

VIS entertainment ltd
(formerly VIS entertainment plc)

Report and financial statements
for the year ended 30 November 2003

Registered in Scotland 160499



VIS entertainment ltd
(formerly VIS entertainment plc)

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VIS entertainment ltd
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Company Information

Non executive chairman	Ken Lewandowski	
Executive directors	Christiaan van der Kuyl Peter Baillie Patrick Burns Jane Karwoski	(appointed – 2 May 2003) (resigned - 6 October 2003)
Non executive directors	Alexander Catto Ian Ritchie John Boyle Andrew Lapping	(resigned - 23 January 2004) (appointed - 23 January 2004)
Company secretary	Peter Baillie Laura Calder	(resigned – 5 February 2004) (appointed – 5 February 2004)
Registered office	Seabraes Perth Road Dundee DD1 4LN	
Auditors	KPMG LLP Chartered Accountants Saltire Court 20 Castle Terrace Edinburgh EH1 2EG	
Solicitors	McGrigor Donald Princes Exchange 1 Earl Grey Street Edinburgh EH3 9AQ	
Bankers	Bank of Scotland PO Box 18 1 Bothwell Street Dunfermline KY11 3AG	

VIS entertainment ltd
(formerly VIS entertainment plc)

Directors' report for the year ended 30 November 2003

The directors hereby present their annual report and audited financial statements for the year ended 30 November 2003.

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 £(1,583)k (2002 – £3,249k profit). The directors do not recommend the payment of a dividend (2002 – Nil).

Review of business and future developments

The Group continued its core business of digital content development as well as progressing VIS iTV Limited, its joint venture with Telewest. The Group has retained an interest in AXIS animation, an animation studio based in Glasgow. Following a re-organisation reported in last year's accounts, other subsidiaries remain dormant.

During the year, the Board approved a series of changes to the group's operating structure in order to reduce costs and improve efficiency. These measures included the closure of its smaller studios at London and the Isle of Wight.

The Dunfermline studio ceased operation and transferred activities to a new specially fitted-out facility in the centre of Edinburgh. Our Dundee studio remained operational and will continue to do so.

During 2003, the publishers of the Group's top-selling product, State of Emergency, indicated that they were not prepared to take up an option to publish its sequel. The Board determined that, given the opportunities presented by producing a sequel to a game which sold in excess of 1m units and topped the UK and US charts for games produced on all platforms following its launch in 2002, an alternative means of publishing would be sought.

Funding for the sequel's production was provided by SOE Developments Limited, a vehicle created by a group of investors, in order to ensure the game's continued development while a publishing deal was secured.

In February 2004, soon after the financial year-end, VIS entertainment and BAM Entertainment Inc., of San Jose, California, announced a merger whereby BAM Entertainment will acquire the shareholdings of VIS Entertainment and SOED Developments Limited. This deal is subject to certain conditions but the directors anticipate conclusion of the deal in the near term.

On completion it is intended that VIS will become the production arm of a new internationally-based publisher-developer company and that our operations in Dundee and Edinburgh will continue to trade.

Group sales were £5,807k (2002 - £9,833k), with a gross profit of £1,422k (2002 - £5,645k) and an operating net loss of £1,968k (2002 - £3,385k profit). The net loss for the year was £1,583k (2002 - £3,429k profit).

The company changed its status from public limited company to private limited company on 18 March 2004.

VIS entertainment ltd
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Directors' report for the year ended 30 November 2003 (continued)

Directors

The directors of the Company during the year are shown on page 1.

Directors' interests

The interests of the directors in the shares of the Company at 30 November 2003 and 30 November 2002 (or date of appointment) were as follows:

	Ordinary shares	
	2003	2002
Christiaan van der Kuyl	445,500	445,500
Peter Baillie	346,500	346,500
Patrick Burns	90,000	90,000
John Boyle	416,470	208,153
John Boyle (held in trust)	-	208,317
Ian Ritchie	305,796	305,796
Alexander Catto	6,049	6,049
Alexander Catto (as trustee)	105,957	105,957
Alexander Catto (as trustee)	105,957	105,957

The following directors are grantees under the terms of an option agreement dated 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 2003 (and 30 November 2002) the directors' interests were as follows:

	Number of 'A' ordinary shares under option	
	2003	2002
Christiaan van der Kuyl	29,214	29,214
Peter Baillie	22,722	22,722
Patrick Burns	5,902	5,902
Ian Ritchie	19,673	19,673

All issued options as at 30 November 2003 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

VIS entertainment ltd
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Directors' report for the year ended 30 November 2003 (continued)

Directors' interests (continued)

In addition to the above, the following directors 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	
	2003	2002
	Unapproved scheme	
Christiaan van der Kuyl	104,714	104,714
Patrick Burns	22,694	22,694
	EMI Scheme	
Christiaan van der Kuyl	20,000	20,000
Patrick Burns	20,000	20,000

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

Ken Lewandowski, John Boyle, Alexander Catto and Jane Karwoski had no interest in the company's share options.

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. The number of creditor days outstanding at the year-end were 20 (2002 – 29).

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


Laura Calder
Company Secretary

Date: 22 April 2004

VIS entertainment ltd
(formerly 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 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

**Independent auditors' report to the members of
VIS entertainment ltd for the year ended 30 November 2003**

We have audited the financial statements on pages 8 to 27.

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 purposes. 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 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 1985. 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 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the uncertainty as to the continuation and adequacy of the group's funding position. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

KPMG LLP

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

**Independent auditors' report to the members of
VIS entertainment ltd for the year ended 30 November 2003
(continued)**

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 November 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

Date: 22 April 2004

VIS entertainment ltd
(formerly VIS entertainment plc)

Group profit and loss account for year ended 30 November 2003

	Notes	2003 £000's	2002 £000's
Group turnover	1	5,807	9,833
Cost of sales		(4,385)	(4,188)
Gross profit		<u>1,422</u>	<u>5,645</u>
Selling and administrative expenses		(2,958)	(1,943)
Other operating income		500	536
Group operating (loss)/profit		<u>(1,036)</u>	<u>4,238</u>
Share of operating loss in joint venture		(932)	(853)
Operating (loss)/profit		<u>(1,968)</u>	<u>3,385</u>
Profit on sale of fixed assets		193	-
(Loss)/profit on ordinary activities before interest and taxation		<u>(1,775)</u>	<u>3,385</u>
Interest receivable and similar income		21	27
Interest payable and similar charges	5	(112)	(163)
(Loss)/profit on ordinary activities before taxation	2	<u>(1,866)</u>	<u>3,249</u>
Taxation	6	283	-
Retained (loss)/profit for the year	19	<u>(1,583)</u>	<u>3,249</u>

	2003 £000's	2002 £000's
(Loss)/profit after tax for the financial year:		
Group	(651)	4,102
Share of joint venture	(932)	(853)
	<u>(1,583)</u>	<u>3,249</u>

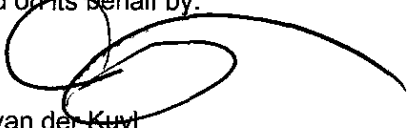
There are no recognised gains or losses other than the loss for the financial year and the profit for the previous financial year.

VIS entertainment ltd
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Group balance sheet as at 30 November 2003

	Notes	2003 £000's	2002 £000's
Fixed Assets			
Intangible assets	7	-	139
Tangible assets	9	1,116	926
Investments in joint ventures:			
Loans to joint venture		2,161	1,989
Share of gross assets		864	1,347
Share of gross liabilities		(3,043)	(2,594)
	11	(18)	742
Other investments	11	20	20
		<u>1,118</u>	<u>1,827</u>
Current assets			
Stock – development work in progress		519	-
Debtors	12	3,065	2,082
Cash at bank and in hand		842	1,025
		<u>4,426</u>	<u>3,107</u>
Creditors: amounts falling due within one year	13	(2,634)	(561)
Net current assets		<u>1,792</u>	<u>2,546</u>
Total assets less current liabilities		2,910	4,373
Creditors: amounts falling due after more than one year	14	(312)	(181)
Deferred income	15	(31)	(42)
Net assets		<u>2,567</u>	<u>4,150</u>
Capital and reserves			
Called up share capital	17	469	469
Share premium account	19	9,624	9,624
Profit and loss account	19	(7,526)	(5,943)
Total equity shareholders' funds		<u>2,567</u>	<u>4,150</u>

The financial statements on page 8 to 27 were approved by the board of directors on 22 April 2004 and were signed on its behalf by:



Christiaan van der Kuyt
Director

VIS entertainment ltd
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Company balance sheet as at 30 November 2003

	Notes	2003 £000's	2002 £000's
Fixed Assets			
Intangible assets	8	-	2,153
Tangible assets	10	1,116	975
Investments in joint venture	11	(18)	742
Other investments	11	20	51
		<u>1,118</u>	<u>3,921</u>
Current assets			
Stock- development work in progress		519	-
Debtors	12	3,065	2,124
Cash at bank and in hand		842	1,007
		<u>4,426</u>	<u>3,131</u>
Creditors: amounts falling due within one year	13	(2,634)	(866)
Net current assets		<u>1,792</u>	<u>2,265</u>
Total assets less current liabilities		2,910	6,186
Creditors: amounts falling due after more than one year	14	(312)	(181)
Deferred income	15	(31)	(42)
Net assets		<u>2,567</u>	<u>5,963</u>
Capital and reserves			
Called up share capital	17	469	469
Share premium account	19	9,624	9,624
Profit and loss account	19	(7,526)	(4,130)
Total equity shareholders' funds		<u>2,567</u>	<u>5,963</u>

The financial statements on page 8 to 27 were approved by the board of directors on 22 April 2004 and were signed on its behalf by:


Christiaan van der Kuyl
Director

VIS entertainment ltd
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Group cash flow statement for the year ended 30 November 2003

	Notes	2003 £000's	2002 £000's
Net cash (outflow)/inflow from operating activities	20	(1,269)	4,812
Returns on investment and servicing of finance			
Interest received		21	27
Bank interest paid		(97)	(136)
Loan stock interest paid		-	(8)
Interest element of finance lease rental payments		(15)	(19)
		<u>(91)</u>	<u>(136)</u>
Taxation			
Tax credit received		283	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(887)	(438)
Sale of tangible fixed assets		495	67
		<u>(392)</u>	<u>(371)</u>
Acquisitions and disposals			
Loans to joint venture		(172)	(1,438)
Net cash (outflow)/inflow before financing		<u>(1,641)</u>	<u>2,867</u>
Financing			
Net movement in loans		1,546	(1,950)
Net movement in finance leases		(1)	(53)
		<u>1,545</u>	<u>(2,003)</u>
(Decrease)/increase in cash	21	<u>(96)</u>	<u>864</u>

VIS entertainment ltd
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Notes to the financial statements
for the year ended 30 November 2003

1 Principal accounting policies

Basis of preparation

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 company has adopted FRS19 'Deferred Tax' in these financial statements.

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons. The group is subject to a takeover offer by BAM! entertainment, Inc, which is expected to complete in the near term. In order to complete the acquisition BAM! entertainment Inc is required to raise \$12.35m (net) on NASDAQ. The directors believe the acquisition will complete and accordingly the company will be able to rely upon the new parent company for financial support. The nature of the enlarged group's business is such that there can be considerable and unpredictable variations in the timing of cash inflows. The directors have reviewed the cash flow projections for the enlarged group covering the period ending 12 months from the date of their approval of these financial statements. On the basis of these cash flow projections and subject to the successful completion of the takeover by BAM! entertainment, Inc, the directors consider that the group will continue to operate with the support of its new parent company. However, there can be no certainty in relation to these matters. The financial statements do not include any adjustments that would result from the going concern basis not being appropriate.

Basis of consolidation

The consolidated accounts deal with the accounts for the group made for the year ended 30 November 2003. 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	40 years straight line
Property improvements - owned	40 years straight line
Property improvements - leased	Lesser of lease term or 10 years
Motor vehicles	3 years straight line
Office equipment, furniture and fittings	5 years straight line
Computer equipment and software	3 years straight line

VIS entertainment ltd
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Notes to the financial statements
for the year ended 30 November 2003 (continued)

1 Principle accounting policies (continued)

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.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19. Deferred tax assets are recognised to the extent that these amounts are recoverable.

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.

VIS entertainment ltd
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Notes to the financial statements
for the year ended 30 November 2003 (continued)

1 Principle accounting policies (continued)

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% 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 a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

VIS entertainment ltd
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Notes to the financial statements
for the year ended 30 November 2003 (continued)

2 (Loss)/Profit on ordinary activities before taxation

	2003 £000's	2002 £000's
Loss on ordinary activities before taxation has been arrived at after charging/(crediting):		
Auditors' remuneration – audit services	15	14
Auditors' remuneration – non-audit services	25	7
Research and development	709	236
Depreciation:		
Tangible owned assets	315	280
Tangible fixed assets held under finance lease	80	120
Intangible assets	22	7
Capital release of grant income	(42)	(171)
Operating lease costs – motor vehicles	14	14
Gain on disposal of fixed assets	(193)	-

3 Directors' emoluments

	2003 £000's	2002 £000's
Aggregate emoluments	471	375
Sums paid to third parties for directors' services	51	27
	<u>522</u>	<u>402</u>
Company contributions made to money purchase pension schemes	<u>15</u>	<u>39</u>
Aggregate emoluments and estimated money value of benefits paid to highest paid director were	<u>153</u>	<u>180</u>
Company contributions made to money purchase pension schemes	<u>33</u>	<u>29</u>

There were 4 directors for whom benefits were accruing under the money purchase scheme (2002 – 3). The money purchase 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 2003 was £33k (2002 - £28k). Contributions due but unpaid and included within accruals at 30 November 2003 were £30k (2002 - £13k).

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Notes to the financial statements
for the year ended 30 November 2003 (continued)

4 Employee information

The average number of employees (including executive directors) employed by the group during the year was 152 (2002 – 129).

	2003 £000's	2002 £000's
Staff costs:		
Wages and salaries	4,402	3,665
Social security costs	466	374
Pension contributions	46	-
	<u>4,914</u>	<u>4,039</u>

Since 1 February 2003, the company has operated a defined contribution pension scheme. The pension cost charge for the period noted above represents contributions payable to the scheme. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

5 Interest payable and similar charges

	2003 £000's	2002 £000's
Bank interest payable and similar charges	97	136
Interest on loan stock	-	8
Interest on finance leases	15	19
	<u>112</u>	<u>163</u>

6 Taxation

	2003 £000's	2002 £000's
Analysis of tax charge/(credit) in the year:		
UK Corporation Tax		
Current year R&D Tax Credit	(170)	-
Adjustment in respect of prior years (R&D Tax Credit received)	(113)	-
	<u>(283)</u>	<u>-</u>

VIS entertainment ltd
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Notes to the financial statements
for the year ended 30 November 2003 (continued)

6 Taxation (continued)

Factors affecting the tax charge for the current period:

The current tax credit for the period is lower (2002 – lower) than the standard rate of corporation tax in the UK (30%) (2002 – 30%). The differences are explained below.

	2003 £000's	2002 £000's
Current tax reconciliation:		
(Loss)/profit/ on ordinary activities before tax	<u>(1,866)</u>	<u>3,249</u>
Current tax at 30% (2002 – 30%)	(560)	975
Effects of:		
Expenses not deductible for tax purposes	75	50
Research and development tax credits		-
Tax losses surrendered in exchange for credits	(105)	-
Additional deductions allowed for expenditure	319	-
Tax credits receivable	(170)	-
Deferred tax not credited	-	269
Non-taxable income	280	(48)
Relief from losses brought forward	-	(1,204)
Other	(9)	(42)
Adjustments in respect of prior periods	(113)	-
Total current tax credit (see above)	<u>(283)</u>	<u>-</u>

7 Intangible assets - Group

	Goodwill £000's	Other £000's	Total £000's
Cost			
At 1 December 2002	367	13	380
Disposals in year	(337)	-	(337)
At 30 November 2003	<u>30</u>	<u>13</u>	<u>43</u>
Amortisation			
At 1 December 2002	232	9	241
Charge for the year	18	4	22
Charge on disposals	(220)	-	(220)
At 30 November 2003	<u>30</u>	<u>13</u>	<u>43</u>
Net book value at 30 November 2003	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 30 November 2002	<u>135</u>	<u>4</u>	<u>139</u>

Goodwill has been written off following closure of the operation to which it related.

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Notes to the financial statements
for the year ended 30 November 2003 (continued)

8 Intangible assets - Company

	Goodwill £000's	Other £000's	Total £000's
Cost			
At 1 December 2002 and 30 November 2003	<u>2,149</u>	<u>13</u>	<u>2,162</u>
Amortisation			
At 1 December 2002	-	9	9
Charge for the year	2,149	4	2,153
At 30 November 2003	<u>2,149</u>	<u>13</u>	<u>2,262</u>
Net book value at 30 November 2003	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 30 November 2002	<u>2,149</u>	<u>4</u>	<u>2,153</u>

Goodwill has been written off following closure of the operation to which it related.

9 Tangible fixed assets – group

	Property Improvement £000's	Freehold Property £000's	Fixtures & Fittings £000's	Computers & Software £000's	Total £000's
Cost					
At 1 December 2002	3	317	182	1,120	1,622
Additions in year	466	-	179	242	887
Disposals in year	(3)	(317)	(47)	(84)	(451)
At 30 November 2003	<u>466</u>	<u>-</u>	<u>314</u>	<u>1,278</u>	<u>2,058</u>
Depreciation					
As at 1 December 2002	-	18	91	587	696
Charge for year	9	-	38	348	395
Disposal for year	-	(18)	(47)	(84)	(149)
At 30 November 2003	<u>9</u>	<u>-</u>	<u>82</u>	<u>851</u>	<u>942</u>
Net book value at 30 November 2003	<u>457</u>	<u>-</u>	<u>232</u>	<u>427</u>	<u>1,116</u>
Net book value at 30 November 2002	<u>3</u>	<u>299</u>	<u>91</u>	<u>533</u>	<u>926</u>

Equipment net book value includes £156k (2002: £134k) for assets under finance leases. Depreciation charged to the profit and loss account during the period for these assets was £80k (2002: £120k).

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Notes to the financial statements
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10 Tangible fixed assets – company

	Property Improvements	Freehold Property	Fixtures & Fittings	Computers & Software	Total
	£000's	£000's	£000's	£000's	£000's
Cost					
At 1 December 2002	-	352	182	1,120	1,654
Additions in year	466	-	179	242	887
Disposals in year	-	(352)	(47)	(84)	(483)
At 30 November 2003	<u>466</u>	<u>-</u>	<u>314</u>	<u>1,278</u>	<u>2,058</u>
Depreciation					
As at 1 December 2002	-	-	92	587	679
Charge for year	9	8	37	348	402
Disposal for year	-	(8)	(47)	(84)	(139)
At 30 November 2003	<u>9</u>	<u>-</u>	<u>82</u>	<u>851</u>	<u>942</u>
Net book value at 30 November 2003	<u>457</u>	<u>-</u>	<u>232</u>	<u>427</u>	<u>1,116</u>
Net book value at 30 November 2002	<u>-</u>	<u>352</u>	<u>90</u>	<u>533</u>	<u>975</u>

Equipment net book value includes £156k (2002: £117k) for assets under finance leases. Depreciation charged to the profit and loss account during the year for these assets was £80k (2002: £91k).

11 Investments

	Group		Company	
	2003 £000's	2002 £000's	2003 £000's	2002 £000's
Investments in joint venture	(18)	742	(18)	742
Other investments	20	20	20	51
Total investments	<u>2</u>	<u>762</u>	<u>2</u>	<u>793</u>
Joint venture				
At 1 December 2002	742	156	742	156
Share of losses	(932)	(853)	(932)	(853)
Loans to joint venture	172	1,439	172	1,439
At 30 November 2003	<u>(18)</u>	<u>742</u>	<u>(18)</u>	<u>742</u>

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Notes to the financial statements
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11 Investments (continued)

The amount included in net assets in respect of joint ventures comprise the following:

	2003 £000's	2002 £000's
Share of assets		
Share of fixed assets	616	938
Share of current assets	248	409
	<u>864</u>	<u>1,347</u>
Share of liabilities		
Due within one year	(728)	(204)
Due after more than one year	(154)	(401)
	<u>(882)</u>	<u>(605)</u>
Share of net assets	<u>(18)</u>	<u>742</u>

The principal investments at 30 November 2003 are:

	Accounting Reference date	Principal activity	Holding
VIS Kids Limited	30 November	Dormant	100%
VIS entertainment (Isle of Wight) Limited	30 November	Computer games developer	100%
VIS entertainment (Glasgow) Limited	30 November	Animation studio	100%
VIS Property Limited	30 November	Property owner	100%
Digital Bridges Limited	30 April	Platform and content provided for wireless applications	0.2%
VIS iTV Limited	30 November	Interactive television platforms and content	50%

12 Debtors

	Group 2003 £000's	2002 £000's	Company 2003 £000's	2002 £000's
Trade debtors	633	855	633	822
Amounts recoverable on contracts	1,552	1,024	1,552	1,006
Other debtors	871	166	871	59
Amounts due from subsidiary companies	-	-	-	200
Prepayments and accrued income	9	37	9	37
	<u>3,065</u>	<u>2,082</u>	<u>3,065</u>	<u>2,124</u>

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13 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
Bank overdraft	-	87	-	87
Trade creditors	418	129	418	127
Obligations under hire purchase agreements	48	77	48	77
Amounts due to subsidiary companies	-	-	-	327
Other tax and social security	335	134	335	114
Bank term loan	-	57	-	57
Development loan	1,500	-	1,500	-
Other creditors	10	1	10	1
Accruals	323	76	323	76
	<u>2,634</u>	<u>561</u>	<u>2,634</u>	<u>866</u>

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
Obligations under hire purchase agreements and finance lease commitments	62	34	62	34
Bank term loans	-	147	-	147
Development loans	250	-	250	-
	<u>312</u>	<u>181</u>	<u>312</u>	<u>181</u>

Finance leases

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

	Group		Company	
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
In one year or less	48	77	48	77
Between one and two years	38	23	38	23
Between two and five years	24	11	24	11
	<u>110</u>	<u>111</u>	<u>110</u>	<u>111</u>

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Notes to the financial statements
for the year ended 30 November 2003 (continued)

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

Loans

	Group		Company	
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
In one year or less	1,500	57	1,500	57
Between one and two years	250	21	250	21
Between two and five years	-	126	-	126
	1,750	204	1,750	204

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

A Bond and Floating charge is held by Bank of Scotland over the assets of the company.

15 Deferred income

	Group		Company	
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
At 1 December 2002	42	213	42	213
Amounts received	150	-	150	-
Amounts amortised and released	(161)	(171)	(161)	(171)
At 30 November 2003	31	42	31	42

16 Deferred tax

An unprovided deferred tax asset for the Group and Company exists at 30 November 2003. The total potential asset for both Group and Company is as follows:

	Group		Company	
	Amount	Amount	Amount	Amount
	unprovided	unprovided	unprovided	unprovided
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
Depreciation in advance of capital allowances	46	44	46	44
Trading losses carried forward	999	1,011	999	1,011
Other timing differences	9	4	9	4
	1,054	1,059	1,054	1,059

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Notes to the financial statements
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17 Called up share capital

	2003	2002
	£000's	£000's
Authorised		
2,500,000 Ordinary shares of £0.10 each (2002 – 2,500,000)	250	250
3,000,000 'A' ordinary shares of £0.10 each (2002 – 3,000,000)	300	300
600,000 'B' ordinary shares of £0.10 each (2002 – 600,000)	60	60
	610	610
Allotted, issue and fully paid		
1,512,352 Ordinary shares of £0.10 each (2002 – 1,512,352)	151	151
2,650,592 'A' ordinary shares of £0.10 each (2002 – 2,650,592)	265	265
532,211 'B' ordinary shares of £0.10 each (2002 – 532,211)	53	53
	469	469

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%).

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Notes to the financial statements
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17 Called up share capital (continued)

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 funding (a "Funding Commitment").

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 2003, there were 351,094 (2002 – 373,025) active options over ordinary shares that were granted under three schemes.

- 235,490 (2002 – 282,638) active options over ordinary shares that were granted between March 1998 and September 2000 under the VIS Unapproved Share Option Scheme, at a price of £1.10
- 29,280 (2002 – 52,896) active options over ordinary shares active that were granted in September 2000 under the VIS Approved Share Option Scheme, at a price of £5.00
- 86,324 (2002 – 106,324) active options over ordinary shares that were granted in September 2000 under the VIS EMI Scheme 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 166,982 (2002 - 166,982) 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.

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Notes to the financial statements
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18 Reconciliation of movement in shareholders' funds

	Group		Company	
	2003	2002	2003	2002
	£000's	£000's	£000's	£000's
Opening shareholders' funds	4,150	901	5,963	2,572
Profit/(loss) for the year	(1,588)	3,249	(3,401)	3,391
Closing shareholders' funds	<u>2,562</u>	<u>4,150</u>	<u>2,562</u>	<u>5,963</u>

19 Share premium account and reserves

	Group		Company	
	Share Premium Account	Profit and Loss Account	Share premium account	Profit and loss account
	£000's	£000's	£000's	£000's
At 1 December 2002	9,624	(5,943)	9,624	(4,130)
Retained profit for the year	-	(1,583)	-	(3,396)
At 30 November 2003	<u>9,624</u>	<u>(7,526)</u>	<u>9,624</u>	<u>(7,526)</u>

20 Reconciliation of operating profit to net cash outflow from operating activities

	2003	2002
	£000's	£000's
Operating profit/(loss)	(1,036)	4,238
Depreciation charge	395	400
Amortisation of intangibles	22	92
Goodwill written off	117	-
Keyman policy	150	-
Release of deferred income	(161)	(171)
Increase in stock	(519)	-
(Increase)/decrease in debtors	(983)	753
Increase/(decrease) in creditors	746	(500)
Cash inflow/(outflow) from operating activities	<u>(1,269)</u>	<u>4,812</u>

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Notes to the financial statements
for the year ended 30 November 2003 (continued)

21 Analysis of net funds

	At 1 Dec 2002 £000's	Cash Flow £000's	Other Non cash changes £000's	At 30 Nov 2003 £000's
Cash in hand and at bank	1,025	(183)	-	842
Overdrafts	(87)	87	-	-
	<u>938</u>	<u>(96)</u>	<u>-</u>	<u>842</u>
Debt due in less than one year	(57)	(1,443)	-	(1,500)
Debt due in more than one year	(147)	(103)	-	(250)
Finance leases	(111)	1	-	(110)
	<u>(315)</u>	<u>(1,545)</u>	<u>-</u>	<u>(1,860)</u>
	<u>623</u>	<u>(1,641)</u>	<u>-</u>	<u>(1,018)</u>

22 Reconciliation of net cash flow to movement in net funds

	2003 £000's	2002 £000's
Increase/(decrease) in cash in the year	(96)	864
Cash inflow from (increase)/decrease in debt and lease financing	(1,546)	1,950
Change in net funds/(debt) resulting from cash flows	<u>(1,642)</u>	<u>2,814</u>
Movement in finance leases	1	53
Movement in net debt in the year	<u>(1,641)</u>	<u>2,867</u>
Net debt at beginning of year	623	(2,244)
Net funds/(debt) at end of year	<u>(1,018)</u>	<u>623</u>

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23 Financial commitments

As at 30 November 2003, the Group had annual commitments under non-cancellable vehicle operating leases expiring as follows:

	2003 £000's	2002 £000's
Within one year	-	13
	<u>-</u>	<u>13</u>

24 Related party transactions

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.

In order to fund the development of a game, the company has received loans from SOE Development Limited totalling £1,500,000.

SOE Development Limited has directors common to the Company.

The following summarises the transactions between VIS entertainment plc and its joint venture with Flextech Television Limited, VIS iTV Limited:

	2003 £000's	2002 £000's
Loans made to joint venture	<u>2,160</u>	<u>1,988</u>
Sales to joint venture	<u>295</u>	<u>894</u>

25 Contingencies

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 2003 as £2,589k (2002 - £1,942k).

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

In addition, a guarantee has been given to VIS iTV Limited in relation to external finance.