

Company Registration No. 3086310 (England and Wales)

patsystems (UK) Limited
ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2004



Patsystems (UK) Limited

DIRECTORS AND ADVISERS

Directors

Kevin Ashby

Martin Thorneycroft

William Todd

Andrew Edwards

Nick Garrow

Secretary

Joel Davidson

Registered office

Cottons Centre
Hays Lane, London
SE1 2QP

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 2004

The directors present their report for Patsystems (UK) Limited and audited financial statements for the year ended 31 December 2004.

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 2004 was £1,597,888 compared to a loss of £2,100,025 for the year ended 31 December 2003. The directors do not recommend the payment of a dividend for the year (2003: Nil).

Review of business

The Directors are pleased with the Company's improved performance during the year and its position at 31 December 2004. The Directors are confident that performance will continue to improve in 2005 and beyond.

Directors and their interests

The directors who held office during the year were:

	Date appointed	Date resigned
Kevin Ashby	-	-
Richard Cooper	-	5 July 2004
William Todd	-	-
Andrew Edwards	-	-
Nick Garrow	-	-
Martin Thorneycroft	5 July 2004	-

Patsystems (UK) Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

The interests of directors (who were directors at 31 December 2004) in shares and share options in Patsystems Plc are disclosed in that company's financial statements, except for:

Shares

	31 December 2004	31 December 2003
William Todd	161,296	161,296
Andrew Edwards	140,000	140,000
Nick Garrow	40,904	40,904

Share Options

	<u>31 December 2004</u>		<u>31 December 2003</u>	
Options price	5.08p	15.58p	5.08p	15.58p
William Todd	312,500	473,000	312,500	473,000
Andrew Edwards	250,000	535,500	250,000	535,500
Nick Garrow	500,000	285,500	500,000	285,500

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 charitable contributions of £1,410 in 2004. No charitable donations were made in 2003. No political donations were made in 2004 or 2003.

Patsystems (UK) Limited

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

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



Joel Davidson

31 Company Secretary

March 2005

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.

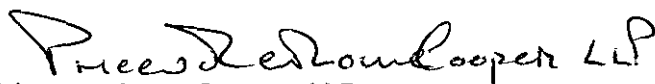
Basis of audit opinion

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 2004 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

31 March 2005

Patsystems (UK) Limited**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2004**

		2004	2003
	Notes	£	£
Turnover	2	5,666,065	5,125,442
Cost of sales		(49,816)	(318,860)
Gross profit		5,616,249	4,806,582
Administrative expenses		(9,764,743)	(8,396,841)
Other Income		1,572,993	1,486,163
Operating loss	5	(2,575,501)	(2,104,096)
Interest receivable and similar income	6	25,701	6,042
Interest payable and similar charges	7	(3,423)	(1,971)
Loss on ordinary activities before taxation		(2,553,223)	(2,100,025)
Tax on loss on ordinary activities	8	955,335	-
Loss for the financial year	16	(1,597,888)	(2,100,025)

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

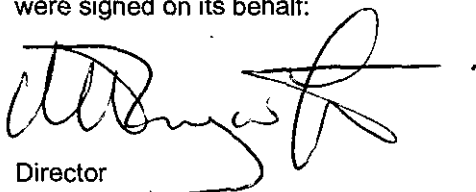
There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

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 2004**

		2004	2003
	Notes	£	£
Fixed assets			
Intangible assets	9	256,233	66,051
Tangible assets	10	895,688	458,882
		<u>1,151,921</u>	<u>524,933</u>
Current assets			
Stock	11	265,052	33,023
Debtors	12	8,498,629	5,903,998
Cash at bank		8,724	619,385
		<u>8,772,405</u>	<u>6,556,406</u>
Creditors: amounts falling due within one year	13	<u>(1,932,681)</u>	<u>(2,391,625)</u>
Net current assets		<u>6,839,724</u>	<u>4,164,781</u>
Total assets less net current assets		<u>7,991,645</u>	<u>4,689,714</u>
Creditors: amounts falling due after more than one year	14	<u>(32,628,267)</u>	<u>(27,679,920)</u>
Provisions for liabilities and charges	15	-	(48,528)
Net liabilities		<u>(24,636,622)</u>	<u>(23,038,734)</u>
Capital and reserves			
Called up share capital	16	1,874	1,874
Share premium account	17	3,961,366	3,961,366
Profit and loss account	17	(28,599,862)	(27,001,974)
Equity Shareholders' deficit	18	<u>(24,636,622)</u>	<u>(23,038,734)</u>

The financial statements on pages 5 to 15 were approved by the board of directors on 31 March 2005 and were signed on its behalf:



Director

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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. 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 performance of the work.
- (ii) Monthly end-user or lot charges and annual maintenance income on any rentals – these are credited to the profit and loss account in the period in which the service is provided.
- (iii) Income from consultancy and software development projects – 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.

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 2004

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 that have orientated but not reversed at the balance sheet date, where the 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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits to utilise carried forward tax losses and against which the reversal of underlying timing differences can be deducted.

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

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).

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2. Segmental analysis

	2004	2003
	£	£
Analysis of turnover on continuing operations		
By origin		
United Kingdom	5,666,065	5,125,442
By destination		
United Kingdom	5,037,180	4,283,329
Asia Pacific	628,885	842,113
	5,666,065	5,125,442

3. Staff Costs

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

	2004	2003
	£	£
Wages and salaries	4,448,000	4,186,988
Social security costs	530,654	464,117
Pension costs	167,343	135,741
	5,145,997	4,786,846

There is no pension prepayment or accrual.

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

	2004	2003
Sales & Account Management	10	9
Customer Operations, Testing and Technical	44	38
Development	9	8
Finance, Administration and Board	12	11
	75	66

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

4. Directors' emoluments

	2004 £	2003 £
Aggregate emoluments	784,723	663,021
Pension contributions	27,125	7,002

Included in Aggregate emoluments is £113,500 paid to Richard Cooper for compensation for loss of office.

Retirement benefits are accruing to three (2003: two) 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

	2004 £	2003 £
Operating loss is stated after charging:		
Amortisation of intangible assets	140,304	99,744
Depreciation of tangible assets	278,671	337,154
Operating lease rentals – plant and machinery	16,072	16,328
– other	151,196	134,587
Auditors' remuneration	30,000	25,000
Remuneration of auditors for non-audit work	68,916	40,265
Foreign exchange loss	60,383	19,322
Other Income - royalties	1,572,993	1,486,163

*The fees paid to auditors for non audit purposes in 2003 and 2004 were for tax and accounting advice.

Operating expenses are all of an administrative nature.

Research & Development

Total investment in Research & Development in the year was £2,851,000, consisting of £1,853,000 on external costs of trademark and £998,000 on internal staff working on trademark.

In 2003 the investment was £2,380,000, consisting of £1,469,000 on external costs of trademark and £911,000 on internal staff working on trademark

Patsystems (UK) Limited**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2004****6. Interest receivable and similar income**

	2004 £	2003 £
Bank interest	11,020	-
Other interest	14,681	6,042
	<u>25,701</u>	<u>6,042</u>

7. Interest payable and similar charges

	2004 £	2003 £
On bank loans and overdrafts	<u>3,423</u>	<u>1,971</u>

8. Taxation

The Company has no current tax charge due to losses arising in the year. 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:

	2004 £	2003 £
Loss on ordinary activities before tax	<u>(2,553,223)</u>	<u>(2,100,025)</u>
Loss on ordinary activities multiplied by standard rate of UK Corporation Tax in the UK of 30% (2003:30%)	(765,967)	(630,008)
Effects of:		
R & D tax credit in respect of current period	(350,000)	-
R & D tax credit in respect of prior periods	(632,017)	-
Expenses not deductible for tax purposes	34,290	16,393
Short term timing differences	(146,400)	-
Depreciation in excess of capital allowances	83,868	109,162
Amortisation of software licences	42,091	29,923
Withholding tax	26,682	-
Tax losses not utilized	752,118	474,530
Tax on loss on ordinary activities	<u>(955,335)</u>	<u>-</u>

A deferred tax asset of £6,196,349 (2003: £5,444,230) 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.

Patsystems (UK) Limited**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2004****9. Intangible fixed assets**

	Software Licences
Cost	£
At 1 January 2004	563,448
Additions	330,486
At 31 December 2004	893,934
Amortisation	
At 1 January 2004	497,397
Charge for year	140,304
At 31 December 2004	637,701
Net book value	
At 31 December 2004	256,233
At 31 December 2003	66,051

10. Tangible fixed assets

	Leasehold improvements	Computer equipment	Fixtures & fittings	Total
	£	£	£	£
Cost				
At 1 January 2004	118,824	1,192,787	446,300	1,757,911
Additions	485,788	185,123	44,566	715,477
At 31 December 2004	604,612	1,377,910	490,866	2,473,388
Depreciation				
At 1 January 2004	113,016	829,727	356,286	1,299,029
Charge for the year	9,329	198,370	70,972	278,671
At 31 December 2004	122,345	1,028,097	427,258	1,577,700
Net book value				
At 31 December 2004	482,267	349,813	63,608	895,688
At 31 December 2003	5,808	363,060	90,014	458,882

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

11. Stock

	2004	2003
	£	£
Goods for resale	265,052	33,023

12. Debtors

	2004	2003
	£	£
Trade debtors	810,292	1,015,976
Amounts owed by group undertakings	6,420,424	4,083,574
Other debtors	719,234	90,458
Prepayments and accrued income	548,679	713,990
	8,498,629	5,903,998

13. Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	669,988	897,108
Other taxes and social security costs	153,278	186,850
Other creditors	-	488,150
Accruals and deferred income	1,109,415	819,517
	1,932,681	2,391,625

14. Creditors: amounts falling due after more than one year

	2004	2003
	£	£
Amounts due to group undertakings	32,628,267	27,679,920

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

Patsystems (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

15. Provision for liabilities and charges

	At 1 January 2003	New provisions made in year	Utilised /released in the year	At 31 December 2004
	£	£	£	£
Dilapidations provision	48,528	-	(48,528)	-
	48,528	-	(48,528)	-

16. Share capital

	2004	2003
	£	£
Authorised		
10,000,000 Ordinary shares of 1p each	100,000	100,000
Allotted, called up and fully paid		
187,432 (2003: 187,432) Ordinary shares of 1p each	1,874	1,874

17. Statement of movements on reserves

	Share premium account	Profit and loss account
	£	£
Balance at 1 January 2004	3,961,366	(27,001,974)
Loss for the year	-	(1,597,888)
Balance at 31 December 2004	3,961,366	(28,599,862)

18. Reconciliation of movements in shareholders' deficit

	2004	2003
	£	£
Loss for the financial year	(1,597,888)	(2,100,025)
Opening shareholders' deficit	(23,038,734)	(20,938,709)
Closing shareholders' deficit	(24,636,622)	(23,038,734)

Patsystems (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

19. Financial commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	2003
	£	£
Expiry date:		
Within one year	-	16,997
In 2 – 5 five years	208,042	132,940
	208,042	149,937

20. Related party transactions

Turnover includes £326,000 (2003: £308,000) 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 debit balance due to this company of £7,000 (2003: credit balance £18,000).

21. 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 Cottons Centre, Hays Lane, London SE1 2QP or from the Investor Relations section of the Company's internet site at www.patsystems.com.