

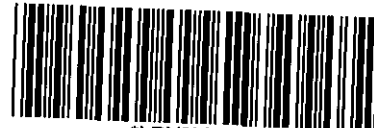
**LIONHEAD STUDIOS LIMITED**

**FINANCIAL STATEMENTS**

**YEAR ENDED**

**31 MARCH 2006**

MONDAY



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COMPANIES HOUSE

*Presented*

**REED SMITH  
RICHARDS BUTLER LLP  
BEAUFORT HOUSE  
15 ST. BOTOLPH STREET  
LONDON EC3A 7EE  
SOLICITORS**

*Ref: Smy/747922/091*

Baker Tilly  
Chartered Accountants  
The Clock House  
140 London Road  
Guildford  
Surrey GU1 1UW

**DIRECTORS AND OFFICERS**

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**DIRECTORS**

K R Dolliver  
B O Orndorff

**SECRETARY**

RB Secretariat Ltd

**COMPANY NUMBER**

3232655 (England)

**REGISTERED OFFICE**

Beaufort House  
Tenth Floor  
15 St. Botolph Street  
London  
EC3A 7EE

**AUDITORS**

Baker Tilly  
Chartered Accountants  
The Clock House  
140 London Road  
Guildford  
Surrey GU1 1UW

**DIRECTORS' REPORT**

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The directors submit their report and the financial statements of Lionhead Studios Limited for the year ended 31 March 2006.

**PRINCIPAL ACTIVITIES**

The principal activity of the company during the year was computer interactive games development.

**POST BALANCE SHEET EVENT**

On 5 April 2006 the group was acquired by Microsoft Corporation. The group will continue to develop games for Microsoft's Xbox 360 and PC.

**REVIEW OF THE BUSINESS**

The group's game titles are developed by four separate development studios located in the United Kingdom, each of which draws on the central resources, experience and facilities of Lionhead Studios Limited.

The group's revenue to date has been driven by the releases of Black & White on PC in March 2001, Creature Isle on PC in March 2002, Fable on Xbox and PC in September 2004 and September 2005 respectively, Black & White 2 on PC in October 2005 and The Movies on PC in November 2005 coupled with the recognized element of non-refundable advances on other games under development.

Management believe the success of the group to date has been, and will continue to be, based on the quality of its employees, the originality of its ideas and its proven title and brand development process.

As noted above, Microsoft Corporation acquired Lionhead Limited group of companies on 5 April 2006.

Pre acquisition the Lionhead Limited group was independent and was heavily reliant on the contracts it had with its key publishing partners under which payments were receivable based on hitting key milestones during the course of game development and achieving sales levels sufficient to generate royalties following release.

Post acquisition the Lionhead Limited group is funded by Microsoft Corporation and will develop titles exclusively for the Xbox 360 platform and Windows Vista which support Microsoft's first party ambitions for those platforms.

**RESULTS AND DIVIDENDS**

The trading loss for the year after taxation was £3,872,893 (2005: loss £1,251,982).

The directors do not recommend payment of an ordinary dividend and the deficit has been transferred to reserves.

**DIRECTORS**

The following directors have held office since 1 April 2005:-

K R Dolliver	(appointed 5 April 2006)
S J Hutchings	(resigned 5 April 2006)
S P Jackson	(resigned 5 April 2006)
P Molyneux	(resigned 5 April 2006)
P C Murphy	(resigned 5 April 2006)
B O Orndorff	(appointed 5 April 2006)
T E Rance	(resigned 5 April 2006)
M Webley	(resigned 5 April 2006)

**DIRECTORS' REPORT (CONTINUED)**

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**DIRECTORS' INTERESTS IN SHARES**

No directors had an interest, including family interests, in the shares of the company.

The directors' interests in the share capital of the parent company, Lionhead Limited, are disclosed in that company's accounts for those directors who are the directors of the parent company.

S P Jackson is not a director of Lionhead Limited. His interest in the shares of Lionhead Limited is 175,000 'A' shares of 1p each.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they have ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

**AUDITORS**

A resolution to reappoint Baker Tilly, Chartered Accountants, will be put to the members at the annual general meeting.

By order of the board

**RB SECRETARIAT LIMITED**

by 

**Director/Secretary**

RB Secretariat Ltd

Secretary

29 December 2006

**DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF  
FINANCIAL STATEMENTS**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. 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. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- d. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIONHEAD STUDIOS LIMITED**

We have audited the financial statements on pages 6 to 16.

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

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions 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 audit opinion**


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 March 2006 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

  
BAKER TILLY  
Registered Auditor  
The Clock House  
140 London Road  
Guildford  
Surrey GU1 1UW

17 January 2007

**PROFIT AND LOSS ACCOUNT**  
**for the year ended 31 March 2006**

	Notes	2006	2005
<b>TURNOVER</b>	1	3,855,249	5,040,902
Costs less other income	2	(7,988,164)	(6,452,504)
		<u>(4,132,915)</u>	<u>(1,411,602)</u>
<b>OPERATING LOSS</b>			
Interest receivable	3	2,029	33,626
		<u>(4,130,886)</u>	<u>(1,377,976)</u>
Interest payable	4	(714,242)	(434,540)
		<u>(4,845,128)</u>	<u>(1,812,516)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5		
Taxation credit	7	972,235	560,534
		<u>972,235</u>	<u>560,534</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>	15	<u>£ (3,872,893)</u>	<u>£ (1,251,982)</u>

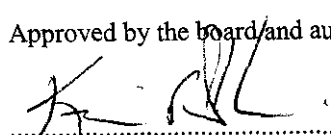
The operating loss for the year arises from the company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

**BALANCE SHEET**  
**31 March 2006**

	Notes	2006	2005
<b>FIXED ASSETS</b>			
Tangible assets	8	284,473	342,016
Investments	9	2,674,587	1,214,057
		<u>2,959,060</u>	<u>1,556,073</u>
<b>CURRENT ASSETS</b>			
Debtors due within one year	10	4,425,033	7,327,611
Cash at bank and in hand		6,071	279,497
		<u>4,431,104</u>	<u>7,607,108</u>
<b>CREDITORS</b>			
Amounts falling due within one year	11	(8,375,042)	(6,144,166)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(3,943,938)</u>	<u>1,462,942</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(984,878)</u>	<u>3,019,015</u>
<b>CREDITORS</b>			
Amounts falling due after more than one year	12	(7,095,885)	(7,095,885)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	13	(18,792)	(149,792)
		<u>£ (8,099,555)</u>	<u>£ (4,226,662)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	60,684	60,684
Profit and loss account	15	(8,160,239)	(4,287,346)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	16	<u>£ (8,099,555)</u>	<u>£ (4,226,662)</u>

Approved by the board and authorized for issue on Dec 22 2006.

  
 .....  
 K R Dolliver  
 Director



Financial statements for the year ended 31 March 2006

## ACCOUNTING POLICIES

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### BASIS OF ACCOUNTING

The accounts have been prepared on the going concern basis on the assumption that the company's parent undertaking will provide sufficient funds to enable the company to continue operating and to meet its liabilities as they fall due. The financial statements have been prepared under the historical cost convention in accordance with the applicable accounting standards.

### GOING CONCERN

The directors consider it appropriate to prepare the financial statements on the going concern basis due to the continued support of Microsoft Corporation.

### CONSOLIDATION

The financial statements present information about the company as an individual undertaking and not its group. The company has not prepared group accounts as it is exempt from the requirement to do so by Section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Lionhead Limited, a company incorporated in England, and is included in the consolidated accounts of that company.

### REVENUE RECOGNITION

Revenue from royalty agreements is recognised upon shipment or transfer of title to the end customer in accordance with the agreements. Revenue also includes non-refundable advances received from distributors in return for the right to distribute games in certain territories. Such advances are recognised based upon the proportion of costs incurred to date in relation to total expected game development costs.

Provisions for returns are made against sales during the period based upon market experience.

### TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Leasehold improvements	over the term of the lease
Office equipment	over 5 years
Computer equipment	over 2 years
Motor vehicles	over 4 years

### INVESTMENTS

Fixed asset investments are stated at cost less provision for diminution in value.

### SOFTWARE DEVELOPMENT COSTS

All costs associated with the development of software are written off against profits as incurred.

### DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

**Financial statements for the year ended 31 March 2006**

**ACCOUNTING POLICIES**

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**LEASED ASSETS AND OBLIGATIONS**

All leases are "operating leases" and the annual rentals are charged to the profit and loss on a straight-line basis over the lease term.

**PENSION CONTRIBUTIONS**

The pension costs charged in the financial statements represent the contributions payable by the company during the period.

**CASH FLOW STATEMENT**

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow on the basis that 90% or more of the voting rights are controlled within the group and consolidated financial statements are publicly available.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

**1. TURNOVER**

The company's turnover and loss before taxation were all derived from its principal activity wholly undertaken in the United Kingdom.

An accurate worldwide analysis of royalty income by destination is not available to the company.

**2. COSTS LESS OTHER INCOME**

	2006	2005
Staff costs	5,011,582	4,826,826
Depreciation	244,562	277,797
Other operating charges	2,732,020	1,347,881
	<u>£ 7,988,164</u>	<u>£ 6,452,504</u>

**3. INTEREST RECEIVABLE**

Bank interest receivable	2,029	32,798
Other interest	-	828
	<u>£ 2,029</u>	<u>£ 33,626</u>

**4. INTEREST PAYABLE**

On bank overdraft	104,387	56,832
On intercompany loan	456,165	329,178
Lease finance charges	-	323
Other interest	153,690	48,207
	<u>£ 714,242</u>	<u>£ 434,540</u>

**5. LOSS ON ORDINARY ACTIVITIES  
BEFORE TAXATION**

Loss on ordinary activities before  
taxation is stated after charging/(crediting):

Depreciation of tangible assets:

Charge for the year:		
owned assets	244,562	277,797
(loss)/profit on disposal	468	(5,077)
Operating lease rentals:		
Land and buildings	223,791	225,000
Auditor's remuneration:		
audit fees	18,000	18,000
other fees	2,650	4,850
	<u>£ 489,471</u>	<u>£ 510,570</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

	2006	2005
<b>6. EMPLOYEES</b>		
The average monthly number of persons (including directors) employed by the company during the year was:	No.	No.
Development, office and management	121	94
Staff costs for the above persons:		
Wages and Salaries	4,339,279	4,057,145
Social Security costs	479,285	539,107
Other pension costs	193,018	230,574
	<u>£ 5,011,582</u>	<u>£ 4,826,826</u>

**DIRECTORS REMUNERATION**

Emoluments for qualifying services	<u>£ 689,420</u>	<u>£ 687,750</u>
Company pension contributions to money purchase schemes	<u>£ 76,163</u>	<u>£ 56,325</u>

The number of directors for whom retirement benefits are accruing under defined contribution pension schemes amounted to 5 (2005: 5).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>£ 177,690</u>	<u>£ 173,083</u>
Company pension contributions to money purchase schemes	<u>£ 24,300</u>	<u>£ 22,050</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

7.	TAXATION	2006	2005
	Current tax:		
	UK corporation tax on profits of year	-	-
	Adjustment in respect of prior years	(357,317)	-
		<u>(357,317)</u>	<u>-</u>
	Deferred tax:		
	Origination and reversal of timing differences	(614,918)	(560,534)
	Tax on profit on ordinary activities	<u>£ (972,235)</u>	<u>£ (560,534)</u>
	<b>Factors affecting tax charge for the year</b>		
	The tax assessed for the year varies from the standard rate of corporation tax (30%) as explained below:		
	Loss on ordinary activities before tax	(4,845,128)	(1,812,516)
	Loss on ordinary activities multiplied by the standard rate of corporation tax (30%)	(1,453,538)	(543,755)
	Effects of:		
	Expenses/(income) not deductible for tax purposes	322,312	(7,532)
	Capital allowances less than depreciation	9,322	14,066
	Unutilised tax losses	731,743	517,485
	Group relief	390,161	19,736
	Adjustment in respect of prior year	(357,317)	-
	Current tax charge for the year	<u>£ (357,317)</u>	<u>£ -</u>

The company has estimated losses of £9,109,052 (2005: £7,347,371) available for carry forward against future trading profit.

8. **TANGIBLE FIXED ASSETS**

	Leasehold equipment	Office equipment	Computer equipment	TOTAL
Cost:				
1 April 2005	325,359	180,054	881,600	1,387,013
Additions	-	10,243	177,244	187,487
Disposals	-	-	(3,908)	(3,908)
31 March 2006	<u>325,359</u>	<u>190,297</u>	<u>1,054,936</u>	<u>1,570,592</u>
Depreciation:				
1 April 2005	194,218	81,265	769,514	1,044,997
Charge in the year	49,528	37,685	157,349	244,562
Disposals	-	-	(3,440)	(3,440)
31 March 2006	<u>243,746</u>	<u>118,950</u>	<u>923,423</u>	<u>1,286,119</u>
Net book value:				
31 March 2006	<u>81,613</u>	<u>71,347</u>	<u>131,513</u>	<u>£ 284,473</u>
31 March 2005	<u>131,141</u>	<u>98,789</u>	<u>112,086</u>	<u>£ 342,016</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

**9. FIXED ASSET INVESTMENTS**

	<b>Participating Interest</b>	<b>Subsidiary Undertakings</b>	<b>Total</b>
Cost:			
At 1 April 2005	50,000	1,164,057	1,214,057
Additions	-	1,460,530	1,460,530
At 31 March 2006	<u>50,000</u>	<u>2,624,587</u>	<u>£ 2,674,587</u>

**Holdings of more than 20%**

The company holds more than 20% of the share capital of the following companies:

<b>Company</b>	<b>Country of incorporation</b>	<b>Class</b>	<b>Shares held %</b>
<b>Subsidiary undertakings</b>			
Black and White Studios Limited	England	Ordinary	100
Big Blue Box Studios Limited	England	'A' and 'B'	100
Intrepid Computer Entertainment Limited	England	'A' and 'B'	100
<b>Participating interests</b>			
LJH Limited	England	Ordinary	50

**10. DEBTORS**

	<b>2006</b>	<b>2005</b>
Due within one year:		
Trade debtors	1,041,363	438,831
Amounts due from group undertakings	31,262	4,246,897
Other debtors	287,838	166,120
Prepayments and accrued income	245,441	271,552
Deferred tax asset	2,819,129	2,204,211
	<u>£ 4,425,033</u>	<u>£ 7,327,611</u>

The recoverability of the deferred tax asset is dependent on future taxable profits which the directors believe will be available in future years following the release of games in 2005/6.3

The balance on the deferred tax asset is as follows:

	<b>2006</b>	<b>2005</b>
Excess of depreciation and capital allowances	86,413	-
Tax losses carried forward	2,732,716	2,204,211
	<u>£ 2,819,129</u>	<u>£ 2,204,211</u>
Deferred tax asset at start of period	2,204,211	2,764,745
Deferred tax credit in profit and loss account	614,918	560,514
	<u>£ 2,819,129</u>	<u>£ 2,204,211</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

11. CREDITORS	2006	2005
Amounts falling due within one year:		
Bank loans and overdrafts	3,289,730	29,046
Trade creditors	193,200	444,241
Amounts owed to group undertakings	285,357	2,440,909
Corporation tax	449,904	357,334
Other creditors	15,000	-
Other taxes and social security	281,921	347,327
Accruals and deferred income	3,830,430	2,474,909
Loan notes	29,500	50,400
	<u>£ 8,375,042</u>	<u>£ 6,144,166</u>

The bank overdraft is secured by fixed and floating charges over all the assets and intellectual property of the company.

£80,550 'A' unsecured redeemable convertible fixed rate loan notes of Lionhead Studios Limited were issued on 7 July 2003 in settlement of the deferred consideration accrued payable within one year on the acquisition of Big Blue Box Studios Limited.

The loan note holders are entitled to require the Company to redeem the loan notes on or at anytime after the initial redemption date of seven months after issue and Lionhead Studios Limited is entitled to redeem the loan notes on or at any time six months after the initial redemption date. During the year the loan note holders redeemed £ 20,900 of loan notes leaving a balance of £ 29,500 'A' unsecured fixed rate loan notes outstanding at 31 March 2006.

Interest accrues on the loan notes at the rate of 2% per annum up until the initial redemption date and at a rate of 1% per annum thereafter.

If any of the shares of the Company are admitted to listing for trading on a recognized investment exchange at anytime when the loan notes remain outstanding or unredeemed, then the loan note holders are entitled to convert at the listing price into such shares on the listing date and agree not to dispose of those shares for a period of 12 months.

12. CREDITORS

Amounts falling due after one year:

Loan from parent undertaking	<u>£ 7,095,885</u>	<u>£ 7,095,885</u>
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The intercompany loan is repayable in five years and bears interest at 6.34% per annum.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

**13. PROVISIONS FOR LIABILITIES AND CHARGES**

<b>PROVISION FOR RETURNS</b>	<b>2006</b>	<b>2005</b>
At 1 April 2005	149,792	-
Provided in the year	-	149,792
Release to profit and loss account	(131,000)	-
At 31 March 2006	<u>£ 18,792</u>	<u>£ 149,792</u>

<b>14. SHARE CAPITAL</b>	<b>2006</b>	<b>2005</b>
Authorised:		
2,000,000 ordinary shares of 1p each	20,000	20,000
12,082,000 'A' ordinary shares of 1p each	120,820	120,820
5,918,000 'B' ordinary shares of 1p each	59,180	59,180
	<u>£ 200,000</u>	<u>£ 200,000</u>
Allotted, issued and fully paid		
5,075,000 'A' ordinary shares of 1p each	50,750	50,750
993,380 'B' ordinary shares of 1p each	9,934	9,934
	<u>£ 60,684</u>	<u>£ 60,684</u>

'B' ordinary shareholders are not entitled to any voting rights in accordance with the company's Articles of Association. In all other respects the shares rank pari passu.

<b>15. PROFIT AND LOSS ACCOUNT</b>	<b>2006</b>
At 1 April 2005	(4,287,346)
Retained loss for the year	(3,872,893)
At 31 March 2006	<u>£ (8,160,239)</u>

<b>16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS</b>	<b>2006</b>	<b>2005</b>
Loss for the financial year	(3,872,893)	(1,251,982)
Net addition to shareholders' funds	<u>(3,872,893)</u>	<u>(1,251,982)</u>
Opening shareholders' funds	(4,226,662)	(2,974,680)
Closing shareholders' funds	<u>£ (8,099,555)</u>	<u>£ (4,226,662)</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 March 2006

**17. COMMITMENTS UNDER OPERATING LEASES**

At 31 March 2006 the company had annual commitments under non-cancellable operating leases as follows:

	2006	2005
Land and buildings		
expiring in less than one year	£ -	£ 40,150
expiring in the second to fifth year	£ 184,850	£ 184,850
	<u>£ 184,850</u>	<u>£ 184,850</u>

**18. PENSION COMMITMENTS**

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 pension cost charge represents contributions payable by the company to the fund and amounted to £193,018 (2005: £230,574).

**19. RELATED PARTY TRANSACTIONS**

During the year P Molyneux provided a personal guarantee to the group's bankers in relation to the group's overdraft facility. This is not required following the acquisition by Microsoft Corporation. A premium of £129,933 was payable to P Molyneux in relation to the provision of the guarantee, for the period to 31 March 2006.

The company is exempt from disclosing intra-group related party transactions under Financial Reporting Standard 8 by virtue of it being a wholly owned subsidiary undertaking of Lionhead Limited, for which group accounts are prepared.

**20. ULTIMATE CONTROLLING PARTY**

The ultimate parent company is Lionhead Limited, a company registered in England.

This parent undertaking is the holding company of the largest group for which group accounts are prepared and of which the company is a member. Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

**21. PURCHASE OF SUBSIDIARY UNDERTAKINGS**

During the year ended 31 March 2003 the company increased its shareholdings in Big Blue Box Studios Limited (BBB) and Intrepid Computer Entertainment Limited (ICE) to 100% settled by a consideration of cash, convertible fixed rate loan notes and deferred consideration inclusive of estimated earn-out amounts.

The actual deferred consideration and earn-out amounts paid in respect of ICE was £327,903 less than the estimates included in the acquisition cost originally allowed for and the related cost reduction has therefore been adjusted for in the year to 31 March 2005.

The actual earn-out deferred consideration to be paid in respect of BBB is £1,655,000 and this has been fully provided for in these accounts.