

City Networks Limited

Report and Accounts
for the year ended

30th June 2004



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Company number 2027256

CITY NETWORKS LIMITED**Directors**

P.F.A. Nash
R. Hill
C. Christodoulou
M.J.W. Dutton
G.R. Haykhan
A.M. Herrtage
A.F. Howlin
P.C. Little
M.J.W. Potter
N.G. Russen

Non-executive chairman
President
Chief executive officer

Non-executive director

Non-executive director
Finance director

Company secretary

M.J.W. Potter

Auditors

Rees Pollock
35 New Bridge Street
London
EC4V 6BW

Bankers

National Westminster Bank plc
PO Box 12264
1 Princes Street
London
EC2R 8PA

Ahli United Bank (UK) plc
7 Baker Street
London
W1M 1AB

Solicitors

Radcliffes
5 Great College Street
Westminster
London
SW1P 3SJ

Registered office

386 Salisbury House
London Wall
London
EC2M 5UP

CHIEF EXECUTIVE'S STATEMENT

The year under review

We are pleased to report a fifth consecutive year of growth in the company's performance. Turnover increased to £13.1 million from £12.8 million and operating profits to £2.43 million from £2.35 million. The operating profit margin, consistent with previous years, was 18.6%. On the basis of the strong trading performance, the Board is recommending a dividend payment of 19 pence per ordinary share.

We, like many other companies in the sector, experienced challenging market conditions in the first six months of the year. The second half year showed considerable improvement; however, the markets do remain difficult with extended buying cycles and competition for funds. The climate for IT investment has in many ways changed for good and we are particularly proud to have grown the business, with new centres, new lines of business and increased R&D, all under the current market conditions.

During the year, cash flow was strong and the company has repaid a further £1.3 million from its bank loan. At the year end point of June 2004, the company had paid in excess of £1.3 million ahead of schedule over the life of the loan.

We continue to enjoy recurring rental licence, maintenance and message revenues amounting to over 65% of total turnover, providing the business with a high level of resilience.

Geographic performance

Our UK and European business performed strongly during the year, reflecting the long-standing relationships we have with most of Europe's leading financial organisations.

We opened our sixth overseas office in Johannesburg, South Africa during the year, underlining our commitment to the region. The branch has attracted a large customer base and has been successful in its first year of operation.

In Asia Pacific, performance across Tokyo, Hong Kong, Singapore and Sydney was steady, with the four offices collectively performing to budget. The Sydney office was the star performer in the region, supporting the major Australian banking groups, which continue to deliver operational efficiencies through the aggressive pursuit of global IT strategies.

In the North American markets, we faced a year of restructuring and we now enter the new financial year with an enlarged sales and marketing team to capitalise on opportunities in several market sectors.

Market focus

We are dedicated to addressing the needs of the financial services community in three main sectors of trading, namely:

- Treasury operations, spanning everything from voice broking, through electronic trading to direct dealing;
- Derivatives processing, with comprehensive coverage of cash-based derivatives; and
- Securities trading – with an emphasis on custodial services and fund management.

Our solutions provide a compelling value proposition based on increasing operational efficiency and reducing operational risk. We like to take on the challenge of extending STP to complex processing areas that typically correspond with high operational risk.

CHIEF EXECUTIVE'S STATEMENT

Product development

Our product development initiatives adhere to four main tenets:

- The supply of packaged software that offers turnkey solutions on a repeatable basis. This approach offers our customers high function solutions and allows us to operate the business on a sound economic model.
- Aim to guarantee 'Transaction Integrity' by capturing trades at the point of inception and thereafter controlling each transaction through to settlement and reconciliation. In this way we support operational risk management programmes that underpin business integrity and effective corporate governance.
- Keep ahead of market requirements and provide specialist solutions that automate the more onerous areas of trading. By doing this we seek to increase operational efficiencies, drive costs down and improve earnings for our customers.
- Harness Real Time Information via the use of Internet technology to help our customers manage critical success factors and improve customer service.

Awards

Once again, the company was awarded the SWIFTReady Gold Cash Reconciliation and SWIFTReady Gold Securities Reconciliation accreditations for a further year. SWIFT is an independent trade body and these awards are an important endorsement of product quality and of the vendor's ability to meet specific functionality.

In 2004, for a second consecutive year, we were recognised by The Banker Technology Award in the treasury section.

Future growth

City Networks has continued to invest in product development. Significant opportunities for new product sales exist in its large customer base, together with attracting new name customers. The latest product announcements include:

- CityNet Conversation Checker
- CityNet Enterprise Reconciliation
- CityNet Trader Notification
- CityNet Investigation

The company's organic growth strategy is based on:

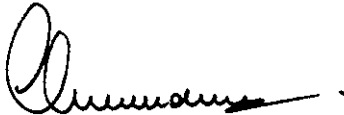
- Dominating the treasury and derivatives STP arena with its unique financial messaging and application software solutions;
- Increasing its market share in the high investment area of securities trading; and
- Capitalising on its financial messaging services by applying the technology to new products/sectors.

The company has demonstrated time and again that it has the products to enter new geographic markets successfully, often with a contribution to profit in the first year of trading. The most recent success has been in South Africa. Plans are now in action to enter entirely new markets.

CHIEF EXECUTIVE'S STATEMENT**Outlook**

In summary, City Networks is diligent in its practices of managing a highly successful and financially strong business. The company has a proven strategy in place and quality staff in all key positions across the group to satisfy its growth aspirations. The key product assets have been endorsed by hundreds of financial services customers the world over and these are now being leveraged via new technologies and partnerships.

City Networks is well positioned to take advantage of the growth trend in the financial services markets.

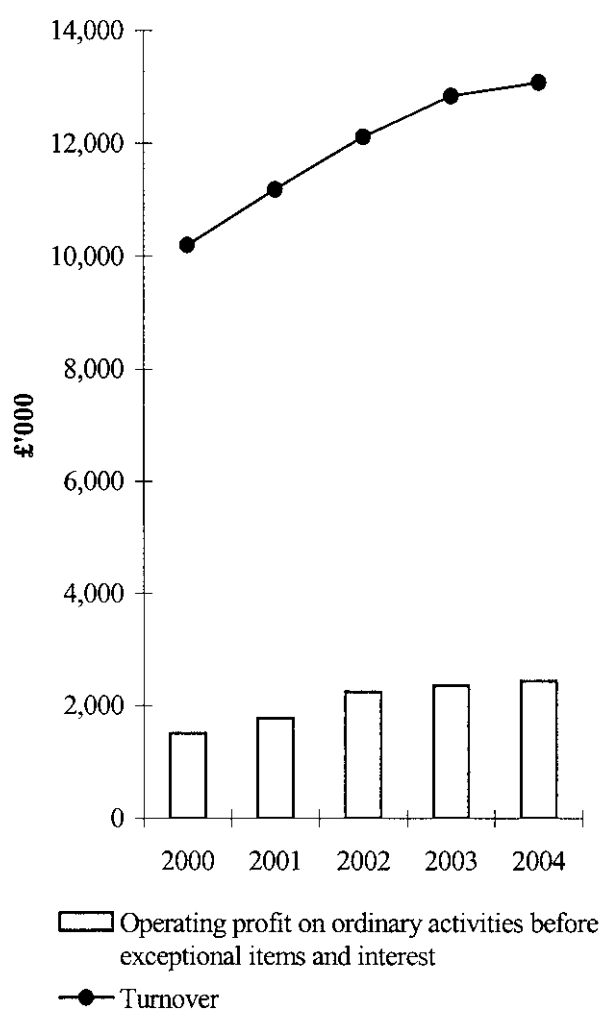
A handwritten signature in black ink, appearing to read 'C. Christodoulou', with a long horizontal flourish extending to the right.

C. Christodoulou
Chief Executive Officer

1st October 2004.

CITY NETWORKS LIMITED**FIVE-YEAR SUMMARY**

	2000 £'000	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Turnover	10,197	11,181	12,112	12,838	13,084
Operating profit on ordinary activities before exceptional items and interest	1,506	1,780	2,247	2,354	2,430

Five Year Summary

CITY NETWORKS LIMITED**DIRECTORS' REPORT**

The directors present their report and accounts for the year ended 30th June 2004.

Results and dividends

The group operating profit for the year ended 30th June 2004 was £2,430,000 (2003: £2,354,000).

After interest and taxation, the group reported a profit on ordinary activities for the year of £1,494,000 (2003: £1,414,000).

The directors recommend a final dividend of 19p per ordinary share for the year (2003: £nil).

If approved at the AGM the dividend will be paid to shareholders on the register at the close of business on 29th October 2004.

Review of the business and future developments

The group's principal activity during the year was the provision of computer software and services to the financial market place.

Overseas activities

The City Networks Limited group includes subsidiaries which are incorporated in the United States, Singapore, Hong Kong and Japan. Further details are given in note 9 to the accounts.

Research and development

Expenditure on developing the group's software products was £1,400,000 (2003: £1,182,000).

Fixed assets

The changes in fixed assets during the year are summarised in note 8 to the accounts.

Directors and their interests

The directors who served during the year and their beneficial interests in the share capital of the company were as follows:

	At 30 th June 2004	At 30 th June 2004	At 30 th June 2003	At 30 th June 2003
	Ordinary shares	Options over	Ordinary shares	Options over
	of 1p	ordinary shares	of 1p	ordinary shares
		of 1p		of 1p
R. Hill	709,100	-	709,100	-
P. F. A. Nash	4,320	4,836	4,320	1,970
C. Christodoulou	-	48,339	-	22,113
M. J. W. Dutton	5,957	48,339	5,957	48,339
G. R. Haykhan	26,619	26,226	26,619	26,226
A. M. Herrtage	8,468	-	6,176	-
A. F. Howlin	28,039	26,226	28,039	26,226
P. C. Little	-	-	-	-
M. J. W. Potter	-	32,113	-	22,113
N. G. Russen	27,917	26,226	27,917	26,226
D F Mayes	-	-	4,260	22,113

CITY NETWORKS LIMITED**DIRECTORS' REPORT**

(continued)

Directors and their interests - continued

D. F. Mayes resigned as a director on 31st December 2003. P. C. Little was appointed non-executive director with effect from 23rd January 2004.

During the year ended 30th June 2004 none of the directors had any material interest in any material transaction in relation to the group's business.

Charitable and political donations

The group made charitable donations amounting to £2,735 (2003: £1,241) during the year.

Employee involvement

During the year the policy of providing employees with information about the group has been continued and employees have been encouraged to present their suggestions and views on the group's performance. Employees participate directly in the success of the business through incentive plans.

Auditors

Rees Pollock have expressed their willingness to continue in office and accordingly a resolution proposing their reappointment will be submitted to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



M.J.W. Potter
Company secretary

1st October 2004

CITY NETWORKS LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of the affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, 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 accounts;
- Prepare the accounts on the going concern basis unless it is inappropriate to presume the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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 of fraud and other irregularities. The directors confirm that these accounts comply with these requirements.

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**REES POLLOCK***Chartered Accountants*

35 New Bridge Street
London EC4V 6BW
Telephone 020 7778 7200
Fax 020 7329 6408

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITY NETWORKS LIMITED

We have audited the financial statements on pages 10 to 23, which have been prepared under the historical cost convention and the accounting policies set out on pages 13 and 14.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page 8, the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

It is our responsibility to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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 with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 of affairs of the company and the group as at 30th June 2004 and of the profit for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Rees Pollock
Registered Auditors
Chartered Accountants

1st October 2004

Partners: Andy Pollock FCA, Simon Rees FCA CTA, Johnny Mouldsdales FCA, Catherine Kimberlin FCA, Jonathan Munday FCA CTA

Registered to carry on audit work and regulated for a range of investment business activities by The Institute of Chartered Accountants in England and Wales.

www.reespollock.co.uk

CITY NETWORKS LIMITED

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30th JUNE 2004

	Notes	2004 £'000	2003 £'000
Turnover	1	13,084	12,838
Operating expenses	2	10,654	10,484
Operating profit		2,430	2,354
Interest receivable		53	81
Interest payable	4	(228)	(310)
Profit on ordinary activities before tax		2,255	2,125
Tax on ordinary activities	5	(761)	(711)
Profit on ordinary activities after taxation	6	1,494	1,414
Equity dividends	7	(179)	-
Retained profit for the year		1,315	1,414

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2004 £'000	2003 £'000
Surplus transferred to reserves for the year	1,315	1,414
Currency translation differences on foreign currency net investments	6	41
Total gains and losses recognised since last annual report	1,321	1,455

There are no other recognised gains or losses or movements in shareholders' funds in the current or preceding year, other than those shown above. There is no difference between the results as shown above and the results on an unmodified historical cost basis.

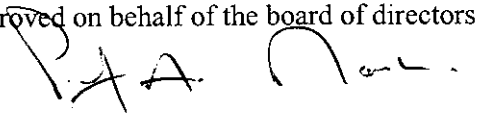
The results for the year reflect the continuing activities of the group.

CITY NETWORKS LIMITED

BALANCE SHEET AT 30th JUNE 2004

	Notes	The Group		The Company	
		2004	2003	2004	2003
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	212	275	172	206
Investments	9	1,729	1,763	1,869	1,903
		1,941	2,038	2,041	2,109
Current assets					
Debtors	10	2,277	1,833	1,860	1,452
Cash at bank and in hand		1,255	1,587	405	1,054
		3,532	3,420	2,265	2,506
Creditors: amounts falling due within one year	11	(4,403)	(4,583)	(4,868)	(4,617)
Net current liabilities		(871)	(1,163)	(2,603)	(2,111)
Total assets less current liabilities		1,070	875	(562)	(2)
Creditors: amounts falling due after more than one year	12	(1,478)	(2,604)	(1,478)	(2,604)
		(408)	(1,729)	(2,040)	(2,606)
Capital and reserves:					
Called up share capital	13	13	13	13	13
Capital redemption reserve	14	13	13	13	13
Other reserve	14	(4,033)	(4,033)	(4,033)	(4,033)
Profit and loss account	14	3,599	2,278	1,967	1,401
Equity shareholders' funds		(408)	(1,729)	(2,040)	(2,606)

Approved on behalf of the board of directors on 1st October 2004.


P. F. A. Nash
Chairman

The notes on pages 13 to 23 form part of these accounts.

CITY NETWORKS LIMITED**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30th JUNE 2004**

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	18	1,731	1,682
Returns on investments and servicing of finance			
Interest received		53	81
Interest paid		(228)	(310)
Net cash outflow from returns on investment and servicing of finance		(175)	(229)
Taxation		(525)	(584)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(108)	(146)
Receipts from sales of tangible fixed assets		3	-
Net cash outflow from capital expenditure and financial investment		(105)	(146)
Net cash inflow before financing		926	723
Financing			
Loan repayments		(1,304)	(2,188)
Receipts from the exercise of share options		34	20
Decrease in cash in the year	19	<u>(344)</u>	<u>(1,445)</u>

The notes on pages 13 to 23 form part of these accounts

CITY NETWORKS LIMITED**NOTES TO THE ACCOUNTS AT 30th JUNE 2004****1. Accounting policies**

A summary of the principal accounting policies, which have been applied consistently, is set out below.

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

(b) Basis of consolidation

The group accounts consolidate the accounts of City Networks Limited and all its subsidiary undertakings made up to 30th June each year. No profit and loss account is presented for City Networks Limited as provided by s.230 of the Companies Act 1985.

(c) Turnover

Revenue on the sale of software rights is recognised as turnover when the installation of the related system is complete and accepted by the client. Prior to completion, deposits paid or payable by customers are treated as deferred income.

Revenue in respect of maintenance contracts is recognised on a straight-line basis over the life of the contract. Unrecognised revenue is included in deferred income.

No segmental analysis has been provided as, in the opinion of the directors, its disclosure would be seriously prejudicial to the interests of the company.

(d) Research and development

Research and development expenditure is written off as incurred.

(e) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. The results for the year of overseas subsidiary undertakings are translated into sterling at average rates for the year. Exchange differences arising on the translation into sterling at year-end rates of the net assets of overseas subsidiary undertakings are reported in the statement of total recognised gains and losses and taken to reserves. Transactions in foreign currencies during the year are recorded at the rate ruling at the date of the transaction.

All other exchange differences are taken to the profit and loss account.

CITY NETWORKS LIMITED**NOTES TO THE ACCOUNTS AT 30th JUNE 2004****1. Accounting policies (continued)****(f) Tangible fixed assets**

All tangible fixed assets are reported at original cost less aggregate depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Furniture and office equipment	-	over 3 years
Motor vehicles	-	over 4 years

(g) Taxation

The charge for taxation is based on the results for the year and takes into account deferred taxation. Deferred tax is provided in full, without discounting, on all timing differences except those expressly excluded by FRS 19. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable.

(h) Pensions

The company operates two defined contribution pension schemes. Contributions to these schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

(i) Investments

Investments in subsidiary undertakings and own shares are carried at historical cost less a provision for permanent diminution in value.

2. Operating profit

This is stated after charging/(crediting):

	2004	The Group
	2003	
	£'000	£'000
Research and development	1,400	1,182
Auditors' remuneration - audit services in the UK	25	25
Auditors' remuneration - audit services overseas	25	25
Auditors' remuneration - non audit services	10	8
Depreciation of owned fixed assets	165	185
Amortisation of finance costs	20	19
Profit on disposal of fixed assets	(3)	-
Operating lease rentals	610	567

CITY NETWORKS LIMITED**NOTES TO THE ACCOUNTS AT 30th JUNE 2004****2. Operating profit (continued)**

	2004 £'000	The Group 2003 £'000
Directors' remuneration:		
Aggregate emoluments	1,064	1,100
Company pension contributions to money purchase schemes	48	26
	<hr/>	<hr/>
Highest paid director:		
Aggregate emoluments	177	174
Company pension contributions to money purchase schemes	25	6
	<hr/>	<hr/>

Retirement benefits are accruing to the six UK based executive directors under money purchase pension schemes.

No emoluments were waived during this or the previous year.

3. Staff costs

	2004 £'000	The Group 2003 £'000
Salaries	6,577	6,919
Social security costs	657	632
Other pension costs	255	252
	<hr/>	<hr/>
	7,489	7,803
	<hr/>	<hr/>

The average number of employees during the year was as follows:

United Kingdom	99	100
United States	11	11
Singapore	13	13
Australia	4	4
Hong Kong	6	6
Japan	8	8
	<hr/>	<hr/>
	141	142
	<hr/>	<hr/>

4. Interest payable

	2004 £'000	The Group 2003 £'000
Bank loan	228	310
	<hr/>	<hr/>

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004**5. Tax on profit on ordinary activities****(a) Analysis of the tax charge for the year on the profit on ordinary activities**

	2004 £'000	The Group 2003 £'000
Current tax:		
UK corporation tax on profit for the year	343	192
Foreign tax	418	349
Adjustments in respect of previous years	-	110
	<hr/> 761	<hr/> 651
Current tax charge	761	651
Deferred tax - timing differences	-	60
	<hr/> 761	<hr/> 711

(b) Factors affecting tax charge for the year

The tax assessed for the year is greater than that expected at the standard rate of UK corporation tax of 30%. The differences are explained below:

	2004 £'000	The Group 2003 £'000
Profit on ordinary activities before tax	<hr/> 2,255	<hr/> 2,125
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	676	638
Adjustments re provision for permanent diminution	-	(53)
Lower tax rates on overseas earnings	(43)	(26)
Higher tax rates on overseas earnings	80	-
Permanent differences	16	-
Other differences	32	(18)
Adjustments to tax charge in respect of previous years	-	110
	<hr/> 761	<hr/> 651
Current tax charge 5(a)	<hr/> 761	<hr/> 651

6. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £745,000 (2003: £2,003,000).

7. Equity dividend

	2004 £'000	2003 £'000
Final proposed	<hr/> 179	<hr/> -

A final dividend is proposed of 19p per ordinary share payable to all shareholders on the register at the close of business on 29th October 2004. Dividends in respect of those shares held by the ESOP trust will be waived.

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004

8. Tangible fixed assets

Group	Software £'000	Plant & machinery £'000	Furniture & fittings £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 st July 2003	240	782	314	117	1,453
Additions	44	49	15	-	108
Transfers	7	67	(74)	-	-
Disposals	-	-	-	(31)	(31)
Exchange differences	(2)	(28)	(12)	-	(42)
At 30 th June 2004	289	870	243	86	1,488
Depreciation:					
At 1 st July 2003	202	596	304	76	1,178
Provided in the year	32	84	33	16	165
Transfers	3	132	(135)	-	-
Disposals	-	-	-	(31)	(31)
Exchange differences	(1)	(26)	(9)	-	(36)
At 30 th June 2004	236	786	193	61	1,276
Net book value:					
At 30 th June 2004	53	84	50	25	212
At 30 th June 2003	38	186	10	41	275
Company					
	Software £'000	Plant & machinery £'000	Furniture & fittings £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 st July 2003	225	484	120	117	946
Additions	42	27	12	-	81
Disposals	-	-	-	(31)	(31)
At 30 th June 2004	267	511	132	86	996
Depreciation:					
At 1 st July 2003	190	402	72	76	740
Provided in the year	29	50	20	16	115
Disposals	-	-	-	(31)	(31)
At 30 th June 2004	219	452	92	61	824
Net book value:					
At 30 th June 2004	48	59	40	25	172
At 30 th June 2003	35	82	48	41	206

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004

9 Investments

The Group

Cost:	£'000
At 1 st July 2003	3,538
Disposals	(39)
At 30 th June 2004	<u>3,499</u>

Amounts written off or provided:

	Amortisation of share option costs £'000	Provision for permanent diminution in value £'000	Total £'000
At 1 st July 2003	79	1,696	1,775
Released in the year	-	(5)	(5)
At 30 th June 2004	<u>79</u>	<u>1,691</u>	<u>1,770</u>
Carrying value: At 30 th June 2004			<u>1,729</u>
At 30 th June 2003			<u>1,763</u>

The group's investment in own shares represents shares held in City Networks Limited by Praxis Trustees Limited as trustee for City Networks Limited ESOP trust (see note 16).

The Company

	Subsidiary undertakings £'000	Investment in own shares £'000	Total £'000
Cost:			
At 1 st July 2003	140	3,538	3,678
Disposals and adjustment	-	(39)	(39)
At 30 th June 2004	<u>140</u>	<u>3,499</u>	<u>3,639</u>
Amounts written off or provided:			
At 1 st July 2003	-	1,775	1,775
Released in the year and adjustment	-	(5)	(5)
At 30 th June 2004	<u>-</u>	<u>1,770</u>	<u>1,770</u>
Carrying value:			
At 30 th June 2004	<u>140</u>	<u>1,729</u>	<u>1,869</u>
At 30 th June 2003	<u>140</u>	<u>1,763</u>	<u>1,903</u>

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004

9. Investments (continued)

Name of subsidiary	Activity	Country of incorporation	% owned
City Networks (Europe) Limited	Dormant	United Kingdom	100
City Networks (Trustees) Limited	Dormant	United Kingdom	100
City Networks Inc.	Computer software	United States	100
CityNet Software (Asia) Pte. Limited	Computer software	Singapore	100
City Networks (China) Limited	Computer software	Hong Kong	100
City Networks (Japan) Co., Limited	Computer software	Japan	100

All the above subsidiary undertakings have share capital consisting solely of ordinary shares.

10. Debtors

	2004 £'000	The Group 2003 £'000	2004 £'000	The Company 2003 £'000
Trade debtors	1,385	1,144	1,110	920
Deferred tax	144	144	144	144
Other debtors and prepayments	748	545	606	388
	<u>2,277</u>	<u>1,833</u>	<u>1,860</u>	<u>1,452</u>

11. Creditors: amounts falling due within one year

	2004 £'000	The Group 2003 £'000	2004 £'000	The Company 2003 £'000
Trade creditors	256	214	254	208
Corporation tax	507	271	494	339
Other taxes and social security costs	338	284	274	257
Other creditors and accruals	834	957	635	641
Deferred income	1,664	2,079	1,415	1,619
Amounts due to group companies	-	-	992	775
Long term loan - current portion	625	778	625	778
Equity dividend - proposed	179	-	179	-
	<u>4,403</u>	<u>4,583</u>	<u>4,868</u>	<u>4,617</u>

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004

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

	2004 £'000	The Group 2003 £'000	2004 £'000	The Company 2003 £'000
Bank credit facility due 2004-2007	2,188	3,500	2,188	3,500
Arrangement fee less amortisation	(85)	(118)	(85)	(118)
	2,103	3,382	2,103	3,382
Amount due within one year	(625)	(778)	(625)	(778)
	1,478	2,604	1,478	2,604

On 9th November 2000, the company and Praxis Trustees Limited as trustee for City Networks Limited ESOP trust ("the ESOP") entered into a seven year term loan and working capital facility agreement with a bank.

Under the terms of the agreement, the company has agreed to charge, mortgage and assign the whole of its property, undertaking and assets in favour of the bank, pledge its interest in its subsidiaries and guarantee the performance of the ESOP.

The loan is shown net of an arrangement fee which was paid to the bank and which is being amortised over the term of the loan. The amortisation of the fee is included in interest payable for the year.

On 19th May 2004 the remaining term loan was converted to a revolving credit facility.

	2004 £'000	The Group 2003 £'000	2004 £'000	The Company 2003 £'000
Within one year	625	778	625	778
Between one and two years	625	778	625	778
Between two and five years	938	1,944	938	1,944
	2,188	3,500	2,188	3,500

The average interest rate payable by the company during the year ended 30th June 2004 was 5.67% (2003: 5.77%) on sterling.

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004

13. Called up share capital

All shares are ordinary shares with a nominal value of 1p.

The company	Number 2004	Nominal value 2004 £'000	Number 2003	Nominal value 2003 £'000
Authorised	50,000,000	50	50,000,000	50
Called up and fully paid	1,311,361	13	1,311,361	13

14. Reconciliation of shareholders' funds and movements on reserves

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	The Group Profit and loss account £'000
At 1 st July 2003	13	13	(4,033)	2,278
Profit for the year	-	-	-	1,494
Exchange difference	-	-	-	6
Equity dividend	-	-	-	(179)
At 30 th June 2004	13	13	(4,033)	3,599

	Share capital £'000	Capital redemption reserve £'000	Other reserve £'000	The Company Profit and loss account £'000
At 1 st July 2003	13	13	(4,033)	1,401
Profit for the year	-	-	-	745
Equity dividend	-	-	-	(179)
At 30 th June 2004	13	13	(4,033)	1,967

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004**15. Other financial commitments**

At 30th June 2004 the group had annual commitments under non-cancellable operating leases on buildings which expire over the periods set out below:

	2004 £'000	2003 £'000
Within one year	235	254
Within two to five years	630	35
In more five years	-	69
	<u>865</u>	<u>358</u>

Subsequent to the year end, the company entered into a contract for the refurbishment of its London office amounting to £178,000.

16. Employee Share Ownership Plan

The Employee Share Ownership Plan ("the ESOP") owns ordinary shares of 1p each in the company, some of which are subject to options as follows:

Dates exercisable	Exercise price	No of shares at 1 st July 2003	Options granted	Options exercised	Cancellations /disposals	No of shares at 30 th June 2004
March 2003 - March 2007	£1.23	44,226	-	(22,113)	-	22,113
May 2005 - May 2011	£4.00	128,987	-	-	-	128,987
February 2006 - February 2012	£5.50	69,113	-	-	-	69,113
October 2006 - October 2012	£5.50	38,226	-	-	(12,000)	26,226
January 2007 - January 2013	£5.50	1,433	-	-	-	1,433
March 2007 - March 2013	£5.50	39,342	-	-	(39,342)	-
September 2007 - September 2013	£5.50	-	64,433	-	(9,500)	54,933
Not under option	-	68,721	(64,433)	-	59,696	63,984
		<u>390,048</u>	<u>-</u>	<u>(22,113)</u>	<u>(1,146)</u>	<u>366,789</u>

All expenses incurred by the scheme are settled directly by the company and are charged in the accounts as incurred. Dividends on the shares owned by the ESOP are waived.

17. Pension commitments

The company operates defined contribution pension schemes for its directors and employees. The assets of the schemes are held separately from those of the company in independently administered funds.

CITY NETWORKS LIMITED

NOTES TO THE ACCOUNTS AT 30th JUNE 2004**18. Reconciliation of operating profit to operating cash flows**

	2004 £'000	2003 £'000
Operating profit	2,430	2,354
Depreciation	165	185
Amortisation of financing costs	25	25
Profit on disposal of fixed assets	(3)	-
Increase in debtors	(444)	(203)
Decrease in creditors	(442)	(679)
Net cash inflow from operating activities	<u>1,731</u>	<u>1,682</u>

19. Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Decrease in cash in the year	(344)	(1,445)
Loan repayment	<u>1,304</u>	<u>2,188</u>
Movement in net debt in the period due to cash flows	960	743
Other movements in net debt	12	41
Net debt at start of the year	<u>(1,913)</u>	<u>(2,697)</u>
Net debt at the end of the year (see below)	<u>(941)</u>	<u>(1,913)</u>

Analysis of net debt

	1 st July 2003 £'000	Cash flow £'000	Other movements £'000	30 th June 2004 £'000
Cash in hand and at bank	1,587	(344)	12	1,255
Debt due within one year	(778)	778	(625)	(625)
Debt due after one year	<u>(2,722)</u>	<u>526</u>	<u>625</u>	<u>(1,571)</u>
	<u>(1,913)</u>	<u>960</u>	<u>12</u>	<u>(941)</u>

Other movements consist of differences on exchange (£12,000) and adjustments between the repayment profile.