

INGENIOUS GAMES LLP

INGENIOUS GAMES LLP

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 5 APRIL 2007



Limited Liability Partnership Number OC 314073

**REPORT AND FINANCIAL STATEMENTS 2007**

**CONTENTS**

MEMBERS' REPORT	1
STATEMENT OF MEMBERS' RESPONSIBILITIES	3
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS	4
PROFIT AND LOSS ACCOUNT	6
BALANCE SHEET	7
CASH FLOW STATEMENT	8
NOTES TO THE CASH FLOW STATEMENT	9
NOTES TO THE FINANCIAL STATEMENTS	10

**MEMBERS' REPORT**

Year ended 5 April 2007

The Members submit their annual report and the audited financial statements for the year ended 5 April 2007

**PRINCIPAL ACTIVITIES**

The Partnership was formed to conduct an integrated games development business. Based in the UK, it draws on a deep pool of talent to develop and publish quality computer games. Its strategy has been designed to enable it to operate in the global marketplace through a combination of scale and participation in all aspects of the games development and publishing value chain whilst at the same time adopting a conservative approach to managing risks.

The Partnership has adopted a phased market entry strategy, initially developing a 'slate' of games in association with a mix of leading games developers. The Partnership intends to extend the scope of its business to include non-development and publishing, thus enabling it to increase its return from individual games and deploy capital across activities with different risk profiles. A number of rights acquisition and marketing deals have been pursued and further opportunities continue to be examined.

It has adopted a sophisticated project selection procedure to manage risks from the outset and will only develop games where there is a strong likelihood of distribution and where it is able to secure a participation in gross sales receipts from the exploitation of the games it develops.

In addition, the Partnership will pursue involvement in certain games where it is not the developer, either on its own or with third parties, through the acquisition of distribution rights. In this way, it will have access to an even wider portfolio of rights thereby further diversifying risk and increasing the probability of participating in a 'hit'.

**REVIEW OF THE PERIOD**

The Designated Members who served during the year were Hastings Games 1 Limited and Hastings Games 2 Limited.

The Partnership's Executive Committee consisted of Patrick A. McKenna and Duncan M. Reid, both directors of the Designated Members, and David Austin, Andrew Pisker and Michael Thomas. The membership of the Committee was unchanged throughout the year.

In the prior period the Partnership entered into contracts to develop four games costing some £30 million and this development process is now being carried on by the Partnership.

**FUTURE DEVELOPMENTS**

Completion of the games being developed is anticipated to occur in the subsequent periods, and the Partnership is well placed to benefit from the future exploitation of these games.

The Partnership's relationship with the Ingenious Media group also means that it is well placed to implement the second phase of its business plan and diversify into other areas of the games industry in subsequent financial periods.

## **INGENIOUS GAMES LLP**

### **MEMBERS' REPORT (Continued)**

Year ended 5 April 2007

#### **POLICY REGARDING MEMBERS' DRAWINGS AND CAPITAL**

Designated Members are not entitled to drawings. In accordance with the Members' Agreement, no Ordinary Member shall be entitled to make any drawings on account of profits to which they are entitled, unless unanimously agreed by the Ordinary Members, or unless permitted under that Agreement.

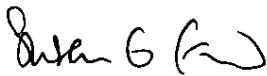
Members' capital is subscribed in accordance with the current Members' Agreement, and retained by the Partnership until such time as the Members agree to repay that capital. There were no transfers of Members' capital to debt during the year.

The operating cash requirements of the Partnership shall be met out of the Members' initial contributions, no Member shall be required to make any further funding available after his or her admission as a Member.

#### **AUDITORS**

A resolution to reappoint Shipleys LLP as auditors will be proposed at the next Members' meeting.

This report was approved by the Designated Members on 11 May 2007.



**HASTINGS GAMES 1 LIMITED**

Designated Member



**HASTINGS GAMES 2 LIMITED**

Designated Member

**STATEMENT OF MEMBERS' RESPONSIBILITIES**

The Members are required by the Companies Act 1985, as they apply to limited liability partnerships, to produce accounts on an annual basis. The Designated Members organise the preparation of financial statements which give a true and fair view of the state of affairs of the Partnership as at the end of the financial period and of the profit or loss of the Partnership for that period.

In so doing, the Designated Members are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the accounts on a going concern basis, unless that is deemed to be inappropriate.

The Designated Members are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Partnership, and enable the Members to ensure that the accounts comply with the Members' Agreement and with the Limited Liability Partnerships Regulations 2001 made under the Limited Liability Partnerships Act 2000. They are also responsible for the system of internal control, for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INGENIOUS GAMES LLP**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INGENIOUS GAMES LLP**

We have audited the financial statements of Ingenious Games LLP for the year ended 5 April 2007 which comprise the Profit and Loss account, the Balance sheet, the Cash flow statement and the related notes 1 to 10. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Limited Liability Partnership's Members, as a body, in accordance with the Companies Act 1985. Our audit work has been undertaken so that we might state to the Limited Liability Partnership's Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Limited Liability Partnership and the Limited Liability Partnership's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective Responsibilities of the Members and Auditors**

As described in the Statement of Members' Responsibilities, the Designated Members are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant reporting framework and are properly prepared in accordance with the Companies Act 1985, as applicable to Limited Liability Partnerships. We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, if the Limited Liability Partnership has not kept proper accounting records, if we have not received all of the information and explanations we require for our audit, as specified by law regarding members' remuneration or if information and transactions with the Limited Liability Partnership is not disclosed.

We read the Members' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of Audit Opinion**

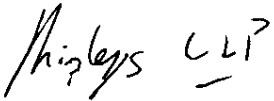
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Limited Liability Partnership'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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INGENIOUS GAMES LLP (Continued)**

**Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Limited Liability Partnership's affairs as at 5 April 2007 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985, as applicable to Limited Liability Partnerships and the information given in the Members' Report is consistent with the financial statements

A handwritten signature in black ink that reads "Shipleys LLP". The signature is written in a cursive, stylized font.

**SHIPLEYS LLP**

Chartered Accountants and Registered Auditors  
10 Orange Street, Haymarket, London, WC2H 7DQ

Date 11 May 2007

## INGENIOUS GAMES LLP

### PROFIT AND LOSS ACCOUNT

Year ended 5 April 2007

	NOTE	2007 £ '000s	Period from 8 July 2005 to 5 April 2006 £ '000s
Turnover	1	-	-
Cost of Sales		(65)	(24,401)
<b>GROSS LOSS</b>		(65)	(24,401)
Operating Expenses		(9)	(1,514)
<b>OPERATING LOSS</b>	2	(74)	(25,915)
Interest Receivable and Similar Income	3	237	4
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR BEFORE MEMBERS REMUNERATION</b>		163	(25,911)
Salaried Members' Remuneration		-	-
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR AVAILABLE FOR DIVISION AMONG THE MEMBERS</b>		163	(25,911)

All results in the above two financial periods are derived from continuing operations

There are no recognised gains or losses during the above two financial periods other than as stated in the profit and loss account above



**BALANCE SHEET**


At 5 April 2007

	NOTE	2007 £ '000s	2006 £ '000s
<b>CURRENT ASSETS</b>			
Stock	1 & 5	5,520	5,585
Debtors	6	34,395	43,134
Current Asset Investment	7	4,856	-
Cash at Bank		515	8,747
		45,286	57,466
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Trade Creditors		(17,651)	(29,990)
Accruals		(9)	(13)
		(17,660)	(30,003)
<b>NET ASSETS</b>		<b>27,626</b>	<b>27,463</b>
<b>MEMBERS' OTHER INTERESTS</b>			
Members' Capital Accounts	8	53,374	53,374
Other Reserves	8	(25,748)	(25,911)
<b>TOTAL MEMBERS' OTHER INTERESTS</b>		<b>27,626</b>	<b>27,463</b>
<b>MEMORANDUM OF MEMBERS' TOTAL INTEREST</b>			
Loans and other debts due to members	8	-	-
Members' other interest	8	27,626	27,463
<b>TOTAL MEMBERS' INTEREST</b>		<b>27,626</b>	<b>27,463</b>

The financial statements were approved by the Designated Members on 11 May 2007


**HASTINGS GAMES 1 LIMITED**

Designated Member


**HASTINGS GAMES 2 LIMITED**

Designated Member

## INGENIOUS GAMES LLP

### CASH FLOW STATEMENT

At 5 April 2007

	NOTE	2007 £ '000s	2006 £ '000s
<b>Net cash outflow from operating activities</b>	1	(3,613)	(44,627)
<b>Returns on investment and servicing of finance</b>			
Interest received		237	-
<b>Net cash inflow from returns on investments and servicing of finance</b>		237	-
<b>Net cash outflow before use of liquid resources and financing</b>		(3,376)	(44,627)
<b>Management of Liquid Resources</b>			
(Increase) of Investment in The Ingenious Enhanced Cash Fund		(4,856)	-
<b>Net cash (outflow) from management of liquid resources</b>		(4,856)	-
<b>Transactions with Members</b>			
Contribution by Members		-	53,374
<b>Net cash inflow from transactions with Members</b>		-	53,374
<b>(Decrease)/Increase in cash in the year</b>	2	<b>(8,232)</b>	<b>8,747</b>

**NOTES TO THE CASH FLOW STATEMENT**

At 5 April 2007

	2007 £ '000s	2006 £ '000s
<b>1. Reconciliation of operating (loss) to net cash (outflow) from operating activities</b>		
Operating (loss)	(74)	(25,915)
Decrease/(Increase) in stocks	65	(5,585)
Decrease/(Increase) in debtors	8,739	(43,130)
(Decrease)/Increase in creditors	(12,343)	30,003
<b>Net cash (outflow) from operating activities</b>	<b>(3,613)</b>	<b>(44,627)</b>

**2. Analysis of net funds**

	At 6 April 2006 £ '000s	Cashflow £ '000s	At 5 April 2007 £ '000s
<b>Cash at bank</b>	<b>8,747</b>	<b>(8,232)</b>	<b>515</b>

**3. Reconciliation of net cash flow to movement in net funds**

	2007 £ '000s
Decrease in cash in the year	(8,232)
<b>Movement in net funds resulting from cash flows</b>	<b>(8,232)</b>
Net funds at start of year	8,747
<b>Net funds at end of year</b>	<b>515</b>

## **INGENIOUS GAMES LLP**

### **NOTES TO THE FINANCIAL STATEMENTS**

Year ended 5 April 2007

#### **1. ACCOUNTING POLICIES**

Ingenious Games LLP is incorporated in Great Britain as a Limited Liability Partnership under the Limited Liability Partnerships Act 2000

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. These accounts are prepared in accordance with the Limited Liability Partnerships Regulations 2001 and Statement of Recommended Practice 'Accounting by Limited Liability Partnerships 2006'. The particular accounting policies adopted are described below.

##### **Turnover**

Turnover derives from one class of business, the development and global exploitation of games, and is stated net of value added tax. The directors do not consider any one part of the worldwide market to be significantly different from any other.

##### **Taxation**

No current or deferred taxation is provided in these accounts as the liability for taxation falls on the individual Members.

##### **Stocks**

Stocks and work in progress, other than long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises contractual expenditure in respect of the games being developed on behalf of the commissioning publishers. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

##### **Long-Term Contracts**

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less foreseeable losses and payments on account not matched with turnover. Provision is made for the full amount of foreseeable losses on contracts.

##### **Foreign Currencies**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Profit and loss account transactions in foreign currencies are translated at average rates of exchange for the period. Exchange differences are taken to the profit and loss account.

##### **Joint Arrangement Not an Entity ('JANE')**

During the year, the Partnership entered into a Games Services Agreement with Ingenious Media Services Limited, to source and undertake various non-development activities on its behalf. The Partnership maintains a right of approval over any such transactions entered into on its behalf and also over the uses of such funds advanced until such opportunities arise.

In the view of the Members the above arrangement constitutes a JANE, as defined by FRS 9, *Associates and Joint Ventures*. Accordingly, all transactions entered into by Ingenious Media Services Limited under the Games Services Agreement are recorded in the Partnership's accounts to correctly reflect the substance of those transactions.

## INGENIOUS GAMES LLP

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 5 April 2007

#### 2. OPERATING PROFIT

The operating profit is stated after charging	2007 £ '000s	2006 £ '000s
Auditors' remuneration for audit services	9	13

#### 3. BANK INTEREST RECEIVABLE

	2007 £ '000s	2006 £ '000s
Interest Received Gross	237	4

#### 4. INFORMATION RELATING TO MEMBERS

No Members received remuneration from the Partnership during the year

During the current period the total profit for the LLP was £163,014 (2006 loss of £25,911,207) and the average number of Members over this period was 80 (2006 8). Based on this the average allocation of profit was therefore £2,038 (2006 loss of £3,238,901) with the largest allocation of profit to any single Member being £12,726 (2006 loss of £1,893,010)

#### 5. STOCKS

	2007 £ '000s	2006 £ '000s
Work in progress	5,520	5,585

#### 6. DEBTORS

	2007 £ '000s	2006 £ '000s
VAT Recoverable	161	263
Unpaid Capital Contributions	18,053	26,687
Other Debtors	16,181	16,184
	34,395	43,134

#### 7. CURRENT ASSET INVESTMENT

During the year the Partnership invested short term surplus cash in the Ingenious Enhanced Cash Fund. At the year end £4,856,432 (2006 £nil) was invested. The maximum funds invested in the year were £7,000,000 (2006 £nil)

## INGENIOUS GAMES LLP

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 5 April 2007

#### 8. RECONCILIATION OF MOVEMENT IN MEMBERS' INTERESTS

	Members' Capital	Other Reserves	Total Members Other Interest	Loans and Other Debts due to members	Total Members' Interests
	£ '000s	£ '000s	£ '000s	£ '000s	£ '000s
<b>Balance at 6 April 2006</b>	53,374	(25,911)	27,463	-	27,463
Profit for the financial year available for division among Members	-	163	163	-	163
Members' interests after Profit for the year	53,374	(25,748)	27,626	-	27,626
<b>Members' interests at 5 April 2007</b>	53,374	(25,748)	27,626	-	27,626

In the event of a winding up the Partnership's creditors are paid from any surplus assets prior to their distribution to the Members

#### 9. RELATED PARTY DISCLOSURES

Ingenious Games Limited (the Corporate Member), Ingenious Media Investments Limited, Ingenious Media Services Limited, Ingenious Games Services Limited, Ingenious Resources Limited, Ingenious Treasury Services Limited, Ingenious Asset Management Limited, Hastings Film Partner 1 Limited and Hastings Film Partner 2 Limited (the two Designated Members) are all wholly-owned subsidiaries of Ingenious Media plc

P A McKenna, J L Boyton, K T J Mead and D M Reid are all members of the partnership and are the directors of the above companies and directors and beneficial shareholders of Ingenious Media Plc

During a prior period Ingenious Games Limited (the Corporate Member), made an investment of £27m into the Partnership. As at the year end capital of £18m remains unpaid (2006 £27m)

During the year, Ingenious Resources Limited made loans totalling £nil (2006 £17,079,606) to the Members of the Partnership. These loans fall due for repayment after more than one year. The outstanding balance as at the balance sheet date was £17,079,606 (2006 £17,079,606)

As shown in Note 7, surplus Partnership cash is invested in the Ingenious Enhanced Cash Fund. The Fund is managed by Ingenious Asset Management Limited

## **INGENIOUS GAMES LLP**

### **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

Year ended 5 April 2007

The Partnership has entered into a Games Services Agreement with Ingenious Media Services Limited under which funds totalling £16,180,680 (2006 £16,180,680) have been advanced. No fees were charged by Ingenious Media Services Limited during the prior period. Any unspent funds awaiting expenditure under this agreement are invested with Ingenious Treasury Services Limited the balance of which is £16,180,680 (2006 £16,180,680) as at the year end.

Ingenious Media Investments Limited in its capacity as operator to the Partnership charged fees of £nil (2006 £1,499,803) during the year, and at the year end £nil (2006 £nil) remains unpaid.

### **10. CONTROLLING PARTY**

In the opinion of the members there is no controlling party as defined by Financial Reporting Standard No 8 'Related party disclosures'.

Tax Reference 245/65744 45614  
H M Inspector of Taxes  
Suffolk & North Essex Area  
St Clare House  
Princes Street  
Ipswich  
IP1 1LW

**INGENIOUS GAMES LLP**

**TAX COMPUTATIONS**

**PERIOD ENDED 5 APRIL 2007**



# INGENIOUS GAMES LLP

## TAX COMPUTATIONS

Year to 5 April 2007

	Note	£	£
<b><u>Schedule D Case I</u></b>			
Profit for the financial year available for division among Members			163,014
Disallowance of Agency Fee			-
Bank interest received gross	3	(237,082)	
Bank interest received net		<u>-</u>	(237,082)
<b>Schedule D Case I Loss</b>			<b>(74,068)</b>

## **Schedule D Case III**

Accrued Interest Received Gross	237,082
Less Unrealised Interest	(165,888)
<b>Schedule D Case III</b>	<b>71,194</b>