VIS entertainment plc

(Formerly known as VIS Interactive plc)

Report and financial statements for the year ended 30 November 2000

Registered in Scotland 160499

VIS entertainment plc

Report and financial statements for the year ended 30 November 2000

VIS entertainment plc

Directors and advisers

Non Executive Chairman

Les Edgar

Executive Directors

Christiaan van der Kuyl - Chief Executive Officer
Timothy Gatland (Appointed 26 April 2001)
Tony Robison CA - Chief Financial Officer (Resigned 19 March 2001)
Peter Baillie

Non Executive Directors

Alexander Catto
Ian Ritchie
William McCall
John Boyle

Company Secretary

BLP Secretaries Limited (Resigned 6 October 2000)
Peter Baillie (Appointed 6 October 2000)

Registered office

BLP Secretaries Limited
130 St Vincent Street, Glasgow G2 5HF

Auditors

KPMG
Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG

Solicitors

McGrigor Donald WS
Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH

Bankers

Bank of Scotland
Bothwell Street, Dunfermline KY11 3AG

VIS entertainment plc

Directors' report for the year ended 30 November 2000

The directors present herewith their report and audited financial statements of the Group for the year ended 30 November 2000. On 19 September 2000 the company name changed from VIS Interactive plc to VIS entertainment plc.

Principal activities

The principal activity of the Group was computer interactive games development.

Results and dividends

The Group's loss for the year amounted to £2,934k (year ended 30 November 1999 - £1,228k). The directors do not recommend the payment of a dividend (1999 - nil).

Review of business and future developments

Operations

During the year the Group expanded its operations through the recruitment of games staff and senior management and establishing a new studio in Dundee. Towards the end of the financial year, management focused the business on the mainstream games market and took the decision to close the VIS Kids operation with effect from December 2000. The Group employs in excess of 110 staff from three locations in Scotland and in the South of England.

In September 2000, the company formed a joint venture with Flextech Television Limited (a subsidiary of Telewest Communications plc) to create and develop content for interactive digital television.

Funding

In order to facilitate expansion, the parent company, VIS entertainment plc, raised £2.0m (before expenses) in March and May 2000 by way of rights issue, details of which are disclosed in note 16 to the financial statements. On 16 January 2001, the parent company, VIS entertainment plc, raised £3.2m (before expenses), details of which are disclosed in note 25 to the financial statements.

Other

The company appointed HSBC Investment Bank in April 2000 as corporate advisors to a possible IPO for the company. As a result the company entered into the process and appointed additional advisors for an IPO process. Due to market conditions management took the decision, in October 2000, not to proceed with the IPO. The costs for this are included in the results for the year.

VIS entertainment plc (Directors' report continued)

Directors' Interests

The directors of the Company during the year were: -

Les Edgar (Non Executive Chairman)

Christiaan van der Kuyl (Chief Executive Officer)
Peter Baillie (Company Secretary)
Tony Robison CA (Chief Financial Officer) (Resigned 19 March 2001)

Ian Ritchie (Non Executive Director)
Alexander Catto (Non Executive Director)
William McCall (Non Executive Director)
John Boyle (Non Executive Director)

Timothy Gatland was appointed on 26 April 2001.

The interests of the directors in the shares of the Company at 30 November 2000 (and 30 November 1999) were as follows:

	Ordinary Shares	*Share Capital*
Director	*2000*	*1999*
CRD van der Kuyl	445,500	445,500
J Boyle	208,153	195,146
J Boyle (held in trust)	208,317	195,297
P Baillie	346,500	346,500
IC Ritchie	305,796	304,500
A Catto	4,574	4,288
A Catto (as trustee)	100,957	97,700
T Gatland	2,591	-

The following directors are grantees under the terms of an option agreement of 16 October 1996. The option is over 'A' Ordinary shares of the Company issued to subscribers on 16 October 1996. The exercise of the option would not affect the share capital of the Company. As at 30 November 2000 (and 30 November 1999) the directors' interests were as follows:

	Number of 'A' Ordinary shares under option	
Director	*2000*	*1999*
CRD van der Kuyl	27,001	27,001
P Baillie	21,001	21,001
IC Ritchie	18,182	18,182

On 1 February 1999, Tony Robison was granted an option to subscribe for 13,418 Ordinary shares in the Company (option cancelled 19 March 2001). On 1 December 1999, Les Edgar and William McCall were granted options to subscribe for 6,757 and 5,455 Ordinary shares in the Company respectively. All issued options as at 31 May 2000 have an exercise price of £1.10 and are exercisable upon a listing or sale of all or substantially all of the shares or business and assets of the Company. The options granted to Tony Robison, Les Edgar and William McCall shall expire on the seventh anniversary of the date the option is granted. In addition, Mr Edgar has an option to purchase up to £500,000 value of new issue 'A' Ordinary Shares at 80% of the full market value of the shares at the time of exercising the option, such option to be exercised on one occasion only.

VIS entertainment plc (Directors' report continued)

Directors' interests (continued)

In addition to the above, Christiaan van der Kuyl, Timothy Gatland and Tony Robison were granted the following share options over Ordinary shares under the VIS entertainment plc Unapproved Share Option Scheme 2000 and the VIS entertainment plc Enterprise Management Incentive (EMI) Scheme on 5 September 2000.

	Number of Ordinary shares under option	
Director	*Unapproved scheme*	*EMI Scheme*
CRD van der Kuyl	104,714	20,000
Timothy Gatland	60,258	6,789
Tony Robison (cancelled 19 Mar 2001)	12,727	20,000

The Unapproved Scheme and the EMI Scheme share options have an exercise price of £1.10. The expiry date of these options is 5 September 2010.

Directors' interests in contracts

None of the Directors had an interest in contracts.

Creditors payment policy

It is Group policy to pay its suppliers in accordance with the terms of trade, which may be agreed at the time of the order.

Auditors

During the period PricewaterhouseCoopers resigned as auditors. In accordance with section 385 of the Companies Act 1985, a resolution concerning the appointment and remuneration of KPMG as auditors of the Group was passed at the Annual General Meeting of 12 June 2000.

By order of the board.

Peter Baillie, Secretary
21 June 2001

VIS entertainment plc

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 and group and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the auditors
to the members of VIS entertainment plc

For the year ended 30 November 2000

We have audited the financial statements on pages 7 to 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 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 with the company 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 group'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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the statutory financial statements concerning the uncertainty over the success of the directors' plans to make the company profitable and cash generative. In view of the significance of this matter, we consider it should be brought to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's affairs as at 30 November 2000 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants and Registered Auditors
Edinburgh

29 June 2001

VIS entertainment plc

Group profit & loss account
for the year ended 30 November 2000

	Note	2000 £'000	1999 £'000 Restated
Turnover	1	2,588	1,083
Cost of sales		(3,929)	(1,548)
Gross loss		(1,341)	(465)
Selling and administrative expenses		(1,532)	(724)
Operating loss		(2,873)	(1,189)
Interest receivable and similar income		63	18
		(2,810)	(1,171)
Interest payable and similar charges	5	(124)	(57)
Loss on ordinary activities before taxation	2	(2,934)	(1,228)
Taxation	6	-	-
Retained loss for the period	18	(2,934)	(1,228)

The Group has no recognised gains and losses other than those included in the losses above, and therefore no separate statement of total recognised gains and losses has been presented.

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

VIS entertainment plc

Group Balance Sheet
at 30 November 2000

	Note	2000 £'000	1999 £'000 Restated
Intangible fixed assets			
Goodwill	7	293	363
Tangible fixed assets			
Fixed assets	8	1,010	482
Investments	10	20	10
		1,030	492
Current assets			
Debtors	11	1,688	532
Cash at bank and in hand		451	1,272
		2,139	1,804
Creditors: amounts falling due within 1 year	12	1,264	642
Net current assets		875	1,162
Total assets less current liabilities		2,198	2,017
Creditors: *amounts falling due after more than 1 year*	13	1,571	366
Deferred Income	14	25	75
Net assets		602	1,576
Capital and reserves			
Called up share capital	16	414	389
Share premium	18	6,494	4,559
Profit and loss account	18	(6,306)	(3,372)
Total equity shareholders' funds		602	1,576

The financial statements on pages 7 to 21 were approved by the board of directors on 21 June 2001 and were signed on its behalf by:

Christiaan van der Kuyl
Director

VIS Interactive plc

Company Balance Sheet
at 30 November 2000

	Note	2000 £'000	1999 £'000 Restated
Fixed assets			
Tangible assets	9	527	400
Investments	10	51	41
		578	441
Current assets			
Debtors	11	2,694	815
Cash at bank and in hand		450	1,270
		3,144	2,085
Creditors: amounts falling due within 1 year	12	964	345
Net current assets/(liabilities)		2,180	1,740
Total assets less current liabilities		2,758	2,181
Creditors: amounts falling due after more than 1 year	13	1,533	349
Deferred Income	14	25	75
Net assets/(liabilities)		1,200	1,757
Capital and reserves			
Called up share capital	16	414	389
Share premium	18	6,494	4,559
Profit and loss account	18	(5,708)	(3,191)
Total equity shareholders' funds		1,200	1,757

The financial statements on pages 7 to 21 were approved by the board of directors on 21 June 2001 and were signed on its behalf by:

Christiaan van der Kuyl
Director

VIS entertainment plc

Group cash flow statement
for the year ended 30 November 2000

	Note	2000 £'000	1999 £'000 Restated
Net cash outflow from operating activities	19	(3,061)	(1,803)
Returns on investment and servicing of finance			
Interest received		63	18
Bank interest paid		(76)	(31)
Loan stock interest paid		(18)	(11)
Interest element of finance lease rental payments		(28)	(15)
		(59)	(39)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(879)	(78)
Sale of tangible fixed assets		-	24
Investment		(10)	(10)
		(889)	(64)
Acquisitions			
Purchase of subsidiary undertaking		-	(31)
Net cash acquired with subsidiary		-	10
		-	(21)
Net cash outflow before financing		(4,009)	(1,927)
Financing			
Issue of ordinary share capital	17	1,979	3,341
Expense of share issue	17	(19)	(81)
Bank Term Loan		1,107	(26)
Net movement in finance leases		194	(87)
Net cash inflow from financing		3,261	3,147
(Decrease)/Increase in cash	20	(748)	1,220

VIS entertainment plc

Notes to the financial statements

for the year ended 30 November 2000

1 Principal accounting policies

Basis of Accounting

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

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The directors have prepared an operating plan with profit and loss account and cash flow projections for the period to 30 November 2003. Implementation of this plan will enable the Company to continue to operate and expand in the period of the projections. The directors currently have no reason to believe that the plan will not be implemented successfully and therefore consider that the Company will continue to have sufficient funds to allow it to operate. Although there cannot yet be any certainty as to the success of this plan, the directors have decided to prepare these financial statements on a going concern

Prior year adjustments

On reviewing previous years' financial statements the directors have concluded that a fundamental error was made in that recognition of turnover on certain contracts did not comply with Statement of Standard Accounting Practice 9. The previous years' comparative figures have been restated accordingly. The effect was to increase turnover and reduce the retained loss for the year ended 30 November 1999 by £220,000. There was no effect on reserves at 30 November 1999 as the corresponding decrease in turnover and increase in retained loss occurred in an earlier year. There is no effect in the current year. In addition, the directors have recognised that certain pre-acquisition liabilities of Stainless Technologies Limited, a business acquired in November 1999, were incorrectly accounted for as post acquisition expenses. The financial statements for the year ended 30 November 1999 have been restated to increase the goodwill on acquisition of the business and reduce administrative expenses by £112,000.

Change in presentation

Historical allocations of cost items between cost of sales and selling and administrative expenses were inconsistent and not in accordance with the Companies Act format; the financial statements have been restated appropriately. The directors believe that this more fairly reflects the nature of such expenditure. The effect of this change has been to decrease cost of sales by £233,000 in 1999 and increase selling and administrative expenses by the same amount.

Basis of Consolidation

The consolidated accounts deal with the accounts for the group made for the year ended 30 November 2000. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 not to present a profit and loss account for VIS entertainment plc, the parent Company. In accounting for all subsidiaries, the Group consolidates fully their assets, liabilities and post-acquisition results using the acquisition method of accounting. All inter-company balances and transactions are eliminated from the consolidated statements.

On acquisition of a business, all of the acquired assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

Tangible Fixed Assets

Fixed assets are stated at cost less aggregate depreciation. Depreciation is calculated to write off fixed assets over their original estimated useful lives at the following annual rates:

Land	Nil	
Buildings	2.5%	straight line
Motor vehicles	33.3%-100%	straight line
Office equipment, furniture and fittings	20%	straight line
Computer equipment and software	33.3%	straight line

Goodwill

Goodwill is the excess of cost over fair value of the Group's share of net tangible assets acquired. Goodwill arising on the acquisition of the subsidiary has been capitalised on the balance sheet and will be amortised on a straight line basis over the directors' estimate of the useful economic life of the business acquired.

Stock and work in progress and debtors

Stock and work in progress are valued at the lower of cost and net realisable value. Cost of finished goods and work in progress includes overheads appropriate to the stage of development. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion. Provision is made for obsolete and slow moving items. Long term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract, and the credit taken for profit earned to the date when the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is classified as "amounts recoverable on contracts" and included in debtors: to the extent that payments on account exceed relevant turnover, the excess is included as a creditor.

Investments

Investments are stated in the balance sheet of the Company at cost.

Grants

Grants on capital expenditure are credited to a deferral account and are released to revenue by equal annual amounts over the expected useful life of the assets to which they relate. Grants of a revenue nature are credited to income in the period to which they relate.

Deferred Taxation

Taxation deferred or accelerated by the effect of timing differences is accounted for on the liability method to the extent that it is probable that a liability will crystallise.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Differences on exchange are taken to the profit and loss account in the year in which they arise.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Finance lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

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

Turnover

Turnover represents the value, net of Value Added Tax, of goods sold and services provided to customers and, in the case of long term contracts, turnover is ascertained in a manner appropriate to the stage of completion of the contract, and credit taken for profit earned to the date when the outcome of the contract can be assessed with reasonable certainty.

Research and Development

The costs of research are expensed as incurred. Development costs incurred in relation to speculative projects in respect of which there is no contractual commitment from a publisher are expensed as incurred. Both of these categories are treated as research and development for disclosure purposes. Development costs incurred in relation to projects undertaken on behalf of publishers are included within the cost of such projects and accounted for in accordance with the accounting policy for stocks and work in progress set out above. These are excluded from the disclosure of research and development costs.

Pension

The Company contributes 10 per cent of certain Directors' salaries to their personal pension plans on a defined contribution basis. Contributions are expensed as they are incurred. The Company also operates two salary sacrifice money purchase pension schemes on behalf of employees. It does not contribute to these schemes.

Notes to the financial statements
for the year ended 30 November 2000 (continued)

2 Loss on ordinary activities before taxation

	2000	1999
	£'000	£'000
Loss on ordinary activities before taxation has been arrived at after charging/(crediting):		
Auditors' remuneration - audit services	22	11
Auditors' remuneration - non-audit services	151	4
Research and development	644	214
Depreciation:		
Tangible owned assets	322	193
Tangible fixed assets held under finance lease	29	4
Capital release of grant income	(50)	(39)
Amortisation of goodwill	70	4
Operating lease costs - motor vehicles	20	24
Loss on disposal of fixed assets	-	5

3 Directors' emoluments

	£'000	£'000
Aggregate emoluments	281	209
Sums paid to third parties for directors' services	11	26
	292	235
Company contributions made to money purchase pension schemes	15	13
Aggregate emoluments and estimated money value of benefits paid to highest paid director were	111	85
Company contributions made to money purchase pension schemes	9	6

The pension scheme in operation for certain executive Directors requires the Company to contribute an amount equivalent to 10 per cent of each individual's salary to their personal pension schemes. The amount payable under this arrangement during the year ended 30 November 2000 was £15,000 (1999: £13,000). Contributions due but unpaid and included within other creditors at 30 November 2000 were £15,200 (1999: £6,000).

4 Employee information

	2000	1999
	£'000	£'000
The average monthly number of persons (including executive directors) employed by the group during the year was 100 (1999 : 64)		
Staff costs for the above persons:		
Wages and salaries	2,735	1,578
Social Security costs	282	160
	3,017	1,738

The pension scheme for employees other than directors is a non-contributory salary sacrifice agreement and accordingly there is no charge to the profit and loss account in respect of this scheme. All contributions collected are remitted fully at 30 November 1997, 1998, 1999 and 2000

Notes to the financial statements
for the year ended 30 November 2000 (continued)

5 Interest payable and similar charges

	2000 £'000	1999 £'000
Bank interest payable and similar charges	78	(31)
Interest on loan stock	18	(11)
Interest on finance leases	28	(15)
	124	(57)

6 Taxation

There is no taxation charge as the Group has been loss making. At 30 November 2000, UK corporation tax losses available for offset against future profits amounted to approximately £4.8 million.

7 Intangible assets

	£'000
Cost	
At 30 November 1999	
As previously stated	255
Prior year adjustment (note 18)	112
Re-stated at 30 November 1999 and 30 November 2000	367
Amortisation	
At 30 November 1999	(4)
Charge for the year ended 30 November 2000	(70)
	(74)
Net book values	
Net book value as at 30 November 2000	293
Net book value as at 30 November 1999	363

Goodwill is being written off in equal annual instalments over its estimated economic life which, in the case of this particular acquisition, is estimated as five years.

8 Tangible fixed assets - group

	Freehold property £'000	Motor vehicles £'000	General & furnishings £'000	Computers & software £'000	Total £'000
Cost					
At 1 December 1999	-	-	82	986	1,068
Additions in year	317	21	24	517	879
Disposals in year	-	-	-	-	-
At 30 November 2000	**317**	**21**	**106**	**1,503**	**1,947**
Depreciation					
As at 1 December 1999	-	-	31	555	586
Charge for year	1	8	18	324	351
Disposal for year	-	-	-	-	-
At 30 November 2000	**1**	**8**	**49**	**879**	**937**
Net book value at 30 November 2000	**316**	**13**	**57**	**624**	**1,010**
Net book value at 30 November 1999	-	-	51	431	482

Notes to the financial statements

for the year ended 30 November 2000 (continued)

8 Tangible fixed assets - group (continued)

Equipment net book value includes £251,253 (1999 : £44,186) for assets under finance leases. Depreciation charged to the profit and loss account during the period for these assets was £28,560 (1999 : £4,162).

During the year ended 30 November 2000, the Directors revised the estimated useful life of computer equipment and software to 3 years and also changed the method of deprecation to straight line basis (see note 1). In the Directors' opinion this change reflected more accurately the estimated useful life of this type of asset. As a result, the depreciation charge for the year has increased by £74,891. There has been an offsetting increase in the capital grant issue released during the period of £22,500. The effect of such a reassessment of asset lives in previous periods would not have been material.

9 Tangible fixed assets - Company

	Motor vehicles	General & furnishings	Computers & software	Total
Cost	£'000	£'000	£'000	£'000
At 1 December 1999	-	74	910	984
Additions in year	14	20	393	427
Disposals in year	-	-	-	-
At 30 November 2000	**14**	**94**	**1,303**	**1,411**
Depreciation				
As at 1 December 1999	-	31	553	584
Charge for year	7	16	277	300
Disposal for year	-	-	-	-
At 30 November 2000	**7**	**47**	**830**	**884**
Net book value at 30 November 2000	**7**	**47**	**473**	**527**
Net book value at 30 November 2000	-	43	357	400

Equipment net book value includes £194,065 (1999 : £14,630) for assets under finance leases. Depreciation charged to the profit and loss account during the year for these assets was £28,560 (1999 : £2,282).

10 Investments

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
At 1 December 1999	10	-	41	31
Investment during the year	10	10	10	10
At 30 November 2000	20	10	51	41

The parent Company has an investment in Ordinary shares in the following subsidiary undertakings and other investment, all of which are incorporated in Great Britain and have been included in the consolidated accounts. The percentage holding reflects the proportion of voting rights and shares held.

	Accounting *reference date*	***Principal activity***	**Holding**
VIS Kids Limited	30 November	Dormant	100%
Stainless Technologies Limited	30 November	Computer games developer	100%
Digital Bridges Limited	30 April	Platform and content provider for wireless applications	0.72%

VIS entertainment plc

Notes to the financial statements

for the year ended 30 November 2000 (continued)

11 Debtors

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Trade debtors	296	59	186	59
Amounts recoverable on contracts	1,236	243	982	243
Other debtors	127	221	119	203
Amounts due from subsidiary companies	-	-	1,381	303
Prepayments and accrued income	29	9	26	7
	1,688	532	2,694	815

12 Creditors: amounts falling due within one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank overdraft	8	81	8	81
Trade creditors	152	74	149	72
Provisions on contracts	400	-	200	-
Obligations under hire purchase agreements	88	14	69	5
Other tax and social security	66	111	7	49
Bank term loan	84	62	84	62
Other creditors	4	221	-	-
Accruals and deferred income	462	79	447	76
	1,264	642	964	345

13 Creditors: amounts falling due after more than one year

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Obligations under hire purchase agreements and finance lease commitments	144	24	106	7
Bank term loans	1,247	162	1,247	162
Loan stock	180	180	180	180
	1,571	366	1,533	349

Finance Leases

The finance lease or hire purchase obligations to which the company is committed fall due as follows:

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
In one year or less	88	14	69	5
Between one and two years	88	13	69	4
Between two and five years	56	11	37	3
	232	38	175	12

Notes to the financial statements

for the year ended 30 November 2000 (continued)

13 Creditors: amounts falling due after more than one year (continued)

Loans

Bank loans and other borrowings:	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
In one year or less	92	143	92	143
Between one and two years	1,223	62	1,223	62
Between two and five years	204	280	204	280
	1,519	485	1,519	485

A bank loan amounting to £250,000 was received from Bank of Scotland during 1998. This loan is to be repaid over 5 years by 48 equal instalments commencing on 28 July 1999.

The interest rate applied to the loan will be 2% above Bank of Scotland base rate.

A Bond and Floating charge is held by Bank of Scotland over the assets of the company in relation to this loan.

Other loans were received from 3i (£80,000), Scottish Equity Partnership (£80,000) and Noble Grossart (£20,000) in 1998. These loans are repayable on 31 March 2002 or earlier if:-

a) shares are being quoted on the stock exchange; and b) voting control is no longer held by the members of the company who were shareholders at completion of the funding exercise introducing the loans.

Interest is payable on these loans at a fixed rate of 10%, payable quarterly from 1 May 1999.

Other loans and bank overdrafts are secured over the assets of the company.

The company has a committed working capital facility, dated 20 March 2000, with Bank of Scotland for £1.7million which can only be used to fund the development of a specific game. The rate of interest applied to the loan, payable monthly, will be 4 percent above Bank of Scotland base rate on the cumulative amount drawn down. If the funds are not drawn down a non-utilisation fee of 0.75 percent of the undrawn amount is payable. The bank loan drawn down at 30 November 2000 was £958,607 (30 November 1999: Nil) and is to repaid in full on 20 March 2002.

14 Deferred Income

	Group		Company	
	2000	1999	2000	1999
Government Grants	£'000	£'000	£'000	£'000
At 1 December 1999	75	114	75	114
Amortised	(50)	(39)	(50)	(39)
At 30 November 2000	25	75	25	75

A Regional Selective Assistance Grant of £200,000 became receivable during 1998 as a contribution to the development of the business. The grant is being amortised over the expected life of the associated assets.

15 Deferred tax

A full potential deferred tax asset for the Group and Company exists at 30 November 2000. No provision has been made for the Group and Company for this amount. The total unprovided potential asset for both Group and Company is as follows:

	Group		Company	
	Amount unprovided	Amount unprovided	Amount unprovided	Amount unprovided
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Fixed assets depreciation in advance of capital allowances	47	82	37	82
Trading losses carried forward	1,086	585	956	541
Other timing differences	18	-	18	-
	1,151	667	1,011	623

Notes to the financial statements
for the year ended 30 November 2000 (continued)

16 Called up share capital

	2000	1999
	£'000	£'000
Authorised:		
2,500,000 Ordinary shares of £0.10 each (1999: 1,630,710 £0.10 shares)	250	163
3,000,000 'A' Ordinary shares of £0.10 each (1999: 2,502,610 £0.10 shares)	300	250
	550	413
Alloted, issued and fully paid:		
1,512,352 Ordinary shares of £0.10 each (1999: 1,509,662 £0.10 shares)	151	151
2,631,162 'A' Ordinary shares of £0.10 each (1999: 2,377,419 £0.10 shares)	263	238
	414	389

On 24 March 2000, the authorised share capital of the Company was increased to £480,000 divided into 1,800,000 Ordinary shares of £0.10 each and 3,000,000 'A' Ordinary shares of £0.10 each by the creation of an additional 169,290 Ordinary shares of £0.10 each and 497,390 'A' Ordinary shares of £0.10 each.

On 24 March 2000 the Company issued 2,690 Ordinary shares of £0.10 at a nominal value of £269, at £7.72 per share for a total consideration of £20,767 and 238,743 'A' Ordinary shares of £0.10 at a nominal value of £23,874, at £7.72 per share for a total consideration of £1,843,096.

On 25 May 2000, the Company issued 15,000 'A' Ordinary shares of £0.10 (total nominal value of £1,500), at £7.72 per share for a total consideration of £115,800.

Save as otherwise provided in the Articles, the 'A' ordinary shares and ordinary shares rank pari passu in all respects. There are no special rights on winding up.

On 22 August 2000, the authorised share capital of the Company was increased to £550,000 divided into 2,500,000 Ordinary shares of £0.10 each and 3,000,000 'A' Ordinary shares of £0.10 each by the creation of an additional 700,000 Ordinary shares of £0.10.

Contingent rights to the allotment of shares

The Company has granted options to subscribe for ordinary and 'A' ordinary shares conditional upon, but with effect immediately prior to, a listing, share sale or asset sale. These options are in favour of certain shareholders and employees.

The options for ordinary shares are for up to 700,000 shares at a price to be determined by the directors. As at 30 November 2000, options for 642,226 (1999: 68,589) ordinary shares had been granted under three schemes. Options for 383,0101 (1999: 68,589) ordinary shares had been granted between March 1998 and September 2000 under the VIS Unapproved Share Option Sheme, at a price of £1.10. Options for 111,562 (1999: 0) ordinary shares had been granted in September 2000 under the VIS Approved Share Option Sheme, at a price of £5.00. Options for 147,654 (1999: 0) ordinary shares had been granted in September 2000 under the VIS EMI Sheme at a price of £1.10.These options may be exercised upon realisation, which includes listing or trade sale and in any event expire on the seventh anniversary of the date the option is granted.

The options for 'A' ordinary shares are for up to 74,520 (1999: 74,520) shares at a price of £1.10 per share. These options were granted on 16 October 1996 and may be exercised under the same terms as the ordinary share options noted above.

Notes to the financial statements
for the year ended 30 November 2000 (continued)

17 Reconciliation of movement in shareholders' funds

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Opening shareholders' funds				
As previously stated	1,464	(236)	1,757	(236)
Prior year adjustment	112	(220)	-	(220)
Re-stated opening shareholders' funds	1,576	(456)	1,757	(456)
New share capital subscribed	25	121	25	121
Share premium arising on the issue of shares	1,954	3,230	1,954	3,230
Bonus issue	-	(10)	-	(10)
Preliminary and share issue expenses	(19)	(81)	(19)	(81)
Loss for the year	(2,934)	(1,228)	(2,517)	(1,047)
Closing shareholders' funds	602	1,576	1,200	1,757

18 Share premium account and reserves

	Group		Company	
	Share premium account	Profit & loss account	Share premium account	Profit & loss account
	£'000	£'000	£'000	£'000
At 1 December 1999				
As previously stated	4,559	(3,484)	4,559	(3,191)
Prior year adjustment	-	112	-	-
Re-stated at 1 December 1999	4,559	(3,372)	4,559	(3,191)
Premium arising on issue of shares	1,954	-	1,954	-
Preliminary and share issue expenses	(19)	-	(19)	-
Retained loss for the year	-	(2,934)	-	(2,517)
At 30 November 2000	6,494	(6,306)	6,494	(5,708)

The Company did not account for certain of the liabilities acquired on the acquisition of Stainless Technologies Limited within the goodwill calculation. As a result, the goodwill and shareholders' funds were understated. The financial statements have been amended by way of a prior year adjustment.

19 Reconciliation of operating loss to net cash outflow from operating activities

	2000	1999
	£'000	£'000
Operating Loss	(2,873)	(1,189)
Depreciation charge	351	197
Goodwill amortisation	70	4
Release of capital grant	(50)	(39)
Increase in debtors	(1,157)	(123)
Increase/(Decrease) in creditors	598	(658)
Loss on sale of fixed asset	-	5
Cash outflow from operating activities	(3,061)	(1,803)

Notes to the financial statements

for the year ended 30 November 2000 (continued)

20 Analysis of net funds

	At 1 December 1999 £'000	Cash flow £'000	Other non cash changes £'000	At 30 November 2000 £'000
Cash in hand, at bank	1,272	(821)	-	451
Overdrafts	(81)	73	-	(8)
	1,191	(748)	-	443
Debt due in less than one year	(62)	40	-	(22)
Debt due in more than one year	*(342)*	*(1,147)*	-	*(1,489)*
Finance leases	(38)	-	(194)	(232)
	(442)	(1,107)	-	(1,743)
	749	**(1,855)**	**(194)**	**(1,300)**

21 Reconciliation of net cash flow to movement in net funds

	2000 £'000	1999 £'000
(Decrease)/Increase in cash in the year	(748)	1,220
Cash outflow/(inflow) from decrease/ (increase) in debt and lease financing	(1,107)	113
Change in net debt resulting from cash flows	(1,855)	1,333
New finance leases	(194)	(43)
Movement in net debt in the year	(2,049)	1,290
Net funds at beginning of year	749	(541)
Net funds at end of year	**(1,300)**	**749**

22 Financial commitments

As at 30 November 2000, the Group had annual commitments under non-cancellable vehicle operating leases expiring as follows:	2000 £'000	1999 £'000
Within one year	14	13
Within two to five years	28	-
	42	13

23 Related party transactions

VIS entertainment plc advanced loans of £138,000 to Stainless Technologies Limited, prior to acquiring the company on 1 November 1999.

The Company has assigned the key man life cover policies of Directors and key individuals to Bank of Scotland as security for the bank loan.

William Webster and John Barrett, who at that time were executive Directors of Stainless Technologies Limited, loaned £132,396 and £8,231 respectively to Stainless Technologies Limited during the year ended 30 November 1999. Both amounts were outstanding at that year end. During the year ended 30 November 2000, Stainless Technologies Limited repaid these loans.

24 Contingencies

(a) Contingent liabilities

In accordance with conventional arrangements in its industry, the Group has entered into contracts which provide for the receipt of development fees in the form of advance royalties from certain publishers. Under certain circumstances these fees are repayable to the publishers and, to this extent, a contingent liability exists. The amount of such advances in respect of contracts which had not received final "gold master" acceptance at 30 November 2000 was £1,825,000 (30 November 1999: £575,000).

The Directors are satisfied that adequate provision has been made within the financial statements for any such amounts which may require to be repaid.

(b) Contingent profit and loss charge

As stated in note 15 at 31 May 2000 the Company had issued options for 143,609 ordinary and "A" ordinary shares at £1.10. These options may be exercised upon realisation which includes listing or trade sale and in any event expire on the seventh anniversary of the date the option is granted. In the event that all 143,609 options are exercised the Directors estimate that the aggregate charge to the Company for the difference between the market value of the Company at the date the options were granted and the exercise price of the option would be approximately £560,000. This would not impact the Group's net assets.

25 Post balance sheet events

On 15 September 2000 the company entered into an agreement with Flextech Television Limited (a wholly-owned subsidiary of Telewest Communications plc) to establish a Joint Venture to commission the development of content for distribution on broadband and interactive digital television (iDTV).

On 29 December 2000, the authorised share capital of the Company was increased to £610,000 divided into 2,500,000 Ordinary shares of £0.10 each, 3,000,000 'A' Ordinary shares of £0.10 each and 600,000 'B' Ordinary shares of £0.10 each by the creation of an additional 600,000 'B' Ordinary shares of £0.10 each.

On 16 January 2001 the Company issued 532,211 B Ordinary shares of £0.10 at a nominal value of £53,221, at £6.04 per share for a total consideration of £3,214,554.

Save as otherwise provided in the Articles, the'B' Ordinary shares, 'A' ordinary shares and ordinary shares rank pari passu in all respects.

The articles provide the following special rights:

(a) That on a return of assets on liquidation, reduction of capital or otherwise the surplus assets of the Company remaining after payment of its liability shall be applied first in paying to the 'B' Ordinary Shareholders, before the 'A' Ordinary shareholders or Ordinary shareholders, an amount equal to the subscription price (inclusive of any premium) paid or credited as paid for such shares together with such amount as is necessary to establish an IRR of twenty per cent (20%);

(b) Immediately prior to a 'Liquidity Event' and on the assumption that such Liquidity Event will proceed immediately thereafter at the anticipated price, if the IRR on conversion of the existing 'B' Ordinary Shares would be less than 20% per annum, pro-rata, the Company shall by way of capitalisation of reserves or otherwise allot to the 'B' Ordinary Shareholders a bonus issue of such number of 'B' Ordinary Shares as shall together with the number of 'B' Ordinary Shares in issue immediately prior to such bonus issue give an IRR of 20% (or such number as shall be as close as possible to but not less than 20%).

A Liquidity Event means any of the following:

(a) Listing;

(b) the sale and purchase of shares conferring (whether themselves, together with shares already held by the purchaser or together with shares held by Connected Persons or persons acting in concert (as acting in concert is defined in the City Code on Takeovers and Mergers)), the rights to fifty per cent (50%) or more of the votes at general meeting of the Company (a "Trade Sale"); or

(c) the obtaining by the Company from a sole party who is not already a member of the Company at the date of adoption of these Articles of immediately available funding in cash in excess of ten million pounds (£10,000,000) after payment by the Company of any expenses relating to the obtaining of such funding (a "Funding Commitment");