

Company Registration No. 3327360

**GLADSTONE PLC**

**REPORT AND ACCOUNTS**

**YEAR ENDED 31 AUGUST 2006**



7857A11

# GLADSTONE PLC

## CONTENTS

---

	<b>Page</b>
Directors, Company Secretary and Advisers	1
Chairman and Chief Executive Officer's statement	2
Directors' report	6
Corporate governance	11
Report of the remuneration committee	14
Statement of directors' responsibilities	17
Independent auditors' report	18
Consolidated profit and loss account	20
Statement of total recognised gains and losses and Note of historical cost profits and losses	21
Consolidated balance sheet	22
Company balance sheet	23
Consolidated cash flow statement	24
Notes to the financial statements	25
Notice of the annual general meeting	47

# GLADSTONE PLC

## DIRECTORS, SECRETARY AND ADVISERS

---

<b>Directors</b>	Said Ziai	<i>(Chairman and Chief Executive Officer)</i>
	Jeremy Stokes	<i>(Non-Executive Director)</i>
	Nicholas Montgomery	<i>(Finance Director)</i>
	Roderick Chamberlain	<i>(Non-Executive Director)</i>
<b>Company Secretary</b>	Nicholas Montgomery	
<b>Registered Office</b>	Hithercroft Road Wallingford Oxfordshire OX10 9BT	
<b>Company Number</b>	3327360	
<b>Corporate Finance Advisers</b>	KBC Peel Hunt Limited 110 Old Broad Street London EC2N 1PH	
<b>Auditors</b>	UHY Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH	
<b>Solicitors</b>	Pitmans 47 Castle Street Reading Berkshire RG1 7SR	
<b>Registrars</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA	
<b>Principal Bankers</b>	Royal Bank of Scotland plc PO Box 12264 3 <sup>rd</sup> Floor 1 Princes Street London EC2R 8PB	

# **GLADSTONE PLC**

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT**

---

### **INTRODUCTION**

Last year in my first statement I commented on Gladstone's strong position in the health and leisure market supported by the enthusiasm and experience of our staff. These attributes served us well during last year and helped us turn in a robust set of results whilst focusing our attention on the challenges and opportunities for profitable growth in the future.

We continued to consolidate our market leadership in the health and leisure market in the UK. We also invested in Valuenetics A/S in Denmark to provide enhanced development capabilities to reinforce our plans for future growth in our existing and extended core markets. Furthermore, with our recent investment in London Systems (UK) Limited and its software solutions for the education market, we opened up opportunities for additional growth in a much larger sector. The education market is a sector where we will be able to leverage Gladstone's existing infrastructure and market presence.

I have previously highlighted the challenges facing the Group in moving the turnover and profitability beyond the static trend of prior years. Whilst we consolidated our position, we placed emphasis on materially improving the core profitability of the business. We focused on underpinning our turnover whilst at the same time taking the necessary steps towards creating new opportunities to increase it. We strove to improve our service level to further reinforce our reputation as a market leader. We are clear in our focus and the need to deliver dependable systems and solutions to all our customers. We have developed clear plans on how to continue enhancing our existing products' functionality as well as introducing a suite of new products.

Last year we saw further changes in the make up and structure of our board. In June, we announced that Tony Caplin had retired to focus on his other business interests, having joined Gladstone as non-executive Chairman in July 2005. We further announced the appointment of Roderick Chamberlain as a non-executive director in August 2006. Rod brings with him a wealth of hands on management and board experience and we are already benefiting from his proactive contributions. The board also considered it in the best interests of the Group to combine the roles of Chairman and Chief Executive Officer for the time being, a position that will remain unchanged until the appropriate opportunity arises to appoint a suitably qualified Chairman. Gladstone's board is fully committed to high standards in corporate governance whilst maintaining a pragmatic view as to how the best interests of the Group can be served at the different stages of its development.

### **FINANCIAL OVERVIEW**

Turnover grew from £8.41 million in 2005 to £8.64 million in 2006, an encouraging achievement which made up for the early maturity of some £0.4 million of sales expected to occur in 2006 but which were in fact delivered towards the end of the previous financial year. Our recurring revenues also stayed at a healthy level, in excess of 40% of turnover. Performance in Australia was solid, with the business contributing to Group profits.

Operating profits before amortisation of goodwill and exceptional items increased by £0.53 million, a 62% increase on 2005 results, to £1.38 million.

Our early efforts last year to bring under control certain inconsistencies within our operations paid a significant dividend in improving core profitability. I indicated last year that we had to enter into a period of consolidating the business. We concentrated on improving the underlying performance of the operations. Sales and marketing as well as customer support services were restructured to increase effectiveness in sales and improve the quality of our customer service. We removed inefficiencies in a number of areas including ad hoc work in international markets.

# GLADSTONE PLC

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

---

Net tangible assets as at 31 August 2006 increased to £5.08 million (2005: £4.04 million). During the year the creditors falling due within one year dropped by £211,000 to £1.0 million. Gladstone MRM Limited has substantially used up its own carried forward trading tax losses. Gladstone plc has £3.1 million of capital losses and £4.7 million of excess management expenses available for relief in the future as appropriate.

Cash increased in the year by £0.55 million to £4.67 million notwithstanding the early payments for our new investments. The cash generative nature of our business provides a healthy platform for further growth.

### OPERATIONS OVERVIEW

#### Sales

We continued our focus on serving the existing base of customers and in winning a number of new prestige sites. This has been made possible by the strength of our robust and proven Plus2 platform and its extensive functionality, achieved in spite of a marked increase in the efforts of our competitors.

During last year, we were pleased to be awarded contracts to provide systems for Leisure Connection, Sports and Leisure Management (SLM), Topsy Turvy World and Golds Gym. We also won a number of major contracts in the public sector, including; Liverpool City Council, Flintshire County Council, East Lothian Council and South Dublin County Council. Consolidation of the public sector leisure services has gathered further pace by major Managed Service operators, a majority of whom have chosen to use Gladstone's systems and services. We believe this consolidation trend in the public sector is likely to continue in the near to mid term.

Our efforts on upgrading legacy sites to current versions of our Plus2 product will gather pace in this current year in an initiative to remove the less efficient older systems and in order to improve our quality of service. Gladstone enjoys a strong position across all segments of the UK leisure industry, and we will continue to leverage this strength to further consolidate our position.

To emphasize the clarity of our messages and market positioning, we have carried out a review of Gladstone's corporate identity and all the marketing collateral. These were realigned and redesigned to better convey our unique position in the market-place. We are currently reviewing the way we use the web and internet tools in order to better utilise this media on all commercial fronts and in a manner consistent with our long term strategy.

#### Delivery and Service

Gladstone's installation and training teams improved their productivity and delivered a focused and more efficient service to our customers. The demand for a dedicated technical support team has continued to increase over the past 12 months due to the widening of our customer base and growth in demand for central server and other technically advanced systems. We have explored new means of improving the quality of training services as well as reducing costs. We have embarked on introducing web based training services. Gladstone has also been helping a number of businesses to leverage the extensive management information generated within Plus2 into appropriately formatted management reports to improve business performance. This area is currently being enhanced to offer an even more extensive set of reporting services. The demand for such value added services is growing as our clients look to further leverage the functionality and value of our systems to help them develop their businesses and broaden margins.

The number of support calls handled by our teams has steadily increased over the past four years. This reflects the increased base of installed systems and the wider functionality of the systems used by our customers. We carried out a significant restructuring of our customer support team by increasing their technical skills and incorporating specialist teams from across the business. With these changes, we managed to reduce our service costs whilst enhancing the quality of our service delivery.

# **GLADSTONE PLC**

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT**

---

### **Development**

During the year, we carried out an extensive review of our core software application Plus2 and its further development requirements. Due to the wide scope of Plus2, the main emphasis remains on providing functionality that enhances our clients' operational efficiency and customer relationship management. We also decided to release a streamlined and specially adapted version of Plus2 marketed as Plus2 SOLO. We did this to address more specifically the unique requirements of the growing single site health and leisure operators, their desire for the flexibility to expand in the future and also to respond to the perceived competition from our smaller private competitors focusing exclusively on this segment of the market.

We have continued to dedicate resources to new product extensions for Plus2, focused on enhancing its versatility and market reach. These products include Connect, Kiosk and PocketPos. They provide web enabled access, self service ticket collection stations and field based stand alone point-of-sale hand-held devices, designed to maximise the mobility of leisure centre staff.

With the rapid evolutionary changes in the software development platforms and increasing demands for convergence of web, communications and network applications, we have decided to develop a new comprehensive set of next generation products to encompass new technology platforms and to capture the possibilities of further broadening our market base.

### **International**

Our subsidiary located in Sydney Australia has now been in operation for over two years. Plus2's centralised database capabilities and comprehensive functionality have proved to be a major advantage in Australia. Gladstone's products and our team's professionalism have become widely known across the health and leisure sector in Australia. We have raised the benchmark for competition and have educated the market about the superiority of Gladstone's systems solutions. We won a number of major new contracts during the year including; Next Generation – South Park, Mounties Fitness, Newcastle University, Equilibrium Health & Fitness Clubs and Lifestyle Fitness Clubs, more than quadrupling our installed base during last year. We also introduced a rental model to make our systems available to a wider range of customers. With Australia now contributing to Group profits, Gladstone has established itself in all the major states including; New South Wales, Victoria, South Australia, Western Australia and Queensland providing an excellent base for further referrals. With such material gains, we are confident about continued success and a strong market share in Australia. As we develop our focus in new vertical markets such as education, Australia will provide a further base for the roll out of these new initiatives.

With the reorganisation in Ireland, integrating some of the local activities with our Wallingford and Glasgow offices, we improved our margins as well as enhanced our customer focus and performance. We also rationalised the inefficiency in our legacy approach to international opportunities where lack of clarity had introduced unsustainable and unpredictable results.

### **STRATEGY**

During the early part of last year we carried out a comprehensive review of Gladstone's competitive position across the health and leisure market and established a clear view of our comparative position. This has since enabled us to establish targeted priorities for the Group to further enhance our market leadership and prepare the ground for sustainable growth into the future.

Gladstone provides software solutions, support services and expertise to help operators in the Health and Leisure and related markets to achieve their business objectives. I have spent much time with the management team to develop clear roadmaps aimed at further improving our performance in all operational areas as well as fine tuning our service delivery formula. To enable future growth, we have embarked on introducing new integrated IT systems and processes across Gladstone. We expect this to remove further legacy inefficiencies as well as introducing a far more flexible and productive working framework across all the operating teams.

# GLADSTONE PLC

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

---

As a result of our strategy review, we are now committed to introducing a new set of next generation products that will extend the reach of our current products in line with the ongoing expectations of our wide range of existing customers. These products will enable us to open up new horizontal and vertical market opportunities. The acquisition of Valuenetics A/S reinforces this strategy with their proven software development capabilities. Their skills will be leveraged to facilitate our overall objective to enter new vertical markets compatible with health and leisure.

Our recent acquisition of London Systems (UK) Limited is also an early manifestation of some of the much wider opportunities that are open to Gladstone. The education software market is a developing and fast growing market in the UK. The core competencies, software platforms and end market characteristics of this market are a natural extension to our current activities, allowing Gladstone to utilise and leverage its market position to the growing needs of education where health and fitness have become a major focus of attention. The government's recently announced Building Schools for the Future program (BSF) with its significant investment in ICT over the next 15 years, will, in particular, give Gladstone the opportunity to create a strong competitive position.

We are keen to build on our past achievements as well as to establish new services for our future growth. In our strategy review we identified a range of possibilities and critical options facing Gladstone. We are intent on utilising our strong standing in our existing market as well as our robust financial base. We will continue to seek to leverage these strengths and speed up our efforts to broaden our market share as well as identify over time a broader set of synergistic market opportunities.

### OUTLOOK

I noted last year our principal objective is to deliver shareholder value, through strong and consistent earnings growth, backed by a robust strategy based on the Group's intellectual property portfolio. This objective requires clear strategic vision as well as investment to rapidly develop a set of core competencies.

In a letter to all shareholders, I highlighted three distinct and partially concurrent stages to establishing the course for our growth; Initial focus, Organic and Strategic. We gained a healthy momentum in all those areas last year and are now much clearer in our aim to grow further by building our portfolio of strategic businesses complementing Gladstone's core capabilities. We stated our commitment to invest in new products and new opportunities as appropriate in order to provide competitive solutions to our current and potential customers by adding value to their core businesses. With our recent acquisitions, a year of consolidation behind us together with a strong financial performance, we are well aware of the significant challenges ahead. We are, however, confident in our ability to extend Gladstone's reach and grow our business in a measured way.

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 £2 million and cash at £4.7 million, Gladstone has the platform and financial strength to further grow its business.

### PEOPLE

We are primarily a people business. We benefit from having a stable and loyal staff. As we rationalised some of our operations last year, we have had to rely on the skills and dedication of fewer people focused on delivering our services. We have clear targets specifically aligned with our future requirements. 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



Chairman and Chief Executive Officer

17 January 2007

# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2006

---

The Directors present their annual report and the audited financial statements of the Group and of the Company for the year ended 31 August 2006.

### 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 Chairman and Chief Executive Officer's Statement on page 2.

Note 13 to the financial statements contains a list of the Company's subsidiaries at 31 August 2006.

### Financial Key Performance Indicators

	2006	2005
Gross Margin	85.3%	80.7%
Turnover per employee (£ '000)	83.1	71.9
EBITDA before exceptional items per employee (£ '000)	13.3	8.5
Proportion of turnover made to customers outside the UK	8.9%	8.4%

The increase in gross margin reflects a proportionate decrease in hardware sales for 2006. The increase in turnover per employee and in EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation of goodwill) and exceptional items per employee reflects improved efficiencies following a review of the Group's infrastructure.

### Risks and uncertainties

Gladstone has initiated internal reviews to identify the wide ranging risks and uncertainties faced by the business on an ongoing basis in order to develop appropriate contingency plans and put in place clear operational and strategic actions to mitigate such risks.

Since its restructure in 2001, Gladstone's primary focus has been on the UK health and leisure market. The Company is already strong in both the public sector and the large private chains sector in the UK, and is endeavouring to move strategically into well aligned new markets to mitigate the risk associated with being dependent on one sector in one geographic market.

Gladstone needs to invest in new products to maintain market leadership and to provide the flexibility for growth into new markets. Rapid changes in new technology fuel this need and the opportunities for growth.

The cyclical nature of orders in the public sector and the potential loss of large contracts through corporate restructuring in the private chains can have a notable impact on overall sales and recurring revenues. The Board's focus to broaden the activities and increase the revenue lines is in part a measure to mitigate such risks.

Although the health and leisure industry is considered to be a growth sector, rapid periods of corporate consolidation and the general economic conditions could result in pressure on margins and a downturn in revenues. Gladstone's diversification strategy and further new product development are further focused to mitigate such risks. These moves will, however, introduce risks associated with investing in mergers and acquisitions, and the Board recognises success will only come through clear strategic objectives and well executed plans.



# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2006

---

### 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 £1,376,085 (31 August 2005: £847,906) 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 £918,806 (31 August 2005: £189,419). 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.

### Directors

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

S Ziai

A Caplin (Retired 29 June 2006)

J Stokes

N Montgomery

R Chamberlain (Appointed 1 August 2006)

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

The biographical details of the present Directors are as follows:

#### **Said Ziai (aged 52), Chairman and Chief Executive Officer**

Said has extensive international business development and general management experience, having worked at executive committee and board 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.

#### **Jeremy Stokes (aged 45), 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 55), 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.

#### **Roderick Chamberlain (aged 60), Non-executive Director**

Rod has held Board and Executive Committee Positions for over 20 years in banking, regulatory and voluntary organisations both in the UK and abroad. He brings valuable skills to the Gladstone Board to help Gladstone in a period of rapid growth. Rod has an MA in Economics from Cambridge and an MBA from INSEAD.

# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2006

### Directors' interests

The beneficial interests in the issued share capital of the Company of the Directors who held office at 31 August 2006 were as follows:

	31 August 2006		31 August 2005	
	Ordinary shares of 1p each		Ordinary shares of 1p each	
	Number	Percentage of issued ordinary share capital	Number	Percentage of issued ordinary share capital
Said Ziai	-	-	-	-
Jeremy Stokes	7,716,928	14.81	7,716,928	15.4
Nicholas Montgomery	-	-	-	-
Roderick Chamberlain	20,000	0.03	-	-

The mid-market price of the Company's shares on 31 August 2006 was 22.5 pence

None of the Directors had any interests in the share capital of any of the Company's subsidiaries at 31 August 2006 or 31 August 2005.

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 2006 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
Said Ziai	2,510,550	19p	4.10.2005	4.10.2006 * To 4.10.2015
Nicholas Montgomery	350,000	20.25p	2.02.2006	2.02.2007 * To 2.02.2016

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

\* These shares become exercisable in 3 equal tranches: 1/3 on these dates, 1/3 12 months later, and 1/3 after a further 12 months. They are also subject to performance conditions.

# GLADSTONE PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2006

There have been no further changes in the interests of the current Directors in the issued share capital of the Company between 31 August 2006 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.

### 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 8 January 2007. 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	14.80%
N and Mrs R Slater (notified 19 December 2005)	3,000,000	5.75%
D Martin (notified 18 April 2005)	2,588,208	4.96%
Beryl and Norman Guiver (notified 25 June 2005)	1,667,000	3.20%
Gerrard Limited (notified 25 August 2005)	1,748,027	3.35%
Constellation Software Inc. (notified 20 October 2006)	5,519,000	10.58%
Marlborough Fund Managers Ltd (notified 5 October 2006)	5,000,000	9.59%
Aim VCT 2 PLC (notified 28 June 2006)	2,325,000	4.46%

### 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 2006 the Group average creditor days was 29 (2005: 36 days).

### Employment policy

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

### Disabled employees

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

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

### Fixed assets

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

# **GLADSTONE PLC**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2006**

---

### **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.

### **Statement of disclosure to auditor**

- (a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.


### **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 Pitmans, 47 Castle Street, Reading, Berkshire RG1 7SR on Monday 19 February 2007 at 10 am is set out on page 47.

By order of the Board



**Nicholas Montgomery**  
Company Secretary

17 January 2007

# 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 1 August 2006 the Board has consisted of two executive Directors (one of whom is Chairman and Chief Executive) and two non-executive Directors. 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 Jeremy Stokes and Rod Chamberlain.

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

### *Remuneration committee*

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

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

---

- **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

17 January 2007

# **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, Jeremy Stokes and Rod Chamberlain.

### **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 and letters of appointment**

The Company has entered into a service agreement with the Finance Director, Nicholas Montgomery, which is subject to six months' notice by the Company and three months' notice by Nicholas Montgomery. This agreement provides for an annual salary of £80,000 as well as pension contributions of twelve and a half per cent of the basic salary and other benefits such as a car allowance and medical insurance.

In addition, Nicholas Montgomery 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

During the year the Company appointed Rod Chamberlain as non-executive director. The terms set out in his letter of appointment provide for fees of £18,000 per annum based on Mr Chamberlain spending a minimum of 18 days per year attending to Company business. The appointment is for an initial term of three years, subject to one month's written notice by either party.



# GLADSTONE PLC

## REPORT OF THE REMUNERATION COMMITTEE

### Directors' emoluments for the year ended 31 August 2006

	Salary and fees £	Benefits in kind £	Bonus £	Termination £	31 August 2006 Total £	Year ended 31 August 2005 Total £
<b>Executive Directors:</b>						
Ben Merrett	-	-	-	-	-	261,301
Said Ziai	154,338	-	42,000	-	196,338	-
Nick Montgomery	86,000	133	14,000	-	100,133	14,333
<b>Non-executive Directors:</b>						
Anthony Caplin	54,167	-	-	32,500	86,667	10,833
Jeremy Stokes	24,000	-	-	-	24,000	-
D Martin	-	-	-	-	-	40,500
N Montgomery	-	-	-	-	-	4,000
R Chamberlain	1,500	-	-	-	1,500	-
Total emoluments excluding pension contributions	320,005	133	56,000	32,500	408,638	330,967
Total pension contributions					37,598	12,333
Total emoluments including pension contributions					446,236	343,300

### Pension contributions

The pension contributions paid during the year ended 31 August 2006 were as follows:

	£
Said Ziai	28,431
Nick Montgomery	9,167
	37,598

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

17 January 2007

# **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 2006 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 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 (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions 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 Chairman and Chief Executive Officer's Statement, 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 International Standards on Auditing (UK and Ireland) 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

# GLADSTONE PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2006

	Notes	2006 £	2005 £
<b>Turnover</b>		8,644,152	8,411,642
Cost of sales		(1,266,459)	(1,620,358)
<b>Gross profit</b>		7,377,693	6,791,284
Administration expenses excluding amortisation of goodwill and exceptional items		(6,163,188)	(6,008,176)
<b>Operating profit before amortisation of goodwill and exceptional items</b>		1,214,505	783,108
Amortisation of goodwill	3 b)	(444,129)	(444,129)
Exceptional items	3 b)	-	(207,858)
<b>Total administration expenses</b>		(6,607,317)	(6,660,163)
<b>Operating profit and profit on ordinary activities before interest</b>		770,376	131,121
Interest receivable	4	187,667	125,299
Interest payable	5	(26,087)	(60,501)
<b>Profit on ordinary activities before taxation</b>		931,956	195,919
Taxation	6	(13,150)	(6,500)
<b>Profit retained</b>		918,806	189,419
<b>Profit on ordinary activities before amortisation of goodwill, exceptional items and taxation</b>		1,376,085	847,906
<b>Profit per ordinary share (pence)</b>	7		
Basic		1.77p	0.40p
Basic before amortisation of goodwill and exceptional items		2.63p	1.78p
Diluted		1.74p	0.38p

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 2006


	2006 £	2005 £
<b>Statement of total recognised gains and losses</b>		
Profit for the financial year	918,806	189,419
Unrealised surplus on revaluation of properties	520,293	-
Exchange differences on retranslation of net assets of foreign currency operations	(2,308)	2,433
<b>Total recognised gains and losses relating to the year</b>	<u>1,436,791</u>	<u>191,852</u>
	2006 £	2005 £
<b>Reported profit on ordinary activities before taxation</b>	931,956	195,919
Difference between historic cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	9,257	9,257
<b>Historic profit on ordinary activities before taxation</b>	<u>941,213</u>	<u>205,176</u>
<b>Historic profit for the year retained after taxation and dividends</b>	<u>928,063</u>	<u>198,676</u>


# GLADSTONE PLC

## CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2006

		2006		2005	
	Notes	£	£	£	£
<b>Fixed assets</b>					
Intangible assets	11		6,804,599		6,217,814
Tangible assets	12		2,577,606		2,183,982
			<hr/>		<hr/>
			9,382,205		8,401,796
<b>Current assets</b>					
Stocks	14	28,956		43,888	
Debtors	15	2,084,673		1,861,388	
Cash at bank and in hand		4,667,200		4,116,722	
		<hr/>		<hr/>	
		6,780,829		6,021,998	
<b>Creditors: amounts falling due within one year</b>	16	(988,116)		(1,199,302)	
		<hr/>		<hr/>	
<b>Net current assets</b>			5,792,713		4,822,696
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			15,174,918		13,224,492
<b>Creditors: amounts falling due after more than one year</b>	17		-		(313,291)
<b>Provisions for liabilities and charges</b>	18		(29,804)		(30,488)
<b>Accruals and deferred income</b>	19		(3,257,332)		(2,623,100)
			<hr/>		<hr/>
<b>Net assets</b>			11,887,782		10,257,613
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	20		520,845		502,110
Share premium account	21		15,216,527		15,041,884
Special reserve	21		4,667,133		4,667,133
Revaluation reserve	21		936,887		425,851
Other reserve	21		2,500		5,000
Profit and loss account	21		(13,156,640)		(14,084,895)
			<hr/>		<hr/>
Equity shareholders' funds			8,187,252		6,557,083
Non-equity shareholders' funds	20		3,700,530		3,700,530
			<hr/>		<hr/>
<b>Total shareholders' funds</b>	23		11,887,782		10,257,613
			<hr/>		<hr/>

The financial statements were approved by the Board and authorised for issue on 17 January 2007.

  
Said Ziai  
Chief Executive Officer

  
Jeremy Stokes  
Non-Executive Director

# GLADSTONE PLC

## COMPANY BALANCE SHEET AS AT 31 AUGUST 2006

	Notes	£	2006 £	£	2005 £
<b>Fixed assets</b>					
Investments	13		12,018,733		11,067,496
Tangible assets	12		1,500,000		-
			<hr/>		<hr/>
			13,518,733		11,067,496
<b>Current assets</b>					
Debtors	15	349,117		39,271	
Cash at bank and in hand		2,704,747		1,242,890	
		<hr/>		<hr/>	
		3,053,864		1,282,161	
<b>Creditors: amounts falling due within one year</b>	16	(1,310)		(18,839)	
		<hr/>		<hr/>	
<b>Net current assets/ (liabilities)</b>			3,052,554		1,263,322
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			16,571,287		12,330,818
<b>Creditors: amounts falling due after more than one year</b>	17		(2,794,485)		(2,262,614)
<b>Provisions for liabilities and charges</b>	18		(29,804)		(30,488)
<b>Accruals and deferred income</b>	19		(843,155)		(412,976)
			<hr/>		<hr/>
<b>Net assets</b>			12,903,843		9,624,740
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	20		520,845		502,110
Share premium account	21		15,216,527		15,041,884
Special reserve	21		4,667,133		4,667,133
Revaluation reserve	21		520,293		-
Other reserve	21		2,500		5,000
Profit and loss account	21		(11,723,985)		(14,291,917)
			<hr/>		<hr/>
Equity shareholders' funds			9,203,313		5,924,210
Non-equity shareholders' fund	20		3,700,530		3,700,530
			<hr/>		<hr/>
<b>Shareholders' funds</b>			12,903,843		9,624,740
			<hr/>		<hr/>

The financial statements were approved by the Board and authorised for issue on 17 January 2007.

  
Said Ziai  
Chief Executive Officer

~~Jeremy Stokes~~  
~~Non-Executive Director~~



# GLADSTONE PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2006

	Notes	2006	2005
		£	£
<b>Net cash inflow from operating activities</b>	24	1,092,280	1,444,247
<b>Returns on investments and servicing of finance</b>			
Interest received		187,667	125,299
Interest paid		(26,087)	(60,501)
<b>Net cash inflow from returns on investments and servicing of finance</b>		161,580	64,798
		1,253,860	1,509,045
<b>Taxation refunded</b>		(6,488)	-
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(39,483)	(125,757)
<b>Net cash outflow for capital expenditure</b>		(39,483)	(125,757)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertaking		(451,526)	-
Net overdrafts acquired with subsidiary		(1,127)	-
<b>Net cash outflow for acquisitions and disposals</b>		(452,653)	-
<b>Net cash inflow before financing</b>		755,236	1,383,288
<b>Financing</b>			
Proceeds from issues of shares		193,378	1,535,216
Share issue costs		-	(47,379)
Bank loan repayments		(394,292)	(394,295)
<b>Net cash (outflow)/inflow from financing</b>		(200,914)	1,093,542
<b>Increase in cash</b>	25	554,322	2,476,830

# **GLADSTONE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006**

---

### **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 2006

---

### 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 2006**

---

### **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 2006

### 2. Segmental analysis

#### *Turnover by Geographical area:*

	2006 £	2005 £
United Kingdom	7,872,341	7,707,707
Rest of Europe	482,922	522,837
Australia	288,889	181,098
	<u>8,644,152</u>	<u>8,411,642</u>

### 3 a) Operating profit

	2006 £	2005 £
The operating profit is stated after charging:		
Depreciation on tangible fixed assets	166,681	207,484
Auditors' remuneration	31,000	30,000
	<u>          </u>	<u>          </u>

Fees paid to the auditors for non-audit work during the year amounted to £25,000 (2005: £17,500).

### 3 b) Administration expenses

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

	2006 £	2005 £
<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>-</u>	<u>207,858</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

---

### 4. Interest receivable

	2006 £	2005 £
Bank interest	<u>187,667</u>	<u>125,299</u>

### 5. Interest payable

	2006 £	2005 £
On bank loans and overdrafts	<u>26,087</u>	<u>60,501</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 6. Taxation

	2006 £	2005 £
UK corporation tax - current year	13,150	6,500
Factors affecting the tax charge for the year:		
Profit on ordinary activities before tax	931,956	195,919
Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	279,587	58,776
Effects of:		
Non-deductible expenses	41,217	22,230
Depreciation and amortisation	230,035	195,409
Capital allowances	(41,039)	(71,412)
Tax losses	(489,695)	(211,338)
Other tax adjustments	(6,955)	12,835
Current tax charge	13,150	6,500

### 7. 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:

	2006 £	2005 £
Profit for the period	918,806	189,419
	<b>Number</b>	<b>Number</b>
Weighted average of ordinary shares of 1p (2005:1p) each	51,845,796	47,194,067
Basic earnings per share (pence)	1.77p	0.40p

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 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:

	2006	2005
Basic earnings per share (pence)	1.77p	0.40p
Goodwill amortisation	0.86p	0.94p
Exceptional items	-	0.44p
	<u>          </u>	<u>          </u>
Earnings per share before goodwill amortisation	<u>2.63p</u>	<u>1.78p</u>

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

	2006 £	2005 £
Profit for the period	<u>918,806</u>	<u>189,419</u>
	<u>          </u>	<u>          </u>
	<b>Number</b>	<b>Number</b>
Weighted average of ordinary shares in issue as above	51,845,796	47,194,067
Dilution for share options outstanding	894,161	2,469,307
	<u>          </u>	<u>          </u>
Diluted weighted average number of shares in issue	<u>52,739,957</u>	<u>49,663,374</u>
	<u>          </u>	<u>          </u>
Diluted earnings per share (pence)	<u>1.74p</u>	<u>0.38p</u>



# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 9. Employees

	2006 £	2005 £
Wages and salaries	3,281,583	3,766,409
Social security costs	320,857	410,027
Pension costs	108,856	125,134
Termination and redundancy costs	61,549	287,858
	<u>3,772,845</u>	<u>4,589,428</u>

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

	2006 £	2005 £
Office and administration	17	22
Sales and marketing	17	19
Development and training	70	76
	<u>104</u>	<u>117</u>

### 10. Directors' emoluments

	2006 £	2005 £
Emoluments for qualifying services:		
Executive Directors' - salaries and bonuses	296,338	139,751
- benefits	133	3,257
Non-executive Directors' fees	79,667	25,333
	<u>376,138</u>	<u>168,341</u>
Termination costs	32,500	162,626
Pension contributions	37,598	12,333
	<u>446,236</u>	<u>343,300</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 10. Directors' emoluments (continued)

The number of Directors for whom retirement benefits were accruing under money purchase pension schemes in the year was 2 (2005: 2).

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:

	2006 £	2005 £
Highest paid director - salaries, bonus and benefits	196,338	128,675
- pension contributions	28,431	11,000
	<u>224,769</u>	<u>139,675</u>

### 11. Intangible fixed assets

Group	Goodwill £	Development costs £	Total £
<b>Cost</b>			
At 31 August 2005	17,876,829	733,873	18,610,702
Acquisitions during the year	1,030,914	-	1,030,914
	<u>18,907,743</u>	<u>733,873</u>	<u>19,641,616</u>
At 31 August 2006			
	<u>18,907,743</u>	<u>733,873</u>	<u>19,641,616</u>
<b>Amortisation</b>			
At 31 August 2005	11,659,015	733,873	12,392,888
Charge for the year	444,129	-	444,129
	<u>12,103,144</u>	<u>733,873</u>	<u>12,837,017</u>
At 31 August 2006			
	<u>12,103,144</u>	<u>733,873</u>	<u>12,837,017</u>
<b>Net book values</b>			
At 31 August 2006	<u>6,804,599</u>	<u>-</u>	<u>6,804,599</u>
At 31 August 2005	<u>6,217,814</u>	<u>-</u>	<u>6,217,814</u>

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 2006

### 12. Tangible fixed assets

Group	Freehold property £	Fixtures and fittings £	Office equipment and computers £	Total £
<b>Cost or valuation</b>				
At 1 September 2005	1,674,074	264,795	2,101,453	4,040,322
Additions	-	-	39,483	39,483
Acquired with acquisition	-	-	31,423	31,423
Revaluation of property	520,293	-	-	520,293
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2006	2,194,367	264,795	2,172,359	4,631,521
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At 1 September 2004	143,400	245,227	1,467,713	1,856,340
Charge for the period	33,000	4,892	128,789	166,681
Acquired with acquisition	-	-	30,894	30,894
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2006	176,400	250,119	1,627,396	2,053,915
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31 August 2006	2,017,967	14,676	544,963	2,577,606
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2005	1,530,674	19,568	633,740	2,183,982
	<hr/>	<hr/>	<hr/>	<hr/>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 12. Tangible fixed assets (continued)

Company	Land and buildings £	Office equipment and computers £	Total £
<b>Cost</b>			
At 1 September 2005	-	36,621	36,621
Additions	979,707	-	979,707
Revaluation	520,293	-	520,293
	<hr/>	<hr/>	<hr/>
At 31 August 2006	1,500,000	36,621	1,536,621
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At 1 September 2005	-	36,621	36,621
Charge for the period	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 August 2006	-	36,621	36,621
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 August 2006	1,500,000	-	1,500,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 August 2005	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 13. Fixed asset investments

#### Company

#### Shares in subsidiary undertakings

	2006 £	2005 £
<b>Cost</b>		
At 1 September	24,311,820	24,311,820
Acquisitions during the year	951,237	-
	<hr/>	<hr/>
Cost at 31 August	25,263,057	24,311,820
<b>Provision for impairment</b>		
At 1 September 2005 and 31 August 2006	13,244,324	13,244,324
	<hr/>	<hr/>
<b>Net book value</b>	<u>12,018,733</u>	<u>11,067,496</u>

The Group subsidiary undertakings at 31 August 2006 are as follows:-

Name	Principal activity during the period	Percentage of equity capital held
Companies incorporated in the United Kingdom:		
<i>Held directly:</i>		
Gladstone MRM Limited	Membership and facilities management systems	100%
London Systems UK Limited	E registration and cashless payments for the education market	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%
<i>Held indirectly:</i>		
Microcache (Scotland) Limited	Dormant	100%
Job4life.net Limited	Dormant	100%
Like4like.net Limited	Dormant	100%
Global Technology Software Limited	Dormant	100%
Company incorporated in Australia:		
<i>Held indirectly:</i>		
Gladstone MRM (Australia) Pty Ltd	Membership and facilities management systems	100%

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 13. Fixed asset investments (continued)

The Group's share of net assets with respect to the increases in its investments in subsidiaries and the goodwill arising is set out in the table below. No fair value adjustments were necessary to the book values of the acquired entity.

	<b>London Systems UK Limited £</b>
Tangible fixed assets	530
Current assets	120,581
Creditors and provisions	(200,749)
Taxation	-
	<hr/>
Share of assets acquired	(79,638)
Goodwill arising	1,030,914
	<hr/>
	951,276
	<hr/> <hr/>
<b>Consideration</b>	
Cash	451,526
Deferred	499,750
	<hr/>
	951,276
	<hr/> <hr/>

### 14. Stocks

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Goods for resale	28,956	43,888	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 15. Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	1,720,458	1,580,942	-	-
Other debtors	-	78,554	-	26,610
Prepayments and accrued income	364,215	201,892	228,365	12,661
Other taxes and social security costs	-	-	120,752	-
	<u>2,084,673</u>	<u>1,861,388</u>	<u>349,117</u>	<u>39,271</u>

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

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank overdraft	-	3,844	-	-
Bank loan (note 17)	313,291	394,292	-	-
Trade creditors	266,212	410,427	1,310	10,034
Corporation tax	13,162	6,500	-	-
Other taxes and social security costs	395,451	384,239	-	8,805
	<u>988,116</u>	<u>1,199,302</u>	<u>1,310</u>	<u>18,839</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 2006

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

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loan	-	313,291	-	-
Amount due to subsidiaries	-	-	2,794,485	2,262,614
	<u>-</u>	<u>313,291</u>	<u>2,794,485</u>	<u>2,262,614</u>
	<u><u>-</u></u>	<u><u>313,291</u></u>	<u><u>2,794,485</u></u>	<u><u>2,262,614</u></u>

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)	313,291
Between one and two years	-
	<u>313,291</u>
	<u><u>313,291</u></u>

### 18. Provisions for liabilities and charges

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
At 1 September 2005	30,488	19,203	30,488	19,203
Charged to profit and loss account	(684)	11,285	(684)	11,285
	<u>29,804</u>	<u>30,488</u>	<u>29,804</u>	<u>30,488</u>
At 31 August 2006	<u><u>29,804</u></u>	<u><u>30,488</u></u>	<u><u>29,804</u></u>	<u><u>30,488</u></u>

The provisions relate to National Insurance Contributions which will become payable on exercise of share options. The share options can be exercised between 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 22.5p 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 2006

### 19. Accruals and deferred income

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Accruals	1,430,054	821,472	843,155	412,976
Deferred income	1,827,278	1,801,628	-	-
	<u>3,257,332</u>	<u>2,623,100</u>	<u>843,155</u>	<u>412,976</u>

The deferred income relates to advance rental payments amounting to £72,498 (2005: £73,770), payments in advance from local authorities in respect of software to be installed amounting to £239,368 (2005: £199,960) and maintenance payments covering a period subsequent to the year end amounting to £1,515,411 (2005: £1,527,898).

### 20. Share capital

	2006	2005
	£	£
<b>Authorised:</b>		
<b>Equity</b>		
2,000,000,000 Ordinary shares of 1p each	<u>20,000,000</u>	<u>20,000,000</u>
<b>Non-Equity</b>		
41,116,996 Non-voting deferred shares of 9p each	<u>3,700,530</u>	<u>3,700,530</u>
<b>Allotted, called up and fully paid:</b>		
<b>Equity:</b>		
52,084,379 Ordinary shares of 1p each (2005: 50,210,995 Ordinary shares of 1p each)	520,845	502,110
<b>Non-Equity:</b>		
41,116,996 Non-voting deferred shares of 9p each	<u>3,700,530</u>	<u>3,700,530</u>
	<u>4,221,375</u>	<u>4,202,640</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 20. Share capital (continued)

Also during the year the Company issued a further 1,873,384 shares of 1 pence each, following exercise of some of its share options under the EMI scheme and the unapproved 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 2005	50,210,995	502,110	15,041,884
Shares issued on the exercise of options	1,873,384	18,735	174,643
As at 31 August 2006	52,084,379	520,845	15,216,527

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 2006 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>	1,000,000	13p	from 24/12/06
iii) <i>Gladstone 2002 EMI Scheme</i>	398,609	10p	from 04/03/03
	387,601	16p	from 20/09/05
	10,000	26.25p	from 22/02/06
	110,000	22p	from 04/04/08
	210,000	20.25p	from 06/02/09
iv) <i>Issued under a deed of grant dated 1 December 2004</i>	1,000,000	21.75p	from 01/12/07
vi) <i>Issued under a deed of grant dated 4 October 2005</i>	2,510,550	19p	from 04/10/06 *
vii) <i>Issued under a deed of grant dated 2 February 2006</i>	350,000	20.25p	from 02/02/07 *

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

\* These shares become exercisable in 3 equal tranches: 1/3 on these dates, 1/3 12 months, and 1/3 after a further 12 months. They are also subject to performance conditions.

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 21. Statement of movements on reserves

Group	Share premium account £	Special reserve £	Revaluation reserve £	Other reserve £	Profit and loss account £
At 1 September 2005	15,041,884	4,667,133	425,851	5,000	(14,084,895)
Share issues	174,643	-	-	-	-
Revaluation of property			520,293		
Transfer from revaluation reserve to profit and loss account	-	-	(9,257)	-	9,257
Exchange loss on consolidation					(2,308)
Transfer from other reserve to profit and loss account	-	-	-	(2,500)	2,500
Retained profit for the year	-	-	-	-	918,806
At 31 August 2006	<u>15,216,527</u>	<u>4,667,133</u>	<u>936,887</u>	<u>2,500</u>	<u>(13,156,640)</u>

Company	Share premium account £	Special reserve £	Revaluation reserve £	Other reserve £	Profit and loss account £
At 1 September 2005	15,041,884	4,667,133	-	5,000	(14,291,917)
Share issues	174,643	-	-	-	-
Transfer from other reserve to profit and loss account	-	-	-	(2,500)	2,500
Retained profit for the year	-	-	-	-	65,432
Dividend received in the year	-	-	-	-	2,500,000
Revaluation of property	-	-	520,293	-	-
At 31 August 2006	<u>15,216,527</u>	<u>4,667,133</u>	<u>520,293</u>	<u>2,500</u>	<u>(11,723,985)</u>

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

### 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 2006 was £65,432 (2005: £39,299).

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

	2006	2005
	£	£
Profit for the period	918,806	189,419
Proceeds from issues of shares	193,378	1,487,837
Unrealised surplus on revaluation of properties	520,293	-
Foreign exchange gains	(2,308)	2,433
	<u>1,630,169</u>	<u>1,679,689</u>
Opening shareholders' funds at start of the year	10,257,613	8,577,924
	<u>11,887,782</u>	<u>10,257,613</u>
Closing shareholders' funds at end of the year		

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

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

	2006 £	2005 £
Operating profit	770,376	131,121
Depreciation charges	166,681	207,484
Amortisation of goodwill	444,129	444,129
Decrease/(increase) in stocks	29,512	84,845
Decrease/(increase) in debtors	(116,155)	258,029
Increase in creditors	(220,225)	39,328
Increase in accruals and deferred income	20,954	265,593
Increase in provisions	(684)	11,285
Foreign exchange gain	(2,308)	2,433
Net cash inflow from operating activities	1,092,280	1,444,247

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

	2006 £	2005 £
Increase in cash from cash flows of the Group	554,322	2,476,830
Cash inflow from decrease in debt	394,292	394,295
Movements in net funds in the period	948,614	2,871,125
Net funds at start of the year	3,405,295	534,170
Net funds at end of the year	4,353,909	3,405,295

### 26. Analysis of changes in net funds

	2005 £	Cash flows £	Non-cash changes £	2006 £
Cash at bank and in hand	4,116,722	550,478	-	4,667,200
Bank overdraft	(3,844)	3,844	-	-
	4,112,878	554,322	-	4,667,200
Bank loans	(707,583)	394,292	-	(313,291)
Total net funds	3,405,295	948,614	-	4,353,909

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 AUGUST 2006**

**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 2006 the Group had sterling cash deposits of £4,667,200. 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 2006 were as follows:

	<b>Total</b>	<b>Floating rate</b>	<b>Fixed rate</b>
	<b>£</b>	<b>financial</b>	<b>financial</b>
		<b>liabilities</b>	<b>liabilities</b>
		<b>£</b>	<b>£</b>
At 31 August 2006	313,291	313,291	-
	=====	=====	=====
At 31 August 2005	711,427	711,427	-
	=====	=====	=====

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 maturity of the Group's financial liabilities at 31 August 2006 is as follows:

	<b>£</b>
In one year or less, or on demand	313,291
In more than one year but not more than two	-
	=====
	313,291
	=====

# GLADSTONE PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2006

---

### 27. Financial instruments (continued)

#### c) *Borrowing facilities*

At 31 August 2006, the Group had nil (2005: £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. Capital commitments

At 31 August 2006, the Group had no capital commitments (2005:£nil)

### 29. Contingent liabilities

At 31 August 2006, the Group had no contingent liabilities.

### 30. Post balance sheet event

On 12 September 2006, the Company acquired 60 per cent of the ordinary share capital of Valuenetics A/S, a software development company established and currently operating in Denmark. This investment allows the Company to utilise and leverage its core competencies and market position to the growing needs of the health and leisure, education and other similar markets where leading edge development capabilities and innovative solutions provide sustainable value to customers.

### 31. Related party transactions

The Group did not participate in any related party transactions during the year.