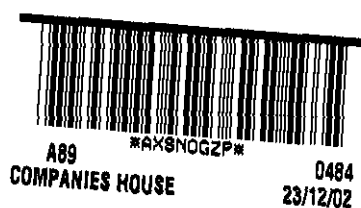


Prepayment Cards Limited
Directors' Report and Financial Statements
for the year ended 31 March 2001

Registered Number : 2761962



Prepayment Cards Limited
Directors' Report and Financial Statements
for the year ended 31 March 2001

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Prepayment Cards Limited

Directors and Advisors

Directors

I J Buchan (Resigned 29 November 2000; reappointed 24 October 2001)
B J Cox (Resigned 4 November 2002)
R A Duncan (Resigned 24 October 2001)
P J Fogarty
M A Griffiths
F S Jones (Resigned 14 August 2001)
R O'Toole (Appointed 12 June 2000)
W P Rollason (Resigned 24 October 2001)
C J B Simpson
I M Lanaghan (Appointed 29 November 2000; resigned 22 May 2002)
M C Rushton (Appointed 29 November 2000; resigned 22 May 2002)
D J Leeder (Appointed 24 October 2001; resigned 22 May 2002)
A D Smith (Appointed 3 July 2002)

Secretary

A C Taylor (Resigned 16 July 2001)
M C Rushton (Appointed 16 July 2001; resigned 24 October 2001)
A J D Smart (Appointed 24 October 2001)

Auditors

PricewaterhouseCoopers
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Bankers

The Co-operative Bank Plc
1 Balloon Street
Manchester
M60 4EP

Registered Office

42 Higher Bridge Street
Bolton
Lancashire
BL1 2HA

From 22 October 2001
Steam Packet House
Cross Street
Manchester
M2 4JG

Prepayment Cards Limited

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2001.

Principal activities and review of business

The company was incorporated on 4 November 1992 with a share capital of 50,002 shares of £1 each held equally between ERG Group ("ERG") and the Greater Manchester Passenger Transport Executive ("GMPTE").

On 6 September 1999 ERG acquired the shares held by GMPTE and subscribed for a further 49,998 ordinary shares of £1 each at a premium of £199 per share. On the same date the share capital comprising A and B shares was re-designated into one class of ordinary share.

On 23 September 1999, Stagecoach, Sema Group and ERG joined forces to provide multi-application smart card technology across the UK and Stagecoach and Sema Group bought shares in Prepayment Cards Limited.

On 23 December 1999 FirstGroup announced that it had agreed to acquire shares in the company and subsequently National Express Group acquired shares in the company.

The company's share capital at 31 March 2001 comprised 100,000 shares of £1 each held by ERG (30%), Stagecoach (20%), Sema Group (10%), FirstGroup (20%) and National Express Group (20%). On 19 September 2001, Sema sold their 10% shareholding to ERG, who from that date until the Rights Issue in March 2002 owned 40%.

On 27 March 2002, the directors and representatives of the shareholders of the company agreed to a Rights Issue. The £4,800,000 proceeds of the Rights Issue are to be paid in equal instalments in April, July and December 2002. The shareholdings of the company are now ERG 47.06%, Stagecoach 23.53%, National Express Group 23.53% and First Group 5.88%. At the same time, it was agreed that the company would enter into an agreement with ERG Limited whereby payment by the company of amounts due under various Supply and Implementation contracts would be deferred. The directors are therefore confident that the company has sufficient cash to meet its working capital requirements for the period to 31 March 2003.

Prepayment Cards Limited provides a smart card issuing and clearing system that enables UK wide transport operators and Passenger Transport Authorities to meet the Government's policy on integrated transport throughout the UK. It has purchased for £5m exclusive UK rights to ERG's internationally adopted software that enables the issue and management of multi-application smart cards and the operation of fully integrated public transport ticketing systems. On 23 May 2000 the company acquired from Proton World exclusive UK rights to use Proton's electronic stored value payment system.

The company owns all the share capital of Prepayment Cards (Manchester) Limited ("PCML") which has entered into a contract with GMPTE to implement its Concessionary Fare Scheme, worth approximately £17.6m over its eight year life. A trial has been carried out successfully and full roll-out of a concessionary passenger fare collection system is now proceeding. During the year the company has provided management services to PCML in the implementation of this contract with GMPTE.

Towards the end of the year the company was awarded the contract to install a pilot smart card scheme for the Swift authorities in South Wales. This work was completed in the first quarter of the year ended 31 March 2002.

Prepayment Cards Limited

On 30 June 2001, the company bought the Card Services Division of ERG Transit Systems (UK) Limited. The consideration was £3,000,000 of preference shares in the company. This acquisition brings card scheme production and management skills to the company, together with some existing contracts for card schemes in the South East of England.

Results and dividends

The loss for the year amounted to £890,564 (2000: £337,530).

The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who held office during the year, none of whom had any beneficial interest in the company's issued share capital, are given below:

I J Buchan	(Resigned 29 November 2000; reappointed 24 October 2001)
B J Cox	
R A Duncan	(Resigned 24 October 2001)
P J Fogarty	
M A Griffiths	
F S Jones	(Resigned 14 August 2001)
R O'Toole	(Appointed 12 June 2000)
W P Rollason	(Resigned 24 October 2001)
C J B Simpson	
I M Lanaghan	(Appointed 29 November 2000; resigned 22 May 2002)
M C Rushton	(Appointed 29 November 2000; resigned 22 May 2002)
D J Leeder	(Appointed 24 October 2001; resigned 22 May 2002)
A D Smith	(Appointed 3 July 2002)

Directors' interests in share options

	At 1 April 2000	Granted during the year	Exercised during the year	At 31 March 2001	Exercise price
M C Rushton	-	2,000	-	2,000	£500 per share

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2001 and that applicable accounting standards have been followed.

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

Prepayment Cards Limited

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'A J D Smart', with a long horizontal stroke extending to the right.

A J D Smart

Secretary

17 December 2002

Prepayment Cards Limited

Independent Auditors' Report to the Members of Prepayment Cards Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes, which have been prepared under the accounting policies set out in the statement of accounting policies.

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 opinion has been prepared for and only for the company's members 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 in to 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.

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 of the company's affairs at 31 March 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Manchester
17 December 2002

Prepayment Cards Limited

Profit and loss account for the year ended 31 March 2001

	Note	2001 £	2000 £
Continuing operations			
Administration expenses		(1,056,665)	(437,678)
Operating loss		(1,056,665)	(437,678)
Bank interest receivable		232,664	100,148
Loss on ordinary activities before taxation	1	(824,001)	(337,530)
Tax on loss on ordinary activities	4	(66,563)	-
Loss for the year	11	(890,564)	(337,530)
Accumulated losses brought forward	11	(347,428)	(9,898)
Accumulated losses carried forward	11	(1,237,992)	(347,428)

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

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

Prepayment Cards Limited

Balance sheet as at 31 March 2001

	Note	2001 £	2000 £
Fixed assets			
Intangible assets	5	10,089,604	5,130,158
Tangible assets	6	26,139	18,078
Investment in subsidiary undertaking	7	1	1
		10,115,744	5,148,237
Current assets			
Debtors	8	217,971	67,464
Cash at bank and in hand		2,371,907	4,682,283
		2,589,878	4,749,747
Creditors: amounts falling due within one year	9	(3,893,612)	(195,410)
Net current (liabilities)/assets		(1,303,734)	4,554,337
Net assets		8,812,010	9,702,574
Capital and reserves			
Called up share capital	10	100,000	100,000
Share premium account	11	9,950,002	9,950,002
Profit and loss account	11	(1,237,992)	(347,428)
Equity shareholders' funds	12	8,812,010	9,702,574

The financial statements on pages 6 to 14 were approved by the board of directors on 17 December 2002 and were signed on its behalf by:



M Griffiths
Director

Prepayment Cards Limited

Statement of accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparation

The financial statements are prepared under the historical cost convention.

The company is not required to prepare group accounts under S248 of the Companies Act 1985. These accounts therefore present information about the company as an individual undertaking and not about its group.

Intangible assets and amortisation

Intangible fixed assets are stated at cost less accumulated amortisation. The cost of intangible fixed assets will be amortised over the shorter of the estimated useful lives from the date such assets are first brought into use and the term of the licence.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is provided on all tangible fixed assets on a straight line basis at the following annual rates calculated to write off the cost, less estimated residual value, over the expected useful lives:

Office equipment	- 20%
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Operating leases

The costs associated with operating leases are charged to operating profit on a straight line basis over the lease term.

Foreign currency

Transactions in foreign currencies are translated at the rate in force at the time of the transaction. Assets and liabilities are translated at the year end rate. All exchange differences are dealt with through the profit and loss account.

Cash flow statement

The company qualifies as a small company under the terms of section 247 of the Companies Act 1985. As a result it is exempt from the requirement to publish a cash flow statement.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that the liability or asset will crystallise.

Prepayment Cards Limited

Notes to the Financial Statements for the year ended 31 March 2001

1 Loss on ordinary activities before taxation

	2001	2000
	£	£
This is stated after charging:		
Auditors remuneration:		
Audit services	4,000	3,500
Other services	2,000	2,000
Depreciation of fixed assets	5,170	464
Operating lease charges:		
Land and buildings	225,238	16,627

2 Directors' emoluments

Directors' emoluments were as follows:

	2001	2000
	£	£
Wages and salaries	95,000	-
Social security costs	11,323	-
	106,323	-

3 Employee information

	2001 Number	2000 Number
The average number of employees (including executive directors) during the year was:		
Administration	4	1
The costs incurred in respect of these employees were:	£	£
Wages and salaries	226,839	18,777
Social security costs	26,017	2,154
	252,856	20,931

Prepayment Cards Limited

4 Taxation on loss on ordinary activities

	2001	2000
	£	£
United Kingdom corporation tax at 20% (2000: 20%):		
Current year	46,533	-
Prior year	20,030	-
	66,563	-

The taxation arises on the interest receivable.

5 Intangible fixed assets

	Software licences and enhancements £
Cost	
At 1 April 2000	5,130,158
Additions during the year	4,959,446
At 31 March 2001	10,089,604
Amortisation	
At 1 April 2000	-
Provided during the year	-
At 31 March 2001	-
Net book value	
At 31 March 2001	10,089,604
At 1 April 2000	5,130,158

On 6 September 1999, the company acquired a UK exclusive licence to ERG's Multi-Application Smartcard Solution Software (MASS®) at a cost of £5 million and on 20 October 1999 paid £130,158 for an option to acquire from Proton World the UK exclusive rights to use Proton's electronic stored value payments system. This option was exercised subsequent to the year end. On 15 July 2000, PCL acquired the licence to use Proton's stored value payments system for a further payment of £542,056. During the year to 31 March 2001, the company spent £4,417,389 on preparatory work for the GMPTE contract.

No amortisation has been charged in the year to 31 March 2001 as there had been no commercial activity under the licences.

Prepayment Cards Limited

6 Tangible fixed assets

	Office equipment £
Cost	
At 1 April 2000	18,542
Additions during the year	13,231
At 31 March 2001	31,773
Depreciation	
At 1 April 2000	464
Provided during the year	5,170
At 31 March 2001	5,634
Net book value:	
At 31 March 2001	26,139
At 31 March 2000	18,078

7 Investment in subsidiary undertaking

	2001 £	2000 £
Cost less amount written off	1	1

Details of the investment in which the company holds more than 10% of the nominal value of any class of share, are as follows:

Name of Company	Country of registration and operation	Holding	Proportion of voting rights and shares held	Nature of business
Prepayment Cards (Manchester) Limited	England and Wales	100%	2 £1 'A' ordinary shares fully paid and 49,998 £1 'A' ordinary shares 20p paid	Development and operation of smart card applications

Details of the subsidiary undertaking are as follows:

	2001 £	2000 £
Capital and reserves	(4,753)	(4,803)
Profit/(loss) for the year	50	(1,115)

Prepayment Cards Limited

8 Debtors

	2001	2000
	£	£
Amount owed by subsidiary undertaking	-	39,854
Other debtors – amounts due from related parties (Note 15)	19,831	9,344
VAT Recoverable	112,756	-
Prepayments and accrued income	85,384	18,266
	217,971	67,464

9 Creditors: amounts falling due with one year

	2001	2000
	£	£
Trade creditors	138,915	220
Amounts due to subsidiary undertaking	399,938	-
Other creditors – amounts due to related parties (Note 15)	2,924,106	118,901
Corporation tax	66,563	-
Accruals and deferred income	364,090	76,289
	3,893,612	195,410

10 Called up share capital

	2001	2000
	£	£
Authorised		
105,000 ordinary shares of £1 each	105,000	100,000
50,000 'A' ordinary shares of £1 each	50,000	50,000
50,000 'B' ordinary shares of £1 each	50,000	50,000
	205,000	200,000
Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	100,000	100,000
50,000 'A' ordinary shares of £1 each	-	-
50,000 'B' ordinary shares of £1 each	-	-
	100,000	100,000

On 29 November 2000 the authorised share capital of the company was increased by £5,000.

Prepayment Cards Limited

11 Reserves

	Share premium £	Profit and loss account £
At 1 April 2000	9,950,002	(347,428)
Loss for the year	-	(890,564)
At 31 March 2001	9,950,002	(1,237,992)

12 Reconciliation of equity shareholders' funds

	2001 £	2000 £
At 31 March 2000	9,702,574	40,104
Shares issued during the year	-	10,000,000
Loss for the year	(890,564)	(337,530)
At 31 March 2001	8,812,010	9,702,574

13 Financial commitments

At 31 March 2001 the company had annual commitments under operating leases expiring as follows:

	2001 £	2000 £
Land and buildings		
Within one year	-	72,504

14 Post balance sheet event

On 30 June 2001, the company bought the Card Services Division of ERG Transit Systems (UK) Limited. The consideration was £3,000,000 of preference shares in the company.

On 27 March 2002, the directors and representatives of the shareholders of the company agreed to a rights issue. The £4,800,000 proceeds of the rights issue are to be paid in equal instalments in April, July and December 2002. At the same time it was agreed that the company would enter into an agreement with ERG Limited whereby payment by the company of amounts due under various Supply and Implementation contracts would be deferred. The directors are therefore confident that the company has sufficient cash to meet its working capital requirements for the period to 31 March 2003.

Prepayment Cards Limited

15 Related party transactions

Transactions with related parties, who are also shareholders in the company, are set out below.

During the year, SEMA Group provided management services to the company to the value of £1,818,491 (2000: £279,614) (including out of pocket expenses). ERG Group also provided management services to the value of £80,394 (2000: £33,791) (including out of pocket expenses). A proportion of payroll costs were recharged to ERG Group to the value of £Nil (2000: £9,344).

Included in debtors at 31 March 2001 are amounts owing by ERG Group of £19,831 (2000: £9,344). Included in creditors at 31 March 2001 are amounts due to Sema Group of £307,876 (2000: £106,165) and amounts due to ERG Group of £2,616,230 (2000: £12,735).