Company Registration No. 3327360

GLADSTONE PLC

REPORT & ACCOUNTS

14 MONTHS ENDED 31 AUGUST 2001

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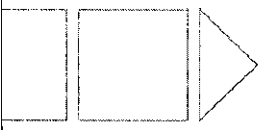

SIMON PRESTON
Non-Executive Chairman
Glastone plc

Cambridge graduate and co-founder of Telinco plc, a telecoms/internet company, subsequently sold to World Online UK Ltd for some £130 million. Until May 2001, Simon served as Chief Executive of Tiscali UK, who subsequently acquired World Online UK Ltd.

BEN MERRETT
Chief Executive Officer
Glastone plc

Gained his MBA at Cranfield School of Management, was with BT, Clerical Medical and Perot Systems prior to being appointed as Managing Director of World Online UK Ltd's Business Internet Services.

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Gladstone plc represents a substantial opportunity

DIRECTORS, SECRETARY AND ADVISERS

DIRECTORS	Simon Preston (Non-Executive Chairman) Ben Merrett (Chief Executive) Alastair Kerr (Managing Director - Gladstone MRM Limited) Jeremy Stokes (Non-Executive Director)
COMPANY SECRETARY	Nicholas Montgomery
REGISTERED OFFICE	Gladstone House High Street Egham Surrey TW20 9HY
COMPANY NUMBER	3327360
STOCKBROKERS	Beeson Gregory The Registry Royal Mint Court London EC3N 4LB
AUDITORS	Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH
SOLICITORS	Theodore Goddard 150 Aldersgate Street London EC1A 4EJ
REGISTRARS	Capita IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
PRINCIPAL BANKERS	National Westminster Bank plc City of London Office PO Box 12263 1 Princes Street London EC2R 8PH

NON-EXECUTIVE CHAIRMAN'S STATEMENT

My colleagues, Ben Merrett, Jeremy Stokes and I joined the board of Gladstone at the beginning of November 2001. The business has experienced many changes during the 14 month period to August 2001.

In addition to being subject to the valuation collapse in the Telecoms, Media and Technology ("TMT") sector, the Company has undergone extensive restructuring and management changes and experienced the effects of the requisitioned Extraordinary General Meeting of 1 October 2001.

However, it is the strongly held view of the new board that Gladstone plc represents a substantial opportunity to build shareholder value from its current position.

At a share price close to 10 pence when we joined, giving a market capitalisation of circa £3.5 million, we considered the core business to be substantially undervalued. The reasons for this were as follows:

- The Company has a leading position in its chosen market providing management software, Customer Relationship Management ("CRM") capability, identity cards and supporting services to the leisure sector.
- The release of the MRM.plus2 product provides clients with a totally integrated service platform whilst enabling the Company to focus its support and associated operations.
- The organisational changes and cost reductions necessary to bring the Gladstone MRM division into profit are substantially complete and the cash funding to achieve the remainder of this transition has been secured.

In addition, the experience of the new board in the TMT sector leads us to conclude that there is a substantial opportunity for business development and further acquisitions. Of particular interest is the arena of Application Service Provision ("ASP") delivering services on a "pay as you go" basis over the internet. The delivery of MRM.plus2 over the internet is expected to permit the Company to deliver highly cost-effective products and services relevant to the emerging CRM requirement.

Over the next 6 months Gladstone will therefore be focusing on completion of the restructuring and, in parallel, developing a strategy to build shareholder value.

My role as Non-Executive Chairman is to oversee this process of business restructuring and strategic development, ensuring this is undertaken with transparent corporate governance and that the CEO, Ben Merrett, and his team have a plan with identifiable milestones for growing shareholder value.

The roles of Chairman and Chief Executive have now been divided in line with corporate governance best practice. You will now read a report by the CEO on the 14 month period to August 2001 and a more detailed view on the challenges of the following 12 months.

For those shareholders who did not have the opportunity to read the biographies of the new directors, these have been included in the Directors' report.

Simon Preston

NON-EXECUTIVE CHAIRMAN

11 January 2002

CHIEF EXECUTIVE OFFICER'S REPORT

BACKGROUND

The period of trading to 31 August 2001 has seen a number of major changes, namely the acquisition of Membertrack Limited ('Membertrack') for £8.5 million in October 2000; acquisition of DLG Software Services for £4.4m in December 2000; and the demerger of Gladstone's Ge.world division (including DLG) from the Gladstone Group (now listed separately as Transware plc) in June 2001.

In August 2001 Alastair Kerr was appointed as a director of Gladstone plc. Two months after the close of the trading year a new team of directors was appointed comprising Simon Preston as Non-Executive Chairman, Jeremy Stokes as Non-Executive Director and myself as CEO.

The Group's leisure related activities have been integrated into the operating subsidiary Gladstone MRM Ltd. Considerable investment has been made in the development of a new generation of products and services to secure our position as the leading supplier of Member Relationship Management services to the leisure market. A significant cost rationalisation programme was initiated in late summer, with a commitment to further streamlining.

I am pleased to announce that the results of this streamlining are beginning to be realised, with the overhead position now considerably reduced. Furthermore, the launch of the new MRM.plus2 leisure management system will ideally position Gladstone MRM as the service provider of choice for the leisure sector.

FINANCIAL RESULTS

The reported results segregate those relating to discontinued operations. It is important to note that the current period spans 14 months.

For the period up to 31 August 2001 turnover was £17.8 million.

The loss before tax and the write off of goodwill and exceptional items was £3.7 million.

The new management team has maintained the aggressive approach to writing off goodwill over a four-year period and believes that the £8 million goodwill left in the balance sheet is based on a realistic valuation of the residual division. This takes into account an additional goodwill write off of £3 million associated with the Gladstone MRM division. In addition, we have only capitalised the value of development cost that relates to the MRM.plus2 product.

The directors are not recommending the payment of a dividend.

MARKET GROWTH AND EVOLUTION

The current size of the UK leisure industry is around £3.2 billion with the public sector largest at £1.9 billion and the private sector fast approaching £1.3 billion. For the period up to 2005 the market is forecast to grow by around 10% per annum (source Mintel 1999).

Within this industry the health and fitness sector continues to grow rapidly despite concerns about the economic environment. In 2001 the major operators increased their total number of clubs by 13% while in 2002 this number is expected to rise by a further 15%.

Gladstone MRM supplies membership systems to half of the approximately 5,000 local authority and private sector leisure facilities.

As the sector reaches maturity a series of characteristics are becoming apparent:

- The continuing growth of major leisure chains is increasingly fuelled by acquisitions of existing clubs.
- Damaging attrition rates as club members exercise increasing choice.
- Increasing focus by operators on retaining existing members and improving yield per member.

The trends taking place in the industry are illustrated by the Fitness Industry Association (FIA) focusing on the subject of member retention in its key annual research ("Winning the retention battle" FIA Oct 2001). The study found that 40% of members cancel their membership within the first year of joining.

Gladstone MRM has invested in product capability that will be particularly attractive to its clients as the pressure grows for Health and Leisure clubs to become more efficient and member focused.

BUSINESS AND PRODUCT DEVELOPMENT

Gladstone launched three new products at the flagship Leisure Industry Week (LIW) show in October 2001.

MRM.plus2 provides the latest and most sophisticated leisure management system available. Built upon the pedigree of the industry leading Clubman and Membertrack systems, MRM.plus2 combines comprehensive management functionality with analysis, marketing and web capability to deliver a unique Member Relationship Management solution.

MRM.analyser is designed to help clients maximise the value of their member relationships and implement practical customer-focused strategies. MRM.analyser facilitates targeted and data driven marketing through integrated media channels and is fully integrated with MRM.plus2.

MRM.openbook is a web bookings system enabling clients to develop interactive relationships with their members through the web.

All of these products give Gladstone MRM significant product differentiation, market advantage, and meet the growing need within the market sector to focus on improving member loyalty, spend and acquisition.

TRADING UPDATE

Since the end of the financial year the business has made significant progress:

- The October launch of our new product range created considerable interest in the marketplace resulting in a record level of sales leads.
- The November implementation of MRM.plus2 within an ASP environment by SOLL Leisure, who manage facilities on behalf of South Oxfordshire District Council, marked a significant step in the evolution of software service provision in the leisure sector. It also represents a benchmark for the delivery of specialised ASP services in niche markets.
- In early December, as part of our restructuring we announced the consolidation of our business from Egham into our Wallingford office. Restructuring our business over the last year has led to an employee reduction of 30%. Centralising our team will make our business easier to manage, ensure closer working relationships and lead to significant cost savings.

These achievements are a tribute to the experience, skill and dedication of our employees.

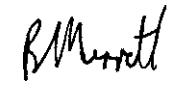
SUMMARY AND OUTLOOK

As the health and fitness sector matures, operators are becoming increasingly focused on releasing the value held in their membership databases – improving retention levels and increasing the yield per member.

Gladstone MRM is ideally placed to meet these market requirements having developed and launched specifically designed products and services.

Furthermore, by focusing on the delivery of a primary membership software solution considerable economies of scale across the operation will be realised as clients migrate from a range of acquired legacy systems to the new unified platform.

The provision of software and services through the ASP infrastructure represents an important milestone for the market sector supplied by Gladstone MRM. For the Gladstone Group it represents an exciting opportunity to demonstrate ASP potential in a dynamic niche sector.



Ben Merrett

CHIEF EXECUTIVE OFFICER

11 January 2002

DIRECTORS' REPORT - FOR THE 14 MONTH PERIOD ENDED 31 AUGUST 2001

The directors present their annual report and the audited financial statements of the Group and of the Company for the 14 months ended 31 August 2001.

Activities and review of business

During the period the Company has successfully completed the acquisition of three companies as well as the demerger of the Ge.world division. Further details of these acquisitions and the demerger can be found below and in the notes to the financial statements. The Group has now developed into a leading supplier of customer relationship management software to the leisure sector. Further details regarding the Group's activities can be found in the Non-Executive Chairman's Statement on page 4 and in the Chief Executive Officer's Report on page 5.

Note 13 to the financial statements contains a list of the company's subsidiaries at 31 August 2001.

Results and dividends

The results for the 14 month period are shown on page 18 and are discussed in more detail in the Chief Executive Officer's Report.

The Group reports a loss before taxation of £3,654,595 (2000: £137,610 profit) before amortisation of goodwill and exceptional items. After providing for the amortisation of goodwill and exceptional items, the Group's loss before taxation is £16,336,496 (2000: £3,664,681). The exceptional items in the period are summarised below:

- Goodwill amortisation for the period was £7,459,304 and 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 is being written off over the useful economic lives of 1 to 5 years (see note 11).
- An impairment review of the Gladstone MRM division under the requirements of Financial Reporting Standard 11 'Impairment of fixed assets and goodwill' has resulted in a charge of £3,075,727 (see note 11).
- Reorganisation and redundancy costs of £1,197,791 have resulted from a significant cost cutting exercise carried out in the period (see note 3a).
- Development and license costs of £326,207 on abortive projects have been written off.
- An exceptional bad debt of £132,961 was incurred when a customer went into receivership.
- Costs of the Group's capital restructuring and its share of the demerger costs amounted to £300,000 (see note 3a).
- A provision of £189,911 for losses on fixed assets has been made at the period end in connection with vacating the leasehold property in Egham (see note 12).

The directors do not recommend the payment of a dividend.

Summary of changes to the Group's structure and the Company's share capital

On 5 July 2000, by approval of the High Court, the Company cancelled its 144,000,000 deferred shares of 0.9p each, which had a value of £1,296,000, through the creation of a special reserve account of the same value.

On 3 October 2000, the Company acquired the entire share capital of Membertrack Limited for £8,546,808. Membertrack competed with Gladstone MRM (formerly Ge.cache and Microcache) for the provision of membership management software to the leisure sector. The consideration was satisfied by the payment of £3.25 million in cash and by the issue to the vendors of 2,765,957 Gladstone ordinary shares of 10p each at 191.5p per share.

On 12 December 2000, the Company acquired the entire issued share capital of DLG Software Services Limited, a software localisation business based in Ireland. The consideration was £4,148,150 of which £2,792,186 was settled by the Company and the balance of £1,355,964 was settled by its subsidiary Ge.world Limited in Ireland. The Company's consideration was satisfied by the payment of £211,926 in cash and by the issue to the vendors of 1,664,684 Gladstone ordinary shares of 10p each at 155p per share.

On 18 December 2000, the Company acquired the entire issued share capital of Fit Club Limited, a specialist health and fitness web development company, for £400,000. The consideration was satisfied by the payment of £150,000 in cash and by the issue to the vendors of 178,190 Gladstone ordinary shares of 10p each at 140.3p per share.

On 21 June 2001, Transware plc (a new company formed for the purposes of the demerger) acquired from the Company the entire issued share capital of the Group's two Irish subsidiaries, Ge.world Limited and DLG Software Services Limited, the details of which are set out in the Circular dated 27 April 2001 issued to the shareholders of the Company. In consideration for the demerger, Transware plc allotted and issued one of its shares, credited as fully paid, to the shareholders of the Company in respect of each Gladstone ordinary share held at 21 June 2001, the effective date of the demerger. Transware plc was then admitted to the Official List of the London Stock Exchange.

The demerger has been treated as a distribution and classified as a demerger dividend on the consolidated profit and loss account. The demerger dividend comprises the net assets of the Irish subsidiaries and the book value of the goodwill in respect of the demerged subsidiaries at the date of the demerger.

Further details of Gladstone's share capital, its share premium account and its reserves can be found in notes 19 and 20 to the financial statements.

Directors

The following directors held office during the period:

Brian K Raven	(Resigned 30 November 2001)
Oliver C Cooke	(Resigned 30 November 2001)
Alastair J Kerr	(Appointed 21 August 2001)
James T Middlehurst	(Resigned 24 July 2001)
The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt	
Anthony Carlton	

Subsequent to 31 August 2001, the following directors were appointed:

Ben Merrett	(Appointed 5 November 2001)
Simon Preston	(Appointed 5 November 2001)
Jeremy Stokes	(Appointed 5 November 2001)

The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt and Anthony Carlton resigned as Non-Executive Directors of the Company on 31 December 2001.

At the forthcoming Annual General Meeting which was convened on 21 December 2001 and adjourned until 7 February 2002, Messrs Merrett, Preston, Stokes and Kerr, all of whom have been appointed to the Board since the last Annual General Meeting of the Company, will offer themselves for election.

The biographical details of the recently appointed directors are as follows:

Ben Merrett (aged 39), Chief Executive Officer

Ben is a graduate of Warwick University and Sandhurst who also 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.

Alastair Kerr (aged 37), Managing Director, Gladstone MRM Limited

Alastair Kerr is a graduate of the University of Ulster and Loughborough University. Alastair has 14 years experience supplying IT to the retail and leisure sectors. He founded a start up EpoS Company in Aberdeen in 1990 which was subsequently acquired by Microcache Limited. Alastair has worked closely with Microcache since 1993 shadowing its rapid growth to its acquisition by Gladstone in 1999. Prior to assuming the MD position he previously held senior management positions in Gladstone MRM as Head of Customer Services, Business Development Director International and Sales Director.

Simon Preston (aged 41), Non-Executive Chairman

Simon is a Cambridge graduate who spent nine years in the oil industry and six years in the utility sector before co-founding Telinco plc, a telecoms/internet company, in 1996. In January 2001 the business was sold to World Online UK Limited for some £130 million and Simon then helped the acquirers to increase the value of their UK business. Simon continues to serve as a Non-Executive director of Tiscali UK, the company that subsequently acquired World Online UK Limited.

Jeremy Stokes (aged 40), Non-Executive Director

Jeremy is an experienced entrepreneur who has founded, developed and sold a number of businesses and who 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 earlier this year when he left to pursue other business interests. Jeremy currently serves on the boards of Flexia plc, Reality Computing Limited, IS Distribution Limited and Imagineer Software Limited.

Directors' interests

The beneficial interests in the issued share capital of the Company of the directors who held office at 31 August 2001 were as follows:-

	31 August 2001 Ordinary shares of 10p each		30 June 2000 Ordinary shares of 10p each	
	Number	**Percentage of issued ordinary share capital**	Number	Percentage of issued ordinary share capital
Brian K Raven	**1,320,006**	**3.85**	872,410	2.99
Oliver C Cooke	**582,608**	**1.70**	436,204	1.49
Alastair J Kerr	**28,000**	**0.08**	-	-
The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt	**250,000**	**0.73**	149,946	0.51
Anthony Carlton	**120,000**	**0.35**	49,982	0.17

In December 2001, The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt purchased 8,800 ordinary shares.

The mid-market price of the Company's shares on 31 August 2001 was 17 pence.

None of the directors had any interests in the share capital of any of the Company's subsidiaries at 31 August 2001.

The Company has established two share option schemes for the benefit of directors and employees, the "Gladstone plc 1999 Approved Share Option Scheme" and the "Gladstone plc 1999 Unapproved Share Option Scheme". In addition, certain directors have been granted share options that fall outside the scope of these schemes but which have been approved by the Company's shareholders.

The directors' interests in share options at 31 August 2001 were as follows:

i) *Options approved by shareholders:*	Number of options	Exercise price	Date of grant
Brian K Raven	**1,684,000**	37.5p	16/3/99
	81,081	46p	16/3/99
	754,401	125p	16/3/99
	2,519,482		
Oliver C Cooke	**842,000**	37.5p	16/3/99
	40,541	46p	16/3/99
	377,201	125p	16/3/99
	1,259,742		

The above options could have been exercised at any time before 16 March 2004. However, when Brian K Raven and Oliver C Cooke resigned on 30 November 2001, the above options were waived.

The other directors' interests in options approved by shareholders at 31 August 2001 were as follows:

The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt	**50,000**	37.5p	21/9/99
Anthony Carlton	**5,000**	37.5p	21/9/99

The above options could have been exercised at any time up to 21 September 2008. However, when The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt and Anthony Carlton resigned on 31 December 2001, the above options were waived.

ii) *Approved Options:*	Number of options	Exercise price	Date of grant
Alastair Kerr	**200,000**	14p	26/6/01

iii) *Unapproved Options:*	Number of options	Exercise price	Date of grant
Alastair Kerr	**250,000**	23p	27/7/01

50,000 of the approved options are exercisable from June 2003 and the remaining 150,000 approved options are exercisable from June 2004. The unapproved options are exercisable from 27 July 2004.

Ben Merrett, who was appointed as the Chief Executive Officer on 5 November 2001, currently has 240,000 unapproved options which are exercisable at 14p at any time up to 26 February 2002. These options have now been waived.

The following share options were exercised by directors during the 14 month period under review:

	Number of options	Exercise price	Gain
Brian K Raven	**282,596**	10p	268,466
Oliver C Cooke	**141,404**	10p	134,333
	424,000		402,799

The above options were exercised on 1 June 2001 when the market price of the shares was 105p per share.

There have not been any other changes in the interests of the directors in the share capital of the Company between 31 August 2001 and the date on which these financial statements were signed.

Interests in contracts

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

Substantial shareholdings

The directors have been notified, or are aware of the following interests in 3% or more of the ordinary share capital of the Company at 17 December 2001.

	Ordinary shares of 10p each	
	Number	Percentage
BNY (OCS) Nominees Limited	1,132,156	3.3
Nutraco Nominees Limited	1,881,080	5.5
Pershing Keen Nominees Limited	1,098,460	3.2

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 2001 the Group average creditor days was 49 (2000: 46 days).

Employment policy

During the period, 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 11 to 13 to the financial statements.

Research and development

During the period, the Group incurred a significant amount of expenditure on research and development of products for resale. £251,000 was capitalised as development costs (see note 11) and £1,630,000 was written off to the profit and loss account as development costs that did not meet the requirements for being capitalised under the Statement of Standard Accounting Practice 13 'Research and development'.

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 adjourned Annual General Meeting.

Annual General Meeting

Your Company sent out to its shareholders the notice of the Annual General Meeting in respect of this financial year on 28 November 2001. This meeting was opened, as stated in the notice, at 11am on 21 December 2001, but adjourned in order that shareholders could have an opportunity to consider the report and accounts before proceeding with the formal business of the meeting. Now that the Company has sent to you these accounts, a notice of the adjourned Annual General Meeting, which states the new date, time and place for it to be reconvened is set out at the end of this document.

The form of proxy which was sent out to you with the original notice remains valid for the reconvened meeting. Provided that you have sent in your form of proxy and you do not wish to change your vote, you need not send in a further form of proxy. If you have not sent in a form of proxy in respect of the Annual General Meeting or wish to change your vote, please complete and send in the form of proxy enclosed with these accounts so as to arrive no later than 48 hours before the time of the reconvened meeting. If you require a copy of the circular which accompanied the original notice of meeting, please contact the Company's registrars on 0870 1623100.

Extraordinary General Meeting

Notice of an Extraordinary General Meeting ("EGM") to be held immediately after the adjourned Annual General Meeting is set out on page 44. The Resolution to be proposed at the EGM seeks shareholder approval for the adoption of an Enterprise Management Incentive Scheme (the "EMI" Scheme"). The principal terms of the proposed EMI scheme are set out in the Appendix to this document.

It is as a joint result of the demerger in June 2001 and the recent changes to the rules relating to EMI schemes that has put the Company in a position to establish such a scheme. The directors believe that the incentives to employees provided by such a scheme will be of benefit to the Company.

In common with the Company's other schemes, the EMI Scheme rules provide that no EMI Option may be granted if immediately following the grant of such option the aggregate nominal value of ordinary shares issued under the EMI Scheme or any other Company share scheme in the immediately preceding period of ten years would exceed 15 per cent. of the issued ordinary share capital of the Company from time to time.

The directors believe that the adoption of the EMI Scheme should benefit the Company and its employees at no additional cost to Shareholders.

By order of the Board

Nicholas Montgomery

COMPANY SECRETARY

11 January 2002

Combined Code

The purpose of this statement is to explain how the Company has applied the principles set out in Section 1 of the Combined Code of Practice on Corporate Governance ("the Combined Code"). In the opinion of the directors, the Company has complied with all the provisions of the Combined Code, except for those as detailed in the sections below.

Board of directors and committees

During the period the Board consisted of three executive directors and two non-executive directors who met regularly. The new team of directors appointed recently comprises two executive directors and two non-executive directors (one of whom is the Non-Executive Chairman). At least one-third of the Board comprised non-executive directors, as recommended by provision A.3.1 of the Combined Code.

The roles of Chairman and Chief Executive were combined and were held by Brian K Raven during the period and were not held by two separate directors as required by the Combined Code. Subsequent to 31 August 2001, a separate Non-Executive Chairman and a Chief Executive Officer were appointed and there is a clear division of their roles.

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 will be 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. Re-appointment of non-executive directors is not automatic.

Simon Preston has been nominated the senior independent director.

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

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. It comprises Simon Preston and Jeremy Stokes.

Due to the small size of the Board, the audit committee has fewer non-executive directors than recommended by the Combined Code.

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 believe 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. This committee comprises the two non-executive directors, Simon Preston and Jeremy Stokes.

CORPORATE GOVERNANCE

The remuneration and terms and conditions of appointment of the non-executive directors is determined by the Board. The Company intends to grant share options over relatively small numbers of ordinary shares to non-executive directors from time to time.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Combined Code introduced a requirement for directors to review, at least annually, the effectiveness of the Group's system of internal controls. This requirement extends beyond a review of the system of internal financial controls to encompass the areas of finance, operations, compliance, and risk management.

Guidance for directors is contained in "Internal control: Guidance for Directors on the Combined Code" ("the Turnbull guidance"), which was published in September 1999.

Due to the changes in the composition of the Board and considerable time being spent in carrying out the group reorganisation, demerger and group reconstruction during the period the Board was not able to carry out a formal review of the internal controls in the period under review. The Board believes that they would be able to establish procedures necessary to implement the Turnbull guidance during the year ending on 31 August 2002, which will result in a formal review of the Group's internal controls being carried out.

The directors have carried out only an informal review of the effectiveness of the Group's system of internal financial controls during the period.

The key elements of a control system are considered to be:

- A comprehensive budgeting system with an annual budget approved by the Board.
- Actual results compared on a monthly basis with budgets and past results as appropriate.
- Identification of business risks faced by the group and determination of the appropriate course of action to manage those risks.
- All significant capital expenditure and organisational changes reviewed and approved by the Board.
- A defined organisation structure including the specification of accountability and delegated authority.
- The integrity and competence of personnel is ensured through high recruitment standards and subsequent training.
- High quality personnel are seen as an essential part of the control environment.

The majority of the above points have been addressed during the period and the directors believe that they have been dealt with effectively.

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. Effective two-way communication with institutional investors and with analysts is achieved via the company's website and presentations. Presentations by the directors to institutional shareholders and City analysts are made on the issue of full year and interim results and 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. It is intended that the Chairman of the audit committee and of the remuneration committee will be available at the Annual General Meeting to answer relevant questions from shareholders. Further information regarding the group can be found on the Company's website at www.gladstoneplc.com.

Simon Preston

NON-EXECUTIVE CHAIRMAN

11 January 2002

REPORT OF THE REMUNERATION COMMITTEE

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 the Company's two non-executive directors, Simon Preston and Jeremy Stokes.

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 Alastair Kerr, which is subject to 6 months' notice by either party. The service contract provides for a basic annual salary of £100,000, as well as bonuses of a minimum of 25 per cent. and pension contributions of 10 per cent. and other benefits such and medical and life insurance schemes.

Ben Merrett does not have a service contract with the Company but is employed at a basic annual salary of £110,000 as well as pension contributions of 10 per cent. of the basic salary and other benfits such as medical and life insurance schemes.

Directors' emoluments for the 14 month period to 31 August 2001

	Salary and fees	Benefits in kind £	Bonus £	Termination costs £	**14 months ended 31 August 2001 Total £**	Year ended 30 June 2000 Total £
Executive Directors:						
Brian K Raven	227,756	20,635	50,000	35,000	**333,391**	202,279
Oliver C Cooke	155,818	7,410	34,000	25,000	**222,228**	137,923
James T Middlehurst	151,015	5,237	32,100	167,100	**355,452**	32,775
Alastair J Kerr	-	-	-	-	**-**	-
Non-Executive Directors:						
The Rt. Hon. Lord Sheppard of Didgemere KCVO, Kt	40,500	-	-	-	**40,500**	33,000
Anthony Carlton	34,545				**34,545**	22,000
Francis W Cook	-	-	-	-	**-**	4,715
Total emoluments excluding pension contributions	609,634	33,282	116,100	227,100	**986,116**	432,692
Total pension contributions					**51,940**	24,800
Total emoluments including pension contributions					**1,038,056**	457,492

Pension contributions

The pension contributions paid during the period ended 31 August 2001 were as follows:

	£
Brian K Raven	21,322
Oliver C Cooke	15,028
James T Middlehurst	15,590
Alastair J Kerr	-
	51,940

Further details of directors remuneration during the year is set out in note 10 to the financial statements which forms a part of this report.

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 period and the gains arising can be found in the directors' report.

Simon Preston

CHAIRMAN OF THE REMUNERATION COMMITTEE

11 January 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

We have audited the financial statements of Gladstone plc for the 14 months ended 31 August 2001 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable 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, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the 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 mis-statements 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.

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 mis-statement, 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 2001 and of the Group's loss for the 14 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

Hacker Young

Hacker Young
CHARTERED ACCOUNTANTS
REGISTERED AUDITOR

11 January 2002

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE 14 MONTH PERIOD ENDED 31 AUGUST 2001

	Notes	Fourteen months ended 31 August 2001 Before goodwill and exceptional items £	Goodwill and exceptional items £	Total £	Year ended 30 June 2000 £
Turnover	2				
Continuing operation		6,022,092	-	**6,022,092**	3,887,375
Acquisitions		2,520,929	-	**2,520,929**	-
		8,543,021	-	**8,543,021**	3,887,375
Discontinued operations		9,283,336	-	**9,283,336**	1,920,119
Group turnover		17,826,357	-	**17,826,357**	5,807,494
Cost of sales	3b)	(4,592,686)	-	**(4,592,686)**	(1,459,160)
Gross profit	3b)	13,233,671	-	**13,233,671**	4,348,334
Other operating income		-	-	-	13,100
Administrative expenses excluding amortisation *and impairment of goodwill, reorganisation* costs and other exceptional items		(17,082,612)	-	**(17,082,612)**	(4,441,987)
Amortisation of goodwill	11	-	(7,459,304)	**(7,459,304)**	(3,802,291)
Impairment of goodwill	11	-	(3,075,727)	**(3,075,727)**	-
Reorganisation and redundancy costs	3a)	-	(1,197,791)	**(1,197,791)**	-
Other exceptional items	3a)	-	(459,168)	**(459,168)**	-
Total administration expenses	3b)	(17,082,612)	(12,191,990)	**(29,274,602)**	(8,244,278)
Operating loss	*3a)*				
Continuing operations		(5,446,862)	(5,136,755)	**(10,583,617)**	(3,677,782)
Acquisitions		(346,417)	(3,446,651)	**(3,793,068)**	-
Discontinued operations		1,944,338	(3,608,584)	**(1,664,246)**	(205,062)
		(3,848,941)	(12,191,990)	**(16,040,931)**	(3,882,844)
Demerger costs	3a)	-	(300,000)	**(300,000)**	-
Provision for loss on fixed assets	12	-	(189,911)	**(189,911)**	-
Loss on ordinary activities before interest		(3,848,941)	(12,681,901)	**(16,530,842)**	(3,882,844)
Interest receivable	4	318,129	-	**318,129**	239,235
Interest payable	5	(123,783)	-	**(123,783)**	(21,072)
Loss on ordinary activities before taxation		(3,654,595)	(12,681,901)	**(16,336,496)**	(3,664,681)
Taxation	6	(175,160)	-	**(175,160)**	(39,774)
Loss on ordinary activities after taxation		(3,829,755)	(12,681,901)	**(16,511,656)**	(3,704,455)
Dividends - demerger	7	-	(15,414,758)	**(15,414,758)**	-
Loss for the period	22	(3,829,755)	(28,096,659)	**(31,926,414)**	(3,704,455)
Loss per ordinary share (pence)	8				
Basic				**(50.66p)**	(24.36p)
Before goodwill and exceptional items				**(11.75p)**	0.64p
Diluted				**(47.45p)**	(21.29p)

The amounts relating to the discontinued operations are in respect of the companies demerged during the period.

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES
FOR THE 14 MONTH PERIOD ENDED 31 AUGUST 2001

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Loss for the financial period	**(16,511,656)**	(3,704,455)
Exchange differences on retranslation of net assets of subsidiary undertakings	-	56,808
Total recognised gains and losses relating to the period	**(16,511,656)**	(3,647,647)

CONSOLIDATED BALANCE SHEET
AS AT 31 AUGUST 2001

	Notes	31 August 2001 £	31 August 2001 £	30 June 2000 £	30 June 2000 £
Fixed assets					
Intangible assets	11		**8,245,025**		18,195,109
Tangible assets	12		**1,836,758**		2,042,127
			10,081,783		20,237,236
Current assets					
Stocks	14	**155,243**		173,585	
Debtors	15	**2,327,155**		2,942,076	
Cash at bank and in hand		**3,586,999**		11,792,612	
		6,069,397		14,908,273	
Creditors: amounts falling due within one year	16	**(4,561,510)**		(2,801,121)	
Net current assets			**1,507,887**		12,107,152
Total assets less current liabilities			**11,589,670**		32,344,388
Creditors: amounts falling due after more than one year	17		**(3,236,240)**		(223,946)
Provisions for liabilities and charges	18		**-**		(32,675)
Minority interests			**-**		(8,277)
Net assets			**8,353,430**		32,079,490
Capital and reserves					
Called up share capital	19		**3,426,417**		4,215,353
Share premium account	20		**13,353,074**		33,641,315
Special reserve	20		**4,667,133**		-
Merger reserve	20		**2,148,000**		2,148,000
Profit and loss account	20		**(15,241,194)**		(7,925,178)
Shareholders' funds					
- equity interests	22		**8,353,430**		32,079,490

The financial statements were approved by the Board on 11 January 2002.

Simon Preston
NON-EXECUTIVE CHAIRMAN

Ben Merrett
CHIEF EXECUTIVE OFFICER

COMPANY BALANCE SHEET
AS AT 31 AUGUST 2001

	Notes	31 August 2001 £	31 August 2001 £	30 June 2000 £	30 June 2000 £
Fixed assets					
Tangible assets	12		**444,300**		178,515
Investments	13		**4,712,154**		23,734,447
			5,156,454		23,912,962
Current assets					
Debtors	15	**5,312,680**		721,492	
Cash at bank and in hand		**2,956,334**		10,815,135	
		8,269,014		11,536,627	
Creditors: amounts falling due within one year	16	**(1,419,629)**		(467,824)	
Net current assets			**6,849,385**		11,068,803
Total assets less current liabilities			**12,005,839**		34,981,765
Creditors: amounts falling due after more than one year	17		**(3,218,322)**		(31,765)
Provisions for liabilities and charges	18		-		(10,175)
Net assets			**8,787,517**		34,939,825
Capital and reserves					
Called up share capital	19		**3,426,417**		4,215,353
Share premium account	20		**13,353,074**		33,461,315
Special reserve	20		**4,667,133**		-
Merger reserve	20		**2,148,000**		2,148,000
Profit and loss account	20		**(14,807,107)**		(5,064,843)
Shareholders' funds					
- equity interests			**8,787,517**		34,939,825

The financial statements were approved by the Board on 11 January 2002.

Simon Preston
NON-EXECUTIVE CHAIRMAN

Ben Merrett
CHIEF EXECUTIVE OFFICER

CONSOLIDATED CASHFLOW STATEMENT
FOR THE 14 MONTH PERIOD ENDED 31 AUGUST 2001

	Notes	14 months ended 31 August 2001 £	14 months ended 31 August 2001 £	Year ended 30 June 2000 £	Year ended 30 June 2000 £
Net cash outflow from operating activities	23		**(2,366,534)**		(203,181)
Returns on investments and servicing of finance					
Interest received		**318,129**		239,235	
Interest paid		**(51,600)**		(1,609)	
Finance lease charges		**(72,183)**		(19,463)	
Net cash inflow from returns on investments and servicing of finance			**194,346**		218,163
			(2,172,188)		14,982
Taxation paid			**(92,602)**		-
Capital expenditure					
Purchase of tangible fixed assets		**(1,677,886)**		(423,158)	
Receipts from sales of fixed assets		**24,826**		12,773	
Development costs capitalised		**(250,695)**		(226,207)	
Net cash outflow for capital expenditure			**(1,903,755)**		(636,592)
Acquisitions and demerger					
Purchase of subsidiaries	26	**(5,506,893)**		(17,457,471)	
Cash acquired with subsidiaries		**283,798**		478,772	
Further investments in subsidiaries		**(700)**		-	
Cash demerged with subsidiaries		**(3,136,666)**		-	
Costs of demerger		**(300,000)**		-	
Net cash outflow from acquisitions and demerger			**(8,660,461)**		(16,978,699)
Net cash outflow before financing			**(12,829,006)**		(17,600,309)
Financing					
Proceeds from issues of shares	27	**76,209**		30,540,920	
Costs of share issues		**(2,923)**		(1,276,971)	
Finance lease repayments		**(244,449)**		(50,465)	
Bank loan repayments		**(55,444)**		(34,046)	
Bank loans received		**4,850,000**		-	
Net cash inflow from financing			**4,623,393**		29,179,438
(Decrease)/increase in cash	25		**(8,205,613)**		11,579,129

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 14 MONTH PERIOD ENDED 31 AUGUST 2001

1. Accounting policies

The significant accounting policies, which have been consistently applied in preparing the financial statements are as follows:

1.1 Demerger and accounting reference date

On 28 February 2001 the Company announced its intention to demerge its subsidiaries operating in Ireland. For this purpose it carried out a Group reconstruction prior to the demerger whereby its subsidiary Ge.world Limited ("Ge.world UK" - a company registered in England and Wales) acquired two of the Company's Irish subsidiaries, Ge.world Limited and DLG Software Services Limited and their subsidiaries, Transware Development Limited, Transatlantic Localisation Inc and DLG Software Services Inc.

On 21 June 2001 Transware plc (a new company formed for the purposes of the demerger) acquired from the Company the entire issued share capital of Ge.world UK, the details of which are set out in the Circular dated 27 April 2001 issued to shareholders of the Company.

In consideration for the acquisition of the Ge.world UK shares, Transware plc allotted and issued one of its shares, credited as fully paid, to the shareholders of the Company in respect of each Gladstone plc share held at 21 June 2001, the effective date of the demerger. Transware plc was then admitted to the Official List of the London Stock Exchange.

The demerger has been accounted for as a distribution and shown as a demerger dividend on the consolidated profit and loss account. The demerger dividend comprises the net assets of the demerged Irish subsidiaries and the attributed goodwill in respect of these subsidiaries at the date of the demerger.

Following the demerger the Company changed its accounting reference date from 30 June to 31 August. This change was made to emphasise the distinction between the Company and Transware plc going forward and to smooth the logistics of financial reporting of these companies in the future.

1.2 Basis of preparation

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

1.3 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.

1.4 Merger relief

When the Company acquires another company, by means of share for share exchange, the merger relief provisions of the Companies Act 1985 are applied, and the difference between the nominal value of the shares issued by the Company and the fair value of those shares are taken to a merger reserve account in the Company's balance sheet.

1.5 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 (see note 11). 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.

1.6 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.

1.7 Turnover

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

1.8 Investments

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

1.9 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on the reducing balance basis 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%
Short leasehold properties	over the period of the leases
Office equipment and computers	20 - 33 1/3%
Fixtures and fittings	15 - 25%
Motor vehicles	25%

1.10 Stocks

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

1.11 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.

1.12 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the accounting date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All exchange differences are taken to the profit and loss account as incurred.

1.13 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 shorter of the project life or two years.

1.14 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

1.15 Pensions

Payments to defined contribution pension schemes are charged to the profit and loss account as they become payable.

2. Segmental analysis

By Geographical area:

i) By countries in which business is conducted:

	14 months ended 31 August 2001				30 June 2000
	Continuing operations £	Acquisitions £	Discontinued operations £	**Total £**	Total £
United Kingdom	5,419,882	2,520,929	171,533	**8,112,344**	3,819,116
Europe	301,205	-	5,014,777	**5,315,982**	1,676,792
Rest of World	301,005	-	4,097,026	**4,398,031**	311,586
	6,022,092	2,520,929	9,283,336	**17,826,357**	5,807,494

ii) By source:

	Net assets		**Turnover**	
	***31 August 2001* £**	*30 June 2000* £	**14 months ended *31 August 2001* £**	Year ended *30 June 2000* £
United Kingdom	**8,353,430**	30,465,219	**8,543,021**	3,887,375
Europe – Ireland	**-**	1,614,271	**9,283,336**	1,920,119
	8,353,430	32,079,490	**17,826,357**	5,807,494

2. Segmental analysis

ii) By source (continued):

	Before goodwill and exceptional items	Goodwill amortisation and exceptional items	Loss before taxation Total 2001	Total 2000
	£	£	£	£
United Kingdom	(5,598,933)	(8,773,317)	**(14,372,250)**	(3,192,738)
Europe – Ireland	1,944,338	(3,908,584)	**(1,964,246)**	(471,943)
	(3,654,595)	(12,681,901)	**(16,336,496)**	(3,664,681)

3. a) Operating loss

		14 months ended 31 August 2001 £	Year ended 30 June 2000 £
The operating loss is stated after charging:			
i)	Amortisation of goodwill (note 11)	**7,459,304**	3,802,291
ii)	Impairment of goodwill (note 11)	**3,075,727**	-
iii)	Reorganisation and redundancy costs (see below)	**1,197,791**	-
iv)	Development and licence costs written off on abortive projects	**326,207**	-
v)	Exceptional bad debt	**132,961**	-
vi)	Depreciation on tangible fixed assets	**921,940**	202,187
vii)	Auditors' remuneration	**45,000**	35,000
viii)	Operating lease rentals - land and buildings	**284,657**	92,326
	- other	**86,216**	44,338
ix)	Hire of equipment	**-**	16,699

During the period ended 31 August 2001 the Group implemented a significant cost cutting exercise in order to align the Group's overhead base with the needs of the newly configured business following the demerger of the Transware businesses. The cost savings includes a significant reduction in the number of employees. The one off costs incurred amounted to £1,197,791 which has been fully provided in these financial statements.

The other exceptional items of £459,168 shown on the consolidated profit and loss account comprises items (iv) and (v) above.

Fees paid to the auditors for non-audit work during the period amounted to £140,000 of which £116,000 related to capital transactions and corporate finance work.

The costs of the Group's capital restructuring and its share of the demerger costs amounted to £300,000 and has been shown on the face of the consolidated profit and loss account as an exceptional item.

3. b) Cost of sales, gross profit and administrative expenses are analysed between continuing operations, acquisitions and discontinued operations as follows:

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Cost of sales		
Continuing	**1,729,322**	1,030,348
Acquisitions	**740,299**	-
Discontinued	**2,123,065**	428,812
	4,592,686	1,459,160
Gross profit		
Continuing	**4,292,770**	2,857,027
Acquisitions	**1,780,630**	-
Discontinuing	**7,160,271**	1,491,307
	13,233,671	4,348,334
Other operating income		
Continuing	-	13,100
Acquisitions	-	-
Discontinuing	-	-
	-	13,100
Administrative expenses		
Continuing	**14,876,387**	6,547,909
Acquisitions	**5,573,698**	-
Discontinued	**8,824,517**	1,696,369
	29,274,602	8,244,278

4. Interest receivable

	14 months ended 31 August 2001	Year ended 30 June 2000
Bank interest	**£ 318,129**	£ 239,235

5. Interest payable

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
On bank loans and overdrafts	**45,835**	1,609
On hire purchase and finance lease agreements	**72,183**	19,463
Other interest	**5,765**	-
	123,783	21,072

6. Taxation

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
UK Deferred tax credit	**(22,500)**	2,500
Overseas corporation tax - Ireland	**197,660**	37,274
	175,160	39,774

7. Dividends

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Ordinary dividend	-	-
Demerger dividend	**15,414,758**	-
	15,414,758	-

In the context of the demerger (see note 1.1), the demerger of Ge.world UK and its subsidiaries is treated as a distribution and classified as demerger dividend. The demerger dividend comprises the net assets of the Ge.world UK group and the attributed goodwill at the date of the demerger. The resolution to give effect to the demerger, which was passed at the Extraordinary General Meeting of the Company on 21 May 2001, effectively approved a dividend on the ordinary shares of the Company which was to be the carrying value of the Company's investment in Ge.world UK at the date of the demerger. At 21 June 2001, the carrying value of the investment was £17,438,648 (see note 13).

The demerger dividend in respect of the group is calculated as follows:	£
Tangible fixed assets	**1,400,957**
Stocks	**184,671**
Debtors	**2,431,974**
Cash at bank	**3,136,666**
Creditors - Ordinary	**(2,164,428)**
Creditors - Hire purchase	**(313,428)**
Creditors - Bank loan	**(1,600,000)**
	3,076,412
Goodwill net of amortisation	**12,338,346**
Demerger dividend	**15,414,758**

8. Loss per ordinary share

The basic loss per ordinary share has been calculated using the loss for the period and the weighted average number of ordinary shares in issue during the period as follows:

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Loss for the period	**(16,511,656)**	(3,704,455)
	Number	Number
Weighted average of ordinary shares of 10p each	**32,592,652**	15,206,763
Basic loss per share (pence)	**(50.66p)**	(24.36p)

The basic loss per share before goodwill amortisation and exceptional items 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 loss per share as follows:

	2001	2000
Basic loss per share (pence)	**(50.66)**	(24.36)
Goodwill and exceptional items per share	**38.91**	25.00
(Loss)/earnings per share before goodwill amortisation and exceptional items	**(11.75p)**	0.64p

8. Loss per ordinary share (continued)

The diluted loss per ordinary share, as defined in Financial Reporting Standard 14 'Earnings per share' ("FRS 14"), has been calculated on the following basis:

	2001 £	2000 £
Loss for the period	**(16,511,656)**	(3,704,455)
	Number	Number
Weighted average of ordinary shares in issue as above	**32,592,652**	15,206,763
Dilution for share options outstanding	**2,208,222**	2,193,787
Diluted weighted average number of shares in issue	**34,800,874**	17,400,550
Diluted loss per share (pence)	**(47.45)**	(21.29p)

9. Employees

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Wages and salaries	**8,214,330**	2,276,324
Social security costs	**848,458**	236,275
Pension costs	**238,056**	138,014
Termination and redundancy costs (see note 3a)	**1,197,791**	-
	10,498,635	2,650,613

The wages and salaries costs of £8,214,330 shown above are after a deduction of £73,849, in respect of costs capitalised in development costs in the period (note 11).

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

	2001 £	2000 £
Office and administration	**83**	21
Production	**201**	140
Sales and marketing	**28**	16
Development and training	**54**	45
	366	222

10. Directors' emoluments

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Emoluments for qualifying services:		
Executive directors' - salaries and bonuses	**650,689**	366,489
- benefits	**33,282**	6,488
Non-executive directors' fees	**75,045**	59,715
	759,016	432,692
Termination and redundancy costs	**227,100**	-
Pension contributions	**51,940**	24,800
	1,038,056	457,492

10. Directors' emoluments (continued)

Emoluments disclosed above include amounts paid to:

		14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Highest paid director	- salaries, bonus and benefits	**298,391**	202,279
	- pension contributions	**21,322**	13,274
		319,713	215,553

The number of directors for whom retirement benefits were accruing under money purchase pension schemes in the period was 3 (2000 – 3).

Details of the share options exercised by directors during the period under review are shown in the Directors' Report.

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.

11. Intangible fixed assets

Group	Goodwill £	Development costs £	**Total £**
Cost			
At 1 July 2000	21,771,193	226,207	**21,997,400**
Additions in the period (see note 13 and below)	12,898,105	250,695	**13,148,800**
Adjustment arising from adjustments to cost of acquisition of subsidiaries acquired in 2000	700	-	**700**
Demerger of Ge.world UK and its subsidiaries	(16,793,169)	-	**(16,793,169)**
At 31 August 2001	17,876,829	476,902	**18,353,731**
Amortisation			
At 1 July 2000	3,802,291	-	**3,802,291**
Charge for the period	7,459,304	226,207	**7,685,511**
Impairment of goodwill in respect of Ge.MRM division	3,075,727	-	**3,075,727**
Demerger of Ge.world UK and its subsidiaries	(4,454,823)	-	**(4,454,823)**
At 31 August 2001	9,882,499	226,207	**10,108,706**
Net book values			
At 31 August 2001	7,994,330	250,695	**8,245,025**
At 30 June 2000	17,968,902	226,207	**18,195,109**

a) Goodwill is amortised over the period which the directors estimate will represent its useful economic life. In the directors' opinion the value of goodwill acquired on the acquisition of an entity is significantly influenced by the development of that business post acquisition and that its intrinsic life span is therefore limited. The periods over which goodwill is being amortised range from one year to five years and reflect the directors' plans for the development of the acquired entities.

b) The Gladstone MRM division was built around the acquisition of Gladstone MRM Limited in October 1999, Membertrack Limited in October 2000 and Fit Club Limited in December 2000. Due to the loss made by the division in the financial period and the expected extent of adverse impact of the division's recent reorganisation on its short term profitability, the directors believed that there were indications that the assets of the division might be impaired. Accordingly, they have carried out an impairment review under the requirements of Financial Reporting Standard 11 'Impairment of fixed assets and goodwill' ("FRS 11") to ensure that intangible and tangible fixed assets and goodwill relating to the business of Gladstone MRM division are not carried at a figure greater than their total recoverable amount. An assessment of the value in use of the Gladstone MRM division's business, based on a discount rate of 10.04% has resulted in an impairment charge of £3,075,727 to goodwill. This is disclosed as an exceptional item in arriving at the operating loss for the period. The residual book value is being amortised over its remaining estimated useful life of approximately three years.

c) The development costs amounting to £250,695 at 31 August 2001 have not been charged to the profit and loss account as the directors believe that they should be capitalised and amortised against income arising after 31 August 2001. Amortisation will be charged on the commencement of sales of the products over the shorter of the project life or two years.

12. Tangible fixed assets

Group	Freehold property £	Leasehold properties £	Fixtures & fittings £	Office equipment & computers £	Motor vehicles £	Total £
Cost						
At 1 July 2000	665,746	187,361	372,358	1,254,539	277,755	**2,757,759**
Acquired with subsidiaries	-	22,595	103,641	304,957	57,898	**489,091**
Additions	12,490	93,862	413,839	1,575,468	10,595	**2,106,254**
Disposals	-	-	(10,734)	(7,876)	(43,565)	**(62,175)**
Exchange adjustments	-	(1,926)	(7,486)	(37,540)	(695)	**(47,647)**
Transferred on demerger	-	(110,453)	(291,393)	(1,593,451)	(16,849)	**(2,012,146)**
At 31 August 2001	678,236	191,439	580,225	1,496,097	285,139	**3,231,136**
Depreciation						
At 1 July 2000	25,452	23,427	84,166	458,029	124,558	**715,632**
Acquired with subsidiaries	-	3,761	25,324	163,629	39,152	**231,866**
Charge for the period	15,667	94,368	130,457	607,794	73,654	**921,940**
Provision for diminution in value (see below)	-	121,911	68,000	-	-	**189,911**
On disposals	-	-	(7,538)	(7,877)	(23,072)	**(38,487)**
Exchange adjustments	-	(728)	(2,396)	(12,130)	(40)	**(15,294)**
Transferred on demerger	-	(51,300)	(76,226)	(480,350)	(3,314)	**(611,190)**
At 31 August 2001	41,119	191,439	221,787	729,095	210,938	**1,394,378**
Net book value						
At 31 August 2001	637,117	-	358,438	767,002	74,201	**1,836,758**
At 30 June 2000	640,294	163,934	288,192	796,510	153,197	**2,042,127**

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

	Fixtures & fittings £	Office equipment & computers £	Motor vehicles £	Total £
Net book values				
At 31 August 2001	**48,213**	**310,676**	**54,217**	**413,106**
At 30 June 2000	61,668	361,347	72,289	**495,304**
Depreciation charge for the period				
31 August 2001	**13,455**	**95,318**	**18,072**	**126,845**
30 June 2000	5,606	21,959	31,947	**59,512**

12. Tangible fixed assets (continued)

Company	Leasehold property £	Fixtures &fittings £	Office equipment and and computers £	Total £
Cost				
At 1 July 2000	55,387	119,058	27,736	**202,181**
Additions	21,083	86,811	382,590	**490,484**
Transfers from group companies	92,373	39,578	59,227	**191,178**
At 31 August 2001	168,843	245,447	469,553	**883,843**
Depreciation				
At 1 July 2000	6,894	12,007	4,765	**23,666**
Charge for the period	30,800	37,747	119,567	**188,114**
Provision for diminution in value (see below)	121,911	68,000	-	**189,911**
Transfers from group companies	9,238	15,928	12,686	**37,852**
At 31 August 2001	168,843	133,682	137,018	**439,543**
Net book value				
At 31 August 2001	-	111,765	332,535	**444,300**
At 30 June 2000	48,493	107,051	22,971	**178,515**

Subsequent to 31 August 2001, the Group vacated its leasehold property in Egham. The book values of the related leasehold improvements and fixtures and fittings have therefore been reduced to their realisable values. The resulting provision for diminution in value of the leasehold property and the fixtures and fittings totalled £189,911 and has been written off to the consolidated profit and loss account as an exceptional item.

13. Fixed asset investments

	Shares in subsidiary undertakings	
Company	**2001 £**	2000 £
Cost		
At 1 July 2000	**23,734,447**	393
Adjustment to cost of acquisition in respect of Gladstone MRM Ltd acquired in 2000	**(20,000)**	-
Acquisition of subsidiaries in the period	**12,033,961**	23,734,054
Further investments and related costs in existing wholly owned subsidiaries for cash	**1,002,021**	-
Demerger of subsidiaries	**(17,438,648)**	-
At 31 August 2001	**19,311,781**	23,734,447
Provision for impairment		
At 1 July 2000	**-**	-
Charge resulting from impairment loss	**(14,599,627)**	-
At 31 August 2001	**(14,599,627)**	-
Net book value	**4,712,154**	23,734,447

As explained in note 11b) above, the directors have carried out an impairment review of the business of the Gladstone MRM division in accordance with FRS 11. This has resulted in an impairment charge of £14,599,627 to the Company's cost of the investment in its subsidiaries.

13. Fixed asset investments (continued)

The main additions to the Company's investments during the period ended 31 August 2001 were as follows:

On 3 October 2000 the Company acquired the entire issued share capital of Membertrack Limited for £8,830,392, including costs.

On 12 December 2000 the Company acquired the entire issued share capital of DLG Software Services Limited. The consideration was £4,392,186, including costs, of which £2,792,186 was settled by the Company and the balance of £1,600,000 was settled by its subsidiary Ge.world Limited (Ireland).

On 18 December 2000 the Company acquired the entire issued share capital of Fit Club Limited for £411,383, including costs.

Further details of these acquisitions and the goodwill arising are shown below. The details in respect of the demerger of the subsidiaries are set out in notes 1.1 and 7.

The Group subsidiary undertakings at 31 August 2001 were as follows:

Name	Principal activity during the period	Percentage of equity capital held
Held directly:		
Gladstone MRM Limited (formerly Ge.cache Limited and Microcache Limited)	Membership facilities management systems	100%
Membertrack Limited	Membership facilities management systems	100%
The Fit Club Limited	Website development	100%
Ge.clear Limited	Internet and card payment services	100%
Electronic Club Limited	Development of web communities	100%
Torstar Limited	Dormant	100%
In4mation.net Limited	Dormant	100%
Cascade Management Consultants Limited	Dormant	100%
Ge.ware Limited	Dormant	100%
Ge.track Limited	Dormant	100%
Ge.mart Limited	Dormant	100%
Ge.cache Limited (formerly Ge.MRM Limited)	Dormant	100%
Held indirectly:		
Microcache (Scotland) Limited	Dormant	100%
Job4life.net Limited	Dormant	100%
Like4like.net Limited	Dormant	100%
Global Technology Software Limited	Dormant	100%

In May 2001, the trade, assets and liabilities of Membertrack Limited, The Fit Club Limited, Ge.clear Limited and Electronic Club Limited were transferred to Gladstone MRM Limited at their book values. These companies are therefore now dormant.

13. Fixed asset investments (continued)

The net assets/(liabilities) of the subsidiary companies acquired during the period ended 31 August 2001 and the goodwill arising were as follows:

	Book and fair value			
	Membertrack Limited £	DLG Software Services Limited Group £	The Fit Club Limited £	**Totals £**
Leasehold property	18,834	-	-	**18,834**
Other tangible fixed assets	147,284	91,107	-	**238,391**
Stocks	32,357	56,929	-	**89,286**
Debtors	1,045,806	215,084	22,148	**1,283,038**
Cash	187,847	95,501	450	**283,798**
Creditors	(974,176)	(166,017)	(37,298)	**(1,177,491)**
Net assets/(liabilities)	457,952	292,604	(14,700)	**735,856**
Goodwill arising on acquisition	8,372,440	4,099,582	426,083	**12,898,105**
Total value of consideration paid and costs incurred	8,830,392	4,392,186	411,383	**13,633,961**
The costs of acquisition were satisfied as follows:				
Fair values of shares issued to vendors	5,296,808	2,580,260	250,000	**8,127,068**
Cash paid to vendors:				
- by Company	3,250,000	211,926	150,000	**3,611,926**
- by subsidiary	-	1,355,964	-	**1,355,964**
Transaction costs paid:				
- by Company	283,584	-	11,383	**294,967**
- by subsidiary	-	244,036	-	**244,036**
	8,830,392	4,392,186	411,383	**13,633,961**

All acquisitions have been accounted for using the acquisition method of consolidation from their respective dates of acquisition.

The summarised profit and loss accounts of the entities for the period from the beginning of their financial years to the dates on which they were acquired are shown below together with the profits/(loss) after tax of their previous financial years:

	Membertrack Limited 1/7/00-3/10/00 £	DLG Software Services Limited Group 1/7/00-12/12/00 £	The Fit Club Limited incorporation to 18/12/00 £
Turnover	887,696	803,451	28,078
Operating profit/(loss)	(958,939)	52,329	(99,840)
Profit/(loss) after tax	(955,168)	45,431	(99,840)
	1/1/00-30/6/00	Year to 30/6/00	
Profit/(loss) after tax	(234,614)	210,195	n/a

The acquired companies had no recognised gains or losses in the above periods other than the profits/losses shown above.

14. Stocks

	Group		Company	
	31 August 2001 £	30 June 2000 £	**31 August 2001 £**	30 June 2000 £
Goods for resale	**155,243**	90,088	**-**	-
Work in progress	**-**	83,497	**-**	-
	155,243	173,585	**-**	-

15. Debtors

	Group		Company	
	31 August 2001 £	30 June 2000 £	**31 August 2001 £**	30 June 2000 £
Trade debtors	**1,956,822**	2,595,702	**-**	-
Other debtors	**80,885**	126,290	**117,316**	71,824
Prepayments and accrued income	**289,448**	220,084	**134,716**	31,839
Amounts due from subsidiaries	**-**	-	**5,060,648**	617,829
	2,327,155	2,942,076	**5,312,680**	721,492

The amounts due from subsidiaries in the Company's debtors are due in more than one year.

16. Creditors: amounts falling due within one year

	Group		Company	
	31 August 2001 £	30 June 2000 £	**31 August 2001 £**	30 June 2000 £
Bank loans (note 17)	**150,000**	55,444	**150,000**	-
Net obligations under finance leases (note 17)	**267,734**	206,677	**153,487**	22,428
Trade creditors	**1,428,312**	842,701	**690,861**	129,862
Corporation tax	**9,210**	101,812	**-**	-
Other taxes and social security costs	**139,120**	307,717	**11,807**	32,424
Other creditors	**24,980**	44,533	**16,650**	-
Accruals and deferred income	**2,542,154**	1,242,237	**396,824**	283,110
	4,561,510	2,801,121	**1,419,629**	467,824

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

	Group		Company	
	31 August 2001 £	30 June 2000 £	**31 August 2001 £**	30 June 2000 £
Bank loan	**3,100,000**	-	**3,100,000**	-
Net obligations under finance leases	**136,240**	223,946	**118,322**	31,765
	3,236,240	223,946	**3,218,322**	31,765

The bank loan incurs interest at 1% above the bank's base rate and is secured by a fixed and floating charge over all assets of the Group, by a charge over cash funds on deposit of £2,000,000 and by a Group cross guarantee encompassing all trading companies in the Group.

The bank loan is repayable as follows:

	£
Within one year (note 16)	150,000
Between one and two years	350,000
Between two and five years	2,200,000
In more than five years	550,000
	3,250,000

	Group		Company	
	31 August 2001 £	30 June 2000 £	**31 August 2001 £**	30 June 2000 £
Gross obligations under finance lease contracts:				
Repayable within one year	**241,117**	238,126	**174,585**	25,644
Repayable in one to two years	**200,915**	201,584	**134,383**	25,644
Repayable between two and five years	**34,102**	54,451	**-**	10,685
	476,134	494,161	**308,968**	61,973
Finance charges allocated to future accounting periods	**(72,160)**	(63,538)	**(37,159)**	(7,780)
	403,974	430,623	**271,809**	54,193
Included within liabilities falling due within one year	**(267,734)**	(206,677)	**(153,487)**	(22,428)
	136,240	223,946	**118,322**	31,765

The finance lease creditors are secured on the assets concerned.

18. Provision for liabilities and charges

Group	31 August 2001 £	30 June 2000 £
Provision for Employer's National Insurance based on notional gains in the value of employee share options	-	10,175
Provision for deferred tax at 30% (full provision)	-	22,500
	-	32,675

Company	31 August 2001 £	30 June 2000 £
Provision for Employer's National Insurance based on notional gains in the value of employee share options	-	10,175

19. Share capital

	31 August 2001 £	30 June 2000 £
Authorised		
55,000,000 ordinary shares of 10p each	**5,500,000**	5,500,000
144,000,000 deferred shares of 0.9p each	-	1,296,000
	5,500,000	6,796,000
Allotted, called up and fully paid		
34,264,170 ordinary shares of 10p each (2000 - 29,193,531 ordinary shares of 10p each)	**3,426,417**	2,919,353
144,000,000 deferred shares of 0.9p each (note 20a)	-	1,296,000
	3,426,417	4,215,353

The movements in the ordinary share capital during the period were as follows:

Date of issue	Number of shares	Premium per share	Total premium on issue of shares during the period
At 1 July 2000	29,193,531	-	-
3 October 2000 - acquisition of Membertrack Limited	2,765,957	181.5p	5,020,212
12 December 2000 - acquisition of DLG Software Services Limited	1,664,684	145p	2,413,792
18 December 2000 - acquisition of Fit Club Limited	178,190	130.3p	232,182
18 January 2001 - exercise of share options	20,000	90p	18,000
26 February 2001 - exercise of share options	9,808	90p	8,827
3 May 2001 - exercise of share options	8,000	40p	3,200
1 June 2001 - exercise of share options	424,000	-	-
	34,264,170		**7,696,213**

19. Share capital (continued)

The Company has established two share option schemes for the benefit of directors and employees, the Gladstone plc 1999 Approved Share Option Scheme, which has received Inland Revenue approval, and the Gladstone plc 1999 Unapproved Share Option Scheme. In addition, certain other options have been granted which fall outside of the schemes but which have received the separate approval of shareholders. The options outstanding at 31 August 2001 can be summarised as follows:

	Number of shares	Option price	Exercisable between
i) Gladstone plc 1999 Approved *Share Option Scheme*:	2,164,494	14p	up to 26/6/04
	2,000	17.5p	up to 30/8/04
	2,000	18.5p	up to 27/8/04
	2,000	21.5p	up to 12/7/04
	8,000	23p	up to 31/7/04
ii) Gladstone plc 1999 Unapproved *Share Option Scheme:*	696,248	14p	up to 28/10/02
	176,482	14p	up to 15/11/02
	16,320	14p	up to 26/6/04
	39,428	14p	up to 5/11/02
	61,842	14p	up to 10/1/03
	37,241	14p	up to 31/10/03
	250,000	23p	from 27/7/04
iii) *Non-scheme*:	2,526,000	37.5p	up to 16/3/04
	55,000	37.5p	21/9/01 to 21/9/08
	121,622	46p	up to 16/3/04
	1,131,602	125p	up to 16/3/04
	331,915	95.75p	up to 16/3/04
	199,762	77.50p	up to 16/3/04
	21,383	70.15p	up to 16/3/04

Included within the Approved and the Unapproved share options exercisable at 14p above, there are 810,885 parallel options which can be exercised from either scheme. Therefore the total number of Approved and Unapproved options in issue in (i) and (ii) above is net of 810,885 options.

As explained in the directors' report, when Brian K Raven and Oliver C Cooke resigned as directors on 30 November 2001, they waived their options which totalled 3,776,224 in (iii) above. Also when The Rt.Hon. Lord Sheppard of Didgemere KCVO, Kt and Anthony Carlton resigned on 31 December 2001, they waived their 55,000 options exercisable for 37.5p in (iii) above.

20. Statement of movements on reserves

Group	Share premium account £	Special reserve £	Merger reserve £	Profit and loss account £
At 1 July 2000	33,641,315	-	2,148,000	(7,925,178)
Creation of a special reserve arising from cancellation of deferred shares	-	1,296,000	-	-
Transfer from share premium to special reserve on 7 July 2000	(2,981,531)	2,981,531	-	-
Application of the balance in the special reserve account to eliminate a part of the deficit in the profit and loss account	-	(4,277,531)	-	4,277,531
Premium on share issues	7,696,213	-	-	-
Expenses of share issues	(2,923)	-	-	-
Transfer from share premium to special reserve on 21 June 2001	(25,000,000)	25,000,000	-	-
Transfer from special reserve to profit and loss account to create necessary reserves for demerger on 21 June 2001	-	(20,332,867)	-	20,332,867
Retained loss for the period	-	-	-	(31,926,414)
At 31 August 2001	13,353,074	4,667,133	2,148,000	(15,241,194)

20. Statement of movements on reserves (continued)

Company	Share premium account £	Special reserve £	Merger reserve £	Profit and loss account £
At 1 July 2000	33,641,315	-	2,148,000	(5,064,843)
Creation of a special reserve arising from cancellation of deferred shares	-	1,296,000	-	-
Transfer from share premium to special reserve on 7 July 2000	(2,981,531)	2,981,531	-	-
Application of the balance in the special reserve account to eliminate a part of the deficit in the profit and loss account	-	(4,277,531)	-	4,277,531
Premium on share issues	7,696,213	-	-	-
Expenses of share issues	(2,923)	-	-	-
Transfer from share premium to special reserve on 21 June 2001	(25,000,000)	25,000,000	-	-
Transfer from special reserve to profit and loss account to create necessary reserves for demerger on 21 June 2001	-	(20,332,867)	-	20,332,867
Retained loss for the period (note 21)	-	-	-	(34,352,662)
At 31 August 2001	13,353,074	4,667,133	2,148,000	(14,807,107)

a) By special resolution passed on 14 October 1999 and by approval of the High Court which was obtained on 5 July 2000, the Company cancelled its 144,000,000 deferred shares of 0.9p each which had a value of £1,296,000 through the creation of a special reserve account of the same value. On 7 July 2000 the Company transferred the sum of £2,981,531 from its share premium account to the special reserve account and applied the balance then standing to the credit of the special reserve to eliminate £4,277,531 of the deficit standing to the profit and loss reserve account. This sum represented the losses resulting from the Company's former businesses at 30 June 1999.

b) As set out in note 7, special resolutions were passed on 21 May 2001 to give effect to the demerger, whereby, subject to subsequent confirmation by the Court, the implementation of the provisions of the Scheme of Arrangement and the reduction of the share premium account by £25,000,000 to effectively eliminate the anticipated deficit in the Company's profit and loss account at the effective date of the demerger and create the necessary distributable reserves to effect the demerger were approved. The Court subsequently confirmed the implementation of the Scheme of Arrangement including the reduction of the share premium account.

c) The merger reserve arose from the original acquisition in 1997 of the Company's two loss-making subsidiaries which have subsequently been sold to their management. The acquisition was by means of a share for share exchange and the merger reserve represents the premium on the shares issued by the Company.

21. 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 loss on ordinary activities before and after taxation reflected in the financial statements of the parent Company for the period ended 31 August 2001 was £16,914,014 (2000: £787,312) and the amount transferred to reserves after the demerger dividend was £34,352,662 (2000: £787,312) and comprises:

	2001 £	2000 £
Loss before exceptional items	**(1,712,359)**	(787,312)
Exceptional items:		
Provision for impairment of investments in subsidiaries (note 13)	**(14,599,627)**	-
Provision for diminution in value of fixed assets (note 12)	**(189,911)**	-
Redundancy and termination costs	**(112,117)**	-
Demerger costs	**(300,000)**	-
	(16,914,014)	-
Demerger dividend	**(17,438,648)**	-
	(34,352,662)	(787,312)

22. Reconciliation of movements in shareholders' funds

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Loss for the period	(16,511,656)	(3,704,455)
Dividend - demerger	(15,414,758)	-
	(31,926,414)	(3,704,455)
Proceeds from issues of shares	8,203,277	36,836,797
Costs of share issues written off to the share premium account	(2,923)	(1,276,971)
Currency translation differences on foreign currency net investments	-	56,808
Net (decrease)/increase in shareholders' funds	(23,726,060)	31,912,179
Opening shareholders' funds at start of the period	32,079,490	167,311
Closing shareholders' funds at end of the period	8,353,430	32,079,490

23. Reconciliation of operating loss to net cash outflow from operating activities

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Operating loss	(16,040,931)	(3,882,844)
Depreciation charges	921,940	202,178
Profit on sale of fixed assets	(1,138)	-
Amortisation of goodwill	7,459,304	3,802,291
Impairment of goodwill	3,075,727	-
Development costs written off	226,207	-
(Increase)/decrease in stocks	(77,043)	238,702
Increase in debtors	(534,015)	(1,346,259)
Increase in creditors	2,603,415	782,751
Net cash outflow from operating activities	(2,366,534)	(203,181)

24. Reconciliation of net cash flow to movement in net funds

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
(Decrease)/increase in cash from cash flows of the Group	(5,352,745)	11,130,977
Cash (inflow)/outflow from increase/(decrease) in debt	(4,550,107)	84,511
Cash acquired with subsidiaries	283,798	478,772
Cash demerged with subsidiaries	(3,136,666)	-
(Decrease)/increase in net funds resulting from cash flows	(12,755,720)	11,694,260
New finance lease contracts	(428,369)	(270,566)
Net debt acquired on purchase of subsidiaries	(102,859)	(300,012)
Net debt demerged with subsidiaries	1,913,428	-
Movements in net funds in the period	(11,373,520)	11,123,682
Net funds at start of the period	11,306,545	182,863
Net (debt)/funds at end of the period	(66,975)	11,306,545

25. Analysis of changes in net funds/(debt)

	1 July 2000 £	Cash flows £	Non-cash changes £	Acquired with subsidiaries (excluding cash balances) £	Demerged with subsidiaries (excluding cash balances) £	31 August 2001 £
Cash at bank and in hand	11,792,612	(8,205,613)	-	-	-	**3,586,999**
Bank loans	(55,444)	(4,794,556)	-	-	1,600,000	**(3,250,000)**
Finance leases	(430,623)	244,449	(428,369)	(102,859)	313,428	**(403,974)**
	(486,067)	(4,550,107)	(428,369)	(102,859)	1,913,428	**(3,653,974)**
Total net funds/(debt)	11,306,545	(12,755,720)	(428,369)	(102,859)	1,913,428	**(66,975)**

The non-cash changes of £428,369 represent the capital value of finance lease contracts entered into in the period.

26. Cash outflow in respect of subsidiaries acquired

	14 months ended 31 August 2001 £	Year ended 30 June 2000 £
Costs of acquiring subsidiaries (note 13)	**13,633,961**	23,753,348
Shares issued as consideration (note 13)	**(8,127,068)**	(6,295,877)
	5,506,893	17,457,471
Cash balances of businesses acquired	**(283,798)**	(478,772)
Cash outflow in respect of subsidiaries acquired	**5,223,095**	16,978,699

27. Major non-cash transactions involving the issue of ordinary share capital

During the period ordinary shares were issued for proceeds of £8,203,277 of which £8,127,068 was paid as part consideration for the acquisition of subsidiary undertakings (see note 13).

28. Cash flows relating to exceptional items

The net cash outflows from operating activities on the consolidated cash flow statement included cash payments amounting to £361,350 in respect of the Group's reorganisation and redundancy programme. The remaining £836,441 out of the total exceptional costs of £1,197,791 is included in the Group accruals at 31 August 2001.

29. Capital commitments

At 31 August 2001, the Group had no capital commitments (2000: £32,000).

30. Financial commitments

At 31 August 2001 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2001 £	2000 £	2001 £	2000 £
Expiry date:				
In under one year	-	5,750	-	41,212
Between two and five years	**199,050**	226,241	**73,896**	62,732

31. 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 finance lease agreements and 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 2001 the Group had sterling cash deposits of £3.6 million. The weighted average interest rate of these deposits was 5.3%. These cash deposits were mainly generated from proceeds of Open Offers last year. 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 2001 were as follows:

	Total £	Floating rate financial liabilities £	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £
At 31 August 2001	**3,653,974**	3,250,000	403,974	-
At 30 June 2000	**486,067**	55,444	430,623	-

The floating rate financial liabilities consist of a bank loan which carries an interest rate of 1% above the bank's base rate and is repayable by quarterly instalments commencing in March 2002 and ending in March 2007.

The fixed rate liabilities comprise hire purchase and finance lease commitments and are repayable within 5 years.

The maturity of the Group's financial liabilities at 31 August 2001 is as follows:

	£
In one year or less, or on demand	**417,734**
In more than one year but not more than two	**479,710**
In more than two years but not more than five	**2,206,530**
In more than five years	**550,000**
	3,653,974

c) *Borrowing facilities*

At 31 August 2001, the Group had £250,000 of agreed undrawn committed bank overdraft 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.

APPENDIX

PRINCIPAL TERMS OF THE GLADSTONE 2002 EMI SCHEME

1. Introduction

Pursuant to the resolution in the Notice of EGM, the Company proposes to establish the Gladstone 2002 EMI Scheme ("the EMI Scheme") under which directors and employees of the Group may be granted Options to acquire ordinary shares ("Shares") in the Company. The EMI Scheme will be administered by the Company's Remuneration Committee ("Committee").

2. Eligibility

2.1 Generally, full-time directors and employees of the Group who are required to devote substantially the whole of their working hours to the business of the Group will be eligible to participate in the EMI Scheme.

2.2 It is necessary for the eligible employee and the Company to enter into a specific form of option agreement in order for the option to be considered as having been granted in accordance with the relevant legislation.

3. Option price

Optionholders will be entitled to acquire Shares at a price which is equal to the market value of a Share when the Option is granted.

4. Grant periods

Options may initially be granted under each scheme within 42 days after the adoption of the scheme by the Company and, thereafter, normally within 42 days after the announcement of the Company's yearly or half-yearly results. In exceptional circumstances an option may be granted outside these periods. Without further shareholder approval options may only be granted within ten years of shareholder approval of the EMI Scheme.

No consideration is payable for the grant of an option.

5. Performance targets

The exercise of options under the EMI Scheme may be conditional upon the achievement of an objective performance target to be determined by the Committee when an option is granted.

6. Individual limits

In accordance with the relevant legislation each individual's participation will be limited so that the aggregate market value of Shares at the date of grant of any options granted under the EMI Scheme and the Company's approved share option scheme to acquire Shares will not exceed £100,000.

7. Limits applying to the EMI Scheme

The following limits apply to the number of Shares which may be acquired by subscription on the exercise of options granted under the EMI Scheme:

7.1 no option may be granted under the EMI Scheme if immediately following the grant the aggregate nominal value of Shares issued or then capable of being issued pursuant to subsisting options granted under the EMI Scheme and any other employee share scheme adopted by the Company within the immediately preceding period of ten years and whilst the Company was listed would exceed 15 per cent. of the issued ordinary share capital of the Company from time to time.

7.2 no option may be granted under the EMI Scheme if, immediately following the grant, the aggregate exercise price of all subsisting options granted under the EMI Scheme exceeds £3,000,000.

8. Exercise and lapse of EMI Options

Options will not be transferable and shall be exercisable from such date or dates specified by the remuneration committee not being less than 12 months from the date of grant. Options may, however, be exercised earlier than the specified date or dates for a limited period after the option holder ceases to be employed within the Group in certain special circumstances, including the death, retirement, redundancy, ill health, injury or disability of the option holder or where the option holder's employing company or business is disposed of outside the Group or, at the discretion of the Committee, in any other circumstances. Exercise is also possible in the event of an amalgamation reconstruction or takeover of the Company. In such circumstances an option holder may be allowed to release his rights over Shares in the acquiring company. Options may also be exercised in the event of a voluntary winding-up of the Company.

Any performance target and/or condition imposed on the grant of options and referred to in paragraph 5 above will not normally apply where an option holder exercises his option or releases it in the special circumstances described above.

9. Issue and listing of shares

All Shares issued in exercise of options shall on issue rank *Pari Passu* in all respects with the Company's existing Shares save that the Shares issued will not rank for any dividends or other distributions declared or recommended the record date for which falls on or prior to the date when the option is exercised.

10. Variations

In the event of any variation of or increase in the share capital of the Company, the number of Shares subject to options and/or the option price may be adjusted by the Board.

11. Amendments

Although the Board will have the power to amend the provisions of the EMI Scheme, the provisions relating to:

11.1 the persons to whom benefits are provided under the EMI Scheme;

11.2 the limitations on the number of Shares over which options may be granted; and

11.3 the basis for determining an individual's entitlement to, and the terms of, an option and for the adjustment thereof in the event of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital or any other variation of capital cannot be amended to the advantage of participants without the prior approval of Shareholders in general meeting (except for minor amendments to benefit the administration of the EMI Scheme or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company or any other member of the Group).

Benefits under the EMI Scheme are not pensionable.