

Company Registration No. 3086310 (England and Wales)

patsystems (UK) Limited
ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2003



Patsystems (UK) Limited
DIRECTORS AND ADVISERS

Directors	Kevin Ashby
	Richard Cooper
	William Todd
	Andrew Edwards
	Nick Garrow
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 21 Tudor Street London EC4M 6JA
	Baker & McKenzie 100 New Bridge Street London EC4B 02Y
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 2003

The directors present their report for Patsystems (UK) Limited and audited financial statements for the year ended 31 December 2003.

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 2003 was £2,100,025 compared to a loss of £6,969,569 for the year ended 31 December 2002. The directors do not recommend the payment of a dividend for the year (2002: Nil).

Review of business

The Directors are pleased with the Company's improved performance during the year and its position at 31 December 2003. The Directors are confident that performance will continue to improve in 2004 and beyond.

Directors and their interests

The directors who held office during the year were:

	Date appointed	Date resigned
Kevin Ashby	-	-
Richard Cooper	-	-
William Todd	-	-
Andrew Edwards	23 October 2003	-
Nick Garrow	23 October 2003	-
Roger Colletta	-	4 April 2003
June Bridgeman	-	14 January 2003

Patsystems (UK) Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

The interests of directors (who were directors at 31 December 2003) in shares and share options in Patsystems Plc are disclosed in that company's financial statements, except for:

Shares

	31 December 2003	31 December 2002
William Todd	161,296	161,296
Andrew Edwards	140,000	-
Nick Garrow	40,904	40,904

<u>Share Options</u>	<u>31 December 2003</u>		<u>31 December 2002</u>
Options price	5.08p	15.58p	107p
William Todd	312,500	473,000	-
Andrew Edwards	250,000	535,500	-
Nick Garrow	500,000	285,500	52,336

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

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.

Charitable & political donations

The Company made no charitable contributions in 2003. In 2002 charitable donations totalling £500 were made. No political donations were made in 2003 or 2002.

Patsystems (UK) Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

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

The Directors dispensed with the requirement to hold an Annual General Meeting and to appoint auditors annually as the Company is a wholly owned subsidiary.

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.

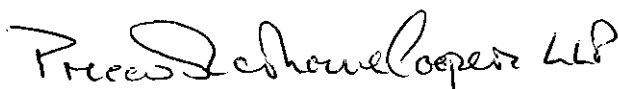
Basis of audit opinion

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 2003 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

12 May 2004

Patsystems (UK) Limited
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

		2003	2002
	Notes	£	£
Turnover	2	5,125,442	3,308,442
Cost of sales		(318,860)	(114,770)
Gross profit		4,806,582	3,193,672
Administrative expenses		(8,396,841)	(10,356,796)
Other Income		1,486,163	186,743
Operating loss	5	(2,104,096)	(6,976,381)
Interest receivable and similar income	6	6,042	7,731
Interest payable and similar charges	7	(1,971)	(919)
Loss on ordinary activities before taxation		(2,100,025)	(6,969,569)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year	15	(2,100,025)	(6,969,569)

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 2003**

		2003	2002
	Notes	£	£
Fixed assets			
Intangible assets	9	66,051	142,758
Tangible assets	10	458,882	431,411
		<u>524,933</u>	<u>574,169</u>
Current assets			
Stock		33,023	2,776
Debtors	11	5,903,998	2,878,795
Cash at bank		619,385	495,446
		<u>6,556,406</u>	<u>3,377,017</u>
Creditors: amounts falling due within one year	12	<u>(30,071,545)</u>	<u>(24,719,895)</u>
Net current liabilities		<u>(23,515,139)</u>	<u>(21,342,878)</u>
Total assets less current liabilities		<u>(22,990,206)</u>	<u>(20,768,709)</u>
Provisions for liabilities and charges	13	<u>(48,528)</u>	<u>(170,000)</u>
Net liabilities		<u>(23,038,734)</u>	<u>(20,938,709)</u>
Capital and reserves			
Called up share capital	14	1,874	1,874
Share premium account	15	3,961,366	3,961,366
Profit and loss account	15	<u>(27,001,974)</u>	<u>(24,901,949)</u>
Equity Shareholders' deficit	16	<u>(23,038,734)</u>	<u>(20,938,709)</u>

The financial statements on pages 5 to 15 were approved by the board of directors on 7th May 2004 and were signed on its behalf:

Director



Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985, under the historical cost convention.

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 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. Cost of sales

Cost of sales represents cost of goods resold directly to customers. In 2002 cost of sales also included exchange connectivity, but the Board decided that this is not a cost of sale and have re-classified it this year. No restatement was made to the 2002 figures as the adjustment would not be material.

1.4. Software licences

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

1.5. 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

1.6. Research and development

All research and development expenditure is written off as incurred.

1.7. 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 2003

1.8. 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.

1.9. 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.

1.10. 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.

1.11. 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.

1.12. 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.

1.13. Cash Flow statement

The Company is a wholly owned subsidiary of Patsystems Holdings Limited 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).

1.14. 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 2003

2. Segmental analysis

	2003	2002
	£	£
Analysis of turnover on continuing operations		
By origin		
United Kingdom	5,125,442	3,308,442
By destination		
United Kingdom	4,283,329	3,308,442
Asia Pacific	842,113	-
	5,125,442	3,308,442

3. Staff Costs

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

	2003	2002
	£	£
Wages and salaries	4,186,988	4,243,003
Social security costs	464,117	470,741
Pension costs	135,741	169,239
	4,786,846	4,882,983

There is no pension prepayment or accrual.

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

	2003	2002
Product development and testing	26	26
Sales and marketing	6	6
Account management and client services	20	27
Finance, HR, operations and management	14	20
	66	79

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

4. Directors' emoluments

	2003 £	2002 £
Aggregate emoluments	663,021	326,312
Pension contributions	7,002	23,080

Retirement benefits are accruing to two (2002: one) directors under a defined contribution scheme.

Highest paid director

Kevin Ashby is the highest paid director. Full details of his emoluments are in the annual report of Patsystems Plc.

5. Operating loss

	2003 £	2002 £
Operating loss is stated after charging/(crediting):		
Amortisation of intangible assets	99,744	116,761
Depreciation of tangible assets	337,154	412,696
Research and development	2,379,339	964,868
Operating lease rentals – plant and machinery	16,328	15,388
– other	134,587	250,321
Auditors' remuneration	25,000	50,000
Remuneration of auditors for non-audit work	40,265	5,200
Foreign exchange loss	19,322	16,233
Other Income - royalties	1,486,163	186,743

*The fees paid to auditors for non audit purposes in 2002 and 2003 were for tax advice.

Operating expenses are all of an administrative nature.

6. Interest receivable and similar income

	2003 £	2002 £
Bank interest	6,042	7,731

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

7. Interest payable and similar charges

	2003 £	2002 £
On bank loans and overdrafts	1,971	919

8. Taxation

The Company has no current tax charge due to availability of losses. The tax for the year is different from that which would result from applying the standard rate of Corporation Tax in the UK (30%). The differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	(2,100,025)	(6,969,569)
Loss on ordinary activities multiplied by standard rate of UK Corporation Tax in the UK of 30% (2002:30%)	(630,008)	(2,090,871)
Effects of:		
Expenses not deductible for tax purposes	16,393	69,647
Short term timing differences	-	(72,561)
Depreciation in excess of capital allowances	109,162	123,809
Amortisation of software licences	29,923	35,028
Tax losses not utilised	474,530	1,934,948
Tax on loss on ordinary activities	-	-

A deferred tax asset of £5,881,322 (2002: £5,406,792) 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.

9. Intangible fixed assets

	Software Licences £
Cost	
At 1 January 2003	540,411
Additions	23,037
At 31 December 2003	563,448

Patsystems (UK) Limited**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****Amortisation**

At 1 January 2003	397,653
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Charge for year	99,744
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At 31 December 2003	497,397
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Net book value

At 31 December 2003	66,051
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At 31 December 2002	142,758
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10. Tangible fixed assets

	Leasehold improvements	Computer equipment	Fixtures & fittings	Total
	£	£	£	£
Cost				
At 1 January 2003	118,824	871,608	452,152	1,442,584
Reclassification	-	22,757	(22,757)	-
Additions	-	348,614	16,905	365,519
Disposals	-	(50,192)	-	(50,192)
At 31 December 2003	118,824	1,192,787	446,300	1,757,911
Depreciation				
At 1 January 2003	89,263	634,395	287,515	1,011,173
Reclassification	-	4,233	(4,233)	-
Charge for the year	23,753	240,397	73,004	337,154
Disposals	-	(49,298)	-	(49,298)
At 31 December 2003	113,016	829,727	356,286	1,299,029
Net book value				
At 31 December 2003	5,808	363,060	90,014	458,882
At 31 December 2002	29,561	237,213	164,637	431,411

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

11. Debtors

	2003	2002
	£	£
Trade debtors	1,015,976	635,172
Amounts owed by group undertakings	4,083,574	1,566,739
Other debtors	90,458	97,150
Prepayments and accrued income	713,990	579,734
	<u>5,903,998</u>	<u>2,878,795</u>

12. Creditors: amounts falling due within one year

	2003	2002
	£	£
Trade creditors	897,108	535,606
Amounts due to group undertakings	27,679,920	22,564,283
Other taxes and social security costs	186,850	160,624
Other creditors	488,150	488,151
Accruals and deferred income	819,517	971,231
	<u>30,071,545</u>	<u>24,719,895</u>

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

13. Provision for liabilities and charges

	At 1 January 2003	New provisions made in year	Utilised /released in the year	At 31 December 2003
	£	£	£	£
Onerous lease provision	170,000	-	(170,000)	-
Dilapidations provision	-	48,528	-	48,528
	<u>170,000</u>	<u>48,528</u>	<u>(170,000)</u>	<u>48,528</u>

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

The Onerous Lease Provision was 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 was not discounted.

The dilapidations provision is to cover the estimated future costs required to meet the obligations under the property lease to return them to the same condition as when first let, when our lease expires. The provision has not been discounted.

14. Share capital

	2003	2002
	£	£
Authorised		
10,000,000 Ordinary shares of 1p each	100,000	100,000
Allotted, called up and fully paid		
187,432 (2002: 187,432) Ordinary shares of 1p each	1,874	1,874

15. Statement of movements on reserves

	Share premium account	Profit and loss account
	£	£
Balance at 1 January 2003	3,961,366	(24,901,949)
Loss for the year	-	(2,100,025)
Balance at 31 December 2003	3,961,366	(27,001,974)

16. Reconciliation of movements in shareholders' deficit

	2003	2002
	£	£
Loss for the financial year	(2,100,025)	(6,969,569)
Opening shareholders' deficit	(20,938,709)	(13,969,140)
Closing shareholders' deficit	(23,038,734)	(20,938,709)

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

17. Financial commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2003	2002
	£	£
Expiry date:		
Within one year	16,997	-
In over five years	132,940	199,410
	149,937	199,410

18. Related party transactions

Turnover includes £308,000 (2002: £274,000) in respect of Caboto IntesaBCI(London Branch), a member of a group of companies which include CAI (Suisse), a shareholder of the Company. Trade debtors include a credit balance due to this company of £18,000 (2002: debit balance £82,000).

19. Ultimate parent undertaking

The immediate parent undertaking is Patsystems Holdings Limited. The ultimate controlling party is Patsystems Plc, a company incorporated in Great Britain. Copies of the financial statements of Patsystems Plc 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.