

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986.

Applications under the Open Offer may only be made on the accompanying Application Form, which is personal to holders of the Ordinary Shares named thereon and may not be assigned, transferred or split, except to satisfy *bona fide* market claims. If you have recently sold or transferred all of your Ordinary Shares in Gladstone PLC, please forward this document, and the accompanying Application Form, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The benefits arising under the Open Offer may be claimed from you by the purchaser under the Listing Rules of the London Stock Exchange.

The Open Offer expires at 3.00 p.m. on 12 October 1999. The procedure for application for New Ordinary Shares under the Open Offer is set out in the letter from Corporate Synergy PLC contained in Part II of this document and in the accompanying Application Form.

A copy of this document, which comprises listing particulars relating to Gladstone PLC prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act.

All statements relating to the Enlarged Group's business, financial position and prospects should be viewed in the light of the year 2000 compliance issues which are set out in Part I of this document.

The Directors and Proposed Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Consolidated Shares (representing the existing Ordinary Shares and the New Ordinary Shares) to be admitted to the Official List. It is expected that such admission to the Official List will become effective and that dealings will commence on 15 October 1999.

# GLADSTONE PLC ✓

(Incorporated in England under the Companies Act 1985 with registered number 3327360) ✓

## Acquisition of Microcache Limited

Open Offer of 1,404,000,000 Ordinary Shares at 0.75 p per share

## Introduction of Share Option Schemes

## Grant of Options

Consolidation of every 10 existing Ordinary Shares and New Ordinary Shares into one Consolidated Share

## Capital Reduction

Annual financial statement and annual general meeting announcement of results to 30 June 1999.

## Appointment of Proposed Directors

Joint sponsors: Corporate Synergy PLC and Seymour Pierce Limited

Stockbroker: Seymour Pierce Limited



Neither the Ordinary Shares nor the New Ordinary Shares have been, nor will they be, registered under the United States Securities Act of 1933 (as amended). Accordingly, such shares may not be offered, sold, renounced, taken up or delivered, directly or indirectly, in or into the United States. Furthermore, such shares have not been and will not be registered under any of the relevant securities laws of Canada or Australia. Accordingly unless an exception under relevant securities laws is applicable such shares may not be offered, sold, renounced, taken up or delivered directly or indirectly in or into Canada or Australia.

Persons receiving this document should note that Corporate Synergy PLC and Seymour Pierce Limited, which are regulated by The Securities and Futures Authority Limited, are acting for Gladstone PLC and no other person in relation to the matters described in this document and accordingly will not be responsible to any other person for providing the protections afforded to customers of Corporate Synergy PLC or Seymour Pierce Limited or advising them on these matters.

Notice of an Extraordinary General Meeting of Gladstone PLC, to be held at the offices of Seymour Pierce at 10.05 a.m. on 14 October 1999 (or so soon thereafter as the annual general meeting of the company convened for 10.00 a.m. on the same day has finished or been adjourned), is set out at the end of this document. Shareholders will find enclosed a pink Form of Proxy for use at the Extraordinary General Meeting. To be valid, the pink Form of Proxy should be completed and returned in accordance with the instructions printed thereon as soon as possible and, in any event, so as to be received by the Company's registrars no later than 48 hours before the meeting.

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## Timetable of Principal Events

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Record Date for the Open Offer	15 September 1999
Latest time and date for splitting of Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 8 October 1999
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	3.00 p.m. on 12 October 1999
Latest time and date for receipt of Proxy Forms for the Annual General Meeting	10.00 a.m. on 12 October 1999
Latest time and date for receipt of forms of proxy for the EGM	10.05 a.m. on 12 October 1999
Annual General Meeting	10.00 a.m. on 14 October 1999
Extraordinary General Meeting	10.05 a.m. (or so soon thereafter as the annual general meeting of the Company convened for 10.00 a.m. on the same day has finished or been adjourned) on 14 October 1999
Consolidation of Ordinary Shares and New Ordinary Shares takes effect	6.59 a.m. on 15 October 1999
Dealings commence in the Consolidated Shares on the Official List	8.00 a.m. on 15 October 1999
CREST stock accounts credited	15 October 1999
Definitive share certificates despatched not later than	21 October 1999

## Directors and Advisers

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<b>Directors:</b>	Brian Kenneth Raven (Chairman and Chief Executive) Oliver Charles Cooke (Finance Director and Secretary)
<b>Proposed Directors:</b>	The Rt Hon Lord Sheppard of Didgemere KCVO, Kt. (Non Executive Director) Anthony Carlton (Non Executive Director) each of Drury House, 34-43 Russell Street, London WC2B 5HA
<b>Registered Office:</b>	Drury House 34-43 Russell Street London WC2B 5HA
<b>Joint Sponsor and Financial Adviser:</b>	Corporate Synergy PLC Piercy House 7/9 Copthall Avenue London EC2R 7NJ
<b>Joint Sponsor and Stockbroker:</b>	Seymour Pierce Limited 29/30 Cornhill London EC3V 3NF
<b>Auditors and Reporting Accountants:</b>	Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH
<b>Solicitors to the Company:</b>	Le Brasseur J Tickle 34-43 Russell Street London WC2B 5HA
<b>Solicitors to the Sponsors:</b>	Memery Crystal 31 Southampton Row London WC1B 5HT
<b>Registrars:</b>	Harford Registrars Harford House 101-103 Great Portland Street London W1N 6LL
<b>Principal Bankers:</b>	National Westminster Bank PLC City of London Office PO Box 12263 1 Princes Street London EC2R 8PH

## Definitions

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The following definitions apply throughout this document, unless the context otherwise requires:

“Acquisition”	the proposed acquisition of the whole of the issued share capital of Microcache by the Company
“Acquisition Agreement”	the conditional agreement dated 21 September 1999 between the Company, Norman and Beryl Guiver and the Vendors relating to the Acquisition, the principal terms of which are summarised in paragraph 7(a)(vi) of Part VI of this document
“Act”	the Companies Act 1985, as amended by the Companies Act 1989
“Admission”	the admission of the Consolidated Shares (representing the existing Ordinary Shares and the New Ordinary Shares) to the Official List becoming effective in accordance with the Listing Rules of the London Stock Exchange
“Approved Scheme”	The Gladstone 1999 Approved Share Option Scheme which it is proposed to introduce, details of which are set out in paragraph 15 of Part VI of this document.
“ “A” Share Option”	the option granted to Clifton Financial Associates PLC over 800,000 Ordinary Shares at an exercise price of 0.5p per Ordinary Share
“ “B” Share Options”	the options granted to Mr Raven and Mr Cooke on 16 March 1999 carrying rights in aggregate to subscribe for up to 20 per cent. of the issued share capital of the Company immediately prior to the exercise of such options, less any Ordinary Shares over which the “A” Share Option is exercisable, at an exercise price equivalent to the higher of 0.5p or the nominal value of an ordinary share; as summarised in paragraphs 3(a)(ii) and 3(a)(iv) of Part VI of this document.
“Capital Reduction”	the proposal to reduce the capital of the Company by cancelling the Deferred Shares and reducing the amount credited to the share premium of the Company to write off the deficit on the profit and loss account
“Company” or “Gladstone”	Gladstone PLC
“Consolidation”	the proposed consolidation of every ten existing Ordinary Shares and New Ordinary Shares (or part thereof) into one Consolidated Share, as described in this document.
“Consolidated Shares”	the ordinary shares of 1p each of the Company arising from the Consolidation
“Corporate Synergy”	Corporate Synergy PLC, joint sponsor and financial adviser to the Company
“CREST”	the system (as defined by the Uncertificated Securities Regulations 1995) in respect of which CRESTCo Limited is the operator (as defined by the said Regulations)
“Deferred Shares”	the deferred shares of 0.9p each in the Company
“Directors” or “Board”	the directors of Gladstone whose names are set out on page 3 of this document
“EGM”	the extraordinary general meeting of the Company convened at 10.05 a.m. (or so soon thereafter as the annual general meeting of the Company convened for 10.00 a.m. on the same day has finished or been adjourned) on 14 October 1999 by the notice at the end of this document, or any adjournment thereof
“Enlarged Group”	the Company and its subsidiaries immediately following completion of the Proposals

"Enlarged Share Capital"	the issued ordinary share capital of the Company immediately following the implementation of the Proposals
"Existing Group" or "Group"	the Company and its subsidiaries
"Form of Proxy"	the pink form of proxy relating to the EGM
"Irrevocable Undertakings"	<p>The unconditional irrevocable undertakings ("the undertakings"), dated 21 September 1999 given by Mr Raven and Mr Cooke, that (subject always to the provisions for earlier termination in accordance with the terms of the 'B' Share Options),</p> <p>(A) save in respect of "B" Share Options over Ordinary Shares in issue prior to completion of the Proposals, they will in aggregate only exercise "B" Share Options:-</p> <ol style="list-style-type: none"> <li>(1) at the same price at which any ordinary shares are issued for cash by the Company or by way of a consideration other than cash from time to time in accordance with the tranches referred to in paragraph (3) below,</li> <li>(2) in respect of ordinary shares issued for cash or by way of a consideration other than cash so as to exclude any shares falling to be issued pursuant to the "A" Share Option, the "B" Share Options, the Non-Executive Directors' Options and the Share Option Schemes or any other option scheme introduced by the Company in the future,</li> <li>(3) in respect of up to 15 per cent. of the issued share capital whilst such issued share capital is made up of more than 21,600,000 Consolidated Shares but not more than 200,000,000 Consolidated Shares; in respect of up to 12 per cent. of the issued share capital from 200,000,001 Consolidated Shares up to 700,000,000 Consolidated Shares; in respect of up to 10 per cent. of the issued share capital from 700,000,001 Consolidated Shares up to 1,500,000,000 Consolidated Shares; in respect of up to 8 per cent. of the issued share capital from 1,500,000,001 Consolidated Shares up to 2,500,000,000 Consolidated Shares and in respect of up to 6 per cent. of the issued share capital from 2,500,000,001 Consolidated Shares without limit, and</li> </ol> <p>(B) so as to disregard any ordinary shares issued by the Company pursuant to the exercise of "B" Share Options in respect of Ordinary Shares in issue prior to the adoption of the Proposals.</p> <p>The undertakings also contain provisions that:-</p> <ol style="list-style-type: none"> <li>a) Mr Raven and Mr Cooke will give their consent to any future adjustment in the exercise price of the "B" Share Options which may be appropriate as a result of any capital reorganisation following the implementation of the Proposals.</li> <li>b) the "B" Share Options may in the alternate, if it be to the advantage of the Company, be exercised as originally drafted but only to the extent required to give an effect equivalent to the undertakings.</li> </ol> <p>Further details of the undertakings are set out in paragraphs 3(a)(iii) and 3(a)(v) of Part VI of this document.</p>
"London Stock Exchange"	London Stock Exchange Limited
"Microcache"	Microcache Limited
"New Ordinary Shares"	the 1,684,000,000 new Ordinary Shares, being 1,404,000,000 new Ordinary Shares to be allotted pursuant to the Open Offer and 280,000,000 new

## Definitions continued

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	Ordinary Shares to be allotted to the Vendors in accordance with the Acquisition
"Non Executive Directors' Options"	the options over an aggregate of 550,000 Consolidated Shares conditionally granted to the Proposed Directors
"Offer Price"	0.75p per New Ordinary Share
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the conditional offer to Qualifying Shareholders, on the terms and subject to the conditions set out in Part II of this document and in the Application Form, to subscribe for 1,404,000,000 New Ordinary Shares
"Ordinary Shares"	ordinary shares of 0.1 pence each in the capital of the Company
"Proposals"	the Acquisition, the Open Offer, the Consolidation, the appointment of the Proposed Directors, the Capital Reduction, the establishment of the Share Option Schemes and the grant of the Non Executive Options, as described in this document
"Proposed Directors"	Lord Sheppard of Didgemere and Anthony Carlton
"Qualifying Shareholder"	a holder of Ordinary Shares on the register of members of the Company on the Record Date, excluding certain overseas shareholders who are not entitled to participate in the Open Offer
"Record Date"	the close of business on 15 September 1999
"Seymour Pierce"	Seymour Pierce Limited, joint sponsor and stockbroker to the Company
"Share Option Schemes"	together the Approved Scheme and the Unapproved Scheme.
"Unapproved Scheme"	The Gladstone 1999 Unapproved Share Option Scheme, which it is proposed to introduce, details of which are set out in paragraph 15 of Part VI of this document.
"Underwriting Agreement"	the conditional agreement dated 21 September 1999 between the Company, Seymour Pierce and Corporate Synergy relating to the Open Offer, details of which are contained in paragraph 7(a) (vii) of Part VI of this document
"Vendors"	the vendors of Microcache, being Norman Guiver, Beryl Guiver, Terence Butler, Elaine Butler, Christine Ayers, Peter Howard, Geoffrey Westcott, Caroline Westcott, John March, Marika March and Alastair Kerr

# Key Information and Admission Statistics

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## KEY INFORMATION

### The Proposals

- *Acquisition of Microcache* – Microcache is a leading supplier of facilities management software systems and of smart card and other membership card systems to the leisure industry in the UK. Its products are also sold in Europe and Australasia and it has more than 800 active customer sites and has supplied more than 2 million membership cards, of which in excess of 500,000 are chip-based smart cards. The Company has conditionally agreed to acquire Microcache for a consideration of £8.1 million, to be satisfied by the payment to the Vendors of £6 million in cash, and the balance by the allotment and issue to the Vendors of 280,000,000 New Ordinary Shares at the Offer Price.
- *The Open Offer* – the Company is proposing to raise approximately £9.75 million after expenses of £750,000 in order to finance the cash consideration of the Acquisition of £6 million, provide £2.25 million to develop or acquire the capability of offering customers an electronic payment system and £1.5 million for the increased overheads and working capital of the Enlarged Group. This is being effected by way of the Open Offer, which is fully underwritten and is being made on the basis of 13 New Ordinary Shares for every 2 Ordinary Shares held at the close of business on the Record Date.
- *Board Changes* – Francis Cook has resigned as a non-executive director. Lord Sheppard of Didgemere and Anthony Carlton have agreed to join the Board as non-executive directors following the EGM. Lord Sheppard is well known and respected and has enjoyed a very successful business career, at a very senior level, most notably as chairman of Grand Metropolitan PLC from 1987 to 1996. He brings with him a wealth of experience, which should be invaluable to the management in developing the Enlarged Group.
- *Consolidation* – the Company is proposing to consolidate every ten existing Ordinary Shares and New Ordinary Shares into a single Consolidated Share – this is intended to take effect on 15 October 1999, the day after the EGM. For example, 10 Ordinary Shares trading at 0.75p each today will, other things being equal, become one Consolidated Share trading at 7.5p following the Consolidation. As a consequence of the Consolidation the exercise price of the “B” Share Options, which were issued to Oliver Cooke and Brian Raven on 16 March 1999 prior to their joining the Board, will change from 0.5p per Ordinary Share to 1p per Consolidated Share rather than an adjusted price of 5p per Consolidated Share (the equivalent of 0.5p before the Consolidation). Under the terms of the “B” Share Options the holders’ specific consent to any adjustment in the exercise price is required, which they have not given. As a result of the Irrevocable Undertakings the impact of this adjustment will be limited to 4,240,000 Consolidated Shares. The maximum potential benefit accruing in respect of Oliver Cooke’s “B” Share Option over 1,414,040 of the 4,240,000 Consolidated Shares referred to above, on the basis of a 4p reduction in the equivalent exercise price following the Consolidation, is approximately £56,562. The maximum potential benefit accruing in respect of Brian Raven’s “B” Share Option over 2,825,960 of the 4,240,000 Consolidated Shares on the equivalent basis is approximately £113,038. Further details of the effect of the Consolidation on the value of the “B” Share Options and the assumptions on which the above calculations have been made are set out in paragraph 3(b) of Part VI of this document.
- *Share Option Schemes* – it is important that both management and staff are properly motivated and rewarded and, accordingly, the Directors are proposing the introduction of the Share Option Schemes, one of which is the subject of an application for approval by the Inland Revenue.
- *Non Executive Directors’ Options* – in recognition of their agreeing to join the Board, the Company has conditionally granted options to the Proposed Directors to subscribe for an aggregate of 550,000 Consolidated Shares exercisable at 7.5p per share, which is equivalent to the Offer Price. The options are conditional on shareholders’ approval and completion of the Proposals and the Proposed Directors remaining for two years.
- *Capital Reduction* – the Company is proposing a capital reduction, to include the cancellation of the Deferred Shares, in order to facilitate the future payment of dividends which the Company is presently unable to pay as it has an accumulated deficit on its profit and loss account.

## Key Information and Admission Statistics continued

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### Reasons for the Acquisition

Gladstone PLC (formerly Versalite Group PLC) joined the Official List in 1997, at which time its businesses comprised the provision of specialist glazing to the residential and commercial sectors. These businesses were loss making and, in April 1999, they were sold to their management. At the same time the previous executive directors resigned from the Board and the Company effected a rights issue raising £360,000 before expenses to provide working capital for the Group. Brian Raven and Oliver Cooke were also appointed directors of the Company and acquired 107,400,000 Ordinary Shares, comprising 49.7 per cent. of the current issued share capital of the Company. In addition, Brian Raven and Oliver Cooke were granted the "B" Share Options prior to their joining the Board. Since April 1999 the Group has been a cash shell and the Directors have reviewed a number of potential acquisitions.

It is the Directors' intention to build Gladstone into a software and services group with a number of specialist divisions and the acquisition of Microcache represents the first step in this process.

### Microcache

Microcache develops, supplies, installs, and provides post-installation support and maintenance of membership and other systems used to operate leisure facilities such as sports and health clubs, gymnasia and swimming pools. Microcache's customers are both in the public sector (educational establishments and local councils) and in the private sector (operators of health and fitness clubs, hotels running leisure facilities and companies providing leisure facilities for use by staff).

Microcache provides a combination of software, hardware and membership cards (some of which are chip based smart cards) which control access to leisure facilities. Its systems are marketed under the "Clubman" brand. Microcache's systems also provide a database of information about usage and participation, which can be used to monitor the effectiveness of and demand for facilities. Microcache has won a number of industry awards for its products; in 1995 for its smart card, in 1997 for an energy management product, and in 1998 for an automated keyless locker product.

Microcache's systems are modular and are used by its customers in the following areas:

- the monitoring of membership and payment of subscriptions;
- members' access to facilities, using entry controls and identity confirmation (including the use of digital image display for recognition);
- full integration of point of sale;
- the booking of facilities and subsequent invoicing and the management of courses and classes; and
- other applications, such as:
  - gym management and personal fitness assessments; and
  - the provision of added value services to members, including a cashless environment through members' debit/credit accounts and frequent user bonus point schemes.

### The Open Offer

Qualifying Shareholders who wish to subscribe for New Ordinary Shares are being given the opportunity to do so through the Open Offer and are invited to apply for New Ordinary Shares at 0.75 pence per share, on the following basis:

#### 13 New Ordinary Shares for every 2 Ordinary Shares

held on the Record Date and so in proportion for any lesser number of Ordinary Shares held.

Of the 1,404,000,000 New Ordinary Shares the subject of the Open Offer, Seymour Pierce, as agent for the Company, has placed firm 678,100,000 New Ordinary Shares and underwritten the balance.

The 678,100,000 New Ordinary Shares which have been placed firm represent those parts of the entitlements of the Directors which they have irrevocably undertaken not to apply for in the Open Offer.

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Brian Raven and Oliver Cooke have irrevocably undertaken to take up 13,333,333 and 6,666,666 New Ordinary Shares respectively in the Open Offer. 10,000,000 and 3,333,333 New Ordinary Shares have been placed firm by Seymour Pierce with Lord Sheppard and Anthony Carlton respectively.

#### ADMISSION STATISTICS

Number of New Ordinary Shares being offered pursuant to the Open Offer	1,404,000,000
Offer Price per New Ordinary Share	0.75p
Equivalent Offer Price per Consolidated Share	7.5p
Number of Consolidated Shares in issue at Admission	190,000,000
Prospective market capitalisation at the Offer Price	£14.25 million
Net proceeds of the Open Offer	£9.75 million

## Part I Letter from the Chairman of Gladstone

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### GLADSTONE PLC


(Registered in England No 3327360)

#### Directors:

Brian Kenneth Raven (Chairman and Chief Executive)  
Oliver Charles Cooke (Finance Director)

#### Registered Office:

Drury House  
34-43 Russell Street  
London WC2B 5HA

21 September 1999 

*To Shareholders and, for information only, to holders of options*

Dear Shareholder

#### Introduction

In April 1999, when Oliver Cooke and I joined the board of Gladstone, we stated that we intended to acquire companies in sectors where we have some experience and expertise and which offered the potential for substantial investment returns with a controllable level of risk.

Since then we have reviewed a number of potential acquisitions and have now identified a company – Microcache – which meets these criteria and which represents the first step in the development of Gladstone into a software and services group.

Microcache supplies software systems and membership cards to the leisure industry and we intend that it will become the cornerstone of Gladstone's card services division. In order, *inter alia*, to finance the acquisition of Microcache and the development of the card services division, the Company is proposing the Open Offer to raise approximately £9.75 million, after expenses.

Accordingly, we have today announced the Proposals, which can be summarised as follows:

- *Acquisition of Microcache* – Microcache is a leading supplier of facilities management software systems and of smart card and other membership card systems to the leisure industry in the UK. Its products are also sold in Europe and Australasia and it has more than 800 active customer sites and has supplied more than 2 million membership cards, of which in excess of 500,000 are chip-based smart cards. The Company has conditionally agreed to acquire Microcache for a consideration of £8.1 million, to be satisfied by the payment to the Vendors of £6 million in cash, and the balance by the allotment and issue to the Vendors of 280,000,000 New Ordinary Shares at the Offer Price.
- *The Open Offer* – the Company is proposing to raise approximately £9.75 million after expenses of £750,000, in order to finance the cash consideration of the Acquisition of £6 million, provide £2.25 million to develop or acquire the capability to offer customers an electronic payment system and £1.5 million for the increased overheads and working capital of the Enlarged Group. This is being effected by way of the Open Offer, which is fully underwritten and is being made on the basis of 13 New Ordinary Shares for every 2 Ordinary Shares held at the close of business on the Record Date.
- *Board Changes* – Francis Cook yesterday resigned as a non-executive director and we would like to record our thanks to him for the service that he has given the Group. We are delighted to announce that Lord Sheppard of Didgemere and Anthony Carlton have agreed to join the Board as non-executive directors following the EGM. Lord Sheppard is well known and respected and has enjoyed a very successful business career, at a very senior level, most notably as chairman of Grand Metropolitan PLC from 1987 to 1996. He brings with him a wealth of experience, which should be invaluable to us in developing the Enlarged Group.
- *Consolidation* – the Company is proposing to consolidate every ten existing Ordinary Shares and New Ordinary Shares into a single Consolidated Share – this is intended to take effect on 15 October 1999, the

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day of the EGM. For example, 10 Ordinary Shares trading at 0.75p each today will, other things being equal, become one Consolidated Share trading at 7.5p following the Consolidation. As a consequence of the Consolidation the exercise price of the "B" Share Options, which were issued to Oliver Cooke and myself on 16 March 1999 prior to our joining the Board, will change from 0.5p per Ordinary Share to 1p per Consolidated Share rather than an adjusted price of 5p per Consolidated Share (the equivalent of 0.5p before the Consolidation). Under the terms of the "B" Share Options the holders' specific consent to any adjustment in the exercise price is required, which they have not given. As a result of the Irrevocable Undertakings the impact of this adjustment will be limited to 4,240,000 Consolidated Shares. The maximum potential benefit accruing in respect of Oliver Cooke's "B" Share Option over 1,414,040 of the 4,240,000 Consolidated Shares referred to above, on the basis of a 4p reduction in the equivalent exercise price following the Consolidation, is approximately £56,562. The maximum potential benefit accruing in respect of Brian Raven's "B" Share Option over 2,825,960 of the 4,240,000 Consolidated Shares on the equivalent basis is approximately £113,038. Further details of the effect of the Consolidation on the value of the "B" Share Options and the assumptions on which the above calculations have been made are set out in paragraph 3(b) of Part VI of this document.

- *Share Option Schemes* – we believe it important that both management and staff are properly motivated and rewarded and, accordingly, are proposing the introduction of the Share Option Schemes, one of which is the subject of an application for approval by the Inland Revenue.
- *Non Executive Directors' Options* – in recognition of their agreeing to join the Board, the Company has conditionally granted options to the Proposed Directors to subscribe for an aggregate of 550,000 Consolidated Shares exercisable at 7.5p per share which is equivalent to the Offer Price. The options are conditional on shareholders' approval and completion of the Proposals and the Proposed Directors remaining for two years.
- *Capital Reduction* – the Company is proposing a capital reduction, to include the cancellation of the Deferred Shares, in order to facilitate the future payment of dividends which the Company is presently unable to pay as it has an accumulated deficit on its profit and loss account.

Because of the size of Microcache relative to Gladstone, its acquisition is classified by the London Stock Exchange as a reverse take-over. The Proposals require shareholder approval and the Company is required to apply for the existing Ordinary Shares, as well as the New Ordinary Shares, to be admitted to the Official List in consolidated form.

As a consequence of the Consolidation, in accordance with the terms of the "B" Options, the exercise price of the "B" Share Options will change. The "B" Share Options were issued to Oliver Cooke and myself on 16 March 1999 prior to our joining the Board in order to motivate and reward us in the event that we succeeded in creating a commercially viable group from what was then a moribund business.

However we have voluntarily given the Irrevocable Undertakings which have the effect of substantially reducing the number of shares over which we can exercise options in the future and, save in respect of the "B" Share Options over ordinary shares in issue prior to the completion of the Proposals, increasing the exercise price to match the price at which any Ordinary Shares are issued from time to time. They also contain provisions to limit the scope of the exercise of the "B" Share Options, from the date of the Irrevocable Undertakings, so as to exclude options becoming available as a result of the exercise of the "B" Share Options themselves or any other options currently in issue, contemplated in the Proposals or to be issued in the future.

We feel this reflects an appropriate commercial balance, in the specific context of the Proposals and, in view of the number of New Ordinary Shares being issued pursuant to the Proposals, between the need to motivate Mr Cooke and myself, the interests of the shareholders and the ability to effect further transactions by the issue of shares.

Details of the "B" Share Options were contained in listing particulars dated 17 March 1999 and are set out in paragraphs (a)(ii) and (iv) of Part VI of this document.

The exercise price of the "B" Share Options was stated to be the lower of the middle market price immediately prior to the grant of the "B" Share Options or the price at which a fund raising was effected in the six months following the grant of the option or, if higher, the nominal value. This has resulted in a current exercise price of 0.5p per Ordinary Share.

In the event of a capital reorganisation, such as the proposed Consolidation, the number of shares under option and the exercise price would normally adjust to reflect such reorganisation, in the case of the Consolidation, by reducing the number of Consolidated Shares under option to one tenth the number of Ordinary Shares and by increasing the exercise price tenfold. The effect would be to adjust the exercise price from 0.5p per Ordinary Share to 5p per Consolidated Share (the equivalent of 0.5p before the Consolidation).

However under the terms of the "B" Share Options our specific prior consent to any adjustment in the exercise price is required. We have not given our consent and therefore, as a consequence of the Consolidation, the exercise price will become 1p per Consolidated Share as the nominal value of a Consolidated Share will be higher than the current exercise price of 0.5p.

As a result of the Irrevocable Undertakings the impact of this adjustment will be limited to 4,240,000 Consolidated Shares.

The maximum potential benefit accruing in respect of Oliver Cooke's "B" Share Option over 1,414,040 of the 4,240,000 Consolidated Shares referred to above, on the basis of a 4p reduction in the equivalent exercise price following the Consolidation, is approximately £56,562. The maximum potential benefit accruing in respect of my "B" Share Option over 2,825,960 of the 4,240,000 Consolidated Shares on an equivalent basis is approximately £113,038.

However, at the same time, also as a consequence of the Irrevocable Undertakings, the maximum potential value of our "B" Share Options, following implementation of the Proposals alone, will reduce in value by £547,300 in aggregate, of which £182,525 is attributable to Oliver Cooke and £364,775 is attributable to me, based upon the Offer Price adjusted for the Consolidation of 7.5p.

Further details of the effect of the Consolidation on the value of the "B" Share Options and the assumptions on which the above calculations have been made are set out in Paragraph 3(b) of Part VI of this document.

Although the Company is not a party to the Irrevocable Undertakings (and shareholder approval is therefore not required) the Company has been advised that they are legally binding on Oliver Cooke and myself (and our successors). The Irrevocable Undertakings are not conditional upon the adoption or implementation of the Proposals in part or in full and are now in full force and effect.

The exercise price of the "A" Share Option has been adjusted from 0.5p to 5p per share to allow for the effect of the Consolidation and therefore the holder will not benefit from the Consolidation.

The purpose of this document is to set out details of the Proposals and to convene an EGM to be held on 14 October 1999, notice of which is set out at the end of this document, at which shareholder approval will be sought.

### **Background to, and reasons for, the Acquisition**

Gladstone PLC (formerly Versalite Group PLC) joined the Official List in 1997, at which time its businesses comprised the provision of specialist glazing to the residential and commercial sectors. These businesses were loss making and, in April 1999, they were sold to their management. At the same time the previous executive directors resigned from the Board and the Company effected a rights issue raising £360,000 before expenses to provide working capital for the Group. Oliver Cooke and I were also appointed directors of the Company and between us acquired 107,400,000 Ordinary Shares, comprising 49.7 per cent. of the current issued share capital of the Company (which, together with the New Ordinary Shares which we are taking up in the Open Offer, will fall to 6.7 per cent. of the Enlarged Share Capital, following completion of the Proposals). Since April 1999 the Group has been a cash shell and we have reviewed a number of potential acquisitions.

It is our intention to build Gladstone into a software and services group with a number of specialist divisions and the acquisition of Microcache represents the first step in this process.

Microcache has the following key strengths:

- it is profitable and has grown rapidly over the two years ended 30 June 1999. Turnover has grown by 95.0 per cent. and pre-tax profits by 73.9 per cent. over this period;
- Microcache has a successful management team and enjoys a strong position in its market place;
- it has a wide customer base in both the public and private sectors with substantial scope for further growth;

- it operates in a sector, the provision of card related services to businesses, where we have considerable prior experience and expertise; and
- it offers an excellent platform upon which to develop a wider range of card based services.

The Company intends that Microcache will form the cornerstone of a card services division, which we hope to expand both organically and by acquisition.

Whilst representing the first step in establishing the card services division of the Company, it is the Directors' intention that this division will eventually have the ability to offer the following services:

- card issuance;
- card scheme operation; and
- multiple service provision on a single card – such as membership, payment and loyalty.

To this end the Directors intend to develop or acquire software systems and a support infrastructure that will enable customers to offer their individual members the ability to use their membership cards as an account card as well as a token of membership. In order to achieve this the system must be capable of processing transactions and managing cardholders' accounts electronically.

## **Information on Microcache**

### *History and Development*

Microcache's business was established in 1981 by Norman Guiver and in the mid 1980's it developed a software system to facilitate the grading of squash players, which still generates revenues today. At about the same time it developed its first membership management product. Since then it has developed a number of new modules and has grown to become a leading supplier of facilities management software systems and of smart card and other membership card systems to the leisure industry.

Earlier this year the directors of Microcache decided that it would be beneficial for Microcache to be part of a larger organisation. After negotiations with a number of interested parties the directors of Microcache decided that Gladstone offered an appropriate mix of relevant experience, proven management and vision.

### *The Business*

Microcache develops, supplies, installs, and provides post-installation support and maintenance of membership and other systems used to operate leisure facilities such as sports and health clubs, gymnasia and swimming pools. Microcache's customers are both in the public sector (educational establishments and local councils) and in the private sector (operators of health and fitness clubs, hotels running leisure facilities and companies providing leisure facilities for use by staff).

Microcache provides a combination of software, hardware and membership cards (some of which are chip based smart cards) which control access to leisure facilities. Its systems are marketed under the "Clubman" brand. Microcache's systems also provide a database of information about usage and participation, which can be used to monitor the effectiveness of and demand for facilities. Microcache has won a number of industry awards for its products; in 1995 for its smart card, in 1997 for an energy management product, and in 1998 for an automated keyless locker product.

Microcache's systems are modular and are used by its customers to control the following areas:

- the monitoring of membership and payment of subscriptions;
- members' access to facilities, using entry controls and identity confirmation (including the use of digital image display for recognition);
- full integration of point of sale;
- the booking of facilities and subsequent invoicing and the management of courses and classes; and
- other applications, such as:
  - gym management and personal fitness assessments; and
  - the provision of added value services to members, including a cashless environment through members' debit/credit accounts and frequent user bonus point schemes.

## Part I Letter from the Chairman of Gladstone continued

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In a typical health and fitness club environment, Microcache's products can be used in the following ways:

- at reception, to restrict entry to only those members, guests and visitors who are accredited to use the facilities;
- in the gym, to track and profile an individual's performance;
- in the health studio or beauty treatment rooms, to match bookings with the availability of staff, facilities and treatments;
- in the bar or restaurant, to monitor secondary spending by members for marketing purposes and the operation of members' accounts; and
- in the back office, to provide a range of detailed management reports including full membership history and an audit trail of facility utilisation.

### *Customers*

The directors of Microcache believe that Microcache is unusual in its field in that it provides services in both the public and private sectors – whereas most of its competitors operate largely in one or the other. Its systems are used in over 800 sites in the UK, Europe and Australasia and the company has supplied in excess of 2 million membership cards of which in excess of 500,000 are chip-based smart cards. No customer accounted for more than 10 per cent. of new installation or ongoing maintenance income received in the year ended 30 June 1999.

In the public sector Microcache has supplied systems to educational establishments including Birmingham University, Oxford Brookes University, Brunel University, University of Surrey, University of Wales and Edinburgh Academy. It has also supplied systems to local councils including Aberdeenshire Council, Cambridge City Council, Castlereagh District Council, Huntingdonshire District Council, Canterbury City Council, Nottingham City Council, Oxford City Council and Taunton Deane Borough Council.

In the private sector, it has provided systems to sports club operators including Cannons, Holmes Place, Mike Corby Group and Virgin Active Clubs, hotel groups including Village Leisure Hotels, Queens Moat House Hotels, Swallow Hotels, De Vere Hotels, the Mayfair Intercontinental Hotel, Churchill Intercontinental Hotel, Hyde Park Intercontinental Hotel and the Hyatt Carlton Hotel, and to companies including British Airways, General Motors, P & O Group, Pfizer and Zeneca.

### *Sales and marketing*

Norman Guiver, the company's founder, has overall responsibility for sales, marketing and product development.

Microcache's products are also sold through distributors in Scotland, Northern Ireland, Eire, Australia and France. Microcache has historically enjoyed continued support from its customers and a significant proportion of its revenue is now made up of annual maintenance fees.

### *Development of the business*

In the last year, Microcache has entered into a series of trials whereby its cards are accepted by other service providers in addition to the customer on whose behalf the card was originally supplied and customer response has been good. If these trials are successful, the benefits of membership cards may be broadened to incorporate access to additional services and facilities other than leisure, such as buses or car parks on the basis of prepayment. Thus Microcache supplied cards may in the future provide both membership and prepayment facilities. Microcache is also interested in establishing its cards as a method of payment for low value goods and services in a local area as and when they are required, rather than by prepayment.

The Directors believe these developments offer the potential for an expansion of the range of services offered by Microcache and thus of its customer base, and an opportunity to make the card more attractive to its holders. We intend to use the considerable experience and expertise that we have gained of the card market in general to assist the directors of Microcache with the development, enhancement and roll out of this concept.

### *Organisation*

Microcache is based in Wallingford in Oxfordshire and operates from a freehold site, which comprises approximately 10,000 sq ft of office space.

Microcache currently employs 60 full and part-time staff including the company's directors.

<i>Department</i>	<i>Number of employees</i>
Sales	8
Training	7
Hardware/Software support	17
Development	11
Finance Accounts/Administration	17
	<u>60</u>

#### *Markets and Competition*

The UK leisure industry has experienced significant levels of growth in recent years and Microcache is an established supplier in this sector. Microcache also has the potential to expand the market that it addresses through the development of a wider range of card based services.

There are a number of competitors who supply products with similar elements to those supplied by Microcache but the Directors are not aware of any other company which supplies an equivalent range of products to both the public and private sectors.

#### *Financial information on Microcache*

The following is extracted, without adjustment, from the Accountants' Report on Microcache set out in Part IV of this document. Shareholders should read the whole document and not rely solely upon the summarised information set out below.

	<i>Year ended 30 June 1997</i>	<i>Year ended 30 June 1998</i>	<i>Year ended 30 June 1999</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	1,830	2,638	3,569
Gross profit	1,205	1,679	2,363
Gross profit as a percentage of turnover	65.9%	63.7%	66.2%
Profit on ordinary activities before taxation	364	576	633

Turnover has increased by 95.0 per cent. over the two years ended 30 June 1999. Profit on ordinary activities before taxation has increased over the same period by 73.9 per cent. This growth has been driven primarily by product innovation. All research and development expenditure is expensed to the profit and loss account as and when it is incurred.

#### **Current trading and prospects**

##### *Existing Group*

At present, following the disposal of its principal trading businesses, Gladstone operates as a holding company. The Company has exchanged contracts to lease approximately 1,700 square feet of premises at 77/79 High Street, Egham, Surrey. The Directors intend to apply some £1 million of the proceeds of the Open Offer to secure and equip office premises and to establish and run a head office function in order properly to manage the affairs of the Enlarged Group as it expands.

We have today made our preliminary announcement of results for the year ended 30 June 1999 which is set out in Part III of this document and you will find enclosed with this document a copy of the annual report.

##### *Microcache*

The current financial year has started well with an increase in the order book and level of enquiries in general from both existing and new markets compared with the same period in prior years and trading is ahead of budget. As a consequence, the Directors are optimistic about Microcache's prospects for the current year.

### Use of Proceeds

The Proceeds of the Open Offer are anticipated to be £9.75 million after the deduction of expenses. £6 million of the net proceeds will be used to satisfy the cash consideration of the Acquisition.

A further £2.25 million has been allocated to fund the development or acquisition of software systems and a support infrastructure that will enable customers to offer their individual members the ability to use their membership cards as an account card as well as a token of membership.

£1 million will be applied in the acquisition of premises and to establish and run a head office function in order properly to manage the business of the Enlarged Group. The remaining £0.5 million will be applied to the general working capital requirements of the Enlarged Group.

### Terms of the Acquisition

The Company has conditionally agreed to acquire the entire issued ordinary share capital of Microcache for £8.1 million, to be satisfied as to £6 million in cash and the balance by the issue to the Vendors of an aggregate of 280,000,000 New Ordinary Shares.

The Acquisition is conditional, *inter alia*, on:

- the passing of the resolutions at the EGM;
- the Underwriting Agreement having become unconditional and not having been terminated in accordance with its terms; and
- Admission.

A summary of the principal terms of the Acquisition Agreement is set out in paragraph 7(a)(vi) of Part VI of this document.

### Details of the Open Offer

Qualifying Shareholders who wish to subscribe for New Ordinary Shares are being given the opportunity to do so through the Open Offer. Accordingly, Qualifying Shareholders are invited to apply for New Ordinary Shares at 0.75 pence per share, on the following basis:

#### 13 New Ordinary Shares for every 2 Ordinary Shares

held on the Record Date and so in proportion for any lesser number of Ordinary Shares held.

Of the 1,404,000,000 New Ordinary Shares the subject of the Open Offer, Seymour Pierce, as agent for the Company, has placed firm 678,100,000 New Ordinary Shares and underwritten the balance.

The 678,100,000 New Ordinary Shares which have been placed firm represent those parts of the entitlements of the Directors which they have irrevocably undertaken not to apply for in the Open Offer.

Oliver Cooke and I have irrevocably undertaken to take up 6,666,666 and 13,333,333 New Ordinary Shares respectively in the Open Offer. 10,000,000 and 3,333,333 New Ordinary Shares have been placed firm by Seymour Pierce with Lord Sheppard and Anthony Carlton respectively.

The New Ordinary Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions hereafter declared, made or paid on the Ordinary Shares.

Fractional entitlements to New Ordinary Shares will be aggregated and sold in the market for the benefit of the Company.

The Open Offer is conditional, *inter alia*, upon:

- the passing of resolutions 1 to 5 to be proposed at the EGM;
- the Underwriting Agreement having become unconditional and not being terminated in accordance with its terms;
- the Acquisition having become unconditional in all respects; and
- Admission.

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The latest time and date for application and payment in full for New Ordinary Shares under the Open Offer is 3.00p.m. on 12 October 1999.

Application has been made to the London Stock Exchange for the Consolidated Shares (representing the existing Ordinary Shares and the New Ordinary Shares) to be admitted to the Official List. It is expected that Admission will become effective and that dealings will commence in the existing Ordinary Shares and New Ordinary Shares in consolidated form on 15 October 1999. Definitive share certificates for the number of Consolidated Shares you will own following completion of the Proposals are expected to be despatched no later than 21 October 1999.

Further information relating to the Open Offer, including the procedure for application and payment, is set out in Part II of this document.

The attention of shareholders who have registered addresses outside the United Kingdom or who are citizens or residents of countries other than the United Kingdom is drawn to the paragraph headed "Overseas Shareholders" set out in Part II of this document. The Open Offer is not being made to certain overseas shareholders.

A guide to the general tax position of Qualifying Shareholders resident in the United Kingdom is set out in the paragraph headed "United Kingdom Taxation" in Part II of this document. Any person who is in any doubt as to their tax position or who is subject to tax in a jurisdiction other than the United Kingdom, should consult an appropriate professional adviser immediately.

### **Consolidation**

The Company's share price, as at the close of business on 17 September 1999, was 2.25p, with a 2 – 2.5p spread. In order, inter alia, to reduce the spread in the Company's Ordinary Shares, it is proposed to consolidate every ten existing Ordinary Shares and New Ordinary Shares into a single Consolidated Share. Fractions arising from the Consolidation will be aggregated and sold in the market for the benefit of the Company.

For example, if after exercising your right to purchase New Ordinary Shares through the Open Offer you held 1,000 ordinary shares of 0.1p each, these would be consolidated into 100 ordinary shares of 1p each. Thus the number of shares would have decreased and the nominal value increased, such that, disregarding market price movements, the value of your holding would remain the same.

The Consolidation will take effect from the day following the EGM but immediately prior to Admission and therefore although shareholders will purchase shares at 0.75p under the Open Offer, when they come to receive their new definitive share certificates they will be treated as though they had bought one tenth of the actual number purchased at ten times the price. Share certificates for Consolidated Shares arising from the Consolidation of the existing Ordinary Shares will be despatched at the same time as for the Consolidated Shares arising from the Consolidation of the New Ordinary Shares and the old share certificates for the existing Ordinary Shares will cease to be valid at that time. Definitive share certificates will not be issued in respect of the New Ordinary Shares in unconsolidated form.

### **Capital Reduction**

Due mainly to losses reflecting adverse trading by Gladstone's trading subsidiaries prior to their disposal, a substantial deficit has accumulated on the Company's profit and loss account. The Company must eliminate this deficit which at 30th June 1999, amounted to approximately £4.3 million, in order to pay dividends in the future.

On 8 April 1999 each of the ordinary shares of 1p each in the capital of the Company was subdivided into one ordinary share of 0.1p and one Deferred Share of 0.9p in order to enable further ordinary shares to be issued for cash by the Company at a subscription price below the original nominal value of 1p. The Deferred Shares are not listed and the rights attaching to them are such that they are effectively valueless. No certificates have been issued to the holders of the Deferred Shares.

The Company is proposing that, following application to the High Court and subject to its sanction, the Company's Deferred Shares should be cancelled and that the share premium account of the Company should be reduced by such amount as will eliminate the accumulated deficit on the profit and loss account of the Company.

## Part I Letter from the Chairman of Gladstone continued

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In giving its confirmation to the proposed cancellation and reduction, the Court will be concerned to protect the interests of the creditors of the Company and will require the Company to undertake to the Court to credit to a special reserve the profits of the Company earned up to the date on which the cancellation of the Deferred Shares and the reduction of the share premium account becomes effective ("the effective date"). The sums credited to the special reserve will remain undistributable until such time as all creditors as at the effective date shall either have been paid or consented to a distribution. The Company intends to give the Court such undertakings as it may be advised are appropriate.

### Share Option Schemes

The Company places considerable emphasis on the proper motivation and rewarding of staff and incentivisation of key executives within the Enlarged Group. Accordingly, it is proposing the introduction of two Share Option Schemes, one of which is the subject of an application for approval by the Inland Revenue.

The Directors are seeking shareholder approval of the Share Option Schemes. The total number of shares that may be the subject of subscription options granted under the two schemes taken together is limited to 10 per cent. of the issued ordinary share capital of the Company from time to time.

The rules of the schemes are broadly similar. The Approved Scheme is intended to qualify for Inland Revenue approval so that options granted over shares within the statutory limit (of £30,000) will, if exercised within the relevant period, qualify for favourable tax treatment. Options granted with an exercise price in excess of this limit, or the balance over this limit, will be granted under the Unapproved Scheme.

It is intended that options will be granted under the new schemes to staff and to individual senior executives whose effort and future commitment are considered significant to the growth of the Enlarged Group. Options will normally be exercisable only after three years from the date of grant. The exercise of options will normally be conditional upon continued employment and upon the attainment by the Company of performance targets to be set by the remuneration committee at the time of grant.

The Company has agreed, in the Acquisition Agreement, that following completion, it will grant options to employees of Microcache to subscribe for an aggregate of the higher of such number of Consolidated Shares as at the average middle market price for the three dealing days immediately preceding the date of grant equals £500,000 and 2,500,000 Consolidated Shares, pursuant to the Share Option Schemes. The options will be subject to the rules of the Share Option Schemes in that the optionholder will have to remain an employee of Microcache for three years from the date of grant but will not be subject to the achievement of performance targets.

The Directors are mindful of the guidelines laid down by the Association of British Insurers ("ABI Guidelines") and intend that as the Company develops, the aggregate number of shares the subject of its Share Option Schemes will comply more closely with those guidelines. Under the ABI Guidelines subscription options should not (save in the case of super options) be granted over more than five per cent. of the ordinary share capital under any option scheme in any rolling ten year period and subscription options should not be granted under an option scheme over more than three per cent. of the issued ordinary share capital in any three year period. The issue of the above options to employees of Microcache would breach the latter guideline if the middle market price of a Consolidated Share fell below 8.8p.

In the light of the "B" Share Options currently held by Oliver Cooke and myself there is no present intention that we should participate in the proposed Share Option Schemes.

Further details of the Share Option Schemes are set out in paragraph 15 of Part VI of this document.

### Directors and management

Oliver Cooke and I have considerable experience of the card market and were, respectively, finance director and chief executive of Card Clear Plc, a company engaged in combating the fraudulent use of plastic payment cards, which we founded and grew into an international group with a market capitalisation in excess of £100 million.

Set out below are brief details of the Directors:

#### *Executive directors*

**Brian Raven**, aged 43, is chairman and chief executive, having been appointed to the Board in April 1999. He is a first class honours graduate from Edinburgh University. Mr Raven has some twenty years experience in the

information technology and business services sectors and has held many sales and general management posts at senior management and board level. In 1991 he founded Card Clear Plc. As chief executive he was instrumental in bringing the company to AIM in 1995 and to the development of the company into an international group with a market capitalisation in excess of £100 million. He resigned from Card Clear Plc in June 1998, the details and circumstances of which are set out in paragraph 3(f) of Part VI of this document.

Oliver Cooke, aged 44, is finance director and company secretary having been appointed to the Board in April 1999. He is a chartered accountant and a fellow of the Association of Chartered Certified Accountants. He has raised finance for and served on the board of a number of private companies. Mr Cooke served as Card Clear Plc's finance director from its formation in 1991 and was directly involved in the negotiation, funding and completion of that company's acquisitions. He resigned from Card Clear Plc in June 1998, the details and circumstances of which are set out in paragraph 3(f) of Part VI of this document. In 1990 he raised the initial funding for Multi Equipment Rental PLC, an equipment rental company, for whom he served as finance director until that company's admission to the Official List of the London Stock Exchange in 1998. He continues to act as a non executive director of Multi Equipment Rental PLC.

#### *Directors' Options*

Oliver Cooke and I were granted "B" Share Options, exercisable at any time prior to 16 March 2004, prior to our joining the Board to motivate and reward us in the event that we succeed in creating a commercially viable group from what was then a moribund business.

The "B" Share Options currently allow us to subscribe for up to 20 per cent. of the issued share capital of the Company from time to time as enlarged by any further issue of shares including those issued pursuant to any prior exercises of the "B" Share Options (less 800,000 Ordinary Shares the subject of the "A" Share Option).

As a consequence of the Consolidation and in accordance with their terms the exercise price of the "B" Share Options will change.

As has been explained earlier the exercise price of 0.5p per Ordinary Share will become 1p per Consolidated Share rather than 5p per Consolidated Share (the equivalent of 0.5p before the Consolidation). However as a result of the Irrevocable Undertakings such adjustment in the exercise price will only apply to 4,240,000 Consolidated Shares, being the number of shares which are the subject of the "B" Share Options by reference to the issued share capital of the Company prior to the implementation of the Proposals. The maximum potential benefit accruing in respect of Oliver Cooke's "B" Share Option over 1,414,040 of the 4,240,000 Consolidated Shares referred to above, on the basis of a 4p reduction in the equivalent exercise price following the Consolidation, is approximately £56,562. The maximum potential benefit accruing in respect of Brian Raven's "B" Share Option over 2,825,960 of the 4,240,000 Consolidated Shares on the equivalent basis is approximately £113,038. Further details of the effect of the Consolidation on the value of the "B" Share Options and the assumptions on which the above calculations have been made are set out in paragraph 3(b) of Part VI of this document.

Both Oliver Cooke and myself have given Irrevocable Undertakings the effect of which is that we can in aggregate only exercise "B" Share Options:-

(A) save in respect of the "B" Share Options over Ordinary Shares in issue prior to the completion of Proposals:

- (1) at the same price at which any ordinary shares are issued for cash by the Company or by way of a consideration other than cash from time to time in accordance with the tranches referred to in paragraph (3) below,
- (2) in respect of ordinary shares issued for cash or by way of a consideration other than cash so as to exclude any ordinary shares falling to be issued pursuant to the "A" Share Option, the "B" Share Options, the Non Executive Directors' Options and the Share Option Schemes or any other option scheme introduced by the Company in the future,
- (3) in respect of up to 15 per cent. of the issued share capital whilst such issued share capital is made up of more than 21,600,000 Consolidated Shares but not more than 200,000,000 Consolidated Shares; in respect of up to 12 per cent. of the issued share capital from 200,000,001 Consolidated Shares up to 700,000,000 Consolidated Shares; in respect of up to 10 per cent. of the issued share capital from

## Part I Letter from the Chairman of Gladstone continued

700,000,001 Consolidated Shares up to 1,500,000,000 Consolidated Shares; in respect of up to 8 per cent. of the issued share capital from 1,500,000,001 Consolidated Shares up to 2,500,000,000 Consolidated Shares and in respect of up to 6 per cent. of the issued share capital from 2,500,000,001 Consolidated Shares without limit;

and

- (B) so as to disregard any ordinary shares issued by the Company pursuant to the exercise of "B" Share Options in respect of Ordinary Shares in issue prior to the adoption of the Proposals

The Irrevocable Undertakings also contain provisions that:-

- a) Mr Cooke and I will give our consent to any future adjustment in the exercise price of the "B" Share Options which may be appropriate as a result of any capital reorganisation following the implementation of the Proposals.
- b) the "B" Share Options may in the alternate, if it be to the advantage of the Company, be exercised as originally drafted but only to the extent required to give an effect equivalent to the undertakings.

Further details of the "B" Share Options and the Irrevocable Undertakings are set out in paragraphs 3(a)(ii) to 3(a)(v) of Part VI of this document.

In accordance with the Proposals 168,400,000 Consolidated Shares will be issued at 7.5p per Consolidated Share. Under the terms of the "B" Share Options and the Irrevocable Undertakings, we will be entitled to subscribe for up to 25,260,000 additional Consolidated Shares at 7.5p per Consolidated Share in addition to the 4,240,000 Consolidated Shares at 1p per share (an aggregate of 29,500,000 options, of which I will hold 19,661,750 and Oliver Cooke will hold 9,838,250).

### *Non-Executive directors*

**The Rt. Hon Lord Sheppard of Didgemere, KCVO, Kt.**, aged 66, is a proposed non-executive director. Lord Sheppard was knighted in 1990, was awarded a Life Peerage in 1994 and a KCVO in 1997. He is a London School of Economics graduate in business administration as well as a qualified accountant (FCMA), company secretary (FCIS) and a chartered marketer (CIM). He has been awarded honorary fellowships of the London Business School and City and Guilds of London Institute, as well as several honorary doctorates. In 1993 he was awarded the Institute of Management Gold Medal.

He worked for eighteen years in the motor industry in Britain and Germany (Ford, Rootes/Chrysler and British Leyland) initially in finance but later in sales and marketing and then in line management. He joined Grand Metropolitan PLC as a board member in 1975, serving as group chief executive from 1986 to 1993 and group chairman from 1987 to 1996.

He is currently chairman of GB Railways PLC, Group Trust PLC, McBride PLC, Unipart Group and Vizual Business Tools Limited and a director of High-Point Rendel Group PLC and PetCheck Limited. He is chairman of London First, and a vice-president of Business in the Community (director 1987 – 1998, chairman 1994-97). He was chairman of the Council of the Prince's Trust (1995-98) and of the Prince's Youth Business Trust (1990 – 94). He is also a board member of two animal charities – The Blue Cross and Animal Health Trust.

**Anthony Carlton**, aged 62, is a professional stockbroker. He has had forty years' experience in financial services including merchant banking, insurance and portfolio management.

In recognition of their joining the Board, we have granted options, conditionally upon shareholders' approval, and completion of the Proposals and subject to completion of the Proposals over 500,000 Consolidated Shares to Lord Sheppard and over 50,000 Consolidated Shares to Anthony Carlton, exercisable at a price of 7.5p per share (equivalent to the Offer Price adjusted for the Consolidation) up to 21 September 2008, provided that they have been a director of the Company for at least two years.

In view of the proposed appointment of the Proposed Directors and the Company's intention to appoint further non executive directors as the Enlarged Group expands, the Directors are proposing, in Resolution 6 set out in the notice of EGM, that the aggregate limit on annual directors' fees payable under the Articles of Association should be increased from £50,000 to £100,000.

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## Management of Microcache

**Beryl Ann Guiver**, aged 48, pursued a career in local government following University and in 1988 joined Microcache. She is managing director, having been appointed as a director on incorporation, with responsibility for the overall running of the company and in particular, for organising and planning customer services functions of delivery, installation, training and support.

**Norman Edward Garry Guiver**, aged 50, began his career as a merchandiser with C&A. He subsequently spent three years working for Habitat. In 1981 he founded Microcache and was appointed a director at that time and currently is the sales director with overall responsibility for product development, marketing and sales. He has been responsible for much of the innovation that has led to the success of the company, such as the introduction of smart cards in 1995.

**Jo McSharry**, aged 29, trained as an accountant with Deloitte Haskins & Sells. She spent five years working in the UK and European accounting department of a leading US electronic component manufacturer. She joined Microcache at the start of 1999 and is responsible for the company's accounting function.

**David Hopkins**, aged 36, joined Microcache in 1992 as its first exclusively dedicated salesman. He brought with him seven years' experience of selling and marketing cash registers at a time when Microcache's move into the local authority market place involved a significant increase in the sale of point of sale equipment. He has also been instrumental in developing its University customers and now leads a team of seven, including five sales staff.

**Grant Jaquest**, aged 30, spent two years with Hoskins as a Cobol programmer before joining Microcache in 1991 as its first full time programmer. He was instrumental in developing the company's second generation DOS product. In 1995 he added Visual Basic to his development skills and now leads a team of five Visual Basic and one Cobol programmers.

On completion of the Acquisition, Mr Cooke and I will join the board of Microcache which will then comprise the two of us together with Beryl and Norman Guiver. The board of Microcache will report to the board of Gladstone.

## Corporate Governance

The Directors intend that the Company will, following Admission, other than in my combining the roles of chairman and chief executive and there being two rather than three non-executive directors, comply with the provisions of the Combined Code derived by the Committee on Corporate Governance from the Committee's Final Report and from the Cadbury and Greenbury Reports, insofar as it has been incorporated into the Listing Rules of the London Stock Exchange.

Whilst the Directors do not feel that the current size of the Company warrants the appointment of further non-executive directors with the associated costs, they are mindful of the recommendations of the Combined Code. As the Enlarged Group expands, the Directors intend to appoint further non-executive directors.

Following the appointment of the Proposed Directors, the Directors will establish the following two committees of the directors, both of which will have written terms of reference which will deal clearly with their respective authorities and duties:

- an audit committee, which will receive and review reports from management and the external auditors relating to the interim report, annual accounts and internal control policy and which will comprise Lord Sheppard, Mr Raven and Mr Carlton and be chaired by Lord Sheppard; and
- a remuneration committee, which will advise the Board on the remuneration policy for the executive directors and approve the granting of options to Directors and employees and the performance related conditions relating thereto. The Committee will comprise Lord Sheppard and Mr Carlton and will also be chaired by Lord Sheppard.

## Year 2000 Issues

Many existing computer programs and installed computer systems include computer code that uses only two digits to identify a year. These systems could fail to function or produce delayed or erroneous results if they interpret "00" to mean anything other than the year 2000 (eg the year 1900). As a result of this problem,

## Part I Letter from the Chairman of Gladstone continued

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commonly referred to as the "Year 2000" problem, older computer programs or systems may need to be upgraded or replaced.

The Enlarged Group is, by the nature of Microcache's business, dependent on computer-based technology.

Microcache has carried out a year 2000 assurance review of its internal systems and business operations to identify and mitigate risks associated with potential year 2000 problems which might arise before or after 31 December 1999. This review has been completed and has included a number of test sessions where year 2000 has been simulated in relation to software developed by Microcache. There has been no external assessment of this review.

Any software developed and by supplied by Microcache since mid 1995 is year 2000 compliant. Microcache's software suppliers have represented to Microcache that current releases of software supplied by them to Microcache are year 2000 compliant. Microcache supplies systems (including third party hardware). Microcache's hardware suppliers have represented to Microcache that hardware supplied by them and Microcache since January 1998 (for its own use and for resale) is year 2000 compliant (although no such representations have been received in relation to the provision of telephone lines). During the year ended 30 June 1999 Microcache contacted those customers to whom it had supplied hardware and software prior to 1 January 1998 and alerted them to the year 2000 issue and the potential risks and uncertainties associated with it.

This has been followed up by it working with customers to identify suitable hardware and software upgrades to avoid any potential year 2000 problems. Any customer of Microcache who has a current maintenance contract in respect of a system supplied by Microcache has received year 2000 compliant versions of the software previously supplied.

The estimated costs of testing and correcting any problems relating to year 2000 issues are not expected to be material to the Enlarged Group and costs incurred to date by Microcache have been absorbed in its normal budgets. It is not expected that any material separately identifiable costs relating to year 2000 issues will be incurred in the future.

However, there can be no assurance that the Enlarged Group will take all the necessary steps to ensure year 2000 compliance in good time or that, if problems occur, costs will not exceed those estimated by the Directors or that they will not have a material adverse effect on the Enlarged Group's operations and financial position.

### **Extraordinary General Meeting**

You will find set out at the end of this document a notice convening an EGM of the Company to be held at 10.05 a.m. on 14 October 1999 (or so soon thereafter as the annual general meeting convened for the same day has finished or been adjourned) at which the following special resolutions will be proposed:

- (1) A resolution to:
  - (A) cancel the Deferred Shares;
  - (B) reduce the share premium account in order to eliminate the deficit on the profit and loss account;
  - (C) increase the authorised share capital of the Company;
  - (D) amend the Articles of Association in connection with the Consolidation;
  - (E) approve the Consolidation; and
  - (F) amend the Articles of Association in connection with the Capital Reduction.
- (2) A resolution to:
  - (A) approve the Acquisition;
  - (B) give the Directors the power to allot securities up to £280,000 in connection with the Acquisition;
  - (C) give the Directors the power to allot securities up to £3,889,500 in connection with the Proposals and the "B" Share Options;
  - (D) give the Directors the power to allot securities generally, up to £748,165; and
  - (E) give the Directors the power to allot securities non pre-emptively in connection with an offer to all Shareholders and for cash up to 9,500,000 Consolidated Shares.

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- (3) A resolution to approve the grant of options to Lord Sheppard;
  - (4) A resolution to approve the grant of options to Anthony Carlton
  - (5) A resolution to approve the introduction of the Share Option Schemes.
  - (6) A resolution to amend the Articles of Association to increase the maximum payable in directors' fees from £50,000 to £100,000.

Following the proposed increase in authorised share capital, the issue of New Ordinary Shares pursuant to the Proposals and the Consolidation, 360,000,000 Consolidated Shares will remain authorised but unissued (representing approximately 65 per cent. of the Company's then authorised share capital).

#### **Action to be taken**

##### **(a) Applications in the Open Offer**

The action to be taken by Qualifying Shareholders in order to apply under the Open Offer is set out under "Procedure for Application" and "Procedure for Payment" in Part II of this document and in the accompanying Application Form. The attention of overseas shareholders is drawn to the relevant paragraphs in Part II of this document and to the warranty concerning overseas shareholders in the Application Form.

##### **(b) Form of Proxy**

You will find enclosed a pink Form of Proxy for use in relation to the EGM. Whether or not you intend to be present in person at the EGM, you are requested to complete, sign and return it by post or by hand to Harford Registrars, Harford House, 101-103 Great Portland Street, London, W1E 3QZ, as soon as possible but in any event so as to arrive by not later than 10.05 a.m. on 12 October 1999. Completion and return of a Form of Proxy will not preclude you from attending the EGM and voting in person should you so wish.

#### **Additional information**

Your attention is drawn to the additional information set out in Parts II to VI of this document.

#### **Recommendation**

Your Directors, who have been advised by Corporate Synergy and Seymour Pierce, consider that the Acquisition, the Open Offer, the appointment of the Proposed Directors, the Capital Reduction, the establishment of the Share Option Schemes and the grant of Non-Executive Directors' Options are in the best interests of the Company and its shareholders as a whole. In providing financial advice to the Directors, Corporate Synergy and Seymour Pierce have taken into account the Directors' commercial assessment of the Acquisition.

Accordingly your Directors both recommend that you vote in favour of the resolutions 2 to 6 to be proposed at the EGM, as they intend to do in respect of their own beneficial holdings, which in aggregate amount to 107,400,000 Ordinary Shares representing approximately 49.7 per cent. of the issued ordinary share capital of the Company at the date of this document.

Given the benefit to them arising from the Consolidation, your Directors make no recommendation with regard to the Consolidation and will not vote on resolution 1 to be proposed at the EGM. The Proposed Directors, who have been advised by Corporate Synergy and Seymour Pierce, consider that the Consolidation is in the best interests of the Company and its shareholders as a whole. Accordingly, the Proposed Directors both recommend that you vote in favour of resolution 1 to be proposed at the EGM. The Proposed Directors own no Ordinary Shares.

Yours faithfully

Brian K Raven  
*Chairman*



**CORPORATE  
SYNERGY PLC**

Piercy House  
7/9 Copthall Avenue  
London EC2R 7NJ

21 September 1999

*To Qualifying Shareholders and, for information only, to holders of options*

Dear Shareholder

### Proposed Open Offer

Your chairman has explained, in his letter set out in Part I of this document, the background to and reasons for the Open Offer. Under the Underwriting Agreement, Seymour Pierce has placed firm 678,100,000 New Ordinary Shares (being those parts of the entitlements of the Directors which they have irrevocably undertaken not to take up) and have underwritten 705,900,000 New Ordinary Shares (being the balance of the New Ordinary Shares the subject of the Open Offer) other than the 20,000,000 New Ordinary Shares being taken up by the Directors. The purpose of this letter is to set out the details of the Open Offer.

### The Open Offer

Subject to the terms and conditions set out in this letter and in the Application Form, Corporate Synergy, as agent for Gladstone, hereby invites applications from Qualifying Shareholders to subscribe in aggregate for up to 1,404,000,000 New Ordinary Shares at a price of 0.75p per New Ordinary Share payable in full in cash on application, free from all commissions and expenses, on the following basis:

#### **13 New Ordinary Shares for every 2 existing Ordinary Shares**

held by them at the close of business on the Record Date and so in proportion for any lesser number of Ordinary Shares then held.

You may apply to subscribe for less than your *pro rata* entitlement to New Ordinary Shares if you so wish.

Fractional entitlements of New Ordinary Shares will be aggregated and sold in the market for the benefit for the Company.

New Ordinary Shares are being offered at 0.75p per New Ordinary Share, a premium of 0.65p to the nominal value of 0.1p.

**Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply for them under the Open Offer. The Application Form is not a document of title and cannot be traded. Any New Ordinary Shares which are not applied for under the Open Offer will be taken up by underwriters in accordance with their provisions of the Underwriting Agreement.**

The Open Offer is subject, *inter alia*, to the satisfaction of the following conditions by not later than 18 October 1999 (or such later date, not being later than 31 October 1999 as Seymour Pierce, the Company and we may agree):

- (i) the passing of Resolutions 1 to 5 set out in the notice of the EGM;
- (ii) the Acquisition Agreement becoming unconditional (other than any condition as to Admission and the Underwriting Agreement becoming unconditional) and not having been terminated;
- (iii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms; and
- (iv) Admission.

Details of the Underwriting Agreement are set out in paragraph 7 (a)(vii) of Part VI of this document.

The New Ordinary Shares will, when allotted, be fully paid, and rank *pari passu* in all respects, with the Ordinary Shares. They will be issued free from all liens, charges and encumbrances.

Regulated by The Securities and Futures Authority

Registered Office: 8/9 Lambton Place, London W11 2SH Registered in England No. 2617599

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### Procedure for Application

The enclosed Application Form shows the number of Ordinary Shares registered in your name on the Record Date and also shows your *pro rata* entitlement to New Ordinary Shares under the terms of the Open Offer. The Application Form is personal to the shareholder(s) named therein and may not be assigned or transferred. The instructions and other terms set out in the Application Form constitute part of the terms of the Open Offer.

Applications to subscribe for New Ordinary Shares may only be made on the enclosed Application Form which is personal to the shareholder named therein and may not be assigned or transferred (other than to satisfy *bona fide* market claims pursuant to the rules of the London Stock Exchange). If you have recently sold all or part of your holding of Ordinary Shares, you should consult your stockbroker, bank or other agent through whom the sale was effected as soon as possible. The invitation to subscribe for New Ordinary Shares under the Open Offer may represent a benefit which can be claimed from you by the purchaser under the rules of the London Stock Exchange. In order to facilitate any such claim, you are asked to follow the instructions printed on the Application Form, which is not a document of title and which cannot be traded.

If you wish to take up your entitlement under the Open Offer, in whole or in part, your Application Form must be completed and returned in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, by hand or by post to the Company's registrars, Harford Registrars, Harford House, 101-103 Great Portland Street, London, W1E 3QZ, so as to arrive as soon as possible but in any event not later than 3.00 p.m. on 12 October 1999. A reply-paid envelope is enclosed. Please allow at least four working days for delivery. Your right to subscribe for New Ordinary Shares as set out in this letter will lapse and no application to subscribe for New Ordinary Shares will be considered unless the Application Form is submitted in accordance with the provisions of this letter and the provisions of the Application Form itself.

If you do not wish to apply for any of the New Ordinary Shares, you should not complete or return an Application Form. Holders of Ordinary Shares are nevertheless requested to complete and return the pink Form of Proxy.

### Procedure for Payment

Cheques or bankers' drafts should be made payable to "Harford Registrars – a/c Gladstone" and crossed "Account Payee" and must be drawn in sterling on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques or bankers' drafts to be presented for payment through the clearing facilities provided for the members of those companies and must bear the appropriate sort code number in the top right hand corner and must be for the full amount payable on application. The Company reserves the right to reject applications unless these requirements are fulfilled.

The right is reserved to present cheques and bankers' drafts on receipt. If cheques or bankers' drafts are presented for payment before the closing date of the Open Offer, the application monies will be kept in a separate bank account and any interest earned will be retained for the benefit of the Company. The Directors reserve the right to seek special clearance of cheques so as to enable the Company to obtain value for remittances at the earliest opportunity. Applications will not be acknowledged, and receipts will not be issued for amounts paid on application.

Qualifying Shareholders should note that applications will be irrevocable and that it is a term of the Open Offer that applicants warrant that cheques and bankers' drafts shall be honoured on first presentation. The Company may elect to treat as invalid any application in respect of which the remittance is not so honoured.

All documents or remittances sent by or to an applicant, or as he/she may direct, will be sent through the post at his/her own risk.

If you are in any doubt about the action you should take, you should immediately consult your stockbroker or other independent professional adviser authorised under the Financial Services Act 1986.

### Money Laundering Provisions

Applications with a value of £10,000 or greater (or applications which are linked where the aggregate value exceeds that amount) which are to be settled by way of a third party payment, e.g. bankers' draft, building

society cheque or a cheque drawn by or on the account of someone other than the applicant, will be subject to United Kingdom verification of identity requirements which are contained in the Money Laundering Regulations 1993.

For United Kingdom applications, this will involve verification of names and addresses (only) through a reputable agency or a request to provide appropriate identification. For non-United Kingdom applicants, verification of identity will be sought from an applicant's bankers or from another reputable institution or professional adviser in the applicant's country of residence.

If evidence of identity satisfactory to Harford Registrars has not been obtained within a reasonable time, then the application shall not proceed any further and the application monies will be returned (without interest) to the bank account where the cheque was drawn.

In order to avoid this, applications should be submitted together with a cheque drawn by the person named on the Application Form, or if a building society cheque or bankers' draft is used, you should request the building society or bank to endorse on the cheque or bankers' draft the name and account number of the person whose building society or bank account is being debited.

Applications submitted by agents should be accompanied by a letter confirming their regulatory body and membership number and that the necessary identification procedures as required by the Money Laundering Regulations 1993 have been fulfilled. Verification of identity details must be retained for at least five years and such details must be made available to Harford Registrars or the appropriate authorities upon demand.

### **Overseas Shareholders**

The making of the Open Offer to persons not resident in the United Kingdom may be affected by the laws or regulatory requirements of relevant jurisdictions. No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use the Application Form, unless in the relevant territory such an invitation or offer could lawfully be made to him and such Application Form could lawfully be used without contravention of any registration or other legal or regulatory requirements.

The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, or the relevant Canadian or Australian securities legislation, and may not be offered, sold, transferred, taken up or delivered in the United States of America, Canada or Australia. Application Forms are not being sent to shareholders with registered or mailing addresses in Australia, Canada or the United States of America, its territories or possessions. This document is being sent to such shareholders for information purposes only and does not constitute an offer or invitation to subscribe for any New Ordinary Shares.

It is the responsibility of any person receiving a copy of this document and/or the Application Form and wishing to subscribe for New Ordinary Shares to satisfy himself or herself as to full observance of the laws and regulatory requirements of any territory, including the obtaining of all governmental or other consents which may be required or observing any other formalities needing to be observed in such territory.

The Company reserves the right (in its absolute discretion) to treat as invalid any application for New Ordinary Shares under the Open Offer if it appears to the Company or its agents that such application may violate applicable legal or regulatory requirements. The provisions of this paragraph and/or any other terms of the Open Offer relating to overseas shareholders may be waived, varied or modified as regards: (a) specific holders of Ordinary Shares; or (b) on a general basis by the Company in its absolute discretion (and on such terms and conditions as it may think fit). In particular, overseas shareholders should note the following:

#### *(a) United States*

"United States" means the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia.

For the purposes of this document, a "US person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organisation in or under the laws of the United States and an estate or trust the income of which is subject to United States federal income taxation regardless of its source, provided, however, that the term "US person" does not include a branch or agency of a US Bank or insurance company that is operating outside the United States for valid business reasons as a locally regulated branch or

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agency engaged in the banking or insurance business and not solely for the purpose of investing in securities not registered under the United States Securities Act of 1933, as amended ("the US Securities Act").

The New Ordinary Shares and the Application Form have not been, and will not be, registered under the US Securities Act. Accordingly, except in a transaction which is exempt under that legislation, the New Ordinary Shares and the Application Form may not be directly or indirectly offered, sold, renounced, transferred, taken up or delivered directly or indirectly, in the United States (as defined under Regulation S of the US Securities Act). This document shall not constitute an offer to sell or the solicitation of an offer to buy any of the New Ordinary Shares.

Envelopes containing Application Forms should not be postmarked in the United States or otherwise dispatched from the United States. Persons will be deemed to have made an invalid application if they submit an Application Form in an envelope postmarked in the United States or have provided an address in the United States for registration or do not make the representation and warranty set out in the Application Form to the effect that such person is not in the United States, is not a US person and is not acting for the account or benefit of a US person. The Open Offer is not therefore being made in the United States or to or for the account or benefit of a US person and holders of Ordinary Shares at the Record Date with registered addresses in the United States are not Qualifying Shareholders and Application Forms are not being sent to such persons.

*(b) Canada*

No exemptions in connection with the Open Offer have been or will be obtained from any securities commission or similar regulatory authority in Canada. Accordingly, the New Ordinary Shares are not being offered, nor may be offered or sold directly or indirectly, in Canada, its territories and possessions and any areas subject to its jurisdiction ("Canada") or to persons resident in Canada.

Holders of Ordinary Shares at the Record Date with registered addresses in Canada are not Qualifying Shareholders and Application Forms are not being sent to such persons.

Persons (including, without limitation, nominees and trustees) receiving an Application Form should not distribute or send it to persons resident in Canada. The Company reserves the right to reject Application Forms from persons whom it believes are resident in Canada or persons who are acquiring New Ordinary Shares for resale into Canada.

*(c) Australia*

The Open Offer is not being made in the Commonwealth of Australia, its states and territories or possessions ("Australia"). The Application Forms are not available to, and the New Ordinary Shares will not be available for subscription or purchase by, any resident of Australia (including corporations and other entities organised under the laws of Australia, but not including a permanent establishment of any such corporation or entity located outside Australia).

Holders of Ordinary Shares at the Record Date with registered addresses in Australia are not Qualifying Shareholders and Application Forms are not being sent to such persons.

### **United Kingdom Taxation**

The Finance Act 1998 introduced various reforms to the taxation of gains realised by individuals, trustees and personal representatives. **The rules described below do not apply in relation to corporation tax payable in respect of chargeable gains realised by companies.**

#### *Capital Gains Tax*

It is understood that the Inland Revenue will treat the issue of New Ordinary Shares by the Company to a Qualifying Shareholder up to and including his or her *pro rata* entitlement as a reorganisation of the Company's share capital for the purposes of United Kingdom taxation of capital gains ("CGT"). New Ordinary Shares issued pursuant to the Open Offer to a Qualifying Shareholder should be treated for CGT purposes as the same asset as his existing holding of Ordinary Shares and as if they had been acquired at the same time as his existing holding. The subscription monies for such New Ordinary Shares which a Qualifying Shareholder takes up will be added to the acquisition cost of his or her holding of existing Ordinary Shares. Taper relief (referred to

## Part II Letter from Corporate Synergy continued

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below) will, however, only be available from the date on which payment for the New Ordinary Shares is made or liable to be made.

If you sell all or any of your New Ordinary Shares, you may, depending on your own circumstances, incur a CGT liability.

Affected shareholders should also note the following changes introduced by Finance Act 1998:

- a) with effect from 6 April 1998, indexation relief is no longer available. A final adjustment of the base costs of assets acquired before 1 April 1998, and held on 6 April 1998, can be made to reflect indexation relief up to the later date, but thereafter no indexation adjustments can be made;
- b) indexation relief has been replaced by taper relief, which operates to reduce the amount of gain brought into charge to CGT by reference to the number of complete years during which assets have been owned after 5 April 1998. Assets acquired before 17 March 1998 are treated under these new rules as though they had already been held for one year as at 5 April 1998. Once shares which are regarded as business assets (broadly a 25 per cent. holding or a 5 per cent. holding for full time employees) have been held for 10 complete years, the amount of gains brought into charge to CGT is reduced to 25 per cent. (equivalent to a rate of tax on the whole gain of 10 per cent. for a higher rate taxpayer, and 5.75 per cent. for a basic rate taxpayer). Once non-business assets have been held for 10 complete years, the chargeable gains are restricted to 60 per cent. (equivalent to a rate of tax on the whole gain of 24 per cent. for a higher rate taxpayer, and 13.8 per cent. for a basic rate taxpayer);
- c) with effect from 6 April 1998 shares and other securities can no longer be "pooled". Pooled shares were treated as a single asset, with an overall average cost per share representing the aggregate of all acquisition costs. With the introduction of taper relief, each acquisition of shares must be recorded and dealt with separately from all other acquisitions. New rules apply, as from 6 April 1998, in order to identify the shares disposed of- broadly, shares acquired after 6 April 1998 are disposed of first (on a last in first out basis) and, when post 6 April 1998 acquisitions are exhausted, disposals are treated as being from the pool in existence on 5 April 1998.

### *Stamp Duty and Stamp Duty Reserve Tax*

Subscription for the New Ordinary Shares under the Open Offer will not give rise to any liability to stamp duty or stamp duty reserve tax. Any further dealings will be subject to stamp duty payable by the purchaser in the normal way, at the rate of 50p per £100 or part thereof on the value of the consideration.

### *Dividends*

Under current United Kingdom legislation, no tax is withheld from dividend payments by the Company.

A United Kingdom resident individual, trustee or personal representative who is a shareholder will be entitled to a tax credit in respect of any dividend paid. From 6 April 1999, the tax credit in respect of any dividend received amounts to one-ninth of the amount of the dividend. It will therefore equal 10 per cent. of the aggregate amount of the dividend and the tax credit. Generally, the liability to United Kingdom income tax is calculated on the sum of the cash dividend and the tax credit. An individual shareholder whose income is within the lower or basic rate tax bands will be subject to income tax at the rate of 10 per cent. on their dividend income, so that such a shareholder will have no further liability to income tax on the dividend. The higher rate of income tax in respect of dividend income has been reduced from 40 per cent. to 32.5 per cent. An individual shareholder liable to tax at the higher rate will be able to set the tax credit against his liability to income tax on the dividend and will have further tax to pay of 22.5 per cent. on the sum of the dividend and the tax credit. A shareholder who is not liable to income tax on the dividend (or any part of it) will not be able to claim payment of the tax credit (or part of it) in cash from the Inland Revenue.

A United Kingdom resident corporate shareholder will not generally be liable to United Kingdom corporation tax on any dividend received. A United Kingdom resident corporate shareholder (including authorised unit trusts and open-ended investment companies) and pension funds are not entitled to payment in cash of the tax credit.

The above statements are intended as a general guide to certain limited aspects of United Kingdom tax law relating to the Open Offer and, are based on United Kingdom legislation currently in force and currently understood Inland Revenue practice, both of which may change. They assume that the Qualifying Shareholder

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is resident in the United Kingdom for United Kingdom taxation purposes and is not a dealer. If you are not resident in the United Kingdom for taxation purposes or if you are in any doubt as to your tax position, you should consult your professional adviser without delay.

### **Settlement and dealings**

Application has been made to the London Stock Exchange for the Consolidated Shares (representing the existing Ordinary Shares and the New Ordinary Shares) to be admitted to the Official List. Subject to the satisfaction of the conditions in the Underwriting Agreement, it is expected that dealings will commence in the Consolidated Shares on 15 October 1999. For those Qualifying Shareholders who do not hold their existing Ordinary Shares in the CREST settlement system definitive share certificates in respect of the Consolidated Shares are expected to be sent by first class post to Qualifying Shareholders who have made valid applications not later than 21 October 1999. For those Qualifying Shareholders who hold Ordinary Shares in CREST, the relevant account is expected to be credited on that date. No temporary documents of title will be issued, and pending the issue of definitive certificates, which will be issued for the Consolidated Shares only, transfers will be certified against the register.

Those Qualifying Shareholders who do not make an application will have share certificates, in respect of Consolidated Shares arising from the consolidation of their existing New Ordinary Shares, sent to them by first class post not later than 21 October 1999 to replace current share certificates, which will cease to be valid on that date.

In the event that any of the conditions in the Underwriting Agreement are not satisfied by 18 October 1999 (or such later date, not being later than 31 October 1999, as the Company, Seymour Pierce and Corporate Synergy may agree), the Open Offer will not proceed and any application monies will be returned without interest.

All documents or remittances sent by or to a Qualifying Shareholder, or as he or she may otherwise direct, will be sent through the post at such person's risk.

Any instructions with regard to payments or notices which have been recorded by the Company or its registrars in respect of existing Ordinary Shares held by a Qualifying Shareholder will apply to any New Ordinary Shares subscribed by such holders under the Open Offer.

### **Further information**

Your attention is drawn to the further information set out in Parts III to VI of this document and to the terms and conditions of the Application Form.

Yours faithfully

Lindsay Mair  
*Director*

## Part III Financial Information on Gladstone

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### Section 1: Financial information on Gladstone for the three years ended 30 June 1999

#### A. General

The financial information on Gladstone for the three years ended 30 June 1999 set out below has been extracted without material adjustment from the audited accounts of Gladstone except for the items set out below. The audited accounts of Gladstone were prepared in accordance with Gladstone's accounting policies and applicable accounting standards using the historical cost convention.

The Company's first statutory accounting period is the period from incorporation on 4 March 1997 to 30 June 1998.

The first statutory accounts of the Company includes the results for the year ended 30 June 1998 (and not the results for the 16 month statutory accounting period) in order to present a true and fair view as if the Group had been under common control since 1 July 1996. The accounts for the year ended 30 June 1997 were therefore not statutory accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies.

During the year ended 30 June 1998, the directors changed the accounting policy for the treatment of goodwill, in accordance with Financial Reporting Standard 10 "Goodwill and Intangible Assets". Goodwill, which had previously been written off directly to reserves, was reinstated and capitalised as an asset and amortised over its useful economic life. This resulted in the restatement of the accounts for the year ended 30 June 1997, which were not statutory accounts but had a full audit opinion. The following financial information for the year ended 30 June 1997 has been extracted from the 1997 accounts taking into account the restatement of certain amounts for the change in the treatment of goodwill.

The financial information contained below does not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. The auditors reported on the financial statements of Gladstone for each of the three years ended 30 June 1999 and each such report was an unqualified report and did not contain a statement under Section 237(2) or (3) of the Act. Even though the accounts for the year ended 30 June 1997 were not statutory accounts, the auditors performed a full audit on them and their audit report was unqualified. The auditors' report for the year ended 30 June 1998 however refers to disclosures equivalent to those made in note 27 to the financial information with regard to the uncertainty as to the completion of the restructuring which was then considered. In view of the significance of this uncertainty they considered that such matter should be drawn to the attention of the shareholders of Gladstone, but their opinion was not qualified in this respect. The accounts for the year ended 30 June 1998 (being the Company's first statutory accounts) and 30 June 1999 have been delivered to the Registrar of Companies. The auditors of the Group for the three years ended 30 June 1999 were Hacker Young Chartered Accountants, St. Alphage House, 2 Fore Street, London EC2Y 5DH.

During the year ended 30 June 1999, Financial Reporting Standard 13 (Derivatives and Financial Instruments: Disclosures) and Financial Reporting Standard 14 (Earnings per Share) ("FRS 13 and FRS 14") became effective and have therefore been applied for the first time for that year. The derivatives and financial instruments disclosures for the year ended 30 June 1997 and 1998 have not been disclosed as this information is not required by FRS 13. The information on earnings per share for the years ended 30 June 1997 and 1998 has been restated as required by FRS 14.

## B. Profit and loss accounts

The summarised profit and loss accounts of the Group for the three years ended 30 June 1999 are as follows:

		1997 (Restated)	1998	1999
	Notes	£	£	£
<b>Turnover</b>				
Continuing operations		—	—	—
Discontinued operations	3	869,559	887,639	778,256
		<u>869,559</u>	<u>887,639</u>	<u>778,256</u>
Cost of sales		<u>(631,550)</u>	<u>(722,019)</u>	<u>(567,166)</u>
<b>Gross profit</b>		238,009	165,620	211,090
Administrative expenses		(458,946)	(1,036,065)	(551,880)
<b>Operating loss</b>	4			
Continuing operations		(20,362)	(201,424)	(111,948)
Discontinued operations		(200,575)	(669,021)	(228,842)
<b>Total operating loss</b>		(220,937)	(870,445)	(340,790)
Profit on sale of fixed assets connected with disposal of discontinued operations		—	—	1,574
Profit on disposal of discontinued operations	23	—	—	166,437
Impairment of goodwill	11	—	(3,110,994)	—
<b>Loss on ordinary activities before interest</b>		(220,937)	(3,981,439)	(172,779)
Interest receivable	5	2,700	11,065	—
Interest payable	6	(8,861)	(3,027)	(10,103)
<b>Loss on ordinary activities before taxation</b>		(227,098)	(3,973,401)	(182,882)
Taxation	7	—	—	—
<b>Loss on ordinary activities after taxation</b>		(227,098)	(3,973,401)	(182,882)
Dividends – equity		—	—	—
<b>Loss for the year</b>	18	<u>(227,098)</u>	<u>(3,973,401)</u>	<u>(182,882)</u>
<b>Loss per ordinary share (pence)</b>	8			
Basic		(0.13)	(2.21)	(0.10)
Diluted		<u>(0.13)</u>	<u>(2.20)</u>	<u>(0.08)</u>

## C. Statement of Total Recognised Gains and Losses

		1997 (Restated)	1998	1999
	Notes	£	£	£
Loss for the year		(227,098)	(3,973,401)	(182,882)
Prior year adjustment	2.3	—	(32,242)	—
<b>Total recognised losses for the year</b>		<u>(227,098)</u>	<u>(4,005,643)</u>	<u>(182,882)</u>

## Part III Financial Information on Gladstone continued

### D. Balance sheets at 30 June

	Notes	1997 (Restated)		1998		1999	
		£	£	£	£	£	£
<b>Fixed assets</b>							
Intangible assets	11		3,330,110		51,000		—
Tangible assets	12		46,135		102,706		—
			<u>3,376,245</u>		<u>153,706</u>		<u>—</u>
<b>Current assets</b>							
Stocks	13	114,969		126,793		—	
Debtors	14	166,791		251,110		6,698	
Cash at bank and in hand		<u>512,506</u>		<u>368</u>		<u>182,863</u>	
		794,266		378,271		189,561	
<b>Creditors: amounts falling due within one year</b>	15	<u>(233,641)</u>		<u>(459,812)</u>		<u>(22,250)</u>	
<b>Net current assets/ (liabilities)</b>			<u>560,625</u>		<u>(81,541)</u>		<u>167,311</u>
<b>Total assets less current liabilities</b>			3,936,870		72,165		167,311
<b>Creditors: amounts falling due after more than one year</b>	16		<u>—</u>		<u>(22,568)</u>		<u>—</u>
<b>Net assets</b>			<u>3,936,870</u>		<u>49,597</u>		<u>167,311</u>
<b>Capital and reserves</b>							
Called up share capital	17		1,440,000		1,440,000		1,512,000
Share premium account	18		470,118		556,246		784,842
Merger reserve	18		2,148,000		2,148,000		2,148,000
Profit and loss account	18		<u>(121,248)</u>		<u>(4,094,649)</u>		<u>(4,277,531)</u>
<b>Shareholders' funds – equity interests</b>	19		<u>3,936,870</u>		<u>49,597</u>		<u>167,311</u>

# E. Consolidated Cash Flow Statements

		1997 (Restated)		1998		1999	
	Notes	£	£	£	£	£	£
<b>Net cash outflow from operating activities</b>	20		(226,967)		(403,818)		(111,854)
<b>Returns on investments and servicing of finance</b>							
Interest received		2,700		11,065		–	
Interest paid		(8,861)		(3,027)		(10,103)	
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>			(6,161)		8,038		(10,103)
			(233,128)		(395,780)		(121,957)
<b>Capital expenditure</b>							
Purchase of tangible fixed assets		(39,586)		(147,919)		(3,130)	
Receipts from sales of fixed assets		15,636		–		46,963	
Receipts from sales of investments		11,004		–		–	
<b>Net cash (outflow)/inflow for capital expenditure</b>			(12,946)		(147,919)		43,833
<b>Disposals</b>							
Sale of subsidiary undertakings	23		–		–		53,037
<b>Net cash (outflow)/inflow before financing</b>			(246,074)		(543,699)		(25,087)
<b>Financing</b>							
Proceeds from issue of shares		1,098,000		–		360,000	
Cost of share issue		(261,882)		(16,111)		(59,404)	
Hire purchase capital repayments		–		(3,763)		(5,151)	
Repayments of undrawn profits		(53,925)		–		–	
<b>Net cash inflow/(outflow) from financing</b>			782,193		(19,874)		295,445
<b>Increase/(decrease) in cash</b>	21		536,119		(563,573)		270,358

### **F Notes to the financial information**

#### **1. Accounting reference date and statutory accounts**

The Company was incorporated on 4 March 1997. Its accounting reference date is 30 June.

#### **2. Accounting policies and going concern**

The significant accounting policies, which have been applied in preparing the financial information have been applied consistently except in regard to the change in accounting policy as set out below in note 2.3.

##### *2.1 Basis of preparation*

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards except as regards the basis of consolidation, as discussed below.

##### *2.2 Basis of consolidation*

The consolidated financial information incorporates the financial information of the Company and its Subsidiaries and has been prepared applying acquisition accounting. Intra-group sales, profits and balances are eliminated fully on consolidation. The basis of consolidation for the two years ended 30 June 1998 is set out below.

##### *Year ended 30 June 1998*

Both the Companies Act 1985 and applicable accounting standards require that the Group results should be included for the full period of the Company's first statutory financial year, which was the 16 month period from incorporation on 4 March 1997 to 30 June 1998. These results would include the consolidated results of the Company's former wholly owned subsidiaries, Stained Glass Systems Limited and Leslie Easton & Co Limited from 21 April 1997, the date of their acquisition. As shareholders are aware, the Group's commercial business and trading are carried out mainly by the two subsidiary undertakings.

However, the directors consider that to present the profit and loss account of the Group, which comprises essentially the profit and loss accounts of the subsidiaries, on this 16 month basis would be misleading. The results for the four months to 30 June 1997 have already been reported to shareholders in the accounts for the year ended 30 June 1997, which had a full audit opinion, dated 22 December 1997. As the Group has been under common control since 1 July 1996, the financial statements reflecting the normal 12 month accounting period (ending 30 June) of the subsidiaries would give a fairer presentation of the trading results of the Group.

The directors have therefore prepared the financial information for the year ended 30 June 1998 including the results of its subsidiary undertakings only from 1 July 1997, in order to present a true and fair view. The results of the Group prepared on the basis of including those of the Company from 4 March 1997 to 30 June 1998 (i.e. the first statutory period) and those of the subsidiary undertakings from acquisition, are summarised in note 28 to the financial information.

##### *Year ended 30 June 1997*

In order to provide meaningful comparative information, the financial information for the year ended 30 June 1997 has been shown as if the Company and hence the Group had been in existence from 1 July 1996. As stated in note 2.3 below, the change in accounting policy for goodwill has resulted in the restatement of the financial information for the year ended 30 June 1997 (which was included in the Company's accounts dated 22 December 1997 on which a full audit opinion was given even though these were not statutory accounts). The financial information for the year ended 30 June 1997 has therefore been extracted from the consolidated accounts of the Company for the year ended 30 June 1997 taking into account the restatement of certain amounts for the change in the treatment of goodwill.

##### *2.3 Goodwill*

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. During the year ended 30 June 1998, the directors changed the accounting policy for the treatment of goodwill in accordance with Financial Reporting Standard 10 'Goodwill and Intangible Assets' ("FRS 10"). Goodwill which had previously been written off directly to reserves, on the acquisition of companies on 21 April 1997 was reinstated and capitalised as an asset and amortised over its estimated useful

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life of 20 years. This resulted in the restatement of the accounts for the year ended 30 June 1997 by a prior year adjustment in 1998.

Accordingly the loss for the year ended 30 June 1997 was increased by £32,242 and that of the year ended 30 June 1998 by £168,116 resulting from the amortisation charges.

#### *2.4 Merger relief*

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

#### *2.5 Turnover*

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

#### *2.6 Tangible fixed assets and depreciation*

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

Plant and equipment	15 per cent.
Office fixtures, fittings and equipment	15 per cent.
Motor vehicles	25 per cent.

#### *2.7 Stocks and work in progress*

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

Cost includes all costs incurred in bringing the products to their present location and condition and comprise materials, direct labour and production overheads. Net realisable value is based on estimated selling price less all further costs to completion and sale.

#### *2.8 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.

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

#### *2.9 Foreign currency translation*

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

#### *2.10 Research and development*

Research and development expenditure is charged to the profit and loss account as incurred.

#### *2.11 Grants*

Grants are initially credited to deferred revenue. Grants received for capital expenditure are released to the profit and loss account over the expected useful life of the asset. Grants received towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

## Part III Financial Information on Gladstone continued

### 2.12 Deferred taxation

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

### 2.13 Pensions

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

## 3. Turnover

The total turnover of the Group for the year has been derived from its principal activities and geographical markets as follows:

	1997	1998	1999
	£	£	£
By activity:			
Glazing constructing	624,577	670,531	624,161
Licence fees	92,020	16,041	13,654
Sale of transfers	152,962	192,067	140,441
Rent of decal machine	–	9,000	–
	<u>869,559</u>	<u>887,639</u>	<u>778,256</u>
By geographical area:			
United Kingdom	652,559	728,297	664,560
Rest of World	217,000	159,342	113,696
	<u>869,559</u>	<u>887,639</u>	<u>778,256</u>

The Company sold two of its subsidiaries, Stained Glass Systems Limited and Leslie Easton & Co Limited during the year ended 30 June 1999. These subsidiaries had generated the turnover shown above. As these subsidiaries have been sold, an analysis of loss before taxation and net assets by type of activity has not been provided.

## 4. Operating loss

	1997	1998	1999
	£	£	£
Operating loss is stated after charging/(crediting):			
Amortisation of goodwill	32,242	168,116	–
Reorganisation costs (see below)	–	111,675	–
Provision for permanent diminution in value of fixed assets	–	100,000	–
Depreciation of tangible fixed assets	12,982	23,629	27,673
Auditors' remuneration – audit services	12,500	12,500	6,300
– non-audit services	4,500	8,550	20,100
Operating lease rentals – land and buildings	7,728	25,000	10,416
– motor vehicles	–	6,883	9,242
Research and development	835	9,422	–
Government grants received	<u>(6,867)</u>	<u>–</u>	<u>–</u>

Included in administrative expenses for the year ended 30 June 1998 are certain professional fees amounting to £111,675 which were previously treated as costs of share issues and deducted from the share premium account. After obtaining new information on these fees, the Directors are of the opinion that these fees should be included in the Group's profit and loss account instead of the share premium account as they do not relate to the costs of share issues.

#### 4. Operating loss (continued)

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

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Cost of sales:			
Continuing	—	—	—
Discontinued	631,550	722,019	567,166
	<u>631,550</u>	<u>722,019</u>	<u>567,166</u>
Gross profit:			
Continuing	—	—	—
Discontinued	238,009	165,620	211,090
	<u>238,009</u>	<u>165,620</u>	<u>211,090</u>
Administrative expenses:			
Continuing	20,362	201,424	111,948
Discontinued	438,584	834,641	439,932
	<u>458,946</u>	<u>1,036,065</u>	<u>551,880</u>

#### 5. Interest receivable

	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Bank interest received	<u>2,700</u>	<u>11,065</u>	<u>—</u>

#### 6. Interest payable

	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
On bank overdrafts	8,861	6	8,534
On hire purchase agreements	—	3,021	1,569
	<u>8,861</u>	<u>3,027</u>	<u>10,103</u>

#### 7. Taxation

No corporation tax charges have arisen in the period.

## Part III Financial Information on Gladstone continued

### 8. Loss per ordinary share

	1997 Number	1998 Number	1999 Number
Weighted average number of ordinary shares in issue	144,000,000	144,000,000	156,000,000
Adjustments for rights issue	36,000,000	36,000,000	30,000,000
Adjusted average number of ordinary shares in issue	180,000,000	180,000,000	186,000,000
Dilution for share options outstanding	480,000	480,000	39,488,000
	<u>180,480,000</u>	<u>180,480,000</u>	<u>225,488,000</u>
Loss for the year	£ (227,098)	£ (3,973,401)	£ (182,882)
Basic earnings per share (pence)	<u>(0.13)</u>	<u>(2.21)</u>	<u>(0.10)</u>
Diluted earnings per share (pence)	<u>(0.13)</u>	<u>(2.20)</u>	<u>(0.08)</u>

The average number of ordinary shares for the years ended 30 June 1997 and 30 June 1998 have been restated, in accordance with FRS 14, following the rights issue during the year ended 30 June 1999.

### 9. Employees

	1997 £	1998 £	1999 £
Wages and salaries	281,378	376,203	268,953
Social security costs	25,721	37,962	27,143
Pension costs	3,001	14,096	4,958
	<u>310,100</u>	<u>428,261</u>	<u>301,054</u>

The average monthly number of employees, including executive Directors, during the year was 16 (1998: 20, 1997: 18).

### 10. Directors' emoluments

	1997 £	1998 £	1999 £
Executive directors' salaries, fees and benefits in kind	104,880	159,123	135,466
Non-executive directors' fees	5,924	37,000	15,186
	<u>110,804</u>	<u>196,123</u>	<u>150,652</u>
Group pension contributions to personal schemes	2,700	9,612	4,958
	<u>113,504</u>	<u>205,735</u>	<u>155,610</u>
Emoluments disclosed above include amounts paid to:			
Highest paid director – salaries and benefits	82,050	96,258	71,485
– pension contribution	2,400	7,483	4,958
	<u>84,450</u>	<u>103,741</u>	<u>76,443</u>

The number of directors for whom retirement benefits are accruing under personal money purchase pension schemes amounted to 1 (1998 and 1997: 2). No share options were exercised during the year.

# 10. Directors' emoluments (continued)

The emoluments of the directors were as follows:

<i>Year ended 30 June 1997</i>			
	<i>Salaries and fees</i>	<i>Pension contributions</i>	<i>Total</i>
	£	£	£
<b>Executive directors:</b>			
LR Easton	81,750	2,700	84,450
NL Easton	20,775	—	20,775
MN Jenks	2,346	—	2,346
<b>Non-executive directors:</b>			
FW Cook	4,423	—	4,423
SJ Barclay	1,500	—	1,500
	<u>110,794</u>	<u>2,700</u>	<u>113,494</u>

<i>Year ended 30 June 1998</i>				
	<i>Salaries and fees</i>	<i>Benefits in kind</i>	<i>Pension contributions</i>	<i>Total</i>
	£	£	£	£
<b>Executive directors:</b>				
LR Easton	85,000	11,258	7,483	103,741
NL Easton	32,000	6,044	2,129	40,173
IC Abrahams	16,071	—	—	16,071
MN Jenks	8,750	—	—	8,750
<b>Non-executive directors:</b>				
FW Cook	25,000	—	—	25,000
SJ Barclay	12,000	—	—	12,000
	<u>178,821</u>	<u>17,302</u>	<u>9,612</u>	<u>205,735</u>

<i>Year ended 30 June 1999</i>				
	<i>Salaries and fees</i>	<i>Benefits in kind</i>	<i>Pension contributions</i>	<i>Total</i>
	£	£	£	£
<b>Executive directors:</b>				
BK Raven	7,500	—	—	7,500
OC Cooke	5,000	—	—	5,000
LR Easton	63,333	8,152	4,958	76,443
NL Easton	26,837	388	—	27,225
IC Abrahams	24,256	—	—	24,256
<b>Non-executive directors:</b>				
FW Cook	10,186	—	—	10,186
SJ Barclay	5,000	—	—	5,000
	<u>142,112</u>	<u>8,540</u>	<u>4,958</u>	<u>155,610</u>

## Part III Financial Information on Gladstone continued

### 11. Intangible fixed assets

	<i>Goodwill</i> £
<b>Cost</b>	
At 1 July 1997 and 1998	3,362,352
Eliminated on disposal of subsidiaries	<u>(3,362,352)</u>
At 30 June 1999	<u>—</u>
<b>Amortisation and impairment</b>	
At 1 July 1997	32,242
Amortisation charge	168,116
Impairment of goodwill	<u>3,110,994</u>
At 1 July 1998	3,311,352
Eliminated on disposal of subsidiaries	<u>(3,311,352)</u>
At 30 June 1999	<u>—</u>
<b>Net book values</b>	
At 30 June 1999	<u>—</u>
At 30 June 1998	<u>51,000</u>

The cost of goodwill resulted from the acquisition of two of the Company's subsidiary undertakings, Stained Glass Systems Limited and Leslie Easton & Co. Limited in April 1997. The total consideration paid for the acquisitions was £3,222,000 and the fair value net liabilities of the subsidiaries acquired was £140,352. A provision was made for impairment of goodwill at 30 June 1998 to reduce the value of goodwill to its then estimated recoverable amount. As set out in note 23, the company sold these subsidiaries during the year ended 30 June 1999.

### 12. Tangible fixed assets

	<i>Plant and equipment</i> £	<i>Office fixtures, fittings and equipment</i> £	<i>Motor vehicles</i> £	<i>Total</i> £
<b>Cost</b>				
At 1 July 1998	130,893	53,858	92,540	277,291
Additions	10	110	3,010	3,130
Disposals	—	(52,372)	(33,355)	(85,727)
Disposal on sale of subsidiaries	<u>(130,903)</u>	<u>(1,596)</u>	<u>(62,195)</u>	<u>(194,694)</u>
At 30 June 1999	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Depreciation and provision for diminution in value</b>				
At 1 July 1998	114,093	18,313	42,179	174,585
Depreciation charge for the year	13,403	4,085	10,185	27,673
Disposals	—	(22,149)	(18,190)	(40,339)
Disposal on sale of subsidiaries	<u>(127,496)</u>	<u>(249)</u>	<u>(34,174)</u>	<u>(161,919)</u>
At 30 June 1999	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net book value</b>				
At 30 June 1999	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 30 June 1998	<u>16,800</u>	<u>35,545</u>	<u>50,361</u>	<u>102,706</u>

### 13. Stocks

	1998	1999
	£	£
Raw materials	106,104	—
Work in progress	20,689	—
	<u>126,793</u>	<u>—</u>

### 14. Debtors

	1998	1999
	£	£
Trade debtors	208,961	—
Other debtors	14,439	6,698
Prepayments and accrued income	27,710	—
	<u>251,110</u>	<u>6,698</u>

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

	1998	1999
	£	£
Bank overdraft	93,432	—
Trade creditors	233,231	—
Directors' current accounts	34,064	—
Other taxes and social security costs	17,362	—
Other creditors	35,757	8,783
Accruals	40,017	13,467
Net obligations under hire purchase contracts	5,949	—
	<u>459,812</u>	<u>22,250</u>

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

	1998	1999
	£	£
Net obligations under hire purchase contracts	<u>22,568</u>	<u>—</u>
Gross obligations under hire purchase contracts		
Repayable within one year	10,059	—
Repayable between one and five years	24,791	—
	<u>34,850</u>	<u>—</u>
Finance charge allocated to future accounting periods	(6,333)	—
	<u>28,517</u>	<u>—</u>
Included within liabilities falling due within one year	(5,949)	—
	<u>22,568</u>	<u>—</u>

## Part III Financial Information on Gladstone continued

### 17. Share capital

	30 June 1998	30 June 1999
	£	£
<b>Authorised</b>		
180,000,000 ordinary shares of 1p each	1,800,000	–
504,000,000 ordinary shares of 0.1p each	–	504,000
144,000,000 deferred shares of 0.9p each	–	1,296,000
	<u>1,800,000</u>	<u>1,800,000</u>
	£	£
<b>Allotted, called up and fully paid:</b>		
144,000,000 ordinary shares of 1p each	1,440,000	–
216,000,000 ordinary shares of 0.1p each	–	216,000
144,000,000 deferred shares of 0.9p each	–	1,296,000
	<u>1,440,000</u>	<u>1,512,000</u>

The Company was incorporated on 4 March 1997 with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each of which two shares were issued as nil paid to the subscribers to the Memorandum of Association. By special resolution passed on 21 April 1997 each of the authorised ordinary shares of £1 each were re-designated and sub-divided into 100 ordinary shares of 1p each. On the same date the authorised share capital of the company was increased by £1,700,000 by the creation of an additional 170,000,000 ordinary shares of 1p each.

On 21 April 1997 the subscriber shares were paid up in full in cash.

On 21 April 1997 the Company acquired the entire issued share capital of Leslie Easton & Co Unlimited (which was re-registered as Leslie Easton & Co Limited on 30 April 1997) in consideration for the issue by the Company of 13,333,333 ordinary shares of 1p each for 3p per share.

On 21 April 1997 the Company acquired the entire ordinary share capital of Stained Glass Systems Limited in consideration for the issue by the company of 94,066,467 ordinary shares of 1p each for 3p per share.

On 14 May 1997 the ordinary share capital of the Company was admitted to the Official List of the London Stock Exchange and also on that date the company placed 36,600,000 ordinary shares of 1p each at 3p per share.

This placing was made in order to provide working capital for the Group to finance the expansion of sales of water slide transfers, the sale of automatic application machinery and the sale of heat release transfers.

On 8 April 1999 the authorised share capital of the Company was divided into 504,000,000 new ordinary shares of 0.1p each ("ordinary shares") and 144,000,000 deferred shares of 0.9p each ("deferred shares").

On the same date 144,000,000 issued ordinary shares of 1 pence each in the capital of the Company were sub-divided into 144,000,000 ordinary shares of 0.1p each and 144,000,000 deferred shares of 0.9p each.

On 30 April 1999 the Company issued by way of rights 1 ordinary share of 0.1p each for every 2 ordinary shares held.

## 17. Share capital (continued)

The movements in issued share capital during the year ended 30 June 1999 were as follows:

<b>Ordinary shares of 1p each</b>	£
At 1 July 1998	
144,000,000 ordinary shares of 1p each	1,440,000
<b>Movements</b>	
Converted to ordinary shares of 0.1p each and deferred shares of 0.9p each	(1,440,000)
At 30 June 1999	<u>–</u>
<b>Ordinary shares of 0.1p each</b>	£
At 1 July 1998	–
<b>Movements:</b>	
Converted from ordinary shares of 1p each	144,000
Rights issue 72,000,000 ordinary shares of 0.1p each	72,000
At 30 June 1999	<u>216,000</u>
<b>Deferred shares 0.9p each:</b>	£
At 1 July 1998	–
<b>Movements:</b>	
Converted from ordinary shares of 1p each	1,296,000
At 30 June 1999	<u>1,296,000</u>

Deferred shares do not entitle their holders to receive any dividend or other distribution, or receive notice of or to attend or vote at any General Meeting of the Company and so only entitle their holders to receive or participate in any property or assets of the Company whether on a return of assets on a winding-up of the Company or otherwise, after the claims of holders of ordinary shares have been fully satisfied.

Clifton Financial Associates Plc (“CFA”) held an option, expiring in June 2000, to subscribe for up to 2,500,000 ordinary shares of 1p each at 3p per share. In March 1999, this option was cancelled and replaced with an “A” Share Option entitling CFA to subscribe for up to 800,000 ordinary shares of 0.1p each at a price of 0.5p per share from 9 April 1999 to 30 June 2001.

On 16 March 1999 the directors, B. K. Raven and O. C. Cooke, were granted “B” Share Options. The terms of the “B” Share Options, are such that they in aggregate entitle the holders to subscribe for a number of shares representing up to 20 per cent. of the company’s issued ordinary share capital (less 800,000 shares held by CFA pursuant to the “A” share options unless such options have been exercised or have been lapsed). The price per share at which the “B” share options may be exercised is equivalent to the higher of 0.5p or the nominal value of one ordinary share and shall be adjusted appropriately if the issued share capital of the company is varied (whether by way of capitalisation issue, rights issue, reduction, sub division or otherwise) but only with the prior consent of the holders of the “B” share options. The “B” share options may be exercised at any time prior to the 16 March 2004.

The company is proposing to consolidate ten ordinary shares into one consolidated share. The holders have withheld their consent to the adjustment described above and therefore as a consequence of the consolidation the exercise price of “B” share options will change from 0.5p per ordinary share to 1p per consolidated share rather than the adjusted equivalent price of 5p per consolidated share.

The two directors have subsequently given undertakings which have the effect of reducing the number of shares (in relation to the total issued shares) over which they will exercise their option rights and linking the exercise price to market value of the shares being the price at which future issues of shares shall take place.

## Part III Financial Information on Gladstone continued

### 18. Statement of movements on reserves

	<i>Share premium account</i>	<i>Merger reserve</i>	<i>Profit and loss account</i>
	£	£	£
At 1 July 1996	—	—	105,850
Premium on shares issued during the year			
– on placing	732,000	—	—
– on acquisition of subsidiaries	—	2,148,000	—
Cost of share issue	(261,882)	—	—
Loss for the year (restated)	—	—	(227,098)
At 1 July 1997	470,118	2,148,000	(121,248)
Cost of prior year share issue	(25,547)	—	—
Adjustment to reorganisation costs in respect of prior year	111,675	—	—
Loss for the year	—	—	(3,973,401)
At 1 July 1998	556,246	2,148,000	(4,094,649)
Premium on share issue	288,000	—	—
Expenses of share issue	(59,404)	—	—
Retained loss for the year	—	—	(182,882)
At 30 June 1999	784,842	2,148,000	(4,277,531)

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

	<i>1997 (Restated)</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Loss for the year	(227,098)	(3,973,401)	(182,882)
Issue of shares	4,320,001	—	360,000
Cost of share issue written off to share premium account	(261,882)	(25,547)	(59,404)
Adjustments to reorganisation costs in respect of prior year	—	111,675	—
Pre-acquisition reserves of subsidiaries and other adjustments	86,427	—	—
Net increase/(decrease) in shareholders' funds	3,917,448	(3,887,273)	117,714
Opening shareholders' funds at 1 July	19,422	3,936,870	49,597
Closing shareholders' funds at 30 June	3,936,870	49,597	167,311

**20. Reconciliation of operating loss to net cash inflow/(outflow) from operating activities**

	1997	1998	1999
	£	£	£
Operating loss	(220,937)	(870,445)	(340,790)
Unrecoverable VAT written off against profit on disposal of subsidiaries (note 23)	—	—	(28,275)
Depreciation charges	12,982	23,629	27,673
Amortisation of goodwill	32,242	168,116	—
Provision against fixed assets	—	100,000	—
Profit on disposal of fixed assets	(846)	—	—
Profit on disposal of investments	(1,218)	—	—
Net adjustment to reorganisation costs	—	102,239	—
(Increase) in stocks	(61,638)	(11,824)	(4,164)
(Increase)/decrease in debtors	(28,718)	(84,319)	92,915
Increase in creditors	41,166	168,786	140,787
Net cash inflow/(outflow) from operating activities	<u>(226,967)</u>	<u>(403,818)</u>	<u>(111,854)</u>

**21. Reconciliation of net cash flow to movement in net debt**

	1997	1998	1999
	£	£	£
Increase/(decrease) in cash	536,119	(563,573)	270,358
Cash outflow from changes in net debt	—	3,763	5,151
Change in net debt resulting from cash flows	536,119	(559,810)	275,509
New hire purchase contracts	—	(32,280)	—
Net debt sold on sale of subsidiaries	—	—	28,935
Movement in net cash/(debt)	536,119	(592,090)	304,444
Net (debt)/cash at 1 July	(65,610)	470,509	(121,581)
Net cash/(debt) at 30 June	<u>470,509</u>	<u>(121,581)</u>	<u>182,863</u>

## Part III Financial Information on Gladstone continued

### 22. Analysis of changes in net debt

	<i>1 July 1996</i>	<i>Cash flows</i>	<i>30 June 1997</i>
	£	£	£
Cash at bank and in hand	–	512,506	512,506
Bank overdraft	(65,610)	23,613	(41,997)
Total net (debt)/cash	<u>(65,610)</u>	<u>536,119</u>	<u>470,509</u>

	<i>1 July 1997</i>	<i>Cash flows</i>	<i>Other non-cash items</i>	<i>30 June 1998</i>
	£	£	£	£
Cash at bank and in hand	512,506	(512,138)	–	368
Bank overdraft	(41,997)	(51,435)	–	(93,432)
	<u>470,509</u>	<u>(563,573)</u>	<u>–</u>	<u>(93,064)</u>
Hire purchase contracts	–	3,763	(32,280)	(28,517)
Total net cash/(debt)	<u>470,509</u>	<u>(559,810)</u>	<u>(32,280)</u>	<u>(121,581)</u>

Other non-cash items of £32,280 represent the value of inception of hire purchase contracts during the year.

	<i>1 July 1998</i>	<i>Cash flows</i>	<i>Sold with subsidiaries</i>	<i>30 June 1999</i>
	£	£	£	£
Cash at bank and in hand	368	193,037	(10,542)	182,863
Bank overdraft	(93,432)	77,321	16,111	–
	<u>(93,064)</u>	<u>270,358</u>	<u>5,569</u>	<u>182,863</u>
Hire purchase contracts	(28,517)	5,151	23,366	–
Total net (debt)/cash	<u>(121,581)</u>	<u>275,509</u>	<u>28,935</u>	<u>182,863</u>

### 23. Acquisition and disposals of subsidiary undertakings

On 21 April 1997 the Company acquired the entire issued share capital of Stained Glass Systems Limited and Leslie Easton & Co Limited for consideration of £2,822,000 and £400,000 respectively which was satisfied by the issue of 94,066,467 and 13,333,333 ordinary shares of 1p each of the Company at 3p per share respectively.

Analysis of the acquisitions of Stained Glass Systems Limited and Leslie Easton & Co Limited are as follows:

	<i>Book and fair values</i>	
	<i>Stained Glass Systems Limited</i>	<i>Leslie Easton &amp; Co Limited</i>
	£	£
Tangible fixed assets	5,489	6,920
Stocks	63,195	20,562
Debtors	84,616	116,589
Cash	–	414
Creditors due within one year	(293,062)	(145,075)
Net liabilities	(139,762)	(590)
Goodwill arising on acquisition	2,961,762	400,590
Consideration	<u>2,822,000</u>	<u>400,000</u>
Discharged by:		
Fair value of shares issued	<u>2,822,000</u>	<u>400,000</u>

Stained Glass Systems made a loss of £162,724 for the year ended 30 June 1997 (1996: £99,713 loss) of which £110,349 arose in the period 1 July 1996 to 21 April 1997 and a loss of £393,523 for the year ended 30 June 1998. Leslie Easton & Co made a loss of £57,993 for the year ended 30 June 1997 (1996: £9,152 loss) of which £27,424 arose in the period 1 July 1996 to 21 April 1997 and a loss of £199,485 for the year ended 30 June 1998.

The summarised profit and loss accounts of Stained Glass Systems Limited and Leslie Easton & Co Limited for the period 1 July 1996 to the date of acquisition are as follows:

	<i>Leslie Easton</i>	
	<i>Stained Glass Systems Limited</i>	<i>&amp; Co Limited</i>
	£	£
Turnover	216,295	210,296
Operating loss	(103,374)	(27,417)
Loss for the period	<u>(110,349)</u>	<u>(27,424)</u>

There were no recognised gains or losses in the above period other than the losses above.

## Part III Financial Information on Gladstone continued

### 23. Acquisition and disposals of subsidiary undertakings (continued)

During the year ended 30 June 1999 the Company disposed of two of its subsidiaries, Stained Glass Systems Limited and Leslie Easton & Co Limited.

The net assets disposed of were as follows:

	£
Fixed assets	32,775
Stocks	130,957
Cash	10,542
Debtors	151,497
Hire purchase liabilities	(21,866)
Creditors	(286,592)
	<u>17,313</u>
Satisfied by:	
Cash	53,037
Hire purchase liability of the company taken over by the purchasers	1,500
Other liabilities taken over by the purchasers	208,488
	<u>263,025</u>
Profit before writing off related costs	245,712
Less: Goodwill relating to subsidiaries disposed of	(51,000)
Unrecoverable VAT	(28,275)
Profit on disposal	<u>166,437</u>

In March 1999 the Company acquired the entire issued share capital of Arenatech Limited and Broadgrove Limited for a cash consideration of £393. Both these subsidiaries are registered in England, at Drury House, Russell Street, London WC2B 5HA, and are currently dormant.

### 24. Capital commitments

There were no capital commitments at 30 June 1999 or 30 June 1998.

### 25. Financial commitments

At 30 June 1998 and 1999 the Group had annual commitments under non-cancellable operating leases as follows:

	<i>Motor vehicles</i>		<i>Land and buildings</i>	
	1998	1999	1998	1999
	£	£	£	£
Expiry date:				
Between two and five years	15,764	—	—	—
In over five years	—	—	25,000	—
	<u>—</u>	<u>—</u>	<u>25,000</u>	<u>—</u>

### 26. Control

Brian Raven and Oliver Cooke jointly owned 49.7 per cent. of the issued share capital of the Company at 30 June 1999.

## 27. Note in the accounts for the year ended 30 June 1998

The following note was included in the accounts for the year ended 30 June 1998:

*"Although at 30 June 1998 the Group's current liabilities exceeded its current assets by £81,541, the financial information has been prepared on a going concern basis for the following reasons.*

*The Company is currently negotiating to sell the entire share capital of both its subsidiaries, Stained Glass Systems Limited and Leslie Easton & Co Limited to L R Easton and N L Easton following which both L R Easton and N L Easton will resign from the board having sold their holdings in the Company. The sale will be subject to prior approval by Shareholders.*

*The Group currently meets its day to day working capital requirements through an overdraft facility which is repayable on demand. This facility is expected to be withdrawn following completion of the proposed disposal of the subsidiaries. The Directors believe that these disposals will be finalised and the expected sale proceeds will be received. They have therefore formed a judgement after making further enquiries at the time of approving the financial statements that the Group following the disposal of its subsidiaries will continue to have adequate resources to continue in existence and therefore have applied the going concern basis in preparing the financial information.*

*Whilst the directors are confident of their judgement, the financing and contractual arrangements for the proposed disposals, which will require shareholders' approval, have not been completed.*

*Accordingly, there is a risk that the disposals may not be completed. Should these disposals not happen the Group will be unable to continue trading and the going concern basis would be inappropriate. As a result, adjustments will need to be made to the financial information to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify fixed assets and long term liabilities as current assets and current liabilities."*

## 28. (a) Company profit and loss account for the period 4 March 1997 to 30 June 1998

Had the Company included in its financial statements its results for the period from incorporation on 4 March 1997 to 30 June 1998, the financial period of the Company, the Company's results would have been as follows:

	£
Management charges received	306,413
Administrative expenses	(528,193)
Operating loss	(221,780)
Provision for diminution in value of investments	(3,069,000)
Provision against amounts due from subsidiaries	(801,843)
Net interest receivable	13,294
Loss on ordinary activities before and after taxation	<u>(4,079,329)</u>

## 28. (b) Group profit and loss account for the period 4 March 1997 to 30 June 1998

Had the Company included in its financial statements the results of its subsidiary undertakings for the period from 4 March 1997 to 30 June 1998, the financial period of the Company, the Group results would have been as follows:

	£
Turnover	1,003,855
Cost of sales	(817,185)
Gross profit	186,670
Other income	1,303
Administrative expenses	(1,081,265)
Operating loss	(893,292)
Impairment of goodwill	(3,110,994)
Provision against fixed assets	(100,000)
Interest receivable	9,637
Loss on ordinary activities before and after taxation	<u>(4,094,649)</u>

### 29. Change of name

On 12 April 1999, the Company changed its name from Versalite Group PLC to Gladstone PLC.

### 30. Derivatives and other financial information

#### a) *Interest rate risk profile of financial assets and liabilities*

The Group has no financial assets and liabilities other than short-term debtors, cash at bank and short-term creditors. The bank balance earns interest at 3.25 per cent. The bank balance at 30 June 1999 was established primarily from the net proceeds on the disposal of two of the Company's subsidiaries Stained Glass Systems Limited and Leslie Easton & Co Limited and from the proceeds of the Rights Issue in April 1999. The purpose of this cash fund is to assist in the acquisition of profitable businesses in the future.

#### b) *Borrowing facilities*

The Group had no agreed overdraft facilities at 30 June 1999.

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

The fair value of the Group's financial assets and liabilities is not materially different to the book value.

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

The Directors recognise that they may need to adopt policies should the Group become exposed to wider financial risks as the business develops.

### 31. Transactions with directors

At 30 June 1997 and 1998 and until March 1999 the Group occupied premises which were owned by the former director, L R Easton under a lease on an arm's length basis at a rent of £25,000 per annum.

Fees payable to BK Raven of £9,218 and to OC Cooke of £5,710 were invoiced to the Company by BR Associates Limited and Corrib Associates respectively, businesses in which they have an interest.

On 16 March 1999 the Company entered into an agreement with the two former directors, LR Easton and NL Easton, to sell the whole of the issued share capital of Stained Glass Systems Limited and Leslie Easton & Co Limited and certain other related assets of the Company to them for a total consideration of £100,000 (which comprised £46,963 for the fixed assets and £53,037, see note 23, for the share capital of the subsidiaries) together with an obligation on them to discharge £50,000 in creditors.

### 32. Post balance sheet events

The Company is currently negotiating to acquire a new trading subsidiary which offers the potential for substantial investment returns with a controllable level of risk. In order to finance this acquisition the Company is proposing an Open Offer. Details of these proposals will be sent to shareholders in due course.

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## Section 2: Preliminary announcement of results for the year ended 30 June 1999

This year has been a year of considerable change for the Group. In April the two loss making subsidiaries, Stained Glass Systems Limited and Leslie Easton & Co Limited, were sold to Leslie and Nicholas Easton who then resigned as directors of the Company.

The attached accounts are therefore the last ones in which losses incurred by these subsidiaries will be reflected.

Also in April the company raised £360,000 before expenses by way of a rights issue and Oliver Cooke and myself joined the board.

We stated that we intended to acquire companies in sectors where we have experience and which offered the potential for substantial investment returns with a controlled level of risk.

Since then we have reviewed a number of potential acquisitions and have now identified a company – Microcache Limited – which meets these criteria and which represents the first step in the development of Gladstone into a software and services group.

Full details of the proposed acquisition together with the associated fund-raising are contained in the listing particulars which are being sent to shareholders.

Francis Cook has resigned as a non-executive director and we would like to record our thanks to him for his service and that he has given the Group. We are delighted to announce that Lord Sheppard of Didgemere and Anthony Carlton have agreed to join the board as non-executive directors subject to the completion of the proposals referred to in the listing particulars. Lord Sheppard is well known and has enjoyed a very successful business career, most notably as chairman of Grand Metropolitan PLC from 1987 to 1996. He brings with him a wealth of experience, which will be invaluable to us in developing the enlarged Group.

We now look forward to the future with confidence.

Brian Raven

*Chairman*

21 September 1999

## Part III Financial Information on Gladstone continued

### Audited Consolidated Profit and Loss Account for the year ended 30 June 1999

	1998 £'000	1999 £'000
<b>Turnover</b>		
Continuing operations	—	—
Discontinued operations	888	778
	<u>888</u>	<u>778</u>
Cost of sales	(722)	(567)
<b>Gross profit</b>	<u>166</u>	<u>211</u>
Administrative expenses	(1,036)	(552)
<b>Operating loss</b>		
Continuing operations	(201)	(112)
Discontinued operations	(669)	(229)
<b>Total operating loss</b>	(870)	(341)
Profit on sale of fixed assets connected with disposal of discontinued operations	—	2
Profit on disposal of discontinued operations	—	166
Impairment of goodwill	(3,111)	—
<b>Loss on ordinary activities before interest</b>	<u>(3,981)</u>	<u>(173)</u>
Interest receivable	11	—
Interest payable	(3)	(10)
<b>Loss on ordinary activities before taxation</b>	<u>(3,973)</u>	<u>(183)</u>
Taxation	—	—
<b>Loss on ordinary activities after taxation</b>	<u>(3,973)</u>	<u>(183)</u>
Dividends – equity	—	—
<b>Loss for the year</b>	<u>(3,973)</u>	<u>(183)</u>
<b>Loss per ordinary share (pence)</b>		
Basic	(2.21)	(0.10)
Diluted	(2.20)	(0.08)

### Audited Statement of Total Recognised Gains and Losses for the year ended 30 June 1999

	1998 £'000	1999 £'000
Loss for the year	(3,973)	(183)
Prior year adjustment	(32)	—
<b>Total recognised losses for the year</b>	<u>(4,005)</u>	<u>(183)</u>

# **Audited Consolidated Balance Sheet as at 30 June 1999**

	1998		1999	
	£'000	£'000	£'000	£'000
<b>Fixed assets</b>				
Intangible assets		51		–
Tangible assets		103		–
		<u>154</u>		<u>–</u>
<b>Current assets</b>				
Stocks	127		–	
Debtors	251		7	
Cash at bank and in hand	–		183	
	<u>378</u>		<u>190</u>	
<b>Creditors: amounts falling due within one year</b>	<u>(460)</u>		<u>(22)</u>	
<b>Net current (liabilities)/assets</b>		<u>(82)</u>		<u>168</u>
<b>Total assets less current liabilities</b>		<u>72</u>		<u>168</u>
<b>Creditors: amounts falling due after more than one year</b>		<u>(22)</u>		<u>–</u>
<b>Net assets</b>		<u>50</u>		<u>168</u>
<b>Capital and reserves</b>				
Called up share capital		1,440		1,512
Share premium account		556		785
Merger reserve		2,148		2,148
Profit and loss account		(4,094)		(4,277)
<b>Shareholders' funds – equity interests</b>		<u>50</u>		<u>168</u>

## **Notes:**

- (1) The financial information contained in this report does not constitute the statutory accounts of the company within the meaning of Section 240 of the Companies Act 1985 ("The Act").
- (2) The figures for the year ended 30 June 1999 are extracted from the full financial statements for that year which will be delivered to the Registrar of Companies in due course.
- (3) The comparative figures for the year ended 30 June 1998 are extracted from the statutory accounts for that year which have been reported on by the auditors – such report was unqualified and did not contain a statement under section 237(2) or (3) of the Act. The statutory accounts for the year ended 30 June 1998 have been delivered to the Registrar of Companies.
- (4) A provision was made for impairment of goodwill at 30 June 1998 to reduce the value of goodwill to its then estimated recoverable amount.
- (5) Loss per share is based upon losses for the year of £183,000 (1998: £3,973,000) and 186,000,000 (1998: 180,000,000) ordinary shares, being the weighted average number of shares in issue.
- (6) Diluted loss per share is based upon losses of £183,000 (1998: £3,973,000) and 225,488,000 (1998: 180,480,000) ordinary shares which allow for the exercise of outstanding share options exercisable at a price below the average fair value during the period.
- (7) The movements in shareholders' funds may be reconciled as follows:

	£'000
Balance at 1 July 1998	50
Issue of shares	360
Cost of share issue written off to share premium account	(59)
Loss for the year	(183)
Balance at 30 June 1999	<u>168</u>

- (8) Copies of the 1999 Report and Accounts are being sent to Shareholders in due course. Further copies will be available from the registered office of Gladstone PLC at Drury House, 34–43 Russell Street, London, WC2B 5HA.



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London EC2Y 5DH

The Directors  
Gladstone PLC  
Drury House  
34-43 Russell Street  
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The Directors  
Corporate Synergy PLC  
Piercy House  
7/9 Cophall Avenue  
LONDON EC2R 7NJ

The Directors  
Seymour Pierce Limited  
29/30 Cornhill  
LONDON EC3V 3NF

21 September 1999

Dear Sirs

### Microcache Limited ("Microcache")

#### Introduction

We report on the financial information set out in this Part IV which has been prepared for inclusion in the listing particulars dated 21 September 1999 of Gladstone PLC ("Listing Particulars").

Microcache was incorporated on 4 March 1981 as Maasdam (UK) Limited and changed its name to Microcache on 8 November 1995.

#### Basis of preparation

The audited financial statements of Microcache for the three years ended 30 June 1999 were prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985. The directors of Microcache have subsequently prepared cash flow statements and additional notes (which were not required under the above special provisions relating to small companies) to the financial statements in respect of these years to conform with the Listing Rules of the London Stock Exchange.

The financial information set out in this Part IV is based on the audited financial statements of Microcache for the three years ended 30 June 1999 and cash flow statements and additional notes prepared by the directors and has been prepared on the basis set out in paragraph D after making such adjustments as we considered necessary.

These financial statements were audited by Messrs John Allen & Co, Chartered Accountants and their audit reports were unqualified.

I A Altug LLB A A Andronikou ACA MIPA B B Bhattacharyya FCA M A Carney FCA  
G Chong ACA FCCA I R Cohen FCA Gail T Cox ACA D L Demby FCCA J E Easton FCA  
M P W Egan FCA Irit Herzenshtein ACA S Hobson FCA P M Hollins FCA  
L Horman FCCA RPA P W Hughes ACA A M Kaye FCA D Lazarevic FCA  
D S Levy FCA Dato' J E C Lim D.P.M.P. FCCA C R Maugham FCA D E Murphy ATN  
P Oliver FCA L Sacker FCA H P Spencer FCA D J Stebbings FCA J P Warsop FCCA



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**Responsibility**

These financial statements are the responsibility of the directors of Microcache who approved their issue.

The directors and proposed directors of Gladstone PLC are responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements and from the cash flow statements and additional information subsequently prepared by the directors of Microcache, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of Microcache as at the dates stated and of its profits and cash flows for the years then ended.

## Part IV Accountants' report on Microcache continued

### Financial information

#### A. Profit and loss accounts

The profit and loss accounts of Microcache for each of the three years ended 30 June 1999 are set out below:

	<i>Notes</i>	<i>Year ended 30 June</i>		
		<i>1997</i>	<i>1998</i>	<i>1999</i>
		<i>£</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>	<b>1</b>	<b>1,829,871</b>	<b>2,637,567</b>	<b>3,568,574</b>
Cost of sales		(625,118)	(958,214)	(1,205,450)
<b>Gross profit</b>		<b>1,204,753</b>	<b>1,679,353</b>	<b>2,363,124</b>
Other income		—	—	9,018
Administrative expenses		(840,929)	(1,046,500)	(1,719,668)
<b>Operating profit</b>	<b>2</b>	<b>363,824</b>	<b>632,853</b>	<b>652,474</b>
Provision for loss on disposal of fixed assets	7	—	(67,396)	—
Amount written off investment	8	—	—	(10,000)
<b>Profit on ordinary activities before interest</b>		<b>363,824</b>	<b>565,457</b>	<b>642,474</b>
Interest receivable	3	—	12,740	2,354
Interest payable	4	—	(1,574)	(11,431)
<b>Profit on ordinary activities before taxation</b>		<b>363,824</b>	<b>576,623</b>	<b>633,397</b>
Taxation	5	(87,327)	(192,992)	(177,700)
<b>Profit on ordinary activities after taxation</b>		<b>276,497</b>	<b>383,631</b>	<b>455,697</b>
Dividends	6	(165,000)	(55,000)	(110,000)
<b>Retained profit for the year</b>		<b>111,497</b>	<b>328,631</b>	<b>345,697</b>

All of the above amounts are in respect of continuing operations. There are no recognised gains or losses in the above periods other than the profit attributable to shareholders.

**B. Balance sheets as at 30 June**

The balance sheets as at 30 June 1997, 1998 and 1999 are set out below:

		<i>As at 30 June</i>		
	<i>Notes</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
		£	£	£
<b>Fixed assets</b>				
Tangible assets	7	359,766	731,185	1,005,844
Investment	8	–	–	–
		<u>359,766</u>	<u>731,185</u>	<u>1,005,844</u>
<b>Current assets</b>				
Stocks	9	64,302	110,877	144,800
Debtors	10	336,861	516,273	1,106,240
Cash at bank and in hand		189,207	97,843	36,630
		<u>590,370</u>	<u>724,993</u>	<u>1,287,670</u>
Creditors: amounts falling due within one year	11	(512,710)	(708,131)	(1,133,534)
Net current assets		<u>77,660</u>	<u>16,862</u>	<u>154,136</u>
Total assets less current liabilities		437,426	748,047	1,159,980
Creditors: amounts falling due after more than one year	12	(18,010)	–	(66,236)
Net assets		<u>419,416</u>	<u>748,047</u>	<u>1,093,744</u>
<b>Capital and reserves</b>				
Called up share capital	13	1,100	1,100	1,100
Share premium account	14	9,900	9,900	9,900
Profit and loss account	14	408,416	737,047	1,082,744
Shareholders' funds – equity interests	15	<u>419,416</u>	<u>748,047</u>	<u>1,093,744</u>

## Part IV Accountants' report on Microcache continued

### C. Cash flow statements

The cash flow statements for each of the three years ended 30 June 1999 are set out below:

	<i>Notes</i>	<i>Year ended 30 June</i>		
		<i>1997</i>	<i>1998</i>	<i>1999</i>
		<i>£</i>	<i>£</i>	<i>£</i>
Net cash inflow from operating activities	16	536,066	609,681	483,690
Returns on investments and servicing of finance				
Interest received		--	12,740	2,354
Interest paid		--	(1,574)	(11,431)
		--	11,166	(9,077)
Taxation		(71,366)	(94,851)	(186,807)
Capital expenditure				
Purchase of tangible fixed assets		(133,331)	(524,450)	(410,767)
Sale of tangible fixed assets		15,100	4,500	104,305
		(118,231)	(519,950)	(306,462)
Acquisition				
Investment in associated undertaking		--	--	(10,000)
Equity dividends paid		(165,000)	(55,000)	(110,000)
Financing				
Bank loan obtained		--	--	150,000
Repayment of bank loan		(22,123)	(42,410)	(43,486)
Hire purchase capital payments		(12,689)	--	(29,071)
		(34,812)	(42,410)	77,443
Increase/(decrease) in cash	18	146,657	(91,364)	(61,213)

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#### D. Accounting policies

The principal accounting policies which have been applied consistently, when applicable, in each of the three years ended 30 June 1999 are set out below.

##### *Basis of preparation*

The financial information has been prepared under the historical cost convention, in accordance with applicable accounting standards and applying the same accounting policies as Gladstone PLC.

##### *Turnover*

Turnover represents the net amount invoiced to customers for goods and services excluding value added tax.

##### *Tangible fixed assets and depreciation*

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is charged on a straight line basis at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Motor vehicles	4 years
Office furniture & equipment	4-5 years
Freehold property	50 years
Leasehold improvements	5 years (being the period of the lease)

##### *Stock*

Stock consists of membership cards, computer hardware and software for resale and is valued at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

##### *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.

##### *Investments*

Investments are stated at cost less any provision for diminution in value

## Part IV Accountants' report on Microcache continued

### E. Notes to the financial information

#### 1. Turnover and segmental analysis

Turnover of the company has been derived from its principal activities and geographical markets as follows:

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
By activity:			
Computer software and consultancy	<u>1,829,871</u>	<u>2,637,567</u>	<u>3,568,574</u>
By geographical area:			
United Kingdom	1,829,871	2,630,606	3,552,574
Australia	–	6,961	16,000
	<u>1,829,871</u>	<u>2,637,567</u>	<u>3,568,574</u>

#### 2. Operating profit

Operating profit is stated after charging:

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Depreciation of tangible fixed assets	53,182	80,496	116,903
Auditors' remuneration	1,500	2,500	7,500
Operating lease rentals – property	5,750	5,750	5,750
– motor vehicles	–	–	4,082
	<u>–</u>	<u>–</u>	<u>–</u>

#### 3. Interest receivable

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Bank interest received	<u>–</u>	<u>12,740</u>	<u>2,354</u>

#### 4. Interest payable

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
On bank loans repayable in five years	–	1,574	8,000
Hire purchase charges	–	–	3,431
	<u>–</u>	<u>1,574</u>	<u>11,431</u>

## 5. Taxation

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
<b>UK current year taxation</b>			
UK corporation tax at a rate of 1997: 31%; 1998: 31%; 1999: 31%	88,666	186,807	177,700
<b>Prior years</b>			
UK corporation tax	(1,339)	6,185	—
	<u>87,327</u>	<u>192,992</u>	<u>177,700</u>

## 6. Dividends

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Final ordinary dividend paid	<u>165,000</u>	<u>55,000</u>	<u>110,000</u>

## 7. Tangible fixed assets

	<i>Freehold property</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Office furniture* equipment</i>	<i>Total</i>
	£	£	£	£	£
<b>Cost</b>					
At 30 June 1997	171,000	28,376	103,857	148,669	451,902
Additions	419,195	—	23,750	81,505	524,450
Disposals	—	—	(9,506)	—	(9,506)
At 30 June 1998	590,195	28,376	118,101	230,174	966,846
Additions	214,426	—	115,300	166,141	495,867
Disposals	(171,000)	(28,376)	(9,840)	—	(209,216)
At 30 June 1999	<u>633,621</u>	<u>—</u>	<u>223,561</u>	<u>396,315</u>	<u>1,253,497</u>
<b>Depreciation and provision for diminution in value</b>					
At 30 June 1997	20,520	2,365	20,894	48,357	92,136
Charge for the year	3,420	5,675	27,845	43,556	80,496
Provision for permanent diminution in value	67,396	—	—	—	67,396
On disposals	—	—	(4,367)	—	(4,367)
At 30 June 1998	91,336	8,040	44,372	91,913	235,661
Charge for the year	12,672	—	43,832	60,399	116,903
On disposals	(91,336)	(8,040)	(5,535)	—	(104,911)
At 30 June 1999	<u>12,672</u>	<u>—</u>	<u>82,669</u>	<u>152,312</u>	<u>247,653</u>
<b>Net book value</b>					
At 30 June 1999	<u>620,949</u>	<u>—</u>	<u>140,892</u>	<u>244,003</u>	<u>1,005,844</u>
At 30 June 1998	<u>498,859</u>	<u>20,336</u>	<u>73,729</u>	<u>138,261</u>	<u>731,185</u>

## Part IV Accountants' report on Microcache continued

### 7. Tangible fixed assets (continued)

The company's former freehold property, including leasehold improvements, at Mill Brook House, Caps Lane, Cholsey, Oxon OX10 9HF, which had a historical cost of £199,376 and a net book value of £167,376 as at 30 June 1998 was sold in July 1998 for £100,000 to N & B Guiver, two directors of the company. The book value of the freehold property was therefore reduced to its estimated realisable value, on 30 June 1998. The resulting provision for diminution in value of the freehold property amounted to £67,396 and was written off to the profit and loss account in the year ended 30 June 1998 as an exceptional item.

### 8. Investments

The company's associated undertaking at 30 June 1999 was as follows:

	£
Investment at cost acquired during the year	10,000
Less provision for diminution in value	(10,000)
Balance at 30 June 1999	—

<i>Name of company</i>	<i>Place of incorporation</i>	<i>Percentage held</i>	<i>Principal activity</i>
ABS Microcache Limited	Scotland	50%	Software consultancy and supply

ABS Microcache Limited's loss for the year ended 31 May 1999 was £45,000 and its net liabilities at 31 May 1999 were £39,000.

As Microcache does not prepare consolidated accounts, Financial Reporting Standard 9 "Associates and Joint Ventures" ("FRS9") requires Microcache's share of the associated undertaking's loss and net liabilities to be included as additional information in its accounts. However, as the relevant amounts for the above associate are immaterial to Microcache, this additional information has not been presented.

### 9. Stock

	<i>As at 30 June</i>	
	<i>1998</i>	<i>1999</i>
	£	£
Raw materials	110,877	144,800

### 10. Debtors: amounts falling due within one year

	<i>As at 30 June</i>	
	<i>1998</i>	<i>1999</i>
	£	£
Trade debtors	482,006	1,067,319
Other debtors	2,989	850
Prepayments	31,278	23,071
Loan to associated undertaking	—	15,000
	516,273	1,106,240

# 11. Creditors: amounts falling due within one year

	<i>As at 30 June</i>	
	1998	1999
	£	£
Bank loan (note 12)	–	57,600
Trade creditors	192,641	378,766
Corporation tax	186,807	177,700
Other taxes and social security costs	22,662	58,057
Accruals	62,384	96,764
Deferred income	243,637	325,940
Net obligations under hire purchase contracts	–	38,707
	<u>708,131</u>	<u>1,133,534</u>

The deferred income relates to amounts received in advance for maintenance of customers' computer hardware and software.

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

	<i>As at 30 June</i>	
	1998	1999
	£	£
Bank loan	–	48,914
Net obligations under hire purchase contracts	–	17,322
	<u>–</u>	<u>66,236</u>
<b>Analysis of bank loans</b>		
Wholly repayable within five years by instalments:		
Repayable within one year	–	57,600
Repayable between one and two years	–	48,914
	<u>–</u>	<u>106,514</u>
Included in current liabilities	–	(57,600)
	<u>–</u>	<u>48,914</u>

The bank loan is secured on the company's freehold property, repayable by monthly instalments of £4,800 each and bears interest at 2 per cent. above the National Westminster Bank's base rate per annum.

	<i>As at 30 June</i>	
	1998	1999
	£	£
<b>Gross obligations under hire purchase contracts</b>		
Repayable within one year	–	42,831
Repayable between one and five years	–	19,203
	<u>–</u>	<u>62,034</u>
Finance charges and interest allocated to future accounting periods	–	6,005
	<u>–</u>	<u>56,029</u>
Included in liabilities falling within one year	–	(38,707)
	<u>–</u>	<u>17,322</u>

The hire purchase liabilities are secured on the assets concerned.

## Part IV Accountants' report on Microcache continued

### 13. Share capital

	<i>As at 30 June</i>	
	<i>1998</i>	<i>1999</i>
	£	£
<b>Authorised</b>		
5,000 ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>
<b>Allotted, called up and fully paid</b>		
1,100 ordinary shares of £1 each	<u>1,100</u>	<u>1,100</u>

### 14. Statement of movements on reserves

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
<b>Share premium account</b>			
Opening balance	9,900	9,900	9,900
Movements in the year	<u>—</u>	<u>—</u>	<u>—</u>
Closing balance	<u>9,900</u>	<u>9,900</u>	<u>9,900</u>
<b>Profit and loss account</b>			
Opening balance	296,919	408,416	737,047
Retained profit for the year	<u>111,497</u>	<u>328,631</u>	<u>345,697</u>
Closing balance	<u>408,416</u>	<u>737,047</u>	<u>1,082,744</u>

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

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Profit for the year	276,497	383,631	455,697
Dividends	<u>(165,000)</u>	<u>(55,000)</u>	<u>(110,000)</u>
Net increase	111,497	328,631	345,697
Opening balance	<u>307,919</u>	<u>419,416</u>	<u>748,047</u>
At 30 June	<u>419,416</u>	<u>748,047</u>	<u>1,093,744</u>

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

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Operating profit	363,824	632,853	652,474
Depreciation charges	53,182	80,496	116,903
Loss on sale of fixed assets	2,121	639	—
Decrease/(increase) in stocks	5,340	(46,575)	(33,923)
Decrease/(increase) in debtors	47,328	(179,412)	(589,967)
Increase in creditors	<u>64,271</u>	<u>121,680</u>	<u>338,203</u>
Net cash inflow from operating activities	<u>536,066</u>	<u>609,681</u>	<u>483,690</u>

# 17. Analysis of changes in net (debt)/cash

	<i>As at 1 July 1996</i>	<i>Cash flows</i>	<i>Other non-cash items</i>	<i>As at 30 June 1997</i>
	£	£	£	£
Cash at bank and in hand	42,550	146,657	—	189,207
Bank loan	(64,533)	22,123	—	(42,410)
Hire purchase liabilities	(12,689)	12,689	—	—
	(77,222)	34,812	—	(42,410)
Total net (debt)/cash	(34,672)	181,469	—	146,797

	<i>As at 1 July 1997</i>	<i>Cash flows</i>	<i>Other non-cash items</i>	<i>As at 30 June 1998</i>
	£	£	£	£
Cash at bank and in hand	189,207	(91,364)	—	97,843
Bank loan	(42,410)	42,410	—	—
Total net cash	146,797	(48,954)	—	97,843

	<i>As at 1 July 1998</i>	<i>Cash flows</i>	<i>Other non-cash items</i>	<i>As at 30 June 1999</i>
	£	£	£	£
Cash at bank and in hand	97,843	(61,213)	—	36,630
Bank loan	—	(106,514)	—	(106,514)
Hire purchase liabilities	—	29,071	(85,100)	(56,029)
	—	(77,443)	(85,100)	(162,543)
Total net cash/(debt)	97,843	(138,656)	(85,100)	(125,913)

Other non-cash items of £85,100 represent the value of new hire purchase liabilities acquired.

# 18. Reconciliation of net cash flow to movement in net (debt)/cash

	<i>Year ended 30 June</i>		
	<i>1997</i>	<i>1998</i>	<i>1999</i>
	£	£	£
Increase/(decrease) in cash	146,657	(91,364)	(61,213)
Cash outflow from decrease in debt	34,812	42,410	(77,443)
Changes in net (debt)/cash resulting from cash flows	181,469	(48,954)	(138,656)
New hire purchase agreements	—	—	(85,100)
Movement in net (debt)/cash	181,469	(48,954)	(223,756)
Net (debt)/cash at beginning of year	(34,672)	146,797	97,843
Net cash/(debt) at end of year	146,797	97,843	(125,913)

## Part IV Accountants' report on Microcache continued

### 19. Employees

	Year ended 30 June		
	1997	1998	1999
	£	£	£
Wages and salaries	544,458	655,063	994,226
Social security costs	51,408	63,387	92,850
Pension costs	25,564	39,542	76,604
	<u>621,430</u>	<u>757,992</u>	<u>1,163,680</u>

The average number of employees during the year ended 30 June 1999 was 50 (1998:39 1997: 32). Pension costs comprise payments to employees' personal pension schemes.

### 20. Directors' emoluments

	Year ended 30 June		
	1997	1998	1999
	£	£	£
Emoluments for qualifying services			
– salaries	98,832	99,013	130,092
– benefits	592	4,292	6,276
Fees paid for services of directors	6,000	5,512	8,545
Company pension contributions	13,200	23,200	51,146
	<u>118,032</u>	<u>132,017</u>	<u>196,059</u>

Retirement benefits are accruing to 2 directors at 30 June 1999 (1998: 2; 1997: 2) under personal money purchase pension schemes.

The emoluments of the directors were as follows:

	Year ended 30 June 1997			
	Salaries and fees	Benefits in kind	Pension contributions	Total
	£	£	£	£
Mrs BA Guiver	44,368	296	6,000	50,664
NE Guiver	50,004	296	7,500	57,800
TAS Butler	6,000	–	–	6,000
	<u>100,372</u>	<u>529</u>	<u>13,500</u>	<u>114,464</u>

	Year ended 30 June 1998			
	Salaries and fees	Benefits in kind	Pension contributions	Total
	£	£	£	£
Mrs BA Guiver	40,008	251	19,600	59,859
NE Guiver	50,004	4,041	3,600	57,645
TAS Butler	5,512	–	–	5,512
	<u>95,524</u>	<u>4,292</u>	<u>23,200</u>	<u>123,016</u>

	Year ended 30 June 1999			
	Salaries and fees	Benefits in kind	Pension contributions	Total
	£	£	£	£
Mrs BA Guiver	58,334	448	35,296	94,078
NE Guiver	60,000	5,828	15,850	81,678
TAS Butler	8,545	–	–	8,545
	<u>126,879</u>	<u>6,276</u>	<u>51,146</u>	<u>184,301</u>

## 21. Financial commitments

	<i>Land and buildings</i>		<i>Motor vehicles</i>	
	<i>1998</i>	<i>1999</i>	<i>1998</i>	<i>1999</i>
	£	£	£	£
Annual commitments under non-cancellable operating leases were as follows:				
Expiry date:				
Less than one year	—	—	—	—
Two to five years	—	—	—	15,067
Over five years	5,750	5,750	—	—
	<u>5,750</u>	<u>5,750</u>	<u>—</u>	<u>15,067</u>

## 22. Capital commitments

At 30 June 1998 and 1999 there were no capital commitments.

## 23. Contingent liabilities

At 30 June 1998 and 30 June 1999 there were no contingent liabilities.

## 24. Related party transactions

In July 1998, the company's former freehold property, a part of Mill Brook House, Caps Lane, Cholsey, was sold for £100,000 to N and B Guiver, two directors of the company.

T Butler's services to the company as finance director have been invoiced by Drumbeg Associates Limited, a company in which he is a director. These fees amounted to £8,545 for the year ended 30 June 1999 (1998: £5,512, 1997: £6,000).

During the year ended 30 June 1999 the company made sales totalling approximately £80,000 to ABS Microcache Limited, which became an associated undertaking of Microcache during that year. At 30 June 1999 ABS Microcache Limited owed trading debts of £89,000 to Microcache. These are included in trade debtors in note 10. ABS Microcache Limited also owed £15,000 to Microcache under an interest free loan, this amount has subsequently been received.

Codesco Limited, a company in which Geoffrey Westcott is a shareholder earned commission from Microcache, relating to software previously developed by Geoffrey Westcott (a shareholder of Microcache), amounting to £45,160 for the year ended 30 June 1999 (1998: £11,982; 1997: £13,254).

## 25. Post balance sheet events

The directors of the company have decided that it would be beneficial for the company to be part of a larger organisation. Negotiations are currently being held with a public company to acquire the entire issued share capital of the company. The current directors of the company will remain as directors for the foreseeable future, except for T A S Butler, who resigned on 3 August 1999.

In August 1999 the company issued 11 new ordinary shares of £1 each at a total premium of £37,489 for cash consideration.

On 1 September 1999 the company redesignated and sub-divided its authorised share capital of 5,000 ordinary shares of £1 each into 5,000 "A" ordinary shares of 75 pence each and 5,000 "B" ordinary shares of 25 pence each.

On the same date it also redesignated and sub-divided its issued share capital of 1,111 ordinary shares of £1 each into 1,111 "A" ordinary shares of 75 pence each and 1,111 "B" ordinary shares of 25 pence each.

On 10 September 1999, all of the "A" and "B" shareholders of the company transferred their shares into a bare trust with Norman and Beryl Guiver acting as trustees to the trust.

## Part IV Accountants' report on Microcache continued

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On 13 September 1999, the company declared a dividend of £10 per "A" ordinary share with an alternative scrip dividend of 20 new "A" ordinary shares of 75 pence each for every "A" ordinary share held. All of the "A" shareholders of the company elected to take the alternative scrip dividend option. The effect of this was to create a further 22,220 new "A" shares in the company so that the total "A" ordinary shares of 75 pence in issue is now 23,331.

Yours faithfully,

Hacker Young  
*Registered Auditors*  
*Chartered Accountants*

## Part V Pro Forma Statement of Net Assets of the Enlarged Group

The following unaudited pro forma statement of net assets of the Enlarged Group immediately following completion of the Proposals has been prepared to show the effects of the Proposals on the net assets of the Group as if the Proposals had occurred on 30 June 1999. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Enlarged Group following the Proposals.

	<i>Gladstone PLC</i>	<i>Adjustment</i>	<i>Adjustment</i>	<i>Pro Forma</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Net Assets</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed assets</b>				
Intangible assets	–	–	7,006	7,006
Tangible assets	–	1,006	–	1,006
	<u>–</u>	<u>1,006</u>	<u>7,006</u>	<u>8,012</u>
<b>Current assets</b>				
Stocks	–	145	–	145
Debtors	7	1,106	–	1,113
Cash at bank and in hand	183	37	3,750	3,970
	<u>190</u>	<u>1,288</u>	<u>3,750</u>	<u>5,228</u>
<b>Creditors: amounts falling due within one year</b>	<u>(23)</u>	<u>(1,134)</u>	<u>–</u>	<u>(1,157)</u>
<b>Net current assets/(liabilities)</b>	<u>167</u>	<u>154</u>	<u>3,750</u>	<u>4,071</u>
<b>Total assets less current liabilities</b>	<u>167</u>	<u>1,160</u>	<u>10,756</u>	<u>12,083</u>
<b>Creditors amounts falling due after more than one year</b>	<u>–</u>	<u>(66)</u>	<u>–</u>	<u>(66)</u>
<b>Net Assets</b>	<u>167</u>	<u>1,094</u>	<u>10,756</u>	<u>12,017</u>

### NOTES

- The audited net assets of Gladstone have been extracted without material adjustment from the audited balance sheet of Gladstone at 30 June 1999 as set out in Part III of this document.
- The audited net assets of Microcache have been extracted without material adjustment from the audited balance sheet of Microcache at 30 June 1999 as set out in Part IV of this document.
- The adjustments comprise:
 

(a) Net cash receivable:	£'000
Gross proceeds of Open Offer	10,500
Expenses	(750)
Cash consideration to acquire Microcache	<u>(6,000)</u>
	<u>3,750</u>
(b) Goodwill on acquisition of Microcache:	
Cash consideration payable to Vendors	6,000
Allotment and issue of shares to Vendors (being 280,000,000 New Ordinary Shares at the Offer Price)	2,100
Net assets of Microcache	<u>(1,094)</u>
	<u>7,006</u>
- No account has been taken of trading or working capital movements of Gladstone or Microcache since 30 June 1999.
- No account has been taken of any fair value adjustments which might arise as a result of the Proposals.

Part V Pro Forma Statement of Net Assets of the  
Enlarged Group continued



St Alphage House  
2 Fore Street  
London EC2Y 5DH

The Directors  
Gladstone PLC  
Drury House  
34-43 Russell Street  
London WC2B 5HA

and

The Directors  
Corporate Synergy PLC  
Piercy House  
7/9 Copthall Avenue  
London EC2R 7NJ

and

The Directors  
Seymour Pierce Limited  
29/30 Cornhill  
London EC3V 3NF

21 September 1999

Dear Sirs

**GLADSTONE PLC**

We report on the pro forma statement of net assets ("the pro forma financial information") set out in Part V of the listing particulars dated 21 September 1999 which has been prepared, for illustrative purposes only, to provide information about how the Proposals might have affected the financial information presented.

**Responsibilities**

It is the responsibility solely of the directors of Gladstone PLC to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules of the London Stock Exchange ("the Listing Rules")

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of Gladstone PLC.

I A Altug LLB A A Andronikou ACA MPA B B Bhattacharya FCA M A Carney FCA  
G Chong ACA FCCA I R Cohen FCA Gail T Cox ACA D L Demby FCCA J E Easton FCA  
M P W Egan FCA Irit Herzenshtein ACA S Hobson FCA P M Hollins FCA  
L Hornan FCA FIMA P W Hughes ACA A M Kaye FCA D Lazarevic FCA  
D S Levy FCA Dato' J E C Lim D FMA F FCCA C R Maugham FCA D E Murphy ATW  
P Oliver FCA L Sacker FCA H P Spencer FCA D J Stebbings FCA J P Warsop FCA



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### Opinion

In our opinion:

- 1 the pro forma financial information has been properly compiled on the basis stated;
- 2 such basis is consistent with the accounting policies of the issuer; and
- 3 the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the London Stock Exchange.

Yours faithfully

Hacker Young

## Part VI Additional Information

### 1. Incorporation

The Company was incorporated in England with registered number 3327360 on 4 March 1997, as a public company with limited liability under the Act under the name "Versalite Group PLC". It changed its name to Gladstone on 12 April 1999.

### 2. Share Capital

(a) Set out below are details of the authorised and issued share capital of the Company.

<i>Authorised</i>			<i>Issued and fully paid</i>	
£	Number		£	Number
504,000	504,000,000	Ordinary Shares	216,000	216,000,000
1,296,000	144,000,000	Deferred Shares	1,296,000	144,000,000

(b) The table below sets out the authorised and issued share capital of the Company as it will be at Admission:

<i>Authorised</i>			<i>Issued and fully paid</i>	
£	Number		£	Number
5,500,000	550,000,000	Consolidated Shares*	1,900,000	190,000,000
1,296,000	144,000,000	Deferred Shares	1,296,000	144,000,000

\*The Consolidated Shares will arise on the consolidation, on a 1 for 10 basis, of all the existing Ordinary Shares and all the New Ordinary Shares into Consolidated Shares.

(c) Since the incorporation of the Company there have been the following changes in its authorised and issued share capital:

- (i) On 4 March 1997, one subscriber share was issued to the subscribers to the Memorandum of Association.
- (ii) On 21 April 1997 special resolutions were passed at an Extraordinary General Meeting of the Company for the following purposes:
  - (A) to re-designate and sub-divide the 100,000 authorised ordinary shares of £1 each in the capital of the Company, whether issued or authorised but not issued, into 10,000,000 ordinary shares of 1p each;
  - (B) to increase the share capital of the Company from £100,000 to £1,800,000 by the creation of an additional 170,000,000 ordinary shares of 1p each.
- (iii) On 21 April 1997, 94,066,467 ordinary shares of 1p each were allotted in consideration for the acquisition by the Company of the entire issued share capital of Stained Glass Systems Limited.
- (iv) On 21 April 1997, 13,333,333 ordinary shares of 1p each were allotted in consideration for the acquisition by the Company of the entire issued share capital of Leslie Easton & Co Limited.
- (v) On 14 May 1997 36,600,000 ordinary shares of 1p each were issued fully paid for a consideration of 3p per share in accordance with the terms of a placing agreement dated 7 May 1997 between the Company (1) and Ellis & Partners Limited (2).
- (vi) On 8 April 1999, at an Extraordinary General Meeting of the Company resolutions of the Company were passed which *inter alia*:
  - (A) subdivided the 144,000,000 issued ordinary shares of the Company into 144,000,000 Ordinary Shares of 0.1p each and 144,000,000 Deferred Shares of 0.9p each;
  - (B) varied the Articles of Association of the Company to set out the respective rights of the Ordinary Shares and the Deferred Shares;
  - (C) subdivided the 36,000,000 authorised but unissued shares in the Company into 360,000,000 Ordinary Shares of 0.1p each; and
  - (D) increased the authorised share capital of the Company to £1,800,000 divided into 504,000,000 Ordinary Shares of 0.1p each and 144,000,000 Deferred Shares.

- (vii) On 8 April 1999 72,000,000 Ordinary Shares in the Company were issued at a price of 0.5p per share pursuant to the terms of a right issue made on 17 March 1999 and the Underwriting Agreement referred to in paragraph 7(a)(ii) below.
- (d) The Consolidated Shares (representing the existing Ordinary Shares and the New Ordinary Shares) will be issued in registered form and will be capable of being held in uncertificated form.
- (e) Resolutions 1 and 2 set out in the notice convening the EGM at the end of this document increase the share capital of the Company by the creation of 4,996,000,000 Ordinary Shares and authorise the directors to allot the New Ordinary Shares and to allot shares to Brian Raven and Oliver Cooke pursuant to the option agreements referred to in paragraphs 3(a)(ii) and 3(a)(iv) below (as amended by the undertakings referred to in paragraphs 3(a)(iii) and 3(a)(v) below) and to the Proposed Directors pursuant to the deeds of option referred to in paragraphs 3(a) (vi) and (vii) below. Resolution 2 additionally grants a general authority to the Directors to allot up to 74,816,500 ordinary shares of 1p each and empowers the Directors to allot all such 74,816,500 ordinary shares of 1p each in connection with a rights issue and 9,500,000 ordinary shares of 1p each for cash otherwise than *pro rata* to shareholders.
- (f) Except to the extent that it is disapplied pursuant to section 95 of the Act, the provisions of section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash) will apply to the authorised but unissued ordinary shares in the capital of the Company following completion of the Proposals.
- (g) In addition to the share options granted to the Directors and the Proposed Directors as summarised in paragraph 3(a) below, by an agreement dated 16 March 1999 between the Company (1) and Clifton Financial Associates Plc (2), Clifton Financial Associates Plc was granted an option in consideration of the payment by it of £1 to the Company to subscribe for 800,000 Ordinary Shares exercisable at a price of 0.5p per share from 9 April 1999 to 30 June 2001. The option replaced an option granted to Clifton Financial Associates Plc to subscribe for 2,500,000 ordinary shares of 1p each of the Company at 3p per share exercisable up to June 2000. Clifton Financial Associates Plc (a company which is in the same group as Seymour Pierce) was appointed as financial advisers to the Company on 6 May 1997 and was granted the option in lieu of fees but no longer provides any services to the Company.

### 3. Directors' and Proposed Directors' Shareholdings and other interests

- (a) (i) The interests (all of which are beneficial) which (A) have been notified by each Director and Proposed Director pursuant to Section 324 or Section 328 of the Act or (B) are required pursuant to section 325 of the Act to be entered in the register referred to therein or the interests of persons connected with a Director or Proposed Director within the meaning of Section 346 of the Act which would, if the connected person were a Director, be required to be so disclosed under (A) or (B) above and the existence of which was known to, or could with reasonable diligence be ascertained by the relevant Director or Proposed Director are as follows:

	At the date of this document		At Admission	
	No of Ordinary Shares	% of issued ordinary share capital	No of Consolidated Shares	% of enlarged ordinary issued share capital
Brian Kenneth Raven	71,600,000	33.15	8,493,333	4.5
Oliver Charles Cooke	35,800,000	16.57	4,246,666	2.2
Lord Sheppard of Didgemere	–	–	1,000,000	0.5
Anthony Carlton	–	–	333,333	0.2

The 8,493,333 Consolidated Shares in which Brian Raven will be interested at Admission comprise the Consolidated Shares which will arise on the Consolidation of his existing 71,600,000 Ordinary Shares and of the 13,333,333 New Ordinary Shares which he has irrevocably undertaken to take up in the Open Offer.

The 4,246,666 Consolidated Shares in which Oliver Cooke will be interested at Admission comprise the Consolidated Shares which will arise on the Consolidation of his existing 35,800,000 Ordinary

Shares and of the 6,666,666 New Ordinary Shares which he has irrevocably undertaken to take up in the Open Offer.

The 1,000,000 and 333,333 in which Lord Sheppard and Anthony Carlton will respectively be interested at Admission will arise from the Consolidation of the 10,000,000 and 3,333,330 New Ordinary Shares which Seymour Pierce have respectively placed firm with them in accordance with the Underwriting Agreement.

- (ii) On the basis of the present nominal value of the Ordinary Shares (being 0.1p) and by an agreement dated 16 March 1999 between the Company (1) and Brian Raven (2) Mr Raven was granted a "B" Share Option to subscribe for ordinary shares of 0.1p each equivalent to 13.33 per cent. of the issued share capital of the Company from time to time less 533,333 Ordinary Shares (representing 66.67 per cent. of the 800,000 Ordinary Shares which are the subject of the "A" Share Option held by Clifton Financial Associates Plc), unless the "A" Share Option has already been exercised or has lapsed. The price per ordinary share of 0.5p at which Mr Raven's "B" Share Option may be exercised is the market price, defined to be either (a) the lower of the middle market price of ordinary shares of 0.1p each as derived from the Official List on 16 March 1999, being 1.25p or the price at which any ordinary shares are subscribed pursuant to a rights issue in respect of at least 10 per cent. of the issued share capital of the Company made within six months of the date of the agreement, being 0.5p or (b) (if higher) the nominal value of the ordinary shares and shall be adjusted appropriately if the issued share capital of the Company is varied (whether by way of capitalisation issue, rights issue, reduction, sub division or otherwise) but only with the prior consent of the holder of the "B" Share Option. Mr Raven's B Share Option may be exercised at any time prior to the 16 March 2004, or if Mr Raven dies on or before that date, it may be exercised by his personal representatives within six months of the grant of probate. As a result of the Consolidation and pursuant to this Agreement, the exercise price has been adjusted to 1p per Consolidated Share.
- (iii) By an undertaking dated 21 September 1999 Mr Raven irrevocably and unconditionally undertook to the Company that:
  - (A) save in respect of the "B" Share Options over Ordinary Shares in issue prior to the adoption of the Proposals, he will only exercise "B" Share Options:
    - (1) at the same price at which any ordinary shares are issued for cash by the Company or by way of a consideration other than cash from time to time in accordance with the tranches referred to in paragraph (3) below;
    - (2) in respect of ordinary shares issued for cash or by way of a consideration other than cash so as to exclude any ordinary shares falling to be issued pursuant to the "A" Share Options the "B" Share Options, the Non Executive Directors' Options and the Share Option Schemes or any other option scheme introduced by the Company in the future;
    - (3) in respect of up to 10 per cent. of the issued share capital whilst such issued share capital is made up of more than 21,600,000 Consolidated Shares but not more than 200,000,000 Consolidated Shares; in respect of up to 8 per cent. of the issued share capital from 200,000,001 Consolidated Shares up to 700,000,000 Consolidated Shares; in respect of up to 6.67 per cent. of the issued share capital from 700,000,001 Consolidated Shares up to 1,500,000,000 Consolidated Shares; in respect of up to 5.33 per cent. of the issued share capital from 1,500,000,001 Consolidated Shares up to 2,500,000,000 Consolidated Shares and in respect of up to 4 per cent. of the issued share capital from 2,500,000,001 Consolidated Shares without limit;
  - and
  - (B) so as to disregard any ordinary shares issued pursuant to the exercise of "B" Share Options in respect of Ordinary Shares in issue prior to the adoption of the Proposals.

The undertaking is not conditional on the implementation of the Proposals.

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The undertaking also contains provisions that:

- (a) Mr Raven will give his consent to any future adjustment in the exercise price of the "B" Share Options which may be appropriate as a result of any capital reorganisation following the implementation of the Proposals;
  - (b) the "B" Share Options may in the alternate, if it be to the advantage of the Company, be exercised as originally drafted but only to the extent required to give an effect equivalent to the undertakings.
- (iv) On the basis of the present nominal value of the Ordinary Shares (being 0.1p) and by an agreement dated 16 March 1999 between the Company (1) and Oliver Cooke (2) Mr Cooke was granted a "B" Share Option to subscribe for ordinary shares of 0.1p each equivalent to 6.67 per cent. of the issued share capital of the Company from time to time less 266,667 Ordinary Shares (representing 33.33 per cent. of the 800,000 Ordinary Shares which are the subject of the "A" Share Option held by Clifton Financial Associates Plc), unless the "A" Share Option has already been exercised or has lapsed. The price per ordinary share of 0.5p each at which Mr Cooke's "B" Share Option may be exercised and the other terms thereof are otherwise identical to the "B" Share Option granted to Mr Raven summarised in sub paragraph (ii) above. As a result of the Consolidation and pursuant to this agreement, the exercise price has been adjusted to 1p per Consolidated Share.
- (v) By an undertaking dated 21 September 1999 Mr Cooke irrevocably and unconditionally undertook to the Company that:
- (A) save in respect of the "B" Share Options over Ordinary Shares in issue prior to the adoption of the Proposals, he will only exercise "B" Share Options:
    - (1) at the same price at which any ordinary shares are issued for cash by the Company or by way of a consideration other than cash from time to time in accordance with the tranches referred to in paragraph (3) below;
    - (2) in respect of ordinary shares issued for cash or by way of a consideration other than cash so as to exclude any ordinary shares falling to be issued pursuant to the "A" Share Option, the "B" Share Options, the Non Executive Directors' Options and the Share Option Schemes or any other option scheme introduced by the Company in the future;
    - (3) in respect of up to 5 per cent. of the issued share capital whilst such issued share capital is made up of more than 21,600,000 Consolidated Shares but not more than 200,000,000 Consolidated Shares, in respect of up to 4 per cent. of the issued share capital from 200,000,001 Consolidated Shares up to 700,000,000 Consolidated Shares; in respect of up to 3.33 per cent. of the issued share capital in excess of 700,000,001 Consolidated Shares up to 1,500,000,000 Consolidated Shares; in respect of up to 2.67 per cent. of the issued share capital from 1,500,000,001 Consolidated Shares up to 2,500,000,000 Consolidated Shares and in respect of up to 2 per cent. of the issued share capital from 2,500,000,001 Consolidated Shares without limit;

and

- (B) so as to disregard any ordinary shares issued pursuant to the exercise of "B" Share Options in respect of Ordinary Shares in issue prior to the adoption of the Proposals.

The undertaking is not conditional on the implementation of the Proposals.

The undertaking also contains provisions that:

- (a) Mr Cooke will give his consent to any future adjustment in the exercise price of the "B" Share Options which may be appropriate as a result of any capital reorganisation following the implementation of the Proposals.
- (b) the "B" Share Options may in the alternate, if it be to the advantage of the Company, be exercised as originally drafted but only to the extent required to give an effect equivalent to the undertakings.

- (vi) By a deed of option dated 21 September 1999 between the Company (1) and Lord Sheppard of Didgemere (2) the Company granted Lord Sheppard an option in consideration of the payment by him of £1 to the Company to subscribe for 500,000 Consolidated Shares at an exercise price of 7.5p per share (being equivalent to the Offer Price). The option is conditional on shareholders' approval and completion of the Proposals and Lord Sheppard remaining a director for two years and is exercisable thereafter during the period expiring on 21 September 2008.
  - (vii) By a deed of option dated 21 September 1999 between the Company (1) and Anthony Carlton (2) the Company granted an option to Anthony Carlton on the same terms as the deed of option granted to Lord Sheppard above save that it is in respect of 50,000 Consolidated Shares.
- (b) As set out in Part 1, following the Consolidation, the exercise price of the "B" Share Options referred to in paragraph 3(a) (ii) and (iv) above will change, in accordance with their terms from 0.5p per Ordinary Share to 1p per Consolidated Share rather than 5p per Consolidated Share the equivalent of 0.5p before the consolidation. This change will be limited, as a result of the Irrevocable Undertakings referred to in paragraph 3(a)(iii) and (v) above, to options over 4,240,000 Consolidated Shares, representing in aggregate options over 20 per cent. of the issued share capital prior to the completion of Proposals less 80,000 Consolidated Shares the subject of the "A" Share Option. This change is a consequence of the holders of the "B" Share Options withholding their consent to an adjustment of the exercise price to take account of the Consolidation as permitted by their terms of issue.
- As a consequence of the change in the exercise price applicable to the 4,240,000 Consolidated Shares referred to above the maximum potential additional benefit accruing to Mr Raven will be in respect of 2,825,960 Consolidated Shares at 4p per share, being the difference between the adjusted exercise price of 5p (the equivalent of 0.5p before the Consolidation) and the exercise price of 1p. This amounts to £113,038.
- As a consequence of the change in the exercise price applicable to the 4,240,000 Consolidated Shares referred to above the maximum potential additional benefit accruing to Mr Cooke will be in respect of 1,414,040 Consolidated Shares at 4p per share, being the difference between the adjusted exercise price of 5p (the equivalent of 0.5p before the Consolidation) and the exercise price of 1p. This amounts to £56,562.
- As a consequence of the Irrevocable Undertakings Mr Raven has agreed not to exercise "B" Share Options which would have arisen in respect of the Proposals alone over 5,611,930 Consolidated Shares which at an exercise price of 1p and an adjusted exercise price of 7.5p (equivalent to the Offer Price adjusted for the Consolidation) of 7.5p gives a maximum potential loss to Mr Raven of 6.5p per share. This amounts to £364,775.
- As a consequence of the Irrevocable Undertakings Mr Cooke has agreed not to exercise "B" Share Options which would have arisen in respect of the Proposals alone over 2,808,070 Consolidated Shares which at an exercise price of 1p and an adjusted exercise price of 7.5p (equivalent to the Offer Price adjusted for the Consolidation) of 7.5p gives a maximum potential loss to Mr Cooke of 6.5p per share. This amounts to £182,525.
- (c) On 9 April 1999 Mr Raven purchased 71,600,000 Ordinary Shares and Mr Cooke 35,800,000 Ordinary Shares, comprising an aggregate of 49.7 per cent. of the current issued ordinary share capital of the Company. As a result, Mr Raven and Mr Cooke control the Company and have undertaken that all transactions and relationships between the Company and themselves would be undertaken at arm's length and on a normal commercial basis. The undertakings will lapse following completion of the Proposals as they will no longer control the Company and the Company is not aware of any person who, directly or indirectly jointly or severally, will or could, following completion of the Proposals, exercise control over the Company.
  - (d) None of the Directors or the Proposed Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Enlarged Group and which was effected by any member of the Enlarged Group during the current or immediately preceding financial year or during any earlier financial year which remains in any respect outstanding or unperformed.
  - (e) There are no outstanding loans granted by any member of the Enlarged Group to any of the Directors or the Proposed Directors or any person connected with any of them nor are there any guarantees provided by any member of the Enlarged Group for their benefit.

- (f) In addition to their directorships in the Company and its non trading subsidiaries, the Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

	<i>Current directorships or partnerships</i>	<i>Past directorships or partnerships</i>
B. K. Raven	BR Associates Limited Broc Investments Plc Blazepoint Limited Foxwood Estates Limited in4mation.net Limited	BR Enterprises Limited AAE Holdings Plc Artisan Initiatives Limited Digital Graffiti Limited Impact Performance Limited Master Change Limited XL Communications Group Plc XL Communications Limited Retail Markets (Europe) Limited Card Clear Plc Cardcast Plc Cardcast Information Services Limited Card Clear (UK) Limited Cardinal Data Limited Inter Clear Service Limited HTEC Group Limited HTEC Limited
O. C. Cooke	Corrib Associates Multi Equipment Rental Plc Broc Investments Plc Blazepoint Limited in4mation.net Limited	AAE Holdings Plc Cooke & Co. General Cable Industries Limited Infra + (UK) Limited London & Continental Investments Limited Retail Markets (Europe) Limited Master Change Limited Card Clear Plc Cardcast Plc Cardcast Information Services Limited Card Clear (UK) Limited Inter Clear Service Limited HTEC Group Limited HTEC Limited Cardinal Data Limited
The Rt. Hon. Lord Sheppard of Didgemere KCVO	Didgemere Consultants Limited Didgemere Farms Limited GB Railways Plc Group Trust Plc (previously Group Development Capital Trust) High-Point Rendel Group Plc McBride Plc PetCheck Limited Robert McBride Group Pension Fund Trustees Ltd Unipart Group of Companies Vizual Business Tools Limited	Delphi Group Plc Grand Metropolitan Plc Grand Metropolitan Finance Plc The Pillsbury Company (inc in USA) Inntrepreneur Estates Limited Inntrepreneur Properties Limited Bowater Plc BrightReasons Group Plc London Waste Action Meyer International Plc Pavilion Services Group Limited Pavilion Services Trustees Limited
Anthony Carlton	Holdhaste Limited Namibian Resources Limited (Bermudan Co)	Castle Coaching Inns Limited Capel Securities Limited White Morgan & Co Limited Marsil Developments Limited

Mr Raven's and Mr Cooke's departure from the board of Card Clear Plc in June 1998 followed as a consequence of their having agreed to treat a payment, forming part of a severance package of a former director, as a consultancy fee to a Channel Islands company. There was no element of personal gain for Mr Raven or Mr Cooke in the payment made. Despite subsequently providing a full explanation and an apology for initially having misrepresented the true nature of the payment to one of Card Clear Plc's advisers, the incident led to an irreconcilable breakdown in the relationship with the adviser. Accordingly both Mr Raven and Mr Cooke considered that the interests of the shareholders of Card Clear Plc would best be served by their resignation.

- (g) Mr Raven resigned as a non-executive director of Digital Graffiti Limited in February 1997. In October 1997 a creditor presented a petition for winding-up the company. In November 1997, an order was given in the High Court for the company to be wound-up. As at 14 January 1998, the date of the Official Receiver's report, Digital Graffiti Limited had an estimated deficiency as regards creditors of £146,961.

Impact Performance Limited, of which Mr Raven was a director, was the subject of a creditors' voluntary winding-up which was completed in August 1995. After the costs of the winding-up had been met, the holder of a debenture secured on the assets of the company received 8.17p per pound of the amount secured and there was no distribution to unsecured/other creditors or members which amounted to £86,666.

Mr Raven was non executive chairman of XL Communications Group Plc, a company quoted on the Alternative Investment Market of the London Stock Exchange. On 14 January 1998 Mr Raven resigned as a director of XL Communications Limited, a subsidiary of XL Communications Group Plc. On 28 January 1998 XL Communications Group Plc requested a suspension of trading in its shares and warrants pending clarification of its financial position. On 30 January 1998 a receiver was appointed over the assets of that company. On 1 April 1998 the court granted a winding up order in respect of XL Communications Group Plc. The liquidator was the Official Receiver. As at 1 April 1998, the date of the winding up order, XL Communications Group Plc had an estimated deficiency of assets available for unsecured creditors of £482,353 and an estimated total deficiency of £1,528, 028.

- (h) Save as disclosed in paragraph (g) above, no Director or Proposed Director:
- (i) has any unspent convictions in relation to indictable offences; or
  - (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director or Proposed Director; or
  - (iii) has been a director of any company which, at the time or within 12 months after his ceasing to be a director, had a receiver appointed or went into compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
  - (iv) has been a partner of any partnership which, at the time or within 12 months after his ceasing to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
  - (v) has been the subject of any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
  - (vi) has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (i) The business address of Norman Edward Garry Guiver and Beryl Ann Guiver is Hithercroft Road, Wallingford, Oxfordshire OX10 9BT. They do not perform any activities outside the Enlarged Group which are significant in respect of the Enlarged Group.

#### 4. Substantial Interests in the Company's Shares

Insofar as is known to the Company, the following persons (other than those referred to in paragraph 3 above) pursuant to Part VI of the Act, are at the date of this document, or will, at Admission, be interested directly or indirectly in three per cent. or more of the Ordinary Shares.

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<i>Shareholder</i>	<i>No of Ordinary Shares</i>	<i>Percentage of issued ordinary share capital</i>	<i>Percentage of Enlarged Share Capital at Admission</i>
Pershing Keen Nominees Limited	7,578,988	3.5	0.04

## 5. Memorandum and Articles of Association

### *Memorandum of Association*

The principal objects of the Company as set out in clause 4 of the Memorandum of Association are to act as a holding company.

### *Articles of Association*

The articles of association of the Company which were adopted by a special resolution passed on 6 May 1997, as amended by a special resolution dated 8 April 1999, contain provisions, *inter alia*, to the following effect:

#### (a) *Share Capital*

The authorised share capital of the Company is £1,800,000 divided into 504,000,000 Ordinary Shares of 0.1p each and 144,000,000 deferred Shares of 0.9 p each

#### (b) *Voting Rights*

The holders of the Ordinary Shares are entitled to attend and vote at any general meeting of the Company. On a show of hands every holder of Ordinary Shares present in person shall have one vote and on a poll every holder of Ordinary Shares present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. The holders of the Deferred Shares have no right to attend or vote at general meetings of the Company

#### (c) *Alteration of Share Capital*

The Company in general meeting may:

- (i) consolidate and divide its share capital into shares of a larger amount;
- (ii) sub-divide its share capital into shares of a smaller amount and the resolution may determine that, as between the holders of shares resulting from the sub-division, one or more of the shares may have such preferred or other special rights over, or may have such deferred qualified rights or be subject to any other restrictions as compared with, the others as the Company has power to attach to unissued shares;
- (iii) cancel any shares which have not been taken up or agreed to be taken up by any person and diminish its authorised share capital by the amount of the shares so cancelled;
- (iv) increase its authorised share capital by such sum to be divided into shares of such amount, as the resolution shall prescribe

in each case by ordinary resolution; and

- (v) with the sanction of a special resolution and subject to any confirmation or consent required by law, reduce its authorised and issued share capital or any capital redemption reserve or any share premium account.

#### (d) *Variation of Class Rights*

Subject to the provisions of the Act, any of the rights or privileges for the time being attached to any class of shares in the capital of the Company for the time being in issue may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares.

The provisions of the articles of association of the Company relating to general meetings shall apply *mutatis mutandis* to every such separate general meeting but so that the necessary quorum shall be two persons holding or representing by proxy not less than one-third of the issued shares of the class, that every holder of the shares of the class be entitled on a poll to one vote for every such share held by him, that any holder of shares of the class present in person or by proxy may demand a poll and that at any adjourned meeting of such holders one holder present in person or by proxy (whatever the number of shares held by him) shall be a quorum.

(e) *Transfer of Shares*

The Directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share unless:

- (i) it is in respect of a fully paid share;
- (ii) it is in respect of a share on which the Company does not have a lien;
- (iii) it is in respect of only one class of share;
- (iv) the transfer is lodged duly stamped at the registered office of the Company or at such other place as the directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; and
- (v) it is in favour of not more than four transferees.

Provided that such restrictions are not such as to prevent dealings in shares from taking place on an open and proper basis.

(f) *Dividends and other distributions*

- (i) Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company available for distribution, but no larger dividend shall be paid than is recommended by the directors. The Directors may from time to time pay an interim dividend to shareholders.
- (ii) The Directors may, with the sanction of an ordinary resolution of the Company, offer holders of shares in the capital of the Company the right to elect to receive in respect of all or part of their holdings of shares additional shares in the Company credited as fully paid instead of cash by way of dividend upon such terms and conditions and in such manner as may be specified in such ordinary resolution.

Following such an election the relevant dividend (or such part of the dividend in respect of which a right of election has been offered) shall not be payable on the shares pursuant to the election made but, in lieu thereof, the Directors shall capitalise out of any undistributed profits of the Company or out of any sum standing to the credit of the Company's share premium account or capital reserves (including any capital redemption reserve) as the Directors may determine, a sum equal to the aggregate nominal value of the number of additional shares required to be allotted to the holders of shares who have made such election and the Directors shall apply such sum in paying up in full such number of additional shares which shall be allotted and distributed as required.

The additional new shares so allotted shall rank *pari passu* with the fully paid shares of the Company then in issue save that they shall not be entitled to participate in the dividend in relation to which the relevant election was made.

- (iii) All unclaimed dividends or other monies payable on or in respect of a share may be invested or otherwise made use of by the directors for the benefit of the Company until claimed. Dividends unclaimed for a period of 12 years from the date of declaration or (if later) the due date for payment shall, if the directors so resolve, be forfeited and shall revert to the Company.
- (iv) The Deferred Shares have no rights to receive dividends or other distributions from the Company

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(g) *Winding Up*

If the Company is wound up, a liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Companies Acts 1985 to 1989, divided among shareholders in proportion to their shareholdings in specie the whole or any part of the assets of the Company and whether or not the assets consist of property of one kind or of properties of different kinds, and for such purpose may value any assets and determine how the division shall be carried out as between the members or different classes of members.

The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

The Deferred Shares shall only entitle their holders to receive or participate in any property or assets of the Company, whether on a return of assets on a winding -up of the Company or otherwise, after the claims of holders of the Ordinary Shares have been fully satisfied

(h) *Directors*

A director may not vote (nor be counted in the quorum) on any resolution of the directors, or of a committee of the directors, in respect of any contract or arrangement in which to his knowledge he (together with any persons connected with him) is materially interested including in respect of any resolutions to vote remuneration (including pension or other benefits) to such director. A Director shall not be counted in the quorum at a meeting in relation to a resolution on which he is debarred from voting. This prohibition shall not apply to any of the following matters:

- (i) any contract or arrangement for giving to such director any security, guarantee or indemnity in respect of money lent by him or obligations undertaken by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (ii) any contract or arrangement for the giving by the Company of any security to a third party in respect of any debt or obligation of the Company or any of its subsidiary undertakings which the director has himself guaranteed or secured in whole or in part;
- (iii) any contract or arrangement by a director to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to members or debenture holders of the Company, or any class thereof, or to the public or any section thereof, or to underwrite any shares, debentures or other securities of the Company;
- (iv) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (v) any contract or arrangement concerning any other company ( not being a company in which the director and any persons connected with him do not to his knowledge hold an interest in shares, as that term is used in Section 198 to 211 of the Act, representing one per cent. or more of any class of the equity share capital of, or the voting rights in, such company) in which he is interested directly or indirectly whether as officer, shareholder, creditor or otherwise howsoever;
- (vi) any proposal concerning the adoption, modification or operation of a pension fund or retirement death or disability benefits scheme which relates to both directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which such fund or scheme relates;
- (vii) any arrangement for the benefit of employees of the Company or any of its subsidiaries under which the director benefits in a similar manner as the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to which such arrangement relates;
- (viii) any proposal, contract, transaction or arrangement concerning the purchase or maintenance of insurance for the benefit of the directors or for the benefit of persons who include directors.

The Directors of the Company shall be entitled to directors' fees in aggregate not exceeding £50,000 per annum, or such higher amount as the Company by ordinary resolution may from time to time determine.

Such fees shall be divided between the directors as they may agree or failing agreement, equally. If Resolution 6 as set out in the notice of EGM is passed, the limit will be increased to £100,000 per annum.

Any director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, participation in profits or otherwise as the directors may determine.

A managing director or a director appointed to any other executive office shall receive such remuneration (whether by way of salary, commission, participation in profits and partly in one way and partly in another or others, or otherwise) as the directors may determine.

The directors are entitled to be paid all travelling, hotel, and other expenses properly incurred by them in connection with the business of the Company or in attending and returning from meetings of the directors or of committees of the directors or general meetings.

The directors may establish and maintain, or procure the establishment and maintenance of, any pension or superannuation funds (whether contributory or otherwise) for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances and emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company or is allied to or associated with the Company or any such subsidiary or of any of the predecessors in business of the Company or any such other company as aforesaid, or who may be or have been directors or officers of the Company or of any such other company as aforesaid and who hold or have held executive positions or agreements for service with the Company or any such other company as aforesaid, and the wives, widows, families, connections and dependents of any such persons.

At each annual general meeting of the Company one third of the directors including the managing director and any director holding any other executive office for the time being who are subject to retirement by rotation, or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one third shall retire from office.

No person is ineligible for appointment as a Director or liable to vacate office as a Director on account of his having reached any specified age, and no special notice or any other special formality in connection with the appointment of any Director over a specified age is required.

(i) *Borrowing Powers*

The directors may exercise the powers of the Company to borrow money, and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, provided that the directors shall restrict the borrowings of the Company and its subsidiaries so as to secure that save with the previous sanction of an ordinary resolution, no money shall be borrowed if the aggregate principal amount outstanding of moneys borrowed by the Company and its subsidiaries, exceeds an amount equal to five times the aggregate of the amount paid up or credited as paid up on the share capital of the Company and the total of the capital and revenue reserves of the Group as defined in the Articles of Association.

(j) *Deferred Shares*

Subject to the adoption of Resolution 1 contained in the Notice of EGM and upon the sanction of the High Court being given to the cancellation of the Deferred Shares the Articles of Association will be altered by removing references to the Deferred Shares.

### 6. **Agreements with Directors and Proposed Directors**

The Directors have entered into the following service agreements and the Proposed Directors have agreed to their appointment as directors of the Company under the appointment letters summarised below:

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- (a) A service agreement dated 21 September 1999 between the Company (1) and Brian Raven (2) which, conditional on completion of the Proposals, will supersede the service agreement referred to in paragraph 6(e) below. Under the agreement Mr Raven is appointed as the chairman and chief executive of the Company at a basic salary of £150,000 per annum subject to annual review at not less than the rate of indexation. Mr Raven is entitled to a bonus of not less than 25 per cent. of basic salary, a pension contribution by the Company of 10 per cent. of basic salary, a monthly car allowance of £850, private medical insurance, permanent health insurance and life assurance of four times basic salary. The service agreement is terminable by either party on 12 months' notice and Mr Raven agrees to certain restrictions on competing with the Company on termination.
- (b) A service agreement dated 21 September 1999 between the Company (1) and Oliver Cooke (2) which, conditional on completion of the Proposals, will supersede the service agreement referred to in paragraph 6(e) below. Under the agreement Mr Cooke is appointed as the finance director of the Company at a basic salary of £102,000 per annum subject to annual review at not less than the rate of indexation. Mr Cooke is entitled to a bonus of not less than 25 per cent. of basic salary, a pension contribution by the Company of 10 per cent. of basic salary, a monthly car allowance of £650, private medical insurance, permanent health insurance and life assurance of four times basic salary. The service agreement is terminable by either party on twelve months' notice and Mr Cooke agrees to certain restrictions on competing with the Company on termination.
- (c) An appointment letter dated 21 September 1999 between the Company (1) and Lord Sheppard of Didgemere (2) under which Lord Sheppard agreed to provide services to the Company as a non-executive director for one day per month at an annual fee at the rate of £24,000, and the Company agreed to pay expenses of £1,000 per month (to include the provision by Lord Sheppard of accommodation for board meetings), conditional on completion of the Proposals. Lord Sheppard is entitled to give six months' notice of his wish to retire as a director and the Company is entitled to give six months' notice to terminate the appointment subject to ratification by shareholders.
- (d) an appointment letter dated 21 September 1999 between the Company (1) and Anthony Carlton (2) under which Mr Carlton agreed to provide services to the Company as a non-executive director for two days per month at an annual fee at the rate of £24,000, conditional on completion of the Proposals. Mr Carlton is entitled to give six months' notice of his wish to retire as a director and the Company is entitled to give six months' notice to terminate the appointment subject to ratification by shareholders.
- (e) Service agreements between the Company (1) and each of Mr B Raven and Mr O Cooke (2) each dated 9 April 1999 whereby they were appointed as directors at salaries respectively of £30,000 and £20,000 per annum subject to annual review. The agreements will be superseded by the agreements summarised in paragraph 6(a) and 6(b) above subject to completion of the Proposals.
- (f) *Save as disclosed above, the emoluments of the Directors and the Proposed Directors will not be varied in consequence of the Proposals.*
- (g) The aggregate of the remuneration paid and benefits in kind granted to the Directors by the Company in respect of the year ended 30 June 1999 was £150,652 excluding pension contributions of £4,958
- (h) There are no arrangements in force under which any of the Directors and Proposed Directors has waived or agreed to waive future emoluments and no such waiver has occurred during the past financial year.

## **7. Material Contracts**

### **(a) The Company**

The Company has entered into the following contracts (not being contracts entered into in the ordinary course of business) during the two years immediately preceding the date of this document which are or may be material:

- (i) An agreement dated 16 March 1999 between the Company (1) and Mr L R Easton and Mr N L Easton ("the Eastons") (2) whereby the Company agreed to sell the whole of the issued share capital of Leslie Easton & Co Limited and Stained Glass Systems Limited and certain other related assets of the Company to the Eastons for a consideration of £100,000 together with an obligation on the Eastons to discharge £50,000 in creditors. The agreement was completed on 9 April 1999.

- (ii) An underwriting agreement dated 16 March 1999 between the Company (1) and Ellis & Partners Limited (2) whereby Ellis & Partners Limited agreed to underwrite a rights issue of 72,000,000 Ordinary Shares at 0.5p per share ("the Rights Shares") and accordingly agreed to subscribe for any Rights Shares in the event that they were not taken up pursuant to such issue, for a fee of £10,000 inclusive of all commissions payable.
- (iii) An undertaking dated 16 March 1999 whereby Ellis & Partners Limited agreed, conditional on completion of the issue of the Rights Shares, the sale of the whole of the issued share capital of Leslie Easton & Co Limited and Stained Glass Systems Limited and certain other matters as described in the prospectus issued by the Company dated 17 March 1999, to acquire any Ordinary Shares sold in the market for a period of 21 days from the conclusion of the Extraordinary General Meeting held on 8 April 1999 at a price of 0.14p per Ordinary Share.
- (iv) The option granted to Clifton Financial Services Plc referred to in paragraph 2(g).
- (v) The agreements relating to the B Share Options and the options granted to the Proposed Directors referred to in paragraph 3(a) above.
- (vi) An agreement ("the Acquisition Agreement") dated 21 September 1999 between the Company (1) Norman and Beryl Guiver (2) and the Vendors (3) whereby the Company agreed to purchase and the Vendors agreed to sell all of the issued share capital of Microcache Limited for a consideration of £8,100,000 to be satisfied as to £6,000,000 in cash and as to the balance by the issue fully paid of New Ordinary Shares to the Vendors at the Offer Price. The principal further terms of the Acquisition Agreement are set out below.
  - (a) The sale and purchase is conditional, *inter alia*, upon shareholder approval at the EGM, Admission taking place by not later than 8.30 a.m. on 31 October 1999 (or such later date as the Company and Seymour Pierce may agree being not later than 30 November 1999), the Underwriting Agreement becoming unconditional in all respects and Seymour Pierce not having terminated it in accordance with its terms.
  - (b) At Completion, *inter alia*: Mr Raven and Mr Cooke will be appointed as additional directors of Microcache and the existing auditors of Microcache will resign.
  - (c) The Vendors have given warranties to the Company in respect of the assets, liabilities, financial condition and affairs of Microcache ("the Warranties").
  - (d) From the cash consideration otherwise payable on completion the sum of £500,000 is to be paid into a warranty retention account being a bank account in the name of the Company's solicitors and the Vendors' solicitors in which such sum will be held in escrow as security for any claims arising under the warranties in the period from completion to the date 30 days after the date of signature of the audited accounts of Microcache for the year ending 30 June 2000.
  - (e) The Vendors agreed to enter into a tax deed between the Vendors (1) and the Company (2) at completion of the Acquisition Agreement whereby the Vendors undertake to indemnify Microcache in respect of any tax liabilities of it.
  - (f) The maximum aggregate liability of the Vendors for breach of the Warranties and under the tax deed referred to in paragraph (e) above is £8,100,000, or, if less, the sum of £6,000,000 and the market value of the Consolidated Shares arising from the consolidation of the New Ordinary Shares issued to them in accordance with the Acquisition at the date the relevant claim is made.
  - (g) The Vendors undertook to the Company not, other than in acceptance of a general offer and in certain other limited circumstances, without the prior written consent of the Company, Corporate Synergy and Seymour Pierce, to sell any of the Consolidated Shares arising from the New Ordinary Shares issued to them in accordance with the Acquisition at any time during the period of three years from completion of the Acquisition.
  - (h) Each of Norman Guiver and Beryl Guiver agreed to enter into service agreements at completion for a minimum period expiring on 28 April 2002 at an annual salary of £70,000 and under which the Company agrees to pay £10,000 into each of their personal pension schemes and a car allowance of £500 per month and they are entitled to the benefit of Microcache's Medical Insurance Scheme and each of Norman and Beryl Guiver agreed not to be engaged in

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any competing trade, business, or occupation or solicit or conduct business with any client of Microcache for the period of twelve months from the date on which they cease to be directors or employees or to provide services to Microcache.

- (i) The Company agreed following completion to grant options to subscribe for an aggregate of the higher of such number of Consolidated Shares as at the average middle market price for the three dealing days immediately preceding the date of grant equals £500,000 and 2,500,000 Consolidated Shares to employees of Microcache under the Share Option Schemes which will be subject to the rules of the Schemes that the optionholder will normally have to remain an employee of Microcache for three years from the date of grant but will not be subject to the achievement of performance targets.
- (vii) An Underwriting Agreement dated 21 September 1999 between the Company (1), Seymour Pierce (2) and Corporate Synergy (3) whereby the Company appointed Corporate Synergy as its agent to make the Open Offer and Seymour Pierce agreed to use its reasonable endeavours to procure subscribers for that part of the Directors' entitlement to New Ordinary Shares under the Open Offer which they have not undertaken to take up and any other New Ordinary Shares as are not taken up under the Open Offer and to the extent it fails to do so itself to subscribe for them at the Offer Price. The Company agreed to pay an underwriting commission of 2 per cent. of the value at the Offer Price of the New Ordinary Shares the subject of the Open Offer (excluding the value of the New Ordinary Shares taken up by the Directors in the Open Offer and those placed with the Proposed Directors) and thereafter a commission of an amount equal to  $\frac{1}{8}$  per cent. of the value at the Offer Price of the New Ordinary Shares the subject of the Open Offer for each period of 7 days or part thereof until the actual closing of the Open Offer. The Company agreed to pay all Seymour Pierce's expenses of the underwriting, including a contribution to its legal expenses of £12,500 plus VAT and a fee of £50,000, reducing to £30,000 if the expenses of Seymour Pierce include any sub-underwriting commission, subject to an overall limit on commissions, fees and expenses of £300,000. The Company gave certain warranties and indemnities to Seymour Pierce and Corporate Synergy and the Company agreed that if it was unable to satisfy all or any part of any claim under any of the warranties or indemnities given by it under the Underwriting Agreement it would commence proceedings against the Vendors in respect of any claim which it may have under the warranties given to it by the Vendors under the Acquisition Agreement as reasonably requested by Seymour Pierce and Corporate Synergy or either of them.

(b) Microcache

Microcache has entered into the following contracts (not being contracts entered into in the ordinary course of business) during the two years immediately preceding the date of this document which are or may be material:-

- (i) An agreement entered into in October 1998 between Microcache (1) and Norman and Beryl Guiver (2) whereby Microcache sold land and buildings comprising part of Mill Brook House, Cholsey, Oxfordshire for £100,000.
- (ii) A letter dated 1 February 1999 from Microcache (1) to Alastair Kerr (2) whereby Microcache granted Alastair Kerr an option to acquire 1 per cent. of the share capital of Microcache for £37,500 exercisable for a period of 12 months. On 14 July 1999 Alastair Kerr exercised this option and 11 shares in Microcache were issued to him in consideration of the payment of £37,500.
- (iii) An intellectual property assignment dated 27 August 1999 between Microcache (1) and Grant Jaquest (2) whereby Grant Jaquest assigned to Microcache all copyright and any other intellectual property rights beneficially owned by him in the software programs which have been, are being, or may in the future be developed by him during the course of the provision by him of services to Microcache either as an employee or a contractor to Microcache and which have been, are being or will be manufactured, sold or otherwise exploited by Microcache in consideration for the payment to Grant Jaquest of £1.00. Mr Jaquest will continue to receive a commission of 15 per cent. of the net selling price of the FT Fitness Testing Software developed by him as part of his employment remuneration.
- (iv) An intellectual property assignment dated 9 September 1999 between Microcache (1) and Susan Downhill (2) whereby Susan Downhill assigned to Microcache all copyright and any other

intellectual property rights beneficially owned by her in the software programs which have been, are being, or may in the future be developed by her during the course of the provision by her of services to Microcache either as an employee or a contractor to Microcache and which have been, are being or will be manufactured, sold or otherwise exploited by Microcache in consideration for the payment to Susan Downhill of £1.00.

- (v) A contract of employment dated 13 September 1999 ("the Commencement Date") between Microcache (1) and Susan Downhill (2) pursuant to which Microcache agreed to continue to pay her a commission of 15 per cent. of the net selling price of the bookings software ("the Commission") for a minimum period of three years from the Commencement Date. If her contract of employment is wrongfully terminated by Microcache during the three period from the Commencement Date, Microcache has agreed to pay the Commission for a five year period from the Commencement Date less the period of employment served by Susan Downhill, calculated on the basis of the Commission payable in respect of the twelve months prior to the termination of her employment. In the event that the contract of employment is wrongfully terminated by Microcache after such three year period Microcache has agreed to pay twice the Commission payable in the twelve months prior to the termination of her employment.
- (vi) An intellectual property assignment dated 9 September 1999 between Microcache (1) and Geoffrey John Westcott (2) whereby Geoffrey John Westcott assigned to Microcache all copyright and any other intellectual property rights beneficially owned by him in the software programmes which have, are being, or may in the future be developed by him during the course of the provision by him of services to Microcache either as an employee or a contractor to Microcache and which have been, are being or will be manufactured, sold or otherwise exploited by Microcache in consideration for the payment to Geoffrey John Westcott of £1.00.
- (vii) An intellectual property assignment dated 9 September 1999 between Microcache (1) and Codesco Limited (2) ("Codesco") (a company owned by Geoffrey John Westcott and his immediate family) whereby (i) Codesco assigned to Microcache all copyright and any other intellectual property rights beneficially owned by it in the software programs which have been, are being or may in the future be developed by it or Geoffrey John Westcott during the course of the provision by it of services to Microcache as a contractor and which have been, are being or will be manufactured, sold or otherwise exploited by Microcache in consideration for the payment to Codesco of £1 and (ii) Microcache agreed to pay to Codesco consultancy fees equivalent to 11 per cent. of the net sales price of any software developed by Geoffrey John Westcott until 31 December 1999 whereupon Codesco's services to Microcache will cease.

### 8. Market Prices

The following table shows the middle market quotation of the Ordinary Shares as derived from the Official List of the London Stock Exchange on the first dealing day of each month from 1 April 1999 to 1 September 1999 and 17 September 1999, the latest practicable date prior to the publication of this document:

<i>Date</i>	<i>Price</i>
1 April 1999	1.25p
3 May 1999	1.75p
1 June 1999	2p
1 July 1999	2p
2 August 1999	2p
1 September 1999	2.25p
17 September 1999	2.25p

### 9. Litigation

#### (a) *The Company*

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the twelve months preceding the date of this document a significant effect on the Company's financial position.

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(b) *Microcache*

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company or the directors of Microcache are aware) which may have or have had in the twelve months preceding the date of this document a significant effect on the financial position of Microcache.

**10. Indebtedness**

At the close of business on the 20 August 1999 the Enlarged Group had, in aggregate, the following borrowings:

Bank Loan (secured) £101,714.

On the same date the Enlarged Group had obligations under finance leases and hire purchase commitments of £54,150.

On the same date the Enlarged Group had no contingent liabilities.

Save as disclosed herein the Enlarged Group did not have any borrowings or indebtedness in the nature of borrowings outstanding at the close of business on 20 August 1999, including loan capital outstanding or created but unissued, term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, obligations under finance leases, hire purchase commitments or guarantees.

On the same date the Enlarged Group had cash balances of £340,236.

**11. Significant Changes**

(a) *The Company*

There has been no significant change in the financial or trading position of the Company since 30 June 1999, being the date to which the Group's last annual accounts were prepared.

(b) *Microcache.*

There has been no significant change in the financial or trading position of Microcache since 30 June 1999, being the date to which Microcache's last annual accounts were prepared.

**12. Subsidiaries/Associates**

*Gladstone*

Gladstone holds 100 per cent. of the issued share capital of each of Arenatech Limited and Broadgate Limited, each of which were incorporated on 2 March 1999 and have not carried on any business or entered into any transaction.

*Microcache*

Microcache does not have any subsidiaries.

Microcache holds 50 per cent. of the share capital of ABS Microcache Limited, a company incorporated in Scotland which carries on the business of software consultancy and supply.

**13. Principal Establishments**

*Gladstone*

Gladstone has exchanged contracts to acquire approximately 1,700 square feet of office premises at 77/79 High Street, Egham, Surrey under a lease for a term of 5 years from 1 September 1999 at an annual rent of £34,780 with a rent free period until 1 January 2000. The lease, is, by way of service charge, subject to a full repairing and insuring obligation.

*Microcache*

Microcache owns and operates approximately 10,000 sq ft of freehold premises at Hithercroft Road, Wallingford, Oxfordshire OX10 9BT.

## Part VI Additional Information continued

Microcache also owns a leasehold property under a lease which expires on 1 May 2008 at a current rent of £5,750.00 and is sublet in its entirety at a rent of £4,440.00 per annum until 12 July 2002.

### 14. Working Capital

In the opinion of the Company following completion of the Acquisition, having regard to the Open Offer, the working capital available to the Enlarged Group is sufficient for its present requirements, that is, for at least the period of 12 months from the date of this document.

### 15. Share Option Schemes

The Company does not currently operate any share option scheme.

A summary of the main features of the Share Option Schemes proposed to be adopted by the Company is set out below.

The Share Option Schemes comprise “The Gladstone PLC 1999 Approved Share Option Scheme” and “The Gladstone PLC 1999 Unapproved Share Option Scheme”. They each provide for options to be granted to eligible employees of the Enlarged Group. Options to subscribe for shares are subject to the limitations set out in paragraphs (xi) and (xii) below.

- (i) Options may be granted to employees (including full time executive directors) of the Enlarged Group. The Board will have a discretion as to the selection of employees to whom options may be granted. The grant of an option to a director of the Company must be approved by the remuneration committee of the Board.
- (ii) Options may only be granted within the period of 14 days after the approval of the Scheme by the Inland Revenue (in the case of the Approved Scheme), within the period of 42 days following the announcement of the Company’s annual or half-yearly results and within the period of 14 days after a new employee first joins the Enlarged Group but otherwise only in circumstances judged by the Board to be exceptional. No option may be granted after the date which is 10 years after the date on which the Share Option Schemes are approved by the shareholders in general meeting). Options may not be granted to any executive who is within two years of the date on which he or she is due to retire under the terms of his or her contract of employment. Options are not transferable.
- (iii) The price per share at which shares may be acquired upon the exercise of an option shall be determined by the Board at the time of grant but shall be not less than the average of the middle market quotations of an ordinary share for the three dealing days immediately preceding the date of grant as derived from the London Stock Exchange Daily Official List and, in the case of options to subscribe for shares, the nominal value of an ordinary share.
- (iv) The exercise of options will normally be conditional upon the Company’s performance exceeding stated targets over a minimum three year period and/or the optionholder achieving stated performance targets. In setting such targets the Board will have regard to the guidance issued from time to time by the bodies representing institutional shareholders as they apply to smaller quoted companies and will seek to identify factors which represent a fair measure of the Enlarged Group’s and/or the optionholder’s performance and genuinely reflect the efforts and achievements of the Company’s management and/or the optionholder. The remuneration committee may from time to time vary any such performance-related conditions as they apply to outstanding options if, in their opinion, to do so would more effectively achieve the objective of affording realistic incentives to optionholders or produce a fairer measure of performance.
- (v) An option is exercisable normally only after the third anniversary of the date of grant (or such later time as the Board may determine at the time of grant) and cannot in any event be exercised later than the tenth anniversary of the date of grant.
- (vi) Except as mentioned below an option may only be exercised in respect of such shares as become vested (i.e. shares over which the option becomes exercisable in consequence of the performance target being met or exceeded). If and insofar as a performance target is not met, the option lapses.
- (vii) If an optionholder dies in service his option may be exercised by his personal representatives within 12 months thereafter in respect of the shares over which it has become vested or, if death occurs before any performance target could have been met, a proportion of the option shares corresponding to such

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proportion of the period over which performance is measured ("the performance period") as has elapsed before death.

- (viii) If an optionholder leaves the Enlarged Group by reason of injury, disability, redundancy, retirement at or after normal retirement age or the company in which he is employed being sold outside the Enlarged Group, then an option may be exercised within six months thereafter (or, if later, twelve months after his death) in respect of the shares over which it has become vested or, if less, a proportion of the option shares corresponding to such proportion of the performance period as had then elapsed. If an optionholder leaves for any other reason, his option may only be exercised to the extent, and within such period as, the Board may determine.
- (ix) Early exercise of options within specified periods is permitted in the event of a demerger (with the consent of the Board), reconstruction or change of control of the Company in consequence of a general offer to shareholders. In the event of notice being given to shareholders of a resolution for the voluntary winding up of the Company, options may be exercised within the period of six months beginning with the passing of the resolution to wind up the Company. Otherwise all unexercised options will lapse upon the commencement of a winding up.
- (x) Shares issued upon the exercise of options will rank equally in all respects with all other ordinary shares of the Company for the time being in issue save as regards any rights attaching to ordinary shares by reference to a record date prior to the allotment or transfer of such shares.
- (xi) There is an overall limit of 10 per cent. of the ordinary share capital in issue for the time being on the number of shares for which options to subscribe for shares may be granted (whether under the Share Option Schemes) or which may be issued to the trustee of any employee's benefit trust for the purpose of satisfying options granted under the Share Option Schemes in any period of 10 years, excluding options which have lapsed before being exercised.
- (xii) In both schemes there is a limit of four times current salary on the aggregate exercise price over which unexercised options to subscribe for new ordinary shares may be held by an employee or executive under the Share Option Scheme. The Unapproved Scheme provides that "super" options may be granted beyond this limit provided that:
  - (1) the amount by which the aggregate exercise value of the shares to which such Options exceeds the above earnings limit is limited to a further four times the total amount of the Executive's remuneration;
  - (2) the exercise of such super options are restricted by the imposition of performance conditions which;
    - (A) restrict the exercise of super options in normal circumstances until at least 5 years after the grant thereof; and
    - (B) impose performance criteria which the Remuneration Committee believe to be considerably more demanding than those imposed in relation to other options.
- (xiii) In the event of any alteration to the issued ordinary share capital of the Company by way of a capitalisation or rights issue, sub-division, consolidation or reduction or any other variation in the ordinary share capital of the Company, the Board may make such adjustment as it considers appropriate to the total number of ordinary shares subject to any option and/or the exercise price payable upon the exercise of any option. However:
  - (1) no such adjustment to options granted under the Approved Scheme may be made without the prior approval of the Inland Revenue;
  - (2) except in the case of a capitalisation issue, any such adjustment must be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable;
  - (3) the exercise price per ordinary share payable upon the exercise of any option to subscribe for ordinary shares may not be reduced below the nominal value of a share.
- (xiv) The Board may alter or add to the Share Option Schemes but may not make any alteration or addition to the advantage of present or future optionholders to the provisions relating to eligibility, the overall and individual limits on the Share Option Schemes, or any variation of share capital, without the prior approval of shareholders in general meeting except for minor amendments for the purposes of

administration of the Share Option Schemes or to take account of any change in legislation or which are necessary or appropriate to obtain or maintain favourable tax or regulatory treatment for participants in the Share Option Schemes, the Company or any company within the Enlarged Group. Any amendment to the Approved Scheme will not take effect until the Inland Revenue has confirmed that it will not affect the approved status of that scheme.

- (xv) The aggregate exercise price of Ordinary Shares (as at the date(s) of grant) over which unexercised options may be held under the Approved Scheme by an individual at any time is limited to £30,000 or such higher limit as may be introduced by the Inland Revenue.
- (xvi) The benefits under the Share Option Schemes are not pensionable.

### 16. Consents

- (a) Corporate Synergy, which is regulated by the Securities and Futures Authority Limited, has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its letter giving details of the Open Offer forming Part II and of references to its name in the form and context in which they appear. Corporate Synergy has authorised the contents of Part II of this document for the purposes of Section 152(1)(e) of the Financial Services Act.
- (b) Seymour Pierce, which is regulated by the Securities and Futures Authority Limited, has given and has not withdrawn its written consent to the inclusion in this document of its name and references thereto in the form and context in which they appear.
- (c) Hacker Young, Chartered Accountants and Registered Auditors, has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its Accountants' Report on Microcache forming Part IV and its letter on the pro forma statement of net assets of the Enlarged Group contained in Part V and of references to its name in the form and context in which they appear. Hacker Young has authorised Part IV and its above letter in Part V of this document for the purposes of Section 152(1)(e) of the Financial Services Act.

### 17. General

- (a) The financial information relating to the Group set out in Parts III and V of this document does not comprise statutory accounts as referred to in section 240 of the Act. Hacker Young have reported upon the statutory accounts of the Company for the period from 4 March 1997 to 30 June 1998 and the year ended 30 June 1999 and they have been delivered to the Registrar of Companies in England and Wales. There has been an unqualified audit report under section 235 of the Act in respect of each such accounts and no such report contained a statement under section 237(2) or (3) of the Act.
- (b) The financial information relating to Microcache set out in Parts IV and V of this document, does not comprise statutory accounts as referred to in section 240 of the Act. John Allen & Co Chartered Accountants, 28 The Grove, North Gray, Kent D14 5N2 have reported upon the statutory accounts of the Company for each of the three years ended 30 June 1999 and they have been delivered to the Registrar of Companies in England and Wales. There has been an unqualified audit report under section 235 of the Act in respect of all such accounts and no such report contained a statement under section 237(2) or (3) of the Act.
- (c) The costs, charges and expenses of and incidental to the Proposals are estimated to amount to £750,000 (excluding VAT).
- (d) The Directors are not aware of any arrangement under which future dividends are waived or agreed to be waived.
- (e) The New Ordinary Shares are not being marketed or made available to the public in whole or in part other than in connection with the Open Offer.
- (f) Neither the Company nor Microcache is dependent on any patents or licences, industrial, commercial or financial contracts or new manufacturing processes for the purposes of its business.

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#### 18. Documents for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday, Saturdays, Sundays and public holidays excepted, at the registered office of the Company and the offices of Le Brasseur J Tickle, Drury House, 34-43 Russell Street London WC2B 5HA from the date of this document up to and including the date of the Extraordinary General Meeting:

- (a) the Memorandum and Articles of Association of the Company and of Microcache;
- (b) the audited consolidated accounts of the Company for the period from 4 March 1997 to 30 June 1998 and for the year ended 30 June 1999;
- (c) the audited accounts of Microcache for the three financial years ended 30 June 1999;
- (d) the service agreements and letters of appointment referred to in paragraph 6 of Part VI;
- (e) the material contracts referred to in paragraph 7 of Part VI;
- (f) the written consents referred to in paragraph 16 of Part VI;
- (g) the letter from Corporate Synergy forming Part II of this document;
- (h) the Accountants' Report on Microcache of Hacker Young forming Part IV of this document;
- (i) the irrevocable undertakings dated 21 September 1999 by each of Brian Raven and Oliver Cooke to take up respectively 13,333,330 and 6,666,660 New Ordinary Shares in the Open Offer and not to take up the balance of their entitlements to any of the New Ordinary Shares under the Open Offer;
- (j) the rules of the Share Option Schemes;
- (k) the Prospectus issued by the Company dated 17 March 1999;
- (l) the statement of adjustments relating to the Accountants' report on Microcache;
- (m) the Irrevocable Undertakings dated 21 September 1999 referred to in paragraphs 3(a)(iii) and 3a(v) of Part VI; and
- (n) the listing particulars of the Company dated 17 March 1999.

Dated 21 September 1999

# Gladstone PLC – Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held on 14 October 1999 at 10.05 a.m. (or as soon thereafter as the Annual General Meeting of the Company convened for the same day at 10.00 a.m. shall have finished or been adjourned) at the offices of Seymour Pierce Limited, 29/30 Cornhill, London EC3V 3NF, to consider and if thought fit to pass the following resolutions as special resolutions:

## SPECIAL RESOLUTIONS

- 1 THAT subject to the passing of Resolutions 2 to 5
  - (A) the share capital of the Company be reduced by cancelling and extinguishing all of the 144,000,000 deferred shares of 0.9p each in the authorised and issued capital of the Company ("the Deferred Shares");
  - (B) the amount standing to the credit of the share premium account of the Company immediately following completion of the Open Offer and the Acquisition as defined and described in the listing particulars dated 21 September 1999 ("Listing Particulars") of which the notice convening the meeting to consider this Resolution forms part ("the Proposals") be and is hereby reduced by £2,981,531;
  - (C) the authorised share capital of the Company be increased to £6,796,000 by the creation of 4,996,000,000 new Ordinary Shares of 0.1p each;
  - (D) the directors of the Company be entitled to retain the proceeds of sale of fractional entitlements to shares resulting from a consolidation of the Company's share capital for the benefit of the Company by replacing the words "distribute the proceeds of sale in due proportion among those members" with the words "retain the proceeds of sale for the benefit of the Company" in Article 47 by way of alteration to the Articles of Association of the Company;
  - (E) with effect from 6.59 a.m. on 15 October 1999 or such later date as the directors shall determine (whether they so determine before or after 6.59 a.m. on 15 October 1999 to be immediately before Admission as defined in the Listing Particulars) each ten of the Ordinary Shares of 0.1p each in the capital of the Company whether issued or unissued be consolidated into one Ordinary Share of 1p on the basis that:
    - (i) any fractional entitlements arising will be aggregated by the Company and sold for the benefit of the Company; and
    - (ii) new certificates shall be issued in respect of shareholders on the register on 15 October 1999 whereupon all existing certificates for ordinary shares of 0.1p in the Company shall become void.
  - (F) with effect from the sanction by the High Court of the cancellation of the Deferred Shares the Articles of Association of the Company be altered by the deletion of Article 3.3, which sets out the rights attaching to the Deferred Shares, and by the adoption of the following Article 3.1 to the exclusion of and in substitution for existing Articles 3.1:

"3.1 The authorised share capital of the Company is £5,500,000 divided into 550,000,000 ordinary shares of 1p each."
- 2 THAT subject to the passing of Resolutions 1, 3, 4 and 5
  - (A) the purchase by the Company of the entire issued share capital of Microcache Limited on the terms and subject to the conditions contained in the acquisition agreement dated 21 September 1999, as defined and described in the Listing Particulars ("the Acquisition Agreement"), be and is hereby approved and the directors be and are hereby authorised to waive, amend, vary or extend any of the terms and/or conditions thereof and do all such things as they may consider necessary or appropriate to implement and effect such purchase and to complete the same and give effect thereto;
  - (B) that the directors be and they are hereby unconditionally authorised to exercise all the powers of the Company to allot relevant securities, as defined in Section 80 of the Companies Act 1985 ("the Act") up to an aggregate nominal amount of £280,000 by the allotment of 280,000,000 Ordinary Shares of 0.1p each in accordance with the acquisition of the entire issued share capital of Microcache Limited under the Acquisition Agreement, such authority to expire on 31 December 1999;
  - (C) That the directors be and they are hereby unconditionally authorised to exercise all the powers of the Company to allot relevant securities, as defined in Section 80 of the Act, up to an aggregate nominal amount of £3,889,500 and that in furtherance of such authority the directors be empowered in accordance

with Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) as if Section 89(1) of the Act did not apply to any such allotment:

- (i) as to £1,404,000, by the allotment of 1,404,000,000 Ordinary Shares of 0.1p each in accordance with the Open Offer as described in the Listing Particulars, such authority and power to expire on 31 December 1999;
  - (ii) as to £1,650,000 by the allotment of up to 165,000,000 ordinary shares of 1p each pursuant to any exercise of the option granted under an agreement dated 16 March 1999 between the Company (1) and Brian Raven (2) to Mr Raven, to subscribe for 13.33 per cent. of the issued share capital of the Company, taking into account the undertaking dated 21 September 1999 by Mr Raven not to exercise the option in full, as disclosed in the Listing Particulars, such authority and power to expire on 16 March 2004.
  - (iii) as to £830,000 by the allotment of up to 83,000,000 ordinary shares of 1p each pursuant to any exercise of the option granted under an agreement dated 16 March 1999 between the Company (1) and Oliver Cooke (2) to Mr Cooke to subscribe for 6.67 per cent. of the issued share capital of the Company, taking account of the undertaking dated 21 September 1999 by Mr Cooke not to exercise the option in full, as disclosed in the Listing Particulars, such authority and power to expire on 16 March 2004;
  - (iv) as to £5,500 pursuant to the Deeds of Option dated 21 September 1999 between the Company and each of Lord Sheppard of Didgmere and Anthony Carlton referred to in Resolutions 3 and 4 below, such authority and power to expire on 31 December 1999;
- (D) in addition to the authorities and powers conferred under paragraphs 2(B) and 2(C) above but in substitution for any previous authorities and powers to the extent not already used, the directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities, as so defined, up to a maximum aggregate nominal amount of £748,165 by the allotment of up to 74,816,500 ordinary shares of 1p each, such authority to expire ( unless renewed) on 14 October 2004, but so that the Company may before this authority shall expire make any offer or agreement which would or might require relevant securities to be allotted after this authority expires and the directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired;
- (E) the directors be hereby empowered in accordance with Section 95 of the Act to allot equity securities ( as defined in Section 94 of the Act) pursuant to the authority conferred by paragraph (D) of this resolution as if Section 89 (1) of the Act did not apply to any such allotment, provided that this power is limited to:
- (i) the allotment of equity securities in connection with an offer ( whether by way of a rights issue, open offer or otherwise) to the holders of ordinary shares of the Company in proportion ( as nearly as may be ) to their respective holdings of ordinary shares, subject only to exclusions or other arrangements which the directors may deem to be necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange in any territory: and
  - (ii) the allotment ( otherwise than under sub-paragraph (i) above ) of up to 9,500,000 ordinary shares of 1p each;

such power (unless renewed) to expire (save to the extent that the authority under paragraph (C) of this resolution may have expired) 15 months after the date of the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in 2000, whichever first occurs, but so that the Company may before this power shall expire, make any offer or agreement which would or might require equity securities to be allotted after this power expires and the directors may allot equity securities pursuant to any such offer or agreement as if such power had not expired.

- 3 THAT subject to the passing of Resolutions 1, 2, 4 and 5 the deed of option dated 21 September 1999 between the Company (1) and Lord Sheppard of Didgemere (2) for the grant to Lord Sheppard of an option to subscribe for 500,000 ordinary shares of 1p each at an exercise price of 7.5p per share conditional on completion of the Proposals as defined and described in the Listing Particulars and otherwise as described in the Listing Particulars be and is hereby approved.

## Gladstone PLC – Notice of Extraordinary General Meeting continued

- 4 THAT subject to the passing of Resolutions 1 to 3 and 5 the deed of option dated 21 September 1999 between the Company(1) and Anthony Carlton(2) for the grant to Anthony Carlton of an option to subscribe for 50,000 ordinary shares of 1p each at an exercise price of 7.5p per share conditional on completion of the Proposals (as so defined) and otherwise as described in the Listing Particulars be and is hereby approved
- 5 THAT:
- (a) The Gladstone 1999 Approved Share Option Scheme (“the Approved Scheme”) and The Gladstone 1999 Unapproved Share Option Scheme (“the Unapproved Scheme”) (together referred to as “the Schemes”), copies of the rules of which having been produced to the meeting and initialled by the Chairman for the purpose of identification, and a summary of the main provisions of which is set out in the Listing Particulars referred to in Resolution 1 above, be and they are hereby established;
  - (b) the directors be and they are hereby authorised to make such amendments to the rules of the Approved Scheme as may be necessary to ensure that the Approved Scheme is approved by the Board of Inland Revenue under Section 185 of Schedule 9 to the Income and Corporation Taxes Act 1988;
  - (c) the directors may be counted in the quorum and vote and their votes may be counted on any matter connected with the Schemes notwithstanding that they may be interested in the same (except that no director may be counted in the quorum or vote on any matter solely concerning his own participation) and the prohibitions in this regard contained in the Articles of Association of the Company be suspended and relaxed to that extent;
  - (d) the directors be authorised to establish such other share option schemes for the benefit of the employees and executive directors of Gladstone and its subsidiaries who are based outside the United Kingdom on such terms as the directors of the Company may consider appropriate to take account of local tax, exchange control or securities laws in overseas territories provided that such other schemes are based upon the Schemes and that any shares issued or which might be issued under any such scheme will be subject to and treated as counting against the limitations on individual and overall participation specified in the Schemes; and
  - (e) the directors be and they are hereby authorised to issue shares at a subscription price which is not less than the current market value of such shares (as defined in the rules of the Approved Scheme and the Unapproved Scheme) to the trustee of any trust established by the Company for the benefit of employees of Gladstone and its subsidiaries for the purposes of satisfying the exercise of share options granted by the trustee to employees of Gladstone and its subsidiaries.
6. THAT the maximum amount of annual fees payable to the directors be increased from £50,000 to £100,000 by the replacement of the reference to £50,000 in Article 100 by a reference to £100,000 by way of alteration to the Articles of Association of the Company.

By order of the board  
O C Cooke  
Secretary

*Registered office:*  
Drury House  
34-43 Russell Street  
London WC2B 5HA  
21 September 1999

### Notes:

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him
- 2 To be effective, the completed pink forms of proxy and the power of attorney or other authority (if any) under which they are signed or a notarially certified copy of the power or authority must be lodged in accordance with the instructions printed thereon, not later than 48 hours before the time appointed for the meeting or any adjourned meeting.
- 3 Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person should they wish to do so.