

Optical Express (Southern) Limited

FINANCIAL STATEMENTS

for the year ended

25 March 2006



Optical Express (Southern) Limited

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR

D Mouldsdaie

SECRETARY

G Murdoch

REGISTERED OFFICE

12 York Place
Leeds
LS1 2DS

AUDITORS

Baker Tilly
Chartered Accountants
Breckenridge House
274 Sauchiehall Street
Glasgow
G2 3EH

Optical Express (Southern) Limited

DIRECTOR'S REPORT

The director submits his report and financial statements of Optical Express (Southern) Limited for the year ended 25 March 2006

PRINCIPAL ACTIVITIES

The principal activity of the company during the year was that of opticians

REVIEW OF THE BUSINESS

The director is satisfied with the results for the year and continues to seek increases in both turnover and profitability

RESULTS AND DIVIDENDS

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements

The director has not recommended a dividend

DIRECTOR

The director who served the company during the year was as follows

D Mouldsdale

The company is a wholly owned subsidiary and the interests of the group director are disclosed in the financial statements of the parent company

DISABLED EMPLOYEES

The policies and training programmes operated by the company have been developed to attract and retain the best people on the basis of their skills and abilities. This ensures that the company offers people with disability the same opportunities for training and career progression as other employees

EMPLOYEE INVOLVEMENT

The company 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

The company values diversity in the workplace and is committed to providing the equality of opportunity to all employees and potential employees. It actively encourages training and skills development throughout the company

AUDITORS

A resolution to re-appoint Baker Tilly as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

Optical Express (Southern) Limited

DIRECTOR'S REPORT

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The director who was in office on the date of approval of these financial statements has confirmed that, as far as he is aware, there is no relevant information of which the auditors are unaware. The director has confirmed that he has taken all steps that he ought to take as a director to make himself aware of any relevant audit information and to establish it has been communicated to the auditors.

Registered office
12 York Place
Leeds
LS1 2DS

By order of the board



G Murdoch
Company Secretary

27/3/07

Optical Express (Southern) Limited

DIRECTOR'S RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The director is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 of the company for that period. In preparing those financial statements, the director is required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- d 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 requirements of the Companies Act 1985. The director is 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OPTICAL EXPRESS (SOUTHERN) LIMITED

We have audited the financial statements on pages 6 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 director and auditors

The director's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 director's remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Director's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 25 March 2006 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's Report is consistent with the financial statements.

Emphasis of matter – possible outcome of dispute with HM Revenue & Customs

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 10 to the financial statements concerning the possible outcome of a dispute in relation to the proportion of recoverable input tax between taxable and exempt suppliers. The company is pursuing an appeal in the Court of Session. The ultimate outcome of the matter cannot presently be determined, and no provision for any irrecoverable VAT that may result has been made in the financial statements.

BAKER TILLY

Registered Auditor
Chartered Accountants
Breckenridge House
274 Sauchiehall Street
Glasgow G2 3EH

27/3/07

Optical Express (Southern) Limited

PROFIT AND LOSS ACCOUNT

for the year ended 25 March 2006

	<i>Notes</i>	2006 £	2005 £
TURNOVER	1	40,251,272	36,343,999
Cost of sales		8,117,332	6,734,431
Gross profit		32,133,940	29,609,568
Administrative expenses		31,704,129	28,890,385
Other operating income	2	(133,126)	(108,119)
OPERATING PROFIT	3	562,937	827,302
Interest receivable		1,088	121,000
		564,025	948,302
Interest payable and similar charges	5	334,608	37,908
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		229,417	910,394
Taxation	6	169,962	378,821
RETAINED PROFIT FOR THE FINANCIAL YEAR		59,455	531,573

The operating profit for the year arises from the company's continuing operations

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account

Optical Express (Southern) Limited
NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 25 March 2006

	2006 £	2005 £
Profit on ordinary activities before taxation	229,417	910,394
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	<u>159,539</u>	<u>164,032</u>
Historical cost profit on ordinary activities before taxation	<u>388,956</u>	<u>1,074,426</u>
Historical cost profit for the year retained after taxation and dividends	<u>218,994</u>	<u>695,605</u>

Optical Express (Southern) Limited

BALANCE SHEET

25 March 2006

	Notes	2006 £	2005 £
FIXED ASSETS			
Intangible assets	7	239,412	282,290
Tangible assets	8	10,893,288	4,756,243
		<u>11,132,700</u>	<u>5,038,533</u>
CURRENT ASSETS			
Stocks	9	3,020,896	2,107,954
Debtors	10	12,390,180	8,561,638
Cash at bank and in hand		15,613	4,979,028
		<u>15,426,689</u>	<u>15,648,620</u>
CREDITORS			
Amounts falling due within one year	11	20,066,622	14,792,025
NET CURRENT (LIABILITIES)/ASSETS		<u>(4,639,933)</u>	<u>856,595</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,492,767</u>	<u>5,895,128</u>
CREDITORS			
Amounts falling due after more than one year	12	383,466	5,614
		<u>6,109,301</u>	<u>5,889,514</u>
PROVISIONS FOR LIABILITIES			
Deferred taxation	14	465,702	305,370
		<u>5,643,599</u>	<u>5,584,144</u>
CAPITAL AND RESERVES			
Called up equity share capital	17	642,705	642,705
Share premium account	18	5,969,037	5,969,037
Revaluation reserve	19	941,961	1,101,500
Profit and loss account	20	(1,910,104)	(2,129,098)
SHAREHOLDERS' FUNDS	21	<u>5,643,599</u>	<u>5,584,144</u>

The financial statements on pages 6 to 17 were approved and signed by the director and authorised for issue on 27/3/07



D Mouldsdales
Director

Optical Express (Southern) Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain fixed assets and on a going concern basis which is reliant on the continuing support of the other group companies and the groups bankers. In October 2006 the group received additional funding of £8 million from its bankers and £7 million from its shareholder.

CASH FLOW STATEMENT

The director has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent company publishes a consolidated cash flow statement.

TURNOVER

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

AMORTISATION

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill	- 20 years straight line
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FIXED ASSETS

All fixed assets are initially recorded at cost.

DEPRECIATION

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Short Leasehold Properties/Revaluations	- Over the term of the lease
Leasehold Improvements	- 15% reducing balance
Fixtures and Fittings	- 15% & 25% reducing balance
Equipment	- 10% & 15% reducing balance
Motor Vehicles	- 20% 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.

STOCKS

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

HIRE PURCHASE AGREEMENTS

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Optical Express (Southern) Limited

ACCOUNTING POLICIES

OPERATING LEASE AGREEMENTS

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

PENSIONS

The company made contributions into employees private pension schemes during the year. The assets of these schemes are held separately from those of the company. The contributions are charged to the profit and loss account.

FINANCIAL INSTRUMENTS

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as with financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

1 TURNOVER

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

2 OTHER OPERATING INCOME

	2006	2005
	£	£
Rent receivable	133,126	75,619
Other operating income	—	32,500
	<u>133,126</u>	<u>108,119</u>

3 OPERATING PROFIT

Operating profit is stated after charging

	2006	2005
	£	£
Amortisation	12,878	10,473
Depreciation of owned fixed assets	1,331,459	581,278
Depreciation of assets held under hire purchase agreements	54,252	3,330
Loss on disposal of fixed assets	37,959	18,357
Auditor's remuneration		
- as auditor	23,972	24,846
Operating lease costs		
Plant and equipment	124,943	30,904
Land and buildings	<u>6,976,600</u>	<u>5,809,918</u>

4 PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to

	2006	2005
	No	No
Production staff	54	54
Other	725	623
	<u>779</u>	<u>677</u>

The aggregate payroll costs of the above were

	2006	2005
	£	£
Wages and salaries	14,740,842	13,844,281
Social security costs	950,690	912,715
Other pension costs	64,272	65,725
	<u>15,755,804</u>	<u>14,822,721</u>

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Interest payable on bank borrowing	23,573	27,046
Finance charges	12,269	3,589
Other similar charges payable	27,548	7,273
Interest and late payment charges on overdue tax	271,218	—
	<u>334,608</u>	<u>37,908</u>

6 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2006	2005
	£	£
Current tax		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	-	299,707
(Over)/Under provision in prior year	9,630	10,019
Total current tax	9,630	309,726
Deferred tax		
Origination and reversal of timing differences	160,332	69,095
Tax on profit on ordinary activities	<u>169,962</u>	<u>378,821</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

	2006	2005
	£	£
Profit on ordinary activities before taxation	<u>229,417</u>	<u>910,394</u>
Profit/(loss) on ordinary activities by rate of tax	68,825	273,118
Expenses not deductible for tax purposes	379,487	96,446
Capital allowances in excess of depreciation	(199,171)	(72,176)
Other timing differences	(1,397)	2,319
Chargeable gain	3,300	-
Group relief received	(270,304)	-
Adjustments in respect of previous periods	9,630	10,019
Total current tax (note 6(a))	<u>9,630</u>	<u>309,726</u>

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

7 INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 27 March 2005	294,013
Transfers	(30,000)
At 25 March 2006	<u>264,013</u>
Amortisation	
At 27 March 2005	11,723
Charge for the year	12,878
At 25 March 2006	<u>24,601</u>
Net book value	
At 25 March 2006	<u>239,412</u>
At 26 March 2005	<u>282,290</u>

8 TANGIBLE FIXED ASSETS

	Short Leasehold Properties £	Equipment £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost or valuation					
At 27 March 2005	2,280,124	3,114,497	3,181,695	293,168	8,869,484
Additions	445,877	923,701	6,161,213	–	7,530,791
Disposals	(160,000)	(4,015)	(51,584)	–	(215,599)
Transfers	–	(1,389)	30,000	–	28,611
At 25 March 2006	<u>2,566,001</u>	<u>4,032,794</u>	<u>9,321,324</u>	<u>293,168</u>	<u>16,213,287</u>
Depreciation					
At 27 March 2005	1,036,687	1,492,082	1,397,509	186,963	4,113,241
Charge for the year	209,034	217,253	938,183	21,241	1,385,711
On disposals	(160,000)	(943)	(16,621)	–	(177,564)
Transfers	–	(1,389)	–	–	(1,389)
At 25 March 2006	<u>1,085,721</u>	<u>1,707,003</u>	<u>2,319,071</u>	<u>208,204</u>	<u>5,319,999</u>
Net book value					
At 25 March 2006	<u>1,480,280</u>	<u>2,325,791</u>	<u>7,002,253</u>	<u>84,964</u>	<u>10,893,288</u>
At 26 March 2005	<u>1,243,437</u>	<u>1,622,415</u>	<u>1,784,186</u>	<u>106,205</u>	<u>4,756,243</u>

The leasehold properties were revalued on 7th March 2000 on an open market valuation by Montagu Evans, Chartered Surveyors. The historical cost of the revalued short leasehold properties is £699,060 (2005 - £657,875)

Hire purchase agreements

Included within the net book value of £10,893,288 is £775,452 (2005 - £46,768) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £54,252 (2005 - £3,330)

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

9 STOCKS

	2006	2005
	£	£
Stock	<u>3,020,896</u>	<u>2,107,954</u>

10 DEBTORS

	2006	2005
	£	£
Trade debtors	1,167,359	1,188,690
Amounts owed by group undertakings	7,701,871	4,466,327
Other debtors	81	124,397
VAT recoverable	989,069	—
Prepayments and accrued income	2,531,800	2,782,224
	<u>12,390,180</u>	<u>8,561,638</u>

The Group is currently in dispute with HM Revenue & Customs in relation to the proportion of recoverable input tax between taxable and exempt supplies. Following a VAT Tribunal which was sympathetic to the Group's stance but refused the Group's appeal, they have now appealed to the Court of Session for a decision on this matter. Due to the dispute, HM Revenue & Customs have stopped making any repayments of VAT due to the Group and the above amount of £989,069 (2005: £NIL) is regarded as fully recoverable by the Director based on the advice he has received from his external advisors.

11 CREDITORS Amounts falling due within one year

	2006	2005
	£	£
Bank loans and overdrafts	1,888,662	—
Trade creditors	3,192,831	1,526,646
Amounts owed to group undertakings	6,550,486	9,526,443
Corporation tax	302,452	615,291
Other taxation and social security	4,520,971	2,028,633
Hire purchase agreements	252,769	7,485
Other creditors	2,343,472	127,684
Accruals and deferred income	1,014,979	959,843
	<u>20,066,622</u>	<u>14,792,025</u>

The bank holds a bond, floating charge and debenture over the assets of each group company.

12 CREDITORS Amounts falling due after more than one year

	2006	2005
	£	£
Hire purchase agreements	<u>383,466</u>	<u>5,614</u>

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

13 COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows

	2006	2005
	£	£
Amounts payable within 1 year	282,697	8,407
Amounts payable between 1 and 2 years	275,160	6,306
Amounts payable between 3 and 5 years	152,886	-
	<u>710,743</u>	<u>14,713</u>
Less interest and finance charges relating to future periods	(74,508)	(1,614)
	<u>636,235</u>	<u>13,099</u>
Hire purchase agreements are analysed as follows		
Current obligations	252,769	7,485
Non-current obligations	383,466	5,614
	<u>636,235</u>	<u>13,099</u>

14 DEFERRED TAXATION

The movement in the deferred taxation provision during the year was

	2006	2005
	£	£
Provision brought forward	305,370	236,275
Profit and loss account movement arising during the year	160,332	69,095
Provision carried forward	<u>465,702</u>	<u>305,370</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2006	2005
	£	£
Excess of taxation allowances over depreciation on fixed assets	467,376	299,947
Other timing differences	(1,674)	5,423
	<u>465,702</u>	<u>305,370</u>

If the revalued assets were sold at the values stated in note 8 the estimated tax payable on that individual transaction would amount to £462,000. No provision has been made as it is unlikely that any amount will become payable in the foreseeable future given the company's current intentions.

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

15 COMMITMENTS UNDER OPERATING LEASES

At 25 March 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2006	2005
	£	£
Operating leases which expire		
Within 1 year	130,875	127,367
Within 2 to 5 years	1,222,960	1,073,060
After more than 5 years	7,842,045	3,969,765
	<u>9,195,880</u>	<u>5,170,192</u>

16 RELATED PARTY TRANSACTIONS

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

17 SHARE CAPITAL

	2006	2005
	£	£
Authorised		
45,000,000 Ordinary shares of £0.02 each	900,000	900,000
1,000 Deferred shares of £1 each	1,000	1,000
	<u>901,000</u>	<u>901,000</u>
	2006	2005
	£	£
Allotted, called up and fully paid		
32,085,245 Ordinary shares of £0.02 each	641,705	641,705
1,000 Deferred shares of £1 each	1,000	1,000
	<u>642,705</u>	<u>642,705</u>

The rights attaching to the deferred shares are as follows

On a return of assets in a liquidation or otherwise, the assets of the company remaining after the payment of its liabilities will be applied firstly, in paying the holders of the 2p Ordinary Shares a sum equal to the balance of such assets up to a maximum of £100,000,000 and secondly, in distributing the balance of such assets among the holders of the Deferred Shares

The holders of the Deferred shares shall be entitled to receive notice of and attend at general meetings but shall not be entitled to vote

18 SHARE PREMIUM ACCOUNT

There was no movement on the share premium account during the financial year

Optical Express (Southern) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 25 March 2006

19 REVALUATION RESERVE

	2006	2005
	£	£
At 27 March 2005	1,101,500	1,265,532
Transfer to the profit and loss account on realisation	(159,539)	(164,032)
At 25 March 2006	<u>941,961</u>	<u>1,101,500</u>

20 PROFIT AND LOSS ACCOUNT

	2006	2005
	£	£
At 27 March 2005	(2,129,098)	(2,824,703)
Retained profit for the financial year	59,455	531,573
Transfer from revaluation reserve	159,539	164,032
At 25 March 2006	<u>(1,910,104)</u>	<u>(2,129,098)</u>

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006	2005
	£	£
Profit for the financial year	59,455	531,573
Opening shareholders' funds	5,584,144	5,052,571
Closing shareholders' funds	<u>5,643,599</u>	<u>5,584,144</u>

22 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The bank holds an unlimited inter company cross guarantee between the company and the other group companies

At the 25 March 2006 the above companies' loans and overdrafts totalled £12,328,718 (2005 £15,155,334)

23 ULTIMATE PARENT COMPANY

The company's holding company is Optical Express (Holdings) Limited and ultimate holding company is DCM (Optical Holdings) Limited Both companies are incorporated in Scotland A copy of the companies' accounts is available from Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB These companies are controlled by D Mouldsdaie