordinary share capital
Jeremy Stokes	6,872,814	16.7	6,122,814	14.9
Ben Merrett	529,737	1.3	450,562	1.1
Derick Martin	3,338,208	8.1	-	-
Nicholas Montgomery	-	-	-	-

The mid-market price of the Company's shares on 31 August 2003 was 12.25 pence.

None of the Directors had any interests in the share capital of any of the Company's subsidiaries at 31 August 2003 or 31 August 2002.

The Company has established three share option schemes for the benefit of directors and employees, the "Gladstone plc 1999 Approved Share Option Scheme", the "Gladstone plc 1999 Unapproved Share Option Scheme" and the Gladstone 2002 EMI Scheme.

The Directors' interests in share options at 31 August 2003 were as follows:

#### *Gladstone 2002 EMI Scheme:*

	Number of options	Exercise price	Date of grant	Exercise period
Ben Merrett	1,000,000	10p	07/02/02	07/02/03 to 07/02/12

#### *Gladstone 1999 Unapproved Scheme:*

Ben Merrett	710,000	10p	29/01/02	29/01/05 to 29/01/12
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No share options were exercised by the Directors during the year under review.

Since 31 August 2003, D Martin has reduced the number of shares held by 1,000,000. There have been no further changes in the interests of the Directors in the share capital of the Company between 31 August 2003 and the date on which these financial statements were signed.

### Interests in contracts

In the year under review, no director had a material interest in any contracts of significance with the Company or with any other member of the Group.

# **GLADSTONE PLC**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2003**

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### **Substantial shareholdings**

The Directors have been notified on the dates specified below of the following interests in 3% or more of the ordinary share capital of the Company. No further changes to these holdings have been notified to the Directors as at 24 January 2004. The shares held under nominee names are not included below as their ultimate ownership is not known.

	Ordinary shares of 10p each	
	Number	Percentage
Jeremy Stokes (notified on 30 January 2003)	6,872,814	15.8%
Norman and Beryl Guiver (notified on 20 May 2003)	2,300,000	5.3%
Derick Martin (notified on 21 September 2003)	2,338,208	5.4%

### **Creditor payment policy**

It is the Group's policy to establish payment terms with suppliers and to adhere to those terms, provided that the goods and services received are in accordance with the agreed terms and conditions.

As at 31 August 2003 the Group average creditor days was 40 (year ending 31 August 2002: 36 days).

### **Employment policy**

During the year, the Group has consulted with its employees in matters likely to affect their interests and is committed to involving them in the performance and development of the Group.

### **Disabled employees**

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Should existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to such employees as appropriate.

### **Fixed assets**

Details of movements in fixed assets are set out in notes 10 to 12 to the financial statements.

### **Research and development**

During the year, the Group incurred expenditure on research and development of products for resale. Of this expenditure £21,965 was capitalised as development costs (see note 10). Furthermore, in addition to the amortisation charge for the year of £160,319, a sum of £240,462 in respect of development costs capitalised in earlier years was written off to the profit and loss account during the year.

### **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution proposing Hacker Young's reappointment as auditors of the Company and authorising the directors to fix their remuneration will be put to the forthcoming Annual General Meeting.

# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2003

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### Annual general meeting

The Notice of the Annual General Meeting to be held at the offices of Brewin Dolphin Securities Ltd, National House, 36 St Ann Street, Manchester M2 7LE on Friday 19 March 2004 at 9.30am is set out on page 47. In addition to Resolutions 1 to 4 to be proposed at the meeting which deal with ordinary business, your attention is drawn to the special business, namely:

- a) the renewal of the directors' general authority to allot ordinary shares equal to the amount of the Company's authorised but unissued share capital immediately after the AGM. The authority will lapse (if not extended or replaced) at the conclusion of the AGM to be held in 2005 or 15 months from the date of the resolution;
- b) the disapplication of shareholders' pre-emption rights in relation to rights issues and to other pre-emptive issues to shareholders and otherwise in respect of equity securities up to a nominal value of £623,094, such authority to expire at the same time as the allotment authority described at para a) above;
- c) the disapplication of shareholders' pre-emption rights in relation to rights issues and to other pre-emptive issues to shareholders and otherwise in respect of equity securities up to a nominal value of £70,000, such authority to expire at the same time as the allotment authority described at para a) above. (This resolution may only take effect if the resolution relating to paragraph b) above is not passed. It is intended to give directors the authority to issue such number of equity securities as it is anticipated that the Company may have to issue in the period pursuant to the exercise of share options.);

By order of the Board



Nicholas Montgomery  
Company Secretary

30 January 2004

# GLADSTONE PLC

## CORPORATE GOVERNANCE

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### Combined code

Although the Company is not obligated to comply with the Combined Code on the Principles of Good Governance and Code of Best Practice, the Directors have stated their intention to comply with these principles in so far as is practicable for a Company of this size. The Company is committed to high standards of corporate governance and the board is accountable to the Company's shareholders.

### Board of Directors and Committees

During the year the directors met regularly. The Directors appointed comprise one executive director and three non-executive directors (one of which is the Non-executive Chairman). At least one-third of the Board comprises Non-executive directors, as recommended by provision A.3.1 of the Combined Code.

The Board is responsible for determining policy and business strategy, setting financial and other performance objectives and monitoring achievement. The Chairman takes responsibility for the conduct of Company and Board meetings and ensures that directors are properly briefed to enable full and constructive discussions to take place. However, no formal schedule of matters specifically reserved to the Board has yet been established.

The Chief Executive Officer is required to develop and lead business strategies and processes for the furtherance of the Group.

To enable the Board to function effectively and to discharge its duties, directors are given full and timely access to all relevant information. They have free access to the advice and services of the Company Secretary and may seek independent advice at the expense of the Company where appropriate. However, no formal procedure has been agreed with the Board regarding the circumstances in which individual directors may take independent professional advice.

The Combined Code states that there should be a nomination committee to deal with the appointment of both executive and non-executive directors except in circumstances where the Board is small. The Directors consider the size of the current board to be small and have not therefore established a nomination committee. The appointment of executive and non-executive directors is currently a matter for the Board as a whole. This position will be reviewed should the number of directors increase substantially.

The current directors' biographical details are shown in the Directors' report.

The non-executive Directors are independent of management and are free from any business or any other relationship which could interfere materially with the exercise of their independent judgement. The non-executive Directors are appointed for specified terms and are subject to re-election and to Companies Act provisions relating to the removal of a director. Reappointment of non-executive Directors is not automatic. Nicholas Montgomery's role as the company secretary does not involve any management responsibilities in respect of the Group.

Jeremy Stokes has been nominated as the senior independent Director.

Under the Company's Articles of Association, the appointment of all new directors must be approved by the shareholders in General Meeting. In addition, one third of Directors are required to retire and to submit themselves for re-election at each Annual General Meeting.

# GLADSTONE PLC

## CORPORATE GOVERNANCE

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The Directors have established the following two committees, both of which report to the Board and have written terms of reference which deal clearly with their respective authorities and duties.

### *Audit committee*

The audit committee receives and reviews reports from management and the external auditors relating to the interim report and the annual accounts, reviews reporting requirements and ensures the maintenance of accounting systems and controls is effective. The audit committee comprises Jeremy Stokes and Nicholas Montgomery.

The audit committee has unrestricted access to the Company's auditors. The audit committee also monitors the controls which are in force and any perceived gaps in the control environment. The Board believes that the current size of the Group does not justify the establishment of an independent internal audit department. Finance personnel are periodically instructed to conduct specific reviews of business functions relating to key risk areas and to report their findings to the Board.

### *Remuneration committee*

The remuneration committee determines the scale and structure of the remuneration of the executive Directors and approves the granting of options to directors and senior employees and the performance related conditions thereof. It comprises two non-executive Directors, Jeremy Stokes and Nicholas Montgomery.

The remuneration and terms and conditions of appointment of the non-executive Directors is determined by the Board.

### **Internal control**

The Board is responsible for establishing and maintaining the Group's system of internal control. Internal control systems manage rather than eliminate risks to which the Group is exposed and such systems, by their nature, can provide reasonable but not absolute assurance against misstatement or loss. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Group and the key procedures which the Directors have established with a view to providing effective internal control, are as follows:

- **Identification and control of business risks**  
The Board identifies the major business risks faced by the Group and determines the appropriate course of action to manage those risks.
- **Budgets and business plans**  
Each year the Board approves the business plan and annual budget. Performance is monitored and relevant action taken throughout the year through the regular reporting to the board of changes to the business forecast.
- **Investment appraisal**  
Capital expenditure is controlled by budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Due diligence work is carried out if a business or asset is to be acquired.

# GLADSTONE PLC

## CORPORATE GOVERNANCE (Continued)

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- **Annual review and assessment**

The Board has implemented a detailed annual review and assessment of the effectiveness of the Group's system of internal control.

The Board has considered the need for an internal audit function but has decided that, given the size of the Group and the system of controls in place, it is not required at present. The Board will review this decision again next year.

### **Going concern**

The Group meets its day to day working capital requirements through the cash balances held with its bankers.

The Directors have formed the judgement that at the time of approving the financial statements the Group and the Company had adequate resources to continue in existence for the foreseeable future. Therefore, the Directors consider the adoption of the going concern basis in preparing the financial statements to be appropriate.

### **Relations with shareholders**

The Board attaches considerable importance to the maintenance of good relationships with shareholders. Presentations by the Directors to institutional shareholders and City analysts are made as and when considered appropriate by the Board or the Company's advisers.

All shareholders are invited to attend the Annual General Meeting each year and have the opportunity to put questions to the Board.

The Annual General Meeting is regarded as an opportunity to communicate directly with private shareholders.



**Jeremy Stokes**  
Non-Executive Chairman

30 January 2004

# **GLADSTONE PLC**

## **REPORT OF THE REMUNERATION COMMITTEE**

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### **The remuneration committee**

The remuneration committee has been established to keep under review the terms of employment of executive Directors and to recommend to the Board such changes to the Directors' remuneration and to the terms of appointment as they consider to be appropriate. The remuneration committee's composition, responsibilities and operation comply with the recommendations of the Combined Code. The committee comprises two non-executive Directors, Jeremy Stokes and Nicholas Montgomery.

### **Remuneration policy**

The objectives of the policy are:

- i) To attract and retain suitably qualified individuals and to ensure that individual rewards and incentives are aligned with the performance of the Group;
- ii) to maintain a competitive package of pay and other benefits which will provide the motivation for future achievement, particularly through reward and share option schemes based on the Group's performance;
- iii) to facilitate the building and retention of a team which will work effectively to achieve the Group's longer term strategic objectives, especially by aligning their interests with those of shareholders through participation in schemes which provide opportunities for building shareholdings in the Company.

In implementing this policy, the Remuneration Committee has regard to the scales of remuneration and benefits payable in comparable circumstances to people with similar responsibilities, qualifications, skills and experience.

### **Service contracts**

The Company has entered into a service agreement with the current executive Director, Ben Merrett, which is subject to 12 months' notice by either party. This agreement provides for a basic annual salary of £110,000 as well as pension contributions of 10 per cent of the basic salary and other benefits such as medical and life insurance schemes.

# GLADSTONE PLC

## REPORT OF THE REMUNERATION COMMITTEE

### Directors' emoluments for the year ended 31 August 2003

					Year ended	
					31 August	31 August
	Salary	Benefits	Bonus	Termination	2003	2002
	and fees	in kind			Total	Total
	£	£	£	£	£	£
<b>Executive Directors:</b>						
Ben Merett	122,821	131	-	-	122,952	103,402
Brian Raven	-	-	-	-	-	28,465
Oliver Cooke	-	-	-	-	-	23,151
Alastair Kerr	-	-	-	-	-	116,846
<b>Non-executive Directors:</b>						
Simon Preston	14,500	-	-	26,000	40,500	33,165
Jeremy Stokes	6,000	-	-	-	6,000	20,000
Lord Sheppard	-	-	-	-	-	14,000
A Carlton	-	-	-	-	-	10,000
D Martin	12,000	-	-	-	12,000	-
N Montgomery	-	-	-	-	-	-
Total emoluments excluding pension contributions	155,321	131	-	26,000	181,452	349,029
Total pension contributions					13,632	16,045
Total emoluments including pension contributions					195,084	365,074

### Pension contributions

The pension contributions paid during the year ended 31 August 2003 were as follows:

	£
Ben Merrett	13,632

Further details of directors remuneration during the year is set out in note 9 to the financial statements which forms a part of this report.



# **GLADSTONE PLC**

## **REPORT OF THE REMUNERATION COMMITTEE**

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### **Non-executive directors**

The fees of the non-executive Directors are determined by the Board and reflect the time that they devote to the Company's affairs and additional responsibilities taken on.

### **Directors' share options**

Details of the Directors' share options, including the number of options exercised in the year and the gains arising can be found in the Directors' report.



**Jeremy Stokes**  
Non-Executive Chairman

30 January 2004

# **GLADSTONE PLC**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

The Directors confirm that the financial statements comply with the above requirements.

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

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF GLADSTONE PLC**

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We have audited the financial statements of Gladstone PLC for the year ended 31 August 2003 which comprise the consolidated profit and loss account, the note of historical cost profits and losses, the balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of the freehold property) and the accounting policies set out therein.

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

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

**Basis of audit opinion**

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

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF GLADSTONE PLC**

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 August 2003 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Hacker Young*  
**Hacker Young**  
Chartered Accountants  
Registered Auditors

30 January 2004

London

# GLADSTONE PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2003

	Notes	2003 £	2002 £
<b>Turnover</b>		7,935,138	8,603,805
<b>Cost of sales</b>		(1,683,893)	(2,291,429)
<b>Gross profit</b>		6,251,245	6,312,376
Administration expenses excluding amortisation and impairment of goodwill, reorganisation costs and other exceptional items		(5,558,034)	(6,815,372)
<b>Operating profit/(loss) before amortisation of goodwill and exceptional items</b>		693,211	(502,996)
Amortisation of goodwill	3	(444,129)	(444,129)
Reorganisation and redundancy costs	3	-	(55,000)
Other exceptional items	3	-	(479,240)
<b>Total administration expenses</b>		6,002,163	7,793,741
<b>Operating profit/(loss)</b>		249,082	(1,481,365)
Provision for loss on fixed assets		-	(141,611)
<b>Profit/(Loss) on ordinary activities before interest</b>		249,082	(1,622,976)
Interest receivable	4	25,039	35,262
Interest payable	5	(90,538)	(161,188)
<b>Profit/(Loss) on ordinary activities before taxation</b>		183,583	(1,748,902)
Taxation	6	-	72,199
<b>Profit retained/(Loss withdrawn)</b>		183,583	(1,676,703)
<b>Profit/(Loss) per ordinary share (pence)</b>	7		
Basic and diluted		0.45p	(4.53p)
Basic before goodwill and exceptional items		1.53p	(1.50p)

All of the amounts are in respect of continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

# GLADSTONE PLC

## NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 AUGUST 2003

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	2003 £	2002 £
<b>Reported profit/(loss) on ordinary activities before taxation</b>	183,583	(1,748,902)
Difference between historic cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	9,258	9,258
<b>Historic profit/(loss) on ordinary activities before taxation</b>	<u>192,841</u>	<u>(1,739,644)</u>
<b>Historic profit/(loss) for the year retained after taxation and dividends</b>	<u>192,841</u>	<u>(1,667,445)</u>

# GLADSTONE PLC

## CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2003

	Notes	£	2003 £	£	2002 £
<b>Fixed assets</b>					
Intangible assets	10		7,106,072		7,929,017
Tangible assets	11		1,785,594		1,907,725
			<hr/>		<hr/>
			8,891,666		9,836,742
<b>Current assets</b>					
Stocks	13	102,377		130,121	
Debtors	14	1,989,800		2,241,382	
Cash at bank and in hand		941,779		889,679	
		<hr/>		<hr/>	
		3,033,956		3,261,182	
<b>Creditors: amounts falling due within one year</b>	15	(1,069,779)		(2,020,375)	
		<hr/>		<hr/>	
<b>Net current assets</b>			1,964,177		1,240,807
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			10,855,843		11,077,549
<b>Creditors: amounts falling due after more than one year</b>	16		(749,375)		(1,107,162)
<b>Accruals and deferred income</b>			(2,097,992)		(2,145,494)
			<hr/>		<hr/>
<b>Net assets</b>			8,008,476		7,824,893
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	17		411,170		4,111,700
Share premium account	18		13,353,074		13,353,074
Revaluation reserve	18		444,367		453,625
Special reserve	18		4,667,133		4,667,133
Profit and loss account	18		(14,567,798)		(14,760,639)
			<hr/>		<hr/>
Equity shareholders' funds			4,307,946		7,824,893
Non-equity shareholders' funds	17		3,700,530		-
			<hr/>		<hr/>
<b>Total shareholders' funds</b>	20		8,008,476		7,824,893
			<hr/>		<hr/>

The financial statements were approved by the Board on 30 January 2004

  
**Ben Merrett**  
Chief Executive Officer

  
**Jeremy Stokes**  
Non-Executive Chairman

# GLADSTONE PLC

## COMPANY BALANCE SHEET AS AT 31 AUGUST 2003

	Notes	£	2003 £	£	2002 £
<b>Fixed assets</b>					
Tangible assets	11		4,021		15,397
Investments	12		11,067,457		11,067,457
			<hr/>		<hr/>
			11,071,478		11,082,854
<b>Current assets</b>					
Debtors	14	10,055		18,459	
Cash at bank and in hand		35,475		562,277	
		<hr/>		<hr/>	
		45,530		580,736	
<b>Creditors: amounts falling due within one year</b>	15	(93,622)		(1,123,254)	
		<hr/>		<hr/>	
<b>Net current liabilities</b>			(48,092)		(542,518)
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			11,023,386		10,540,336
<b>Creditors: amounts falling due after more than one year</b>	16		(2,822,151)		(2,824,926)
<b>Accruals and deferred income</b>			(134,858)		(196,666)
			<hr/>		<hr/>
<b>Net assets</b>			8,066,377		7,518,744
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	17		411,170		4,111,700
Share premium account	18		13,353,074		13,353,074
Special reserve	18		4,667,133		4,667,133
Profit and loss account	18		(14,065,530)		(14,613,163)
			<hr/>		<hr/>
Equity shareholders' funds			4,365,847		7,518,744
Non-equity shareholders' fund	17		3,700,530		-
			<hr/>		<hr/>
<b>Shareholders' funds</b>			8,066,377		7,518,744
			<hr/>		<hr/>

The financial statements were approved by the Board on 30 January 2004

  
**Ben Merrett**  
Chief Executive Officer

  
**Jeremy Stokes**  
Non-Executive Chairman



# GLADSTONE PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2003

	Notes	£	2003 £	£	2002 £
<b>Net cash inflow/(outflow) from operating activities</b>	21		689,629		(1,079,405)
<b>Returns on investments and servicing of finance</b>					
Interest received		25,039		35,262	
Interest paid		(68,949)		(90,935)	
Finance lease charges		(21,589)		(70,253)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(65,499)		(125,926)
			624,130		(1,205,331)
<b>Taxation (paid)/refunded</b>			(1,975)		72,200
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		(94,692)		(142,880)	
Receipts from sales of fixed assets		-		24,266	
Development costs capitalised		(21,965)		(235,006)	
<b>Net cash outflow for capital expenditure</b>			(116,657)		(353,620)
<b>Net cash inflow/(outflow) before financing</b>			505,498		(1,486,751)
<b>Financing</b>					
Proceeds from issues of shares		-		685,283	
Finance lease repayments		(260,135)		(64,279)	
Bank loan repayments		(188,129)		(2,040,000)	
<b>Net cash (outflow)/inflow from financing</b>			(448,264)		(1,418,996)
<b>Increase/(decrease) in cash</b>	23		57,234		(2,905,747)

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

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### 1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention, modified to include the revaluation of a freehold property. The principal accounting policies which the Directors have adopted are set out below.

#### 1.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary undertakings, include the results of the subsidiaries since their dates of acquisition and have been prepared by applying acquisition accounting. Intra-group sales, profits and balances are eliminated fully on consolidation.

#### 1.2 Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. Goodwill is capitalised as an intangible fixed asset and is amortised in equal annual instalments over the directors' estimate of its useful life of 20 years (see note 10). If a subsidiary undertaking is subsequently sold, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale.

#### 1.3 Impairment of value

The Group undertakes a review for impairment of a fixed asset if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is a higher of net realisable value and value in use, the fixed asset is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

#### 1.4 Turnover

Turnover represents the invoiced value of goods and services, excluding value added tax.

#### 1.5 Investments

Fixed asset investments are stated at cost less any provision for impairment.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

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### 1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold properties	2% straight line basis
Office equipment and computers	20% reducing balance basis
Fixtures and fittings	25% reducing balance basis
Motor vehicles	25% reducing balance basis

The freehold property is carried at its revalued amount. Depreciation is charged on the revalued amount so as to write off the asset over its expected useful life, being 50 years. An equal amount to the excess of the annual depreciation charge over the historic cost depreciation charge is transferred annually from the revaluation reserve to the profit and loss reserve account.

### 1.7 Stocks

Stocks are valued at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

### 1.8 Leasing

Assets acquired under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

# **GLADSTONE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003**

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### **1.9 Research and development**

Research expenditure is written off to the profit and loss account in the year in which it is incurred.

Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is capitalised, at cost less provision for any impairment in value, and is amortised on the commencement of sales over the period in which the group is expected to benefit with a maximum period of three years.

### **1.10 Deferred taxation**

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

No provision is made for deferred tax on gains recognised on revaluing the Group's property to its market value unless the group has a binding contract, at the balance sheet date, to sell the revalued assets.

### **1.11 Pensions**

Payments to employees' personal pension schemes are charged to the profit and loss account as they become payable.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 2. Segmental analysis

#### *Turnover by Geographical area:*

	2003 £	2002 £
United Kingdom	7,935,138	8,603,805

### 3 a) Operating profit/(loss)

	2003 £	2002 £
The operating profit/(loss) is stated after charging:		
Depreciation on tangible fixed assets	216,827	384,076
Amortisation of development costs	160,319	106,885
Development costs written off	240,462	-
Auditors' remuneration	27,000	30,000
Operating lease rentals - land and buildings	55,765	167,731
- other	-	12,597
Hire of equipment	-	100

Fees paid to the auditors for non-audit work during the year amounted to £48,419 (2002: £38,000).

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 3b) Exceptional administration expenses

The group's profit and loss account includes the following exceptional items in administration expenses:

	2003 £	2002 £
<i>Amounts written off in connection with acquisition of subsidiaries:</i>		
i) Amortisation of goodwill	444,129	444,129
ii) Adjustment to the fair value of liabilities made in prior years - project rectification costs	-	150,000
	<u>444,129</u>	<u>594,129</u>
iii) Provision for PAYE and NI in connection with exercise of options by former directors (see below)	-	168,319
iv) Property lease termination costs - Egham office	-	160,921
v) Compensation to director for loss of office	-	55,000
	<u>-</u>	<u>384,240</u>
Total	<u><u>444,129</u></u>	<u><u>978,369</u></u>

No other exceptional items (2002: £534,240) are shown on the consolidated profit and loss account.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 4. Interest receivable

	2003 £	2002 £
Bank interest	25,039	35,262

### 5. Interest payable

	2003 £	2002 £
On bank loans and overdrafts	68,949	80,376
On hire purchase and finance lease agreements	21,589	70,253
Other interest	-	10,559
	90,538	161,188

### 6. Taxation

	2003 £	2002 £
UK corporation tax - prior year credit	-	(72,199)
Factors affecting the tax charge for the year:		
Profit/(loss) on ordinary activities before tax	183,583	(1,748,902)
Profit/(loss) on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2002: 30%)	55,075	(524,670)
Effects of:		
Non-deductible expenses	31,822	36,066
Depreciation and amortisation	188,192	252,403
Capital allowances	(90,979)	(130,079)
Tax losses	(174,748)	316,791
Adjustments to previous periods	-	(72,199)
Other tax adjustments	(9,362)	49,489
Current tax charge/(credit)	-	(72,199)

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 7. Earnings/(loss) per ordinary share

The basic earnings/(loss) per ordinary share has been calculated using the profit/(loss) for the year and the weighted average number of ordinary shares in issue during the year as follows:

	2003 £	2002 £
Profit/(loss) for the period	<u>183,583</u>	<u>(1,676,703)</u>
	Number	Number
Weighted average of ordinary shares of 1p (2002:10p) each	<u>41,116,996</u>	<u>36,977,139</u>
Basic earnings/(loss) per share (pence)	<u>0.45p</u>	<u>(4.53p)</u>

The basic earnings/(loss) per share before goodwill amortisation and exceptional items including loss on sale of fixed assets has also been presented since, in the opinion of the directors, this provides shareholders with a more appropriate measure of the earnings derived from the Group's businesses. It can be reconciled to basic earnings/(loss) per share as follows:

	2003	2002
Basic earnings/(loss) per share (pence)	0.45	(4.53)
Goodwill and exceptional items per share	1.08	3.03
Earnings/(loss) per share before goodwill amortisation and exceptional items	<u>1.53p</u>	<u>(1.50p)</u>

The diluted earnings/(loss) per ordinary share, as defined in FRS 14, has been calculated on the following basis:

	2003 £	2002 £
Profit/(loss) for the period	<u>183,583</u>	<u>(1,676,703)</u>
	Number	Number
Weighted average of ordinary shares in issue as above	<u>41,116,996</u>	<u>36,977,139</u>
Dilution for share options outstanding	-	-
Diluted weighted average number of shares in issue	<u>41,116,996</u>	<u>36,977,139</u>
Diluted earnings/(loss) per share (pence)	<u>0.45p</u>	<u>(4.53p)</u>



# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 8. Employees

	2003 £	2002 £
Wages and salaries	3,310,299	3,831,765
Social security costs	311,833	326,293
Pension costs	99,568	166,797
Termination and redundancy costs - exceptional	-	55,000
- non-exceptional	26,000	45,410
	<u>3,747,700</u>	<u>4,425,265</u>

The average monthly number of employees (including directors) during the year was:

	2003 £	2002 £
Office and administration	26	17
Sales and marketing	14	19
Development and training	70	85
	<u>110</u>	<u>121</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 9. Directors' emoluments

	2003 £	2002 £
Emoluments for qualifying services:		
Executive Directors' - salaries and bonuses	122,821	199,774
- benefits	131	17,090
Non-executive Directors' fees	32,500	77,165
	<hr/>	<hr/>
Termination costs	155,452	294,029
Pension contributions	26,000	55,000
	13,632	16,045
	<hr/>	<hr/>
	195,084	365,074
	<hr/>	<hr/>

Emoluments disclosed above include amounts paid to:

	2003 £	2002 £
Highest paid director - salaries, bonus and benefits	122,952	103,402
- pension contributions	13,632	6,667
	<hr/>	<hr/>
	136,584	110,069
	<hr/>	<hr/>

The number of Directors for whom retirement benefits were accruing under money purchase pension schemes in the year was 1 (2002 – 4).

Further details of Directors' remuneration are contained within the Report of the Remuneration Committee and details of the Directors' interests in share options are set out in the Directors' Report. This note forms a part of those reports and should be read in conjunction with them.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 10. Intangible fixed assets

Group	Goodwill £	Development costs £	Total £
<b>Cost</b>			
At 31 August 2002	17,876,829	711,908	18,588,737
Additions in the year	-	21,965	21,965
	<hr/>	<hr/>	<hr/>
At 31 August 2003	17,876,829	733,873	18,610,702
	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>			
At 31 August 2002	10,326,628	333,092	10,659,720
Charge for the year, including Amounts written off	444,129	400,781	844,910
	<hr/>	<hr/>	<hr/>
At 31 August 2003	10,770,757	733,873	11,504,630
	<hr/>	<hr/>	<hr/>
<b>Net book values</b>			
At 31 August 2003	<u>7,106,072</u>	<u>-</u>	<u>7,106,072</u>
	<hr/>	<hr/>	<hr/>
At 31 August 2002	<u>7,550,201</u>	<u>378,816</u>	<u>7,929,017</u>
	<hr/>	<hr/>	<hr/>

Goodwill is amortised over the period which the Directors estimate will represent its useful economic life. The Directors are of the opinion that the useful economic life of the goodwill is 20 years from the date of acquisition of the business.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 11. Tangible fixed assets

Group	Freehold property £	Fixtures and fittings £	Office equipment and computers £	Motor vehicles £	Total £
<b>Cost or valuation</b>					
At 1 September 2002	1,141,119	338,743	1,635,012	77,200	3,192,074
Additions	-	622	94,072	-	94,694
Disposals	-	-	-	(77,200)	(77,200)
At 31 August 2003	<u>1,141,119</u>	<u>339,365</u>	<u>1,729,084</u>	<u>-</u>	<u>3,209,568</u>
<b>Depreciation</b>					
At 1 September 2002	64,092	153,864	989,193	77,200	1,284,349
Charge for the period	22,000	46,212	148,613	-	216,825
On disposals	-	-	-	(77,200)	(77,200)
At 31 August 2003	<u>86,092</u>	<u>200,076</u>	<u>1,137,806</u>	<u>-</u>	<u>1,423,974</u>
<b>Net book value</b>					
At 31 August 2003	<u>1,055,027</u>	<u>139,289</u>	<u>591,278</u>	<u>-</u>	<u>1,785,594</u>
At 31 August 2002	<u>1,077,027</u>	<u>184,879</u>	<u>645,819</u>	<u>-</u>	<u>1,907,725</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 11. Tangible fixed assets (continued)

Included in the above Group fixed assets are assets held under finance leases or hire purchase contracts as follows:

	Fixtures and fittings £	Office equipment and computers £	Total £
<b>Net book values</b>			
At 31 August 2003	14,889	116,292	131,181
At 31 August 2002	19,852	145,365	165,217
<b>Depreciation charge for the period</b>			
31 August 2003	4,963	29,073	34,036
31 August 2002	6,618	36,342	42,960
<b>Company</b>		<b>Office equipment and computers £</b>	
<b>Cost</b>			
At 1 September 2002		35,997	
Additions		624	
At 31 August 2003		36,621	
<b>Depreciation</b>			
At 1 September 2002		20,600	
Charge for the period		12,000	
At 31 August 2003		32,600	
<b>Net book value</b>			
At 31 August 2003		4,021	
At 31 August 2002		15,397	

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 12. Fixed asset investments

	Shares in subsidiary undertakings	
	2003	2002
	£	£
<b>Cost</b>		
At 1 September 2002	24,311,781	19,311,781
Further investments and costs in existing wholly owned subsidiaries for cash	-	5,000,000
	<hr/>	<hr/>
At 31 August 2003	24,311,781	24,311,781
	<hr/>	<hr/>
<b>Provision for impairment</b>		
At 1 September 2002	(13,244,324)	(14,599,627)
Reallocation of impairment provision against loans to dormant subsidiaries	-	1,355,303
	<hr/>	<hr/>
At 31 August 2003	(13,244,324)	(13,244,324)
	<hr/>	<hr/>
<b>Net book value</b>	<u>11,067,457</u>	<u>11,067,457</u>

The Group subsidiary undertakings at 31 August 2003 are as follows:-

Name	Principal activity during the period	Percentage of equity capital held
<i>Held directly:</i>		
Gladstone MRM Limited	Membership and facilities management systems	100%
Membertrack Limited	Dormant	100%
The Fit Club Limited	Dormant	100%
Ge.clear Limited	Dormant	100%
Electronic Club Limited	Dormant	100%

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 12. Fixed asset investments (continued)

Name	Principal activity during the period	Percentage of equity capital held
<i>Held directly (continued):</i>		
Torstar Limited	Dormant	100%
In4mation.net Limited	Dormant	100%
Cascade Management Consultants Limited	Dormant	100%
<i>Held indirectly:</i>		
Microcache (Scotland) Limited	Dormant	100%
Job4life.net Limited	Dormant	100%
Like4like.net Limited	Dormant	100%
Global Technology Software Limited	Dormant	100%

### 13. Stocks

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Goods for resale	102,377	130,121	-	-

### 14. Debtors

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Trade debtors	1,789,690	2,068,110	-	2,732
Other debtors	5,276	9,921	5,276	9,363
Prepayments and accrued income	194,834	163,351	4,779	6,364
	<u>1,989,800</u>	<u>2,241,382</u>	<u>10,055</u>	<u>18,459</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 15. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank overdraft	203,293	208,427	2,283	208,457
Bank loan (note 16)	272,500	188,125	-	188,125
Net obligations under finance leases (note 16)	79,556	254,408	37,446	170,940
Trade creditors	219,861	790,854	10,602	282,395
Corporation tax	7,236	9,211	-	-
Other taxes and social security costs	287,333	569,350	43,291	273,337
	<u>1,069,779</u>	<u>2,020,375</u>	<u>93,622</u>	<u>1,123,254</u>

The bank overdraft is secured by a fixed and floating charge over all assets of the Group, a mortgage debenture given by Gladstone MRM Limited and by a Group cross guarantee.

### 16. Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loan	749,375	1,021,875	-	1,021,875
Net obligations under finance leases	-	85,287	-	49,905
Amount due to subsidiaries	-	-	2,822,151	1,753,146
	<u>749,375</u>	<u>1,107,162</u>	<u>2,822,151</u>	<u>2,824,926</u>

a) The bank loan incurs interest at 1.5% above the bank's base rate and is secured by a fixed and floating charge over all assets of the Group, a mortgage debenture given by Gladstone MRM Limited and by a Group cross guarantee.

The bank loan is repayable as follows:

	£
Within one year (note 15)	272,500
Between one and two years	272,500
Between two and five years	476,875
	<u>1,021,875</u>



# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 16. Creditors: amounts falling due after more than one year (continued)

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
b) Net obligations under finance lease contracts				
Repayable within one year	104,165	297,803	49,728	199,005
Repayable in one to two years	-	95,852	-	56,186
	<u>104,165</u>	<u>393,655</u>	<u>49,728</u>	<u>255,191</u>
Gross	104,165	393,655	49,728	255,191
Finance charges allocated to future accounting periods	(24,609)	(53,960)	(12,282)	(34,346)
	<u>79,556</u>	<u>339,695</u>	<u>37,446</u>	<u>220,845</u>
Net	79,556	339,695	37,446	220,845
Included within liabilities falling due within one year	(79,556)	(254,408)	(37,446)	(170,940)
	<u>-</u>	<u>85,287</u>	<u>-</u>	<u>49,905</u>
Due in more than one year	-	85,287	-	49,905

The finance lease creditors are secured on the assets concerned.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 17. Share capital

	2003 £	2002 £
<b>Authorised:</b>		
<b>Equity</b>		
2,000,000,000 Ordinary shares of 1p each (2002: 100,000,000 Ordinary shares of 10p each)	20,000,000	10,000,000
<b>Non-Equity</b>		
41,116,996 Non-voting deferred shares of 9p each	3,700,530	-
<b>Allotted, called up and fully paid:</b>		
<b>Equity:</b>		
41,116,996 ordinary shares of 1p each	411,170	4,111,700
<b>Non-Equity:</b>		
41,116,996 non-voting deferred shares of 9p each	3,700,530	-
	4,111,700	4,111,700

On 21 March 2003 the issued Ordinary shares of 10 pence each were sub-divided into new Ordinary shares of 1 pence each and deferred shares of 9 pence each. The deferred shares have no voting rights, no rights to income and negligible rights as to capital.

The authorised share capital was increased to £20,000,000 on 21 March 2003 by the creation of an additional 1,000,000,000 new Ordinary shares of 1 pence each.

The Company has established three share option schemes for the benefit of directors and employees, the Gladstone plc 1999 Approved Share Option Scheme, which has received Inland Revenue approval, the Gladstone plc 1999 Unapproved Share Option Scheme and the Gladstone 2002 EMI Scheme. The options outstanding at 31 August 2003 can be summarised as follows:

	Number of shares	Option price	Exercisable
i) <i>Gladstone plc 1999 Approved Share Option Scheme:</i>			
	86,558	14p	up to 26/06/04
	2,000	23p	up to 31/07/04
ii) <i>Gladstone plc 1999 Unapproved Share Option Scheme:</i>			
	86,558	14p	up to 26/06/04
	710,000	10p	from 29/01/05
iii) <i>Gladstone 2002 EMI Scheme</i>			
	3,062,952	10p	from March 2003

The Approved and the Unapproved share option schemes are parallel options which can be exercised from either scheme.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 18. Statement of movements on reserves

Group	Share premium account £	Special reserve £	Revaluation reserve £	Profit and loss account £
Balance at 1 September 2002	13,353,074	4,667,133	453,625	(14,760,639)
Transfer from revaluation reserve to profit and loss account	-	-	(9,258)	9,258
Retained profit for the year	-	-	-	183,583
	<u>13,353,074</u>	<u>4,667,133</u>	<u>444,367</u>	<u>(14,567,798)</u>
At 31 August 2003	<u>13,353,074</u>	<u>4,667,133</u>	<u>444,367</u>	<u>(14,567,798)</u>

Company	Share premium account £	Special reserve £	Profit and loss account £
At 1 September 2002	13,353,074	4,667,133	(14,613,163)
Retained profit for the year	-	-	547,633
	<u>13,353,074</u>	<u>4,667,133</u>	<u>(14,065,530)</u>
At 31 August 2003	<u>13,353,074</u>	<u>4,667,133</u>	<u>(14,065,530)</u>

The special reserve arose as a result of the demerger of Ge.world UK and its subsidiaries during the year ended 31 August 2001 and comprises:

	£
Amount transferred from share premium account to eliminate deficit in the company's profit and loss account at the date of the demerger	25,000,000
Transferred to profit and loss account	(20,332,867)
	<u>4,667,133</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 19. Profit/(loss) attributable to members of the parent Company

Consistent with the permission given by Section 230 of the Companies Act 1985, the parent Company has not presented its own profit and loss account. The profit on ordinary activities before and after taxation reflected in the financial statements of the parent Company for the year ended 31 August 2003 was £547,633 (2002: loss £1,954,056) and comprises:

	2003 £	2002 £
Profit/(loss) before exceptional items	547,633	(1,631,533)
Exceptional items:		
Provision for diminution in value of fixed assets	-	(99,204)
Provision for PAYE and NI in connection with exercise of options by former directors	-	(168,319)
Redundancy and termination costs	-	(55,000)
	<u>547,633</u>	<u>(1,954,056)</u>

### 20. Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit/(loss) for the period	183,583	(1,676,703)
Proceeds from issues of shares	-	685,283
	<u>183,583</u>	<u>(991,420)</u>
Net increase/(decrease) in shareholders' funds	7,824,893	8,816,313
Opening shareholders' funds at start of the year		
	<u>8,008,476</u>	<u>7,824,893</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 21. Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	2003 £	2002 £
Operating profit/(loss)	249,082	(1,481,365)
Depreciation charges	216,823	384,076
Profit on sale of fixed assets	-	(15,156)
Amortisation of goodwill	444,129	444,129
Development costs amortisation/written off	400,781	106,885
Decrease in stocks	27,744	25,122
Decrease in debtors	251,583	85,772
Decrease in creditors	(853,011)	(232,208)
Decrease in accruals and deferred income	(47,502)	(396,660)
Net cash inflow/(outflow) from operating activities	689,629	(1,079,405)

### 22. Reconciliation of net cash flow to movement in net funds

	2003 £	2002 £
Increase/(decrease) in cash from cash flows of the Group	57,234	(2,905,747)
Cash outflow from decrease in debt	448,264	2,104,279
Movements in net funds in the period	505,498	(801,468)
Net debt at start of the year	(868,443)	(66,975)
Net debt at end of the year	(362,945)	(868,443)

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 23. Analysis of changes in net funds/(debt)

	2002 £	Cash flows £	Non-cash changes £	2003 £
Cash at bank and in hand	889,679	52,100	-	941,779
Bank overdraft	(208,427)	5,134	-	(203,293)
	<u>681,252</u>	<u>57,234</u>	<u>-</u>	<u>738,486</u>
Bank loans	(1,210,000)	188,127	-	(1,021,873)
Finance leases	(339,695)	260,137	-	(79,558)
	<u>(1,549,695)</u>	<u>448,264</u>	<u>-</u>	<u>(1,101,431)</u>
Total net debt	<u>(868,443)</u>	<u>505,498</u>	<u>-</u>	<u>(362,945)</u>

### 24. Capital commitments

At 31 August 2003, the Group had no capital commitments (2002: £Nil).

### 25. Financial commitments

At 31 August 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2003 £	2002 £	2003 £	2002 £
Expiry date:				
In under one year	-	-	-	27,636
Between one and two years	-	-	-	-
Between two and five years	<u>61,800</u>	<u>131,550</u>	<u>-</u>	<u>32,466</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

### 26. Financial instruments

The Group raises finance through equity issues and borrowings and places surplus cash on short-term deposits. The primary source of borrowing is a long term bank loan facility.

The main risks associated with the Group's financial instruments relate to changes in interest rate risk and to credit risk. The policies for managing these risks are kept under review by the Board.

The disclosures below exclude debtors and creditors of a trading nature.

#### a) *Interest rate profile of financial assets*

At 31 August 2003 the Group had sterling cash deposits of £941,779. The weighted average interest rate of these deposits was 3.85%. The principal purpose of these cash funds is to assist in the development of the Group's businesses.

It is the Board's policy that deposits are placed only after due consideration of the current credit-worthiness of the counterparty.

#### b) *Interest rate and maturity profile of financial liabilities*

The interest rate profile of the Group's financial liabilities at 31 August 2003 were as follows:

	<b>Total</b>	<b>Floating rate</b>	<b>Fixed rate</b>
	<b>£</b>	<b>financial</b>	<b>financial</b>
		<b>liabilities</b>	<b>liabilities</b>
		<b>£</b>	<b>£</b>
At 31 August 2003	1,304,724	1,225,168	79,556
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 August 2002	1,758,122	1,418,427	339,695
	<u>          </u>	<u>          </u>	<u>          </u>

The floating rate financial liabilities consist of bank overdrafts and a bank loan which carries an interest rate of 1.5% above the bank's base rate and is repayable by quarterly instalments ending in March 2007.

The fixed rate liabilities comprise hire purchase and finance lease commitments and are repayable within 1 year.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

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### 26. Financial instruments (continued)

The maturity of the Group's financial liabilities at 31 August 2003 is as follows:

	£
In one year or less, or on demand	555,349
In more than one year but not more than two	272,500
In more than two years but not more than five	476,875
	<hr/>
	1,304,724
	<hr/>

#### c) *Borrowing facilities*

At 31 August 2003, the Group had £250,000 agreed undrawn committed borrowing facilities.

#### d) *Fair value of financial assets and liabilities*

The fair value of the Group's recorded financial assets and liabilities does not differ materially from their book values.

#### e) *Foreign currency risk*

All Group companies are now UK registered and mainly trade in the UK.

#### f) *Financial risk management and treasury policies*

The directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to wider financial risks as the business develops.

### 27. Post balance sheet event

In September 2003, a total of 2,500,000 new ordinary shares of 1 pence each were issued through placings at 11 pence per share.