COMPANY No. 03327360

GLADSTONE PLC

REPORT AND ACCOUNTS

YEAR ENDED 31 AUGUST 2002

GLADSTONE PLC

CONTENTS

GLADSTONE PLC

DIRECTORS, SECRETARY AND ADVISERS

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

GLADSTONE PLC

NON-EXECUTIVE CHAIRMAN'S STATEMENT

A year ago your Board set out to restructure a loss making group and all Board members personally committed themselves to the significant funding required to sustain operations through to profitability.

I am pleased to report that Gladstone MRM Limited ("MRM") has concluded all its integration activities, and consistently profitable trading over the last six months has led to the Group achieving monthly break even (before goodwill amortisation and exceptional items) towards the end of the reporting period. The challenge Ben Merrett and his team now face is to further develop the Group's market position and to secure group profitability.

Our vibrant and successful trade stand at the Leisure Industry Week exhibition evidenced that our reputation within the Health and Leisure Sector has clearly strengthened over the year. This should be further enhanced by the continuing product and service improvements that are being made as MRM continues to invest in its capabilities.

The matter relating to the payment of PAYE and National Insurance on the exercise of some of the former Directors' share options, referred to in the interim statement, is still being discussed with the Inland Revenue.

The Board's focus remains on developing a soundly based business and exploiting prudent opportunities for growth. The Directors are of the view that shareholder value could be enhanced by acquiring other companies and repeating the success demonstrated at MRM. Therefore resolutions will be proposed at the AGM to grant the Board of Directors the right to issue shares in connection with any acquisition. This is explained further in your Chief Executive Officer's report. The directors believe that there will be organic growth opportunities relating to the E Government Directive.

I welcome Mr Derick Martin who joined the Board on 23 December 2002. Derick assisted the re-financing of the Group at the start of the year and has become a significant shareholder in the Company.

The roles of Chairman and Chief Executive Officer ("CEO") are split, in line with corporate governance best practice. A report by the CEO on the year to 31 August 2002 provides a more detailed view of our activities over the last year and the road ahead.

Simon Preston
Non-Executive Chairman

31 January 2003

CHIEF EXECUTIVE OFFICER'S REPORT

OVERVIEW

The results for this year to 31 August 2002 bear little comparison to those of the previous 14 month period. During that previous period, notable events included the de-merger of the Group, the acquisition of Membertrack and DLG Software and the initial costs of integrating all Group activities into MRM.

On an annualised basis the revenues in respect of continued operations have increased by 17.5% to £8.6m during the last 12 months.

By August 2002 the Group had attained a monthly break even position (excluding amortisation of goodwill). Over the year MRM has improved its sustainable sales profile with a greater emphasis on repeatable maintenance contracts and professional services.

With additional committed product expenditure and enhanced service capability we are well placed to strengthen our market share.

FINANCIAL RESULTS

The Group shows a reduced loss on ordinary activities for the year of 4.53p per share (in the 14 months to 31 August 2001 a loss of 50.66p per share was reported). The loss before the write off of goodwill and exceptional items has been reduced to 1.5p per share (in the 14 months to 31 August 2001 a loss of 11.75p per share was reported).

With strong software sales our annual recurring maintenance revenues have grown steadily during the year and by the year end represented over a quarter of turnover. A proportion of software revenues have been converted into long term rental contracts and, at the year end, they represented around 5% of recurring turnover. Revenues from our professional services have more than doubled and now represent 20% of income.

Our tangible assets have increased since our interim results were announced. This is pre-dominantly due to a re-valuation of our freehold office in Wallingford. The Board has decided that goodwill previously written off over five years, will now be written off over 20 years to be consistent with others in our sector.

We continue to repay bank debt and finance leases that were established prior to the appointment of the current board.

The Directors are not recommending the payment of a dividend.

CHIEF EXECUTIVE OFFICER'S REPORT

HISTORIC ISSUES

In December 2001, when the new Board took control, there was £101k of cash, the Group was losing approximately £200k a month (before amortisation) and it had, in addition to other debts, over £1m one-off contractual commitments, some of which were pursued through legal means. By the end of January 2003 we expect nearly all of these contractual commitments to have been settled.

To support the Group, until it attained profitability, an unsecured short-term loan of £500k was made by the Directors in January 2002 which was subsequently converted into equity at 10p a share in February and June 2002. I deferred payment of £30,000 of my salary until September 2002 and Mr Jeremy Stokes agreed to defer payment of his fees amounting to £24,000 per annum.

THE LAST 6 MONTHS OF THE YEAR

We have increased revenues during the second part of the year from £4.1m to £4.5m. In addition we have reduced operating expenditure and Group costs as well as improving the service to our clients. During this period we have also invested in the development of our software.

BUSINESS AND PRODUCT DEVELOPMENT

The functionality we have developed to address membership retention has given us significant competitive advantage in both the private sector clubs and local authority facilities. To further distance ourselves from our competitors' offerings and to be the first to respond to the growing requirement for a browser based solution, we are exploring the development of a web based application with some of our key customers.

We are well placed to respond to our local authority clients' requirement to comply with the E Government Directive. Also, over the next few years, as low cost, reliant broadband becomes a reality in the United Kingdom, the benefits of centralised and Web-enabled software applications should become compelling to a high proportion of health and fitness clubs.

Our investment in professional services continues and our clients are experiencing a continually improving software deployment capability from our technical, training and project management teams. Our software support team has also improved its speed of response during the year.

CAPITAL REORGANISATION

Since the Company is prohibited by the Companies Act 1985, as amended by the Companies Act 1989, from issuing shares at a discount to their nominal value of 10p a share, a capital reorganisation is required if a future fundraising at an issue price of lower than 10p is to be achieved. The Board will seek to effect any fundraising at the best practicable price, taking account of Shareholders' interests.

It is proposed that the Articles of the Company be amended and that each existing ordinary share of 10p each in the capital of the Company in issue be sub-divided into one new ordinary share of 1p each in the capital of the Company, and one deferred share of 9p each in the capital of the Company. The deferred shares will have no voting rights, no rights to income, negligible rights as to capital and will not be listed on any stock exchange; they will, therefore effectively have no value. The rights attached to the new ordinary shares will be virtually identical to those presently attaching to the existing ordinary shares and, therefore, the market value of Gladstone will be represented by the new ordinary shares.

GLADSTONE PLC

CHIEF EXECUTIVE OFFICER'S REPORT

DISAPPLICATION OF PRE-EMPTION RIGHTS

The Directors wish to be given authority to allot unissued new ordinary shares in the future for cash up to a nominal amount equal to £623,094 without offering pre-emptive rights to existing Shareholders. The authority sought to allot new ordinary shares will expire at the conclusion of the AGM to authorise the year ending 31 August 2003 financial statements or 15 months from the passing of the resolution (if earlier).

STAFF AND PRODUCTS

The Group now has 110 staff that have extensive knowledge and experience of our niche market. They are primarily based in Wallingford with a branch office in Glasgow. A particular debt of thanks is owed to them for their contribution and support to the substantial progress made by the Company during the year.

The Group's functionally advanced products, software support and operational delivery capability positions us well for building on our leading market share.

TRADING UPDATE

The Group is in a stronger financial position than we were 12 months ago. Our dedicated presence in the well funded UK local authority market should continue to serve us well. Our high base of contractually committed and recurring revenues should enhance our competitive positioning if the general economic slowdown continues. With shareholder support, we may be able to considerably strengthen the Group through acquisitions.

Ben Merrett
Chief Executive Officer

31 January 2003

GLADSTONE PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2002

The Directors present their annual report and the audited financial statements of the Group and of the Company for the year ended 31 August 2002.

Activities and review of business

During the year the Company has benefited by generating additional revenue from investments made in product development and infrastructure. The Group maintains its position as a leading supplier of customer relationship management software to the leisure sector. Further details regarding the Group's activities can be found in the Non-Executive Chairman's Statement on page 2 and in the Chief Executive Officer's Report on page 3.

Note 13 to the financial statements contains a list of the Company's subsidiaries at 31 August 2002.

Results and dividends

The results for the year are shown on page 20 and are discussed in more detail in the Chief Executive Officer's Report.

The Group reports a loss of £628,922 (14 months to 31 August 2001: £3,654,595) before the amortisation of goodwill, exceptional items and taxation. After providing for the amortisation of goodwill and exceptional items, the Group reports a loss after taxation of £1,676,703 (14 months to 31 August 2001: £16,511,656). The exceptional items in the year are summarised below:

- Goodwill amortisation for the year was £444,129 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 in prior years is being written off over their useful economic lives of 20 years (see note 11).
- Costs in connection with termination of the property lease at the Egham head office amounting to £160,921.
- Compensation for loss of office of £55,000 paid to a former Director.
- Provisions and write offs totalling £141,611 for losses on fixed assets have been made in the year mainly in connection with vacating the leasehold property in Egham (see note 12).
- Costs amounting to £150,000 relating to rectification costs in a period before the Company acquired its subsidiary, Gladstone MRM Limited.
- Provision for PAYE and NI of £168,319 in connection with exercise of options by former Directors (see note 3(b))

The Directors do not recommend the payment of a dividend.

GLADSTONE PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2002

Directors

The following Directors held office during the year under review except for D Martin who was appointed on 23 December 2002:

B Merrett	(Appointed 5 November 2001)
S Preston	(Appointed 5 November 2001)
J Stokes	(Appointed 5 November 2001)
B K Raven	(Resigned 30 November 2001)
O C Cooke	(Resigned 30 November 2001)
The Rt Hon Lord Sheppard of Didgemere KCVO, KT	(Resigned 31 December 2001)
A Carlton	(Resigned 31 December 2001)
A J Kerr	(Resigned 20 February 2002)
D Martin	(Appointed 23 December 2002)

At the forthcoming Annual General Meeting S Preston will retire and will offer himself for re-election.

The biographical details of the present Directors are as follows:

Ben Merrett (aged 40), 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.

Simon Preston (aged 42), 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.

Jeremy Stokes (aged 41), 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 leaving to pursue other business interests.

Derick Martin (aged 39), Non-Executive Director
Derick is also an experienced and successful entrepreneur. Prior to his involvement in Telecoms, he acted as an advisor to retail and wholesale businesses operating primarily in the food industry. Clients included Rank Hovis and Northern Foods plc. Derick worked closely with Jeremy during the formation and development of Localtel and launched the UK's first unmetered Internet access product, screaming.net. He was responsible for the sale of Localtel to Worldonline and the integration of Worldonline and Tiscali, which brought together 5 UK brands and businesses, creating a combined saving of £14 million per annum. Derick is Chairman of the iDG group of companies which has interests in call centre management, outsourced management services, mail order, e-commerce and publishing. His latest venture is Beaublue, an integrated retail, mail order and internet operation.

Directors' interests

The beneficial interests in the issued share capital of the Company of the Directors who held office at 31 August 2002 were as follows:

	31 August 2002 Ordinary shares of 10p each		31 August 2001 Ordinary shares of 10p each	
	Number	Percentage of issued ordinary share capital	Number	Percentage of issued ordinary share capital
Simon Preston	850,000	2.07	-	-
Jeremy Stokes	6,122,814	14.9	-	-
Ben Merrett	450,562	1.1	-	-

The mid-market price of the Company's shares on 31 August 2002 was 8 pence.

None of the Directors had any interests in the share capital of any of the Company's subsidiaries at 31 August 2002 or 31 August 2001.

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

The Directors' interests in share options at 31 August 2002 were as follows:

Gladstone 2002 EMI Scheme:

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

Gladstone 1999 Unapproved Scheme:

	Number of options	Exercise price	Date of grant	Exercise period
Ben Merrett	710,000	10p	29/01/02	29/01/05 to 29/01/12

No share options were exercised by the Directors during the year under review.

There have not been any other changes in the interests of the Directors in the share capital of the Company between 31 August 2002 and the date on which these financial statements were signed.

Interests in contracts

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2002

Substantial shareholdings

The Directors have been notified on the dates specified below of the following interests in 3% or more of the ordinary share capital of the Company. No further changes to these holdings have been notified to the Directors as at 24 January 2003. The shares held under nominee names are not included below as their ultimate ownership is not known.

	Ordinary shares of 10p each	
	Number	**Percentage**
Derick Martin (notified on 5 June 2002)	2,438,208	5.9%
Norman Guiver (notified on 28 March 2002)	2,512,000	6.1%

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 2002 the Group average creditor days was 36 (14 months to 31 August 2001: 49 days).

Employment policy

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

Disabled employees

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

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

Fixed assets

Details of movements in fixed assets are set out in notes 11 to 13 to the financial statements.

Research and development

During the year, the Group incurred a significant amount of expenditure on research and development of products for resale. £235,006 was capitalised as development costs (see note 11) and £171,166 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 Annual General Meeting.

GLADSTONE PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2002

Annual general meeting

The Notice of the Annual General Meeting to be held at the offices of Brewin Dolphin Securities Ltd, National House, 36 St Ann Street, Manchester M2 7LE on Friday 21 March 2003 at 9.30am is set out on page 52. In addition to Resolutions 1 to 3 to be proposed at the meeting which deal with ordinary business, your attention is drawn to the special business, namely:

a) the sub-division of each share of 10 pence each into one new ordinary share of 1 pence each and one deferred share of 9 pence each. This capital reorganisation is required if a future fundraising at an issue price of lower than 10 pence is to be achieved;

b) the sub-division of the Company's authorised but unissued share capital into new ordinary shares of 1 pence each;

c) the increase of the Company's authorised share capital to £20,000,000;

d) the renewal of the directors' general authority to allot ordinary shares equal to the amount of the Company's authorised but unissued share capital immediately after the AGM. The authority will lapse (if not extended or replaced) at the conclusion of the AGM to be held in 2004 or 15 months from the date of the resolution;

e) the disapplication of shareholders' pre-emption rights in relation to rights issues and to other pre-emptive issues to shareholders and otherwise in respect of equity securities up to a nominal value of £623,094, such authority to expire at the same time as the allotment authority described at para d) above;

f) the disapplication of shareholder's pre-emption rights in relation to rights issues and to other pre-emptive issues to shareholders and otherwise in respect of equity securities up to a nominal value of £70,000, such authority to expire at the same time as the allotment authority described at para d) above. (This resolution may only take effect if the resolution relating to paragraph e) above is not passed. It is intended to give the directors the authority to issue such number of equity securities as it is anticipated that the Company may have to issue in the period pursuant to the exercise of share options.)

The Company Secretary received a letter at the end of November 2002 from a shareholder, containing proposals which he wished to be put to the Annual General Meeting as resolutions pursuant to Section 376 of the Companies Act 1985. The Board has taken legal advice and has been advised that the proposals were not drafted in such a form as to require the Company to incorporate the proposals as resolutions in the Notice of the Annual General Meeting. Although the Board is not under any obligation to make the contents of the letter available to shareholders it has decided to make a copy of the letter available at the Annual General Meeting and to answer any questions that are put to it in relation to the matters referred to therein.

By order of the Board

Nicholas Montgomery
Company Secretary

31 January 2003

CORPORATE GOVERNANCE

Combined code

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

Board of Directors and Committees

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

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

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

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

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

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

The non-executive Directors are independent of management and are free from any business or any other relationship which could interfere materially with the exercise of their independent judgement. The non-executive Directors are appointed for specified terms and are subject to re-election and to Companies Act provisions relating to the removal of a director. Reappointment of non-executive Directors is not automatic.

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 General Meeting. In addition, one third of Directors are required to retire and to submit themselves for re-election at each Annual General Meeting.

CORPORATE GOVERNANCE

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

Audit committee

The audit committee receives and reviews reports from management and the external auditors relating to the interim report and the annual accounts, reviews reporting requirements and ensures the maintenance of accounting systems and controls is effective. The audit committee comprises 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 believes that the current size of the Group does not justify the establishment of an independent internal audit department. Finance personnel are periodically instructed to conduct specific reviews of business functions relating to key risk areas and to report their findings to the Board.

Remuneration committee

The remuneration committee, which 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. The remuneration committee comprises the two non-executive Directors, Simon Preston and Jeremy Stokes.

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

Internal control

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

- **Identification and control of business risks**
  The Board identifies the major business risks faced by the Group and determines the appropriate course of action to manage those risks.

- **Budgets and business plans**
  Each year the Board approves the business plan and annual budget. Performance is monitored and relevant action taken throughout the year through the regular reporting to the board of changes to the business plan.

- **Investment appraisal**
  Capital expenditure is controlled by budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Due diligence work is carried out if a business or asset is to be acquired.

CORPORATE GOVERNANCE (Continued)

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

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

Going concern

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

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

Relations with shareholders

The Board attaches considerable importance to the maintenance of good relationships with shareholders. 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 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.

Simon Preston
Non-Executive Chairman

31 January 2003

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 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, Ben Merrett, which is subject to 12 months' notice by either party. This agreement provides for a basic annual salary of £110,000 as well as pension contributions of 10 per cent. of the basic salary and other benefits such as medical and life insurance schemes. Payment of £30,000 of the annual basic salary was deferred to September 2002.

GLADSTONE PLC

REPORT OF THE REMUNERATION COMMITTEE

Directors' emoluments for the year ended 31 August 2002

	Salary and fees	Benefits in kind	Bonus	Termination	Year ended 31 August 2002 Total	14 months ended 31 August 2001 Total
	£	£	£	£	£	£
Executive Directors:						
Ben Merett	100,120	3,282	-	-	103,402	-
Brian Raven	25,565	2,900	-	-	28,465	333,391
Oliver Cooke	21,717	1,434	-	-	23,151	222,228
Alastair Kerr	50,000	9,474	2,372	55,000	116,846	-
James T Middlehurst	-	-	-	-	-	355,452
Non-executive Directors:						
Simon Preston	33,165	-	-	-	33,165	-
Jeremy Stokes	20,000	-	-	-	20,000	-
Lord Sheppard	14,000	-	-	-	14,000	40,500
A Carlton	10,000	-	-	-	10,000	34,545
Total emoluments excluding pension contributions	274,567	17,090	2,372	55,000	349,029	986,116
Total pension contributions					16,045	51,940
Total emoluments including pension contributions					365,074	1,038,056

Pension contributions

The pension contributions paid during the year ended 31 August 2002 were as follows:

	£
Ben Merrett	6,667
Brian Raven	2,385
O C Cooke	1,995
A Kerr	4,998
	16,045

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.

REPORT OF THE REMUNERATION COMMITTEE

Non-executive directors

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

Directors' share options

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

Simon Preston
Chairman of the Remuneration Committee

31 January 2003

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 year ended 31 August 2002 which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, note of historical cost profits and losses, the balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of the freehold property) and the accounting policies set out therein.

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.

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

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

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

Basis of audit opinion

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF GLADSTONE PLC

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 August 2002 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hacker Young

Hacker Young
Chartered Accountants
Registered Auditors

31 January 2003

London

GLADSTONE PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2002

	Notes	Year ended 31 August 2002 Before goodwill and exceptional items £	Goodwill and exceptional items £	Total £	14 months ended 31 August 2001 £
Turnover	2				
Continuing operation		8,603,805	-	8,603,805	6,022,092
Acquisitions		-	-	-	2,520,929
		8,603,805	-	8,603,805	8,543,021
Discontinued operations		-	-	-	9,283,336
Group turnover		8,603,805	-	8,603,805	17,826,357
Cost of sales	3c)	(2,291,429)	-	(2,291,429)	(4,592,686)
Gross profit	3c)	6,312,376	-	6,312,376	13,233,671
Administration expenses excluding amortisation and impairment of goodwill, reorganisation costs and other exceptional items		(6,815,372)	-	(6,815,372)	(17,082,612)
Amortisation of goodwill		-	(444,129)	(444,129)	(7,459,304)
Impairment of goodwill	3b)	-	-	-	(3,075,727)
Reorganisation and redundancy costs	3b)	-	(55,000)	(55,000)	(1,197,791)
Other exceptional items	3b)	-	(479,240)	(479,240)	(459,168)
Total administration expenses	3c)	(6,815,372)	(978,369)	(7,793,741)	(29,274,602)
Operating loss	3a)				
Continuing operations		(502,996)	(978,369)	(1,481,365)	(10,583,617)
Acquisitions		-	-	-	(3,793,068)
Discontinued operations		-	-	-	(1,664,246)
		(502,996)	(978,369)	(1,481,365)	(16,040,931)
Demerger costs		-	-	-	(300,000)
Provision for loss on fixed assets	12	-	(141,611)	(141,611)	(189,911)
Loss on ordinary activities before interest		(502,996)	(1,119,980)	(1,622,976)	(16,530,842)
Interest receivable	4	35,262	-	35,262	318,129
Interest payable	5	(161,188)	-	(161,188)	(123,783)
Loss on ordinary activities before taxation		(628,922)	(1,119,980)	(1,748,902)	(16,336,496)
Taxation	6	72,199	-	72,199	(175,160)
Loss for the financial year		(556,723)	(1,119,980)	(1,676,703)	(16,511,656)
Dividends - demerger	7	-	-	-	(15,414,758)
Amount withdrawn from reserves	22	(556,723)	(1,119,980)	(1,676,703)	(31,926,414)
Loss per ordinary share (pence)	8				
Basic				(4.53p)	(50.66p)
Before goodwill and exceptional items				(1.50p)	(11.75p)
Diluted				(4.53p)	(47.45p)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AND NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 AUGUST 2002

Statement of total recognised gains and losses

	Year ended 31 August 2002 £	14 months ended 31 August 2001 (as restated) £
Loss for the financial year	(1,676,703)	(16,511,656)
Prior year adjustment - revaluation of freehold	462,883	
Total recognised gains and losses since last financial statements	(1,213,820)	

Note of historical cost profits and losses

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Reported loss on ordinary activities before taxation	(1,748,902)	(16,336,496)
Difference between historic cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	9,258	-
Historic loss on ordinary activities before taxation	(1,739,644)	(16,336,496)
Historic loss for the year retained after taxation and dividends	(1,667,445)	(31,926,414)

GLADSTONE PLC

CONSOLIDATED BALANCE SHEET
AS AT 31 AUGUST 2002

	Notes	£	31 August 2002 £	£	31 August 2001 (as restated) £
Fixed assets					
Intangible assets	11		7,929,017		8,245,025
Tangible assets	12		1,907,725		2,299,641
			9,836,742		10,544,666
Current assets					
Stocks	14	130,121		155,243	
Debtors	15	2,241,382		2,327,155	
Cash at bank and in hand		889,679		3,586,999	
		3,261,182		6,069,397	
Creditors: amounts falling due within one year	16	(2,020,375)		(2,019,356)	
Net current assets			1,240,807		4,050,041
Total assets less current liabilities			11,077,549		14,594,707
Creditors: amounts falling due after more than one year	17		(1,107,162)		(3,236,240)
Accruals and deferred income	18		(2,145,494)		(2,542,154)
Net assets			7,824,893		8,816,313
Capital and reserves					
Called up share capital	19		4,111,700		3,426,417
Share premium account	20		13,353,074		13,353,074
Revaluation reserve	20		453,625		462,883
Special reserve	20		4,667,133		4,667,133
Merger reserve	20		-		2,148,000
Profit and loss account	20		(14,760,639)		(15,241,194)
Shareholders' funds					
- equity interests	22		7,824,893		8,816,313

The financial statements were approved by the Board on 31 January 2003.

BMerrett

Ben Merrett
Chief Executive Officer

Derick Martin

Derick Martin
Non-Executive Director

GLADSTONE PLC

COMPANY BALANCE SHEET
AS AT 31 AUGUST 2002

	Notes		31 August 2002		31 August 2001 (as restated)
		£	£	£	£
Fixed assets					
Tangible assets	12		15,397		444,300
Investments	13		11,067,457		4,712,154
			11,082,854		5,156,454
Current assets					
Debtors	15	18,459		5,312,680	
Cash at bank and in hand		562,277		2,956,334	
		580,736		8,269,014	
Creditors: amounts falling due within one year	16	(1,123,254)		(1,022,805)	
Net current (liabilities)/assets			(542,518)		7,246,209
Total assets less current liabilities			10,540,336		12,402,663
Creditors: amounts falling due after more than one year	17		(2,824,926)		(3,218,322)
Accruals and deferred income	18		(196,666)		(396,824)
Net assets			7,518,744		8,787,517
Capital and reserves					
Called up share capital	19		4,111,700		3,426,417
Share premium account	20		13,353,074		13,353,074
Special reserve	20		4,667,133		4,667,133
Merger reserve	20		-		2,148,000
Profit and loss account	20		(14,613,163)		(14,807,107)
Shareholders' funds			7,518,744		8,787,517

The financial statements were approved by the Board on 31 January 2003.

Ben Merrett
Chief Executive Officer

Derick Martin
Non-Executive Director

GLADSTONE PLC

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2002

	Notes	Year ended 31 August 2002 £	£	14 months ended 31 August 2001 £	£
Net cash outflow from operating activities	23		(1,079,405)		(2,366,534)
Returns on investments and servicing of finance					
Interest received		35,262		318,129	
Interest paid		(90,935)		(51,600)	
Finance lease charges		(70,253)		(72,183)	
Net cash inflow from returns on investments and servicing of finance			(125,926)		194,346
			(1,205,331)		(2,172,188)
Taxation refunded/(paid)			72,200		(92,602)
Capital expenditure					
Purchase of tangible fixed assets		(142,880)		(1,677,886)	
Receipts from sales of fixed assets		24,266		24,826	
Development costs capitalised		(235,006)		(250,695)	
Net cash outflow for capital expenditure			(353,620)		(1,903,755)
Acquisitions and demerger					
Purchase of subsidiaries		-		(5,506,893)	
Cash acquired with subsidiaries		-		283,798	
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)
Net cash outflow before financing			(1,486,751)		(12,829,006)
Financing					
Proceeds from issues of shares		685,283		76,209	
Costs of share issues		-		(2,923)	
Finance lease repayments		(64,279)		(244,449)	
Bank loan repayments		(2,040,000)		(55,444)	
Bank loans received		-		4,850,000	
Net cash (outflow)/inflow from financing			(1,418,996)		4,623,393
Decrease in cash	25		(2,905,747)		(8,205,613)

1. Accounting policies

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

1.1 Basis of consolidation

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

1.2 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.

1.3 Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. Goodwill is capitalised as an intangible fixed asset and is amortised in equal annual instalments over the directors' estimate of its useful life of 20 years (see note 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.

1.4 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.

1.5 Turnover

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

1.6 Investments

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

1.7 Tangible fixed assets and depreciation

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

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

On the implementation of Financial Reporting Standard 15 'Tangible fixed assets' ("FRS 15") in 2000, the group had not adopted a policy of revaluation of its tangible fixed assets and had decided to carry these assets at their historic costs. In accordance with Financial Reporting Standards 18 'Accounting Policies' ("FRS 18") the directors have reviewed the Group's accounting policy with regard to the carrying value of the Group's freehold property. The Directors believe that the most appropriate policy would be to state the property at its open market valuation.

The land and buildings cost brought forward at the start of the year in note 12 to the financial statements incorporates a revaluation carried out by independent valuers in June 2001. This amounts to a change in accounting policy, the adoption of which requires a prior period adjustment to recognise the revaluation at the end of the last financial period and which was not recognised under the old accounting policy. The change of accounting policy has resulted in an increase in net assets of the Group of £453,626 and an increase in current year losses of £9,258, being the increased depreciation charged.

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

1.8 Stocks

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

1.9 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.

1.10 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 two and a half to five years.

1.11 Deferred taxation

The accounting policy in respect of deferred tax has been changed to reflect the requirements of Financial Reporting Standard 19 'Deferred tax' ("FRS 19"). Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

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

The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future.

The adoption of the standard has not required a prior period adjustment. If the new policy had been in place in the previous period no liability would have been recognised as the conditions for recognition would not have been satisfied.

1.12 Pensions

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2002**

2. Segmental analysis

Turnover by Geographical area:

	Year ended 31 August 2002 Total £	14 months ended 31 August 2001 Total £
United Kingdom	8,603,805	8,112,344
Europe	-	5,315,982
Rest of World	-	4,398,031
	8,603,805	17,826,357

3 a) Operating loss

		Year ended 31 August 2002 £	14 months ended 31 August 2001 £
The operating loss is stated after charging:			
Depreciation on tangible fixed assets		384,076	921,940
Amortisation of development costs		106,885	-
Auditors' remuneration		30,000	44,000
Operating lease rentals	- land and buildings	167,731	284,657
	- other	12,597	86,216
Hire of equipment		100	-

Fees paid to the auditors for non-audit work during the year amounted to £38,000 (2001: £159,000).

3b) Exceptional administration expenses

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

		Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Amounts written off in connection with acquisition of subsidiaries:			
i)	Amortisation of goodwill	444,129	7,459,304
ii)	Impairment of goodwill	-	3,075,727
iii)	Adjustment to the fair value of liabilities made in prior years - project rectification costs	150,000	-
		594,129	10,535,031
iv)	Provision for PAYE and NI in connection with exercise of options by former directors (see below)	168,319	-
v)	Property lease termination costs - Egham office	160,921	-
vi)	*Compensation to director for loss of office*	55,000	-
vii)	Exceptional reorganisation and redundancy costs	-	1,197,791
viii)	Exceptional bad debt	-	132,961
ix)	Development and licence costs written off on abortive projects	-	326,207
		384,240	1,656,959
Total		978,369	12,191,990

The other exceptional items of £479,240 (2001: £459,168) shown on the consolidated profit and loss account comprises iii), iv), v), vii) and ix).

The provision for PAYE and NI as in 3(b)(iv) above arises from exercise of share options by two former directors, Brian K Raven and Oliver C Cooke. These directors made a gain of over £400,000 when they exercised a number of share options prior to the demerger on 21 June 2001. The new board of the Company has subsequently been advised that these options, which were exercised in June 2001 by these directors, resulted in a liability to taxation of £168,319 under PAYE regulations. The liability originally arose when Brian K Raven and Oliver C Cooke were executive directors, as Chairman and Finance Director, respectively. As Brian K Raven and Oliver C Cooke have not indicated that they would be prepared to indemnify the Company for this payment to the Inland Revenue, this sum has been written off to profit and loss account. However, the Company is having discussions with its legal advisers regarding the responsibility for this liability.

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

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Cost of sales		
Continuing	2,291,429	1,729,322
Acquisitions	-	740,299
Discontinued	-	2,123,065
	2,291,429	4,592,686
Gross profit		
Continuing	6,312,376	4,292,770
Acquisitions	-	1,780,630
Discontinuing	-	7,160,271
	6,312,376	13,233,671
Administrative expenses		
Continuing	7,793,741	14,876,387
Acquisitions	-	5,573,698
Discontinued	-	8,824,517
	7,793,741	29,274,602

4. Interest receivable

	Year ended 31 August 2002	14 months ended 31 August 2001
Bank interest	£ 35,262	£ 318,129

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2002

5. Interest payable

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
On bank loans and overdrafts	80,376	45,835
On hire purchase and finance lease agreements	70,253	72,183
Other interest	10,559	5,765
	161,188	123,783

6. Taxation

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
UK corporation tax - prior year credit	(72,199)	-
Overseas corporation tax - Ireland	-	197,660
Current tax (credit)/charge	(72,199)	197,660
Deferred tax credit	-	(22,500)
	(72,199)	175,160
Factors affecting the tax charge for the year:		
Loss on ordinary activities before tax	(1,748,902)	(16,336,496)
Loss on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2001: 30%)	(524,670)	(4,900,949)
Effects of:		
Non-deductible expenses	36,066	128,619
Depreciation and amortisation	252,403	3,493,482
Capital allowances	(130,079)	(39,080)
Tax losses	316,791	1,871,451
Foreign tax adjustments	-	(395,320)
Adjustments to previous periods	(72,199)	-
Other tax adjustments	49,489	16,957
Current tax (credit)/charge	(72,199)	175,160

7. Dividends

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Demerger dividend	-	15,414,758

The demerger of Ge.world UK and its subsidiaries was treated as a distribution and classified as a demerger dividend last year.

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:

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Loss for the period	(1,676,703)	(16,511,656)
	Number	**Number**
Weighted average of ordinary shares of 10p each	36,977,139	32,592,652
Basic loss per share (pence)	(4.53p)	(50.66p)

8. Loss per ordinary share (continued)

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:

	Year ended 31 August 2002	14 months ended 31 August 2001
Basic loss per share (pence)	(4.53)	(50.66)
Goodwill and exceptional items per share	3.03	38.91
Loss per share before goodwill amortisation and exceptional items	(1.50p)	(11.75p)

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

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Loss for the period	(1,676,703)	(16,511,656)
	Number	Number
Weighted average of ordinary shares in issue as above	36,977,139	32,592,652
Dilution for share options outstanding	-	2,208,222
Diluted weighted average number of shares in issue	36,977,139	34,800,874
Diluted loss per share (pence)	(4.53p)	(47.45p)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2002

9. Employees

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Wages and salaries	3,831,765	8,214,330
Social security costs	326,293	848,458
Pension costs	166,797	238,056
Termination and redundancy costs - exceptional	55,000	1,197,791
- non-exceptional	45,410	-
	4,425,265	10,498,635

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

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Office and administration	17	83
Production	-	201
Sales and marketing	19	28
Development and training	85	54
	121	366

10. Directors' emoluments

		Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Emoluments for qualifying services:			
Executive Directors'	- salaries and bonuses	199,774	650,689
	- benefits	17,090	33,282
Non-executive Directors' fees		77,165	75,045
		294,029	759,016
Termination costs		55,000	227,100
Pension contributions		16,045	51,940
		365,074	1,038,056

Emoluments disclosed above include amounts paid to:

		Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Highest paid director	- salaries, bonus and benefits	103,402	298,391
	- pension contributions	6,667	21,322
		110,069	319,713

The number of Directors for whom retirement benefits were accruing under money purchase pension schemes in the year was 4 (2001 – 3).

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 31 August 2001	17,876,829	476,902	18,353,731
Additions in the period	-	235,006	235,006
At 31 August 2002	17,876,829	711,908	18,588,737
Amortisation			
At 31 August 2001	9,882,499	226,207	10,108,706
Charge for the period	444,129	106,885	551,014
At 31 August 2002	10,326,628	333,092	10,659,720
Net book values			
At 31 August 2002	7,550,201	378,816	7,929,017
At 31 August 2001	7,994,330	250,695	8,245,025

a) Goodwill is amortised over the period which the Directors estimate will represent its useful economic life. For the periods up to 2001 the useful economic life of the goodwill was estimated to be five years. In 2002, subsequent to the demerger last year and the Group's reorganisation, the Directors have reviewed this economic life. The Directors are of the opinion now that the useful economic life of the goodwill is 20 years from the date of acquisition of the business. This change in useful economic life has had the effect of decreasing the current year group losses, and increasing net assets, by approximately £1.9 million.

b) Some of the development costs 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 the products have been released to the market. Amortisation will be charged on the commencement of sales of the products over the period which the Group is expected to benefit. This period is currently estimated to be two and a half years for the MRM plus 2 product and five years for a new product in development.

12. Tangible fixed assets

Group	Freehold property £	Leasehold properties £	Fixtures and fittings £	Office equipment and computers £	Motor vehicles £	Total £
Cost						
At 1 September 2001 - as previously stated	678,236	191,439	580,225	1,496,097	285,139	3,231,136
Revaluation of property	462,883	-	-	-	-	462,883
At 1 September 2001 - as restated	1,141,119	191,439	580,225	1,496,097	285,139	3,694,019
Additions	-	-	3,965	138,915	-	142,880
Disposals	-	-	-	-	(207,939)	(207,939)
Items scrapped/not in use	-	(191,439)	(245,447)	-	-	(436,886)
At 31 August 2002	1,141,119	-	338,743	1,635,012	77,200	3,192,074
Depreciation						
At 1 September 2001	41,119	191,439	221,787	729,095	210,938	1,394,378
Charge for the period	22,973	-	78,320	227,782	55,001	384,076
Provisions for diminution in value (see below)	-	-	99,204	32,316	10,091	141,611
On disposals	-	-	-	-	(198,830)	(198,830)
Items scrapped/not in use	-	(191,439)	(245,447)	-	-	(436,886)
At 31 August 2001	64,092	-	153,864	989,193	77,200	1,284,349
Net book value						
At 31 August 2002	1,077,027	-	184,879	645,819	-	1,907,725
At 31 August 2001	1,100,000	-	358,438	767,002	74,201	2,299,641

12. Tangible fixed assets (continued)

The Group's freehold property at Hithercroft Road, Wallingford, Oxfordshire OX10 9BT, was valued in June 2001 by Edwin Hill, Chartered Surveyors, who acted as independent valuers. The valuation was prepared in accordance with the Royal Institute of Chartered Surveyors' Appraisal and Valuation Manual. The property was valued on the current open market value basis at £1,100,000. This revaluation has been incorporated in the opening balances by a prior period adjustment as required by the relevant accounting standards.

The provisions for diminution in value of fixed assets comprise the following:

i) The remaining book values, amounting to £99,204, of fixtures and fittings in the Egham property which was vacated during the year,
ii) £32,316 of computer equipment which is obsolete or unusable, and
iii) £10,091 of motor vehicles no longer in use.

These amounts, totalling £141,611, have been written off to the consolidated profit and loss account as an exceptional item.

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

	Fixtures and fittings £	Office equipment and computers £	Motor vehicles £	Total £
Net book values				
At 31 August 2002	19,852	84,254	-	104,106
At 31 August 2001	26,470	111,389	54,217	192,076
Depreciation charge for the period				
31 August 2002	6,618	36,342	-	42,960
31 August 2001	8,272	15,278	18,072	41,622

12. Tangible fixed assets (continued)

Company

	Leasehold property £	Fixtures and fittings £	Office equipment and and computers £	Total £
Cost				
At 1 September 2001	168,843	245,447	469,553	883,843
Additions	-	-	30,925	30,925
Items scrapped/not in use	(168,843)	(245,447)	-	(414,290)
Transfers to group companies	-	-	(464,481)	(464,481)
At 31 August 2002	-	-	35,997	35,997
Depreciation				
At 1 September 2001	168,843	133,682	137,018	439,543
Charge for the period	-	12,561	80,583	93,144
Items scrapped/not in use	(168,843)	(245,447)	-	(414,290)
Provision for diminution in value (see above)	-	99,204	-	99,204
Transfers to group companies	-	-	(197,001)	(197,001)
At 31 August 2002	-	-	20,600	20,600
Net book value				
At 31 August 2002	-	-	15,397	15,397
At 31 August 2001	-	111,765	332,535	444,300

13. Fixed asset investments

	Shares in subsidiary undertakings	
	31 August 2002	31 August 2001
	£	£
Cost		
At 1 September 2001	19,311,781	23,734,447
Adjustment to cost of acquisition in respect of Gladstone MRM Limited acquired in 2000	-	(20,000)
Acquisition of subsidiaries in the period	-	12,033,961
Further investments and costs in existing wholly owned subsidiaries for cash	5,000,000	1,002,021
Demerger of subsidiaries	-	(17,438,648)
At 31 August 2002	24,311,781	19,311,781
Provision for impairment		
At 1 September 2001	(14,599,627)	-
Charge resulting from impairment loss	-	(14,599,627)
Reallocation of impairment provision against loans to dormant subsidiaries	1,355,303	-
At 31 August 2002	(13,244,324)	(14,599,627)
Net book value	11,067,457	4,712,154

The further investment in subsidiaries represents a purchase of a further 25,000 "A" ordinary shares and 25,000 "B" ordinary shares for a total consideration of £5,000,000 in cash in Gladstone MRM Limited.

The Group subsidiary undertakings at 31 August 2002 are as follows:-

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

13. Fixed asset investments (continued)

Name	Principal activity during the period	Percentage of equity capital held
Held directly (continued):		
Torstar Limited	Dormant	100%
In4mation.net Limited	Dormant	100%
Cascade Management Consultants 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%

14. Stocks

	Group		Company	
	31 August 2002 £	31 August 2001 £	31 August 2002 £	31 August 2001 £
Goods for resale	130,121	155,243	-	-
Work in progress	-	-	-	-
	130,121	155,243	-	-

15. Debtors

	Group		Company	
	31 August 2002 £	31 August 2001 £	31 August 2002 £	31 August 2001 £
Trade debtors	2,068,110	1,956,822	2,732	-
Other debtors	9,921	80,885	9,363	117,316
Prepayments and accrued income	163,351	289,448	6,364	134,716
Amounts due from subsidiaries	-	-	-	5,060,648
	2,241,382	2,327,155	18,459	5,312,680

16. Creditors: amounts falling due within one year

	Group		Company	
	31 August 2002	31 August 2001	31 August 2002	31 August 2001
	£	£	£	£
Bank overdraft	208,427	-	208,457	-
Bank loans (note 17)	188,125	150,000	188,125	150,000
Net obligations under finance leases (note 17)	254,408	267,734	170,940	153,487
Trade creditors	790,854	1,428,312	282,395	690,861
Corporation tax	9,211	9,210	-	-
Other taxes and social security costs	569,350	139,120	273,337	11,807
Other creditors	-	24,980	-	16,650
	2,020,375	2,019,356	1,123,254	1,022,805

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

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

	Group		Company	
	31 August 2002	31 August 2001	31 August 2002	31 August 2001
	£	£	£	£
Bank loan	1,021,875	3,100,000	1,021,875	3,100,000
Net obligations under finance leases	85,287	136,240	49,905	118,322
Amount due to subsidiaries	-	-	1,753,146	-
	1,107,162	3,236,240	2,824,926	3,218,322

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

The bank loan is repayable as follows:

	£
Within one year (note 16)	188,125
Between one and two years	272,500
Between two and five years	749,375
	1,210,000

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

	Group		Company	
	31 August 2002	31 August 2001	31 August 2002	31 August 2001
	£	£	£	£
b) *Gross obligations under finance lease contracts*				
Repayable within one year	297,803	241,117	199,005	174,585
Repayable in one to two years	95,852	200,915	56,186	134,383
Repayable between two and five years	-	34,102	-	-
Gross	393,655	476,134	255,191	308,968
Finance charges allocated to future accounting periods	(53,960)	(72,160)	(34,346)	(37,159)
Net	339,695	403,974	220,845	271,809
Included within liabilities falling due within one year	(254,408)	(267,734)	(170,940)	(153,487)
Due in more than one year	85,287	136,240	49,905	118,322

The finance lease creditors are secured on the assets concerned.

18. Accruals and deferred income

During the year the company adopted alternative presentation of the accounts formats under the Companies Act 1985 to disclose the accruals and deferred income in the balance sheet after provisions for liabilities and charges instead of including in creditors falling due within one year, thus increasing the net current assets by £2,145,494 (2001: £2,542,154). This change in presentation resulted in a change of accounting policy and accordingly the amounts relating to the previous year have been restated.

19. Share capital

	31 August 2002 £	31 August 2001 £
Authorised		
100,000,000 ordinary shares of 10p each	10,000,000	5,500,000
Allotted, called up and fully paid		
41,116,996 ordinary shares of 10p each (2001: 34,264,170 ordinary shares of 10p each)	4,111,700	3,426,417

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

Date of issue	Number of shares	Premium per share
At 1 September 2001 - balance brought forward	34,264,170	
6 February 2002 allotment of shares for cash at par	3,426,416	-
11 June 2002 allotment of shares for cash at par	3,426,410	-
At 31 August 2002	41,116,996	

19. Share capital (continued)

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

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

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

20. Statement of movements on reserves

Group	Share premium account £	Special reserve £	Merger reserve £	Revaluation reserve £	Profit and loss account £
Balance at 1 September 2001 - as previously stated	13,353,074	4,667,133	2,148,000	-	(15,241,194)
Prior year adjustment - revaluation of property	-	-	-	462,883	-
Balance at 1 September 2001 - as restated	13,353,074	4,667,133	2,148,000	462,883	(15,241,194)
Transfer from revaluation reserve to profit and loss account	-	-	-	(9,258)	9,258
Retained loss for the year	-	-	-	-	(1,676,703)
Transfer	-	-	(2,148,000)	-	2,148,000
At 31 August 2002	13,353,074	4,667,133	-	453,625	(14,760,639)

20. Statement of movements on reserves (continued)

Company	Share premium account £	Special reserve £	Merger reserve £	Profit and loss account £
At 1 September 2001	13,353,074	4,667,133	2,148,000	(14,807,107)
Retained loss for the year	-	-	-	(1,954,056)
Transfer	-	-	(2,148,000)	2,148,000
At 31 August 2001	13,353,074	4,667,133	-	(14,613,163)

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

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

b) 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 represented the premium on the shares issued by the Company. This reserve is distributable due to the availability of merger relief (note 1.2). The Directors therefore transferred this reserve to the profit and loss account reserve.

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 year ended 31 August 2002 was 1,954,056 (2001: £16,914,014 loss) and comprises:

	2002 £	2001 £
Loss before exceptional items	(1,631,533)	(1,712,359)
Exceptional items:		
Impairment of investments in subsidiaries (note 13)	-	(14,599,627)
Provision for diminution in value of fixed assets (note 12)	(99,204)	(189,911)
Provision for PAYE and NI in connection with exercise of options by former directors (note 3b)	(168,319)	-
Redundancy and termination costs	(55,000)	(112,117)
Demerger costs	-	(300,000)
	(1,954,056)	(16,914,014)

22. Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Loss for the period	(1,676,703)	(16,511,656)
Dividend - demerger	-	(15,414,758)
	(1,676,703)	(31,926,414)
Other recognised gains and losses - property revaluation	-	462,883
Proceeds from issues of shares	685,284	8,203,277
Costs of share issues written off to the share premium account	-	(2,923)
Net decrease in shareholders' funds	(991,419)	(23,263,177)
Opening shareholders' funds at start of the year	8,816,313	32,079,490
Closing shareholders' funds at end of the year	7,824,894	8,816,313

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

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Operating loss	(1,481,365)	(16,040,931)
Depreciation charges	384,076	921,940
Profit on sale of fixed assets	(15,156)	(1,138)
Amortisation of goodwill	444,129	7,459,304
Impairment of goodwill	-	3,075,727
Development costs amortisation/written off	106,885	226,207
Decrease/(increase) in stocks	25,122	(77,043)
Decrease/(increase) in debtors	85,772	(534,015)
Increase in creditors	(232,208)	2,603,415
Decrease in accruals and deferred income	(396,660)	-
Net cash outflow from operating activities	(1,079,405)	(2,366,534)

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

	Year ended 31 August 2002 £	14 months ended 31 August 2001 £
Decrease in cash from cash flows of the Group	(2,905,747)	(5,352,745)
Cash outflow/(inflow) from (decrease)/increase in debt	2,104,279	(4,550,107)
Cash acquired with subsidiaries	-	283,798
Cash demerged with subsidiaries	-	(3,136,666)
Decrease in net funds resulting from cash flows	(801,468)	(12,755,720)
New finance lease contracts	-	(428,369)
Net debt acquired on purchase of subsidiaries	-	(102,859)
Net debt demerged with subsidiaries	-	1,913,428
Movements in net funds in the period	(801,468)	(11,373,520)
Net (debt)/funds at start of the year	(66,975)	11,306,545
Net debt at end of the year	(868,443)	(66,975)

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

	31 August 2001	Cash flows	Non-cash changes	31 August 2002
	£	£	£	£
Cash at bank and in hand	3,586,999	(2,697,320)	-	889,679
Bank overdraft	-	(208,427)	-	(208,427)
	3,586,999	(2,905,747)	-	681,252
Bank loans	(3,250,000)	2,040,000	-	(1,210,000)
Finance leases	(403,974)	64,279	-	(339,695)
	(3,653,974)	2,104,279	-	(1,549,695)
Total net debt	(66,975)	(801,468)	-	(868,443)

26. Capital commitments

At 31 August 2002, the Group had no capital commitments (2001: £Nil).

27. Financial commitments

At 31 August 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2002	2001	2002	2001
	£	£	£	£
Expiry date:				
In under one year	-	-	27,636	-
Between two and five years	131,550	199,050	32,466	73,896

28. 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 2002 the Group had sterling cash deposits of £889,679. The weighted average interest rate of these deposits was 3.85%. The principal purpose of these cash funds is to assist in the development of the Group's businesses.

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

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

The interest rate profile of the Group's financial liabilities at 31 August 2001 were as follows:

	Total	**Floating rate financial liabilities**	**Fixed rate financial liabilities**
	£	**£**	**£**
At 31 August 2002	1,758,122	1,418,429	339,693
At 31 August 2001	3,653,974	3,250,000	403,974

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

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

28. Financial instruments (continued)

The maturity of the Group's financial liabilities at 31 August 2002 is as follows:

	£
In one year or less, or on demand	650,960
In more than one year but not more than two	368,352
In more than two years but not more than five	738,810
	1,758,122

c) *Borrowing facilities*

At 31 August 2002, the Group had £250,000 agreed undrawn committed borrowing facilities.

d) *Fair value of financial assets and liabilities*

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

e) *Foreign currency risk*

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

f) *Financial risk management and treasury policies*

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Brewin Dolphin Securities Limited at National House, 36 St Ann Street, Manchester M2 7LE on Friday 21 March 2003 at 9.30am to transact the following business:

Ordinary business

1. To re-appoint Hacker Young as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to determine their remuneration.

2. To re-elect Simon Preston as a director of the Company who is retiring in accordance with the provisions of the Company's Articles of Association.

3. To elect Derick Martin as a director of the Company.

Special business

To consider and, if thought fit, to pass the following resolutions, of which resolutions 4, 5, 6 and 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

4. That subject to the passing of resolutions 5 and 6 the 41,116,996 issued ordinary shares of 10 pence each in the capital of the Company be with effect from the Effective Time (as hereinafter defined) sub-divided into 41,116,996 new ordinary shares of 1 pence each and 41,116,996 deferred shares of 9 pence each and so that the Effective Time shall mean 7.59 am on Monday 24 March 2003 or such later time and date as the Directors may determine (whether they so determine before or after 7.59 am on Monday 24 March 2003).

   The ordinary shares of 1 pence each shall rank *pari passu* in all respects and the holders of the ordinary shares of 1 pence each shall be entitled to attend and vote at any General Meeting of the Company. The deferred shares of 9 pence each may not be transferred and shall not entitle their holders to receive any dividends or other distribution, nor entitle them to receivenotice of or to attend or vote at any General Meeting of the Company and shall only entitle their holders to receive or participate in any property or assets of the Company whether on a return of assets or a winding-up of the Company or otherwise, after the holders of ordinary shares of 1 pence each have been repaid the amount paid up on the ordinary shares of 1 pence each together with a premium of £10,000 per share and then only to the extent of 9 pence per share.

5. That subject to the passing of resolutions 4 and 6 the 58,883,004 authorised but unissued ordinary shares of 10 pence each in the capital of the Company be with effect from the Effective Time sub-divided into 588,830,040 new ordinary shares of 1 pence each.

6. That subject to the passing of resolutions 4 and 5 the authorised share capital of the Company be increased to £20,000,000 by the creation of 1,000,000,000 new ordinary shares of 1 pence each.

7. That the directors be and they are hereby generally and unconditionally authorised, in substitution for all previous powers granted to them, to allot relevant securities, (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount equal to the authorised but unissued share capital of the Company in existence immediately after the meeting at which this resolution is passed provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 or 15 months from the passing of this resolution (if sooner) but so that the Company may before such expiry make an offer or agreement which would or might require securities to be allotted after such

expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

8. That, subject to the passing of resolution 7 above, the directors be empowered pursuant to section 95 of the Companies Act 1985 ("the Act") in substitution for all previous powers granted to them to allot equity securities for cash pursuant to the authority conferred by resolution 7 above as if section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this power shall be limited to:

   a) the allotment of new equity securities in connection with any rights issue or other offering of new equity securities in favour of the holders of equity securities of the company where the new equity securities attributable to the interests of such persons are proportionate (as nearly as may be) to the respective numbers of the relevant equity securities shares held by them (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractions of such securities or the issue and/or holding or any securities in uncertificated form or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory); and

   b) to the allotment (otherwise than pursuant to paragraph a) above of the equity securities up to a nominal value of £623,094)

   and shall expire at such time as the general authority conferred on the directors by resolution 7 above expires save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuant of such an offer or agreement as if such power had not expired.

9. That, subject to the passing of resolution 7 above but only in the event that resolution 8 is not passed, the directors be empowered pursuant to section 95 of the Companies Act 1985 ("the Act") in substitution for all previous powers granted to them to allot equity securities for cash pursuant to the authority conferred by resolution 7 above as if section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this power shall be limited to:

   a) the allotment of new equity securities in connection with any rights issue or other offering of new equity securities in favour of the holders of equity securities of the company where the new equity securities attributable to the interests of such persons are proportionate (as nearly as may be) to the respective numbers of the relevant equity securities shares held by them (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractions of such securities or the issue and/or holding or any securities in uncertificated form or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory); and

   b) to the allotment (otherwise than pursuant to paragraph a) of the equity securities up to a nominal value of £70,000)

   and shall expire at such time as the general authority conferred on the directors by resolution 7 above expires save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuant of such an offer or agreement as if such power had not expired.

Gladstone plc ("the Company")

FORM OF PROXY

For use by holders of Ordinary Shares at the Company's Annual General Meeting to be held at offices of Brewin Dolphin Securities Limited, National House, 36 St Ann Street, Manchester M2 7LE

I/We ....

of ....
being (a) member(s) of the above mentioned Company, hereby appoint the Chairman of the meeting, or failing him,

(Note 2) ....
as my/our proxy to vote for me/us and on my/our behalf at the Annual General meeting of the Company to be held at 9.30am on Friday 21 March 2003 and at any adjournment thereof. I/We request such proxy to vote on the following resolution as indicated below:

ORDINARY RESOLUTIONS		**For**	**Against**
1.	To re-appoint Hacker Young as auditors and authorise the Directors to determine their remuneration.		
2.	To re-elect Simon Preston as a director of the Company.		
3.	To elect Derick Martin as a director of the Company.		
4.	That the issued existing ordinary share capital be sub-divided.		
5.	That the authorised but unissued ordinary shares be sub-divided.		
6.	That the authorised share capital be increased.		
7.	To authorise the directors to allot the authorised but unissued share capital.		
SPECIAL RESOLUTIONS			
8.	To authorise the directors to allot equity securities non pre-emptively for cash upto a nominal value of £623,094.		
9.	To authorise the directors to allot securities non pre-emptively for cash upto a nominal value of £70,000.		

Names of joint holders (if any) ....

Signature: .... Dated: 2003

Notes:

1. Please indicate with an "X" in the appropriate box how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting
   (a) on the resolution referred to above if no instruction is given in respect of the resolution; and
   (b) on any business or resolution considered at the meeting other than the resolution referred to above.
2. If you wish to appoint someone other than the Chairman of the meeting as your proxy please delete the words 'the Chairman of the meeting' and insert the name of the person you wish to appoint. A proxy need not be a member of the Company.
3. To be effective, this form and any power of attorney under which it is executed (or duly certified copy of any such power of attorney), must be deposited with Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the AGM or the adjourned meeting).
4. Where the member is a corporation this form must be under its common seal or signed by an attorney or a duly authorised officer of the corporation.
5. In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holdings.
6. Any alteration in this Form of Proxy must be initialled by the person in whose hand it is signed or executed.
7. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the Annual General Meeting is at 9.30am on 19th March 2003. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 48 hours before the date fixed for the adjourned meeting. Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.