Company Registration No. 2133521

INFOGRAMES UNITED KINGDOM LIMITED

Report and Financial Statements

30 June 1998

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

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D C Ward
P D Patterson (resigned 15 July 1999)
C Sapet
T J Schmider
B Y J Bonnell

SECRETARY

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

REGISTERED OFFICE

21 Castle Street
Castlefield
Manchester
M3 4SW

BANKERS

Deutsche Bank AG London
6 Bishopsgate
London
EC2P 2AT

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 year ended 30 June 1998.

ACTIVITIES

The company's principal activity during the year was the development and distribution of interactive entertainment software.

REVIEW OF DEVELOPMENTS

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

DIVIDENDS AND RESULT FOR THE YEAR

The result for the current year and prior period is shown on page 5. The directors do not recommend the payment of a dividend (1997 Nil).

FUTURE PROSPECTS

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

YEAR 2000

The company and group have established a working party to undertake a structured Year 2000 program to address compliance. The program is structured to ensure all critical systems are compliant, that they have been tested and that compliance can be demonstrated. The company is on target to achieve this objective with the overall cost not expected to be material. In so far as it is possible the company is in the process of ascertaining that its suppliers will also be compliant.

FIXED ASSETS

The movements in tangible fixed assets during the year are shown in note 10 on page 12.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

D C Ward
P D Patterson (resigned 15 July 1999)
B Y J Bonnell
C Sapet
T J Schmider

No directors held shares in the company at 30 June 1998 (1997 same). Directors' interests in the share capital of the ultimate parent company are disclosed in the financial statements of that company.

AUDITORS

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

Secretary

13.01.00

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

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 17 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

15 January 1999

Deloitte Touche Tohmatsu

Aberdeen, 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
Year ended 30 June 1998

	Note	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 restated (see note 2) £
TURNOVER	3	41,255,525	33,327,593
Cost of sales		(38,181,451)	(28,086,120)
Gross profit		3,074,074	5,241,473
Operating expenses		(8,656,341)	(11,951,936)
Other operating income	5	345,053	4,867,031
		(8,311,288)	(7,084,905)
OPERATING LOSS	6	(5,237,214)	(1,843,432)
Costs of fundamental reorganisation		-	(1,114,879)
Interest receivable and similar income	7	471,973	244,722
Interest payable and similar charges	8	(1,482,271)	(1,114,423)
		(1,010,298)	(1,984,580)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,247,512)	(3,828,012)
Tax on loss on ordinary activities	9	370,860	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	18	(5,876,652)	(3,828,012)

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

All turnover and operating loss for the current and prior periods relate to continuing activities.

BALANCE SHEET
30 June 1998

	Note	£	1998 £	£	1997 restated (see note 2) £
FIXED ASSETS					
Tangible assets	10	1,896,775		1,990,413	
Investments	11	711,701		785,471	
			2,608,476		2,775,884
CURRENT ASSETS					
Stocks	12	2,080,158		748,369	
Debtors	13	15,563,819		14,878,132	
		17,643,977		15,626,501	
CREDITORS: amounts falling due within one year	14	(34,771,612)		(25,543,999)	
NET CURRENT LIABILITIES			(17,127,635)		(9,917,498)
TOTAL ASSETS LESS CURRENT LIABILITIES			(14,519,159)		(7,141,614)
CREDITORS: amounts falling due after more than one year	15		(102,107)		(166,014)
			(14,621,266)		(7,303,628)
CAPITAL AND RESERVES					
Called up share capital	16		1,000		1,000
Share premium account	17		461,997		461,997
Profit and loss account	18		(15,084,263)		(7,770,625)
Equity shareholders' funds			(14,621,266)		(7,307,628)

These financial statements were approved by the Board of Directors on 13 January 2000

Signed on behalf of the Board of Directors

- Director

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

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 on 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
Year ended 30 June 1998

1. ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisitions 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 throughout the period and the parent company's consolidated financial statements are publicly available.

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 enters 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. Royalty income is included in the profit and loss account at the time the software master discs are released. Previously this income had been recognised on a receipts basis.

Development costs

External 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 external development costs are included in debtors and are written off against income from the date of the product launch. Internal development costs are expensed when incurred. Previously all development costs, internal and external, were deferred where appropriate.

2. PRIOR PERIOD ADJUSTMENTS

The prior period adjustments relate to changes in accounting policy implemented to bring the company's accounting policies into line with those of the Infogrames Entertainment SA group.

Royalty income is now included in the profit and loss account at the time the software master discs are released. This had previously been recognised when received. The effect of this change in accounting policy is to defer £1,811,802 of revenue from the previously reported 1997 profit and loss account to 1998. Consequently the operating and retained profit for the period to 30 June 1997 is reduced by £1,811,802, accruals and deferred income as at 30 June 1997 was increased to £12,232,017 and the operating and retained profit for the current year have been increased by £1,811,802.

Internal costs of development are now expensed when incurred and no longer deferred to be matched against income derived from the developed product. The effect of this change is to reduce debtors and retained earnings as at 31 December 1995 by £1,340,680, to increase cost of sales for the period to 30 June 1997 by £3,754,098 and to reduce debtors as at 30 June 1997 by £5,094,778. The effect of this change on the current year result is to decrease operating and retained profit by £3,375,561.

The cumulative effect of the above changes on shareholders funds as at 30 June 1997 is a reduction of £6,906,580, as detailed in note 19.

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

3. 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.

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 restated (see note 2) £
Geographical analysis		
UK	19,883,094	20,569,191
European Union (excluding UK)	13,675,224	10,048,090
Rest of the world	7,697,207	2,710,312
	41,255,525	33,327,593

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 £
Directors' emoluments	239,944	690,933
Remuneration of the highest paid director	125,000	416,975
Contributions made to money purchase scheme for highest paid director	-	4,950
	No	**No**
Number of directors who were members of the company pension scheme - Money purchase	1	2
Average number of persons employed		
Office and management	70	71
Warehousing	-	5
Software development	61	98
	131	174
	£	**£**
Staff costs during the year (including directors)		
Wages and salaries	3,696,937	2,541,228
Social security costs	525,212	372,412
Pension costs	16,486	4,950
	4,238,635	2,918,590

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

5. OTHER OPERATING INCOME

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 £
Loan waiver income	-	3,875,000
Other	345,053	992,031
	345,053	4,867,031

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

6. OPERATING LOSS

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 £
Operating loss is after charging:		
Loss on disposal of fixed assets	111,645	5,770
Depreciation and amortisation		
Owned assets	648,887	1,003,215
Leased assets	139,538	120,434
Rentals under operating leases		
Hire of plant and machinery	18,700	-
Other operating leases	469,587	471,626
Exchange losses	188,713	1,102,788
Auditors' remuneration - audit	35,000	73,353
- non audit	39,685	24,480

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 £
Bank interest	217,869	18,010
Other interest	254,104	-
Exchange gains on foreign currency deposits less borrowings	-	226,712
	471,973	244,722

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 £
Bank loans, overdrafts and other loans repayable within five years	387,118	544,228
Finance leases and hire purchase contracts	51,156	360,609
Other interest	1,043,997	209,586
	1,482,271	1,114,423

9. TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 30 June 1998 £	Eighteen months ended 30 June 1997 £
United Kingdom corporation tax recoverable at 31% (1997 – 32.5%) based on the loss for the year	-	-
Adjustments to prior years' tax provisions		
Corporation tax	370,860	-
	370,860	-

The company has tax losses available for future relief of approximately £13.8m (1997: £4.4m) subject to agreement with the Inland Revenue. Credit for these losses has not been taken. The prior year tax credit is due to the carry back of losses from the period ended 31 December 1995 to earlier years.

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

10. TANGIBLE FIXED ASSETS

	Short-term leasehold improve-ments £	Motor vehicles £	Fixtures, fittings, tools and equipment £	Total £
Cost				
At 1 July 1997	395,177	728,535	2,953,437	4,077,149
Additions	642,847	196,393	496,661	1,335,901
Disposals	(140,747)	(762,279)	(827,113)	1,730,139
	897,277	162,649	2,622,985	3,682,911
Depreciation				
At 1 July 1997	134,073	205,663	1,747,000	2,086,736
Charge for the year	62,285	122,530	603,610	788,425
Disposals	(134,073)	(285,537)	(669,415)	(1,089,025)
	62,285	42,656	1,681,195	1,786,136
Net book value				
At 30 June 1998	834,992	119,993	941,790	1,896,775
At 30 June 1997	261,104	522,872	1,206,437	1,990,413

Included in the total net book value of motor vehicles is £67,393 (1997 - £342,438) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £103,810 (1997 - £97,522). Included in the total net book value of fixtures, fittings and office equipment is £35,728 (1997 - £58,640) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £22,912 (1997 - £22,912).

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

11. FIXED ASSETS INVESTMENTS

	Shares in group undertakings £
Cost	
At beginning of year	1,688,460
Additions	12
Disposals	(73,782)
At end of year	1,614,690
Provisions	
At beginning and end of year	902,989
Net book value	
At 30 June 1998	711,701
At 30 June 1997	785,471

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

Subsidiary undertakings	Country of registration or incorporation	Principal activity	Percentage of shares held
Teepee Two Limited (formerly Ocean Media Limited)	England	Dormant	100%
Curved Logic Limited	England	Software development	100%

Associated undertakings	Country of registration or incorporation	Principal activity	Percentage of shares held
Infogrames Castlefield Limited (formerly Digital Image Design Limited)	England	Software development	25.5%
Eutechnyx Limited	England	Software development	40%
Bizarre Love Triangle Limited	England	Software distribution	33.3%

The addition in the period relates to the purchase of share capital in Curved Logic Limited. The disposals in the period relates to the disposals of interests in Neon Software GmbH. In 1999 the company purchased the remaining share capital of Infogrames Castlefield Limited for £1,258,000.

12. STOCKS

	1998 £	1997 £
Finished goods and goods for resale	2,080,158	748,369

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

13. DEBTORS

	1998 £	1997 restated (see note 2) £
Trade debtors	3,805,638	6,319,016
Amounts owed by group undertakings	5,183,636	-
Other debtors	329,542	1,413,847
Tax recoverable	967,053	-
Prepayments and accrued income	5,277,950	7,145,269
	15,563,819	14,878,132

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 restated (see note 2) £
Bank overdraft	3,048,011	2,156,341
Trade creditors	1,447,309	2,623,181
Obligations under finance leases	83,656	157,501
Amounts owed to group undertakings	28,164,987	6,588,588
Other taxes and social security	260,633	21,993
Other creditors	732,684	1,764,378
Accruals and deferred income	1,034,332	12,232,017
	34,771,612	25,543,999

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

Included within other creditors are loans totalling £732,415 (1997 - £1,118,282) owed to D C Ward and trusts and pension schemes associated with D C Ward, a director of the company. The loan bears interest at a variable commercial rate and was repaid in full by November 1998. The maximum amount outstanding during the year was £1,118,282.

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

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

	1998 £	1997 £
Obligations under finance leases and hire purchase contracts	102,107	166,014
Obligations under finance leases and hire purchase contracts		
Minimum lease payments due:		
Within one year	105,596	177,334
Within 2 to 5 years	113,296	189,169
	218,892	366,503
Finance charges allocated to future periods	(33,129)	(42,988)
	185,763	323,515
Due within one year	83,656	157,501
Due after more than one year	102,107	166,014
	185,763	323,515

16. CALLED UP SHARE CAPITAL

	1998 £	1997 £
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

	1998 £	1997 £
At beginning and end of year	461,997	461,997

18. PROFIT AND LOSS ACCOUNT

	1998 £	1997 (restated see note 2) £
Retained loss brought forward as previously stated	(864,045)	(2,601,933)
Prior period adjustment (See note 2)	(6,906,580)	(1,340,680)
Retained loss brought forward as restated	(7,770,625)	(3,942,613)
Loss for the year retained	(5,876,652)	(3,828,012)
Goodwill written off (see note 20)	(1,436,986)	-
Retained loss carried forward	(15,084,263)	(7,770,625)

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1998 £	1997 restated (see note 2) £
Loss for the year	(5,876,652)	(3,828,012)
Goodwill written off (see note 20)	(1,436,986)	-
Net reduction in shareholders' funds	(7,313,638)	(3,828,012)
Opening shareholders' funds as previously stated	(401,048)	(2,138,936)
Prior period adjustment (see note 2)	(6,906,580)	(1,340,680)
Opening shareholders' funds as restated	(7,307,628)	(3,479,616)
Closing shareholders' funds	(14,621,266)	(7,307,628)

20. PURCHASE OF BUSINESS

On 31 March 1998, under a group restructuring, the business of Ocean Europe Limited was transferred to Infogrames United Kingdom Limited for consideration of £464,566. The transfer of trade has been accounted for by the acquisition method of accounting and goodwill arising on the transfer has been written off directly to reserves.

	£
Book and fair value of assets and liabilities acquired	
Debtors	570,940
Creditors	(1,543,360)
	(972,420)
Fair value of consideration	464,566
Goodwill arising on acquisition	1,436,986

Reported results for the acquired business which include trade up to 31 March 1998, including comparatives for the 18 month period to 30 June 1997, are as follows:

	1998 £	1997 £
Turnover	654,397	3,178,821
Operating loss	(468,987)	(572,438)
Profit on sale of business	1,436,986	-
Interest receivable and similar income	37,856	562
Interest payable and similar charges	(693)	(46,283)
Profit/(loss) before tax	1,005,162	(618,159)
Taxation	362,677	-
Profit/(loss) after tax	1,367,839	(618,159)

Trading results for the acquired business since 31 March 1998 have not been separately disclosed, as required by Financial Reporting Standard 3, due to the nature of the integration of this business.

NOTES TO THE ACCOUNTS
Year ended 30 June 1998

21. FINANCIAL COMMITMENTS

(i) At 30 June 1998 the company had commitments totalling £646,725 (1997 - £1,707,424) in respect of payments in relation to software licences.

(ii) At 30 June 1998 the company had commitments totalling £7,729,398 (1997 - £3,116,556) in respect of contracts for the development of computer software.

22. OPERATING LEASE COMMITMENTS

At 30 June 1998 the company was committed to making the following payments during the next year in respect of operating leases:

Leases which expire:	Land and buildings 1998 £	Other 1998 £	Land and buildings 1997 £	Other 1997 £
Within two to five years	397,600	146,400	397,600	-

23. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of Ocean International 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.

24. RELATED PARTY TRANSACTIONS

Fees negotiated at arms length of £2,196,000 (1997 - £2,421,000) were charged and paid to Infogrames Castlefield Limited during the period as royalty advances on games being developed.

Fees negotiated at arms length of £692,203 (1997 £630,000) were charged and paid to Eutechnyx Limited during the period as royalty advances on games being developed.

Fees negotiated at arms length of £59,796 (1997 - £91,286) were charged by Bizarre Love Triangle Limited for marketing and distribution services during the period. Payments of £87,266 (1997 - £62,372) were made during the period leaving a balance of £1,444 (1997 - £28,914) outstanding at the year end. In addition the company loaned Bizarre Love Triangle Limited £40,000 interest free during the prior period which remains outstanding at 30 June 1998. This loan has no fixed repayment terms.

Infogrames Castlefield Limited, Eutechnyx Limited and Bizarre Love Triangle Limited are all associated undertakings as detailed in note 11.

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