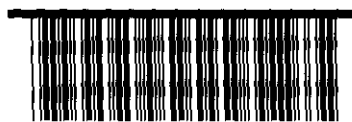


CARDNET MERCHANT SERVICES LIMITED

REPORT AND ACCOUNTS 2000



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CARDNET MERCHANT SERVICES LIMITED

REPORT AND ACCOUNTS 2000

Registered number: 735844

Registered office:

71 Lombard Street
London
EC3P 3BS.

Directors:

P. G. E. Ayliffe (Chairman)
G.E.R. Hawkins
P.J. Martin
R. Schimenz

Company Secretary:

H. S. Rodgers

Member of Lloyds TSB Group

PORT OF THE DIRECTORS

ncipal activities

company's principal activity during the year was the provision of services to merchants enabling the acceptance, authorisation and clearing of plastic card transactions.

ults and dividends

profit after taxation for the year ended 31st December 2000 amounted to £19,812,000 (1999: £13,815,000) as set in the profit and loss account on page 4. An interim dividend of £8,899,000 was paid on 12th October 2000 (1999: £12,000) to the A & B shareholders. The directors recommend the payment of a further dividend of £10,913,000 (1999: £9,003,000) to the A & B shareholders.

ectors

names of the directors of the company are shown on page 1.

G.F.Pell resigned as a director and chairman on 7th January 2000 and was succeeded from 24th March 2000 as chairman by Mr G.E.R. Hawkins. Mr Hawkins resigned as a director and chairman on 31st July 2000, and was re-appointed as a director on 16th August 2000. Mr P.J. Martin was appointed a director on 21st February 2000 and Mr J. Adams resigned as a director on 16th August 2000. Mr P.G.E. Ayliffe was appointed a director on 26th September 2000 and was elected chairman on 5th October 2000.

reference is made on page 8 in note 7 to the directors' interests in the capital of Lloyds TSB Group plc, the ultimate parent company and its subsidiaries.

behalf of the board



O'Connor
Assistant Secretary

March 2001

CARDNET MERCHANT SERVICES LIMITED

DIRECTORS' REPORT TO THE MEMBERS OF CARDNET MERCHANT SERVICES LIMITED

have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described below, the financial statements in accordance with applicable United Kingdom accounting standards.

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 at the end of the year and of the profit or loss of the company for the 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; and
- prepare the financial statement on the going concern basis unless it is inappropriate to presume that 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 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.

The responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

You are asked to 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.

Our audit opinion

We have conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit involves 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 have 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 have evaluated the overall adequacy of the presentation of information in the financial statements.

Our opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ewatohare Coopers

ewatohareCoopers
Chartered Accountants and Registered Auditors
London
1 March 2001

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2000

	Notes	2000 £'000	1999 £'000
Revenue	1	35,824	29,105
Administrative expenses		(9,048)	(9,698)
Operating profit		26,776	19,407
Interest receivable	2	1,527	399
Profit on ordinary activities before taxation	3	28,303	19,806
Taxation on profit on ordinary activities	6	(8,491)	(5,991)
Profit on ordinary activities after taxation		19,812	13,815
Dividends - paid		(8,899)	(4,812)
- proposed		(10,913)	(9,003)
Undivided profits/(losses) transferred to profit & loss reserves		0	0

The company had no recognised gains or losses other than those disclosed in the profit and loss account, and therefore a separate statement of total recognised gains and losses has been presented.

Income and expenditure arose from continuing activities.

The company has no movement in shareholders' funds other than those included in the profit and loss account, and therefore no separate reconciliation of movement in shareholders' funds has been presented.

Notes on pages 7 to 10 form part of these accounts.

RDNET MERCHANT SERVICES LIMITED

**LANCASHIRE SHEET
AT 31 DECEMBER 2000**

	Notes	2000 £'000	1999 £'000
rent assets			
tors	8	19,184	22,299
h at bank and in hand		1	1
		<u>19,185</u>	<u>22,300</u>
itors: amounts falling due within one year	9	(19,182)	(22,297)
current assets		<u>3</u>	<u>3</u>
ital and reserves			
ed up share capital	10	3	3
it and loss account		-	-
al shareholders' funds		<u>3</u>	<u>3</u>
lysis of shareholders' funds			
ity		2	2
-equity	10	1	1
		<u>3</u>	<u>3</u>

E. Aylliffe
E. Aylliffe
Director

notes on pages 7 to 10 form part of these accounts.

**CASH FLOW STATEMENT FOR THE YEAR
ENDED 31ST DECEMBER 2000**

	2000 £'000	1999 £'000
Cash outflow from operating activities	(1,527)	(399)
Interest received	1,527	399
Change in cash	-	-
Reconciliation of net cash flow to change in net debt for the year ended 31 December 2000.		
Change in cash in the year and change in net debt	-	-
Funds at 1st January	1	1
Funds at 31st December	1	1

Reconciliation of operating profit to net cash outflow from operating activities for the year ended 31st December 2000.

	2000 £'000	1999 £'000
Operating profit	26,776	19,407
Increase/(Increase) in debtors	3,115	(8,377)
Increase in creditors	(2,096)	(323)
Dividend paid	(17,902)	(9,663)
Interest paid	(11,420)	(1,443)
Cash outflow from continuing operating activities	(1,527)	(399)

RDNET MERCHANT SERVICES LIMITED**Notes to the accounts for the year ended 31st December 2000****Accounting policies**

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention using the following accounting policies. Certain prior period amounts have been reclassified to conform with current year presentation.

a) Turnover

Turnover comprises Merchant Services charges receivable from Lloyds TSB Bank plc.

b) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. No such timing differences were noted in the current year.

c) Provision

Provisions for chargebacks are established when specific losses are identified with respect to troubled merchants.

Interest receivable

	2000 £'000	1999 £'000
Interest receivable from group undertakings	1,527	399

Profit on ordinary activities before taxation

	2000 £'000	1999 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - audit services	18	18
- non-audit services	-	-
	<u>18</u>	<u>18</u>

Directors' emoluments

The aggregate of the emoluments of the directors was £98,728 (1999: £54,529). These comprise amounts paid by the parent undertaking to the directors for their services to that company which relate to the management of the affairs of this company. These costs have been borne by the parent undertaking.

Retirement benefits are accruing to one director under a defined benefit pension scheme (1999:two).

One director exercised share options during the year (1999:two)

Employee information

The company has no employees (1999: Nil).

RDNET MERCHANT SERVICES LIMITED

tes to the accounts

Taxation on profit on ordinary activities

	2000 £'000	1999 £'000
UK corporation tax on profit for the year at 30.00% (1999: 30.25%)	8,491	5,991

Directors' interests

The interests of the directors of the company at the end of the year, in the capital of Lloyds TSB Group plc were:

Shares:	At 31 December 2000	At 1 January 2000 (or later date of appointment)
P. G. E. Ayliffe	83,148	83,098
G. E. R. Hawkins	99,589	98,113
P. J. Martin	15,809	18,871
R. Schimenz	-	-

Options to acquire shares:

	At 1 January 2000 (or later date of appointment)	During the year Granted	Exercised	At 31 December 2000
P.G.E.Ayliffe	110,393	-	-	110,393
G.E.R. Hawkins	39,518	27,297	-	66,815
P.J. Martin	18,926	5,917	1,257	23,586
R. Schimenz	-	-	-	-

None of the directors had any other interest in the capital of Lloyds TSB Group plc or its subsidiaries.

Debtors

	2000 £'000	1999 £'000
Amount owed by group undertaking, net	8,939	2,212
Accrued Income	10,245	20,087
	<u>19,184</u>	<u>22,299</u>

Amounts owed by group undertaking are unsecured and have no fixed date of repayment.

Creditors: amounts falling due within one year

	2000 £'000	1999 £'000
Taxation	5,493	8,422
Accruals	2,220	3,731
Provision for chargebacks	556	1,141
Proposed Dividend	10,913	9,003
	<u>19,182</u>	<u>22,297</u>

Notes to the accounts

Called up share capital and Non-equity shareholder funds

	2000	1999
	£	£
Authorised, Issued and fully paid:		
650 "A" ordinary shares of £1 each	650	650
651 "B" ordinary shares of £1 each	651	651
1,300 deferred shares of £1 each	1,300	1,300
	<u>2,601</u>	<u>2,601</u>

On winding up, the deferred shareholders have priority over the ordinary shareholders to receive repayment of capital. The deferred shareholders have no voting rights.

Related party transactions

Financial Reporting Standard 8 requires disclosure of material transactions with related parties. As shareholders, Lloyds TSB Bank plc and FDR Limited are related parties to the company.

	2000	1999
	£'000	£'000
Lloyds TSB Bank plc		
- sales to Lloyds TSB Bank plc	35,824	29,105
- expenses recharged by Lloyds TSB Bank plc	7,172	7,502
- interest receivable from Lloyds TSB Bank plc	1,527	399
- amounts owed by Lloyds TSB Bank plc	8,939	2,212
- cash held with Lloyds TSB Bank plc	1	1

Certain management costs of the company are met by Lloyds TSB Bank plc.

	2000	1999
	£'000	£'000
FDR Limited		
- expenses recharged by FDR Limited	1,304	1,103
- amounts owed to/(by) FDR Limited	855	(1,600)

otes to the accounts

Contingent Liabilities

Customs and Excise have disputed the exempt nature of the FDR processing tariff at a VAT Tribunal. Whilst FDR were successful in defending the exemption, both at the VAT Tribunal and, subsequently, in the Court of Appeal, Customs and Excise are seeking permission to take the case to the House of Lords. Management anticipates a decision in March 2001 from the House of Lords on whether it should hear the appeal by the Customs and Excise. If the House of Lords decides to hear the case, and if it then finds in favour of Customs and Excise, then CMS may be liable for additional VAT for the period November 1997 to May 1998.

Ultimate parent company

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member. Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the accounts of both companies may be obtained from the company secretary's office, Lloyds TSB Group plc 71 Lombard Street, London, EC3P 3BS.

Date of approval

The directors approved the accounts on 30 March 2001.