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OPTICAL EXPRESS (SOUTHERN) LIMITED

FINANCIAL STATEMENTS

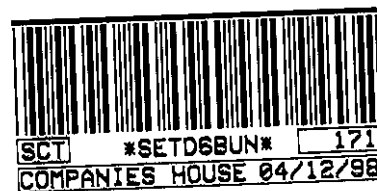
31 DECEMBER 1997

Registered number: 1873281

KIDSONS IMPEY

CHARTERED ACCOUNTANTS

Glasgow



OPTICAL EXPRESS (SOUTHERN) LIMITED

FINANCIAL STATEMENTS

for the year ended 31 December 1997

CONTENTS

	Page
Company information	1
Directors' report	2
Statement of directors' responsibilities	3
Auditors' report	4
Profit and loss account	5
Statement of total recognised gains and losses	6
Balance sheet	7
Notes	8

OPTICAL EXPRESS (SOUTHERN) LIMITED**COMPANY INFORMATION****31 December 1997**

NUMBER	1873281
DIRECTORS	D Mouldsdale G Murdoch R Gardner
SECRETARY	G Murdoch
REGISTERED OFFICE	Spectrum House 20-26 Cursitor Street London EC4A 1HY
AUDITORS	Kidsons Impey Chartered Accountants Breckenridge House 274 Sauchiehall Street Glasgow G2 3EH

OPTICAL EXPRESS (SOUTHERN) LIMITED

DIRECTORS' REPORT

31 December 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activity

The principal activity of the company during the year was that of opticians. The company's subsidiaries during the year and their principal activities were as follows:

Subsidiary	Principal activity
Specialeyes (Optical Services) Limited	Non trading
Specialeyes Holding B.V.	Non trading
Total Eyecare Limited	Opticians

Specialeyes (Optical Services) Limited and Specialeyes Holding B.V. were dissolved on the 8 September 1998 and the 1 November 1997 respectively. Total Eyecare Limited ceased trading on the 10 February 1997.

Business review

The company's balance sheet as detailed on page 7 shows a satisfactory position, shareholders' funds amounting to £429,913.

Results and dividends

The results for the year are shown in the profit and loss account on page 5. The turnaround in performance from a loss of £10,423,851 to a profit of £2,509,708 is particularly satisfying and reflects both the success of the Optical Express trading concept and the efforts of all involved over this year.

The directors do not propose payment of an ordinary dividend.

Fixed assets

In the opinion of the directors there is no significant difference between the present market value of the company's properties and the amounts at which they are stated in the accounts. Details are set out in note 9.

Directors

The directors of the company during the year and their interests in the shares of the company as recorded in the register of directors' interests were as follows

	31 December 1997		1 January 1997	
	Ordinary shares	Share options	Ordinary shares	Share options
D Mouldsdale (appointed 13/01/97)	-	-	-	-
G Murdoch (appointed 13/01/97)	-	-	-	-
R Gardner (appointed 13/01/97)	-	-	-	-
G Mouldsdale (appointed 13/01/97)	-	-	-	-
(resigned 20/10/98)				
T Franey (resigned 13/01/97)	-	-	4,845,000	-
T Franey (as trustee)	-	-	500,000	-
A S Daw (resigned 08/04/97)	-	-	-	175,000
S Keough (resigned 26/06/97)	-	-	-	-
S Keough (as trustee)	-	-	1,000,000	500,000
S Binnie (resigned 13/01/97)	-	-	-	-
R Price (resigned 15/08/97)	-	-	53,750	175,000

D Mouldsdale is also a director of the ultimate holding company, David Mouldsdale (Holdings) Limited. The directors' interests in the shares of the holding company are disclosed in the directors' report of that entity.

During the year all share options have lapsed.

continued

OPTICAL EXPRESS (SOUTHERN) LIMITED**DIRECTORS' REPORT**
(continued)**31 December 1997****Employees**

Optical Express operates employment policies designed to ensure that the company is able to attract and retain the highest calibre of employees from all sections of the community.

We ensure that all employees are fully involved and committed to accomplishing the goals of the company through a variety of communication methods including annual conferences, a senior team video, weekly communication packs, team briefing and an open door policy through which we encourage and welcome feedback and suggestions.

These methods of informing our employees go hand in hand with financial information on performance and sales targets.

Optical Express values diversity in the workplace and is committed to providing the same quality of opportunities to all employees and potential employees. It actively encourages training and skills development throughout the company.

These policies and training programmes have been developed to attract and retain the best people on the basis of their skills and abilities. This ensures that Optical Express offers people with disabilities the same opportunities for training and career progression as other employees.

Auditors

Kidsons Impey have agreed to offer themselves for re-appointment as auditors of the company.

On behalf of the board



G Murdoch
Secretary

Spectrum House
20-26 Cursitor Street
London
EC4A 1HY

25 November 1998

OPTICAL EXPRESS (SOUTHERN) LIMITED
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 of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

25 November 1998

On behalf of the board



D Moulds
Director

OPTICAL EXPRESS (SOUTHERN) LIMITED**AUDITORS' REPORT****Auditors' report to the members of****Optical Express (Southern) Limited**

We have audited the financial statements on pages 5 to 18 which have been prepared under the historical cost convention as amended for the revaluation of certain fixed assets and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

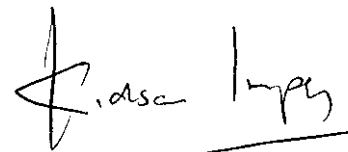
Basis of opinion

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 error or other irregularity. 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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Glasgow
25 November 1998

Kidsons Impey
Registered Auditors
Chartered Accountants

OPTICAL EXPRESS (SOUTHERN) LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

	Note	1997 £	57 weeks ending 31/12/1996 £
Turnover	2	25,962,796	16,858,069
Cost of sales		(5,906,435)	(4,327,752)
Gross profit		20,056,361	12,530,317
Net operating expenses			
Administrative expenses		(17,774,370)	(22,984,358)
Other operating income		36,839	-
Operating profit/(loss)	3	2,318,830	(10,454,041)
Investment income	5	216,883	117,454
Interest payable	6	(26,005)	(87,264)
Profit/(loss) on ordinary activities before taxation		2,509,708	(10,423,851)
Taxation	8	-	1,727,352
Profit/(loss) on ordinary activities after taxation		2,509,708	(8,696,499)
retained for the year	21		

Movements in reserves are shown in the notes to the financial statements.

The acquired business from Special (Optical Services) Limited was integrated into the existing business in such a way that full analysis between acquired and continuing operations as required by the Financial Reporting Standard 3 was not obtainable.

OPTICAL EXPRESS (SOUTHERN) LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 1997

	1997 £	57 weeks ending 31/12/96 £
Profit/(loss) for the financial year	2,509,708	(8,696,499)
Unrealised surplus on revaluation of fixed assets	992,500	-
Total gains and losses recognised since last annual report	<u>3,502,208</u>	<u>(8,696,499)</u>

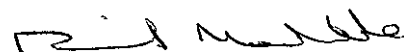
OPTICAL EXPRESS (SOUTHERN) LIMITED

BALANCE SHEET

at 31 December 1997

	Note	£	1997 £	£	1996 £
Fixed assets					
Tangible assets	9		3,549,077		663,000
Investments	11		-		150,152
			<u>3,549,077</u>		<u>813,152</u>
Current assets					
Stocks	12	2,119,583		719,705	
Debtors	13	3,224,618		2,062,848	
Cash at bank and in hand		392,997		426,000	
			<u>5,737,198</u>	<u>3,208,553</u>	
Creditors: amounts falling due within one year	14	(8,558,367)		(6,991,000)	
Net current liabilities			<u>(2,821,169)</u>	<u>(3,782,447)</u>	
Total assets less current liabilities			<u>727,908</u>	<u>(2,969,295)</u>	
Creditors: amounts falling due after more than one year	15		<u>(297,995)</u>	<u>(103,000)</u>	
			<u>429,913</u>	<u>(3,072,295)</u>	
Capital and reserves					
Called up share capital	18		641,705		641,705
Share premium account	19		4,404,000		4,404,000
Revaluation reserve	20		992,500		-
Profit and loss account	21		(5,608,292)		(8,118,000)
Total shareholders' funds	17		<u>429,913</u>	<u>(3,072,295)</u>	

The financial statements on pages 5 to 18 were approved by the board of directors on 25 November 1998 and signed on its behalf by:



D Moulds
Director

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

1 Accounting policies**Basis of accounting**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as amended for revaluation of certain assets.

Turnover

Turnover represents the amount derived from the provision of goods and services falling within the company's activities after deduction of trade discounts and value added tax.

Depreciation

Depreciation of fixed assets is calculated to write off their cost or valuation less any residual value over their estimated useful lives as follows:

Leasehold property	Over the term of the lease
Shopfitting	25% reducing balance
Optical equipment	10% reducing balance
Motor vehicles	20% reducing balance
Fixtures, fittings & office equipment	15% reducing balance

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve. However, no depreciation has been provided in the current year as the leasehold property was revalued on 31st December 1997.

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the lease in such a way as to give a reasonably constant charge on the outstanding liability.

Rentals paid under operating leases are charged to income as incurred.

Research and development

Expenditure on research and development incurred in the year other than on fixed assets is charged against profit.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is computed on a first in first out basis. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Foreign currencies

Transactions expressed in foreign currencies are translated into sterling and recorded at rates of exchange approximating to those ruling at the date of the transaction. Monetary assets and liabilities are translated at rates ruling at the balance sheet date. All differences are taken to the profit and loss account.

OPTICAL EXPRESS (SOUTHERN) LIMITED**NOTES ON FINANCIAL STATEMENTS****31 December 1997**

- 1** **Accounting policies** continued
 Pensions

Defined contribution scheme

The company made contributions into employees private pension schemes during the year.

Consolidation

The company has not prepared consolidated financial statements as it is a wholly owned subsidiary of the ultimate parent undertaking, David Mouldsdale (Holdings) Limited, which prepares consolidated accounts including the subsidiaries. David Mouldsdale (Holdings) Limited is a company incorporated in Scotland.

The financial statements present information about the company as an individual undertaking.

Cash flow statement

The company has not prepared a cash flow statement in accordance with the exemption available to wholly owned subsidiaries of EC parent undertakings, where a statement of group cash flow is included in the consolidated financial statements of the parent company.

- 2** **Turnover**

The turnover for the year was derived from the company's principal activity. The whole of the turnover is attributable to the UK market.

OPTICAL EXPRESS (SOUTHERN) LIMITED

10

NOTES ON FINANCIAL STATEMENTS

31 December 1997

3 Operating profit/(loss)

	1997 £	1996 £
Operating profit/(loss) is stated after crediting		
Net rental income	36,839	-
Profit on foreign exchange	69,327	-
Profit on sale of investments	38,398	-
	<u> </u>	<u> </u>
and after charging		
Staff costs (note 4)	9,511,247	6,515,436
Exceptional items (note 7)	(1,015,598)	1,985,667
Auditors' remuneration	76,500	54,000
Operating leases		
Hire of assets	71,964	147,011
Rent	3,823,470	5,182,719
Loss on sale of assets	-	80,655
	<u> </u>	<u> </u>
Depreciation of tangible fixed assets (note 9)		
owned assets	150,892	3,158,982
leased assets	32,550	76,000
	<u> </u>	<u> </u>
	183,442	3,234,982
	<u> </u>	<u> </u>
The total amount charged against profits in respect of finance leases and hire purchase contracts is	44,258	89,137
(of which part is shown as depreciation and the balance is shown as interest payable in note 6)	<u> </u>	<u> </u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

4 Directors and employees

	1997 £	1996 £
Staff costs including directors' emoluments		
Wages and salaries	9,361,595	6,312,436
Pension costs	20,265	72,000
Compensation for loss of office	129,387	131,000
	<u>9,511,247</u>	<u>6,515,436</u>
 Average monthly number employed including executive directors:	 Number	 Number
Production staff	73	81
Other	353	394
	<u>426</u>	<u>475</u>
 Directors	 £	 £
Emoluments	108,187	47,000
Other emoluments including pensions	-	306,000
Compensation for loss of office	129,387	131,000
	<u>237,574</u>	<u>484,000</u>

Defined contribution pension scheme

The company makes contributions into employees private pension schemes. The pension cost charge represents contributions payable by the company to the personal schemes and amounted to £20,265 (1996 £72,000).

5 Investment income

	1997 £	1996 £
Interest receivable	15,113	117,454
Other non-trading income	201,770	-
	<u>216,883</u>	<u>117,454</u>

6 Interest payable

	1997 £	1996 £
Bank interest	-	15,710
Other interest	14,297	3,000
Hire purchase interest	11,708	13,137
Debenture interest	-	55,417
	<u>26,005</u>	<u>87,264</u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

7 Exceptional items

	1997 £	1996 £
Included in administrative expenses:		
Trade debtors written off	175,565	465,583
Inter company balance written back	(638,926)	1,520,084
Inter company balance written off	(552,237)	-
	<u>(1,015,598)</u>	<u>1,985,667</u>

The trade debtors disclosed in the financial statements for the year ended 31 December 1996 were overstated by £175,565.

In the financial statements for the year ended 31 December 1996 the company made full provision on a doubtful group debtor. The inter company balance written back relates to the write back of part of this balance now considered recoverable.

The inter company balance written off relates to a group company which was dissolved post year end.

8 Taxation

	1997 £	1996 £
Corporation tax on profit on ordinary activities at 31% (1996 33%)	-	(1,095,499)
Advance corporation taxation	-	36,501
Deferred taxation	-	(693,499)
	<u>-</u>	<u>(1,752,497)</u>
Under provision in earlier years	-	25,145
	<u>-</u>	<u>(1,727,352)</u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

9 Tangible fixed assets

	Motor Vehicles	Optical Equipment	Fixtures Fittings and Office Equipment	Leasehold Property	Shopfitting	Total
	£	£	£	£	£	£
1 January 1997	-	3,122,000	1,002,000	659,000	4,765,000	9,548,000
Additions	122,544	1,285,835	578,044	-	88,361	2,074,784
Disposals	-	(2,569,486)	(927,070)	-	(4,524,195)	(8,020,751)
Surplus on revaluation	-	-	-	333,500	-	333,500
31 December 1997	<u>122,544</u>	<u>1,838,349</u>	<u>652,974</u>	<u>992,500</u>	<u>329,166</u>	<u>3,935,533</u>
Depreciation						
1 January 1997	-	2,666,000	992,000	659,000	4,568,000	8,885,000
Charge for year	4,819	84,442	34,525	-	59,656	183,442
Disposals	-	(2,568,447)	(927,003)	-	(4,527,536)	(8,022,986)
Surplus on revaluation	-	-	-	(659,000)	-	(659,000)
31 December 1997	<u>4,819</u>	<u>181,995</u>	<u>99,522</u>	<u>-</u>	<u>100,120</u>	<u>386,456</u>
Net book amount						
31 December 1997	<u>117,725</u>	<u>1,656,354</u>	<u>553,452</u>	<u>992,500</u>	<u>229,046</u>	<u>3,549,077</u>
1 January 1997	<u>-</u>	<u>456,000</u>	<u>10,000</u>	<u>-</u>	<u>197,000</u>	<u>663,000</u>

The net book amount of fixed assets includes £652,257 (1996 £113,000) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 3.

The leasehold properties were revalued on 31 December 1997 on an open market valuation by Whitelaw Baikie Figes, Chartered Surveyors. The historical cost is £659,000 and its net book value is £nil.

10 Leasehold property

	1997 £	1996 £
Short leasehold	<u>992,500</u>	<u>-</u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

11 Fixed asset investments

	Investments £
Cost	
1 January 1997	150,152
Additions	-
Disposals	(150,152)
31 December 1997	-
Net book amount	
31 December 1997	-
1 January 1997	150,152

Specialeyes (Optical Services) Limited and Specialeyes Holding B.V. were dissolved on the 8 September 1998 and the 1 November 1997 respectively. The value of these investments have been written off.

12 Stocks

	1997 £	1996 £
General stock	2,119,583	719,705
	<u>2,119,583</u>	<u>719,705</u>

13 Debtors

	1997 £	1996 £
Amounts falling due within one year		
Trade debtors	340,836	761,000
Amounts owed by group undertakings	1,469,038	5,000
Other debtors	567,650	291,848
Prepayments and accrued income	847,094	1,005,000
	<u>3,224,618</u>	<u>2,062,848</u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

14 Creditors: amounts falling due within one year

	1997 £	1996 £
Trade creditors	911,103	2,681,000
Amounts owed to group undertakings	4,998,682	1,118,000
Other taxation and social security	1,085,849	235,000
Other creditors	551,817	13,000
Accruals and deferred income	848,465	2,924,000
Obligations under finance leases and hire purchase contracts - note 15	162,451	20,000
	<u>8,558,367</u>	<u>6,991,000</u>

15 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Other creditors	-	12,000
Obligations under finance leases	297,995	91,000
	<u>297,995</u>	<u>103,000</u>

Obligations under finance leases and hire purchase contracts

These are repayable over varying periods by monthly instalments as follows:

In the next year - see note 14	162,451	20,000
In the second to fifth years	297,995	91,000
	<u>460,446</u>	<u>111,000</u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

16 Deferred taxation

	1997		1996	
	Potential asset £	Provision made £	Potential asset £	Provision made £
Corporation tax deferred by				
Capital allowances in deficit	196,698	-	159,720	-
	<u>196,698</u>	<u>-</u>	<u>159,720</u>	<u>-</u>

The potential asset is based on a corporation tax rate of 31% (1996 33%).

17 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Profit/(loss) for the financial year	2,509,708	(8,696,499)
Other recognised gains relating to the year (net)	992,500	-
New share capital subscribed	-	1,193,705
Net addition to/(subtraction from) shareholders' funds	3,502,208	(7,502,794)
Opening shareholders' funds	(3,072,295)	4,430,499
Closing shareholders' funds	<u>429,913</u>	<u>(3,072,295)</u>

18 Called up share capital

	1997		1996	
	Number of shares	£	Number of shares	£
Authorised Ordinary share capital of 2p each	<u>45,000,000</u>	<u>900,000</u>	<u>45,000,000</u>	<u>900,000</u>
Allotted called up and fully paid				
Ordinary share capital of 2p each	<u>32,085,245</u>	<u>641,705</u>	<u>32,085,245</u>	<u>641,705</u>

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

19 Share premium account

1997
£

1 January 1997

and

31 December 1997

4,404,000

20 Revaluation reserve

1997
£

1 January 1997

Surplus on revaluation

-

992,500

31 December 1997

992,500

21 Profit and loss account

1997
£

1 January 1997

Retained profit for the year

(8,118,000)

2,509,708

31 December 1997

(5,608,292)

OPTICAL EXPRESS (SOUTHERN) LIMITED

NOTES ON FINANCIAL STATEMENTS

31 December 1997

22 Guarantees and other financial commitments

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 December 1998.

	1997 Land and Buildings £	1997 Plant & Other £	1996 Land and Buildings £	1996 Plant & Other £
Expiring				
Within one year	367,850	92,205	54,000	71,000
Within two to five years	353,434	71,568	266,000	141,000
After five years	2,790,340	-	3,295,000	-
	<u>3,511,624</u>	<u>163,773</u>	<u>3,615,000</u>	<u>212,000</u>

The company has given an unlimited inter company cross guarantee between David Mouldsdales (Holdings) Limited, Optical Express (Westfield) Limited, Optical Express (Northern) Limited, Optical Express (Central) Limited, Optical Express (Gyle) Limited, Optical Express (Aberdeen) Limited, Optical Express (Leith) Limited, Optical Express (Ayr) Limited, Optical Express (Forge) Limited, Optical Express (Holdings) Limited and Total Eyecare Limited which is supported by a bond and floating charge and debenture over the whole company assets.

At 31st December 1997 the above companies loans and overdrafts totalled £5,516,734 (1996 £916,910).

23 Ultimate parent undertaking

The company's ultimate holding company is David Mouldsdales (Holdings) Limited, a company incorporated in Scotland. A copy of that company's accounts are available from Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB. This company is controlled by David Mouldsdales.

24 Related parties

The company has taken advantage of the exemption granted by paragraph 3c of Financial Reporting Standard 8 not to disclose transactions with other group companies. The company's other related party transactions during the year were as follows:

RELATED PARTY	RELATIONSHIP	TRANSACTIONS	AMOUNT £	BALANCE DUE (TO)/ FROM AT 31/12/97 £
David Mouldsdales	Director	Payments to	11,000	Nil
		Directors' loan account transferred to Optical Express (Central) Limited	11,000	