

Company No. 3327360

GLADSTONE PLC
REPORT AND ACCOUNTS
YEAR ENDED 31 AUGUST 2005



GLADSTONE PLC

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GLADSTONE PLC

DIRECTORS, SECRETARY AND ADVISERS

Directors	Said Ziai	<i>(Chief Executive Officer)</i>
	Anthony Caplin	<i>(Non-Executive Chairman)</i>
	Jeremy Stokes	<i>(Non-Executive Director)</i>
	Nicholas Montgomery	<i>(Finance Director)</i>

Company Secretary	Josephine Saunders
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Registered Office	Hithercroft Road Wallingford Oxfordshire OX10 9BT
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Company Number	3327360
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Corporate Finance Advisers	KBC Peel Hunt Limited 110 Old Broad Street London EC2N 1PH
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Auditors	UHY Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH
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Solicitors	Pitmans 47 Castle Street Reading Berkshire RG1 7SR
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Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
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Principal Bankers	Royal Bank of Scotland plc PO Box 12264 3 rd Floor 1 Princes Street London EC2R 8PB
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GLADSTONE PLC

NON-EXECUTIVE CHAIRMAN'S STATEMENT

In the second half of this financial year, Gladstone changed its board structure. This was aimed at strengthening the executive, whilst at the same time maintaining continuity.

I am pleased to report the appointment of Said Ziai who joined Gladstone in August as the CEO. He brings considerable international experience in the strategic repositioning and turnaround of a wide range of businesses in the technology services, industrial and energy sectors. He has worked in senior executive positions in a number of major UK and US corporations. His immediate focus has centred on improving the organisational effectiveness and efficiency of the Group and maximising the near term opportunities. This is already showing results. He is supported by Nicholas Montgomery, FCA, who was appointed Finance Director in June. Nick has served Gladstone as Company Secretary since November 2001 and non-executive director since August 2003.

Gladstone has a strong team of professionals, a robust financial base and an ambitious outlook on strategic opportunities. The Board is committed to developing a long term strategic plan focusing on organic growth and acquisitions. Costs are now under control and our focus is currently on developing our revenue. We are confident and positive in our outlook for the future.



Anthony Caplin
Non-Executive Chairman

13 January 2006

GLADSTONE PLC

CHIEF EXECUTIVE OFFICER'S REPORT

INTRODUCTION

I report my first statement to you as Chief Executive Officer of your Group following my appointment on 26 August 2005. I have been struck by a number of early observations; the strong position that Gladstone enjoys in its markets, the enthusiasm of staff, the depth of experience that exists and the potential for profitable growth that faces the Group.

Gladstone continues to command a large share of the membership software solutions for the leisure and fitness market in the UK. In addition, over the years, Gladstone has developed a mature sales, installation and support infrastructure throughout the UK. This stands the Group in good stead as we broaden our positioning, and focus our sales initiatives on new areas.

Over the last four years the Group has grown its net operating profit before amortisation of goodwill and exceptional items to a level of £900,000. During that period, turnover has remained static at the £8 million level. The challenge the Group now faces is to consolidate its market leadership while moving into new strategic spaces to enhance growth and profitability.

In line with other service businesses, our reputation, reliability of systems, and solutions value are key to our success. All our customers demand rich functionality, in some cases tailored to their particular needs. This requires a stable systems platform and competent support over a wide range of skills. Gladstone currently offers extensive product functionality and service across the industry.

FINANCIAL OVERVIEW

Turnover grew from £7.7 million in 2004 to £8.4 million in 2005, primarily resulting from increased sales of software, partly due to the current year's orders pipeline maturing early, as well as growth in maintenance revenues. Software sales also benefited from our first year of trading in Australia. With margins remaining at the same level, this year has seen an increase in operational overhead of £721,000 leaving operating profits before amortisation of goodwill and exceptional items down on last year by £95,000.

A significant part of the increase in operational overhead resulted from investments in staff and the development of our international activities. Exceptional costs were incurred at the end of the year resulting from our contractual obligations following the departure of Ben Merrett.

Net tangible assets as at 31 August 2005 were £4.04 million (2004: £1.92 million). No major investments were made during the year and the creditors falling due within one year decreased by £250,000 to £1.2 million. Gladstone MRM Limited has £1.3 million of tax losses brought forward for relief against future profits. Gladstone plc carries £3.1 million of capital losses and £5 million of excess management expenses brought forward.

Cash increased in the year by £2.5 million (2004: £0.9 million) of which £1.5 million was raised through the issue of shares. The cash generative nature of our business provides a healthy platform for further growth.

OPERATIONS OVERVIEW

Sales

In addition to serving our existing base of customers and upgrading a number of major systems both in the public and private sectors, Gladstone was also successful in winning a number of new prestige sites. This has been made possible by the strength of our robust and tested MRM.plus2 platform and its extensive functionality. Focus on management reporting is key for leisure facilities. Our systems provide these reports and the support services to refine them.

GLADSTONE PLC

CHIEF EXECUTIVE OFFICER'S REPORT

During this financial year, we were pleased to be awarded contracts to provide systems to Chardon Management, JJB Sports, Bannatyne Fitness, Total Fitness and MacDonald Hotels. We also won a number of major contracts in the public sector, including: East Renfrewshire Council, Chester le Street District Council, Nottingham Trent University and with Impulse Leisure on behalf of Adur District Council, Fusion Lifestyle on behalf of London Borough of Southwark and Abbey Croft Leisure on behalf of St Edmundsbury Borough Council.

Upgrading legacy sites to current versions of our MRM.plus2 product is an initiative we are currently pursuing and we have conducted a detailed review in this regard. Gladstone's software solutions enjoy a strong position across all segments of the UK leisure industry. We will continue to leverage this strength to further consolidate our position.

Delivery and Service

Gladstone's installation and training teams are focused on the efficient delivery of our systems to new and existing sites. The demand for dedicated technical support has sharply increased over the past 12 months due to the growth in demand for central server and other technically advanced systems. We pro-actively invest in training programmes tailored to meet these needs. Gladstone has also been helping a number of businesses to leverage the extensive management information generated within MRM.plus2 into appropriately formatted management reports. Using our MRM.datamine and MRM.analyser products, such reports can include information from other data sources on customers' corporate systems.

The number of service calls handled by our customer support team has increased over the past three years. This reflects the increased base of installed systems and the wider functionality of the systems used by our customers. Our service productivity, however, has more than matched this increase, reflecting our continued focus on quality and efficiency. The progress made in this area has been broadly recognised by our customer base in their feedback and responses to our surveys.

Development

During the year, the Group continued its programme of investment in the core software application MRM.plus2. The main emphasis has been on providing functionality that enhances our clients' operational efficiency and customer relationship management. We work closely with our clients in the development of member retention and recruitment strategies and have carried out a detailed review of our own processes in this regard. Our Prospecting, Datamine products, Analyser and Wizard modules are designed with these requirements in mind.

We also dedicated increased resources toward new product development targets, focused on future market requirements. These products include MRM.kiosk, a queue busting self-service ticket collection station and MRM.pocketPOS, a stand alone point-of-sale hand-held device, designed to maximise the mobility of leisure centre staff.

Another key focus has been the eGIF requirements of Local Government. We have enhanced our web bookings platform to make it conform to all relevant web standards but with significant configuration capability. Additionally, we will soon complete integration with the most widely used online payment gateway and will release our own interface to allow our customers the choice of integrating with their preferred payment solution.

International

We opened our Sydney office in Australia in September 2004. We have since secured orders for over ninety sites, thirty of which have already been installed. MRM.plus2's centralised database has proved to be a major advantage in Australia. The Police & Community Youth Clubs NSW Ltd contract involves the management of fifty seven sites on a centralised platform. Other customers, Shoalhaven City Council and Gosford City Council have now introduced second sites, taking advantage of our centralised capabilities. With such recent gains, we are optimistic about capturing a strong market share in Australia.

GLADSTONE PLC

CHIEF EXECUTIVE OFFICER'S REPORT

We recently reorganised our operations in Ireland, integrating some local activities with our Wallingford and Glasgow offices, in order to enhance our customer focus and performance.

STRATEGY

In order to secure our current position and meet the demands of our existing and prospective customers, we are reviewing the way we manage our business to ensure our efforts are directed in the most efficient and effective manner.

We provide software solutions, support services and expertise to help operators in the leisure and related markets achieve their business objectives. To this end, I have been working closely with our management team to maximise our performance in all operational areas. We know there are opportunities to deliver more value from our current infrastructure.

Our task is to build on the achievements of the past as well as to remove inefficiencies and the barriers to growth. We have identified a range of possibilities and heightened our market focus, aimed at better utilising our existing resources.

We are not complacent about our strong standing in our market and our robust financial base. We will seek to leverage these strengths to broaden our market share, as well as identify strategic market opportunities.

OUTLOOK

Our principal objective is to deliver shareholder value, through strong and consistent earnings growth, backed by a robust strategy and the Group's intellectual property portfolio. A clear strategy will deliver this objective and value will be created by developing leading edge software solutions and forming key strategic partnerships.

We aim to grow further by building our portfolio of strategic businesses complementing our core competencies. We will invest in new products and new opportunities as appropriate, to provide competitive solutions to our current and potential customers by adding value to their core businesses.

With an established core business, growing recurring revenues currently in excess of forty per cent of turnover, property included at net book value in the accounts at £1.5 million, cash at £4.1 million and market capitalisation at £9.6 million as at 31 August 2005, Gladstone can demonstrate its financial strength and scope for future growth.

PEOPLE

Gladstone is a people business and has benefited from having a stable and loyal staff. I would like to take this opportunity on behalf of the Board to thank all our employees for their unwavering contribution throughout all stages of Gladstone's development.



Said Ziai
Chief Executive Officer

13 January 2006

GLADSTONE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2005

The Directors present their annual report and the audited financial statements of the Group and of the Company for the year ended 31 August 2005.

Activities and review of business

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

Note 13 to the financial statements contains a list of the Company's subsidiaries at 31 August 2005.

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 profit of £847,906 (31 August 2004: £943,055) before the amortisation of goodwill, exceptional items and taxation. After providing for the amortisation of goodwill and exceptional items, the Group reports a profit after taxation of £189,419 (31 August 2004: £527,173). The exceptional items were costs relating to the departure of Ben Merrett of £207,858, together with the goodwill amortisation of £444,129. The goodwill amortisation 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).

The Directors do not recommend the payment of a dividend.

GLADSTONE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2005

Directors

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

S Ziai (Appointed 26 August 2005)

A Caplin (Appointed 11 July 2005)

J Stokes

N Montgomery

B Merrett (Appointment ceased 26 August 2005)

D Martin (Appointment ceased 11 July 2005)

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

The biographical details of the present Directors are as follows:

Said Ziai (aged 51), Chief Executive Officer

Said has extensive international business development and general management experience, having worked at executive committee level across a wide range of industries. He has a solid track record of developing innovative corporate strategies and successful turnaround plans in complex and diverse organisations in major power companies as well as in global automation technology, electronic security services and manufacturing industries in the UK, US and Europe. He holds an MBA from Manchester Business School, as well as a BSc and PhD in Engineering from the University of London.

Anthony Caplin (aged 54), Non-Executive Chairman

Tony has gained considerable experience in working with technology companies over the past twenty years, and has held a number of directorships in public and private organisations. He is former Chairman of Durlacher and is currently non-executive director of Panmure Gordon, Chairman of Ant plc and Ealing Hospital NHS Trust as well as a commissioner on the Public Works Loan Board and other boards.

Jeremy Stokes (aged 44), Non-executive Director

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

Nicholas Montgomery (aged 54), Finance Director

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

GLADSTONE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2005

Directors' interests

The beneficial interests in the issued share capital of the Company of the Directors who held office at 31 August 2005 were as follows:

	31 August 2005 Ordinary shares of 1p each		31 August 2004 Ordinary shares of 1p each	
	Number	Percentage of issued ordinary share capital	Number	Percentage of issued ordinary share capital
Said Ziai	-	-	-	-
Anthony Caplin	-	-	-	-
Jeremy Stokes	7,716,928	15.4	7,468,273	17.0
Nicholas Montgomery	-	-	-	-

The mid-market price of the Company's shares on 31 August 2005 was 19.5 pence

None of the Directors had any interests in the share capital of any of the Company's subsidiaries at 31 August 2005 or 31 August 2004.

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 2005 were as follows:

Gladstone 1999 Unapproved Scheme:

	Number of options	Exercise price	Date of grant	Exercise period
Jeremy Stokes	1,000,000	13p	24.12.2003	24.12.2006 to 24.12.2013

Deed of grant:

Jeremy Stokes	1,000,000	21.75p	1.12.2004	1.12.2007 to 1.12.2014
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No share options were exercised by the Directors during the year under review.

There have been no further changes in the interests of the current Directors in the issued share capital of the Company between 31 August 2005 and the date on which these financial statements were signed.

Interests in contracts

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

GLADSTONE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2005

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 6 January 2006. The shares held under nominee names are not included below as their ultimate ownership is not known.

	Ordinary shares of 1p each	
	Number	Percentage
Jeremy Stokes (notified 12 April 2005)	7,716,928	15.4%
N and Mrs R Slater (notified 24 February 2005)	2,700,000	5.4%
D Martin (notified 18 April 2005)	2,588,208	5.2%
J P Morgan Fleming		
Mercantile Investment Trust plc (notified 21 March 2005)	3,775,000	7.5%
Beryl and Norman Guiver (notified 25 June 2005)	1,667,000	3.3%
Gerrard Limited (notified 25 August 2005)	1,748,027	3.5%
Constellation Software Inc. (notified 14 December 2005)	3,015,000	6.0%

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 2005 the Group average creditor days was 36 (2004: 88 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 expenditure on research and development of products for resale. None of the expenditure incurred has been capitalised.

GLADSTONE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2005

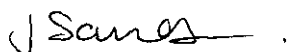
Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing UHY 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.

Annual general meeting

The Notice of the Annual General Meeting to be held at the offices of Gladstone plc, Hithercroft Road, Wallingford, Oxon on Friday 24 February 2006 at 10 am is set out on page 46.

By order of the Board



Josephine Saunders
Company Secretary

13 January 2006

GLADSTONE PLC

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 the Directors met regularly. From 17 June 2005 the Board has consisted of two executive Directors and two non-executive Directors (one of whom is the non-executive Chairman). At least one-third of the Board therefore is comprised of non-executive directors, as recommended by provision A.3.1 of the Combined Code.

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

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

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

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

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

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

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

GLADSTONE PLC

CORPORATE GOVERNANCE

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 Anthony Caplin and Jeremy Stokes.

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

Remuneration committee

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

- **Investment appraisal**

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

GLADSTONE PLC

CORPORATE GOVERNANCE (Continued)

- **Annual review and assessment**

The Board is currently carrying out a detailed review and assessment of the effectiveness of the Group's system of internal control, a process that will be maintained on an annual basis.

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

Going concern

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

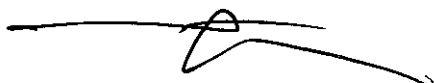
The Directors have formed the judgement that at the time of approving the financial statements the Group and the Company had adequate resources to continue in existence for the foreseeable future. Therefore, the Directors consider the adoption of the going concern basis in preparing the financial statements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

Relations with shareholders

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

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

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



Jeremy Stokes
Non-Executive Director

13 January 2006

GLADSTONE PLC

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, Anthony Caplin 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 Chief Executive Officer, Said Ziai, which is subject to twelve months' notice by the Company and six months' notice by Said Ziai. This agreement provides for a basic annual salary of £140,000 as well as pension contributions of twenty per cent of the basic salary and other benefits such as medical and life insurance schemes.

In addition, Said Ziai is entitled to a bonus subject to the achievement of agreed performance targets. The performance target agreed for the first financial year following appointment is achievement of in excess of a 10% growth per issued share of the Company based on EBITDA from the last financial year ending 31 August 2005.

The Finance Director, Nicholas Montgomery, is currently employed by the Company on the basis of a four day week on an annual salary of £80,000 as well as pension contributions of ten per cent of this salary, and is subject to six months' notice by either party.

GLADSTONE PLC

REPORT OF THE REMUNERATION COMMITTEE

Directors' emoluments for the year ended 31 August 2005

	Salary and fees £	Benefits in kind £	Bonus £	Termination £	31 August 2005 Total £	Year ended 31 August 2004 Total £
Executive Directors:						
Ben Merrett	120,418	3,257	5,000	132,626	261,301	142,533
Nick Montgomery	14,333	-	-	-	14,333	-
Non-executive Directors:						
Anthony Caplin	10,833	-	-	-	10,833	-
Jeremy Stokes	-	-	-	-	-	4,000
D Martin	10,500	-	-	30,000	40,500	12,000
N Montgomery	4,000	-	-	-	4,000	-
Total emoluments excluding pension contributions	160,084	3,257	5,000	162,626	330,967	158,533
Total pension contributions					12,333	11,000
Total emoluments including pension contributions					343,300	169,533

Pension contributions

The pension contributions paid during the year ended 31 August 2005 were as follows:

	£
Ben Merrett	11,000
Nick Montgomery	1,333
	12,333

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.

GLADSTONE PLC

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.



Jeremy Stokes
Non-Executive Director

13 January 2006

GLADSTONE PLC

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 2005 which comprise the consolidated profit and loss account, the statement of total recognised gains and losses and the note of historical cost profits and losses, the balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of the freehold property) and the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditors

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

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Non-Executive Chairman's Statement, the Chief Executive Officer's Report, the Directors' Report, the Corporate Governance Statement, the Report of the Remuneration Committee and the Statement of Directors' responsibilities. 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 2005 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

UHY Hacker Young
UHY Hacker Young
Chartered Accountants
Registered Auditors

13 January 2006

London

GLADSTONE PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2005

	Notes	2005 £	2004 £
Turnover		8,411,642	7,649,463
Cost of sales		(1,620,358)	(1,462,025)
Gross profit		6,791,284	6,187,438
Administration expenses excluding amortisation of goodwill and exceptional items			
		(6,008,176)	(5,286,896)
Operating profit before amortisation of goodwill and exceptional items		783,108	900,542
Amortisation of goodwill	3 b)	(444,129)	(444,129)
Exceptional items	3 b)	(207,858)	-
Total administration expenses		(6,660,163)	(5,731,025)
Operating profit and profit on ordinary activities before interest		131,121	456,413
Interest receivable	4	125,299	90,763
Interest payable	5	(60,501)	(48,250)
Profit on ordinary activities before taxation		195,919	498,926
Taxation	7	(6,500)	28,247
Profit retained		189,419	527,173
Profit on ordinary activities before amortisation of goodwill, exceptional items and taxation			
		847,906	943,055
Profit per ordinary share (pence)	8		
Basic		0.40p	1.21p
Basic before amortisation of goodwill and exceptional items		1.78p	2.24p
Diluted		0.38p	1.19p

All of the amounts are in respect of continuing operations.

GLADSTONE PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AND NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 AUGUST 2005

	2005 £	2004 £
Statement of total recognised gains and losses		
Profit for the financial year	189,419	527,173
Exchange differences on retranslation of net assets of foreign currency operations	2,433	-
Total recognised gains and losses relating to the year	191,852	527,173
Prior year adjustment (note 6)	(254,638)	
Total gains and losses recognised since the last financial statements	(62,786)	
Note of historical cost profits and losses		
	2005 £	2004 £
Reported profit on ordinary activities before taxation	195,919	498,926
Difference between historic cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	9,257	9,258
Historic profit on ordinary activities before taxation	205,176	508,184
Historic profit for the year retained after taxation and dividends	198,676	536,431

GLADSTONE PLC

CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2005

		2005		2004 as restated (note 6)	
	Notes	£	£	£	£
Fixed assets					
Intangible assets	11		6,217,814		6,661,943
Tangible assets	12		2,183,982		2,340,169
			<hr/>		<hr/>
			8,401,796		9,002,112
Current assets					
Stocks	14	43,888		128,733	
Debtors	15	1,861,388		2,044,956	
Cash at bank and in hand		4,116,722		1,935,351	
		<hr/>		<hr/>	
		6,021,998		4,109,040	
Creditors: amounts falling due within one year	16	(1,199,302)		(1,448,932)	
		<hr/>		<hr/>	
Net current assets			4,822,696		2,660,108
			<hr/>		<hr/>
Total assets less current liabilities			13,224,492		11,662,220
Creditors: amounts falling due after more than one year	17		(313,291)		(707,586)
Provisions for liabilities and charges	18		(30,488)		(19,203)
Accruals and deferred income	19		(2,623,100)		(2,357,507)
			<hr/>		<hr/>
Net assets			10,257,613		8,577,924
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	20		502,110		438,637
Share premium account	21		15,041,884		13,617,520
Special reserve	21		4,667,133		4,667,133
Revaluation reserve	21		425,851		435,109
Other reserve	21		5,000		5,000
Profit and loss account	21		(14,084,895)		(14,286,005)
			<hr/>		<hr/>
Equity shareholders' funds			6,557,083		4,877,394
Non-equity shareholders' funds	20		3,700,530		3,700,530
			<hr/>		<hr/>
Total shareholders' funds	23		10,257,613		8,577,924
			<hr/>		<hr/>

The financial statements were approved by the Board on 13 January 2006.


Said Ziai
Chief Executive Officer


Jeremy Stokes
Non-Executive Director


GLADSTONE PLC

COMPANY BALANCE SHEET AS AT 31 AUGUST 2005

	Notes	£	2005 £	£	2004 £
Fixed assets					
Investments	13		11,067,496		11,067,496
			<hr/>		<hr/>
			11,067,496		11,067,496
Current assets					
Debtors	15	39,271		10,057	
Cash at bank and in hand		1,242,890		9,776	
		<hr/>		<hr/>	
		1,282,161		19,833	
Creditors: amounts falling due within one year	16	(18,839)		(49,343)	
		<hr/>		<hr/>	
Net current assets/ (liabilities)			1,263,322		(29,510)
			<hr/>		<hr/>
Total assets less current liabilities			12,330,818		11,037,986
Creditors: amounts falling due after more than one year	17		(2,262,614)		(2,819,352)
Provisions for liabilities and charges	18		(30,488)		(19,203)
Accruals and deferred income	19		(412,976)		(101,827)
			<hr/>		<hr/>
Net assets			9,624,740		8,097,604
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	20		502,110		438,637
Share premium account	21		15,041,884		13,617,520
Special reserve	21		4,667,133		4,667,133
Other reserve	21		5,000		5,000
Profit and loss account	21		(14,291,917)		(14,331,216)
			<hr/>		<hr/>
Equity shareholders' funds			5,924,210		4,397,074
Non-equity shareholders' fund	20		3,700,530		3,700,530
			<hr/>		<hr/>
Shareholders' funds			9,624,740		8,097,604
			<hr/>		<hr/>

The financial statements were approved by the Board on 13 January 2006.


Said Ziai
Chief Executive Officer


Jeremy Stokes
Non-Executive Director

GLADSTONE PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2005

	Notes	£	2005 £	£	2004 £
Net cash inflow from operating activities	24		1,444,247		1,327,430
Returns on investments and servicing of finance					
Interest received		125,299		90,763	
Interest paid		(60,501)		(48,250)	
Net cash inflow from returns on investments and servicing of finance			64,798		42,513
			1,509,045		1,369,943
Taxation refunded			-		21,011
Capital expenditure					
Purchase of tangible fixed assets		(125,757)		(785,750)	
Net cash outflow for capital expenditure			(125,757)		(785,750)
Net cash inflow before financing			1,383,288		605,204
Financing					
Proceeds from issues of shares		1,535,216		299,767	
Share issue costs		(47,379)		(7,853)	
Finance lease repayments		-		(79,556)	
Bank loan repayments		(394,295)		(272,500)	
New bank loan		-		352,500	
Net cash inflow from financing			1,093,542		292,358
Increase in cash	25		2,476,830		897,562

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

1. Accounting policies

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

1.1 Basis of consolidation

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

1.2 Goodwill

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

1.3 Impairment of value

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

1.4 Turnover

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

1.5 Investments

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

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

1.6 Tangible fixed assets and depreciation

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

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

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

1.7 Stocks

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

1.8 Leasing

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

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

1.9 Research and development

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

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

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

1.10 Deferred taxation

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

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

1.11 Pensions

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

1.12 Costs of employee share schemes

Where shares, or options or other rights to shares, are awarded to employees as additional remuneration, the excess of the fair value of the awards over any amount that the employees are required to pay for the shares is charged to the profit and loss account over the period of employment that is being rewarded.

1.13 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 into the profit and loss account as incurred.

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

2. Segmental analysis

Turnover by Geographical area:

	2005 £	2004 £
United Kingdom	7,707,707	7,360,001
Rest of Europe	522,837	288,011
Australia	181,098	1,451
	<u>8,411,642</u>	<u>7,649,463</u>

3 a) Operating profit

	2005 £	2004 £
The operating profit is stated after charging:		
Depreciation on tangible fixed assets	207,484	231,175
Auditors' remuneration	30,000	28,000
Operating lease rentals - land and buildings	-	65,170
	<u>237,484</u>	<u>324,345</u>

Fees paid to the auditors for non-audit work during the year amounted to £17,500 (2004: £25,775).

3 b) Administration expenses

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

	2005 £	2004 £
<i>Amounts written off in connection with acquisition of subsidiaries:</i>		
Amortisation of goodwill	<u>444,129</u>	<u>444,129</u>
<i>Exceptional items:</i>		
Costs relating to the departure of Ben Merrett	<u>207,858</u>	<u>-</u>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

4. Interest receivable

	2005 £	2004 £
Bank interest	125,299	90,763
	<u>=====</u>	<u>=====</u>

5. Interest payable

	2005 £	2004 £
On bank loans and overdrafts	60,501	48,250
	<u>=====</u>	<u>=====</u>

6. Prior year adjustment

The Group has carried out a detailed review of its operations. Based on an analysis of the existing customers and products utilised by them, it has been established that a small number of customers continue to operate products committed for upgrade in previous years. An expectation was created and accordingly a constructive obligation exists. The directors estimate the costs to upgrade these customers to be £254,638.

The effects of the prior year adjustment are summarised below:

	2004 £
Balance sheet	
Accruals and deferred income increased	254,638
	<u>=====</u>
Decrease in net assets	254,638
	<u>=====</u>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

7. Taxation

	2005 £	2004 £
UK corporation tax		
- current year	6,500	-
- prior year	-	(28,247)
	=====	=====
Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	195,919	498,926
	=====	=====
Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2004: 30%)	58,776	149,678
Effects of:		
Non-deductible expenses	22,230	8,573
Depreciation and amortisation	195,409	215,541
Capital allowances	(71,412)	(100,046)
Tax losses	(211,338)	(278,589)
Adjustments to previous periods	-	28,247
Other tax adjustments	12,835	(51,651)
	=====	=====
Current tax charge/(credit)	6,500	(28,247)
	=====	=====

8. Earnings per ordinary share

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

	2005 £	2004 £
Profit for the period	189,419	527,173
	=====	=====
	Number	Number
Weighted average of ordinary shares of 1p (2004:1p) each	47,194,067	43,445,448
	=====	=====
Basic earnings per share (pence)	0.40p	1.21p
	=====	=====

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

8. Earnings per ordinary share (continued)

The basic earnings per share before goodwill amortisation has also been presented since, in the opinion of the directors, this provides shareholders with a more appropriate measure of the earnings derived from the Group's businesses. It can be reconciled to basic earnings per share as follows:

	2005	2004
Basic earnings per share (pence)	0.40p	1.21p
Goodwill amortisation	0.94p	1.03p
Exceptional items	0.44p	-
	<u>1.78p</u>	<u>2.24p</u>
Earnings per share before goodwill amortisation	<u>1.78p</u>	<u>2.24p</u>

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

	2005 £	2004 £
Profit for the period	<u>189,419</u>	<u>527,173</u>
	Number	Number
Weighted average of ordinary shares in issue as above	47,194,067	43,445,448
Dilution for share options outstanding	2,469,307	834,607
Diluted weighted average number of shares in issue	<u>49,663,374</u>	<u>44,280,055</u>
Diluted earnings per share (pence)	<u>0.38p</u>	<u>1.19p</u>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

9. Employees

	2005 £	2004 £
Wages and salaries	3,766,409	3,318,070
Social security costs	410,027	341,559
Pension costs	125,134	113,342
Termination and redundancy costs	287,858	25,250
	<u>4,589,428</u>	<u>3,798,221</u>

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

	2005 £	2004 £
Office and administration	22	21
Sales and marketing	19	18
Development and training	76	77
	<u>117</u>	<u>116</u>

10. Directors' emoluments

	2005 £	2004 £
Emoluments for qualifying services:		
Executive Directors' - salaries and bonuses	139,751	141,345
- benefits	3,257	1,188
Non-executive Directors' fees	25,333	16,000
	<u>168,341</u>	<u>158,533</u>
Termination costs	162,626	-
Pension contributions	12,333	11,000
	<u>343,300</u>	<u>169,533</u>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

10. Directors' emoluments (continued)

The number of Directors for whom retirement benefits were accruing under money purchase pension schemes in the year was 2 (2004: 1).

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.

Emoluments disclosed above include amounts paid to:

	2005 £	2004 £
Highest paid director - salaries, bonus and benefits	128,675	142,533
- pension contributions	11,000	11,000
	<u>139,675</u>	<u>153,533</u>

11. Intangible fixed assets

Group	Goodwill £	Development costs £	Total £
Cost			
At 31 August 2004 and 31 August 2005	17,876,829	733,873	18,610,702
Amortisation			
At 31 August 2004	11,214,886	733,873	11,948,759
Charge for the year off	444,129	-	444,129
At 31 August 2005	11,659,015	733,873	12,392,888
Net book values			
At 31 August 2005	6,217,814	-	6,217,814
At 31 August 2004	6,661,943	-	6,661,943

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

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

12. Tangible fixed assets

Group	Freehold property £	Fixtures and fittings £	Office equipment and computers £	Total £
Cost or valuation				
At 1 September 2004	1,671,921	343,571	1,979,826	3,995,318
Additions	2,153	1,977	121,627	125,757
Reclassification	-	(80,753)	-	(80,753)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2005	1,674,074	264,795	2,101,453	4,040,322
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 September 2004	109,923	235,898	1,309,328	1,655,149
Charge for the period	33,477	15,622	158,385	207,484
Reclassification	-	(6,293)	-	(6,293)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2005	143,400	245,227	1,467,713	1,856,340
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 August 2005	1,530,674	19,568	633,740	2,183,982
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2004	1,561,998	107,673	670,498	2,340,169
	<hr/>	<hr/>	<hr/>	<hr/>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

12. Tangible fixed assets (continued)

Company	Office equipment and computers £
Cost	
At 1 September 2004 and 31 August 2005	36,621
Depreciation	
At 1 September 2004	36,621
Charge for the period	-
At 31 August 2005	36,621
Net book value	
At 31 August 2005	-
At 31 August 2004	-

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

13. Fixed asset investments

Company

Shares in subsidiary undertakings

	2005 £	2004 £
Cost		
At 1 September 2004 and at 31 August 2005	24,311,820	24,311,820
Provision for impairment		
At 1 September 2004 and 31 August 2005	13,244,324	13,244,324
Net book value	<u>11,067,496</u>	<u>11,067,496</u>

The Group subsidiary undertakings at 31 August 2005 are as follows:-

Name	Principal activity during the period	Percentage of equity capital held
------	-----------------------------------------	--------------------------------------

Companies incorporated in the United Kingdom:

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%
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%

Company incorporated in Australia:

Held indirectly:

Gladstone MRM (Australia) Pty Ltd	Membership and facilities Management systems	100%
-----------------------------------	-------------------------------------------------	------

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

14. Stocks

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Goods for resale	43,888	128,733	-	-

15. Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	1,580,942	1,783,044	-	-
Other debtors	78,554	36,584	26,610	2,866
Prepayments and accrued income	201,892	225,328	12,661	7,191
	<u>1,861,388</u>	<u>2,044,956</u>	<u>39,271</u>	<u>10,057</u>

16. Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank overdraft	3,844	299,303	-	-
Bank loan (note 17)	394,292	394,292	-	-
Trade creditors	410,427	488,041	10,034	23,993
Corporation tax	6,500	-	-	-
Other taxes and social security costs	384,239	267,296	8,805	25,350
	<u>1,199,302</u>	<u>1,448,932</u>	<u>18,839</u>	<u>49,343</u>

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

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

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

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank loan	313,291	707,586	-	-
Amount due to subsidiaries	-	-	2,262,614	2,819,352
	<u>313,291</u>	<u>707,586</u>	<u>2,262,614</u>	<u>2,819,352</u>
	=====	=====	=====	=====

The bank loan incurs interest at 1.25% 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)	394,292
Between one and two years	313,291
	<u>707,583</u>
	=====

18. Provisions for liabilities and charges

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
At 1 September 2004	19,203	-	19,203	-
Charged to profit and loss account	11,285	19,203	11,285	19,203
	<u>30,488</u>	<u>19,203</u>	<u>30,488</u>	<u>19,203</u>
	=====	=====	=====	=====

The provisions relate to National Insurance Contributions which will become payable on exercise of share options. The share options can be exercised between 29 January 2005 and 24 December 2014. The amount payable is dependant on the company's share price at the date of exercise of the options. The provision has been calculated based on the share price at the balance sheet date of 19.5p and the assumption that all employees will exercise the share options and that the rate of NIC is 12.8%.

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

19. Accruals and deferred income

	Group		Company	
	2005	2004 as restated (note 6)	2005	2004
	£	£	£	£
Accruals	821,472	477,728	412,976	101,827
Deferred income	1,801,628	1,879,779	-	-
	<u>2,623,100</u>	<u>2,357,507</u>	<u>412,976</u>	<u>101,827</u>

The deferred income relates to advance rental payments amounting to £73,770 (2004: £104,429), payments in advance from local authorities in respect of software to be installed amounting to £199,960 (2004: £133,280) and maintenance payments covering a period subsequent to the year end amounting to £1,527,898 (2004: £1,642,070).

20. Share capital

	2005 £	2004 £
Authorised:		
Equity		
2,000,000,000 Ordinary shares of 1p each	<u>20,000,000</u>	<u>20,000,000</u>
Non-Equity		
41,116,996 Non-voting deferred shares of 9p each	<u>3,700,530</u>	<u>3,700,530</u>
Allotted, called up and fully paid:		
Equity:		
50,210,995 Ordinary shares of 1p each (2004: 43,863,677 Ordinary shares of 1p each)	502,110	438,637
Non-Equity:		
41,116,996 Non-voting deferred shares of 9p each	<u>3,700,530</u>	<u>3,700,530</u>
	<u>4,202,640</u>	<u>4,139,167</u>

On 22 February 2005, the Company issued 6,000,000 ordinary shares of 1 pence each at a premium of 24p per share.

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

20. Share capital (continued)

Also during the year the Company issued a further 347,318 shares of 1 pence each, following exercise of some of its share options under the EMI scheme. The movements in shares and share premium following the above issues and reorganisation of shares are summarised as follows:

	Number of shares	Share Capital £	Share Premium £
As at 1 September 2004	43,863,677	438,637	13,617,520
Shares issued on 22 February 2005	6,000,000	60,000	1,440,000
Costs of issue	-	-	(47,379)
Shares issued on the exercise of options	347,318	3,473	31,743
As at 31 August 2005	50,210,995	502,110	15,041,884

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 2005 can be summarised as follows:

	Number of shares	Option price	Exercisable
i) <i>Gladstone plc 1999 Approved Share Option Scheme:</i>	4,794	14p	from 26/06/04
ii) <i>Gladstone plc 1999 Unapproved Share Option Scheme:</i>	710,000	10p	from 29/01/05
	1,000,000	13p	from 24/12/06
iii) <i>Gladstone 2002 EMI Scheme</i>	1,521,951	10p	from 04/03/03
	844,143	16p	from 20/09/05
	35,000	26.25p	from 22/02/06
	110,000	22p	from 04/04/08
iv) <i>Issued under a deed of grant dated 1 December 2004</i>	1,000,000	21.75p	from 01/12/07

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

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

21. Statement of movements on reserves

Group	Share premium account £	Special reserve £	Revaluation reserve £	Other reserve £	Profit and loss account as restated (note 6) £
Balance at 1 September 2004 as previously reported	13,617,520	4,667,133	435,109	5,000	(14,031,367)
Prior year adjustment (see note 6)	-	-	-	-	(254,638)
Balance at 1 September 2004 as restated	13,617,520	4,667,133	435,109	5,000	(14,286,005)
Share issues	1,424,364	-	-	-	-
Transfer from revaluation reserve to profit and loss account	-	-	(9,258)	-	9,258
Retained profit for the year	-	-	-	-	189,419
Exchange gains on consolidation	-	-	-	-	2,433
At 31 August 2005	15,041,884	4,667,133	425,851	5,000	(14,084,895)
Company	Share premium account £	Special reserve £	Other reserve £	Profit and loss account £	
At 1 September 2004	13,617,520	4,667,133	5,000	(14,331,216)	
Share issues	1,424,364	-	-	-	
Retained profit for the year	-	-	-	39,299	
At 31 August 2005	15,041,884	4,667,133	5,000	(14,291,917)	

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

21. Statement of movements on reserves (continued)

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

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

22. Profit attributable to members of the parent Company

Consistent with the permission given by Section 230 of the Companies Act 1985, the parent Company has not presented its own profit and loss account. The profit on ordinary activities before and after taxation reflected in the financial statements of the parent Company for the year ended 31 August 2005 was £39,299 (2004: Loss £265,686).

23. Reconciliation of movements in shareholders' funds

	2005	2004 as restated (note 6)
	£	£
Profit for the period	189,419	527,173
Proceeds from issues of shares	1,487,837	291,913
Other reserves	-	5,000
Foreign exchange gains	2,433	-
	<u>1,679,689</u>	<u>824,086</u>
Net increase in shareholders' funds	1,679,689	824,086
Opening shareholders' funds at start of the year	8,577,924	7,753,838
	<u>10,257,613</u>	<u>8,577,924</u>
Closing shareholders' funds at end of the year	10,257,613	8,577,924

Opening shareholders' funds at 1 September 2004 were originally £8,008,476 before deducting prior year adjustment of £254,638.

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

24. Reconciliation of operating profit to net cash inflow from operating activities

	2005 £	2004 £
Operating profit	131,121	456,413
Depreciation charges	207,484	231,175
Amortisation of goodwill	444,129	444,129
Fair value of options granted	-	5,000
Decrease/(increase) in stocks	84,845	(26,356)
Decrease/(increase) in debtors	258,029	(55,153)
Increase in creditors	39,328	248,145
Increase in accruals and deferred income	265,593	4,874
Increase in provisions	11,285	19,203
Foreign exchange gain	2,433	-
	<hr/>	<hr/>
Net cash inflow from operating activities	1,444,247	1,327,430
	<hr/>	<hr/>

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

	2005 £	2004 £
Increase in cash from cash flows of the Group	2,476,830	897,562
Cash inflow/(outflow) from decrease/(increase) in debt	394,295	(442)
	<hr/>	<hr/>
Movements in net funds in the period	2,871,125	897,120
Net funds/(debt) at start of the year	534,170	(362,950)
	<hr/>	<hr/>
Net funds at end of the year	3,405,295	534,170
	<hr/>	<hr/>

26. Analysis of changes in net funds

	2004 £	Cash flows £	Non-cash changes £	2005 £
Cash at bank and in hand	1,935,351	2,181,371	-	4,116,722
Bank overdraft	(299,303)	295,459	-	(3,844)
	<hr/>	<hr/>	<hr/>	<hr/>
	1,636,048	2,476,830	-	4,112,878
	<hr/>	<hr/>	<hr/>	<hr/>
Bank loans	(1,101,878)	394,295	-	(707,583)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net funds	534,170	2,871,125	-	3,405,295
	<hr/>	<hr/>	<hr/>	<hr/>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

27. Financial instruments

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

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

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

a) *Interest rate profile of financial assets*

At 31 August 2005 the Group had sterling cash deposits of £4,116,722. 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 2005 were as follows:

	Total £	Floating rate financial liabilities £	Fixed rate financial liabilities £
At 31 August 2005	<u>711,427</u>	<u>711,427</u>	<u>-</u>
At 31 August 2004	<u>1,401,181</u>	<u>1,401,181</u>	<u>-</u>

The floating rate financial liabilities consist of bank overdrafts and a bank loan which carries an interest rate of 1.25% above the bank's base rate and is repayable by quarterly instalments ending in March 2007.

The maturity of the Group's financial liabilities at 31 August 2005 is as follows:

	£
In one year or less, or on demand	398,136
In more than one year but not more than two	313,291
	<u>711,427</u>

GLADSTONE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

27. Financial instruments (continued)

c) *Borrowing facilities*

At 31 August 2005, the Group had nil (2004: £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*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating companies in currencies other than the companies' operating (or 'functional') currency.

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.

28. Contingent liabilities

As a result of a recently conducted detailed review of operations, there could be a financial impact resulting from the way some of the earlier versions of the Group's products were developed. The Group is currently in the process of investigating this matter and cannot provide an estimate of the financial effect until this process is complete.

29. Post balance sheet event

In October 2005, a total of 2,510,550 share options were granted to Said Ziai under a deed of grant at an exercise price of 19p per share. A third of the share options will vest on the first anniversary of the date of grant, a third on the second anniversary and a third on the third anniversary. The share options must be exercised within ten years from the date of grant and will vest only if there is an average compounded annual growth in excess of 10 per cent per issued ordinary share based on EBITDA.

30. Related party transactions

Nicholas Montgomery, appointed Finance Director on 17 June 2005, is also a director and shareholder of Audio Communications Limited and a director and shareholder of Cadland Limited, with whom the company traded on normal commercial terms. A summary of the transactions are set out below:

- Paid £Nil (2004: £19,625) for consultancy services to Audio Communications Limited;
- Paid £46,779 (2004: £29,428) for consultancy services to Cadland Limited.

At the balance sheet date, £Nil (2004: £2,451) was payable to Cadland Limited.