

Option Systems Limited

**Directors' report and financial
statements**

Registered number 2446995

31 December 1999



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Contents

Directors' report	1
Statement of directors' responsibilities	3
Auditors' report to the members of Option Systems Limited	4
Profit and loss account	5
Balance sheet	6
Cash flow statement	7
Notes	8

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

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 increased to £3,123,388 (1998 : £2,236,900) this represented a 40% increase on the previous year. The directors are pleased with the continued growth of the company.

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend for the year.

The profit for the year after taxation is £79,664 and has been added to reserves.

Research and development

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

Directors and directors' interests

The directors who held office during the year were as follows:

AG Parkinson
AD Russell
PN Miller-Smith

None of the directors who held office during the year had any interests in the shares or debentures of the company. Their interests in the shares of O.S.L. International Limited (Option Systems Limited's holding company) are shown in its directors report.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £375.

Directors' report *(continued)*

Year 2000

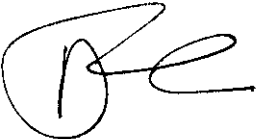
The company addressed the impact of the Year 2000 on its business and operations by reviewing the major issues to assess exposure. Plans were then put in place to address these exposures well in advance of the critical deadlines.

Although it is not possible for any organisation to guarantee that no problems will arise as a consequence of the millennium date change the company has not experienced any adverse effects arising from its business and operations and, to date, there has been no noticeable disruption to its business and relationships with customers and suppliers.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



AG Parkinson
Director

OSL House
East Link
Meridian Business Park
Leicester
LE3 2XU

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are 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 directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



1 Waterloo Way
Leicester
LE1 6LP

Auditors' report to the members of Option Systems Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

*Chartered Accountants
Registered Auditors*

8 September 2000

Profit and loss account
for the year ended 31 December 1999

	<i>Note</i>	1999 £	1998 £
Turnover	<i>1</i>	3,123,388	2,236,900
Cost of sales		(739,217)	(580,869)
Gross profit		<u>2,384,171</u>	<u>1,656,031</u>
Administrative expenses		(2,276,907)	(1,640,972)
Operating profit		<u>107,264</u>	15,059
Other interest receivable and similar income	<i>5</i>	5,374	6,274
Interest payable and similar charges	<i>6</i>	(4,689)	(4,111)
Profit on ordinary activities before taxation	<i>2</i>	<u>107,949</u>	17,222
Tax on profit on ordinary activities	<i>7</i>	(28,285)	(8,010)
Profit for the financial year	<i>17</i>	<u><u>79,664</u></u>	<u><u>9,212</u></u>

The notes on pages 8 to 18 form part of these accounts.

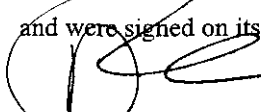
There were no recognised gains and losses other than profit for the year.

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 1999

	Note	1999		1998	
		£	£	£	£
Fixed assets					
Tangible assets	8		155,272		81,240
Investment	9		4,500		-
Current assets					
Stocks	10	57,488		19,731	
Debtors	11	944,931		720,436	
Cash at bank and in hand		38,941		40,289	
		<u>1,041,360</u>		<u>780,456</u>	
Creditors: amounts falling due within one year	12	<u>(1,007,198)</u>		<u>(778,561)</u>	
Net current assets			<u>34,162</u>		<u>1,895</u>
Total assets less current liabilities			<u>193,934</u>		<u>83,135</u>
Creditors: amounts falling due after more than one year					
Provisions for liabilities and charges	13 15		(46,416) (2,000)		(17,281) -
Net assets			<u>145,518</u>		<u>65,854</u>
Capital and reserves					
Called up share capital	16		17,000		17,000
Share premium account	17		12,314		12,314
Profit and loss account	17		116,204		36,540
			<u>145,518</u>		<u>65,854</u>

These financial statements were approved by the board of directors on 4/9/00
 and were signed on its behalf by:


AG Parkinson
 Director

Cash flow statement
for the year ended 31 December 1999

	<i>Note</i>	1999 £	1998 £
Cash inflow/(outflow) from operating activities	21	99,397	(18,728)
Returns on investments and servicing of finance	22	685	2,163
Taxation		(7,138)	(7,123)
Capital expenditure	22	(64,462)	(26,621)
Investment	22	(4,500)	-
		<hr/>	<hr/>
Cash inflow/(outflow) before financing		23,982	(50,309)
Financing	22	(25,330)	(22,416)
		<hr/>	<hr/>
Decrease in cash in the year		(1,348)	(72,725)
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net (debt)/funds			
Decrease in cash in the year	23	(1,348)	(72,725)
Cash to repay loans	23	8,735	6,859
Capital element of finance lease repaid	23	16,595	15,557
New finance leases in year	23	(52,821)	-
		<hr/>	<hr/>
Change in net (debt)/funds resulting from cash flows		(28,839)	(50,309)
		<hr/>	<hr/>
Movement in net (debt)/funds in the year	23	(28,839)	(50,309)
Net funds at the start of the year	23	5,041	55,350
		<hr/>	<hr/>
Net (debt)/funds at the end of the year	23	(23,798)	5,041
		<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.

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 goods and 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 on ordinary activities before taxation

	1999	1998
	£	£
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration:		
Audit	4,500	3,990
Other services	4,144	2,190
Depreciation of tangible fixed assets	47,615	38,067
Research and development expenditure:		
Incurred during the year	438,654	250,000
Amortisation of deferred development costs	-	5,000
Hire of other assets - operating leases	50,762	49,196
(Profit)/loss on foreign exchange	(2,431)	10
Profit on sale of fixed assets	(4,364)	(576)
	<u> </u>	<u> </u>

Notes (continued)

3 Remuneration of directors

	1999 £	1998 £
Directors' emoluments	230,958	199,596
Company contributions to money purchase pension schemes	129,000	18,000
	359,958	217,596
	359,958	217,596
	Number of directors	
	1999	1998
Number of directors who are members of money purchase pension schemes	3	3
	3	3

4 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	
	1999	1998
Management	10	9
Development and support	21	19
Other	11	8
	42	36
	42	36

The aggregate payroll costs of these persons were as follows:

	1999 £	1998 £
Wages and salaries	1,173,409	991,361
Social security costs	125,494	98,820
Other pension costs	130,213	18,000
	1,429,116	1,108,181
	1,429,116	1,108,181

Notes *(continued)*

5 Other interest receivable and similar income

	1999	1998
	£	£
Bank interest receivable	5,374	6,274
	<u>5,374</u>	<u>6,274</u>

6 Interest payable and similar charges

	1999	1998
	£	£
On bank loans and overdrafts	995	3,188
Finance charges payable in respect of finance leases and hire purchase contracts	3,694	923
	<u>4,689</u>	<u>4,111</u>

7 Taxation

	1999	1998
	£	£
UK corporation tax at 20% (1999 : 21%) on the profit for the year on ordinary activities	27,000	7,853
Deferred taxation	2,000	-
Adjustment relating to an earlier year	(715)	157
	<u>28,285</u>	<u>8,010</u>

Notes (continued)

8 Tangible fixed assets

	Computer equipment and software £	Office fixtures, fittings and equipment £	Motor vehicles £	Total £
<i>Cost</i>				
At beginning of year	120,644	22,309	25,723	168,676
Additions	37,594	32,554	60,264	130,412
Disposals	(33,345)	(6,321)	(25,723)	(65,389)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	124,893	48,542	60,264	233,699
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation and diminution in value</i>				
At beginning of year	55,006	14,742	17,688	87,436
Charge for year	29,240	6,856	11,519	47,615
On disposals	(32,240)	(5,624)	(18,760)	(56,624)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	52,006	15,974	10,447	78,427
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 1999	<u>72,887</u>	<u>32,568</u>	<u>49,817</u>	<u>155,272</u>
At 31 December 1998	<u>65,638</u>	<u>7,567</u>	<u>8,035</u>	<u>81,240</u>

Included in the total net book value of motor vehicles is £49,817 (1998 : £8,035) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £11,519 (1998 : £9,904).

9 Fixed asset investments

	Shares in related company £
<i>Cost</i>	
At beginning of year	-
Additions	4,500
	<hr/>
At end of year	4,500
	<hr/>
<i>Net book value</i>	
At 31 December 1999	<u>4,500</u>
At 31 December 1998	<u>-</u>

During the year Option Systems Limited invested £4,500 in a venture with two other parties to set up a distribution network in Holland.

The company is currently being established and has not yet generated any significant income or incurred any significant expenditure and therefore the investment is stated at cost.

Notes (continued)

10 Stocks

	1999	1998
	£	£
Work in progress	3,686	2,720
Finished goods and goods for resale	53,802	17,011
	57,488	19,731
	57,488	19,731

11 Debtors

	1999	1998
	£	£
Trade debtors	902,102	676,140
Prepayments and accrued income	42,829	42,074
Amounts recoverable on contracts	-	2,222
	944,931	720,436
	944,931	720,436

12 Creditors: amounts falling due within one year

	1999		1998	
	£	£	£	£
Bank loan		6,500		6,500
Obligations under finance leases and hire purchase contracts		9,823		11,467
Payments received on account		89,314		156,672
Trade creditors		387,229		231,922
Amounts owed to group company		90,000		-
Other creditors including taxation and social security				
Corporation tax	27,000		7,853	
Other taxes and social security	70,059		59,723	
		97,059		67,576
Accruals and deferred income		327,273		304,424
		1,007,198		778,561
		1,007,198		778,561

Notes (continued)

13 Creditors: amounts falling due after more than one year

	1999	1998
	£	£
Bank loan	8,546	17,281
Obligations under finance leases and hire purchase contracts	37,870	-
	46,416	17,281
	46,416	17,281

14 Analysis of debt

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	1999	1998
	£	£
Within one year	13,963	11,550
In the second to fifth years	40,091	-
	54,054	11,550
Less future finance charges	(6,361)	(83)
	47,693	11,467
	47,693	11,467

The bank loan is repayable as follows:

	1999	1998
	£	£
Within one year	6,500	6,500
Between one and two years	8,546	6,500
Between two and five years	-	10,781
	15,046	23,781
	15,046	23,781

The loan is secured by a debenture held by the company's bankers. This is secured by way of a first fixed charge over leasehold property, fixtures and fixed plant and machinery and by way of a first floating charge over all other undertakings and assets of the company. The interest rate on the loan is 3% above base rate.

Notes (continued)

15 Provisions for liabilities and charges

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

	1999 £	1998 £
Balance brought forward	-	-
Charge to the profit and loss account	2,000	-
	2,000	-
	2,000	-

The provision at the year end is analysed as follows:

	Provided £	1999 Unprovided £	Provided £	1998 Unprovided £
Accelerated capital allowances	2,000	-	-	(363)
	2,000	-	-	(363)
	2,000	-	-	(363)

No provision was made for the deferred tax assets in the previous year.

16 Called up share capital

	1999 £	1998 £
<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

17 Reserves

	Share premium account £	Profit and loss account £
At beginning of year	12,314	36,540
Profit for the year	-	79,664
	12,314	116,204
At end of year	12,314	116,204

Notes (continued)

18 Commitments

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

	Buildings		Other	
	1999 £	1998 £	1999 £	1998 £
Operating leases which expire:				
Within one year	-	-	2,491	4,771
In the second to fifth years inclusive	92,000	28,152	32,547	39,997
	<u>92,000</u>	<u>28,152</u>	<u>35,038</u>	<u>44,768</u>

19 Ultimate parent company

The company is a subsidiary undertaking of OSL International Limited registered in England and Wales, and whose registered office is : OSL House, East Link, Meridan Business Park, Leicester, LE3 2XU.

20 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit for the financial year	79,664	9,212
Opening shareholders' funds	65,854	56,642
	<u>145,518</u>	<u>65,854</u>

21 Reconciliation of operating profit to net cash inflow from operating activities

	1999 £	1998 £
Operating profit	107,264	15,059
Depreciation charge	47,615	43,067
Profit on sale of tangible fixed assets	(4,364)	(576)
Increase in stocks	(37,757)	(12,079)
Increase in debtors	(224,495)	(294,172)
Increase in creditors	211,134	229,973
	<u>99,397</u>	<u>(18,728)</u>

Notes (continued)

22 Analysis of cash flows shown net in cash flow statement

	1999 £	1998 £
Returns on investments and servicing of finance		
Interest received	5,374	6,274
Interest paid	(995)	(3,188)
Interest element of finance leases	(3,694)	(923)
	685	2,163
Capital expenditure		
Purchase of tangible fixed assets	(77,591)	(32,791)
Sale of tangible fixed assets	13,129	6,170
	(64,462)	(26,621)
Investment		
Investment in related company	(4,500)	-
Financing		
Repayments of amounts borrowed	(8,735)	(6,859)
Capital element of finance leases	(16,595)	(15,557)
	(25,330)	(22,416)
	685	2,163
	(64,462)	(26,621)
	(4,500)	-
	(25,330)	(22,416)

23 Analysis of net (debt)/funds

	At 31 December 1998 £	Cash flow £	Other changes £	At 31 December 1999 £
Cash in hand and at bank	40,289	(1,348)	-	38,941
Debt due within one year	(6,500)	-	-	(6,500)
Debt due after more than one year	(17,281)	8,735	-	(8,546)
Finance leases	(11,467)	16,595	(52,821)	(47,693)
	5,041	23,982	(52,821)	(23,798)
	5,041	23,982	(52,821)	(23,798)

Notes *(continued)*

24 Related party transactions

In accordance with FRS 8, the following disclosures relate to related party transactions during the period.

The joint landlord of the leasehold premises from which Option Systems Limited operates, is Cabot Trustees Limited and Richard Ashcroft. Richard Ashcroft was appointed as a director of OSL International Limited on 11 December 1999. Cabot Trustees Limited is the trustee company acting for the pension fund of the directors of Option Systems Limited.

During the period since inception of the lease to 31 December 1999 Option Systems Limited paid rent of £46,200 to their landlord.

Within debtors is an amount of £38,806 owed by Micromentor Computer Consultants, a company of which Richard Ashcroft has a controlling interest. Sales to this company totalled £84,371 during the year and purchases from them totalled £6,000.