Company Registration No. 2133521

INFOGRAMES UNITED KINGDOM LIMITED

(formerly Ocean Software Limited)

Report and Financial Statements

Eighteen months ended 30 June 1997

Deloitte & Touche
Martins Building
4 Water Street
Liverpool
L2 8UY

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D C Ward	
J V Woods	(resigned 30 April 1997)
M Crepon	(resigned 21 June 1996)
P D Patterson	
C Sapet	(appointed 21 June 1996)
T J Schmider	(appointed 21 June 1996)
B Y J Bonnell	(appointed 21 June 1996)

SECRETARY

S Nuttall	(resigned 14 November 1997)
M Lanne	(appointed 14 November 1997)

REGISTERED OFFICE

21 Castle Street
Castlefield
Manchester
M3 4SW

BANKERS

Midland Bank plc
100 King Street
Manchester
M60 2HD

AUDITORS

Deloitte & Touche
Chartered Accountants
Martins Building
4 Water Street
Liverpool
L2 8UY

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 30 June 1997. On 30 January 1998 the company changed its name following the acquisition by Infogrames Entertainment SA.

ACTIVITIES

The company's principal activity during the period was the development and distribution of computer games software.

REVIEW OF DEVELOPMENTS

The results for this period are shown in the profit and loss account on page 5.

DIVIDENDS AND RESULT FOR THE PERIOD

The result for the current and prior period is shown on page 5. The directors do not recommend the payment of a dividend. The retained profit of £1,737,888 (1995 loss of £5,551,548) has been transferred to reserves.

FUTURE PROSPECTS

Infogrames United Kingdom forecast a year of revenue growth as a result of high product quality and favourable economic conditions.

FIXED ASSETS

The movements in tangible fixed assets during the period are shown in note 9 on page 11.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the period:

D C Ward	
P D Patterson	
J V Woods	(resigned 30 April 1997)
M Crepon	(resigned 21 June 1996)
B Y J Bonnell	(appointed 21 June 1996)
C Sapet	(appointed 21 June 1996)
T J Schmider	(appointed 21 June 1996)

No directors held shares in the company at 30 June 1997. Directors' interests in the share capital of the ultimate parent company are disclosed in the financial statements of that company.

AUDITORS

KPMG and Coopers & Lybrand resigned as joint auditors of the company on 29 November 1996. Deloitte & Touche were appointed on 20 March 1997 to fill the casual vacancy. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

13/10/98

Secretary

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 as at the end of the financial year and of the profit or loss of the company for that period. 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;
- prepare the financial statements 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. 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.

Deloitte & Touche

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INFOGRAMES UNITED KINGDOM LIMITED
(formerly Ocean Software Limited)

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 15 which have been prepared under the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 as at 30 June 1997 and of its profit for the eighteen months then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

12 November 1998

Deloitte Touche Tohmatsu

Aberdeen, Bath, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available: Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

PROFIT AND LOSS ACCOUNT
Period ended 30 June 1997

	Note	Eighteen months ended 30 June 1997 £	Seventeen months ended 31 December 1995 £
TURNOVER	2	35,139,395	27,858,770
Cost of sales		(24,332,022)	(25,511,226)
Gross profit		10,807,373	2,347,544
Operating expenses		(11,951,936)	(9,643,617)
Other operating income	4	4,867,031	1,804,755
		(7,084,905)	(7,838,862)
OPERATING PROFIT/(LOSS)	5	3,722,468	(5,491,318)
Costs of fundamental reorganisation		(1,114,879)	-
Interest receivable and similar income	6	244,722	204,875
Interest payable and similar charges	7	(1,114,423)	(429,307)
		(1,984,580)	(224,432)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		1,737,888	(5,715,750)
Tax on profit/(loss) on ordinary activities	8	-	164,202
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION RETAINED FOR THE FINANCIAL PERIOD		1,737,888	(5,551,548)
Retained (loss)/profit brought forward		(2,601,933)	2,949,615
Retained loss carried forward		(864,045)	(2,601,933)

The company has no recognised gains or losses other than the profit/loss for the financial period and preceding period. Accordingly a Statement of Total Recognised Gains and Losses has not been prepared.

All turnover and operating profit/(loss) for the current and prior periods relate to continuing activities.

BALANCE SHEET
30 June 1997

	Note	£	1997 £	£	1995 £
FIXED ASSETS					
Tangible assets	9	1,990,413		1,677,116	
Investments	10	785,471		448,627	
			2,775,884		2,125,743
CURRENT ASSETS					
Stocks	11	748,369		735,228	
Debtors	12	19,972,910		13,267,278	
Cash at bank and in hand		-		2,779,923	
		20,721,279		16,782,429	
CREDITORS: amounts falling due within one year	13	(23,732,197)		(20,901,219)	
NET CURRENT LIABILITIES			(3,010,918)		(4,118,790)
TOTAL ASSETS LESS CURRENT LIABILITIES			(235,034)		(1,993,047)
CREDITORS: amounts falling due after more than one year	14		(166,014)		(145,889)
PROVISIONS FOR LIABILITIES AND CHARGES	15		-		-
			(401,048)		(2,138,936)
CAPITAL AND RESERVES					
Called up share capital	16		1,000		1,000
Share premium account	17		461,997		461,997
Profit and loss account			(864,045)		(2,601,933)
Equity shareholders' funds			(401,048)		(2,138,936)

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

13-10-98

- Director

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidated accounts

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirements to prepare group accounts. The company is included in the consolidated accounts of its ultimate parent company, Infogrames Entertainment SA.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Short-term leasehold improvements	Over the term of the lease
Motor vehicles	25% straight line basis
Fixtures, fittings and equipment	25% straight line basis

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value. Those held as current assets are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for sale, the weighted average purchase price is used. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value or acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

1. ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisition of subsidiaries is written off immediately against reserves.

Cash flow statement

The company has not prepared a cash flow statement as it was a wholly owned subsidiary and has taken advantage of the exemption set out in Financial Reporting Standard 1 (Revised).

Pension costs

The company operates a defined contribution pension scheme. 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 to the scheme in respect of the accounting period.

Royalties and licensing agreements

The company entered into royalty and licensing agreements. Licensing charges and royalties are charged to the profit and loss account in the period in which the liability is incurred. However, in cases where the company is required to make advance payments, these are calculated as a prepayment and a proportion of these costs is written off as the unit sales of the related computer software or games cartridges are made. Royalties received are included in the profit and loss account in the period in which they are received.

Development costs

Costs incurred in developing new products are deferred and shown as an asset in the balance sheet where such products are considered technically feasible and commercially viable. Deferred development costs are included in debtors and are written off against income from the date of the product launch.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax. The turnover and pre-tax profit, all of which arises in the United Kingdom, is attributable to the principal activity of the company.

	Eighteen months ended 30 June 1997	Seventeen months ended 31 December 1995
	£	£
Geographical analysis		
UK	20,569,191	15,448,188
European Union (excluding UK)	10,048,090	9,085,489
Rest of the world	4,522,114	3,325,093
	35,139,395	27,858,770

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Eighteen months ended 30 June 1997	Seventeen months ended 31 December 1995
	£	£
Directors' emoluments	690,933	785,538
Remuneration of the highest paid director	416,975	227,589
Contributions made to money purchase scheme for highest paid director	4,950	112,908
	No	No
Number of directors who were members of the company pension scheme - Money purchase	2	2
Average number of persons employed		
Office and management	71	50
Warehousing	5	6
Software development	98	112
	174	168
	£	£
Staff costs during the period (including directors)		
Wages and salaries	2,541,228	5,185,827
Social security costs	372,412	319,873
Pension costs	4,950	225,817
	2,918,590	5,731,517

4. OTHER OPERATING INCOME

	Eighteen months ended 30 June 1997	Seventeen months ended 31 December 1995
	£	£
Loan waiver income	3,875,000	-
Other	992,031	1,804,755
	4,867,031	1,804,755

Loan waiver income relates to the gain realised on the waiver of a loan obligation from a fellow subsidiary of the ultimate parent company.

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

5. OPERATING PROFIT/(LOSS)

	Eighteen months ended 30 June 1997 £	Seventeen months ended 31 December 1995 £
Operating profit/(loss) is after charging/(crediting):		
Loss on disposal of fixed asset	5,770	-
Depreciation and amortisation		
Owned assets	1,003,215	500,601
Leased assets	120,434	195,466
Rentals under operating leases		
Other operating leases	39,122	15,350
Exchange losses	1,102,788	131,332
Auditors' remuneration - audit	73,353	19,500
- non audit	24,480	3,000

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Eighteen months ended 30 June 1997 £	Seventeen months ended 31 December 1995 £
Bank interest	18,010	31,803
Other interest	-	164,199
Exchange gains on foreign currency deposits less borrowings	226,712	8,873
	244,722	204,875

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Eighteen months ended 30 June 1997 £	Seventeen months ended 31 December 1995 £
Bank loans, overdrafts and other loans repayable within five years	544,228	286,892
Finance leases and hire purchase contracts	360,609	65,315
Other interest	209,586	77,100
	1,114,423	429,307

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

8. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	Eighteen months ended 30 June 1997 £	Seventeen months ended 31 December 1995 £
United Kingdom corporation tax (recoverable)/payable at 31% (31 December 1995 - 33%) based on the profit/(loss) for the period	-	(168,082)
	-	(168,082)
Adjustments to prior years' tax provisions		
Corporation tax	-	3,880
	-	(164,202)

No taxation liability arises on the profit for the period as the waiver of the loan obligation from a fellow subsidiary is not taxable. The company has tax losses available for future relief which are estimated at £4,400,000 (31 December 1995 £4,000,000). These losses have not yet been agreed with the Inland Revenue.

9. TANGIBLE FIXED ASSETS

	Short-term leasehold improve-ments £	Motor vehicles £	Fixtures, fittings, tools and equipment £	Total £
Cost				
At 1 January 1996	134,073	430,932	2,214,520	2,779,525
Additions	261,104	515,214	751,416	1,527,734
Disposals	-	(217,611)	(12,499)	(230,110)
At 30 June 1997	395,177	728,535	2,953,437	4,077,149
Accumulated depreciation				
At 1 January 1996	77,058	191,909	833,442	1,102,409
Charge for the period	57,015	153,076	913,558	1,123,649
Disposals	-	(139,322)	-	(139,322)
At 30 June 1997	134,073	205,663	1,747,000	2,086,736
Net book value				
At 30 June 1997	261,104	522,872	1,206,437	1,990,413
At 31 December 1995	57,015	239,023	1,381,078	1,677,116

Included in the total net book value of motor vehicles is £342,438 (1995 - £171,223) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £97,522 (1995 - £52,208). Included in the total net book value of fixtures, fittings and office equipment is £58,640 (1995 - £683,440) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £22,912 (1995 - £143,258).

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

10. FIXED ASSETS INVESTMENTS

	Shares in group undertakings £
Cost	
At beginning of period	1,351,616
Additions	336,844
At end of period	1,688,460
Provisions	
At beginning and end of period	902,989
Net book value	
At 30 June 1997	785,471
At 31 December 1995	448,627

The undertakings in which the company's interest is more than 10% are as follows:

Subsidiary undertakings	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Ocean Media Limited	England	Software distribution	Ordinary 100%

Associated undertakings	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Digital Image Design	England	Software development	Ordinary 25.5%
Eutechnyx Limited (formerly Merit Studios Limited)	England	Software development	Ordinary 40%
Bizarre Love Triangle Limited	England	Software distribution	Ordinary 33.3%

The additions in the period relates to the purchase of share capital in Eutechnyx Limited and Bizarre Love Triangle Limited.

11. STOCKS

	30 June 1997 £	31 December 1995 £
Finished goods and goods for resale	748,369	735,228

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

12. DEBTORS

	30 June 1997 £	31 December 1995 £
Trade debtors	6,319,016	6,316,608
Amounts owed by parent undertaking	-	321,648
Other debtors	1,413,847	893,321
Prepayments and accrued income	12,240,047	5,735,701
	19,972,910	13,267,278

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 1997 £	31 December 1995 £
Bank overdraft	2,156,341	8,619,895
Trade creditors	2,623,181	2,416,025
Obligations under finance leases	157,501	463,794
Amounts owed to group undertakings	6,588,588	515,166
Corporation tax		311,676
Other taxes and social security	21,993	161,112
Other creditors	1,764,378	2,360,311
Accruals and deferred income	10,420,215	6,053,240
	23,732,197	20,901,219

The bank overdraft is secured by a fixed and floating charge over the assets of the company.

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 June 1997 £	31 December 1995 £
Obligations under finance leases and hire purchase contracts	166,014	145,889
Obligations under finance leases and hire purchase contracts		
Minimum lease payments due:		
Within one year	177,334	499,174
Within 2 to 5 years	189,169	146,155
	366,503	645,329
Finance charges allocated to future periods	(42,988)	(35,646)
	323,515	609,683
Due within one year	157,501	463,794
Due after more than one year	166,014	145,889
	323,515	609,683

15. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts provided in the accounts and the amounts not provided are as follows:

	Provided 30 June 1997 £	Provided 31 December 1995 £	Not Provided 30 June 1997 £	Not Provided 31 December 1995 £
Capital allowances in advance of depreciation	-	-	(49,000)	(19,605)
Timing differences on royalties payable	-	-	(317,000)	(410,681)
	-	-	(366,000)	(430,286)

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

16. CALLED UP SHARE CAPITAL

	30 June 1997 £	31 December 1995 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and fully paid		
1,000 ordinary shares of £1 each	1,000	1,000

17. SHARE PREMIUM ACCOUNT

	30 June 1997 £	31 December 1995 £
At beginning and end of period	461,997	461,997

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	30 June 1997 £	31 December 1995 £
Profit/(loss) for the period	1,737,888	(5,551,548)
Opening shareholders' funds	(2,138,936)	3,412,612
Closing shareholders' funds	(401,048)	(2,138,936)

19. FINANCIAL COMMITMENTS

(i) At 30 June 1997 the company had commitments totalling £1,707,424 (1995 - £1,405,441) in respect of payments in relation to software licences.

(ii) At 30 June 1997 the company had commitments totalling £3,116,556 (1995 - £4,969,339) in respect of contracts for the development of computer software.

20. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of Ocean Holdings Limited, a company registered in England and Wales.

At the period end the largest and smallest group in which the results of the company were consolidated was that headed by Infogrames Entertainment SA, the ultimate parent company and ultimate controlling entity. The accounts of this group may be obtained from its registered office.

21. RELATED PARTY TRANSACTIONS

The company has taken advantage of paragraph 3(c) of FRS8 in not disclosing transactions with members of the same group.