

Option Systems Limited

**Director's report and financial
statements**

Registered number 2446995

31 December 2003



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Director's report

The director presents his annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activity of the company continues to be the supply and installation of software and hardware and related consulting services specific to the clothing, footwear and home textile industries.

Business review

Turnover remained strong for the year £2,375,158 (2002: £2,439,023). The company has traded successfully and returned to profitability within the year.

Proposed dividend and transfer from reserves

The director does not recommend the payment of a dividend for the year.

The profit for the year after taxation is £141,130 and has been added to reserves.

Research and development

The company continued to develop its products to keep pace with market changes.

Director and director's interests

Mr A G Parkinson is the sole director of the company.

The director had no interest in the shares of the company.

The interests of Mr A G Parkinson in the shares of OSL Holdings Limited are shown in the directors' report of OSL Holdings Limited.

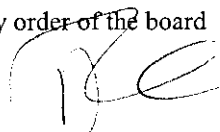
Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £325.

Auditors

A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



AG Parkinson
Director

Standards House
Meridian East
Meridian Business Park
Leicester
LE19 1WZ

Statement of director's responsibilities

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

1 Waterloo Way
Leicester
LE1 6LP
United Kingdom

Independent auditors' report to the members of Option Systems Limited

We have audited the financial statements on pages 4 to 17.

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

Respective responsibilities of the director and auditors

The director is responsible for preparing the director's report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants
Registered Auditor

26 January 2005

Profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	2003 £	2002 £
Turnover	<i>1</i>	2,375,158	2,439,023
Cost of sales		(412,613)	(467,970)
Gross profit		1,962,545	1,971,053
Administrative expenses – ongoing		(1,841,800)	(2,220,904)
– exceptional	<i>3</i>	-	(388,007)
Operating profit/(loss)		120,745	(637,858)
Profit on disposal of fixed asset investment		-	73,274
Other interest receivable and similar income	<i>6</i>	1,489	3,963
Interest payable and similar charges	<i>7</i>	(150)	(4,191)
Profit/(loss) on ordinary activities before taxation	<i>2</i>	122,084	(564,812)
Tax on profit/(loss) on ordinary activities	<i>8</i>	19,046	29,404
Profit/(loss) for the financial year	<i>19</i>	141,130	(535,408)

The notes on pages 7 to 17 form part of these accounts.

There were no recognised gains and losses other than the profit for the year.

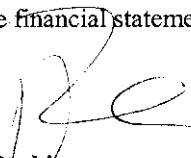
The company has made no material acquisitions and no operations have been discontinued during the current or preceding accounting periods.

Balance sheet
at 31 December 2003

	<i>Note</i>	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	9		44,286		73,342
Current assets					
Stocks	11	8,015		12,413	
Debtors	12	747,154		762,118	
Cash at bank and in hand		115,711		157,126	
		<u>870,880</u>		<u>931,657</u>	
Creditors: amounts falling due within one year	13	(1,058,089)		(1,289,052)	
Net current liabilities			(187,209)		(357,395)
Total assets less current liabilities			(142,923)		(284,053)
Provisions for liabilities and charges	14		-		-
Net liabilities			(142,923)		(284,053)
Capital and reserves					
Called up share capital	15		17,000		17,000
Share premium account	16		12,314		12,314
Profit and loss account	16		(172,237)		(313,367)
			<u>(142,923)</u>		<u>(284,053)</u>

These financial statements were approved and signed by the director on

20 Jan 2004



AG Parkinson
Director

Cash flow statement
for the year ended 31 December 2003

	<i>Note</i>	2003 £	2002 £
Cash outflow from operating activities	<i>20</i>	(26,972)	(241,858)
Returns on investments and servicing of finance	<i>21</i>	1,339	(228)
Taxation		-	(21,803)
Capital expenditure	<i>21</i>	(15,782)	(18,450)
Acquisitions and disposals	<i>21</i>	-	79,948
		<hr/>	<hr/>
Cash outflow before financing		(41,415)	(202,391)
Financing	<i>21</i>	-	(16,278)
		<hr/>	<hr/>
Decrease in cash in the year		(41,415)	(218,669)
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year	<i>22</i>	(41,415)	(218,669)
Capital element of finance lease repaid	<i>21</i>	-	16,278
		<hr/>	<hr/>
Change in net funds resulting from cash flows		(41,415)	(202,391)
		<hr/>	<hr/>
Movement in net funds in the year		(41,415)	(202,391)
Net funds at the start of the year	<i>22</i>	157,126	359,517
		<hr/>	<hr/>
Net funds at the end of the year	<i>22</i>	115,711	157,126
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

Joint ventures and associated undertakings

Where the company has invested in an undertaking in which the company has a long term interest and over which it exercises joint control, the company records dividends received from the undertaking. The balance sheet reflects the cost of the company's investment in the undertaking less any amounts written off.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computers	-	25% on cost
Office fixtures, fittings and equipment	-	25% on cost
Motor vehicles	-	25% on cost
Software	-	25% on cost

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress this includes an appropriate proportion of attributable overheads.

Notes *(continued)*

1 Accounting policies (continued)

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at cost incurred, less those costs transferred to the profit and loss account when agreed stages are completed, after deducting foreseeable losses and payments on account.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of computer software and related services to customers during the year from continuing activities.

Research and development costs

Research and development costs incurred within the year are written off to the profit and loss account unless they are directly attributable to specific orders in which case they are included in work in progress.

2 Profit/(loss) on ordinary activities before taxation

	2003	2002
	£	£
<i>Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	7,750	10,500
Other services	8,895	13,915
Depreciation of tangible fixed assets	44,838	51,704
Research and development expenditure:		
Incurred during the year	440,006	446,780
Hire of other assets - operating leases	2,278	18,190
Loss on foreign exchange	3,439	4,774
Profit on sale of fixed assets	-	(3,784)
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Notes *(continued)*

3 Exceptional administrative expenses

	2003	2002
	£	£
Reorganisation costs	-	36,136
Termination settlements	-	269,294
Consulting costs	-	82,577
	-	388,007
	-	388,007

4 Remuneration of director

	2003	2002
	£	£
Directors' emoluments	99,832	245,488
Company contributions to money purchase pension schemes	-	1,500
	99,832	246,988
Termination for loss of office	-	269,294
	99,832	516,282
	99,832	516,282

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
Management	8	10
Development and support	26	23
Other	5	7
	39	40
	39	40

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	1,229,985	1,401,061
Social security costs	130,671	152,651
Other pension costs	6,935	27,496
	1,367,591	1,581,208
	1,367,591	1,581,208

6 Other interest receivable and similar income

	2003 £	2002 £
Bank interest receivable	1,489	3,963
	1,489	3,963

7 Interest payable and similar charges

	2003 £	2002 £
On bank loans and overdrafts	150	4,000
Finance charges payable in respect of finance leases and hire purchase contracts	-	191
	150	4,191
	150	4,191

Notes (continued)

8 Taxation

	2003 £	2002 £
UK corporation tax on the profit/(loss) for the year on ordinary activities	-	(21,486)
Adjustment relating to an earlier year	(19,046)	(6,248)
	<hr/>	<hr/>
Current tax	(19,046)	(27,734)
Deferred taxation	-	(1,670)
	<hr/>	<hr/>
	(19,046)	(29,404)
	<hr/> <hr/>	<hr/> <hr/>
	2003	2002
	£	£
Profit/(loss) on ordinary activities before tax	122,084	(564,812)
	<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities at standard rate of tax 19% (2002: 20%)	23,196	(112,962)
<i>Effect of</i>		
Expenses not deductible for tax purposes	503	8,370
Non taxable gain on disposal of investment	-	(14,655)
Depreciation on ineligibles	62	-
Capital allowances in excess of depreciation	3,023	(2,180)
Current period losses (utilised)/carried forward	(15,317)	95,606
Provisions	(4,118)	4,335
Tax rate lower than 30% on (tax profit)/tax losses	(282)	-
Additional research and development relief	(7,067)	-
Adjustment to tax charge in respect of prior years	(19,046)	(6,248)
	<hr/>	<hr/>
Current tax credit for the period	(19,046)	(27,734)
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

9 Tangible fixed assets

	Computer equipment and software	Office fixtures, fittings and equipment	Total
	£	£	£
Cost			
At beginning of year	149,893	62,382	212,275
Additions	15,569	213	15,782
	<hr/>	<hr/>	<hr/>
At end of year	165,462	62,595	228,057
	<hr/>	<hr/>	<hr/>
Depreciation and diminution in value			
At beginning of year	90,594	48,339	138,933
Charge for year	35,564	9,274	44,838
	<hr/>	<hr/>	<hr/>
At end of year	126,158	57,613	183,771
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2003	39,304	4,982	44,286
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2002	59,299	14,043	73,342
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Participating interests

The company has acquired a 50% equity shareholding in an investment in New Horizons Systems Inc, a company incorporated in the USA. The investment comprises of 20 US \$ capital stock.

The company has acquired a 33% equity shareholding in Option Systems Pty Limited, a company incorporated in Australia. The company owns 100 ordinary Australian \$ shares in the company.

Each of the above participating interests supplies and distributes computer software and related services as its principal activity.

The accounting reference period is the year to 31 December 2003 for each company.

Sales by Option Systems Limited to New Horizons Inc and Option Systems Pty Limited for the year to 31 December 2003 were £2,140 and £17,990 respectively.

At that date New Horizons Inc and Option Systems Pty Limited owed Option Systems Limited £5,404 and £7,480 respectively in respect of these sales.

Notes (continued)

11 Stocks

	2003 £	2002 £
Finished goods and goods for resale	8,015	12,413
	8,015	12,413
	8,015	12,413

12 Debtors

	2003 £	2002 £
Trade debtors	501,811	617,229
Prepayments and accrued income	28,854	29,173
Amounts owed by ultimate parent company	178,596	96,869
Corporation tax recoverable	37,893	18,847
	747,154	762,118
	747,154	762,118

13 Creditors: amounts falling due within one year

	2003		2002	
£	£	£	£	£
Payments received on account	67,103			70,548
Trade creditors	271,355			284,898
Amounts owed to group company	90,000			90,000
Other creditors including taxation and social security				
Other taxes and social security	112,524		114,684	
	112,524		114,684	
Accruals and deferred income	517,107			728,922
	1,058,089			1,289,052
	1,058,089			1,289,052

Notes (continued)

14 Provisions for liabilities and charges

The movement in the provision for deferred taxation is as follows:

	2003 £	2002 £
Balance brought forward	-	1,670
Credit to the profit and loss account	-	(1,670)
	-	-
Balance carried forward	-	-

The provision at the year end is analysed as follows:

	2003 Provided	2003 Unprovided	2002 Provided	2002 Unprovided
	£	£	£	£
Accelerated capital allowances	-	(825)	-	(3,848)
Short term timing differences	-	-	-	4,118
Losses	-	69,386	-	97,696
	-	68,561	-	97,966
	-	68,561	-	97,966

Unprovided deferred tax has been calculated at the rate of 20% (2002: 20%).

The deferred tax asset has not been recognised in the accounts.

15 Called up share capital

	2003 £	2002 £
<i>Authorised</i>		
Ordinary shares of 1p each	1,000,000	1,000,000
	1,000,000	1,000,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 1p each	17,000	17,000
	17,000	17,000
	17,000	17,000

Notes (continued)

16 Reserves

	Share premium account	Profit and loss account
	£	£
At beginning of year	12,314	(313,367)
Profit for the year	-	141,130
	<hr/>	<hr/>
At end of year	12,314	(172,237)
	<hr/> <hr/>	<hr/> <hr/>

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Buildings		Other	
	2003	2002	2003	2002
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	-	1,753	1,753
After five years	97,615	97,615	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	97,615	97,615	1,753	1,753
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

18 Parent undertaking's company

The company is a subsidiary undertaking of OSL International Limited registered in England and Wales. The ultimate parent company is OSL Holdings Limited, a company also registered in England and Wales. The registered office of both companies is : Standards House, Meridian East, Meridian Business Park, Leicester, LE19 1WZ.

19 Reconciliation of movements in shareholders' funds

	2003	2002
	£	£
Profit/(loss) for the financial year	141,130	(535,408)
Opening shareholders' funds	(284,053)	251,355
	<hr/>	<hr/>
Closing shareholders' funds	(142,923)	(284,053)
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

20 Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2003 £	2002 £
Operating profit/(loss)	120,745	(637,858)
Depreciation charge	44,838	51,704
Profit on sale of tangible fixed assets	-	(3,784)
Decrease in stocks	4,398	3,668
Decrease in debtors	34,010	29,313
Decrease in creditors	(230,963)	315,099
	<hr/>	<hr/>
Net cash outflow from operating activities	(26,972)	(241,858)
	<hr/> <hr/>	<hr/> <hr/>

21 Analysis of cash flows shown net in cash flow statement

	2003 £	2002 £
Returns on investments and servicing of finance		
Interest received	1,489	3,963
Interest paid	(150)	(4,000)
Interest element of finance leases	-	(191)
	<hr/>	<hr/>
Net cash inflow/(outflow) from returns on investments and servicing of finance	1,339	(228)
	<hr/> <hr/>	<hr/> <hr/>
Capital expenditure		
Purchase of tangible fixed assets	(15,782)	(29,950)
Sale of tangible fixed assets	-	11,500
	<hr/>	<hr/>
Net cash outflow from capital expenditure	(15,782)	(18,450)
	<hr/> <hr/>	<hr/> <hr/>
Acquisitions and disposals		
Disposal of investment in joint venture	-	79,948
	<hr/> <hr/>	<hr/> <hr/>
Financing		
Capital element of finance leases	-	(16,278)
	<hr/>	<hr/>
Net cash outflow from financing	-	(16,278)
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

22 Analysis of net funds

	At 31 December 2002 £	Cash flow £	At 31 December 2003 £
Cash in hand and at bank	157,126	(41,415)	115,711
	<hr/>	<hr/>	<hr/>
	157,126	(41,415)	115,711
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>