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CONTENTS

DIRECTORS AND ADVISERS

Directors	Jane Cavanagh	Chief executive
	Bill Ennis	Sales & marketing director
	Rob Murphy	Finance director
	Nigel Wayne	Non-executive director
	Tim Ryan	Non-executive director
Secretary	Rob Murphy	
Registered office	11 Ivory House Plantation Wharf, London SW11 3TN	
Registered	In England No. 03121578	
Broker	KBC Peel Hunt Limited 62 Threadneedle Street London EC2R 8HP	
Solicitors	Harbottle & Lewis Hanover House 14 Hanover Square London W1R 0BE	
Auditors	BDO Stoy Hayward 8 Baker Street London W1U 3LL	
Registrars	Capita IRG Plc Balfour House 390/398 High Road Essex IG1 1NQ	
Bankers	Barclays Bank Plc 27 Soho Square London W1D 3QR	
	HSBC Republic Bank (UK) Limited 31 Hill Street London W1J 5LS	

CHIEF EXECUTIVE'S STATEMENT

In the year ended 30 September 2002 SCi made a record profit before tax of £2.2 million. This clearly demonstrates the success of our strategy of investing in high quality licences, brands and developers.

Highlights

The highlights of the financial year have been:

- Turnover increased to £17.7 million (2001 – £2.0 million), an increase of 766%.
- Record pre-tax profit of £2.2 million (2001 – loss of £10.5 million), substantially in excess of our original expectations.
- Basic earnings per share 10.11p (2001 – loss per share 53.5p)
- *The Italian Job* and *Conflict: Desert Storm* both reached the number one chart position in the UK and many other European countries. In the first twelve weeks of its release, *Conflict: Desert Storm* shipped over one million units worldwide. *Conflict: Desert Storm* has recently won the International EMMA Award for best Console Game.
- Publishing agreements with the leading US publisher, Take Two, for *The Italian Job* and *Conflict: Desert Storm*.
- Japanese publishing agreements signed for *Rally Championship* and *The Italian Job*.
- Continued licence acquisition including *Futurama*, 2001 World Rally Champion Richard Burns and the Alistair Mclean titles *Where Eagles Dare*, *The Guns of Navarone* and *Ice Station Zebra*.
- Strong pipeline of new products for the 2003 and 2004 financial years, including *The Great Escape*, *Futurama*, *Conflict: Desert Sabre*, *Conflict: Missing Presumed Dead*, *Richard Burns Rally* and a new project with one of the UK's leading developers Computer Artworks.
- US publishing agreements with Take Two for *The Great Escape* and *Conflict: Desert Sabre* already in place.
- Long-term multi-product agreement with Pivotal Games, the developer of *Conflict: Desert Storm*.

We have a robust release schedule and base for the 2003 and 2004 financial years, at a time when the industry, according to many forecasters, is set for significant growth. Our business model of fully outsourced development is designed to deliver profitable growth with maximum flexibility whilst retaining a low fixed overhead base. As a result we are confident of delivering further growth in the coming years.

2002 financial year

During the year to 30 September 2002 we released six titles across a variety of platforms including three releases on Sony Playstation 2 and our first release on Microsoft Xbox. The releases in this period demonstrated our ability to deliver high quality products on time and on budget. Two of our titles, *The Italian Job* and *Conflict: Desert Storm* became number one chart hits in the UK and many European countries. In an industry characterised by product delays, all of the planned releases for the 2002 financial year were achieved within the period without additional costs. This performance reflects the strength of our management and our policy, unique in the UK games sector, of outsourcing all games

CHIEF EXECUTIVE'S STATEMENT

development whilst retaining tight overall management control through a team of highly experienced in-house producers and designers.

Our release schedule resulted in total turnover of £17.7 million, the highest level in the Group's history. This was ahead of the Group's budget for the period, principally because sales of two products, *The Italian Job* and *Conflict: Desert Storm* exceeded our expectations. All of our other products performed broadly in line with expectations.

The Italian Job was launched in October 2001 and immediately spent four weeks in the number one position in the UK Playstation charts. It remained in the Top 20 full price charts for a further eleven months until September 2002 when, having earned Sony Platinum status, the game was released on the Sony Platinum range. It has since featured prominently in the Playstation budget chart. In the second half of the financial year *The Italian Job* was released on PC in Europe and, under our agreements with Take Two, on Playstation and PC in North America. It will be published by Capcom in Japan.

In September 2002 we launched *Conflict: Desert Storm* on Playstation 2, Xbox and PC. The game attracted very strong reviews, particularly in the UK and Europe, and was an immediate success. *Conflict: Desert Storm* reached the number one chart position in the UK All Format Charts and reached the number one chart position in several other European countries. Take Two released the game in North America. The release was supported by a very strong marketing campaign backed by extensive national TV advertising. It has also had over 200 editorial mentions on national US television with exposure to over 37 million viewers. In the first twelve weeks of release, we shipped over one million units of *Conflict: Desert Storm* worldwide. The product will be released on the GameCube in the 2003 financial year and has now qualified for Sony Platinum status in Europe.

Rally Championship was launched on PC in November 2001 and on Playstation 2 in June 2002. Both of these products performed in line with our expectations and therefore made the forecast contribution to our profitability in the period. During the year we announced that we had entered into a licensing agreement with the Japanese publisher, Success, for the Playstation 2 version of *Rally Championship*. *Rally Championship* will therefore be launched in Japan during the 2003 financial year. A GameCube version of *Rally Championship* will also be launched in the 2003 financial year.

During the year, the Group also launched three further Thunderbirds products (including *Thunderbirds International Rescue* on Gameboy Advance) plus *Gumball 3000* on Playstation 2 and *FourFourTwo* on PC.

Pipeline for 2003 financial year

The three most important titles planned for the 2003 financial year are *The Great Escape, Conflict: Desert Sabre* and *Futurama*.

The Great Escape is based on the classic 1960's film staring Steve McQueen set during World War Two. The core of the game centres on the largest mass breakout ever, from the 'escape proof' Stalag Luft III prisoner of war camp. The game uses the powerful storyline and strong characters from the film to place the player in the heart of the action. It uses a combination of stealth, combat and frantic action involving multiple vehicles and an awesome motorbike based finale. We have obtained the rights to use Steve McQueen's voice and likeness throughout the game. *The Great Escape* will be released on Playstation 2, Xbox and PC during 2003 with a GameCube version to be released in the 2004 financial year.

CHIEF EXECUTIVE'S STATEMENT

Futurama is based on the successful TV series of the same name. *Futurama* is the follow up to The Simpsons, both of which were created by Matt Groening, the award winning writer and designer. The TV series was launched in March 1999, and has since been televised throughout the world. The game will be published on Playstation 2, Xbox and GameCube.

Conflict: Desert Sabre is the sequel to our highly successful product, *Conflict: Desert Storm*. Like *The Great Escape* and *Conflict: Desert Storm*, *Conflict: Desert Sabre* is being developed by Pivotal Games under our long-term multi-product agreement. *Conflict: Desert Sabre* is also set in the Gulf War and extends the action from the highly successful *Conflict: Desert Storm*. The game will be released on Playstation 2, Xbox, GameCube and PC.

We are pleased to continue our partnership with Take Two who will be publishing *The Great Escape* and *Conflict: Desert Sabre* in the United States.

Market outlook and pipeline for 2004 financial year

The global electronic games market is a multi-billion dollar industry that, according to many forecasters, remains set for significant expansion over the next few years. The leading market research agency Datamonitor recently estimated that in 2001, global sales of games software alone generated $17.7 billion, and this is set to grow to $21.6 billion by 2004. The entry of Microsoft into the market over the last 12 months and its continued commitment to this market will help to sustain this expected growth. We have already made significant investments in products for the 2004 financial year, and will continue to build our pipeline. The release schedule includes *Conflict: Missing Presumed Dead*, which is a new and original concept from Pivotal Games. In addition, we have, for several months, been working on a new and exciting game with Computer Artworks – one of the UK's leading developers and creators of the recent number one hit game "*The Thing*". Further details of this project will be released as we move towards the planned release date in 2004.

Current trading prospects and outlook

The Board believes that the outlook for the year to 30 September 2003 and beyond is very strong. Our objective is to continue to deliver growth.

We expect our revenue in the 2003 financial year to principally arise from three titles, *The Great Escape*, *Futurama* and *Conflict: Desert Sabre*. These titles are planned for release in the second half of the financial year and, as a result, we expect a significant proportion of our revenues and profits to arise in that period.

Other matters

I would like to take this opportunity, on behalf of the Board, to thank all SCi's staff and developers for their continued hard work and commitment over the past year.

Jane Cavanagh
5 February 2003

OPERATING AND FINANCIAL REVIEW

Results from operations

The Group made an operating profit of £2.3million (2001 loss £10.7 million) after charging goodwill amortisation of £0.5m (2001 £0.5m).

Turnover for the year increased to £17.7 million from £2.0 million in 2001. This was due partly to the launch of more products. The Group released six titles (including three releases on Playstation 2 and one on Xbox) in the financial year compared to four titles (with no major console releases) in the previous year. However, the increase is primarily due to the fact that the sales performance on products released in the 2002 financial year substantially exceeded the performance of the products released in the 2001 financial year. The improved sales performance reflects the Group's strategy, implemented over the last two years, of investing in high quality products and brands and outsourcing the development of these games to high quality developers.

Gross profit represents turnover less the direct cost of selling a game. Direct selling costs principally comprise the cost of manufacturing a finished product plus the costs of marketing the game. Gross profit for the financial year increased to 64% from 3% in the previous year. This reflects (a) the improved quality of our products (b) the fact that our sales in the 2001 financial year included a relatively high proportion of Nintendo Gameboy products, on which margins are much lower than on other platforms and (c) the high proportion of licence income that arose in the 2002 financial year. Under licence arrangements the Company treats income from licensors as turnover and has no corresponding manufacturing or marketing costs as these are paid by the licensor.

Development costs primarily consist of advances and royalties to third party developers. They also include payments to licensors for intellectual property rights. Development costs fell from £6.0 million in 2001 to £4.3 million in 2002. This reflects the heavy investment in new products over the previous two financial years. In 2002 we were able to meet our planned release schedule and invest in a strong pipeline of products for 2003 and 2004. All projects completed in 2002 have remained within budget.

Other administrative costs include all overhead costs including staff costs. Other administrative costs increased from £3.9 million in 2001 to £4.2 million in 2002. This is after the net effect of two exceptional items. In the first half of the financial year, we released a provision of £0.6 million following the successful conclusion of our litigation against Titus. In the second half, we incurred charges of £0.3 million following the settlement of various legal claims relating principally to US distribution. Accordingly, our overheads reflect a net exceptional gain of £0.3 million.

During the financial year the average number of staff increased from 39 to 47. This growth is almost entirely due to an increase in quality assurance staff necessary to test the increased number of products released in the year. As a result the average wage cost per employee fell during the year. We remain confident of continuing to grow the Group without significant increases in headcount. Our number of employees and turnover per employee continues to compare very favourably with our competitors, indicating that our business model provides us with maximum flexibility.

Goodwill

Goodwill relates to the acquisition of Actualize, which is being amortised over 10 years. The charge for the year was £0.5 million (2001 £0.5 million) and the net book value of goodwill at 30 September 2002 was £3.3 million, (2001 £4.6 million). No further payments relating to the acquisition of Actualize are expected.

OPERATING AND FINANCIAL REVIEW

Taxation

No tax charge arises on the profit for the financial year. This is because the Group is able to offset tax losses from previous periods against the taxable profits that arose in the financial year. At 30 September 2002 the Group has approximately £12.4 million of losses available to carry forward to set against future taxable profits.

Earnings per share

Basic earnings per share for the year to 30 September 2002 were 10.11p (2001 loss of 53.5p) and diluted earnings per share were 9.74p (2001 loss of 53.5p). The increase reflects the improved profitability of the Group during the year.

Cashflows, working capital and going concern

At 30 September 2002, the Group had a net overdraft of £39,000, which is in line with the Group's plans. After taking account of finance leases the Group had net debt of £161,000. This means that the Group's net debt position improved by £444,000 during the financial year.

During the year the Group generated £7.2 million of cash, £4.2 million of which was re-invested in development. Just before the year-end a substantial portion of this was invested in the working capital, primarily manufacturing and marketing costs, associated with launching *Conflict: Desert Storm*, which is the largest initial shipout in the Group's history. The decrease in net cash during the year of £16,000 can therefore be analysed in the following way:

	Year to 30 September 2002 £000s	Year to 30 September 2001 £000s
Net cash inflow (outflow) before development costs and working capital	**7,186**	(3,893)
Investment in development costs	**(4,285)**	(5,999)
Working capital investment (use)	**(6,410)**	1,846
Net cash outflow from operating activities	**(3,509)**	(8,046)
Interest	**(74)**	228
Capital expenditure	**(79)**	(523)
Net cash outflow before financing	**(3,662)**	(8,341)
Cashflow from financing	**3,646**	(816)
Decrease in net cash	**(16)**	(9,157)

The Group has continued to invest in new licences and product development. These investments include a contract with the 2001 World Rally Champion Richard Burns, our two new products in development with Pivotal and a new project with Computer Artworks. All of these products have been in development for a number of months to ensure that we can maintain a strong pipeline for the 2004 financial year and beyond. During the year the Group issued a total of 8,887,983 ordinary shares for a total consideration of £4.1 million to fund new licences and development. Details of the individual share issues are set out in note 13 to the financial statements.

OPERATING AND FINANCIAL REVIEW

At 30 September 2002, we had trade debtors of £7.5 million. The receipts from these debtors are received over the period to December 2002, such that, even after continued investment in new products, we have subsequently returned to a positive cash position.

The Group has a number of product launches scheduled for the 2003 financial year. This creates short-term working capital requirements, particularly in relation to the manufacture and marketing of product for console platforms. Since the year-end the Group has appointed Barclays Bank as its bankers. Barclays have made available to the Group, on normal banking terms, a facility of up to £1.5 million to cover this requirement.

We are confident that the Group has sufficient cash resources and facilities available to it. Accordingly, the financial statements have been prepared on a going concern basis.

Pensions

The Group offers all employees the opportunity to participate in a Company pension scheme. As this is a defined contribution scheme there are no circumstances in which the Group will face a future pension liability.

Foreign currency

The Group receives significant portions of its revenue in either Euros or US dollars. The Group manages the foreign currency exposures arising from these transactions in the following ways: (a) The Group makes significant payments in Euros, principally for the manufacture of finished products. The Group therefore balances receipts in Euros against payments in order to create a natural hedge. (b) The Group has no significant US expenditure, and therefore enters into forward contracts to sell US dollars.

Rob Murphy
5 February 2003

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 30 September 2002.

Principal activity

The principal activity of the Group is the development and publishing of interactive entertainment software.

Results, trading review and dividend

The profit and loss account is set out on page 17. The Group profit before tax is £2.2 million compared to a loss of £10.5 million in the year ended 30 September 2001. Basic earnings per share was 10.11p compared to a loss per share of 53.5p in the year to 30 September 2001. The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were as follows:

F.J. Cavanagh
B.J. Ennis
R.J. Murphy
N. K. Wayne
T. J. Ryan (appointed 19 October 2001)

Jane Cavanagh retires by rotation at the next annual general meeting and, being eligable, offers herself for re-election. Jane Cavanagh founded SCi in 1988. Before founding SCi Jane worked in marketing for British Telecommunications. She is one of the most experienced executives in the games industry. As founder Jane owned 100% of the Group until its flotation in 1996. She is still its largest shareholder.

Details of directors' shareholdings and options are set out in the Directors' Remuneration Report on pages 13 to 15.

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The Company had no trade creditors at 30 September 2002 (2001: £ Nil).

Charitable and political contributions

During the period, the Group made charitable donations of £40 (2001: £250). There were no political contributions.

Substantial shareholdings

On 30 January 2003 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

Name of holder	Number	%
Ms Jane Cavanagh	4,909,630	17.25
TD Waterhouse Nominees (Europe) Limited	1,287,615	4.52
Sharelink Nominees Limited	1,217,361	4.28
Merrill Lynch International	1,210,000	4.25
Chase Nominees Limited	912,370	3.21

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board,
R Murphy
Rob Murphy
Company Secretary
5 February 2003

CORPORATE GOVERNANCE

The Board is committed to establishing and maintaining high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured.

This statement is intended to describe how the Group has applied the Principles of the Combined Code on Corporate Governance (the "Code"). It also highlights key changes and progress made since the last statement and explains the reasons for any areas of non-compliance.

The Board

The Board comprises two non-executive directors and three executive directors. The non-executive directors are considered to be independent.

All the members of the Board are equally responsible for the management and proper stewardship of the Group. The non-executive directors are independent of management and free from any business or other relationship with the Company or Group and are therefore able to bring independent judgement to issues brought before the Board.

All directors are required to stand for re-election at least every three years.

The Board meets on a monthly basis throughout the year. The Board has delegated responsibility in a number of areas to three sub-committees. The audit committee, nomination committee and the remuneration committee each comprise the non-executive directors and the chief executive.

The audit committee

This meets at least twice a year to review the results, the findings of the auditors, internal control systems and the Group's financial accounting procedures and policies.

The remuneration committee

This committee is responsible for the remuneration of the executive directors. It advises the Board on the broad framework for executive remuneration and determines, on behalf of the Board, the individual remuneration packages. The policies they adopt along with details of the directors' remuneration and service contracts are included in the Directors' Remuneration report on pages 13 to 15. The committee meets on an ad hoc basis and has met twice during the year.

The nomination committee

This committee is responsible for recommending Board appointments and interviewing potential candidates. The committee meets on an ad hoc basis. During 2002 the committee met once.

Relations with shareholders

The executive directors meet regularly with institutional shareholders and are available to answer questions for private shareholders. The annual general meeting also provides a forum for shareholders to communicate with directors. Each shareholder receives the annual report, which contains the Chief Executive's Statement, and the interim report. The reports, together with other corporate press releases are available on the Company's web-site www.sci.co.uk. The company's web-site also includes the facility for shareholders and other potential investors to post questions to the Board.

The Annual General Meeting provides a forum for all shareholders to raise issues with the directors. The Notice convening the Meeting is issued at least 20 working days in advance and separate resolutions are proposed on each substantially separate issue.

Risk management and internal controls

The directors are responsible for the Group's system of internal control and for reviewing its

CORPORATE GOVERNANCE

effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, in compliance with the guidance *Internal Control: Guidance for Directors on the Combined Code*. This process is regularly reviewed by The Board and has been strengthened during the year, in particular to tie risk management practices closely to the operations of the business.

The key procedures that the directors have established to ensure risk management and internal controls are effective are as follows:

Risk identification. The Group has identified its major risks and the policies in place to avoid and mitigate those risks. All senior members of staff have participated in this process and the results have been reported to the Board.

Operational risks. Operational management are responsible for the identification and evaluation of significant risks applicable to their area of business and, in conjunction with the Board, for designing and operating suitable internal controls. The Group Operations manager, who reports directly to the Board, operates a project management system to identify and track all operational risks. All members of staff can access the project management system. The Board reviews weekly risk summaries so that prompt action can be taken where necessary.

In addition, the internal control process is supported by:

- a comprehensive financial control and rolling forecast system;
- a flat management structure which facilitates open and timely communication; and
- an experienced legal function that supports the Group's business needs.

The Board considers that the size of the Group is not sufficient to warrant a dedicated internal audit programme.

Compliance status

During the year the Company complied with the Code save as follows:

1. there is no formal procedure for training newly appointed directors
2. non-executive directors are eligible for award of share options.
3. non-executive directors are not appointed for fixed terms but, as with executive directors, retire by rotation approximately every three years.
4. the chief executive's service contract contains a three-year notice period.
5. the remuneration and audit committees are not exclusively comprised of non-executive directors.

The reasons for non-compliance with matters 2 and 4 are given in the Directors' remuneration report. The directors consider the other provisions above to be inappropriate for a company of this size.

Corporate governance matters with regard to directors' remuneration and related matters are set out in the Directors' Remuneration report on pages 13 to 15.

Going concern

The directors, having made appropriate enquiries, believe that the Group has adequate resources to continue in operational existence for the forseeable future. They continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' responsibilities

Company law requires the directors to prepare accounts 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 of the Group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The director's responsibility also extends to the ongoing integrity of the financial statements contained therein.

DIRECTORS' REMUNERATION REPORT

The remuneration committee is comprised of the Chief Executive and the non-executive directors.

Remuneration policy for executive directors

The Company's policy on executive director remuneration is to:

- Attract and retain high quality executives by paying competitive remuneration packages relevant to each director's role, experience and the external market. The packages include employment related benefits including contributions to private pension plans, car allowances and private medical insurance.

- Incentivise directors to maximise shareholder value through annual bonus schemes, share options and a long-term incentive plan.

The annual bonus scheme applies to all executive directors and is determined by the remuneration committee. It is based on exceeding budgeted profits. The details of a long-term bonus scheme, covering performance in the three years to 30 September 2004, based on delivering consistent profitable growth plus the relative performance of the Group's share price, are being considered by the Remuneration Committee.

Remuneration policy for non-executive directors

The Company's policy on non-executive director remuneration is to pay fees based upon the experience and expertise of the directors. The level of non-executive fees reflects the amount of time that the non-executives are required to spend on Company duties during the year. The non-executive directors receive no other benefits, with the exception of the share options referred to on page 14.

Directors' detailed emoluments

Details of individual directors' emoluments for the year, excluding pension contributions are as follows:

					2002	2001
	Fees £000s	Basic salary £000s	Taxable benefits £000s	Bonus £000s	**Total £000s**	Total £000s
Executive						
Jane Cavanagh	–	167	1	50	**218**	168
Bill Ennis	–	108	1	50	**159**	109
Rob Murphy	–	108	1	50	**159**	110
Non-executive						
Tim Ryan	11	–	–	–	**11**	–
Nigel Wayne	12	–	–	–	**12**	2
	23	383	3	150	**559**	389

DIRECTORS' REMUNERATION REPORT

Three directors are members of money purchase schemes (2001: 3). Contributions paid by the company in respect of such directors are shown below.

	2002 £000s	2001 £000s
Jane Cavanagh	25	27
Bill Ennis	15	15
Rob Murphy	15	15
	55	57

Directors' share options

The interests of the directors in the options of the Company at 30 September 2002 were:

	30 September 2001 or date of appointment	Granted –	30 September 2002	Exercise price	Exercisable
Jane Cavanagh	75,000	–	75,000	39.0p	11 Dec 2001 to 11 Dec 2005
	80,000	–	80,000	81.0p	20 Aug 2004 to 20 Aug 2008
	155,000	–	155,000		
Rob Murphy	50,000	–	50,000	39.0p	11 Dec 2001 to 11 Dec 2005
	41,000	–	41,000	56.5p	8 March 2002 to 8 March 2006
	80,000	–	80,000	81.0p	20 Aug 2004 to 20 Aug 2008
	171,000	–	171,000		
Bill Ennis	90,000	–	90,000	149.0p	29 July 1999 to 29 July 2003
	50,000	–	50,000	39.0p	11 Dec 2001 to 11 Dec 2005
	80,000	–	80,000	81.0p	20 Aug 2004 to 20 Aug 2008
	220,000	–	220,000		
Nigel Wayne	20,000		20,000	47.5p	18 July 2004 to 18 July 2008
	20,000	–	20,000		
Tim Ryan	–	20,000	20,000	85.0p	1 Oct 2004 to 1 Oct 2008
	–	20,000	20,000		

The market price of the ordinary shares at 30 September 2002 was 61.5p and the range during the period was 44.5p to 116.5p. The options are exercisable, provided that certain performance criteria set by the remuneration committee, which relate to share price performance being in excess of a published media sector average, are met.

DIRECTORS' REMUNERATION REPORT

As indicated on page 11 the Combined Code recommends that non-executive directors should not be eligible for the award of share options. The Board believes that it is appropriate for non-executive directors to be incentivised in the same manner as other directors.

Directors' interests

The directors who held office at 30 September 2002 had the following interests in the shares of the Company:

	30 September 2002	30 September 2001 or date of appointment
Jane Cavanagh	**4,909,630**	4,909,630
Bill Ennis	**262,450**	262,450
Rob Murphy	**51,500**	103,000
Nigel Wayne	**21,000**	–
Tim Ryan	**18,600**	–
	5,263,180	5,275,080

There have been no changes in the shareholdings above at 30 September 2002 and at the date of these financial statements.

Service contracts

The service contract of Jane Cavanagh provides for a notice period of three years and has so provided since the Company's shares were originally listed on AIM in August 1996.

All other executive directors have service contracts terminable by either party at six months notice. The service contracts of the non-executive directors are terminable on one months notice.

REPORT OF THE INDEPENDENT AUDITORS

To the shareholders of SCi Entertainment Group Plc:

We have audited the financial statements of SCi Entertainment Group Plc for the year ended 30 September 2002 on pages 17 to 33 which have been prepared under the accounting policies set out on pages 21 to 22.

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 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, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chief Executive's Statement, the Directors' Remuneration Report, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 30 September 2002 and of the Group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward BDO Stoy Hayward

Chartered Accountants and Registered Auditors

London

5 February 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 September 2002

	Notes	30 September 2002 £000s	30 September 2001 £000s
Turnover	2	**17,712**	2,046
Cost of sales		**(6,351)**	(1,985)
Gross profit		**11,361**	61
Development costs		**(4,285)**	(5,999)
Other administrative costs		**(4,178)**	(3,923)
Depreciation and write down of fixed assets		**(617)**	(847)
Administrative expenses		**(9,080)**	(10,769)
Operating profit (loss)		**2,281**	(10,708)
Net Interest (payable) receivable	3	**(74)**	228
Profit (Loss) on ordinary activities before taxation	4	**2,207**	(10,480)
Tax on profit (loss) on ordinary activities	6	**-**	-
Profit (Loss) for the financial year taken to reserves		**2,207**	(10,480)
Earnings (Loss) per share – basic	7	**10.11p**	(53.5)p
– diluted	7	**9.74p**	(53.5)p

The above results arise from continuing activities.

The accompanying notes are an integral part of this consolidated profit and loss account.

All recognised gains and losses are included above.

CONSOLIDATED BALANCE SHEET

30 September 2002

	Notes	30 September 2002 £000s	30 September 2001 £000s
Fixed assets			
Goodwill	9	**3,304**	4,582
Tangible assets	8	**255**	328
Investments	10	**500**	500
		4,059	5,410
Current assets			
Stocks – finished goods for resale		**377**	1,244
Debtors – due within one year	11	**8,387**	2,839
Cash at bank and in hand		**311**	74
		9,075	4,157
Creditors: Amounts falling due within one year	12	**(3,635)**	(6,381)
Net current assets (liabilities)		**5,440**	(2,224)
Net assets		**9,499**	3,186
Capital and reserves			
Called-up equity share capital	13	**1,423**	979
Share premium account	14	**28,337**	24,675
Merger reserve	14	**464**	464
Profit and loss account	14	**(20,725)**	(22,932)
Equity shareholders' funds	15	**9,499**	3,186

The accompanying notes are integral part of this consolidated balance sheet.

COMPANY BALANCE SHEET

30 September 2002

	Notes	30 September 2002 £000s	30 September 2001 £000s
Fixed assets			
Investments	10	**8,024**	8,834
Creditors: Amounts falling due within one year	12	**(28)**	(838)
Net assets		**7,996**	7,996
Capital and reserves			
Called-up equity share capital	13	**1,423**	979
Share premium account	14	**28,337**	24,675
Profit and loss account	14	**(21,764)**	(17,658)
Equity shareholders' funds		**7,996**	7,996

The accompanying notes are an integral part of this balance sheet.

The accompanying accounts on pages 17 to 33 were approved by the board of directors on 5 February 2003 and signed on its behalf by:

Jane Cavanagh R. Murphy

Jane Cavanagh **Rob Murphy**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2002

	Notes	30 September 2002 £000s	30 September 2001 £000s
Net cash outflow from operating activities	16	**(3,509)**	(8,046)
Returns on investments and servicing of finance			
Net interest (paid) received		**(40)**	247
Interest element of finance lease rentals		**(34)**	(19)
		(74)	228
Tax paid		**-**	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(79)**	(233)
Sale of tangible fixed assets		**-**	10
Other long term investments		**-**	(300)
		(79)	(523)
Net cash outflow before financing		**(3,662)**	(8,341)
Financing			
Repayment of loan notes		**-**	(1,060)
(Decrease) increase in short term borrowings		**(332)**	332
Issue of ordinary share capital		**4,106**	-
Capital element of finance lease rentals		**(128)**	(88)
		3,646	(816)
Decrease in cash in the year	17, 18	**(16)**	(9,157)

The accompanying notes are an integral part of this consolidated cash flow statement.

NOTES TO THE ACCOUNTS

1 Accounting policies

The principal accounting policies are summarised below. The Group has adopted FRS 19 during the year. The following principle accounting policies have been applied.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of SCi Entertainment Group Plc and its subsidiary undertakings drawn up to 30 September 2002. As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of SCi Entertainment Group Plc. The results of subsidiaries acquired are consolidated for the period from the date on which control passed. Acquisitions are accounted for under the acquisition method with goodwill, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, capitalised and amortised in the profit and loss account in accordance with Financial Reporting Standard No. 10. Provision is made for any impairment.

Accounting periods

The accounting reference date of the Group is 30 September. The comparative year's results are for the 51 week period ended 23 September 2001. The current year's results are for the 54 week period ended 7 October 2002.

Fixed assets

Fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all fixed assets, at rates calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	4 years
Computers & development equipment	3 years
Other equipment	4 years
Motor vehicles	3 years

Fixed asset investments

Fixed asset investments are shown at cost less provisions for any impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated as cost of materials plus any direct costs of assembly. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

NOTES TO THE ACCOUNTS

1 Accounting policies (continued)

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation or a right to pay less taxation in the future. An asset is recognised where there is no uncertainty as to the transfer of future economic benefits. Deferred tax assets and liabilities have not been discounted. Adopting FRS 19 has had no material impact on the current or prior year results and net assets.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Development costs

Development expenditure in respect of costs incurred on games developed by third party contractors, licence fees paid to third parties for intellectual properties, and software engines and utilities are written off as incurred.

Turnover

Turnover represents sales of games to customers at invoiced amounts less value added tax. It also includes non-refundable advances receivable from distributors in return for the right to distribute games in certain territories. Such advances are not recognised as turnover until the game has been completed and accepted by the distributor. It also includes non-refundable fees received in return for the right to exploit licences in certain formats in certain territories.

Pensions

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NOTES TO THE ACCOUNTS

2 Segmental information

Turnover	2002 £000s	2001 £000s
United Kingdom	6,920	1,451
Rest of Europe	7,958	319
United States	2,259	119
Other	575	157
	17,712	2,046

Turnover and operating profit originate in the United Kingdom. Net assets are located in the United Kingdom. The turnover, operating profit and net assets are all attributable to the principal activity of the Group.

3 Net Interest (payable) receivable

	2002 £000s	2001 £000s
Other interest (payable) receivable	(43)	268
Bank loans and overdrafts	3	(21)
Finance leases and hire purchase contracts	(34)	(19)
	(74)	228

4 Profit (Loss) on ordinary activities before taxation

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

	2002 £000s	2001 £000s
Depreciation and amounts written off tangible fixed assets		
– owned fixed assets	88	54
– other fixed assets held under finance leases and hire purchase contracts	61	98
Goodwill amortisation	468	528
Loss (Profit) on sale of fixed assets	3	(31)
Operating lease rentals		
– other	39	53
Loss on foreign exchange	40	23
Auditors' remuneration for audit services	30	28

Amounts payable to BDO Stoy Hayward in respect of non-audit services were £14,000 (2001: £nil).

NOTES TO THE ACCOUNTS

5 Staff costs

The average monthly number of employees (including executive directors) was:

	2002 Number	2001 Number
Sales, marketing and administration	**47**	39
	47	39

	2002 £000s	2001 £000s
Their aggregate remuneration comprised:		
Wages and salaries	**1,769**	1,577
Social security costs	**190**	174
Other pension costs	**80**	77
	2,039	1,828

Details of emoluments paid to directors are contained in the report of the remuneration committee on pages 13 and 14.

6 Reconciliation of current year tax charge

Tax reconciliation	2002 £000s	2001 £000s
Profit (loss) on ordinary activities	**2,207**	(10,480)
Tax on profit (loss) on ordinary activities at the UK corporation tax rate (30%)	**662**	(3,144)
Expenses not deductible for tax purposes	**200**	406
Capital allowances for the period in excess of depreciation	**(50)**	(104)
Utilisation of tax losses	**(547)**	–
Adjustment in relation to alignment of subsidiary undertaking's **accounting policies**	**(265)**	269
Losses carried forward	**–**	2,573
Tax on profit (loss) on ordinary activities	**-**	-

Deferred tax

At 30 September 2002 the Group had £12,400,000 (2001: £13,800,000) carried forward as losses, subject to the agreement of the Inland Revenue. No deferred tax has been provided as it is prudent to assume that the Group will not make sufficient profits within the next 12 months to absorb the reversal of these losses.

NOTES TO THE ACCOUNTS

7 Earnings (Loss) per share

The calculation of basic earnings per share is based upon the consolidated profit after taxation of £2,207,000 (2001: loss £10,480,000) divided by the weighted average number of ordinary shares in issue in the year to 30 September 2002 of 21,824,640 (2001: 19,578,504). The calculation of diluted earnings per share is based upon the consolidated profit after taxation of £2,207,000 divided by the fully diluted weighted average number of shares in issue in the year to 30 September 2002 of 22,652,401. There was no potential dilution in the year ended 30 September 2001.

8 Fixed assets

	Leasehold Improvements £000s	Computer equipment £000s	Other equipment £000s	Motor vehicles £000s	Total £000s
Cost					
At 1 October 2001	55	791	161	16	1,023
Additions	–	78	1	–	79
Disposals	–	(10)	(37)	–	(47)
At 30 September 2002	**55**	**859**	**125**	**16**	**1,055**
Depreciation					
At 1 October 2001	54	492	134	15	695
Provided for period	1	135	12	1	149
Disposals	–	(10)	(34)	–	(44)
At 30 September 2002	**55**	**617**	**112**	**16**	**800**
Net book value					
At 30 September 2002	**–**	**242**	**13**	**–**	**255**
At 30 September 2001	1	299	27	1	328

The net book value of tangible fixed assets at 30 September 2002 includes the amount of £133,000 (2001: £221,000) in respect of assets held under finance leases and hire purchase contracts. The depreciation charge for the period in respect of such assets was £88,000 (2001: £65,000).

NOTES TO THE ACCOUNTS

9 Goodwill

	Group £000s
Cost	
At 1 October 2001	5,305
Adjustment to cost	(810)
At 30 September 2002	**4,495**
Amortisation	
At 1 October 2001	723
Charge	468
At 30 September 2002	**1,191**
Net book value	
At 30 September 2002	**3,304**
At 30 September 2001	4,582

Goodwill is amortised on a straight line basis over a period of ten years, which is the expected useful economic life. The adjustment to cost relates to the write back of the deferred consideration only on the acquisition of Actualize. The directors believe no further consideration is payable.

10 Fixed asset investments

	Group		Company	
	2002 £000s	2001 £000s	**2002 £000s**	2001 £000s
Subsidiary undertakings				
– shares	–	–	**4,024**	4,834
– loans	–	–	**3,500**	3,500
Other investments	**500**	500	**500**	500
	500	500	**8,024**	8,834

	Company £000s
The movement in shares in subsidiary undertakings was:	
Cost at 1 October 2001	4,834
Adjustment to cost (see note 9)	(810)
Cost at 30 September 2002	**4,024**

NOTES TO THE ACCOUNTS

10 Fixed asset investments (continued)

The parent company and the Group have investments in the following subsidiary undertakings, all of which are registered in England and principally operate in the U.K.

	Accounting reference date	Principal activity	Holding	Class
SCi Games Ltd	30 September	Development and publishing of interactive entertainment software.	100% *	Ordinary
SCi MobileMedia Ltd	30 September	Non trading	100% *	Ordinary
Cobco (271) Ltd	30 September	Non trading	100% *	Ordinary
Actualize Ltd	30 September	Development and publishing of interactive entertainment software.	100%	Ordinary
Actualize Software Developments Ltd	30 September	Non trading	100%	Ordinary
Actualize Consoles Ltd	30 September	Non trading	100%	Ordinary
Actualize Publishing Ltd	30 September	Non trading	100%	Ordinary
Actualize Publications Ltd	30 September	Non trading	100%	Ordinary

* Held directly by SCi Entertainment Group Plc

Other investments

	Group and Company £000s
Cost	
At 1 October 2001	1,367
Disposal	(867)
At 30 September 2002	**500**
Provisions	
At 1 October 2001 and 30 September 2002	867
Disposal	(867)
At 30 September 2002	-
Net book value	
At 30 September 2002	**500**
At 30 September 2001	500

The Group has investments in Celoxica Holdings Plc, a manufacturer of embedded chips and Pivotal Games Ltd, a developer of computer games. Music3w.com Ltd was liquidated during the period. As a result the investment has been written off. The investment was fully provided against during the previous financial year.

NOTES TO THE ACCOUNTS

11 Debtors

	Group		Company	
	2002	2001	**2002**	2001
	£000s	£000s	**£000s**	£000s
Amounts falling due within one year:				
Trade debtors	**7,465**	2,127	**-**	-
Other debtors	**216**	356	**-**	-
Prepayments and accrued income	**706**	356	**-**	-
	8,387	2,839	**-**	-

12 Creditors: Amounts falling due within one year

	Group		Company	
	2002	2001	**2002**	2001
	£000s	£000s	**£000s**	£000s
Other loans (see note 22)	**-**	332	**-**	-
Obligations under finance leases and hire purchase contracts	**122**	250	**-**	-
Bank overdraft	**350**	97	**-**	-
Trade creditors	**1,512**	1,889	**-**	-
Taxation and social security	**116**	167	**-**	-
Contingent consideration arising on investment in subsidiary undertaking	**-**	810	**-**	810
Other creditors	**646**	645	**27**	27
Amounts owed to group undertakings	**-**	-	**1**	1
Accruals	**780**	567	**-**	-
Deferred income	**109**	1,624	**-**	-
	3,635	6,381	**28**	838

The bank overdraft is repayable upon demand and is secured by a fixed and floating charge over the Group's assets. The contingent consideration arising on the investment in subsidiary undertaking has been offset against the cost of investment in the Company balance sheet and goodwill in the consolidated balance sheet, as the directors are of the view that no further amounts are payable.

NOTES TO THE ACCOUNTS

13 Called-up share capital

	2002 £000s	2001 £000s
Authorised		
49,000,000 (2001: 25,000,000) ordinary shares of 5p each	**2,450**	1,250
Allotted, called-up and fully-paid		
28,466,487 ordinary shares of 5p each (2001: 19,578,504 ordinary shares of 5p each)	**1,423**	979

The movement in share capital was as follows:

	Number of shares	£000s
At 30 September 2001	19,578,504	979
Issue of new shares to GEM Global	1,267,986	63
Issue of new shares on 3 May 2002	978,925	49
Issue of new shares on 16 July 2002	6,635,072	332
Issue of new shares under Company share option scheme	6,000	-
	28,466,487	1,423

During the year the Company issued new ordinary shares to GEM Global Yield Fund Limited ("GEM Global") under its agreement with GEM Global dated 12 October 2001. On 8 April 2002 the Company issued 171,436 new ordinary shares at 60.18p per share. On 8 May 2002 the Company issued 234,000 new ordinary shares at 52.8p per share. On 30 May 2002 the Company issued 496,082 new ordinary shares at 50.46p per share. On 30 June 2002 the Company issued 366,468 new ordinary shares at 59.46p per share. The proceeds of these share issues have been used by the Company to acquire and develop new products.

On 3 May 2002 the Company issued 978,925 new ordinary shares to Warrant Trustees Limited at 50p per share. The proceeds of the share issue have been used to acquire further new licences and intellectual property.

On 16 July 2002 the Company issued 6,635,072 new ordinary shares at 52.5p. The proceeds of this share issue are being used to acquire new licences and develop new games based on those licences and also to repay certain short term borrowings.

Between 6 December 2001 and 19 December 2001 the Company issued 6,000 new ordinary shares at 39p. The shares were issued to staff in accordance with the Company's Share Option Scheme.

The Company operates an unapproved Share Option Scheme. At 30 September 2002 options were outstanding over 1,213,700 shares, including options held by directors. The options are exercisable, provided that certain performance criteria set by the remuneration committee, which relate to share price performance being in excess of a published media sector average are met.

NOTES TO THE ACCOUNTS

13 Called-up share capital (continued)

Number of shares over which options granted	Exercise price	Exercise period
90,000	149.0p	29 July 1999 to 29 July 2003
3,700	153.5p	3 April 2000 to 3 April 2004
22,600	79.0p	27 July 2001 to 27 July 2005
225,000	39.0p	11 December 2001 to 11 December 2005
76,400	56.5p	8 March 2002 to 8 March 2006
182,000	43.5p	2 July 2004 to 2 July 2008
20,000	47.5p	18 July 2004 to 18 July 2008
240,000	81.0p	20 August 2004 to 20 August 2008
20,000	85.0p	1 October 2004 to 1 October 2008
334,000	57.0p	13 September 2005 to 13 September 2009
1,213,700		

The market price price of the ordinary shares at 30 September 2002 was 61.5p and the range during the period was 44.5p to 116.5p.

14 Reserves

	Group			Company	
	Share premium account £000s	Merger reserve £000s	Profit and loss account £000s	Share Premium account £000s	Profit and loss account £000s
At 1 October 2001	24,675	464	(22,932)	24,675	(17,658)
Profit (loss) for the year	–	–	2,207	–	(4,106)
New shares issued	3,662	–	–	3,662	–
At 30 September 2002	**28,337**	**464**	**(20,725)**	**28,337**	**(21,764)**

15 Reconciliation of movements in Group shareholders' funds

	2002 £000s	2001 £000s
Opening shareholders' funds	**3,186**	13,666
Profit (loss) for the financial period	**2,207**	(10,480)
New shares issued	**4,106**	-
Closing shareholders' funds	**9,499**	3,186

NOTES TO THE ACCOUNTS

16 Reconciliation of operating profit (loss) to operating cash flows

	2002 £000s	2001 £000s
Operating profit (loss)	**2,281**	(10,708)
Depreciation	**149**	152
Write down of fixed asset investments	**-**	167
Goodwill amortisation	**468**	528
Profit on sale of tangible fixed assets	**3**	(31)
Decrease (increase) in stocks	**867**	(1,096)
(Increase) decrease in debtors	**(5,548)**	2,039
(Decrease) increase in creditors	**(1,729)**	903
Net cash outflow from operating activities	**(3,509)**	(8,046)

The operating cash flows all relate to continuing activities.

17 Analysis of net debt

	1 October 2001 £000s	Cash flow £000s	30 September 2002 £000s
Cash	74	237	**311**
Overdrafts	(97)	(253)	**(350)**
	(23)	(16)	**(39)**
Finance leases	(250)	128	**(122)**
Short term loan	(332)	332	**-**
Net debt	(605)	444	**(161)**

18 Reconciliation of net cash flow to movement in net debt

	£000s
Decrease in cash in the period	(16)
Cash outflow from decrease in debt and lease financing	460
Change in net debt resulting from cashflow	444
Net debt at 1 October 2001	(605)
Net debt at 30 September 2002	(161)

NOTES TO THE ACCOUNTS

19 Financial commitments

There are no capital commitments contracted at the balance sheet date.

Annual commitments under non-cancellable operating leases are as follows.

	2002		2001	
	Land and buildings £000s	**Other £000s**	Land and buildings £000s	Other £000s
Group				
Expiry date				
– within one year	**118**	**20**	76	18
– between one and two years	**47**	**5**	121	10
– between two and five years	**–**	**5**	–	–
	165	**30**	197	28

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs. Other operating leases relate to cars and office equipment.

20 Loss attributable to SCi Entertainment Group Plc

The loss for the financial period dealt with the accounts of the parent company, SCi Entertainment Group Plc, was £4,106,000 (2001: £16,432,000).

21 Derivatives and other financial instruments

The Group's financial instruments comprise borrowings, cash and items such as trade debtors and creditors that arise as a result of normal operations. The Group does not enter into derivative transactions and does not trade in financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The board reviews and has agreed policies for managing each of these risks and they are summarised below. These policies have remained unchanged for the duration of the current financial period.

Interest rate risk

The Group finances its operations through a mixture of retained profit and bank borrowings. The Group borrows in pounds sterlings at floating rates of interest.

Interest rate profile

Borrowings represent a sterling overdraft at a variable interest rate. Finance leases bear interest at between 15% and 37%.

Foreign currency risk

The Group trades within Europe and also with the United States. Transactions in Europe are priced and invoiced in both sterling and Euros. Transactions with the United States are generally denominated in US dollars. The Group's policy is to eliminate significant currency exposures through entering into forward contracts.

NOTES TO THE ACCOUNTS

21 Derivatives and other financial instruments (continued)

Currency exposures

The table below show the Group's currency exposures. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in sterling. These exposures were as follows.

	US Dollar £000s	Euro £000s	Total £000s
At 30 September 2002	**19**	**237**	**256**
At 30 September 2001	81	(558)	(477)

Financial assets

Financial assets comprise largely sterling balances on deposit which may be withdrawn on demand. Interest is earned on cleared balances at the prevailing market rate.

Maturity of financial liabilities

The overdraft facility is repayable on demand. The maturity profile of the Group's other financial liabilities, finance leases, is shown in note 12.

Borrowing facilities

The Group was overdrawn at 30 September 2002 by £350,000 (2001: £97,000). There were no undrawn committed facilities as at 30 September 2002. Since the year end the Group has agreed new overdraft facilities of £1.5 million. The facilities are structured to cover the Group's short-term working capital needs in relation to manufacturing console products. The facilities are secured by a fixed and floating charge over all the Group's assets.

Fair Values

The directors consider the fair value of the financial assets and liabilities at 30 September 2002 and at 30 September 2001 are not materially different from their book values.

22 Related party transactions

During the year J Cavanagh made available an unsecured loan to the Company. On 30 September 2002 the amount of loan was £nil (2001: £331,681). During the year the maximum amount loaned from J Cavanagh was £669,541. The rate of interest on the loan was 2% above the Royal Bank of Scotland's Base Rate. Interest paid on the loan amounted to £31,000 (2001: £1,000).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the shareholders of SCi Entertainment Group Plc will be held at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on 7 March, 2003 at 11.00 am for the following purposes.

Ordinary Business

1. To receive and adopt the accounts for the period ended 30 September 2002 together with the reports of the directors and auditors thereon.

2. To re-appoint BDO Stoy Hayward as auditors to the Company and authorise the directors to fix their remuneration.

3. To re-elect F J Cavanagh as a Director of the Company who retires by rotation at the Annual General Meeting and, being eligible, offers herself for re-election.

4. (a) THAT, without prejuidice to all subsisting authorities, the Directors shall have a general and unconditional authority to exercise all powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (within the meaning of Section 80 of the Companies Act 1985 as amended from time to time (the "Act")) of the Company on and subject to such terms as the Directors may determine. The authority hereby conferred shall, subject to Section 80 of the Act, be for a period expiring five years from the date of the passing of this resolution (unless renewed varied or revoked by the Company in General Meeting) and the maximum nominal amount of relevant securities which may be allotted pursuant to such authority shall be £1,026,675.65, representing the authorised but as yet unissued share capital of the Company at the date hereof.

   (b) THAT the Directors shall be entitled under the authority conferred by paragraph (a) of this Resolution or under any renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and thereafter to allot relevant securities in pursuance to such an offer or agreement as if the authority conferred hereby had not expired.

Special Business

To consider and if thought fit, pass the following resolutions which will be proposed as special resolutions:

5. THAT, without prejudice to all subsisting authorities, the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") for a period expiring on the earlier of 15 months from the date of the passing of this resolution and the conclusion of the next Annual General Meeting of the Company after the passing of this resolution to allot equity securities (as defined in section 94(2) of the Act), for cash, pursuant to the authority conferred by the ordinary resolution numbered 4 above, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

   (i) the allotment of equity securities where such securities have been offered (whether by open offer, rights issue or any other pre-emptive offer) to the holders of ordinary shares in proportion (as nearly as may be) to the respective number of equity securities held or deemed to be held by them, subject only to such exclusions or other arrangements as the

NOTICE OF ANNUAL GENERAL MEETING

directors deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirement of any regulatory body or stock exchange in any territory, or any other matter whatsoever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) of this resolution) of equity securities up to an aggregate amount of £71,166 (representing five per cent. of the issued share capital of the Company shown in the annual report and accounts of the Company for the period ended 30 September 2002).

6. THAT the Company be and is hereby granted general and unconditional authority, pursuant to Section 166 of the Act to make one or more market purchases (as defined in Section 163(3) of the Act) of its ordinary shares of 5p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Board of Directors of the Company may from time to time determine, provided that:

   (i) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or within 15 months from the date of the passing of this resolution, whichever first occurs;

   (ii) the maximum aggregate number of ordinary shares authorised to be purchased shall be limited to a value of £142,332 (ten per cent. of the issued share capital of the Company shown in the annual report and accounts of the Company for the period ended 30 September 2002);

   (iii) the minimum price which may be paid for an ordinary share is 5p;

   (iv) this authority shall not permit the payment per share of more than five per cent. above the average of the middle market prices shown in the quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days prior to the purchase being made;

   (v) the Company shall be entitled to enter into any contract for the purchase of its own ordinary shares which will or may be completed wholly or partly after the expiry of this authority, and shall be entitled to make a purchase of ordinary shares in pursuance of any such contract as if the power conferred hereby had not expired; and

   (vi) save as expressed herein, this authority shall only be capable of variation, revocation or renewal by the Company in General Meeting.

By order of the Board
Rob Murphy
Company Secretary
11 Ivory House
Plantation Wharf
London SW11 3TN
5 February 2003

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. Any member who is entitled to attend and vote at the above meeting may appoint a proxy to attend and, on a poll, vote on their behalf. A proxy need not be a member of the company.

2. A proxy form is enclosed. To be valid proxies must be lodged with the Company Secretary at the Company's Registered Office not less than 48 hours before the commencement of the Annual General Meeting.

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