

Company Registration No. 3086310 (England and Wales)

patsystems (UK) Limited
ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2002



Patsystems (UK) Limited
DIRECTORS AND ADVISERS

Directors	Kevin Ashby
	Richard Cooper
	William Todd
Secretary	Richard Cooper
Registered office	22 Shand Street London SE1 2ES
Company number	3086310
Principal Bankers	The Royal Bank of Scotland plc 62/63 Threadneedle Street London EC2R 8LA
	HSBC PO Box 648 27-32 Poultry London EC2P 2BX
Solicitors	Jones Day 10 Old Bailey London EC4M 6JA
	Baker & McKenzie 100 New Bridge Street London EC4V 6JA
Registered auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

Patsystems (UK) Limited

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Patsystems (UK) Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

The directors present their report and audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activities of the Company were the development, distribution and support of software enabling electronic trading of financial products on global trading exchanges.

Results and dividends

The loss of the Company for the year ended 31 December 2002 was £6,969,569 compared to a loss of £8,611,322 for the year ended 31 December 2001. The directors do not recommend the payment of a dividend for the year (2001: Nil).

Review of business

During the year the Company experienced significant managerial change and a re-evaluation of the business. The Company has made significant progress in identifying and resolving many of the problems that occurred in prior years and have established a new strategy, which will offer the prospect of sustainable growth in the future.

Directors and their interests

The directors who held office during the year were:

	Date appointed	Date resigned
C J Maityard		4 March 2002
David Jones		11 December 2002
Kevin Ashby	4 September 2002	
Richard Cooper	30 April 2002	
Roger Colletta	30 April 2002	4 April 2003
June Bridgeman	30 April 2002	14 January 2003
William Todd	30 April 2002	

The directors' interests in shares and share options in Patsystems Plc are disclosed in that company's financial statements.

The directors do not have any interest in the shares of Patsystems (UK) Ltd.

Patsystems (UK) Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

Research and development

All expenditure, whether incurred through internal staff costs or through third party supplies, relating to research and development is written off to the profit and loss account in the period incurred, and is not capitalised.

Charitable & political donations

The Company contributed £500 to the Macmillian Cancer Relief Charity (2001: £6,336). No political donations were made in 2002 or 2001.

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 year. 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 group will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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.

Auditors

Following the conversion by the auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 12 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

The directors will propose a resolution to the members at the Annual General Meeting to re-appoint PricewaterhouseCoopers as Auditors.

By order of the Board



Richard Cooper
Company Secretary

Patsystems (UK) Limited

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PATSYSTEMS (UK) LIMITED

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

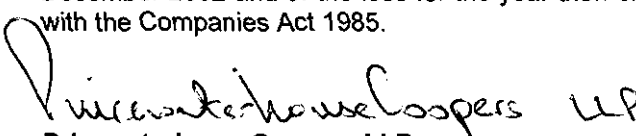
Basis of audit opinion

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 the company's affairs at 31 December 2002 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

23/10/03

Patsystems (UK) Limited
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

		2002	2001
	Notes	£	£
Turnover	2	3,308,442	2,210,313
Cost of sales		(114,770)	(85,784)
Gross profit		3,193,672	2,124,529
Administrative expenses		(10,356,796)	(10,838,741)
Other Income		186,743	98,509
Operating loss	4	(6,976,381)	(8,615,703)
Interest receivable and similar income	5	7,731	4,412
Interest payable and similar charges	6	(919)	(31)
Loss on ordinary activities before taxation		(6,969,569)	(8,611,322)
Tax on loss on ordinary activities	7	-	-
Loss for the financial year	14	(6,969,569)	(8,611,322)

The Profit and loss account has been prepared on the basis that all operations are continuing operations.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

The Company has no recognised gains or losses other than the loss for the year above and therefore no separate statement of total recognised gains and losses has been prepared.

Patsystems (UK) Limited**BALANCE SHEET****FOR THE YEAR ENDED 31 DECEMBER 2002**

		2002	2001
	Notes	£	£
Fixed assets			
Intangible assets	8	142,758	253,736
Tangible assets	9	431,411	824,288
		<u>574,169</u>	<u>1,078,024</u>
Current assets			
Stock		2,776	2,776
Debtors	10	2,878,795	2,240,233
Cash at bank		495,446	183,811
		<u>3,377,017</u>	<u>2,426,820</u>
Creditors: amounts falling due within one year	11	<u>(24,719,895)</u>	<u>(17,473,984)</u>
Net current liabilities		<u>(21,342,878)</u>	<u>(15,047,164)</u>
Total assets less current liabilities		<u>(20,768,709)</u>	<u>(13,969,140)</u>
Provisions for liabilities and charges	12	<u>(170,000)</u>	<u>-</u>
Net liabilities		<u>(20,938,709)</u>	<u>(13,969,140)</u>
Capital and reserves			
Called up share capital	13	1,874	1,874
Share premium account	14	3,961,366	3,677,166
Warrant reserve	14	-	284,200
Profit and loss account	14	<u>(24,901,949)</u>	<u>(17,932,380)</u>
Equity Shareholders' deficit	15	<u>(20,938,709)</u>	<u>(13,969,140)</u>

The financial statements on pages 4 to 14 were approved by the board of directors on 23 October 2003 and were signed on its behalf:



Director

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom on a going concern basis and under the historical cost accounting rules.

The following accounting policies have been applied consistently throughout the year in relation to the Company's financial statements.

1.1. Going concern

The accounts have been prepared on a going concern concept because the Parent Company, Patsystems Holdings Limited (formerly Patsystems Plc), has agreed to provide funds for the Company to meet its liabilities as they fall due for twelve months from the date of this report.

1.2. Turnover and revenue recognition

Turnover represents amounts receivable for goods and services net of VAT and trade discounts from third party customers. The amounts included and their treatment in the financial statements are as follows:

- (i) Non-refundable installation income – this is invoiced in advance of installation work and is taken to the profit and loss account in line with the cost of performing the work.
- (ii) Monthly end-user or lot charges and annual maintenance income – these are credited to the profit and loss account in the period to which they relate.
- (iii) Income from consultancy and software development projects and interface– this is recognised in the profit and loss account on the date of acceptance of the consultancy or software development by the customer.

1.3. Software licences

The software licences purchased are being amortised on a straight-line basis over a three year period.

1.4. Tangible fixed assets and depreciation

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

Leasehold improvements	- over period of lease
Computer hardware and software	- over 3 years on a straight-line basis
Furniture, fixtures and fittings	- over 4 years on a straight-line basis

1.5. Research and development

All research and development expenditure is written off as incurred

1.6. Stocks

Stocks are stated at the lower of cost and net realisable value.

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

1.7. Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

1.8. Deferred taxation

Deferred tax is recognised in respect of all timing differences arising from the different treatments for accounts and tax purposes of transactions or events recognised in the financial statements of the current and previous financial years. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred taxation is calculated at the rates at which it is estimated that tax will arise. Deferred tax assets and liabilities recognised have not been discounted.

1.9. Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction, except, where the transaction is settled at a contracted rate, the contracted rate is used.

1.10. Related party transactions

Financial Reporting Standard (FRS) 8, "Related Party Transactions", requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under FRS 8 not to disclose transactions between group companies.

1.11. Pension Costs

The Company operates a defined contribution scheme which is open to all Company employees and was set up in 2001. 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 in respect of the financial year.

1.12. Cash Flow statement

The Company is a wholly owned subsidiary of Patsystems Plc and is included in the consolidated financial statements of Patsystems Plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

1.13. Onerous lease provision

Provision is made for future rentals of vacant property. In calculating the provision required account is taken of the duration of the lease and any recovery of cost achievable from subletting. The provision has not been discounted.

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

2. Segmental analysis

	2002	2001
	£	£
Analysis of turnover on continuing operations		
By origin		
United Kingdom	3,308,442	2,210,313

Turnover by destination is not significantly different from turnover by origin in 2002 or 2001.

3. Staff Costs

Staff costs (including directors' emoluments) during the year amounted to:

	2002	2001
	£	£
Wages and salaries	4,243,003	4,317,181
Social security costs	470,741	592,385
Pension costs	169,239	86,438
	4,882,983	4,996,004

There is no pension prepayment or accrual.

The average monthly number of employees (including directors) during the year was:

	2002	2001
Product development and testing	26	34
Sales and marketing	6	7
Account management and client services	27	33
Finance, HR, operations and management	20	17
	79	91

Details of the emoluments of the directors are set out in the Report of the Board on Directors' Remuneration in the annual report of Patsystems Holdings Ltd.

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

4. Operating loss

	2002 £	2001 £
Operating loss is stated after charging:		
Amortisation of intangible assets	116,761	122,433
Depreciation of tangible assets	412,696	372,945
Research and development	964,868	761,443
Operating lease rentals – plant and machinery	15,388	12,140
– other	250,321	313,356
Auditors' remuneration	50,000	40,000
Remuneration of auditors for non-audit work	5,200	4,933
Foreign exchange loss	16,233	5,354

5. Interest receivable and similar income

	2002 £	2001 £
Bank interest	7,731	4,412

6. Interest payable and similar charges

	2002 £	2001 £
On bank loans and overdrafts	919	31

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

7. Taxation

The Company has no current tax charge due to losses.

The tax for the period is different from that which would result from applying the standard rate of Corporation Tax in the UK (30%). The differences are explained below:

	<u>2002</u>	<u>2001</u>
	<u>£</u>	<u>£</u>
Loss on ordinary activities before tax	(6,969,569)	(8,611,322)
Loss on ordinary activities multiplied by standard rate of UK Corporation Tax in the UK of 30% (2001:30%)	(2,090,871)	(2,583,397)
Effects of:		
Expenses not deductible for tax purposes	69,647	26,004
Short term timing differences	(72,561)	93,772
Depreciation in excess of capital allowances	123,809	111,884
Amortisation of software licences	35,028	36,730
Tax losses not utilised	1,934,948	2,315,007
Tax on loss on ordinary activities	-	-

A deferred tax asset of £6,327,787 (2001: £4,392,097) primarily on tax losses is available to carry forward. It will only be possible to offset the losses if sufficient taxable profits are generated, and currently there is insufficient evidence that any asset would be recoverable.

8. Intangible fixed assets

	Software Licences
Cost	£
At 1 January 2002	534,628
Additions	5,783
At 31 December 2002	540,411
Amortisation	
At 1 January 2002	280,892
Charge for year	116,761
At 31 December 2002	397,653
Net book value	
At 31 December 2002	142,758
At 31 December 2001	253,736

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

9. Tangible fixed assets

	Leasehold improvements	Computer equipment	Fixtures & fittings	Total
	£	£	£	£
Cost				
At 1 January 2002	118,824	859,308	446,194	1,424,326
Additions	-	12,405	7,414	19,819
Disposals	-	(105)	(1,456)	(1,561)
At 31 December 2002	118,824	871,608	452,152	1,442,584
Depreciation				
At 1 January 2002	65,174	351,095	183,769	600,038
Charge for the year	24,089	283,405	105,202	412,696
Disposals	-	(105)	(1,456)	(1,561)
At 31 December 2002	89,263	634,395	287,515	1,011,173
Net book value				
At 31 December 2002	29,561	237,213	164,637	431,411
At 31 December 2001	53,650	508,213	262,425	824,288

10. Debtors

	2002	2001
	£	£
Trade debtors	635,172	802,564
Amounts owed by group undertakings	1,566,739	1,162,624
Other debtors	97,150	145,647
Prepayments and accrued income	579,734	129,398
	2,878,795	2,240,233

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

11. Creditors: amounts falling due within one year

	2002	2001
	£	£
Trade creditors	535,606	710,254
Amounts due to group undertakings	22,564,283	15,412,608
Other taxes and social security costs	160,624	171,216
Other creditors	488,151	1,227
Accruals and deferred income	971,231	1,178,679
	<u>24,719,895</u>	<u>17,473,984</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

12. Provision for liabilities and charges

	At 1 January 2002	Provided during the year	At 31 December 2002
		£	£
Onerous lease provision	-	170,000	170,000

The Onerous Lease Provision is for vacant properties and covers the anticipated future costs of rent in respect of unoccupied property on the basis of when the property is anticipated to be sublet. The provision has not been discounted.

13. Share capital

	2002	2001
	£	£
Authorised		
10,000,000 Ordinary shares of 1p each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid		
187,432 (2001: 187,432) Ordinary shares of 1p each	<u>1,874</u>	<u>1,874</u>

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

14. Statement of movements on reserves

	Share premium account	Warrant reserve	Profit and loss account
	£	£	£
Balance at 1 January 2002	3,677,166	284,200	(17,932,380)
Transfer	284,200	(284,200)	-
Loss for the year	-	-	(6,969,569)
Balance at 31 December 2002	3,961,366	-	(24,901,949)

15. Reconciliation of movements in shareholders' deficit

	2002	2001
	£	£
Loss for the financial year	(6,969,569)	(8,611,322)
Opening shareholders' deficit	(13,969,140)	(5,357,818)
Closing shareholders' deficit	(20,938,709)	(13,969,140)

16. Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2002	2001
	£	£
Expiry date:		
Within one year	-	7,912
Between two and five years	-	-
In over five years	199,410	261,834
	199,410	269,746

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

17. Related party transactions

Turnover includes £273,987 (2001: £189,550) derived from IntesaBci (London Branch), formerly BCI (London), a member of a group of companies which include IntesaBCI (Suisse), a shareholder of Patsystems Plc. Trade debtors include amounts due from this company of £81,920 (2001: £32,300).

18. Ultimate parent undertaking

The immediate parent undertaking is Patsystems Holdings Limited (formerly **patsystems plc**). The ultimate controlling party is Patsystems Plc (formerly Lionstand Plc). Copies of the financial statements of Patsystems Holdings Limited can be obtained from the Company Secretary at the Company's registered office at 22 Shand Street, London SE1 2ES or from the Investor Relations section of the Company's internet site at www.patsystems.com.